

Financial News for Major Energy Companies

Twenty-four major energy companies reported overall net income (excluding unusual items) of \$10.1 billion on revenues of \$183 billion during the fourth quarter of 2003 (Q403). The level of net income for Q403 was significantly higher than in the fourth quarter of 2002 (Q402), rising 43 percent (Table 1). The overall increase in net income was due primarily to higher crude oil prices and much higher natural gas prices.

Overall, the petroleum line of business (which includes both oil and natural gas) registered a 30-percent increase in net income between Q402 and Q403, as the 27-percent increase in oil and gas production net income was augmented by a 50-percent increase in refining/marketing net income.

Moreover, almost all lines of business (downstream natural gas and power was the exception) fared better in Q403 relative to Q402. (Note: corporate net income and the total net income summed across 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 modest increase in oil prices is accompanied by a larger increase in natural gas prices, 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 9 percent relative to a year ago, from \$25.42 per barrel in Q402 to \$27.80 per barrel in Q403 (Table 2). As indicated in the March *Short-Term Energy Outlook (STEO)* of the [Energy Information Administration](#), U.S. economic growth of more than 4 percent exerted upward pressure on crude oil prices. This was the sixth 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 28 percent between Q402 and Q403 (Table 2). According to the March *STEO*, this was due in part to lower U.S. natural gas inventory levels, which were 7 percent lower at the beginning of Q403 than at the start of Q402. This marked the fifth consecutive quarter that natural gas prices have increased relative to a year earlier, following five consecutive quarters of falling prices (relative to a year earlier).

Worldwide Petroleum News

● **Earnings from worldwide oil and natural gas production operations increased 27 percent as higher foreign earnings augmented higher domestic earnings.** Overall earnings for domestic oil and natural gas exploration, development, and production operations (i.e., domestic upstream operations) in Q403 were 6 percent higher than in Q402 (Table 1). Domestic upstream earnings increased relative to a year ago as higher prices and, according to the press releases of some companies, lower production costs offset lower production levels (Table 1). A 2-percent fall in domestic crude oil production was accompanied by a similar reduction in

domestic natural gas production by those U.S. majors reporting crude oil and/or natural gas production. Asset divestitures by the U.S. majors and naturally occurring declines in field production were among the reasons given for lower production. Despite the reduced production levels, nine of the ten companies that reported separate net income for domestic upstream operations reported higher earnings in Q403 relative to Q402, which were chiefly due to higher crude oil and natural gas prices received, according to company press releases.

Net income from foreign upstream operations increased 7 percent relative to Q402, as three of the five companies that reported separate net income from foreign upstream operations reported an increase in Q403 relative to Q402. Higher crude oil prices (Table 2) were augmented by a slight 1-percent increase in foreign crude oil production (Table 1), but partially offset by higher production costs, which were reported by some companies. Slightly lower natural gas production in Q403 relative to Q402 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.

● **Earnings from worldwide downstream petroleum operations increased by a comparatively modest 50 percent (after more than quadrupling last quarter relative to a year earlier) as U.S. refining margins increased but foreign refining margins declined.** Higher crude oil prices served as a brake on increased earnings from worldwide downstream petroleum operations of the U.S. majors, which rose from \$1.1 billion in Q402 to \$1.7 billion in Q403.

Industry wide domestic refined product stocks were almost 1 percent lower in Q403 than in Q402 (Figure 1), putting scant upward pressure on product prices (calculated by adding the price of crude oil and the gross refining margin in Table 2). Consequently, the U.S. gross refining margin (the per-barrel composite wholesale product price less the composite refiner acquisition cost of crude oil) increased a relatively slight \$0.56 per barrel of refined product sold in Q403 relative to Q402 (Table 2).

A 7-percent increase in domestic refinery throughput relative to Q402 (by those U.S. majors reporting domestic refinery throughput, see Table 1) magnified the benefits of the slightly higher refining margins, contributing to a 55-percent increase in U.S. refining/marketing earnings from \$0.7 billion in Q402 to \$1.0 billion in Q403 (Table 1). The earnings of 9 of the 12 companies were higher in Q403 than in Q402. The most commonly cited reasons in company press releases for the higher earnings were higher margins (despite higher fuel costs) and higher refinery throughput.

