Financial News for Major Energy Companies

First Quarter 2006

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-one major energy companies[1] reported overall net income (excluding unusual items) of $24.1 billion on revenues of $276.6 billion during the first quarter of 2006 (Q106). The level of net income for Q106 was 23 percent higher than in the first quarter of 2005 (Q105) (**Table 1**). Net income for Q106 increased primarily as a result of higher crude oil and natural gas prices, slightly higher U.S. refining margins, and higher foreign refinery throughput.

Overall, the petroleum line of business (which includes both oil and natural gas production and petroleum refining/marketing) registered a 27-percent increase in net income between Q105 and Q106. A 34-percent increase in oil and gas production net income was augmented by a 1-percent increase in refining/marketing net income. All lines of business reported higher earnings in Q106 relative to Q105 with the exception of domestic refining/marketing and worldwide chemicals. (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

Both the crude oil price and the domestic natural gas price of Q106 increased by almost one-third relative to the prices of a year ago. The U.S. refiner average acquisition cost of imported crude oil increased 33 percent relative to a year ago, from $41.06 per barrel in Q105 to $54.45 per barrel in Q106 (**Table 2**). (See the current and recent issues of the *Short-Term Energy Outlook* for explanation of these price changes.) This was the fifteenth 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 31 percent between Q105 and Q106, from $5.70 per thousand cubic feet to $7.49 per thousand cubic feet (**Table 2**). (See the current and recent issues of the *Short-Term Energy Outlook* for explanation of these price changes.) This was the eighth consecutive quarter in which natural gas prices increased relative to their year-earlier levels.

Worldwide Petroleum Earnings

- Earnings from worldwide oil and natural gas production operations (i.e., upstream operations) increased 34 percent between Q105 and Q106. The increase in domestic earnings augmented a slightly greater increase in foreign earnings.

Overall earnings for domestic upstream operations in Q106 were 33 percent higher than in Q105 (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 a large U.S. crude oil production decrease and a smaller decrease in natural gas production. A 12-percent decline in domestic crude oil production was accompanied by a 3-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 13 companies that reported separate income for domestic upstream operations recorded higher earnings than a year ago. Higher earnings were attributed to commodity prices that were either magnified by higher production levels (due to drilling efforts and acquisitions), or that outweighed the effect of lower production levels (due to lingering effects of Hurricanes Katrina and Rita, natural field declines, and divestitures). Higher tax expense was cited in the press release of the company reporting lower earnings.

Net income from foreign upstream operations increased 33 percent relative to Q105 (**Table 1**)**, as all five companies that reported separate net income from foreign upstream operations reported an increase in Q106 relative to Q105.** Foreign earnings primarily grew on the strength of higher crude oil prices (**Table 2**). A 3-percent increase in foreign crude oil production and a 4-percent increase in natural gas production both put additional upward pressure on earnings. 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, higher taxes, and higher operating expense.

- **Earnings from worldwide refining and marketing operations (i.e., downstream operations) increased 1 percent between Q105 and Q106 as higher U.S. margins and increased foreign throughput offset lower Asia/Pacific and European margins and lower U.S. throughput.** Higher foreign earnings offset lower domestic earnings, resulting in a slight increase from $5.16 billion in Q105 to $5.23 billion in Q106.

Profits from domestic downstream operations fell 3 percent in Q106 relative to Q105 as a small increase in gross margins were offset by reduced refinery throughput. Product stock levels were 4-percent higher and put downward pressure on gross refining margins (the per-barrel composite wholesale product price less the composite refiner acquisition cost of crude oil), which increased by 1 percent between Q105 and Q106 (**Table 2**). Reduced domestic refinery throughput relative to Q105 by those U.S. majors reporting domestic refinery throughput (**Table 1**), which was attributed to the lingering effects of Hurricanes Katrina and Rita and the continued closure of BP's Texas City refinery, further eroded earnings. The net effect of these and other factors was U.S. refining/marketing earnings fell from $4.1 billion in Q105 to $4.0 billion in Q106 (**Table 1**). The performance of the 11 companies that reported U.S. refining/marketing earnings was mixed. Six of the companies reported higher earnings in Q106 than in Q105, citing higher refining margins, utilization rates, and operating efficiency, in addition to large light/heavy and sweet/sour crude oil price differentials. Alternatively, the five companies that reported lower earnings cited higher energy costs and reduced throughput due to refinery turnarounds.

