

Financial News for Major Energy Companies First Quarter 2005

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-five major energy companies reported overall net income (excluding unusual items) of \$20.4 billion on revenues of \$248.7 billion during the first quarter of 2005 (Q105). The level of net income for Q105 was 44 percent higher than in the first quarter of 2004 (Q104) (Table 1). Net income for Q105 increased primarily as a result of higher crude oil and natural gas prices, higher demand from the United States and the other countries comprising the Organization for Economic Cooperation and Development (OECD), 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 30-percent increase in net income between Q104 and Q105. A 27-percent increase in oil and gas production net income was augmented by a 40-percent increase in refining/marketing net income. All lines of business fared better in Q105 relative to Q104 with the exception of foreign oil and natural gas production. (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 more than one-third while the domestic natural gas price increased by less than one-tenth, relative to the prices of a year ago.** The U.S. refiner average acquisition cost of imported crude oil increased 34 percent relative to a year ago, from \$31.12 per barrel in Q104 to \$41.66 per barrel in Q105 (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 May *Short-Term Energy Outlook*. The effects of these factors were somewhat offset by a 2-percent increase in world crude oil supply and a 4-percent increase in the stock levels in the countries of the OECD relative to Q104, and higher U.S. stocks (Figure 1), which increased 6 percent relative to Q104. This was the eleventh 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 U.S. natural gas wellhead price increased 9 percent between Q104 and Q105, from \$5.22 per thousand cubic feet to \$5.70 per thousand cubic feet (Table 2). A 3-percent decline in U.S. demand for natural gas was offset by a 2-percent decline in domestic production (largely due to lingering effects from Hurricane Ivan, which caused natural gas production losses in the Gulf of Mexico), but only an overall 1-percent decline in domestic natural gas supply, putting scant upward pressure on domestic natural gas prices. Undercutting higher natural gas prices were a higher opening level of working gas in storage, which was 5 percent higher in Q105 than in Q104, and an 8-percent increase in net imports of natural gas.

Worldwide Petroleum Earnings

- **Earnings from worldwide oil and natural gas production operations increased 27 percent between Q104 and Q105.** 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 Q105 were 18 percent higher than in Q104 (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 U.S. production decreases. A 3-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). Financial results were somewhat mixed as 4 of the 14 companies that reported separate income for domestic upstream operations recorded lower earnings than a year ago. Lower production levels due to divestitures, production shut-in due to Hurricane Ivan, normal field declines, and higher production costs were all cited in company press release as reasons for lower earnings than a year earlier. The 10 companies that reported higher earnings cited higher commodity prices that were either magnified by higher production levels (due to both exploration and development and to acquisitions), or that outweighed lower production levels due to divestitures and entitlement effects.

Net income from foreign upstream operations increased 41 percent relative to Q104, as all six companies that reported separate net income from foreign upstream operations reported an increase in Q105 relative to Q104. Foreign earnings primarily grew on the strength of higher crude oil prices (Table 2), which were somewhat offset by a 1-percent decline in foreign crude oil production and a 3-percent decrease in natural gas production (Table 1). Company press releases noted that higher prices for both crude oil and natural gas were offset in some cases by lower cost recovery and higher variable royalty volumes.

- **Earnings from worldwide refining and marketing operations increased by 40 percent between Q104 and Q105 as higher U.S. margins and worldwide throughput offset lower foreign margins.** Higher crude oil prices were offset by even higher petroleum product prices in the U.S., but not abroad. The U.S. majors achieved higher earnings from their worldwide petroleum refining and marketing operations (i.e., worldwide downstream operations), which rose from \$3.9 billion in Q104 to \$5.4 billion in Q105, mainly due to their U.S. operations.

Higher U.S. gross refining margins (the per-barrel composite wholesale product price less the composite refiner acquisition cost of crude oil) were undercut somewhat by petroleum stock levels, which increased 8 percent between Q104 and Q105, as stock levels for heating fuel stock levels increased (Figure 2) by 6 percent, respectively. The net effect was a 62-percent increase in U.S. refining/marketing earnings from \$2.7 billion in Q104 to \$4.3 billion in Q105 (Table 1). Further, a 5-percent increase in domestic refinery throughput relative to Q104 by those U.S. majors reporting domestic refinery throughput (Table 1) augmented the effects of higher U.S. gross refining margins. The earnings of 9 of the 13 companies were higher in Q105 than in Q104. Commonly cited reasons in company press releases for the higher earnings were higher refining margins, higher refinery throughput, large light/heavy and sweet/sour crude oil price differentials, and increased product sales. Companies reporting lower earnings noted lower production due to shutdowns of refining units to perform scheduled maintenance, lower marketing margins, and higher operating costs among the reasons for lower earnings.

