

Financial News for Major Energy Companies

Twenty-two major energy companies reported overall net income (excluding unusual items) of \$10.0 billion on revenues of \$164 billion during the second quarter of 2003 (Q203). The level of net income for Q203 was 96 percent higher than in the second quarter of 2002 (Q202) (Table 1). The overall increase in net income was due primarily to higher crude oil and natural gas prices.

Overall, the petroleum line of business registered a 64-percent increase in net income between Q202 and Q203, as the 49-percent increase in oil and gas production net income was augmented by a 151-percent increase in refining/marketing net income. Moreover, all lines of business (petroleum and non-petroleum) fared better in Q203 relative to Q202 as earnings from chemicals operations and worldwide gas and power operations also increased. (Note: corporate net income and the total net income of the lines of business differ because (1) some items in corporate net income are nontraceable, such as interest expense, and are not allocated to lines of business, and (2) the number of companies reporting line-of-business net income varies.)

Energy Price News

● **A small increase in oil prices is accompanied by a much larger increase in natural gas prices, relative to prices of a year ago.** The world oil price (as represented by the U.S. refiner average acquisition cost of imported crude oil) increased, but only 8 percent relative to a year ago, going from \$23.84 per barrel in Q202 to \$25.73 per barrel in Q203 (Table 2). As indicated in the latest *Short-Term Energy Outlook (STEO)* of the [Energy Information Administration](#), slight upward pressure was exerted on crude oil prices by a 2-percent expansion in the U.S. economy. Market conditions in the United States (slightly less than a 6-percent increase in petroleum demand, combined with slightly more than a 2-percent increase in petroleum supply, and an 11-percent decline in domestic crude oil stocks relative to a year ago (Figure 1)) exerted upward pressure on crude oil prices. Further, despite a 3-percent increase in world petroleum supply coupled with a 1-percent increase in world petroleum demand, world stock levels were lower than a year ago, putting additional upward pressure on world oil prices. This was the fourth consecutive quarter in which crude oil prices increased relative to their year-earlier levels, after eight consecutive quarters of falling or unchanged crude oil prices (relative to a year earlier).

In contrast, the average U.S. natural gas wellhead price increased 68 percent between Q202 and Q203 (Table 2). Historically high levels of natural gas in working storage during Q202 and historically low levels of natural gas in working storage in Q203 overwhelmed a large number of factors (e.g., higher production and net imports, coupled with lower consumption) that otherwise would have caused the U.S. natural gas price to fall. The result was the 68-percent increase in the natural gas price. More particularly, the opening U.S. natural gas working storage level in Q203 was 55 percent lower than in Q202, which itself was 42-percent higher than the average opening working storage level for the first quarter of 1997 through 2001 (Figure 2). This marked

the fourth consecutive quarter that natural gas prices have increased relative to a year earlier, following six consecutive quarters of falling prices (relative to a year earlier).

Worldwide Petroleum News

● **Earnings from worldwide oil and natural gas production operations increased 49 percent as higher foreign earnings augmented higher domestic earnings.** Overall earnings for domestic oil and natural gas exploration, development, and production operations (i.e., domestic upstream operations) in Q203 were 47 percent higher than in Q202 (Table 1). Domestic upstream earnings increased relative to a year ago despite a 7-percent fall in crude oil production by those U.S. majors reporting crude oil production (Table 1). Domestic natural gas production levels also fell, falling by 4 percent in Q203 relative to Q202. Among the reasons given for lower production were that some production, which was shut-in due to storms, was uneconomic to restore; that high-grading motivated asset divestitures; and that declines naturally occurred in field production. However, eight of the nine companies that reported separate net income for domestic upstream operations reported higher earnings in Q203 relative to Q202, chiefly due to higher prices received, according to company press releases. Eight of the nine companies indicated that their Q203 production levels of both crude oil and natural gas fell compared to Q202. However, total natural gas production for these nine companies fell by 1 percent. Thus, these companies received much of the benefit of the large increase in the price of natural gas, contributing to their increased earnings relative to Q202.