Earnings from foreign downstream operations increased 16 percent between Q105 and Q106 (Table 1). Refinery throughput increased by 4 percent between Q105 and Q106 (**Table 1**), but the upward pressure that it placed on earnings was somewhat offset by lower margins (**Figure 1**) in both Europe (by $0.56/barrel) and Asia/Pacific (by $1.10/barrel). The company results were consistent for those companies separately reporting foreign downstream earnings as four of the five reported higher earnings and one reported lower earnings. The companies reporting higher earnings cited higher margins in their press releases. The company that reported lower earnings cited unplanned downtime at one of its European refineries.

Worldwide Downstream Natural Gas and Power

- **Worldwide downstream natural gas and power earnings increased 10 percent (Table 1) largely due to the absence of large losses.** Weather in Q106 was much warmer (10 percent fewer U.S. gas-weighted heating degree days) than in Q105, putting downward pressure on earnings. Overall, the results were mixed with four companies reporting higher earnings and four reporting lower earnings. Higher earnings were attributed to higher pipeline rates received, reduced operating costs, and the absence of losses generated in Q105. Lower earnings were attributed to increased taxes, lower NGL prices, and higher than normal temperatures.

Chemical Operations

- **Lower margins and divestitures result in decreased earnings from the majors' chemical operations.** Most companies reported lower earnings as the overall result was a 25-percent decrease in earnings from the majors' chemical operations in Q106 relative to Q105 (**Table 1**). Six of the nine companies reporting results for this line of business recorded lower earnings while the balance recorded higher earnings. Lower earnings were attributed to divestitures, lower margins, and lower sales volumes. Alternatively, higher earnings credited were to higher margins and higher volumes.

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[1]The companies included are Amerada Hess Corporation, Anadarko Petroleum Corporation, Apache Corporation, BP p.l.c. (only U.S. operations included), Chesapeake Energy Corporation, Chevron Corporation, ChevronTexaco Corporation, ConocoPhillips Inc., Devon Energy Corporation, Dominion Resources, Inc., El Paso Corporation, EOG Resources, Inc., Equitable Resources Inc., Exxon Mobil Corporation, Kerr-McGee Corporation, Lyondell Chemical Company, Marathon Oil Corporation, Occidental Petroleum Corporation, Royal Dutch Shell (only U.S. operations included), Sunoco, Inc., Tesoro Petroleum Corporation, Valero Energy Corporation, Williams Companies, Inc., and XTO Energy Inc.

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

(Number of companies reporting given in parentheses)

	Q105	Q106	Percent Change
Financial Data			
	(Millions of Dollars)		(%)
Corporate			
Revenue (21)	234,572	276,586	17.9
Net Income (21)	19,616	24,129	23.0
Worldwide Lines of Business Net Income			
Petroleum (23)	24,363	30,924	26.9
Oil and Gas Production (19)	19,205	25,695	33.8
Refining/Marketing (11)	5,158	5,229	1.4
Gas and Power (9)	1,655	1,827	10.4
Chemicals (8)	2,595	1,943	-25.1
Domestic Net Income			
Oil and Gas Production (13)	7,396	9,837	33.0
Refining/Marketing (11)	4,079	3,976	-2.5
Foreign Net Income			
Oil and Gas Production (5)	7,049	9,355	32.7
Refining/Marketing (5)	1,079	1,253	16.1
Operating Data			
Oil Production	(Thousands of Barrels/Day)		(%)
Domestic (18)	3,522	3,106	-11.8
Foreign (13)	4,895	5,040	3.0
Natural Gas Production	(Million Cubic Feet/Day)		(%)
Domestic (20)	19,916	19,370	-2.7
Foreign (15)	17,498	18,238	4.2
Refinery Throughput	(Thousands of Barrels/Day)		(%)
Domestic (11)	12,335	11,607	-5.9
Foreign (5)	5,933	6,186	4.3

