

FINANCIAL NEWS FOR MAJOR ENERGY COMPANIES

The "Financial News for Major Energy Companies" is issued quarterly to report recent trends in the financial performance of the major energy companies, which 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-four major energy companies reported overall net income (excluding unusual items) of \$16.4 billion on revenues of \$231.0 billion during the third quarter of 2004 (Q304). The level of net income for Q304 was 56 percent higher than in the third quarter of 2003 (Q303) (Table 1). Net income increased primarily because of 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 43-percent increase in net income between Q303 and Q304, as the 35-percent increase in oil and gas production net income was augmented by a 70-percent increase in refining/marketing net income. Moreover, all lines of business fared better in Q304 relative to Q303. (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 increased by two-fifths as natural gas prices increased 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 41 percent relative to a year ago, going from \$27.37 per barrel in Q303 to \$38.64 per barrel in Q304 (Table 2). Several factors contributed to increased oil prices, including a series of hurricanes, especially Hurricane Ivan near the end of the quarter, the U.S. economy's 4-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. The effects of these factors were somewhat offset by a 5-percent increase in world supply and slightly higher U.S. stocks (Figure 1), which increased by 1 percent relative to Q303. This was the ninth 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 11 percent between Q303 and Q304 (Table 2). Hurricane activity, particularly Hurricane Ivan, also led to natural gas production losses in the Gulf of Mexico and strongly elevated U.S. natural gas prices at the end of the quarter according to the Energy Information Administration's November *Short-Term Energy Outlook (STEO)*. Undercutting higher natural gas prices was a 1-

percent decrease in U.S. demand and a similar reduction in total U.S. supply for Q304 relative to Q303, according to the December *STEO*. The growth in natural gas prices was also diminished by increased U.S. natural gas working storage over the quarter ahead of the winter heating season, although slightly less (by 1 percent) than a year earlier.

Worldwide Petroleum Earnings

- **Earnings from worldwide oil and natural gas production operations increased 35 percent as higher foreign earnings augmented even higher domestic earnings.** Overall earnings for domestic oil and natural gas exploration, development, and production operations (i.e., domestic upstream operations) in Q304 were 19-percent higher than in Q303 (Table 1). Domestic upstream earnings increased relative to a year ago as higher crude oil prices were joined by higher natural gas prices (Table 2), but somewhat offset by production decreases. A 9-percent fall in domestic crude oil production was accompanied by a 5-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 overwhelming reason for lower production was downtime due to Hurricane Ivan. The solitary company that reported lower earnings from domestic oil and natural gas production cited derivatives losses and lower production, due to sales of property and Hurricane Ivan, as reasons for its lower earnings.

Net income from foreign upstream operations increased 51 percent relative to Q303, as five of the six companies that reported separate net income from foreign upstream operations reported an increase in Q304 relative to Q303. Foreign earnings primarily grew on the strength of higher crude oil prices (Table 2), which were augmented by a 4-percent increase in foreign crude oil production and by a 3-percent increase in natural gas production (Table 1). Increased earnings of the five companies reporting higher earnings were due to higher prices and, in the case of a single company, higher production due to a major acquisition. The company reporting lower earnings cited divestitures, which resulted in lower production, derivatives losses, and higher production expenses as reasons for its lower earnings.

- **Earnings from worldwide refining and marketing operations increased by 70 percent as margins generally increased.** Higher crude oil prices were offset by even higher petroleum product prices as the U.S. majors achieved higher earnings from their worldwide petroleum refining and marketing operations (i.e., worldwide downstream operations), which rose from \$3.2 billion in Q303 to \$5.4 billion in Q304 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) and lower motor gasoline stock levels (Figure 2) contributed to a 50-percent increase in U.S. refining/marketing earnings from \$2.6 billion in Q303 to \$3.8 billion in Q304 (Table 1). Further, a 3-percent increase in domestic refinery throughput relative to Q303 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 eight of the 13 companies were higher in Q304 than in Q303.

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. The five companies that reported lower earnings than a year ago cited lower West Coast margins, extended maintenance turnarounds, environmental remediation costs, higher operating costs (e.g., refinery fuel costs), and outages (both refinery and retail outlet) due to Hurricane Ivan as reasons for their reduced earnings.