Net income from foreign upstream operations increased 24 percent relative to Q202, as 4 of the 5 companies that reported separate net income from foreign upstream operations reported an increase in Q203 relative to Q202. Higher crude oil prices (Table 2) were augmented by slightly higher foreign crude oil production (Table 1). Higher natural gas production in Q203 relative to Q202 further contributed to higher foreign upstream earnings. The increased natural gas production was due both to acquisitions since Q202 and increased production levels relative to a year ago from previously owned fields.

● **Earnings from worldwide downstream petroleum operations more than doubled as both U.S. and foreign refining margins increased.** Despite higher crude oil prices, worldwide downstream petroleum operations of the U.S. majors increased from \$1.2 billion in Q202 to \$3.1 billion in Q203.

Refined product stocks in Q203 were 12 percent lower than in Q202 (Figure 3), putting upward pressure on product prices (calculated by adding the price of crude oil and the gross refining margin in Table 2), which increased 15 percent from a year earlier. Refined product prices increased more than crude oil prices, leading to an increase in the U.S. gross refining margin (the per-barrel composite wholesale product price less the composite refiner acquisition cost of crude oil) of more than \$3 per barrel of refined product sold in Q203 relative to Q202 (Table 2).

A 9-percent increase in domestic refinery throughput relative to Q202 by those U.S. majors reporting domestic refinery throughput (Table 1) magnified the benefits of the higher refining margins, contributing to the near doubling of U.S. refining/marketing earnings from \$0.97 billion in Q202 to \$1.84 billion in Q203 (Table 1). The earnings of 10 of the 11 companies were higher in Q203 than in Q202. The most commonly cited reason in company press releases for the higher earnings were higher refining margins (due to an increase in the sweet/sour crude price differential and higher refinery utilization rates, among other reasons) and higher marketing margins (both generally for the United States and on the West Coast).

Earnings from foreign downstream operations more than quadrupled relative to Q202 (Table 1). All three of the companies that reported separate foreign refining/marketing results reported much higher net income from these operations. Higher refining and marketing margins, which were magnified by higher refinery throughput (Table 1), were cited in company press releases as major reasons for the higher earnings in Q203 relative to Q202. These corporate results occurred in a favorable industry environment that recorded higher refining margins in Q203 than in Q202 (Figure 4), increasing by \$1.25 per barrel in the Asia/Pacific region and by an even larger \$2.79 per barrel in Europe compared to a year earlier.

Worldwide Downstream Natural Gas and Power

● **Worldwide downstream natural gas and power earnings increased 59 percent relative to a year ago, largely due to large energy trading losses in Q202.** After excluding Williams, which recorded substantial trading losses in Q202, the remaining companies reported a 21-percent decrease in earnings. The effects of higher natural gas sales volumes and higher natural gas liquids prices received (reported in company press releases by those companies reporting higher earnings) were overwhelmed by lower electric and natural gas sales due to warmer weather and trading losses (reported in company press releases by those companies reporting lower earnings).

Chemical Operations

● **Earnings of the majors' chemical operations increase in total despite varied company results and higher feedstock prices.** The majors' chemical operations in Q203 were 68 percent higher than in Q202 (Table 1) as Exxon Mobil's higher earnings dominated the results, accounting for 90 percent of the total earnings for this line of business. Exxon Mobil cited higher worldwide margins early in the quarter and favorable foreign exchange changes as major reasons for its higher earnings. The earnings of the other eight companies varied considerably: three companies reported lower earnings (one of which reported a loss), one company reported a smaller loss, and four companies reported higher earnings (two of which reported losses in Q202). Companies that reported higher earnings (or a smaller loss) cited higher margins in their press releases as a primary reason for the higher earnings. Similarly, lower margins were the major reason cited in press releases for the lower earnings.

