Financial News for Major Energy Companies

Twenty-three major energy companies reported overall net income (excluding unusual items) of $9.0 billion on revenues of $180 billion during the third quarter of 2003 (Q303). The level of net income for Q303 was significantly higher than in the third quarter of 2002 (Q302), rising 34 percent (Table 1). The overall increase in net income was due primarily to marginally higher crude oil prices and much larger natural gas prices.

Overall, the petroleum line of business (which includes both oil and natural gas) registered an 84-percent increase in net income between Q302 and Q303, as the 56-percent increase in oil and gas production net income was augmented by a 376-percent increase in refining/marketing net income. Moreover, most lines of business (petroleum and non-petroleum) fared better in Q303 relative to Q302 despite reduced earnings from chemicals operations. (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

- **A small increase in oil prices is accompanied by a much larger increase in natural gas prices, relative to prices of a year ago.** The world oil price (as represented by the U.S. refiner average acquisition cost of imported crude oil) increased, but only 6 percent relative to a year ago, going from $25.91 per barrel in Q302 to $27.37 per barrel in Q303 (Table 2). As indicated in the December *Short-Term Energy Outlook* (*STEO*) of the Energy Information Administration, slight upward pressure was exerted on crude oil prices by a 3-percent expansion in the U.S. economy. This was the fifth 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).

In contrast, the average U.S. natural gas wellhead price increased 65 percent between Q302 and Q303 (Table 2), as according to the December *STEO* the opening U.S. natural gas working storage level in Q303 was 23 percent lower than in Q302. This marked the fourth 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 56 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 Q303 were 61 percent higher than in Q302 (Table 1). Domestic upstream earnings increased relative to a year ago as higher prices offset lower production levels. A 4-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 (Table 1). Among the reasons given for lower production were asset divestitures by the U.S. majors and naturally occurring declines in field production. However, eight of the nine companies that reported separate net income for domestic upstream operations reported higher earnings in Q303 relative to Q302, chiefly due to higher crude oil and natural gas prices received, according to company press releases.

Net income from foreign upstream operations increased 19 percent relative to Q302, as four of the five companies that reported separate net income from foreign upstream operations reported an increase in Q303 relative to Q302. Higher crude oil prices (Table 2) were augmented by 7 percent more foreign crude oil production (Table 1). Higher natural gas production in Q303 relative to Q302 further contributed to higher foreign upstream earnings. The increased natural gas production was due both to acquisitions since Q302 and increased production levels relative to a year ago from previously owned fields.

- Earnings from worldwide downstream petroleum operations more than quadrupled as both U.S. and foreign refining margins increased. Despite marginally higher crude oil prices, earnings from worldwide downstream petroleum operations of the U.S. majors increased from $0.7 billion in Q302 to $3.1 billion in Q303.

Domestic refined product stocks in Q303 were 7 percent lower than in Q302 (Figure 1), putting upward pressure on product prices (calculated by adding the price of crude oil and the gross refining margin in Table 2), which increased 15 percent from a year earlier. Refined product prices increased more than crude oil prices, leading to an increase in the U.S. gross refining margin (the per-barrel composite wholesale product price less the composite refiner acquisition cost of crude oil) of more than $5 per barrel of refined product sold in Q303 relative to Q302 (Table 2).

An 8-percent increase in domestic refinery throughput relative to Q302 by those U.S. majors reporting domestic refinery throughput (Table 1) magnified the benefits of the higher refining margins, contributing to a more than quadrupling of U.S. refining/marketing earnings from $0.47 billion in Q302 to $2.16 billion in Q303 (Table 1). The earnings of 11 of the 12 companies were higher in Q303 than in Q302. The most commonly cited reason in company press releases for the higher earnings were higher refining margins (due to factors such as low product stocks and refinery upgrades, according to company press releases) and higher marketing margins (both generally, and for particular regions of the United States).

Earnings from foreign downstream operations also more than quadrupled relative to Q302 (Table 1). All three of the companies that reported separate foreign refining/marketing results reported much higher net income from these operations. Higher refining and marketing margins, which were magnified by higher refinery throughput (Table 1), were cited in company press releases as major reasons for the higher earnings in Q303 relative to Q302. These corporate results occurred in a somewhat favorable industry environment that recorded higher refining margins in Q303 than in Q302 (Figure 2), increasing by $0.27 per barrel in the Asia/Pacific region and by $0.89 per barrel in Europe compared to a year earlier.

Worldwide Downstream Natural Gas and Power

- **Worldwide downstream natural gas and power earnings increased 92 percent relative to a year ago, as the effects of fallout from the Enron debacle seem to have largely**

subsided by Q303. The results were chiefly due to operations of Williams and El Paso. Williams and El Paso recorded a combined increase of almost $500 million in Q303 relative to Q302 (due to large trading losses in Q302 and their absence a year later). Exclusive of Williams and El Paso, the remaining six companies reported a far more modest 5-percent increase in earnings. In fact, half of the remaining six companies reported lower earnings in Q303 than Q302 (due to a variety of reasons, including reduced electricity and natural gas sales due to Hurricane Isabel and milder temperatures). Meanwhile, the other three companies reported higher earnings in Q303 relative to Q302 (also due to a variety of reasons, including increased natural gas and LNG sales volumes to end users and reduced costs).

