Financial News for Major Energy Companies
Fourth Quarter 2005

Overview

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-one major energy companies[1] reported overall net income (excluding unusual items) of $28.7 billion on revenues of $298.4 billion (i.e., 9.6 cents of net income per dollar of revenue) during the fourth quarter of 2005 (Q405). The level of net income for Q405 was 43 percent higher than in the fourth quarter of 2004 (Q404) (**Table 1**). Net income for Q405 increased primarily as a result of higher crude oil and natural gas prices, higher refining margins, and higher foreign refinery throughput.

For all of 2005, corporate net income was $97.6 billion on revenue of $1,28.8 billion (i.e., 8.7 cents of net income per dollar of revenue) due to higher prices and margins.

All lines of business reported increases in net income for Q405 relative to Q404 with the exception of foreign refining/marketing. Overall, the petroleum line of business (which includes both oil and natural gas production and petroleum refining/marketing) registered a 40-percent increase in net income between Q404 and Q405. A 49-percent increase in oil and gas production net income was augmented by a 20-percent increase in refining/marketing net income. (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.) For all of 2005 all of the lines of business generated higher earnings relative to 2004. In particular, worldwide petroleum operations were 37 percent higher ($85.6 billion to $117.6 billion) relative to a year earlier with worldwide upstream increasing 39 percent ($61.6 billion to $85.8 billion) and worldwide downstream increasing 32 percent ($24.1 billion to $31.8 billion).

Energy Price News

The crude oil price of Q405 increased by almost one-third while the domestic natural gas price almost doubled, relative to the prices of a year ago. The U.S. refiner average acquisition cost of imported crude oil increased 32 percent relative to a year ago, from $39.91 per barrel in Q404 to $52.75 per barrel in Q405 (**Table 2**). (See the current and recently past issues of the *Short-Term Energy Outlook* for explanation of these price changes.) This was the fourteenth 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). Average crude oil prices over all of 2005 were $49.18, which was a 37-percent increase relative to the 2004 average of $35.99.

The average U.S. natural gas wellhead price increased 72 percent between Q404 and Q405, from $5.92 per thousand cubic feet to $10.17 per thousand cubic feet (**Table 2**). (See the current and recently past issues of the *Short-Term Energy Outlook* for explanation of these price changes.) This was the seventh consecutive quarter in which natural gas prices increased relative to their year-earlier levels. Average natural gas prices over all of 2005 were $7.45, which was a 36-percent increase relative to the 2004 average of $5.50.

Worldwide Petroleum

Earnings from worldwide oil and natural gas production operations increased 40 percent between Q404 and Q405. The increase in domestic earnings augmented an even greater increase in foreign earnings.

Overall earnings for domestic oil and natural gas exploration, development, and production operations (i.e., domestic upstream operations) in Q405 were 38 percent higher than in Q404 (**Table 1**). Domestic upstream earnings increased relative to a year ago as the effects of higher crude oil prices and natural gas prices (**Table 2**) overwhelmed the effects of large U.S. production decreases (**Table 1**). Financial results were consistent as 9 of the 11 companies that reported separate income for domestic upstream operations recorded higher earnings than a year ago. The companies that reported higher earnings overwhelmingly cited higher commodity prices as the reason for the higher earnings. Some of the companies indicated that their higher prices were augmented by higher production levels (due to both drilling efforts and to acquisitions) while others indicated that their higher prices outweighed the effect of lower production levels (due Hurricanes Katrina and Rita, natural field declines, and entitlement effects associated with production-sharing agreements). Lower production levels due to Hurricanes Katrina and Rita and higher production costs were cited in the press releases of the companies reporting lower earnings.

Earnings from domestic upstream operations for all of 2005 also were higher than in 2004, increasing 31 percent from $27.3 billion to $35.7 billion. The overwhelming reason cited by the companies in their press releases were higher realized prices for crude oil and natural gas, which were somewhat offset by higher operating costs and lower production levels, chiefly due to Hurricanes Katrina and Rita.

Net income from foreign upstream operations increased 48 percent relative to Q404, as all six companies that reported separate net income from foreign upstream operations reported an increase in Q405 relative to Q404. Foreign earnings primarily grew on the strength of higher crude oil prices and an increase in foreign crude oil production (**Table 2**). Company press releases noted that higher prices for both crude oil and natural gas were offset in some cases by reduced production due to entitlement effects.

Earnings from foreign upstream operations for all of 2005 also were higher than in 2004, increasing 43 percent from $22.1 billion to $31.6 billion. Again, the overwhelming reason cited by the companies in their press releases was higher prices, which were partially offset by reduced production levels (in most cases).

Earnings from worldwide refining and marketing operations increased by 20 percent between Q404 and Q405 as higher U.S. and European margins and increased foreign throughput offset lower Asia/Pacific margins and lower U.S. throughput. Higher costs due to higher crude oil prices were offset by higher revenues from even higher petroleum product prices in the U.S., but the story abroad was mixed. The U.S. majors achieved higher earnings from their worldwide petroleum refining and marketing operations (i.e., worldwide downstream operations), which rose from $7.4 billion in Q404 to $8.8 billion in Q405, mainly due to their U.S. operations.