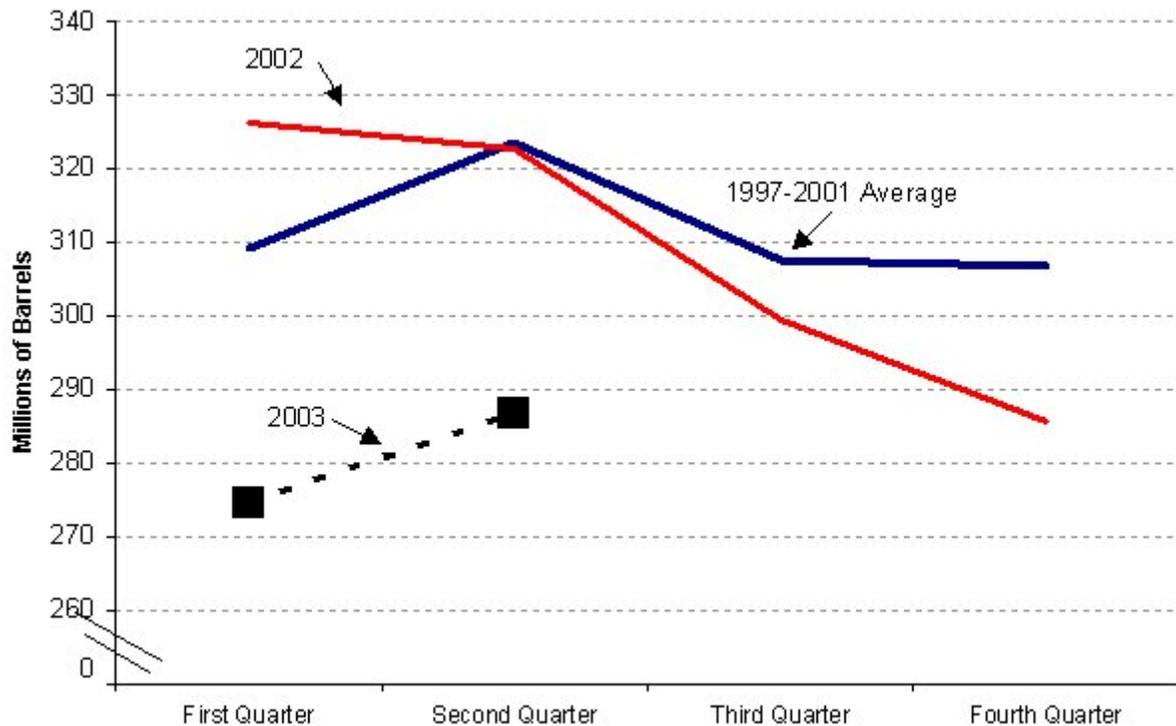
Table 1. Corporate Revenue and Net Income^a, Net Income by Lines of Business and Functional Petroleum Segments, and Operating Information for Major Energy Companies

	Q202	Q203	Percent Change	Year to Date 2002	Year to Date 2003	Percent Change
Financial Information						
Corporate	(millions of dollars)			(millions of dollars)		
Revenue (22) ^b	136,351	164,441	20.6	256,498	350,218	36.5
Net Income (22) ^c	5,097	10,008	96.4	9,590	21,887	128.2
Worldwide Lines of Business Net Income						
Petroleum (24)	8,194	13,453	64.2	13,639	29,346	115.2
Oil and Natural Gas Production (19) ^d	6,972	10,387	49.0	12,884	23,981	86.1
Refining/Marketing (13) ^d	1,223	3,066	150.8	755	5,365	610.4
Downstream Natural Gas and Power (8)	536	854	59.3	2,114	1,699	-19.6
Chemicals (9)	289	486	68.1	378	600	59.0
Domestic Net Income by Function						
Oil and Natural Gas Production (9)	3,187	4,695	47.3	4,876	10,847	122.4
Refining/Marketing (11)	973	1,840	89.1	478	3,060	539.6
Foreign Net Income by Function						
Oil and Natural Gas Production (5)	2,712	3,357	23.8	5,562	7,853	41.2
Refining/Marketing (3)	238	1,098	361.3	304	2,006	559.9
Operating Information						
Oil Production	(thousand barrels per day)			(thousand barrels per day)		
Domestic (18)	4,099	3,823	-6.7	4,085	3,863	-5.4
Foreign (14)	4,721	4,779	1.2	4,756	4,680	-1.6
Natural Gas Production	(million cubic feet per day)			(million cubic feet per day)		
Domestic (19)	22,991	22,028	-4.2	21,793	20,980	-3.7
Foreign (15)	15,844	16,263	2.4	17,164	17,123	3.3
Refinery Throughput	(thousand barrels per day)			(thousand barrels per day)		
Domestic (13)	12,343	13,396	8.5	11,898	12,251	3.0
Foreign (4)	5,344	5,561	4.1	5,432	5,541	2.0
^a Net income excludes unusual items. Because consolidated net income includes corporate nontraceables and eliminations, it is not equal to the sum of the lines of business net income. ^b The number of companies is reported in parentheses. Percent changes are calculated from unrounded data. ^c The number of companies reporting net income from petroleum operations is greater than the number reporting corporate revenue and corporate net income because the U.S. operations of BP and Royal Dutch/Shell are included in the results of the U.S. lines of business, but not in the foreign or corporate results because the companies are foreign based. ^d Both the worldwide oil and natural gas production and refining/marketing lines of business include companies that reported domestic and foreign operations separately and those that do not separate domestic and foreign results. Thus, the number of companies with worldwide oil and natural gas production operations is greater than the sum of the companies reporting domestic results and those reporting foreign results. So, too, for refining/marketing operations. Further, the sum of net income from domestic and foreign oil and natural gas production is less than the net income for worldwide oil and natural gas production. So, too, for the relationships within refining/marketing.						
Sources: Company press releases and financial disclosures.						

