

Financial News for Major Energy Companies

The "Financial News for Major Energy Companies" is issued quarterly to report recent trends in the financial performance of the major energy companies. These include the respondents to Form EIA-28 (Financial Reporting System (FRS)), with the exception of the FRS companies that do not issue quarterly earnings releases or fail to provide separate information for the company's U.S. operations. [Twenty-three major energy companies](#) reported overall net income (excluding unusual items) of \$20.2 billion on revenues of \$241.9 billion during the fourth quarter of 2004 (Q404). The level of net income for Q404 was 101 percent higher than in the fourth quarter of 2003 (Q403) ([Table 1](#)). Similarly, net income for 2004 was 53 percent higher than for 2003 on 26 percent more revenue. Net income for both Q404 and for 2004 as a whole, increased primarily as a result of higher crude oil prices, higher foreign production of crude oil, higher refinery throughput, and higher refining margins.

Overall, the petroleum line of business (which includes both oil and natural gas production and petroleum refining/marketing) registered a 93-percent increase in net income between Q403 and Q404. A 58-percent increase in oil and gas production net income was augmented by a 295-percent increase in refining/marketing net income. In general, all lines of business fared better in Q404 relative to Q403, and in 2004 relative to 2003. (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

- **The crude oil price increased by almost one-half while the domestic natural gas price increased by more than one-fourth, relative to the prices of a year ago.** The U.S. refiner average acquisition cost of imported crude oil increased 44 percent relative to a year ago, from \$27.81 per barrel in Q403 to \$39.96 per barrel in Q404 ([Table 2](#)). Several factors contributed to increased oil prices including the lingering effects from Hurricane Ivan, the U.S. economy's 4-percent growth, and a 3-percent increase in world oil demand relative to a year earlier according to the [Energy Information Administration's](#) March [Short-Term Energy Outlook](#). The effects of these factors were somewhat offset by a 3-percent increase in world crude oil supply, slightly higher stock levels in the countries of the Organization for Economic Cooperation and Development relative to Q403, and higher U.S. stocks ([Figure 1](#)), which increased 3 percent relative to Q403. This was the tenth consecutive quarter in which crude oil prices increased relative to their year-earlier levels, after six consecutive quarters of falling or unchanged crude oil prices (relative to a year earlier). The average price of crude oil was 30 percent higher during 2004 than during 2003 as the effects of 4-percent economic growth and a 4-percent increase in world demand were somewhat offset by a 4-percent increase in world supply.

The average U.S. natural gas wellhead price increased 28 percent between Q403 and Q404, from \$4.62 per thousand cubic feet to \$5.92 per thousand cubic feet ([Table 2](#)). A 2-percent increase in U.S. demand for natural gas, a 4-percent decline in domestic production (largely due to lingering effects from Hurricane Ivan, which caused natural gas production losses in the Gulf of Mexico), and an overall 3-percent decline in domestic natural gas supply all put upward pressure on domestic natural gas prices. Undercutting higher natural gas prices was a higher opening level of working gas in storage ([Figure 2](#)), which was 8 percent higher in Q404 than in Q403 and a 20-percent increase in net imports of natural gas. The average domestic natural gas price in 2004 was 10 percent higher than in 2003 as new domestic supply declined 2 percent, total domestic supply decreased 1 percent, and domestic demand increased 1 percent.

Worldwide Petroleum Earnings

- **Earnings from worldwide oil and natural gas production operations increased 58 percent between Q403 and Q404, as higher foreign earnings augmented even higher domestic earnings.** Similarly, 2004 earnings from worldwide oil and natural gas production operations were 29 percent higher than in 2003, as higher income from foreign operations augmented even higher income from domestic operations.

