

## Financial News for Major Energy Companies Second Quarter 2005

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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 \$23.0 billion on revenues of \$276.1 billion during the second quarter of 2005 (Q205). The level of net income for Q205 was 38 percent higher than in the second quarter of 2004 (Q204) (Table 1). Net income for Q205 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 Q204 and Q205. A 39-percent increase in oil and gas production net income was augmented by a 13-percent increase in refining/marketing net income. All lines of business fared better in Q205 relative to Q204 with the exception of downstream natural gas and power. (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 more than one-ninth, relative to the prices of a year ago. The U.S. refiner average acquisition cost of imported crude oil increased 35 percent relative to a year ago, from \$33.97 per barrel in Q204 to \$45.94 per barrel in Q205 (Table 2). According to the Energy Information Administration's September *Short-Term Energy Outlook* one of the major factors contributing to increased oil prices is the continued and forecast growth in world oil demand, low worldwide spare production capacity, and geopolitical risks that have increased the level of uncertainty of world oil markets. Higher U.S. crude oil stocks (Figure 1), which increased 10 percent relative to Q204, have provided scant relief. This was the twelfth 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 12 percent between Q204 and Q205, from \$5.56 per thousand cubic feet to \$6.20 per thousand cubic feet (Table 2). According to recent STEOs, higher natural gas prices are due to high world oil prices, 4-percent growth in the U.S. economy, the anticipation of reduced hydroelectric generation in the Pacific Northwest, and declining domestic production. A 2-percent decline in demand, a 21-percent increase in the opening level of working gas in storage in Q205 relative to Q204, and a 3-percent increase in net imports of natural gas put some downward pressure on domestic natural gas prices, but not enough to offset the other factors cited above.

## **Worldwide Petroleum Earnings**

**Earnings from worldwide oil and natural gas production operations increased 39 percent between Q204 and Q205.** 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 Q205 were 36 percent higher than in Q204 (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 slight U.S. production decreases. A 1-percent decline in domestic crude oil production was accompanied by a 1-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 consistently good as 13 of the 14 companies that reported separate income for domestic upstream operations recorded higher earnings than a year ago. The companies that reported higher earnings cited higher commodity prices that were either magnified by higher production levels (due to both drilling efforts and to acquisitions), or that outweighed the effect of lower production levels, which were due to divestitures, and natural field declines. Lower production levels due to divestitures and higher production costs were cited in the press release of the company reporting lower earnings as reasons for lower earnings than a year earlier.

Net income from foreign upstream operations increased 42 percent relative to Q204, as all six companies that reported separate net income from foreign upstream operations reported an increase in Q205 relative to Q204. Foreign earnings primarily grew on the strength of higher crude oil prices (Table 2), which were somewhat offset by a scant (less than 1 percent) decline in foreign crude oil production, but were magnified by an 11-percent increase 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 reduced production due to entitlement effects, but many companies reported production increases.

**Earnings from worldwide refining and marketing operations increased by 13 percent between Q204 and Q205 as higher U.S. and Asia/Pacific margins and increased worldwide throughput offset lower European margins.** 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 \$7.6 billion in Q204 to \$8.6 billion in Q205, mainly due to their foreign 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 higher petroleum product stock levels (Figure 2), which increased 6 percent between Q204 and Q205. Further, essentially flat domestic refinery throughput relative to Q204 by those U.S. majors reporting domestic refinery throughput (Table 1) did little to magnify the effects of higher U.S. gross refining margins. The net effect was a 6-percent increase in U.S. refining/marketing earnings from \$6.3 billion in Q204 to \$6.6 billion in Q205 (Table 1). The performance of the 13 companies that reported U.S. refining/marketing earnings were mixed. Six of the companies reported lower earnings in Q205 than in Q204, citing lower margins and reduced throughput for a variety of reasons: accident, planned maintenance, and unplanned maintenance. The seven companies that reported higher earnings cited higher refining margins, higher refinery throughput, large light/heavy and sweet/sour crude oil price differentials, and increased product sales.

Earnings from foreign downstream operations increased 44 percent between Q204 and Q205 (Table 1). Refinery throughput increased by 3 percent between Q204 and Q205 (Table 1). Also affecting earnings were refining margins in Europe and Asia/Pacific (Figure 3). Lower refining margins in Europe (decreased by \$1.12/barrel) put downward pressure on earnings, but higher margins in the Asia/Pacific region (increased by \$1.58/barrel) put upward pressure on earnings. Despite the mixed effects of industry-wide refining margins, all four companies separately reporting foreign downstream earnings reported higher earnings. The company press releases cited factors such as higher margins, greater throughput, and greater product sales.