Table 2. U.S. Energy Prices and the U.S. Gross Refining Margin

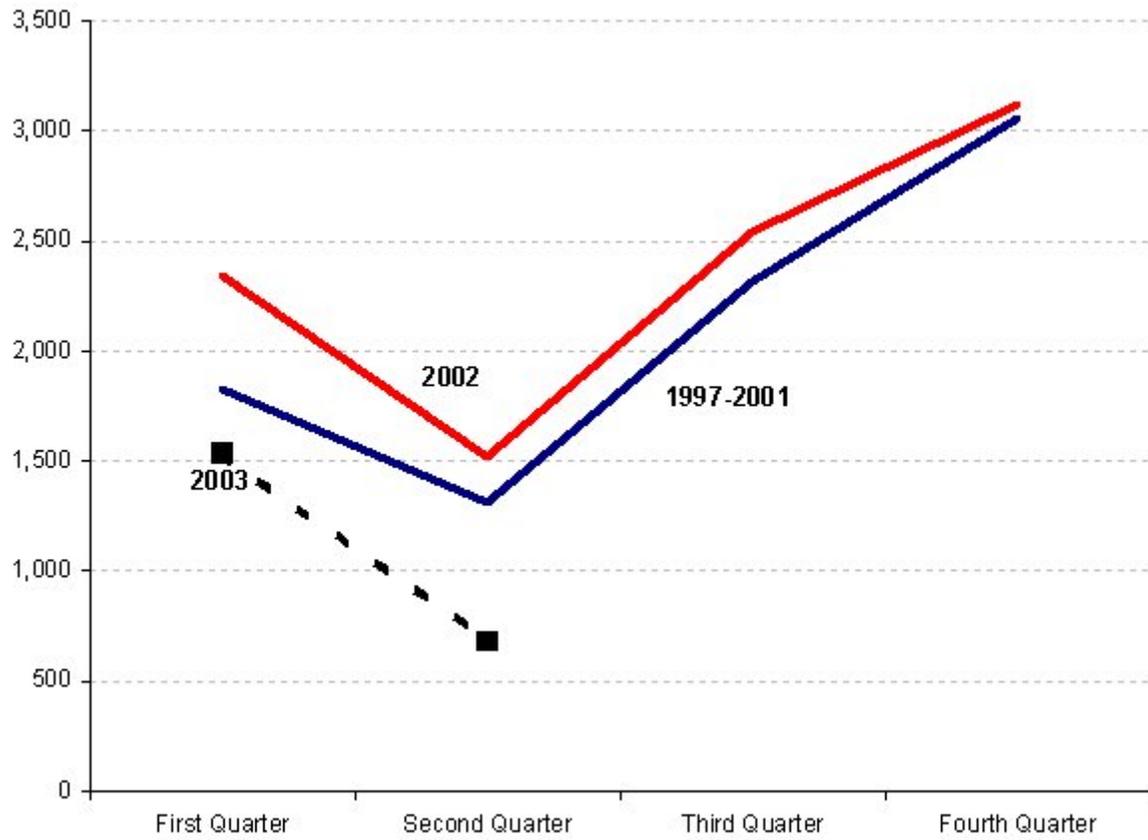
	Q202	Q203	Percent Change
U.S. Energy Prices^a			
Refiner Acquisition Cost of Imported Crude Oil (\$/barrel)	23.84	25.73	7.9
Natural Gas Wellhead (\$/thousand cubic feet)	2.99	5.01	67.6
U.S. Gross Refining Margin^b (\$/barrel)			
	8.60	11.66	35.6
^a Energy Information Administration, <i>Short Term Energy Outlook (STEO)</i> , (Washington, DC, August 6, 2003), Table 4.			
^b Compiled from data in Energy Information Administration, <i>Petroleum Marketing Monthly</i> , DOE/EIA-380 (Washington, DC), Table 1, Table 4 and Table 5; and Energy Information Administration, <i>Monthly Energy Review</i> , DOE/EIA-0035, (Washington, DC) Table 3.2b.			
Note: The U.S. Gross Refining Margin is the difference between the composite wholesale product price and the composite refiner acquisition cost of crude oil.			