Overall earnings for domestic oil and natural gas exploration, development, and production operations (i.e., domestic upstream operations) in Q404 were 63 percent higher than in Q403 ([Table 1](#)). Domestic upstream earnings increased relative to a year ago as higher crude oil prices and higher natural gas prices ([Table 2](#)) were somewhat offset by production decreases. A 5-percent decline in domestic crude oil production was accompanied by a 3-percent reduction in domestic natural gas production by those U.S. majors reporting crude oil and/or natural gas production ([Table 1](#)). Twelve of the thirteen companies that reported separate income for domestic upstream operations recorded higher earnings than a year ago. Higher prices for both oil and natural gas were the primary reasons given for higher earnings, which were dampened by production declines. Lingering effects of Hurricane Ivan at the end of the previous quarter, asset sales, and natural field declines were chief among the reasons given for lower production in company press releases. The solitary company that had lower earnings cited lower production due to sales of property, natural field declines, and effects of Hurricane Ivan as contributing factors. Domestic upstream operations recorded a 21-percent increase in net income for 2004 relative to 2003 on the strength of higher crude oil and natural gas prices despite lower production levels of both oil and natural gas.

Net income from foreign upstream operations increased 47 percent relative to Q403, as all six companies that reported separate net income from foreign upstream operations reported an increase in Q404 relative to Q403. Foreign earnings primarily grew on the strength of higher crude oil prices ([Table 2](#)), which were augmented by a 3-percent increase in foreign crude oil production, but somewhat offset by a 1-percent decrease in natural gas production ([Table 1](#)). Company press releases noted that higher prices for both crude oil and natural gas, and higher production levels led to higher earnings despite increased exploration and operating costs. Foreign upstream operations generated a 42-percent increase in earnings over 2004 relative to 2003 as much higher prices were augmented by higher production levels ([Table 1](#)).

- **Earnings from worldwide refining and marketing operations increased by 295 percent as margins generally increased between Q403 and Q404.** Higher crude oil prices were offset by even higher petroleum product prices. The U.S. majors achieved higher earnings from their worldwide petroleum refining and marketing operations (i.e., worldwide downstream operations), which rose from \$1.9 billion in Q403 to \$7.4 billion in Q404, mainly due to their U.S. operations. Similarly, 2004 earnings were 112 percent higher than in 2003 as both domestic and foreign operations reported much higher earnings, led by the 131-percent increase of domestic operations.

Higher U.S. gross refining margins (the per-barrel composite wholesale product price less the composite refiner acquisition cost of crude oil) and lower heating fuel stock levels ([Figure 3](#)) contributed to a 292-percent increase in U.S. refining/marketing earnings from \$1.2 billion in Q403 to \$4.8 billion in Q404 ([Table 1](#)). Further, a 5-percent increase in domestic refinery throughput relative to Q403 by those U.S. majors reporting domestic refinery throughput ([Table 1](#)) augmented the effects of the higher U.S. gross refining margins. The earnings of all 12 companies were higher in Q404 than in Q403. Commonly cited reasons in company press releases for the higher earnings were higher refining margins, higher refinery throughput, increased light/heavy and sweet/sour crude oil price differentials, and increased product sales. Similarly, 2004 earnings were 133 percent higher than in 2003 as all 12 companies reported higher earnings, citing higher refining margins and refinery throughput (partially due to Premcor's acquisition of a Delaware City refinery from Motiva).

Earnings from foreign downstream operations increased by 300 percent between Q403 and Q404 ([Table 1](#)). This result was magnified by a 7-percent increase in refinery throughput ([Table 1](#)) and higher industry-wide refining margins in the Asia/Pacific region ([Figure 4](#)), which increased by \$1.73 per barrel. However, lower industry-wide refining margins in Europe, which fell by \$2.76 per barrel, diminished the upward pressure on earnings. The company results were consistent as all four companies reported higher earnings. ChevronTexaco, ConocoPhillips, Exxon Mobil, and Valero indicated that higher refining margins, higher sales volumes (particularly jet fuel), and increased refinery utilization in Q404 relative to Q403 contributed to higher earnings. Earnings in 2004 rose 76 percent and all 4 companies reported increases. The companies cited higher refining margins and refinery throughput, which increased 3 percent ([Table 1](#)).