Earnings from foreign downstream operations increased by 41 percent between Q402 and Q403 (Table 1) (after also more than quadrupling the previous quarter relative to a year earlier). This result was accomplished despite essentially unchanged refinery throughput by the companies (Table 2) and indications of lower refinery margins in the major refining centers in both Europe and the Asia/Pacific region (Figure 2), which fell by \$1.41 per barrel by \$0.47 per barrel, respectively. The company results were mixed. ChevronTexaco and ConocoPhillips recovered from losses of a year ago to record gains during Q403 and overcame the lower industry-wide margins by increasing in most of their operating areas the refined product margin that they received. Alternatively, although Exxon Mobil recorded positive net income in both quarters, it succumbed to the worsened industry conditions resulting in diminished refining/marketing earnings in Q403 than in Q402, chiefly due to its marketing operations.

Worldwide Downstream Natural Gas and Power

● **Worldwide downstream natural gas and power earnings fell 13 percent in Q403 relative to Q402 as warmer weather diminished electricity sales.** [Note] Half of the eight companies that reported downstream natural gas and power results recorded lower earnings than a year earlier. This group was dominated by Dominion Resources, which contributed 88 percent of the Q403 earnings of these four companies for this line of business. Lower electricity sales due to unseasonably mild weather (heating degree-days were 11 percent lower in Q403 than in Q402 according to the March *STEO*) were the major reason cited by Dominion for its reduced earnings from this line of business. The four companies that recorded increased earnings were led by Williams Companies, which contributed 39 percent of the earnings for these four companies for this line of business in Q403. Completed expansion projects, increased operations in the deepwater area of the Gulf of Mexico, and higher natural gas liquids prices all were cited in company press releases as contributing to higher earnings relative to Q402 for this group of companies.

Chemical Operations

● **Earnings of the majors' chemical operations increased fivefold relative to a year ago, mostly due to higher margins and reduced operating costs (Table 1).** As usual, Exxon Mobil's results dominated the chemical results, accounting for more than 100 percent of both Q402 and Q403 earnings (i.e., in the absence of Exxon Mobil, the remaining eight companies lost a total of \$7 million in Q402 and \$128 million in Q403). Exxon Mobil cited higher margins, lower operating costs, and favorable foreign exchange change rates as major reasons for its higher earnings. The losses of the other eight companies were due to a variety of reasons: a plant shutdown, lower margins, and maintenance shutdowns.

Note: The results for the downstream natural gas and power line of business tend to be driven by the results of Williams and El Paso. However, El Paso is omitted here because it had not released its Q403 earnings release by March 17. For more information, please see El Paso's press release of March 10.

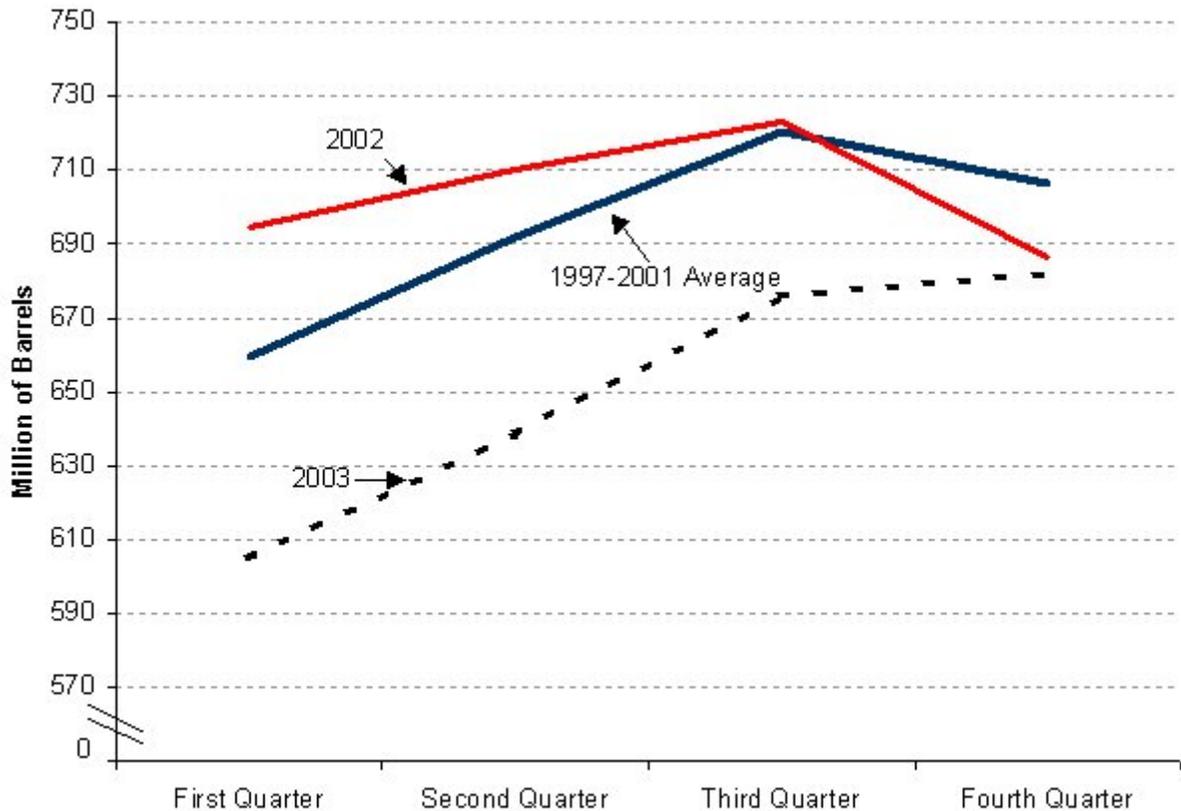
Table 1. Corporate Revenue and Net Income^a, Net Income by Lines of Business and Functional Petroleum Segments, and Operating Information for Major Energy Companies