Earnings from foreign downstream operations increased by 79 percent between Q303 and Q304 (Table 1). This result was magnified by a 5-percent increase in refinery throughput (Table 1) and higher industry-wide refining margins in the Asia/Pacific region (Figure 3), which increased by \$0.91 per barrel. However, lower industry-wide refining margins in Europe, which fell by \$1.98 per barrel, diminished the upward pressure on earnings. The company results were mixed as three companies reported higher earnings and one company reported lower earnings. ChevronTexaco, ConocoPhillips, and Exxon Mobil indicated that higher refining margins, and higher sales volumes (particularly jet fuel) in Q304 relative to Q303 contributed to higher earnings than a year ago. Alternatively, Valero noted that its higher refining margins were overwhelmed by higher operating and depreciation costs, which resulted in lower earnings.

Worldwide Downstream Natural Gas and Power

- **Worldwide downstream natural gas and power earnings increased 29 percent despite milder summer weather.** [Note] Despite moderate summer weather (i.e., cooling degree days were 11 percent lower than a year earlier according to the December *STEO*), six of the nine companies that reported downstream natural gas and power results recorded higher earnings than a year earlier (two recovered from losses of a year ago). Among the reasons cited in company press releases for increased earnings were higher natural gas liquids prices, increased liquefied natural gas sales volume, reduced power generation costs, and acquisitions. Higher operating costs, liquids prices, and cooler weather than in Q303 were among the reasons cited by the three companies that reported decreased earnings relative to Q303.

Chemical Operations

- **Higher margins and sales volumes boosted earnings of the majors' chemical operations.** Earnings from the majors' chemical operations were 290 percent higher in Q304 than in Q303 (Table 1) as seven 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 59 percent of Q303 earnings and 67 percent of Q304 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.

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 Q304 earnings release by December 10. On November 23 El Paso filed its Second Quarter Form 10-Q with the U.S. Securities and Exchange Commission, which can be found on El Paso's web site at http://www.elpaso.com/investor/04_4Q/EPC10Q_FINAL.pdf.

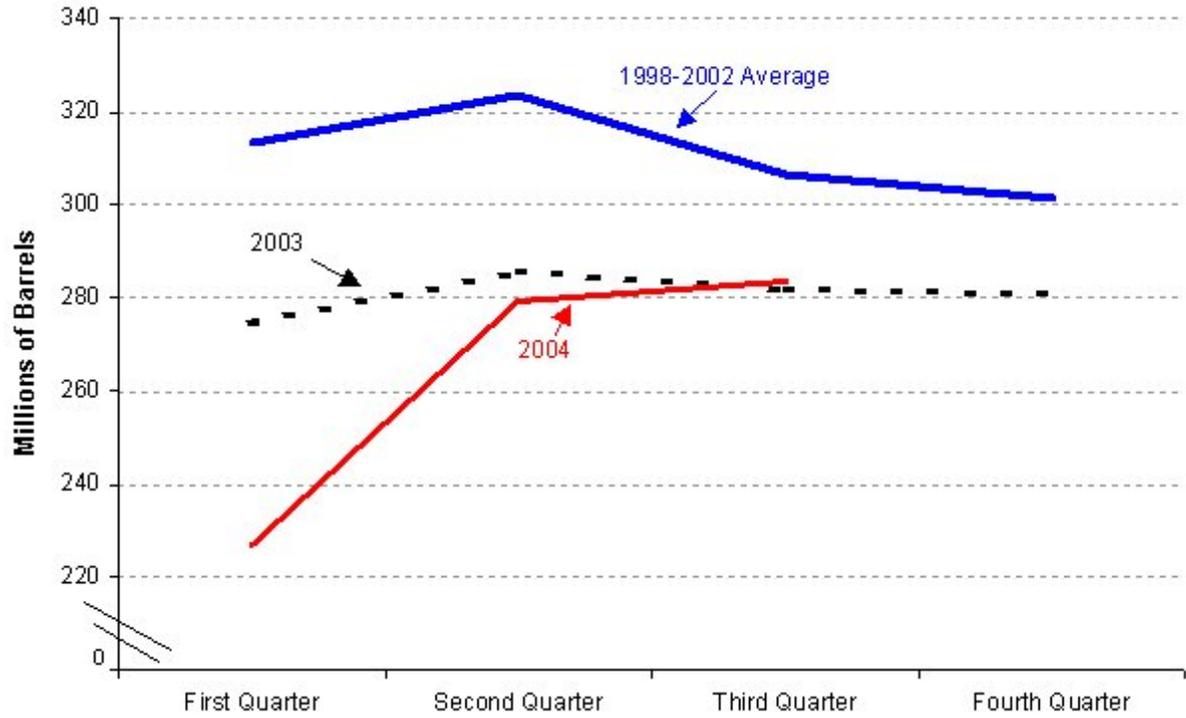
Table 1. Corporate Revenue and Net Income^a, Net Income by Lines of Business and Functional Petroleum Segments, and Operating Information for Major Energy Companies