Worldwide Downstream Natural Gas and Power

- **Worldwide downstream natural gas and power earnings increased 57 percent largely due to higher prices for natural gas liquids (NGLs).** All nine of the companies that reported downstream natural gas and power results recorded higher earnings in Q404 than in Q403. Among the reasons cited in company press releases for increased earnings were higher natural gas liquids prices, increased liquefied natural gas sales volume, increased margins, and lower operating expenses. Earnings for the entire year were 18 percent higher in 2004 than in 2003, with 1 of the 9 companies reporting lower earnings. Company press releases cited higher NGL and natural gas prices as chief reasons for 2004's higher earnings.

Chemical Operations

- **Higher margins and sales volumes boosted earnings of the majors' chemical operations.** Earnings from the majors' chemical operations were 285 percent higher in Q404 than in Q403 ([Table 1](#)) as eight of the nine companies reporting results for this line of business recorded increased earnings (or diminished losses). As usual, Exxon Mobil's results dominated the chemical results, accounting for 114 percent of Q403 earnings (as the other 8 companies combined for a loss of \$60 million) and 78 percent of Q404 earnings. Exxon Mobil (along with several other companies) cited higher margins and sales volumes as major reasons for its higher earnings in its quarterly earnings release. Similarly, earnings over all of 2004 were 256 percent higher than those of 2003 due to higher margins and favorable exchange rate effects as Exxon Mobil accounted for 115 percent of 2003's earnings and 77 percent of 2004's earnings.

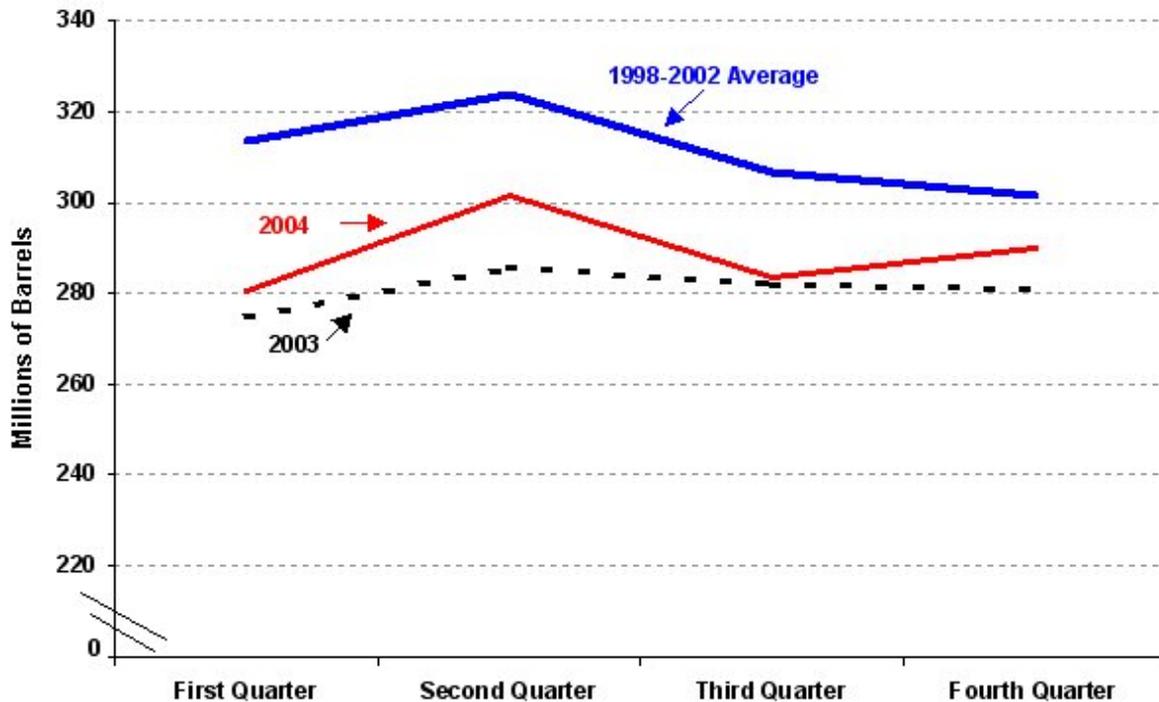
Table 1. Corporate Revenue and Net Income^a, Net Income by Lines of Business and Functional Petroleum Segments, and Operating Information for Major Energy Companies