Chemical Operations

Earnings of the majors' chemical operations decrease in total, as company results were consistently lower than a year ago, mostly due to higher feedstock prices. The majors' chemical operations in Q303 were 43 percent lower than in Q302 (Table 1) as higher natural gas prices dominated the discussions of chemical earnings in the company press releases. Again, Exxon Mobil's results had a substantial effect on the chemical results. Although Exxon Mobil reported a decline in chemical earnings of slightly more than $120 million, it accounted for 70 percent of reported Q303 earnings. Exxon Mobil cited higher worldwide margins early in the quarter and favorable foreign exchange changes as major reasons for its higher earnings. The earnings of the other eight companies varied: five companies reported lower earnings (two of which reported losses) and three companies reported higher earnings. Lower margins were the major reason cited in press releases for the lower earnings. Similarly, companies that reported higher earnings cited higher margins in their press releases (if they gave a reason at all) as a primary reason for the higher earnings.

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

	Q302	Q303	Percent Change	Year to Date 2002	Year to Date 2003	Percent Change
Financial Information						
Corporate	(millions of dollars)			(millions of dollars)		
Revenue (23)[b]	141,910	180,095	26.9	402,797	535,697	33.0
Net Income (23) [c]	6,700	8,976	34.0	12,446	31,886	156.2
Worldwide Lines of Business Net Income						
Petroleum (25)	7,511	13,799	83.7	21,089	44,951	113.2
Oil and Natural Gas Production (19)[d]	6,861	10,703	56.0	19,592	36,426	85.9
Refining/Marketing (13)[d]	650	3,095	376.3	1,486	8,565	476.5
Downstream Natural Gas and Power (8)	546	1,051	92.3	2,503	2,943	17.6
Chemicals (9)	581	329	-43.4	1,165	835	-28.3
Domestic Net Income by Function						
Oil and Natural Gas Production (9)	3,047	4,902	60.9	7,923	15,730	98.5
Refining/Marketing (12)	467	2,158	362.1	979	5,323	443.8
Foreign Net Income by Function						
Oil and Natural Gas Production (5)	2,713	3,240	19.4	8,291	12,751	53.8
Refining/Marketing (3)	153	746	387.6	457	2,752	502.2
Operating Information						
Oil Production	(thousand barrels per day)			(thousand barrels per day)		
Domestic (18)	3,881	3,745	-3.5	4,071	3,841	-5.6
Foreign (14)	4,367	4,672	7.0	4,775	4,698	-1.6
Natural Gas Production	(million cubic feet per day)			(million cubic feet per day)		
Domestic (19)	22,130	21,294	-3.8	23,091	21,832	-5.5
Foreign (15)	14,635	15,091	3.1	16,865	16,805	-0.4
Refinery Throughput	(thousand barrels per day)			(thousand barrels per day)		
Domestic (13)	12,190	13,148	7.9	12,443	12,718	2.2
Foreign (4)	5,257	5,453	3.7	5,489	5,515	0.5

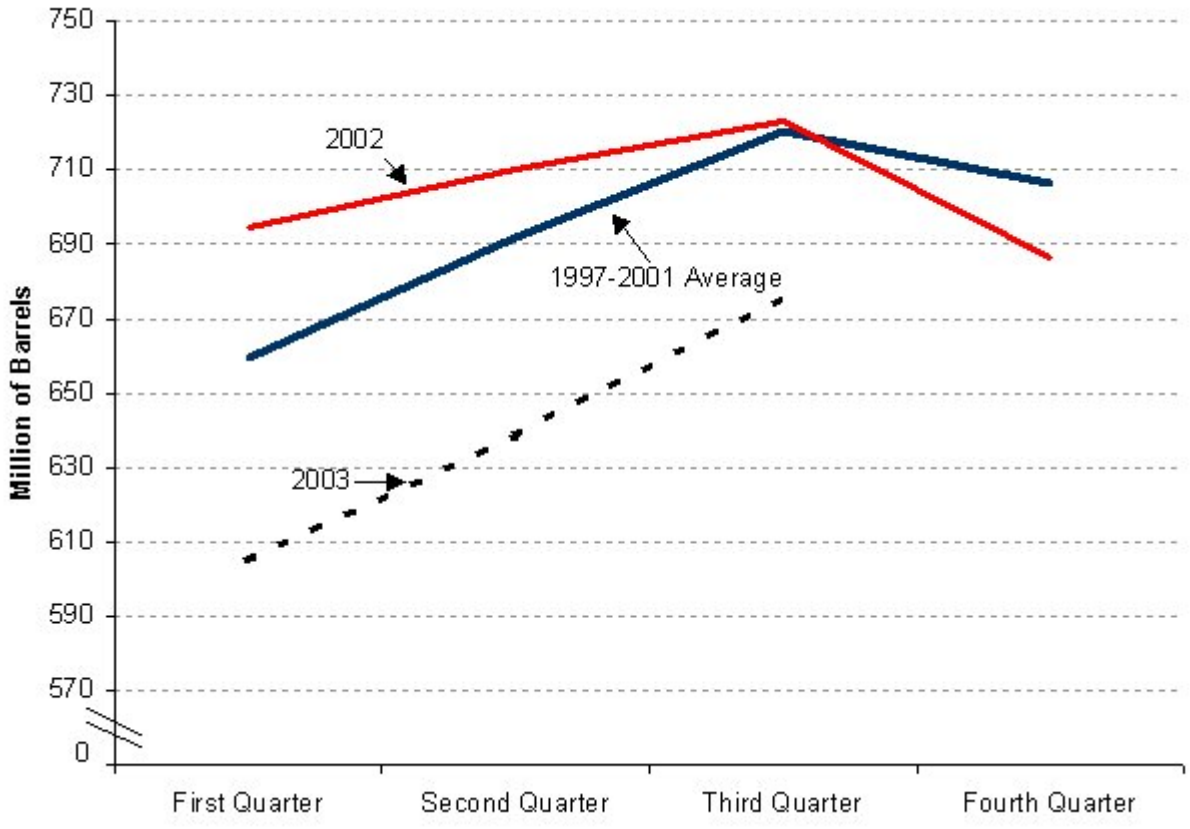
[a] Net income excludes unusual items. Because consolidated net income includes corporate nontraceables and eliminations, it is not equal to the sum of the lines of business net income.
[b] The number of companies is reported in parentheses. Percent changes are calculated from unrounded data.
[c] The 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.
[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

