



Financial News for Major Energy Companies

[Twenty-four major energy companies](#) reported overall net income (excluding unusual items) of \$16.7 billion on revenues of \$213.2 billion during the second quarter of 2004 (Q204). The level of net income for Q204 was significantly higher than in the second quarter of 2003 (Q203), rising 67 percent ([Table 1](#)). The overall increase in net income was due primarily to higher crude oil prices, higher foreign production of crude oil, higher refining margins, and higher refinery throughput.

Overall, the petroleum line of business (which includes both oil and natural gas production and petroleum refining/marketing) registered a 54-percent increase in net income between Q203 and Q204, as the 31-percent increase in oil and gas production net income was augmented by a 131-percent increase in refining/marketing net income. Moreover, all lines of business (with the exception of worldwide midstream natural gas and power) fared better in Q204 relative to Q203. (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

● **Oil prices increase by one-third as natural gas prices increase by one-ninth, relative to prices of a year ago.** The world oil price (represented by the U.S. refiner average acquisition cost of imported crude oil) increased 33 percent relative to a year ago, going from \$25.58 per barrel in Q203 to \$34.13 per barrel in Q204 ([Table 2](#)). As indicated in the August [Short-Term Energy Outlook \(STEO\)](#) of the [Energy Information Administration](#), upward pressure was exerted on crude oil prices by worldwide security concerns. Additionally, several factors also affected the underlying fundamentals of the world crude oil market. In particular, the U.S. economy's 5-percent growth, slightly lower stock levels in the countries of the Organization for Economic Cooperation and Development relative to a year earlier, and a 4-percent increase in world oil demand all placed upward pressure on crude oil prices. The effects of these factors were somewhat offset by a 5-percent increase in world supply and higher U.S. stocks ([Figure 1](#)) by 5-percent relative to a year earlier. This was the eighth 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 increased 11 percent between Q203 and Q204 ([Table 2](#)). Contributing to higher natural gas prices was the 3-percent increase in U.S. demand, much of which was offset by a 2-percent growth in total U.S. supply, according to the August *STEO*. The growth in natural gas prices also was dampened by increased U.S. natural gas working storage at the beginning of the period ([Figure 2](#)), which was 45-percent higher than a year earlier.

Worldwide Petroleum News

● **Earnings from worldwide oil and natural gas production operations increase 31 percent as higher foreign earnings augment even higher domestic earnings.** Overall earnings for domestic oil and natural gas exploration, development, and production operations (i.e., domestic upstream operations) in Q204 were 21-percent higher than in Q203 ([Table 1](#)). Domestic upstream earnings increased relative to a year ago as much higher crude oil prices were joined by higher natural gas prices ([Table 2](#)), but somewhat offset by production decreases. A 6-percent fall in domestic crude oil production was accompanied by a 7-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. The reasons for lower production were primarily asset sales, natural field declines, and field maintenance. The solitary company that reported lower earnings from domestic oil and natural gas production cited lower derivative income among other factors.

Net income from foreign upstream operations increased 47 percent relative to Q203, as four of the six companies that reported separate net income from foreign upstream operations reported an increase in Q204 relative to Q203. Foreign results grew on the strength of higher crude oil prices ([Table 2](#)), which were augmented by a 4-percent increase in foreign crude oil production ([Table 1](#)). However, slightly higher (almost 1 percent) production in Q204 relative to Q203 by those U.S. majors reporting natural gas production put scant additional upward pressure on foreign upstream earnings. Increased earnings of the four companies reporting higher earnings were due to higher prices and a slight increase in liquids production (and essentially unchanged natural gas production). Derivatives losses were partially responsible for the lower earnings of the two companies reporting lower earnings.

● **Earnings from worldwide downstream petroleum operations increase by 131 percent as U.S. margins increase and foreign refining margins decline.** Higher crude oil prices appeared to have little effect on earnings from worldwide downstream petroleum operations of the U.S. majors, which rose from \$3.4 billion in Q203 to \$7.8 billion in Q204, mainly due to U.S. results.

Higher U.S. gross refining margins (the per-barrel composite wholesale product price less the composite refiner acquisition cost of crude oil), contributed to a 173-percent increase in U.S. refining/marketing earnings from \$2.3 billion in Q203 to \$6.3 billion in Q204 ([Table 1](#)). Further, a 6-percent increase in domestic refinery throughput relative to Q203 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 of the 13 companies were higher in Q204 than in Q203, with all but two recording more than a 100-percent increase in earnings. Commonly cited reasons in company press releases for the higher earnings were higher refining margins, higher refinery throughput, and increased light/heavy and sweet/sour crude oil price differentials.

Earnings from foreign downstream operations increased by 13 percent between Q203 and Q204 ([Table 1](#)). This result was hindered by a small reduction in refinery throughput ([Table 2](#)) and all the more so by lower industry-wide refinery margins in both Europe and the Asia/Pacific region ([Figure 3](#)). European refining margins fell by \$0.74 per barrel while Asia/Pacific refining margins fell by \$1.21 per barrel. The company results were somewhat mixed with three companies reporting higher earnings and one reporting lower earnings. ChevronTexaco, ConocoPhillips, and Valero indicated that higher refining margins and higher marketing volumes in Q204 relative to Q203 contributed to higher earnings than a year ago. Alternatively, Exxon Mobil noted that its lower marketing margins contributed to its lower earnings.