	Q403	Q404	Percent Change ^b	2003	2004	Percent Change ^b
Financial Information						
Corporate	(millions of dollars)		(%)	(millions of dollars)		(%)
Revenue (23) ^c	174,713	241,938	38.5	683,326	863,192	26.3
Net Income (23)	10,053	20,186	100.8	43,712	66,677	52.5
Worldwide Lines of Business Net Income						
Petroleum (25) ^d	12,546	24,214	93.0	57,502	83,431	45.1
Oil and Natural Gas Production (20)	10,670	16,811	57.6	46,418	59,849	28.9
Refining/Marketing (12)	1,876	7,403	294.5	10,986	23,334	112.4
Downstream Natural Gas and Power (9)	675	1,058	56.6	3,168	3,732	17.8
Chemicals (9)	416	1,602	285.2	1,246	4,429	255.5
Domestic Net Income by Function						
Oil and Natural Gas Production (13)	4,336	7,061	62.9	21,329	25,898	21.4
Refining/Marketing (12)	1,225	4,796	291.6	7,208	16,670	131.3
Foreign Net Income by Function						
Oil and Natural Gas Production (6)	4,116	6,058	47.2	15,448	21,926	41.9
Refining/Marketing (4)	652	2,606	300.0	3,779	6,664	76.4
Operating Information						
Oil Production	(thousand barrels per day)		(%)	(thousand barrels per day)		(%)
Domestic (17)	3,706	3,506	-5.4	3,785	3,528	-6.8
Foreign (13)	4,866	5,004	2.8	4,775	4,961	3.9
Natural Gas Production	(million cubic feet per day)			(million cubic feet per day)		
Domestic (19)	19,893	19,381	-2.6	20,719	19,532	-5.7
Foreign (14)	18,269	18,062	-1.1	17,071	17,157	0.5
Refinery Throughput	(thousand barrels per day)			(thousand barrels per day)		
Domestic (13)	12,445	13,104	5.3	12,893	13,548	5.1
Foreign (4)	5,494	5,852	6.5	5,544	5,697	2.8
^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 Percent changes are calculated from unrounded data. ^c The number of companies is reported in parentheses. ^d 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. Note: 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. The same is also true for refining/marketing operations.						
Sources: Company press releases and financial disclosures.						