### **Worldwide Downstream Natural Gas and Power**

**Worldwide downstream natural gas and power earnings decreased 47 (Table 1) percent due to a variety of factors.** Despite weather in Q205 that was both colder and warmer than in Q204 (U.S. gas-weighted heating degree days increased by 10 percent and cooling degree days increased by 2 percent), six of the ten companies that reported downstream natural gas and power results recorded lower earnings in Q205 than in Q204 (two reported losses in Q205). Although two of the companies reporting larger declines gave no explanation in their press releases, others that reported lower earnings cited trading losses and impairment of international investments as reasons for reduced earnings. The four companies that reported higher earnings cited higher NGL prices, reduced operational costs, sales of excess emissions allowances, and asset acquisitions in their press releases.

### **Chemical Operations**

**Higher margins elicit increased earnings from the majors' chemical operations.** Earnings from the majors' chemical operations were 39 percent higher in Q205 than in Q204 (Table 1) as 7 of the 9 companies reporting results for this line of business recorded higher earnings. The companies reporting higher earnings overwhelmingly cited higher margins despite diminished volumes as the major reason for the increase. The companies that reported lower earnings cited lower margins (at least partially due to higher feedstock costs) and reduced sales volumes as reasons for the reductions.

**Table 1. Corporate Revenue and Net Income<sup>a</sup>, Net Income by Lines of Business and Functional Petroleum Segments, and Operating Information for Major Energy Companies**

(Number of companies reporting given in parentheses)

	Q204	Q205	Percent Change <sup>b</sup>	Year-to-Date 2004	Year-to-Date 2005	Percent Change <sup>b</sup>
<b>Financial Information</b>						
<b>Corporate</b>	(millions of dollars)		(%)	(millions of dollars)		(%)
Revenue (25)	214,609	276,119	28.7	412,394	524,833	27.3
Net Income (25)	16,674	23,005	38.0	30,432	43,257	42.1
<b>Worldwide Lines of Business Net Income</b>						
Petroleum (27) <sup>c</sup>	22,470	29,192	29.9	41,157	53,324	29.6
Oil and Natural Gas						
Production (21)	14,864	20,630	38.8	29,697	39,382	32.6
Refining/Marketing (13)	7,605	8,561	12.6	11,461	13,942	21.7
Downstream Natural Gas and Power (10)	878	466	-47.0	1,972	2,375	20.4
Chemicals (9)	1,154	1,602	38.8	1,967	4,055	106.1
<b>Domestic Net Income by Function</b>						
Oil and Natural Gas						
Production (14)	6,733	9,166	36.1	13,396	17,005	26.9
Refining/Marketing (13)	6,258	6,620	5.8	8,923	10,926	22.4
<b>Foreign Net Income by Function</b>						
Oil and Natural Gas						
Production (6)	5,234	7,437	42.1	10,682	14,588	36.6
Refining/Marketing (4)	1,347	1,941	44.1	2,537	3,016	18.9
<b>Operating Information</b>						
<b>Oil Production</b>	(thousand barrels per day)		(%)	(thousand barrels per day)		(%)
Domestic (19)	3,618	3,575	-1.2	3,669	3,594	-2.1
Foreign (13)	4,913	4,903	-0.2	4,915	4,921	0.1
<b>Natural Gas Production</b>	(million cubic feet per day)		(%)	(million cubic feet per day)		(%)
Domestic (21)	21,109	20,938	-0.8	21,246	20,896	-1.6
Foreign (15)	16,222	17,982	10.8	17,602	18,196	3.4
<b>Refinery Throughput</b>	(thousand barrels per day)		(%)	(thousand barrels per day)		(%)
Domestic (13)	13,980	14,038	0.4	13,478	13,635	1.2
Foreign (4)	5,479	5,629	2.7	5,572	5,669	1.7

<sup>a</sup> 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.

<sup>b</sup> Percent changes are calculated from unrounded data.

