

Financial News for Major Energy Companies

[Twenty-four major energy companies](#) reported overall net income (excluding unusual items) of \$13.9 billion on revenues of \$198.3 billion during the first quarter of 2004 (Q104). The level of net income for Q104 was significantly higher than in the first quarter of 2003 (Q103), rising 18 percent ([Table 1](#)). The overall increase in net income was due primarily to slightly higher crude oil prices, higher foreign production of crude oil, and higher refinery throughput.

Overall, the petroleum line of business (which includes both oil and natural gas production and petroleum refining/marketing) registered an 8-percent increase in net income between Q103 and Q104, as the 3-percent increase in oil and gas production net income was augmented by a 30-percent increase in refining/marketing net income. Moreover, all lines of business (with the exception of domestic oil and natural gas production) fared better in Q104 relative to Q103. (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 larger decrease in natural gas prices, relative to prices of a year ago.** The world oil price (i.e., U.S. refiner average acquisition cost of imported crude oil) increased 3 percent relative to a year ago, going from \$30.58 per barrel in Q103 to \$31.44 per barrel in Q104 ([Table 2](#)). As indicated in the May [Short-Term Energy Outlook \(STEO\)](#) of the [Energy Information Administration](#), upward pressure was exerted on crude oil prices by the U.S. economy's 5-percent growth, low stock levels in the countries of the Organization for Economic Cooperation and Development (including the U.S., [Figure 1](#)), and a 1-percent increase in world demand. The effects of these factors were somewhat offset by a 5-percent increase in world supply. This was the seventh 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).

Meanwhile, the average U.S. natural gas wellhead price decreased 6 percent between Q103 and Q104 ([Table 2](#)), as the opening U.S. natural gas working storage level in Q104 was higher than in Q103 ([Figure 2](#)), rising 8 percent. Further, new U.S. natural gas supply was essentially unchanged while U.S. demand fell almost 2 percent according to the May *STEO*. This marked the first quarter that natural gas prices decreased relative to a year earlier, following five consecutive quarters of rising prices (relative to a year earlier).

Worldwide Petroleum News

● **Earnings from worldwide oil and natural gas production operations increased 3 percent as higher foreign earnings offset lower domestic earnings.** Overall earnings for domestic oil and natural gas exploration, development, and production operations (i.e., domestic upstream operations) in Q104 were 7 percent lower than in Q103 ([Table 1](#)). Domestic upstream earnings decreased relative to a year ago as higher crude oil prices were offset by falling natural gas prices ([Table 2](#)) and production decreases. A 5-percent fall in domestic crude oil production was accompanied by a 6-percent reduction in domestic natural gas production by those U.S. majors reporting crude oil and/or natural gas production ([Table 1](#)). Asset divestitures by the U.S. majors and naturally occurring declines in field production were among the reasons given for lower production. Similarly, seven of the eleven companies that reported separate net income for domestic upstream operations reported lower earnings in Q104 relative to Q103, which were chiefly due to property sales and natural field declines, according to company press releases. Alternatively, the four companies that reported increased earnings generally credited property acquisitions (some quite substantial, such as [Devon Energy's acquisition of Ocean Energy](#)) and development activity as central to their increased earnings.

Net income from foreign upstream operations increased 10 percent relative to Q103, as four of the six companies that reported separate net income from foreign upstream operations reported an increase in Q104 relative to Q103. Slightly higher crude oil prices ([Table 2](#)) were augmented by a 9-percent increase in foreign crude oil production ([Table 1](#)). Slightly lower production in Q104 relative to Q103 by those U.S. majors reporting natural gas production put downward pressure on foreign upstream earnings. According to company press releases, the reduction in natural gas production was due to factors such as operational outages in Europe and natural field decline. As reported in company press releases, increased earnings were due to lower exploration expenses, increased production levels (both due to new projects and the absence of the effects of Venezuela's national strike of a year ago), and increased sales of crude oil and natural gas liquids.

● **Earnings from worldwide downstream petroleum operations increased by 30 percent as U.S. margins increased while foreign refining margins declined.** Slightly higher crude oil prices served as a brake on increased earnings from

worldwide downstream petroleum operations of the U.S. majors, which rose from \$2.9 billion in Q103 to \$3.8 billion in Q104.