Worldwide Downstream Natural Gas and Power

● **Worldwide downstream natural gas and power earnings fall 41 percent despite warmer spring weather.** [[Note](#)] Six of the ten companies that reported downstream natural gas and power results recorded lower earnings than a year earlier (two reported losses). Large start-up costs associated with a liquefied natural gas project, higher insurance costs, fuel cost increases, and lower marketing and trading results were all cited by companies that reported lower earnings in their press releases as reasons for lower earnings in Q204 than in Q203. Higher natural gas and natural gas liquids prices and warmer weather than in Q203 (cooling degree-days increased 19 percent relative to a year ago according to the August *STEO*) were among the reasons cited by the four companies that reported increased earnings from this line of business.

Chemical Operations

● **Higher margins and sales volumes boost earnings of the majors' chemical operations.** Earnings from the majors' chemical operations were 84 percent higher in Q204 than in Q203 ([Table 1](#)) as eight of the nine companies reporting results for this line of business recorded increased earnings. As usual, Exxon Mobil's results dominated the chemical results, accounting for 74 percent of Q203 earnings and 55 percent of Q204 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.

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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 Q204 earnings release by August 10. For more information, please see El Paso's [press release of August 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

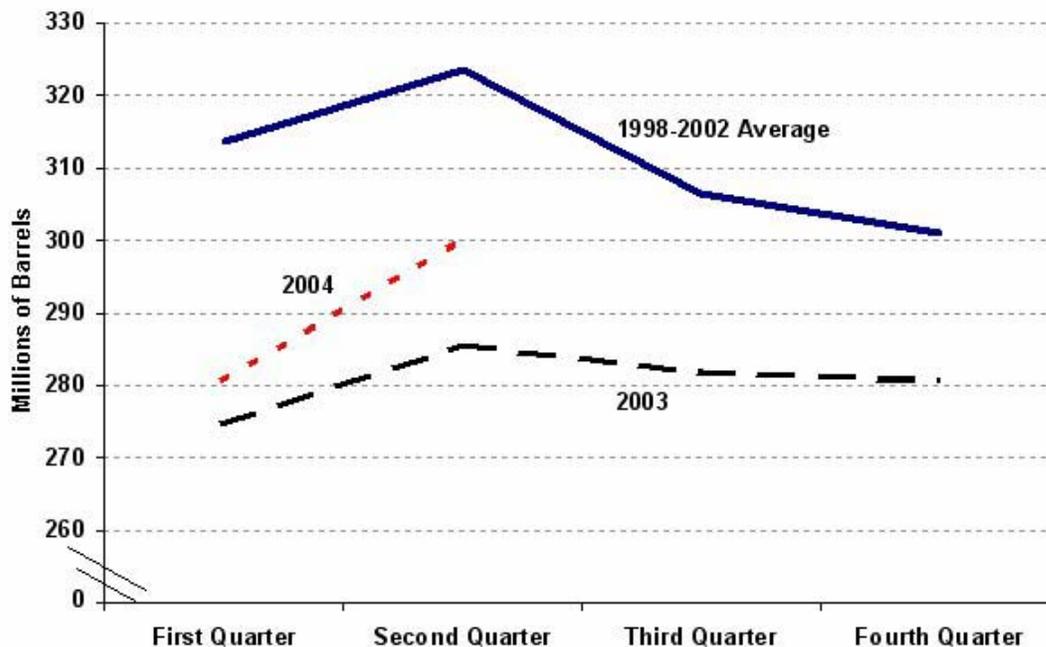
	Q203	Q204	Percent Change
Financial Information			
Corporate	(millions of dollars)		
Revenue (24) ^b	166,865	213,244	27.8
Net Income (24)	10,007	16,722	67.1
Worldwide Lines of Business Net Income			
Petroleum (26) ^c	15,025	22,946	53.7
Oil and Natural Gas Production (20) ^d	11,661	15,181	31.2
Refining/Marketing (13) ^d	3,364	7,765	130.8
Downstream Natural Gas and Power (10)	1,146	682	-40.5
Chemicals (9)	597	1,100	84.2
Domestic Net Income by Function			
Oil and Natural Gas Production (13)	5,182	6,286	21.3
Refining/Marketing (13)	2,315	6,313	172.7
Foreign Net Income by Function			
Oil and Natural Gas Production (6)	3,434	5,047	47.0
Refining/Marketing (4)	1,196	1,347	12.7

Operating Information			
Oil Production	(thousand barrels per day)		
Domestic (17)	3,778	3,571	-5.5
Foreign (13)	4,855	5,056	4.1
Natural Gas Production	(million cubic feet per day)		
Domestic (18)	20,736	19,375	-6.6
Foreign (13)	16,042	16,169	0.8
Refinery Throughput	(thousand barrels per day)		
Domestic (13)	13,034	13,834	6.1
Foreign (4)	5,545	5,437	-1.9
<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.</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