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

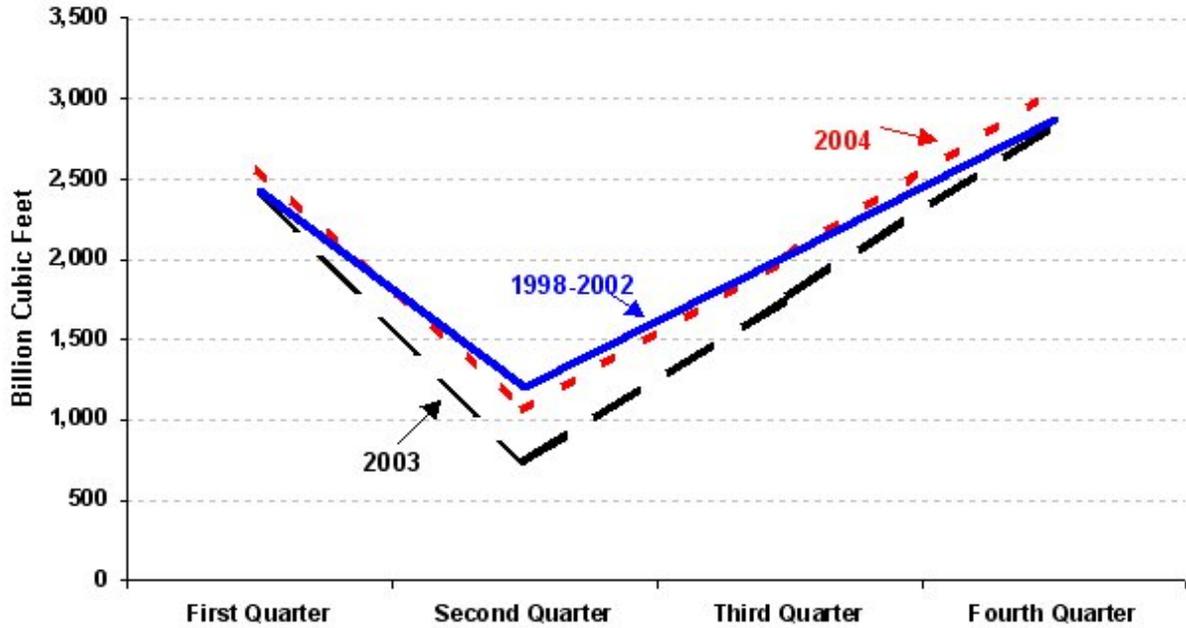
	Q403	Q404	Percent Change	2003	2004	Percent Change
U.S. Energy Prices^a						
Refiner Acquisition Cost of Imported Crude Oil (\$/barrel)	27.81	39.96	43.7	27.74	36.01	29.8
Natural Gas Wellhead (\$/thousand cubic feet)	4.62	5.92	28.1	4.98	5.49	10.2
U.S. Gross Refining Margin^b (\$/barrel)						
	9.32	13.79	47.9	10.70	13.82	29.1
^a Energy Information Administration, <i>Short-Term Energy Outlook</i> , (Washington, DC, December 6, 2004 and March 8, 2005), Tables 4 and A4.						
^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: All tables are in pdf format; if you lack Adobe Acrobat Reader and are unable to read pdf-format files, please follow the Adobe link at the bottom of this table to download the free software.						
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 Average U.S. Crude Oil Stocks, 1998-2002, 2003, and 2004



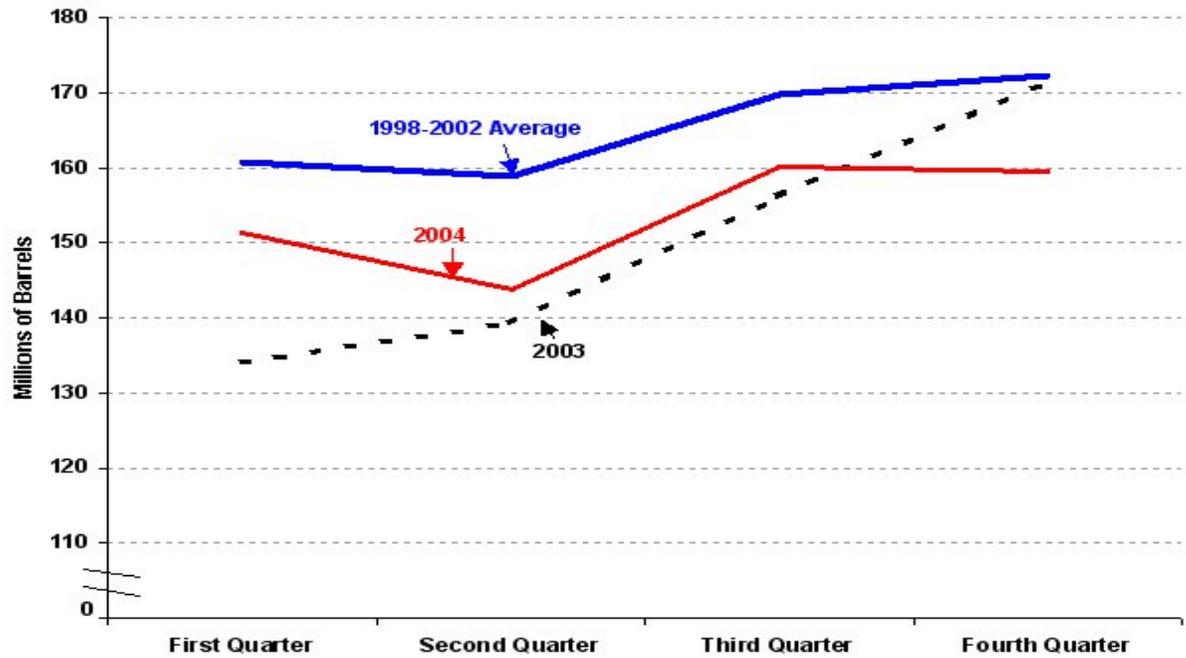
Source: Energy Information Administration, *Petroleum Supply Monthly*, DOE/EIA-0109 (Washington, DC), Table 51.