Earnings from foreign downstream operations were remarkable because this was the only line of business reported here that generated lower earnings between Q104 and Q105 (Table 1). A 1-percent increase in refinery throughput (Table 1) was offset by lower industry-wide refining margins in both Europe and the Asia/Pacific region (Figure 3), which decreased by \$1.43 and \$1.75, respectively, per barrel and contributed to the decline in foreign refining/marketing earnings. The performances of the four companies separately reporting foreign downstream earnings were consistent with three of the four companies reporting lower earnings. The company press releases cited factors such as lower fuel oil

sales and lower marketing margins. The solitary company reporting higher earnings noted that its refining margins were higher in Q105 than in Q104.

Worldwide Downstream Natural Gas and Power

- **Worldwide downstream natural gas and power earnings increased 70 percent due to a variety of factors.** Despite essentially unchanged weather relative to a year earlier (U.S. heating degree days fell less than 1 percent), eight of the ten companies that reported downstream natural gas and power results recorded higher or essentially unchanged earnings in Q105 than in Q104. Among the reasons noted in company press releases for increased earnings were higher equity earnings, greater natural gas volumes transported, higher marketing margins, increased natural gas liquids margins and sales volumes, and lower operating expenses. The two companies that reported lower earnings cited few specific reasons in their press releases with losses from derivatives used to support natural gas marketing activities the major exception.

Chemical Operations

- **Higher margins and sales volumes trebled the earnings of the majors' chemical operations.** Earnings from the majors' chemical operations were 202 percent higher in Q105 than in Q104 (Table 1) as all nine of the companies reporting results for this line of business recorded increased earnings. As usual, Exxon Mobil's results dominated the chemical results, accounting for 69 percent of Q104 earnings and 52 percent of Q105 earnings. Exxon Mobil (along with several other companies) cited improved market conditions and sales volumes as major reasons for its higher earnings in its quarterly earnings release. Other factors included in company press releases included higher margins and a reduction in downtime for processing units.

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

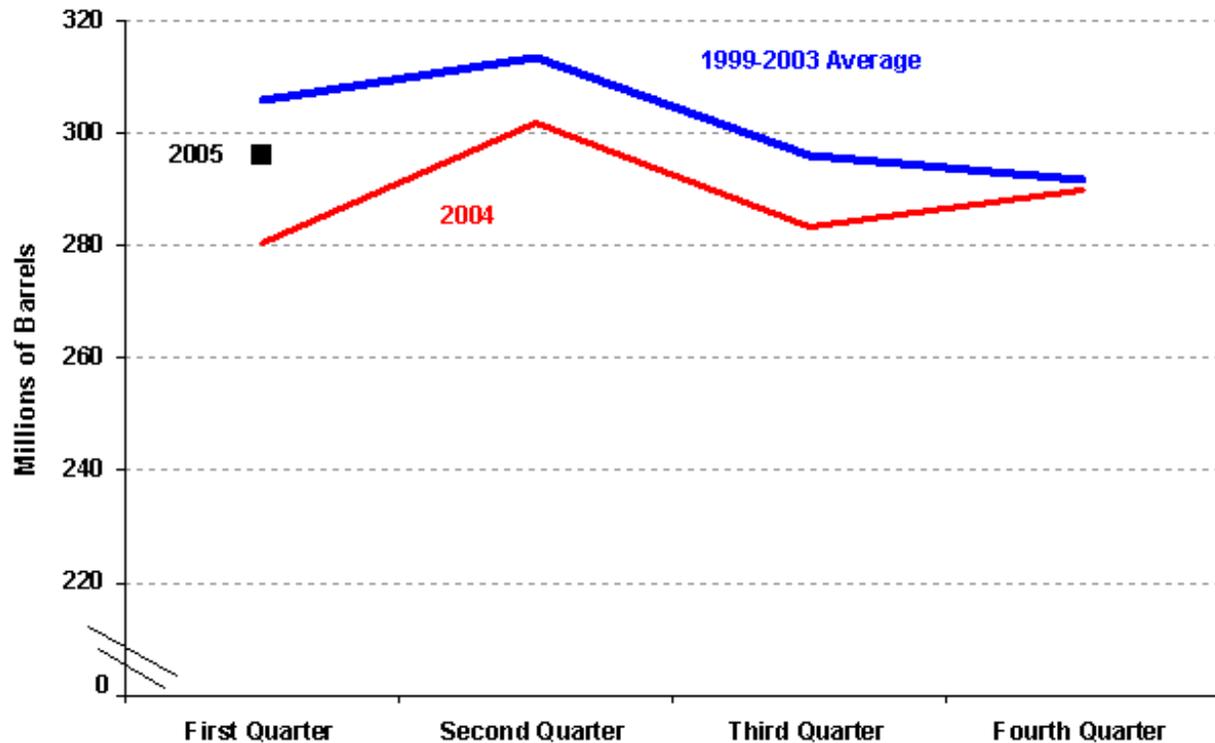
(The number of companies is reported in parentheses)