Figure 1. Quarterly U.S. Crude Oil Stocks, 1997-2001, 2002, and 2003



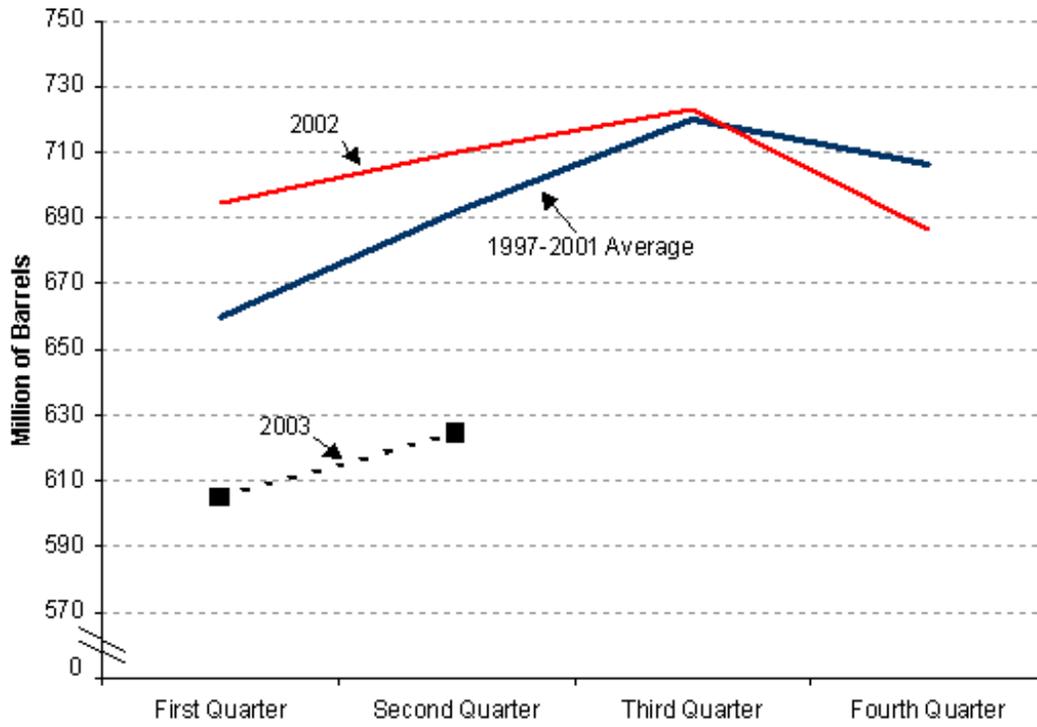
Source: Energy Information Administration, *Petroleum Supply Monthly*, DOE/EIA-0109 (Washington, DC), Table 51.