A 6-percent increase in domestic refinery throughput relative to Q103 by those U.S. majors reporting domestic refinery throughput ([Table 1](#)) augmented the effects of the higher U.S. gross refining margins, contributing to a 41-percent increase in U.S. refining/marketing earnings from \$1.8 billion in Q103 to \$2.6 billion in Q104 ([Table 1](#)). The earnings of 9 of the 13 companies were higher in Q104 than in Q103. The most commonly cited reasons in company press releases for the higher earnings were higher refining margins (despite higher fuel costs) and higher refinery throughput.

Earnings from foreign downstream operations increased by 8 percent between Q103 and Q104 ([Table 1](#)). This result was facilitated by a small increase in refinery throughput ([Table 2](#)), but hindered by lower industry-wide refinery margins in both Europe and the Asia/Pacific region ([Figure 3](#)), which fell by \$1.21 per barrel and by \$1.07 per barrel, respectively. The company results were mixed. ConocoPhillips and Valero recorded lower earnings than a year ago due to lower refinery throughput and product output in Q104 relative to Q103. Alternatively, ChevronTexaco and Exxon Mobil recorded higher earnings due to higher margins and product sales in Q104 than in Q103.

Worldwide Downstream Natural Gas and Power

● **Worldwide downstream natural gas and power earnings increased 7 percent in Q104 relative to Q103 despite warmer weather than a year ago.** [[Note](#)] Seven of the nine companies that reported downstream natural gas and power results recorded higher earnings than a year earlier. The reasons for the increased earnings were varied, as higher natural gas liquids prices and volumes, lower costs, and increased natural gas marketing margins were all cited in company press releases. Unseasonably mild weather (natural gas-weighted heating degree-days were 3 percent lower in Q104 than in Q103 according to the May *STEO*), lower trading earnings, and lower electric transmission margins were among the reasons cited by the two companies that reported reduced earnings from this line of business.

Chemical Operations

● **Earnings of the majors' chemical operations increased substantially relative to a year ago, mostly due to higher margins and reduced operating costs.** The majors' chemical operations in Q104 were 307 percent higher than in Q103 ([Table 1](#)). As usual, Exxon Mobil's results dominated the chemical results, accounting for more than 100 percent of Q103 earnings and 78 percent of Q104 earnings (i.e., in the absence of Exxon Mobil, the remaining eight companies lost a total of \$109 million in Q103 and earned a total of \$161 million in Q104).

Exxon Mobil (along with several other companies) cited higher margins as the major reason for its higher earnings in its quarterly earnings release. More consistent natural gas prices were also cited as a large contributing factor to the higher earnings.

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Note: The results for the downstream natural gas and power line of business tend to be strongly affected by the results of El Paso. However, El Paso is omitted here because it had not released its Q104 earnings release by May 11. For more information, please see El Paso's [press release of March 10](#).

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

	Q103	Q104	Percent Change
Financial Information			
Corporate	(millions of dollars)		
Revenue (24) ^b	183,852	198,255	7.8
Net Income (24)	11,810	13,898	17.7
Worldwide Lines of Business Net Income			
Petroleum (25) ^c	17,045	18,353	7.7
Oil and Natural Gas Production (19) ^d	14,111	14,532	3.0
Refining/Marketing (13) ^d	2,934	3,821	30.2
Downstream Natural Gas and Power (9)	1,295	1,389	7.3
Chemicals (9)	178	725	307.4
Domestic Net Income by Function			
Oil and Natural Gas Production (11)	6,391	5,958	-6.8

Refining/Marketing (13)	1,830	2,573	40.6
Foreign Net Income by Function			
Oil and Natural Gas Production (6)	4,570	5,002	9.5
Refining/Marketing (4)	1,106	1,191	7.7
Operating Information			
Oil Production	(thousand barrels per day)		
Domestic (18)	3,899	3,690	-5.4
Foreign (13)	4,605	5,019	9.0
Natural Gas Production	(million cubic feet per day)		
Domestic (20)	21,865	20,624	-5.7
Foreign (15)	19,149	18,969	-0.9
Refinery Throughput	(thousand barrels per day)		
Domestic (13)	12,010	12,744	6.1
Foreign (4)	5,553	5,629	1.4
<p>^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.</p> <p>^b The number of companies is reported in parentheses. Percent changes are calculated from unrounded data.</p> <p>^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. Further, Chesapeake Energy's earnings press release lacks sufficient detail to separate its financial results between petroleum and downstream natural gas and power, so only its corporate revenues and net income are included here (in addition to its oil and natural gas production).</p> <p>^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.</p>			
Sources: Company press releases and financial disclosures.			