<sup>c</sup> 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**

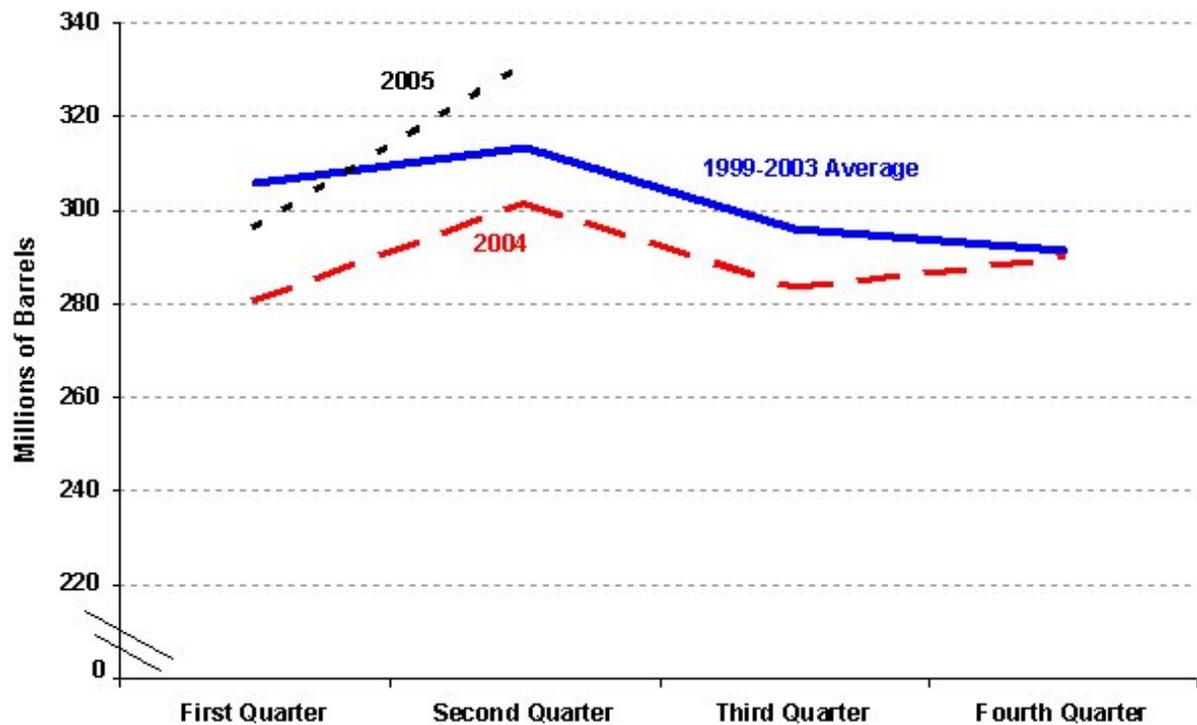
	Q204	Q205	Percent Change
<b>U.S. Energy Prices<sup>a</sup></b>			
Refiner Acquisition Cost of Imported Crude Oil (\$/barrel)	33.97	45.94	35.2
Natural Gas Wellhead (\$/thousand cubic feet)	5.56	6.20	11.5
<b>U.S. Gross Refining Margin<sup>b</sup> (\$/barrel)</b>			
	16.21	18.90	16.6

<sup>a</sup> Energy Information Administration, *Short-Term Energy Outlook*, (Washington, DC, September 7, 2005), Table 4.

<sup>b</sup> 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.

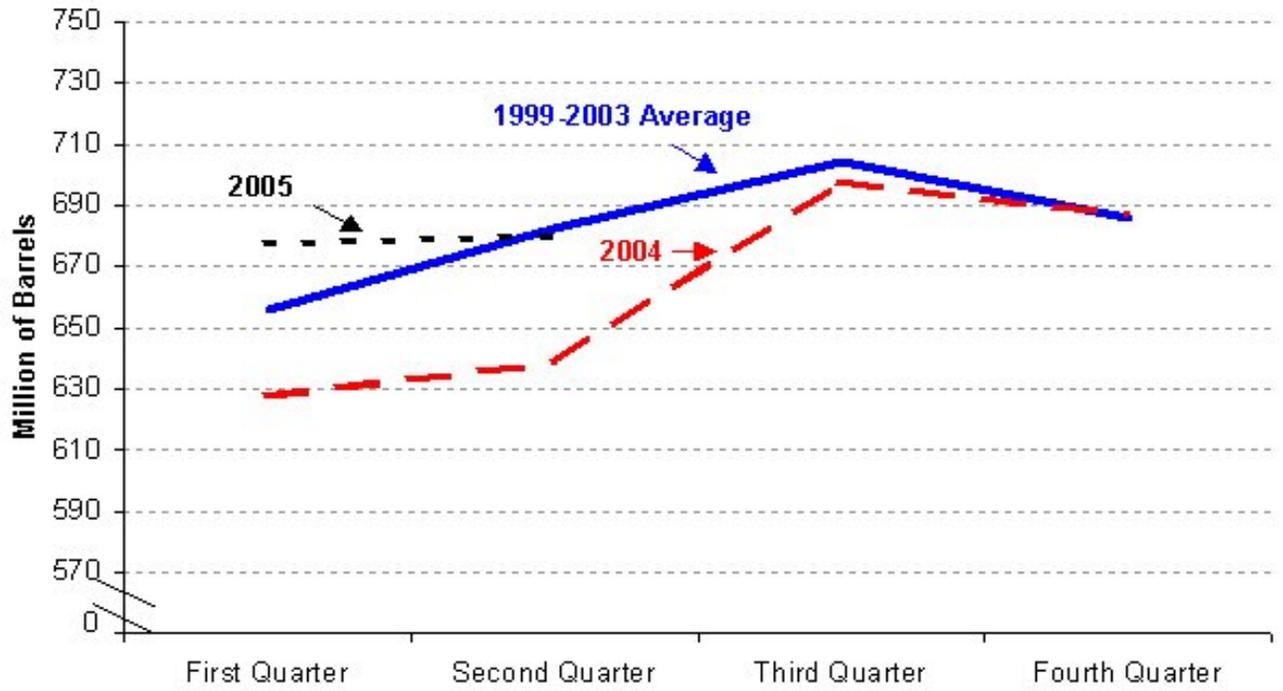
**Note:** The U.S. Gross Refining Margin is the difference between the composite wholesale product price and the composite refiner acquisition cost of crude oil.