	Q303	Q304	Percent Change ^b
Financial Information			
Corporate	(millions of dollars)		
Revenue (24) ^c	178,584	231,026	29.4
Net Income (24)	10,515	16,356	55.5
Worldwide Lines of Business Net Income			
Petroleum (26) ^d	13,989	19,934	42.5
Oil and Natural Gas Production (20) ^e	10,821	14,552	34.5
Refining/Marketing (13) ^e	3,168	5,382	69.9
Downstream Natural Gas and Power (9)	773	998	29.2
Chemicals (9)	392	1,527	289.8
Domestic Net Income by Function			
Oil and Natural Gas Production (13)	5,376	6,399	19.0
Refining/Marketing (13)	2,552	3,830	50.1
Foreign Net Income by Function			
Oil and Natural Gas Production (6)	3,309	4,989	50.8
Refining/Marketing (4)	865	1,552	79.3
Operating Information			
Oil Production	(thousand barrels per day)		
Domestic (17)	3,711	3,373	-9.1
Foreign (13)	4,675	4,845	3.6
Natural Gas Production			
	(million cubic feet per day)		
Domestic (18)	20,245	19,327	-4.5
Foreign (13)	14,909	15,312	2.7
Refinery Throughput			
	(thousand barrels per day)		
Domestic (13)	13,072	13,522	3.4
Foreign (4)	5,487	5,754	4.9
^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 is reported in parentheses. ^d 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. ^e 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 true for refining/marketing operations.			
Sources: Company press releases and financial disclosures.			

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

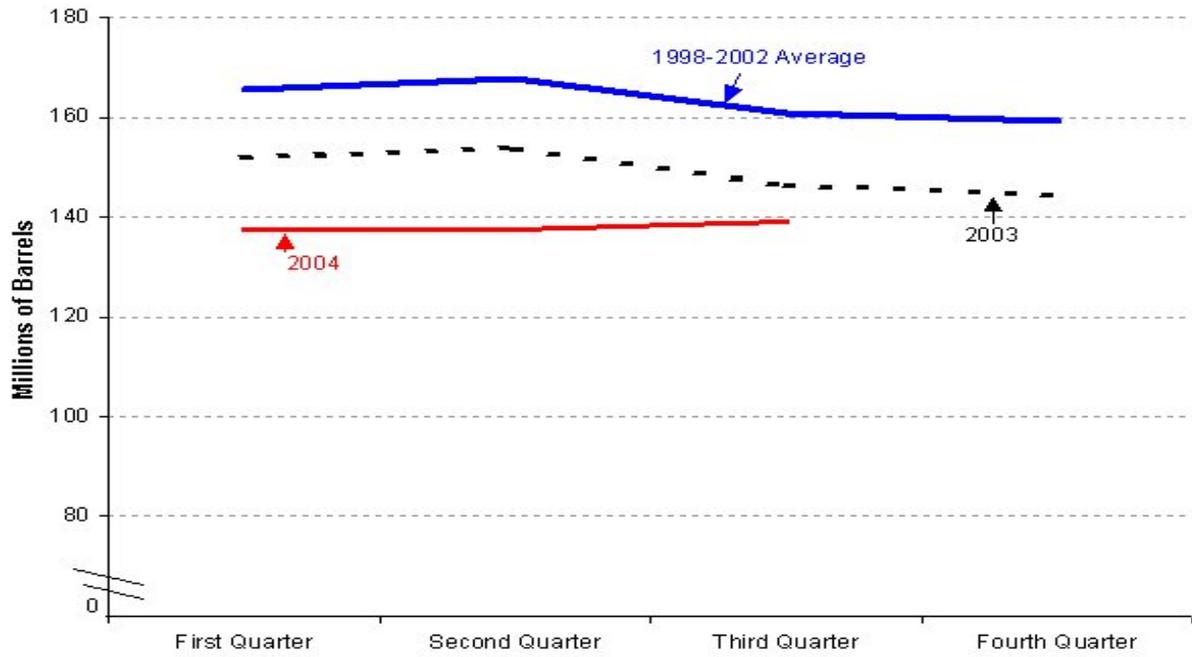
	Q303	Q304	Percent Change
U.S. Energy Prices^a			
Refiner Acquisition Cost of Imported Crude Oil (\$/barrel)	27.37	38.64	41.2
Natural Gas Wellhead (\$/thousand cubic feet)	4.74	5.28	11.4
U.S. Gross Refining Margin^b (\$/barrel)	11.77	13.46	14.4
^a Energy Information Administration, <i>Short-Term Energy Outlook</i> , (Washington, DC, December 8, 2004), 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: 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 Average U.S. Crude Oil Stocks, 1998-2002, 2003, and 2004