| | Q402 | Q403 | Percent Change | 2002 | 2003 | Percent Change |
|--|------------------------------|---------|----------------|------------------------------|---------|----------------|
| Financial Information | | | | | | |
| Corporate | (millions of dollars) | | | (millions of dollars) | | |
| Revenue (24) ^b | 155,865 | 182,847 | 17.3 | 535,324 | 714,381 | 33.4 |
| Net Income (24) | 7,093 | 10,117 | 42.6 | 21,493 | 42,624 | 98.3 |
| Worldwide Lines of Business Net Income | | | | | | |
| Petroleum (25) ^c | 9,185 | 11,924 | 29.8 | 29,714 | 54,853 | 84.6 |
| Oil and Natural Gas Production (19) ^d | 8,058 | 10,236 | 27.0 | 27,347 | 44,460 | 62.6 |
| Refining/Marketing (13) ^d | 1,127 | 1,688 | 49.8 | 2,331 | 10,327 | 343.1 |
| Downstream Natural Gas and Power (8) | 532 | 461 | -13.3 | 2,111 | 3,054 | 44.7 |
| Chemicals (9) | 69 | 346 | 402.2 | 1,291 | 1,334 | 3.4 |
| Domestic Net Income by Function | | | | | | |
| Oil and Natural Gas Production (10) | 3,703 | 3,917 | 5.8 | 11,960 | 19,415 | 62.3 |
| Refining/Marketing (12) | 659 | 1,022 | 55.2 | 1,460 | 6,415 | 339.3 |
| Foreign Net Income by Function | | | | | | |
| Oil and Natural Gas Production (5) | 3,618 | 3,874 | 7.1 | 11,712 | 15,091 | 28.9 |
| Refining/Marketing (3) | 379 | 534 | 40.9 | 779 | 3,325 | 326.8 |
| Operating Information | | | | | | |
| Oil Production | (thousand barrels per day) | | | (thousand barrels per day) | | |
| Domestic (17) | 3,813 | 3,728 | -2.2 | 3,901 | 3,808 | -2.4 |
| Foreign (13) | 4,768 | 4,832 | 1.4 | 4,454 | 4,751 | 6.7 |
| Natural Gas Production | (million cubic feet per day) | | | (million cubic feet per day) | | |
| Domestic (18) | 20,674 | 20,149 | -2.5 | 20,751 | 20,939 | 0.9 |
| Foreign (14) | 18,669 | 18,341 | -1.8 | 16,022 | 17,180 | 7.2 |
| Refinery Throughput | (thousand barrels per day) | | | (thousand barrels per day) | | |
| Domestic (13) | 12,162 | 13,060 | 7.4 | 11,960 | 12,808 | 7.1 |
| Foreign (4) | 5,458 | 5,442 | -0.3 | 5,205 | 5,496 | 5.6 |
| ^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 The number of companies is reported in parentheses. Percent changes are calculated from unrounded data. ^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 and Equitable Resources are included for the first time because the domestic natural gas reserve level of both companies now exceeds 1 percent of U.S. reserves. However, Chesapeake's earnings press release lacks sufficient detail to separate its results between petroleum and downstream natural gas and power, so only its corporate revenues and net income are included here. ^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. | | | | | | |
| Sources: Company press releases and financial disclosures. | | | | | | |