**Figure 1. Quarterly Average U.S. Crude Oil Stocks, 1999-2003, 2004, and 2005**



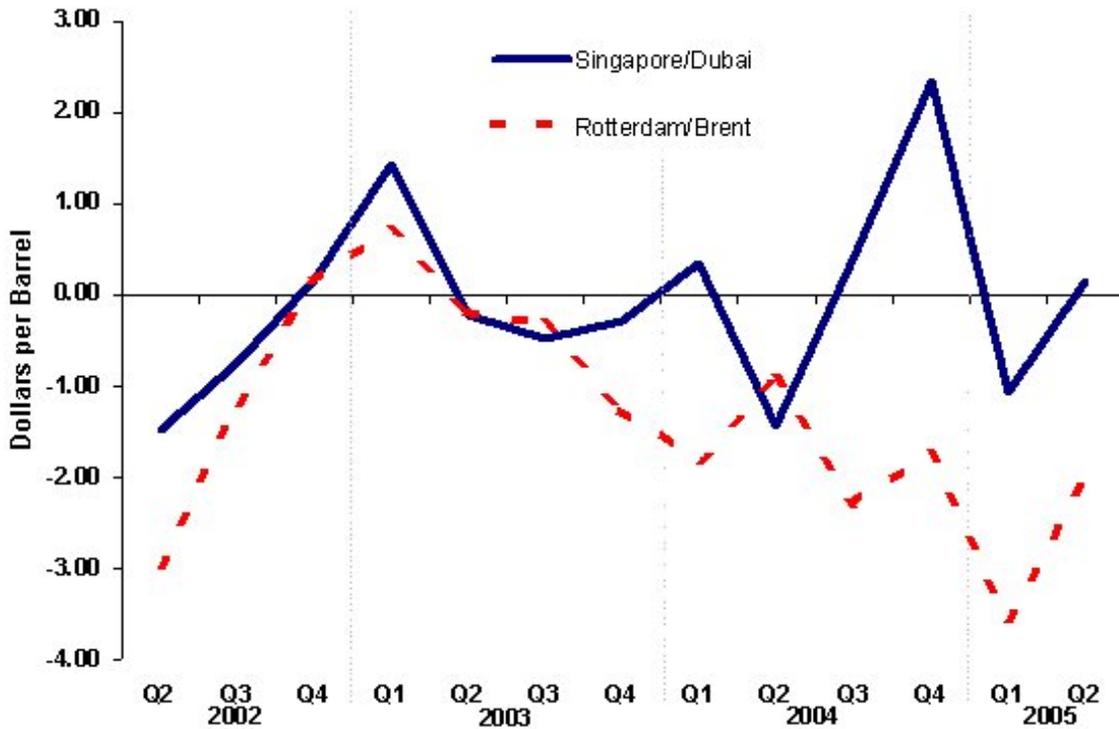
Source: Energy Information Administration, *Petroleum Supply Monthly*, DOE/EIA-0109 (Washington, DC), Table 51.

**Figure 2. Quarterly Average U.S. Petroleum Product Stocks, 1999-2003, 2004, and 2005**



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

**Figure 3. Quarterly Foreign Gross Refining Margins,<sup>a</sup> 2002 - 2005**



<sup>a</sup> 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, 2004, and 2005; January 2003, 2004, and 2005; and August 2005), page 12.

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