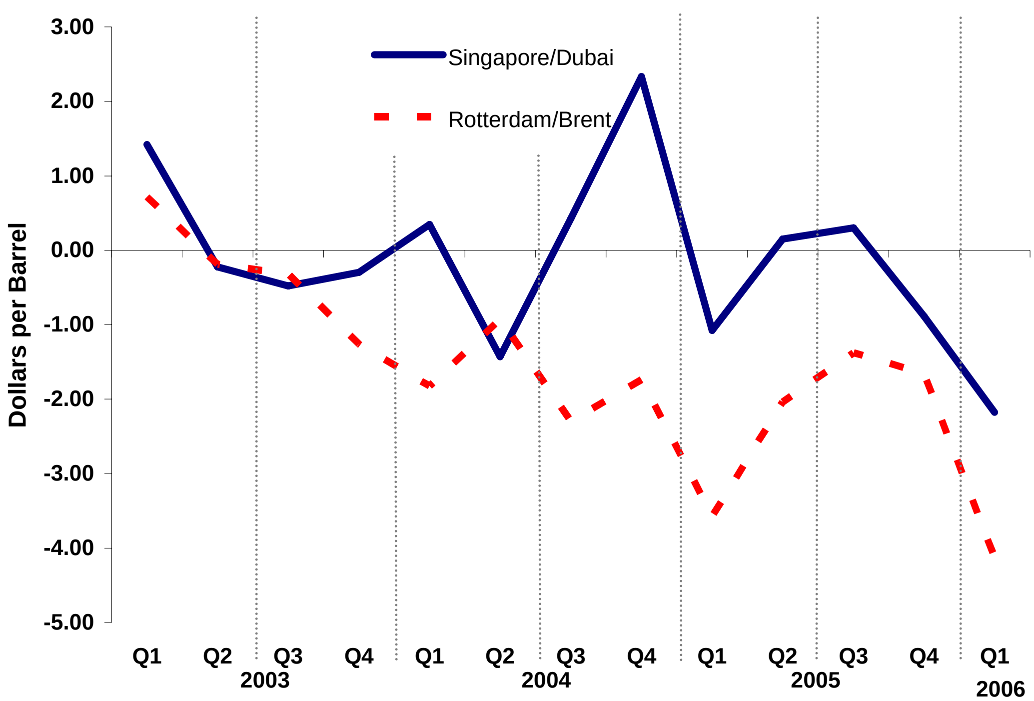
[a] Net income excludes unusual items. Because consolidated net income includes corporate nontraceables and eliminations, it is not equal to the sum of the lines of business net income.
[b] Percent changes are calculated from unrounded data.
[c] The number of companies reporting net income from petroleum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

	Q105	Q106	Percent Change
U.S. Energy Prices[a]			
Refiner Acquisition Cost of Imported Crude Oil ($/barrel)	41.06	54.45	32.6
Natural Gas Wellhead Price ($/thousand cubic feet)	5.70	7.49	31.4
U.S. Gross Refining Margin ($/barrel)[b]	14.20	14.34	1.0

[a] Energy Information Administration, *Short-Term Energy Outlook*, (Washington, DC, May 9, 2006), Tables 4 and A4.
[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 Foreign Gross Refining Margins,[a] 2003 - 2006



[a] 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 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 2003, 2004, and 2005; January 2004, 2005, and 2006; and May 2006), page 12.

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