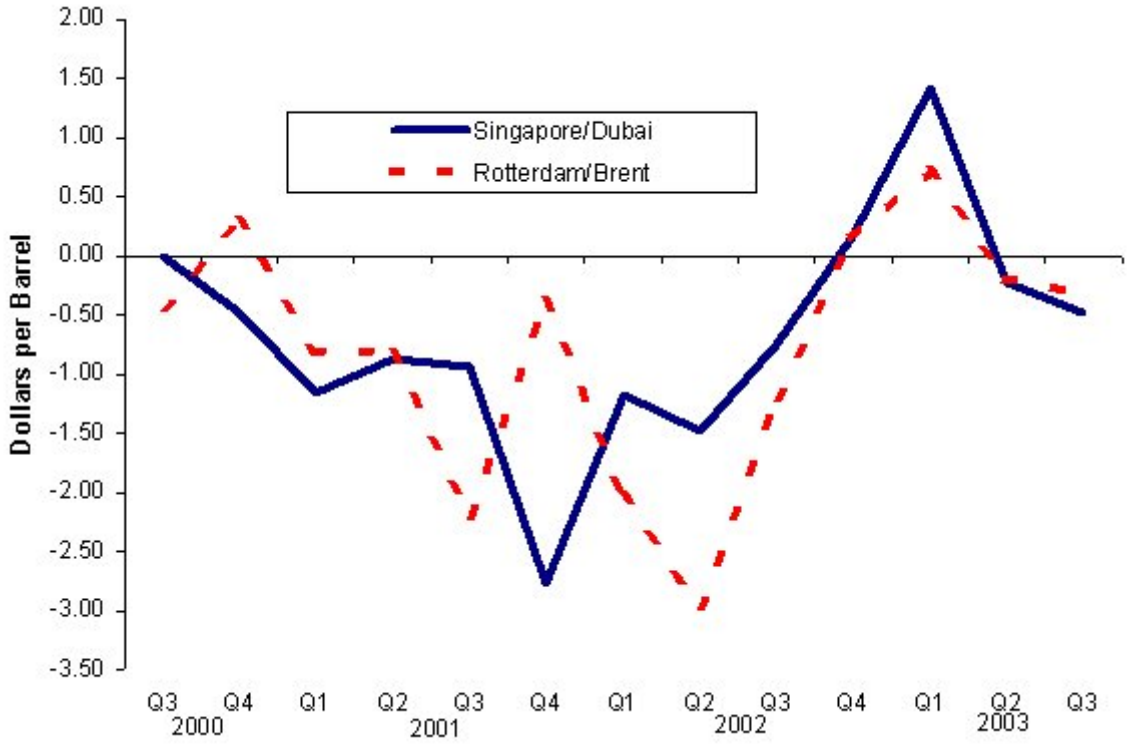
	Q302	Q303	Percent Change
U.S. Energy Prices[a]			
Refiner Acquisition Cost of Imported Crude Oil ($/barrel)	25.91	27.37	5.6
Natural Gas Wellhead ($/thousand cubic feet)	2.88	4.74	64.6
U.S. Gross Refining Margin[b] ($/barrel)	8.01	11.78	47.0
[a]Energy Information Administration, *Short Term Energy Outlook* (STEO), (Washington, DC, December 8, 2003), Table 4. Note: this link is to a document in a 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.			
[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. 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 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 2001, 2002, and 2003; and October 2003), page 12.

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