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

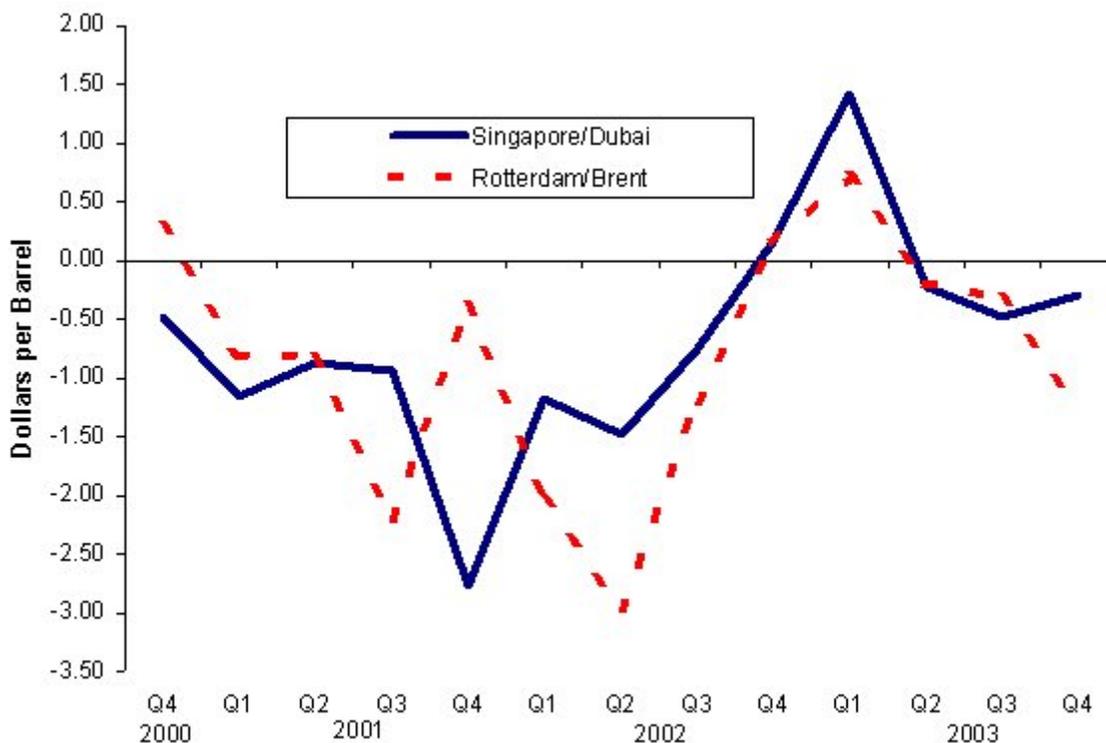
| | Q402 | Q403 | Percent Change |
|---|-------|-------|----------------|
| U.S. Energy Prices^a | | | |
| Refiner Acquisition Cost of Imported Crude Oil (\$/barrel) | 25.42 | 27.80 | 9.4 |
| Natural Gas Wellhead (\$/thousand cubic feet) | 3.60 | 4.62 | 28.3 |
| U.S. Gross Refining Margin^b (\$/barrel) | | | |
| | 8.75 | 9.31 | 6.4 |
| ^a Energy Information Administration, <i>Short Term Energy Outlook (STEO)</i> , (Washington, DC, December 8, 2003), Table 4 and <i>STEO</i> , (Washington, DC, March 9, 2004), Table 4. Note: The December <i>STEO</i> is a pdf-format document. 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. | | | |
| ^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 U.S. Petroleum Product Stocks, 1997-2001, 2002, and 2003



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

Figure 2. Quarterly Foreign Gross Refining Margins,^a 2000 - 2003



^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*, (January 2001, 2002, and 2003; June 2002 and 2003; and February 2004), page 12.

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