	Q104	Q105	Percent Change ^b
Financial Information			
Corporate	(millions of dollars)		(%)
Revenue (25)	197,785	248,732	25.8
Net Income (25)	14,135	20,363	44.1
Worldwide Lines of Business Net Income			
Petroleum (27) ^c	18,542	24,071	29.8
Oil and Natural Gas Production (21)	14,686	18,671	27.1
Refining/Marketing (14)	3,855	5,380	39.5
Downstream Natural Gas and Power (10)	1,134	1,927	69.9
Chemicals (9)	813	2,453	201.6
Domestic Net Income by Function			
Oil and Natural Gas Production (14)	6,415	7,568	18.0
Refining/Marketing (13)	2,665	4,305	61.5
Foreign Net Income by Function			
Oil and Natural Gas Production (6)	5,134	7,226	40.8
Refining/Marketing (4)	1,190	1,075	-9.7
Operating Information			
Oil Production	(thousand barrels per day)		(%)
Domestic (19)	3,720	3,613	-2.9
Foreign (13)	4,917	4,850	-1.4
Natural Gas Production	(million cubic feet per day)		
Domestic (21)	21,383	20,854	-2.5
Foreign (15)	18,981	18,411	-3.0
Refinery Throughput	(thousand barrels per day)		
Domestic (13)	12,658	13,233	4.5
Foreign (4)	5,664	5,708	0.8
<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 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.</p> <p>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.</p>			
Sources: Compiled from companies' quarterly reports to stockholders.			

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

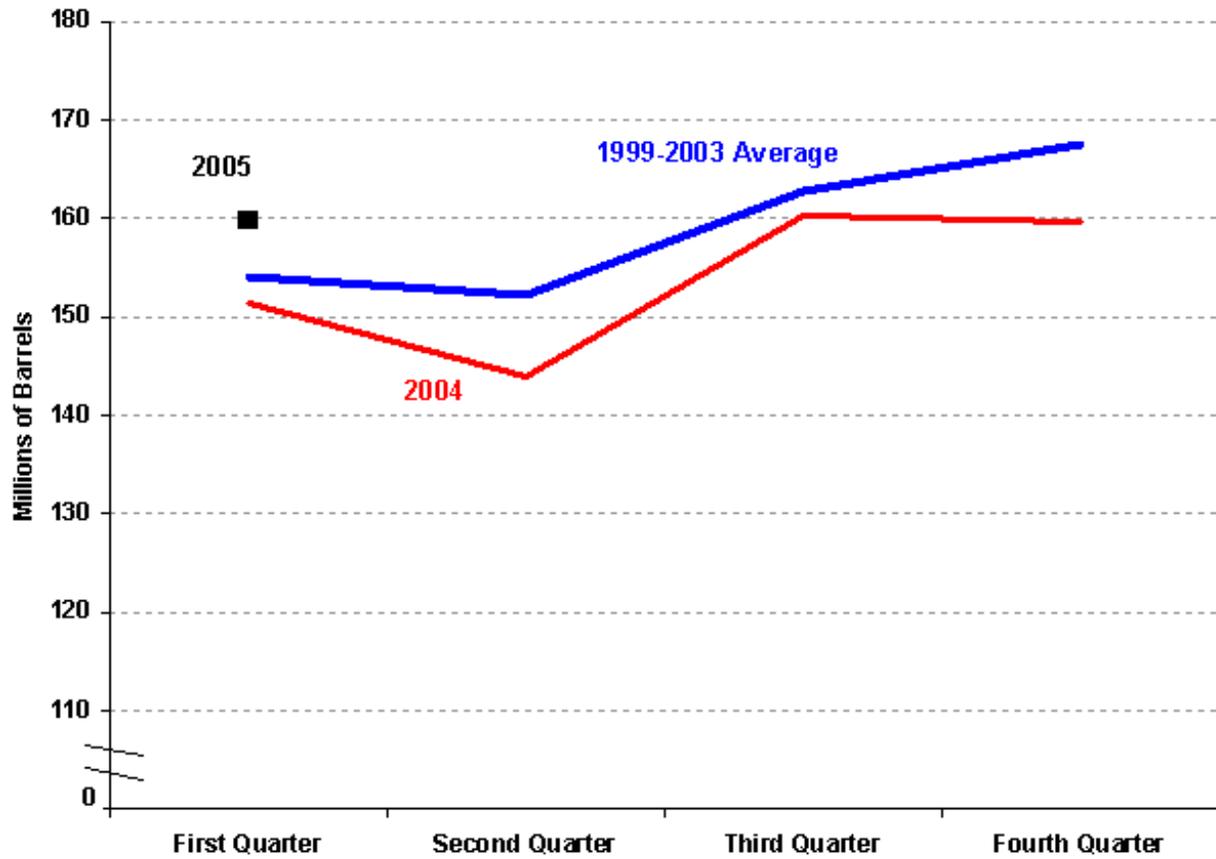
	Q104	Q105	Percent Change
U.S. Energy Prices^a			
Refiner Acquisition Cost of Imported Crude Oil (\$/barrel)	31.12	41.66	33.9
Natural Gas Wellhead (\$/thousand cubic feet)	5.22	5.70	9.2
U.S. Gross Refining Margin^b (\$/barrel)	11.59	13.14	13.3
^a Energy Information Administration, <i>Short-Term Energy Outlook</i> , (Washington, DC, May 10, 2005), 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 Average U.S. Crude Oil Stocks, 1999-2003, 2004, and 2005