U.S. gross refining margins (the per-barrel composite wholesale product price less the composite refiner acquisition cost of crude oil) increased despite somewhat by higher petroleum product stock levels. Further, Hurricanes Katrina and Rita reduced domestic refinery throughput relative to Q404 by those U.S. majors reporting domestic refinery throughput (**Table 1**), which offset the effects of higher U.S. gross refining margins. The net effect was a 40-percent increase in U.S. refining/marketing earnings from $4.7 billion in Q404 to $6.6 billion in Q405 (**Table 1**). The performance of the 11 companies that reported U.S. refining/marketing earnings was mixed. Eight of the companies reported higher earnings in Q405 than in Q404, citing higher refining margins and large light/heavy and sweet/sour crude oil price differentials. Alternatively, the three companies that reported lower earnings cited higher energy costs and reduced throughput due to Hurricane Rita.

Domestic refining/marketing operations for all of 2005 were 39-percent higher than in 2004, increasing from $17.5 billion to $24.3 billion. Among the reasons cited in press releases were higher refining margins, which were offset by reduced throughput due to hurricane effects. Earnings from foreign downstream operations decreased 16 percent between Q404 and Q405 (**Table 1**). Although refinery throughput increased by 3 percent between Q404 and Q405 (**Table 1**) and European refining margins increased (by $1.65/barrel), margins in Asia/Pacific fell (**Figure 1**) (by $2.55/barrel) with lower earnings the overall result. The mixed effects of industry-wide refining margins had mixed effects across the five companies separately reporting foreign downstream earnings. Two of the companies reported higher earnings in their press releases due to higher margins and increased throughput. The three companies that reported lower earnings noted factors such as lower realized margins in both Europe and Asia/Pacific and reduced product sales.

Earnings from foreign refining/marketing were 10-percent higher for all of 2005 relative to 2004, increasing from $6.7 billion to $7.4 billion. Reasons cited by the companies in press releases included higher refining margins and increased throughput.

Worldwide Downstream Natural Gas and Power

Worldwide downstream natural gas and power earnings increased 76 percent (**Table 1**) largely due to the absence of large losses. Weather in Q405 was essentially a non-factor as there was little difference compared to Q404 (1 percent more U.S. gas-weighted heating degree days). Additionally, the results were somewhat mixed with five companies reporting higher earnings and two reporting lower earnings. Higher earnings were attributed to higher NGL prices, reduced operating costs, and acquisition. Lower earnings were attributed to increased taxes and and adverse effects of Hurricanes Katrina and Rita.

Earnings for all of 2005 were 6-percent higher than for all of 2004, increasing from $2.7 billion to $2.9 billion. Favorable trading effects were largely offset by hurricane effects according to company press releases, which resulted in the small change relative to the previous year.

Chemical Operations

Higher margins offset hurricane effects and result in increased earnings from the majors' chemical operations. Four of the nine companies reporting results for this line of business recorded higher earnings while the balance recorded lower earnings, resulting in a 3-percent increase in earnings from the majors' chemical operations in Q405 relative to Q404 (**Table 1**). Higher earnings were credited to higher prices and margins while lower earnings were attributed to lower margins/higher feedstock costs, reduced sales volumes, and outages due to Hurricanes Katrina and Rita.

Earnings for all of 2005 were 5-percent higher than for all of 2004 increasing from $5.2 billion to $6.8 billion. Higher margins were chief among the reasons noted in company press releases for higher earnings.

[1] The companies included here are Amerada Hess Corporation, Anadarko Petroleum Corporation, Apache Corporation, BP plc (U.S. operations only), Burlington Resources Inc., Chevron Corporation, ConocoPhillips Company, Devon Energy Corporation, Dominion Resources Inc., EOG Resources Inc., Equitable Resources Inc., Exxon Mobil Corporation, Kerr-McGee Corporation, Lyondell Chemical Company, Marathon Oil Corporation, Occidental Petroleum Corporation, Royal Dutch Shell plc (U.S. operations only), Sunoco Inc., Tesoro Corporation, Valero Energy Corporation, and XTO Energy Inc.

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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
(Number of companies reporting given in parentheses)