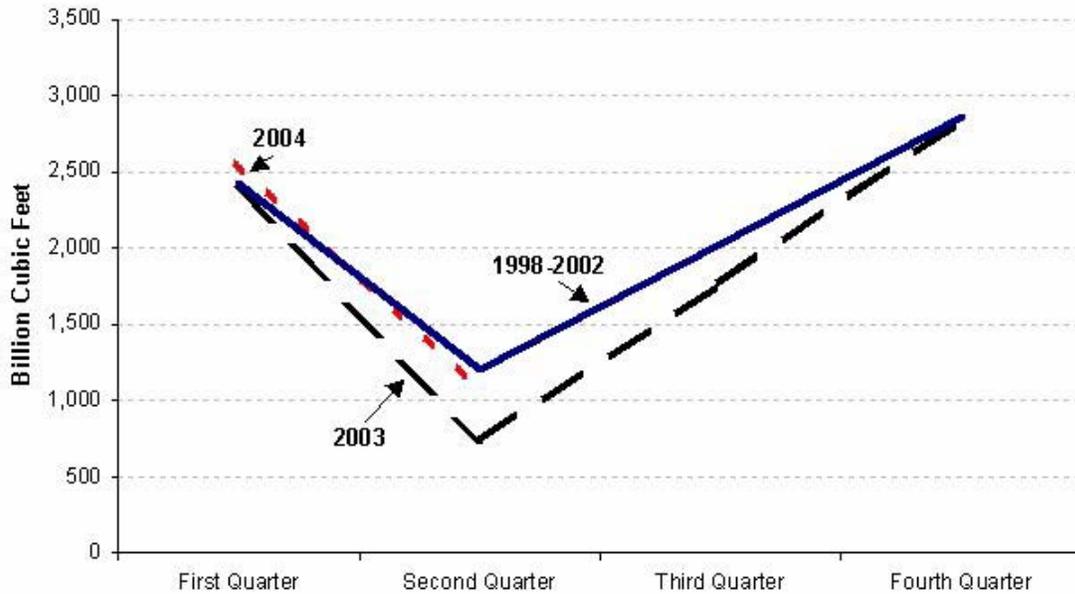
	Q203	Q204	Percent Change
U.S. Energy Prices^a			
Refiner Acquisition Cost of Imported Crude Oil (\$/barrel)	25.58	33.97	32.8
Natural Gas Wellhead (\$/thousand cubic feet)	5.01	5.56	10.8
U.S. Gross Refining Margin^b (\$/barrel)			
	10.87	16.22	49.1
^a Energy Information Administration, Short-Term Energy Outlook , (Washington, DC, September 8, 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: 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



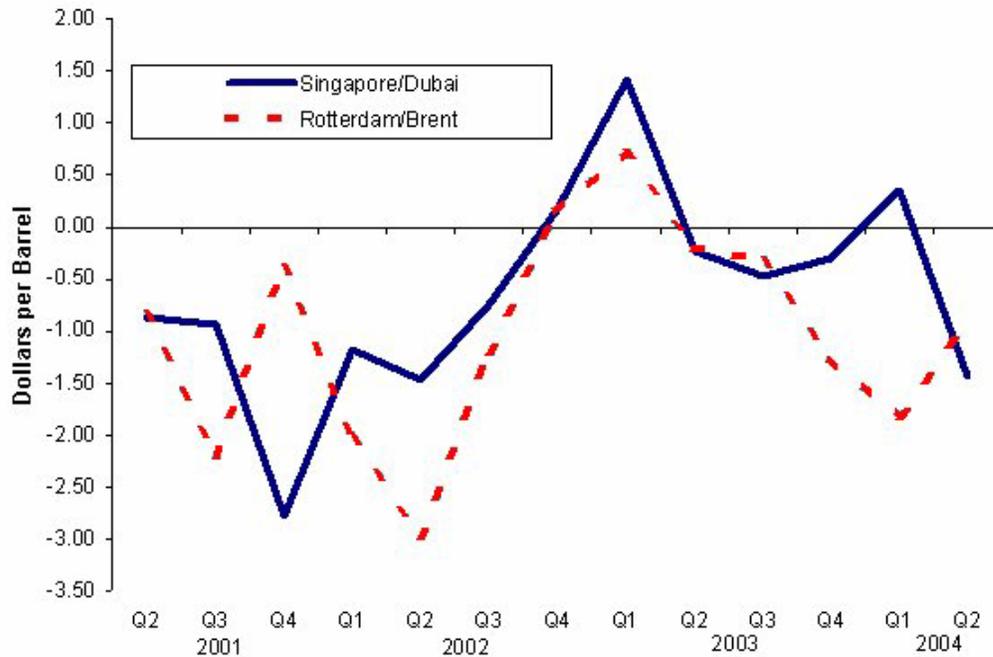
Source: Energy Information Administration, [Petroleum Supply Monthly](#), DOE/EIA-0109 (Washington, DC), Table 51.

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), [Table 8](#).

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



^a A gross refining margin is 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 June 2004), page 12.

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URL: http://www.eia.doe.gov/emeu/perfpro/news_m/q204.pdf