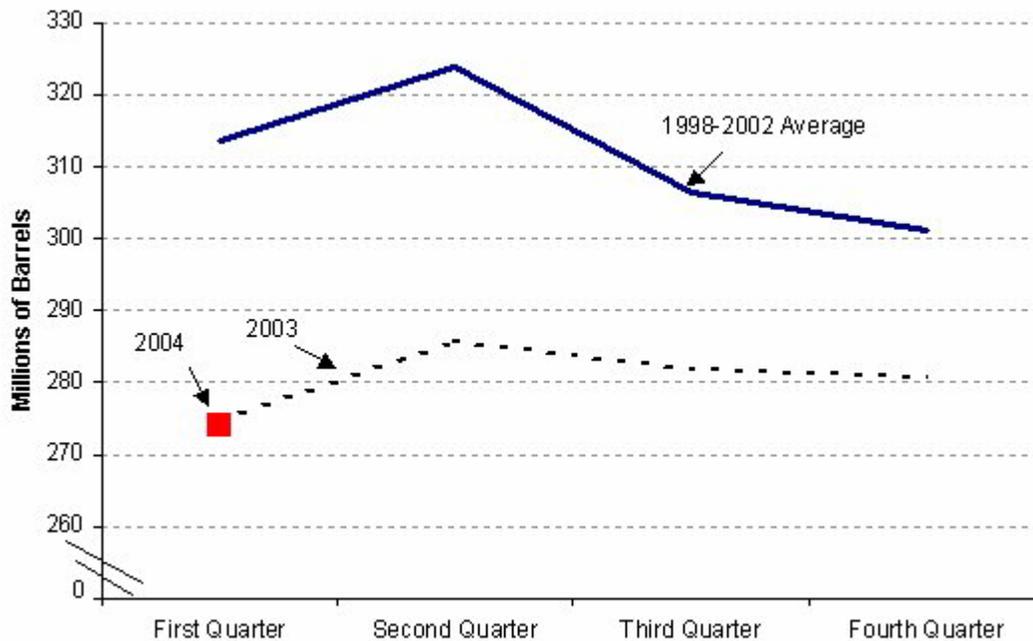
Table 2. U.S. Energy Prices and the U.S. Gross Refining Margin

	Q103	Q104	Percent Change
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U.S. Energy Prices^a			
Refiner Acquisition Cost of Imported Crude Oil (\$/barrel)	30.58	31.44	2.8
Natural Gas Wellhead (\$/thousand cubic feet)	5.54	5.22	-5.8
U.S. Gross Refining Margin^b (\$/barrel)			
	10.70	11.00	2.7
^a Energy Information Administration, Short-Term Energy Outlook , (Washington, DC, May 11, 2004), Table 4.			
^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: 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.			