	Q404	Q405	Percent Change[b]	2004	2005	Percent Change[b]
Financial Information						
Corporate	(millions of dollars)		(%)	(millions of dollars)		(%)
Revenue (19)	237,178	298,436	25.8	879,323	1,118,929	27.2
Net Income (19)	20,043	28,667	43.0	65,717	97,626	48.6
Worldwide Lines of Business Net Income						
Petroleum (21) [c]	24,251	33,894	39.8	85,625	117,559	37.3
Oil and Natural Gas Production (17)	16,884	25,075	48.5	61,560	85,808	39.4
Refining/Marketing (11)	7,367	8,819	19.7	24,065	31,752	31.9
Downstream Natural Gas and Power (7)	426	752	76.3	2,730	2,906	6.4
Chemicals (9)	1,435	1,476	2.9	5,184	6,842	32.0
Domestic Net Income by Function						
Oil and Natural Gas Production (11)	7,243	9,956	37.5	27,252	35,738	31.1
Refining/Marketing (11)	4,724	6,602	39.7	17,537	24,333	38.7
Foreign Net Income by Function						
Oil and Natural Gas Production (6)	6,247	9,213	47.5	22,103	31,609	43.0
Refining/Marketing (5)	2,643	2,217	-16.1	6,732	7,419	10.2
Operating Information						
Oil Production	(thousand barrels per day)		(%)	(thousand barrels per day)		(%)
Domestic (16)	3,504	3,003	-14.3	3,545	3,288	-7.2
Foreign (12)	4,980	5,077	1.9	4,921	4,895	-0.5
Natural Gas Production	(million cubic feet per day)		(%)	(million cubic feet per day)		(%)
Domestic (17)	18,625	17,015	-8.6	19,024	18,026	-5.2
Foreign (13)	18,144	17,674	-2.6	17,226	16,718	-2.9
Refinery Throughput	(thousand barrels per day)		(%)	(thousand barrels per day)		(%)
Domestic (11)	12,714	11,630	-8.5	12,340	12,053	-2.3
Foreign (5)	6,073	6,269	3.2	5,925	6,070	2.4

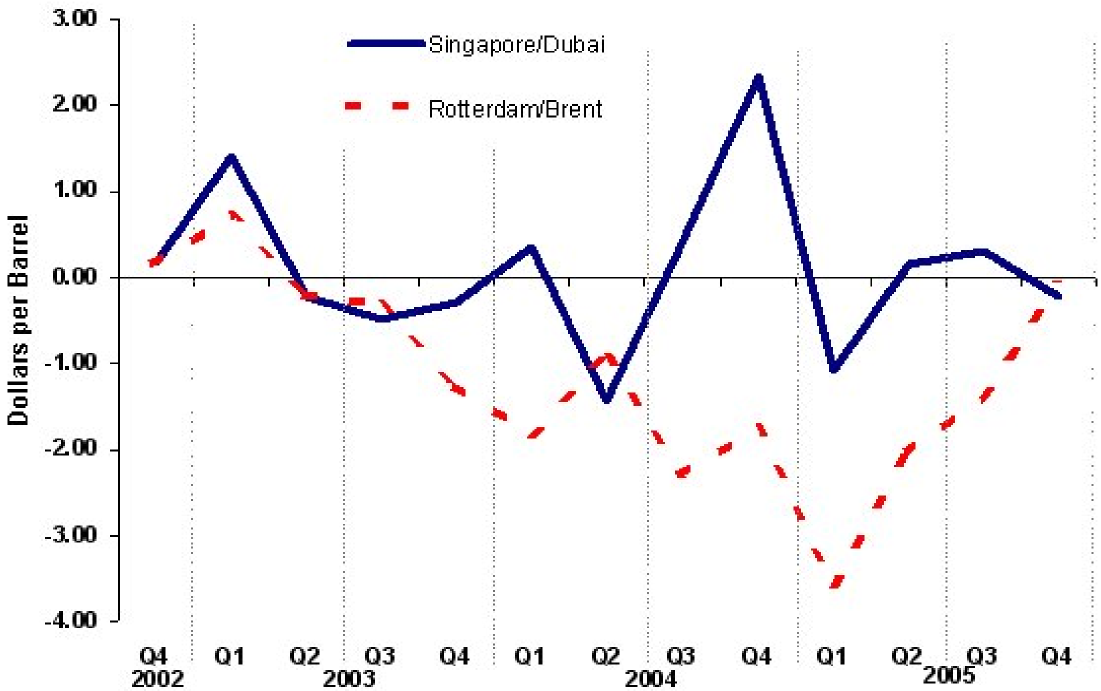
[a] Net income excludes unusual items. Because consolidated net income includes corporate nontraceables and eliminations, it is not equal to the sum of the lines of business net income.
[b] Percent changes are calculated from unrounded data.
[c] The number of companies reporting net income from petroleum 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: Compiled from companies' quarterly reports to stockholders.

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

	Q404	Q405	Percent Change	2004	2005	Percent Change
U.S. Energy Prices[a]						
Refiner Acquisition Cost of Imported Crude Oil ($/barrel)	39.91	52.75	32.2	35.99	49.18	36.6
Natural Gas Wellhead ($/thousand cubic feet)	5.92	10.17	71.8	5.50	7.45	35.5
U.S. Gross Refining Margin[b] ($/barrel)	13.75	21.94	59.5	13.81	18.62	34.8

[a] Energy Information Administration, *Short-Term Energy Outlook*, (Washington, DC, December 6, 2005 and February 7, 2006), Tables 4 and A4.
[b] Compiled from data in Energy Information Administration, *Petroleum Marketing Monthly*, DOE/EIA-380 (Washington, DC), Table 1, Table 4 and Table 5; and Energy Information Administration, *Monthly Energy Review*, 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 Foreign Gross Refining Margins,[a] 2002 - 2005



[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 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 2003, 2004, and 2005; January 2003, 2004, 2005, and 2006), page 12.

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