Figure 2. Quarterly U.S. Opening Level of Working Gas in Storage, 1997-2001, 2002, and 2003



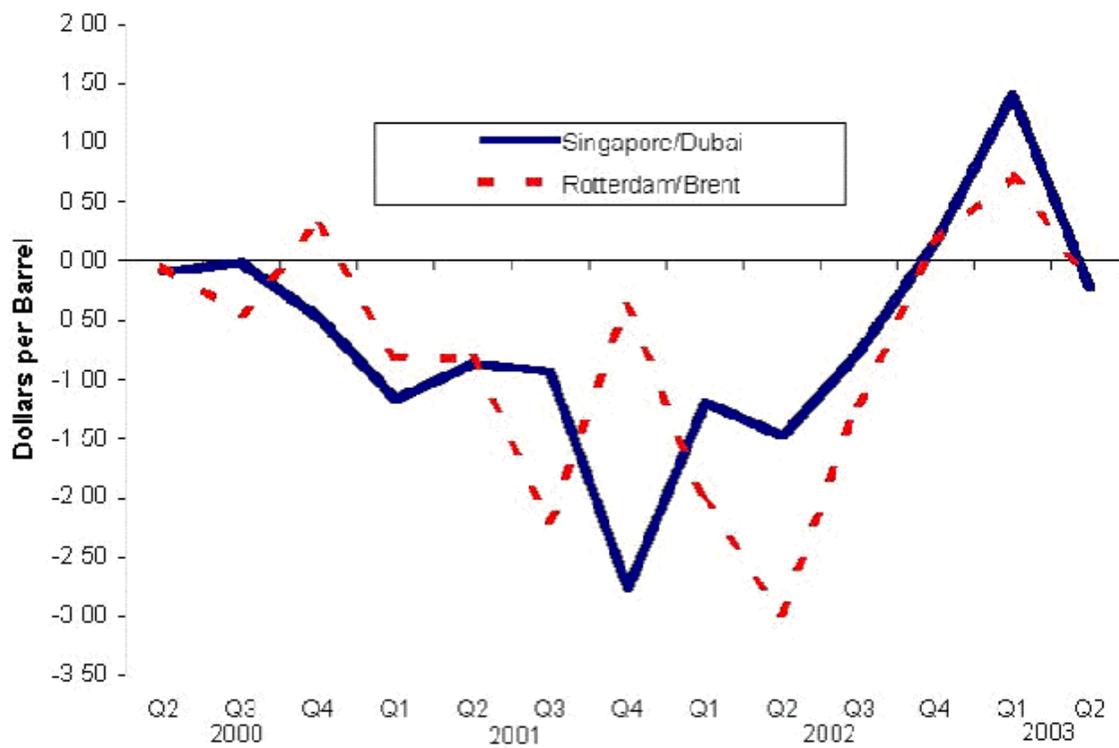
Source: Energy Information Administration (EIA), *Monthly Energy Review*, DOE/EIA-0035 (Washington, DC), Table 4.5; and EIA, *Short-Term Energy Outlook* (Washington, DC, August 6, 2003), Table 8.

Figure 3. Quarterly U.S. Petroleum Product Stocks, 1997-2001, 2002, and 2003



Source: Energy Information Administration, *Petroleum Supply Monthly*, DOE/EIA-0109 (Washington, DC), Table 51.

Figure 4. Quarterly Foreign Gross Refining Margins,^a 2000 - 2003



^a A gross refining margin refers to the difference between the weighted average petroleum product price and the cost of raw materials (largely crude oil) on a per barrel basis.

Note: The gross refining margin for Dubai crude oil refined in Singapore is used as a proxy for Asia/Pacific gross refining margins. Similarly, the gross refining margin for Brent crude oil refined in Rotterdam is used as a proxy for European gross refining margins.

Source: Energy Intelligence Group, *Oil Market Intelligence*, (June 2001, and 2002; January 2001, 2002, and 2003; and July 2003), page 12.

File originally loaded: August 14, 2003.

File last updated: August 14, 2003.

Contact:

Neal Davis

neal.davis@eia.doe.gov

Fax: (202) 586-9753

URL: http://www.eia.doe.gov/emeu/perfpro/news_m/q203.pdf