Figure 2. Quarterly Average U.S. Natural Gas Stocks, 1998-2002, 2003, and 2004



Source: Energy Information Administration (EIA), [Monthly Energy Review](#), DOE/EIA-0035 (Washington, DC), [Table 4.5](#); and EIA, [Short-Term Energy Outlook](#) (Washington, DC, March 8, 2005), [Table 8](#).

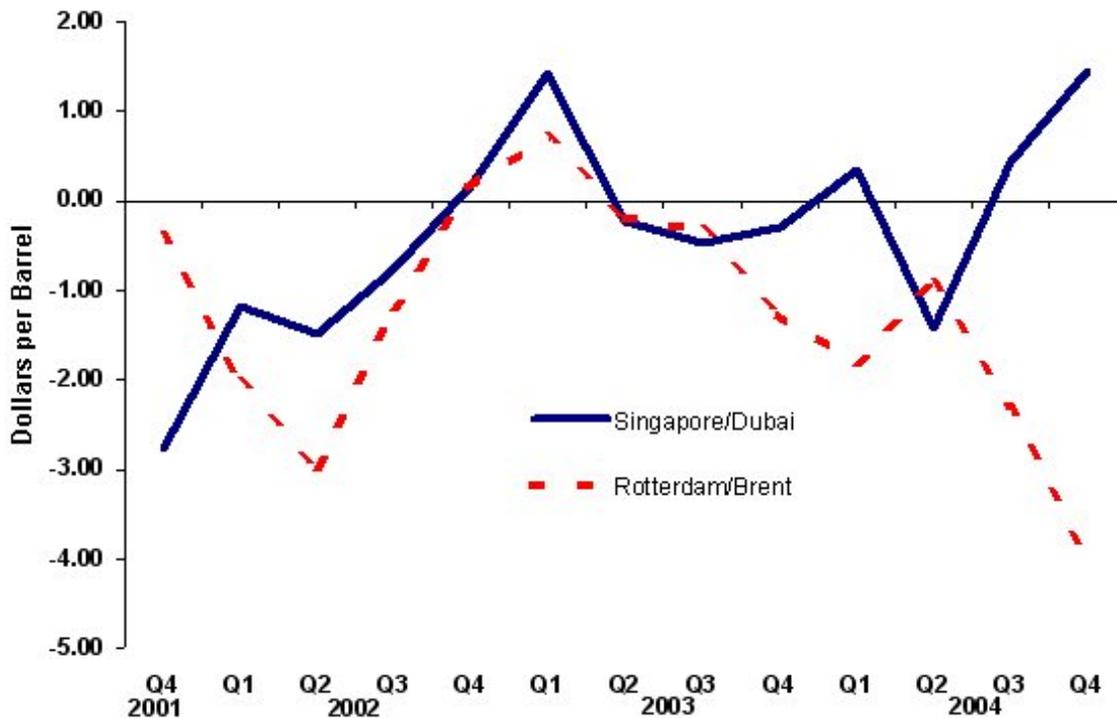
Figure 3. Quarterly Average U.S. Heating Fuel Stocks, 1998-2002, 2003, and 2004



Note: Heating fuel stocks are the summation of distillate and residual stocks.

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

Figure 4. Quarterly Foreign Gross Refining Margins,^a 2001 - 2004



^a Gross refining margin is defined as netback crude oil price less spot crude oil price. The netback price is calculated by multiplying the spot price of each refined product by the percentage share in the yield of a barrel of crude oil. Transport and out-of-pocket refining costs are then subtracted to arrive at netback price.

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 2002, 2003, and 2004; January 2003 and 2004; and December 2004), page 12.

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