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

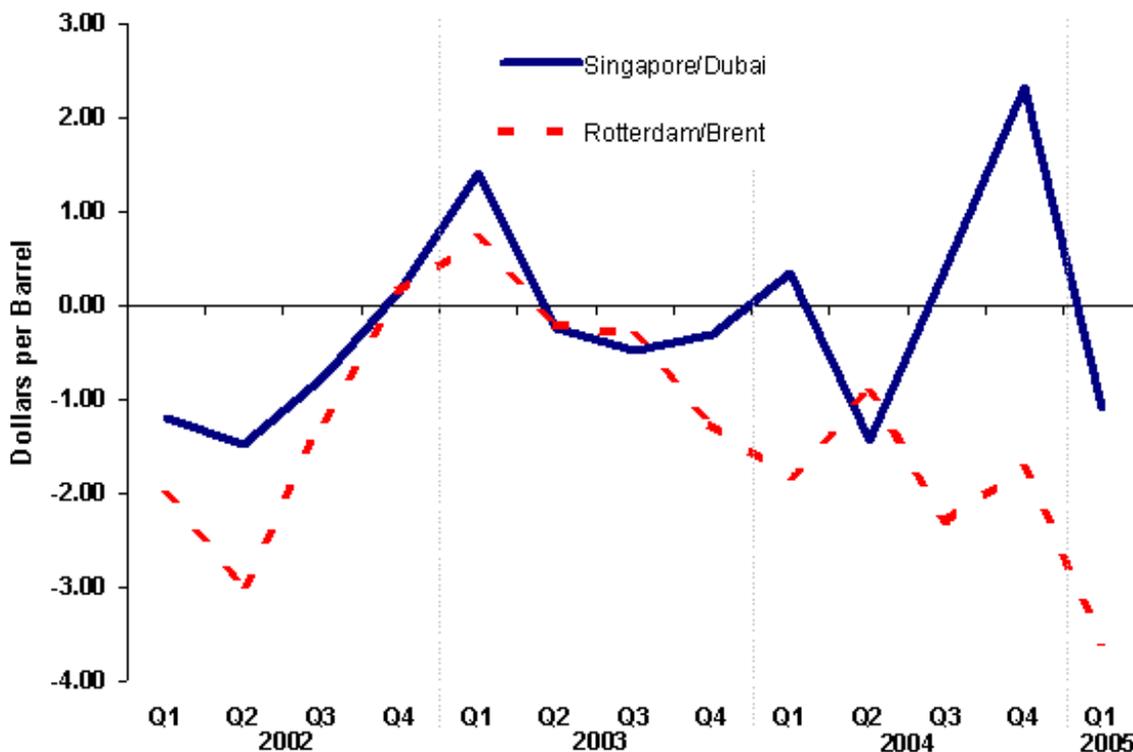
Figure 2. Quarterly Average U.S. Heating Fuel Stocks, 1999-2003, 2004, and 2005



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 3. 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 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.

Contact:

Neal Davis
 neal.davis@eia.doe.gov
 Fax: (202) 586-9753