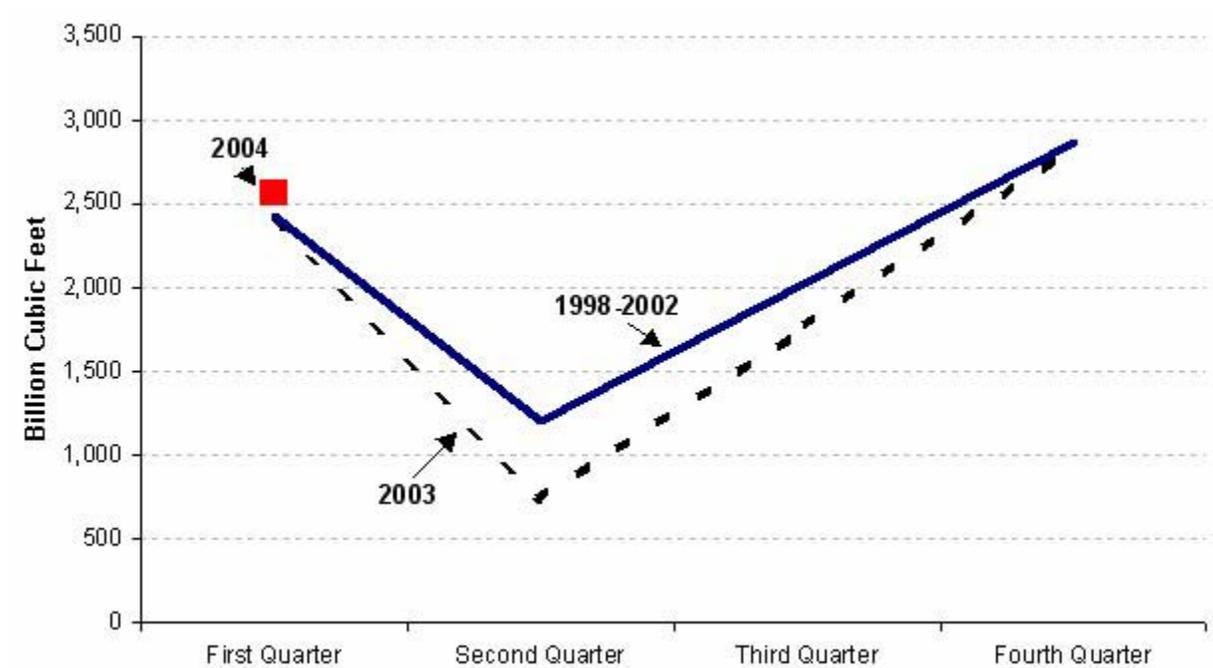


Figure 1. Quarterly U.S. Crude Oil Stocks, 1998-2002, 2003, and 2004



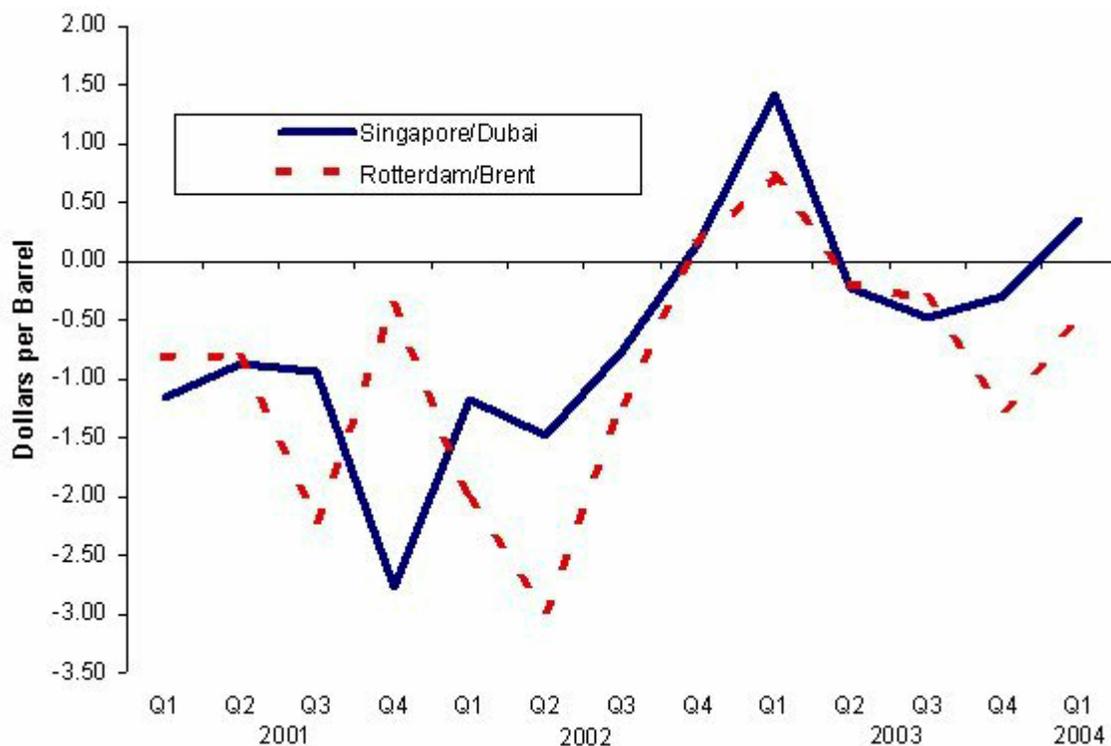
Source: Energy Information Administration, [Petroleum Supply Monthly](#), DOE/EIA-0109 (Washington, DC), Table 51.

Figure 2. Quarterly U.S. Opening Level of Working Gas in Storage, 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, April 8, 2004), [Table 8](#).

Figure 3. Quarterly Foreign Gross Refining Margins,^a 2001 - 2004



^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, 2002, and 2003; January 2002, 2003, and 2004; and April 2004), page 12.

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