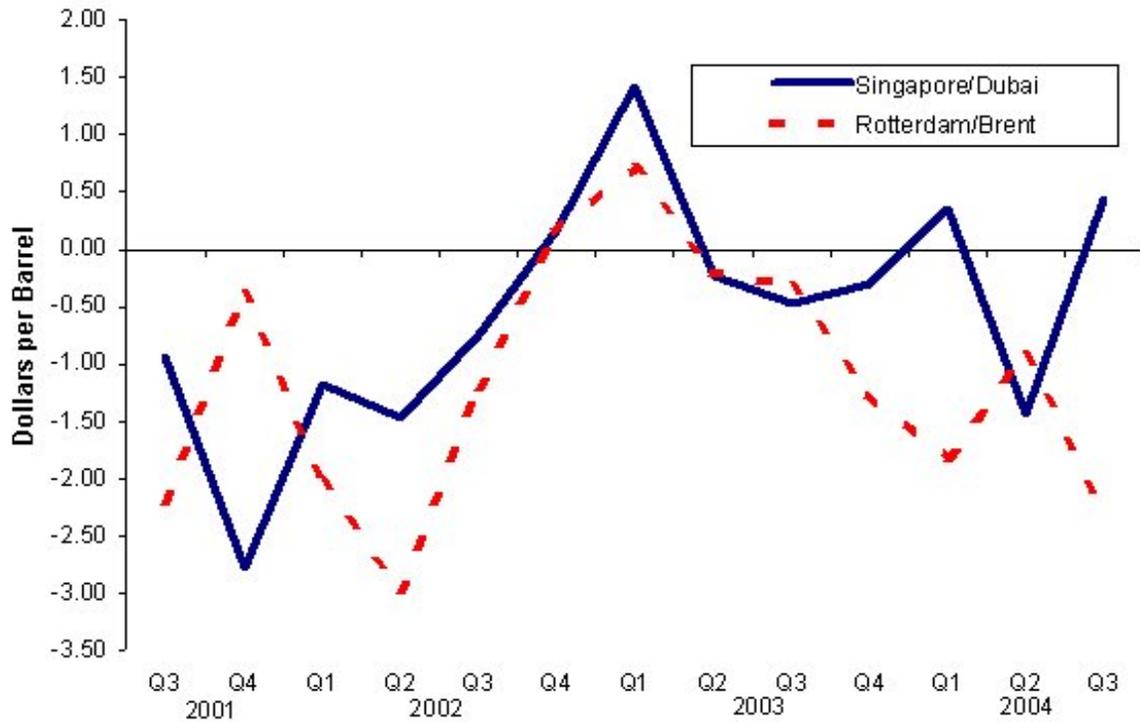
Source: Energy Information Administration, *Petroleum Supply Monthly*, DOE/EIA-0109 (Washington, DC), Table 51.

Figure 2. Quarterly Average U.S. Motor Gasoline Stocks, 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 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 2002, 2003, and 2004; January 2002, 2003, and 2004; and October 2004), page 12.

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