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Energy Finance

Financial News for Major Energy Companies, First Quarter 2007

Overview

First Quarter 2007 Key Findings	
Net Income	$23.9 billion
Revenues	$261.2 billion
Trends	Unchanged net income relative to first quarter of 2006
	Lower oil and gas prices, higher oil and gas production

Twenty major energy companies reported overall net income (excluding unusual items) of $23.9 billion on revenues of $261.2 billion during the first quarter of 2007 (Q107). The level of net income for Q107 was essentially unchanged relative to the first quarter of 2006 (Q106) (**Table 1**). Net income for Q107 was unchanged as the effects of lower prices were offset by the effects of higher worldwide production of crude oil and natural gas liquids, and increased domestic production of natural gas.

Overall, the petroleum line of business (which includes both oil and natural gas production and petroleum refining/marketing) registered a 9-percent decrease in net income between Q106 and Q107. An 18-percent decrease in oil and gas production net income was somewhat offset by a 36-percent increase in refining/marketing net income. Most lines of business reported lower earnings in Q107 relative to Q106 with the exception of both domestic and foreign refining/marketing 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

The crude oil price for Q107 decreased three percent relative to a year earlier while the price of natural gas fell fifteen percent. The U.S. refiner average acquisition cost of imported crude oil decreased from $54.72 per barrel in Q106 to $53.16 per barrel in Q107 (**Table 2**). (See the **current** and **recent** issues of the *Short-Term Energy Outlook* for explanation of these price changes and those discussed below.) This decline relative to the year-earlier quarter came after eighteen consecutive quarters in which crude oil prices increased relative to their year-earlier levels.

The average U.S. natural gas wellhead price fell from $7.49 per thousand cubic feet in Q106 to $6.37 in Q107 (**Table 2**). This is the third consecutive quarter in which domestic natural gas prices fell relative to the year-earlier quarter and comes on the heels of a streak of nine consecutive quarters in which natural gas prices increased or were unchanged relative to their year-earlier levels.

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)

	Q106	Q107	Percent Change[b]
Financial Data			
	(Millions of Dollars)		(%)
Corporate			
Revenue (20)[c]	278,919	261,223	-6.3
Net Income (20)	23,937	23,906	-0.1
Worldwide Lines of Business Net Income			
Petroleum (22)	30,227	27,622	-8.6
Oil and Gas Production (18)	25,147	20,702	-17.7
Refining/Marketing (11)	5,080	6,920	36.2
Gas and Power (10)	1,717	1,270	-26.1
Chemicals (7)	1,953	1,712	-12.3
Domestic Net Income			
Oil and Gas Production (12)	9,513	7,231	-24.0
Refining/Marketing (11)	3,843	4,689	22.0
Foreign Net Income			
Oil and Gas Production (4)	8,939	8,623	-3.5
Refining/Marketing (5)	1,237	2,231	80.4
Operating Data			
Oil Production	(Thousands of Barrels/Day)		(%)
Domestic (16)	3,105	3,166	2.0
Foreign (11)	4,943	5,123	3.6
Natural Gas Production	(Million Cubic Feet/Day)		(%)
Domestic (18)	19,312	20,877	8.1
Foreign (12)	18,202	17,894	-1.7
Refinery Throughput	(Thousands of Barrels/Day)		(%)
Domestic (11)	11,607	11,612	0.0
Foreign (5)	6,186	6,409	3.6

[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] 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.

Worldwide Petroleum Earnings

Earnings from worldwide oil and natural gas production operations (i.e., upstream operations) decreased 18 percent between Q106 and Q107. Slightly lower foreign earnings were accompanied by a much larger (in terms of both nominal and percentage changes) decrease in domestic earnings.

Overall earnings for domestic upstream operations in Q107 were 24 percent lower than in Q106 (**Table 1**). Domestic upstream earnings decreased relative to a year ago as the effects of lower domestic natural gas prices (**Table 2**) combined with lower crude oil prices overwhelmed the effects of higher crude oil and natural gas production (**Table 1**). The results were consistent as 11 of the 12 companies that reported separate net income for domestic upstream operations recorded lower earnings than a year ago. Various company press releases note several factors that collectively resulted in lower earnings. The factors include reduced production levels (due to natural field declines and asset divestitures), higher operating costs, and lower U.S. natural gas prices. Alternatively, the only company that reported higher earnings attributed them to higher natural gas production and higher realized natural gas prices.

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

	Q106	Q107	Percent Change
U.S. Energy Prices[a]			
Refiner Acquisition Cost of Imported Crude Oil ($/barrel)	54.72	53.16	-2.9
Natural Gas Wellhead Price ($/thousand cubic feet)	7.49	6.37	-15.0
U.S. Gross Refining Margin ($/barrel)[b]	15.95	17.49	9.7

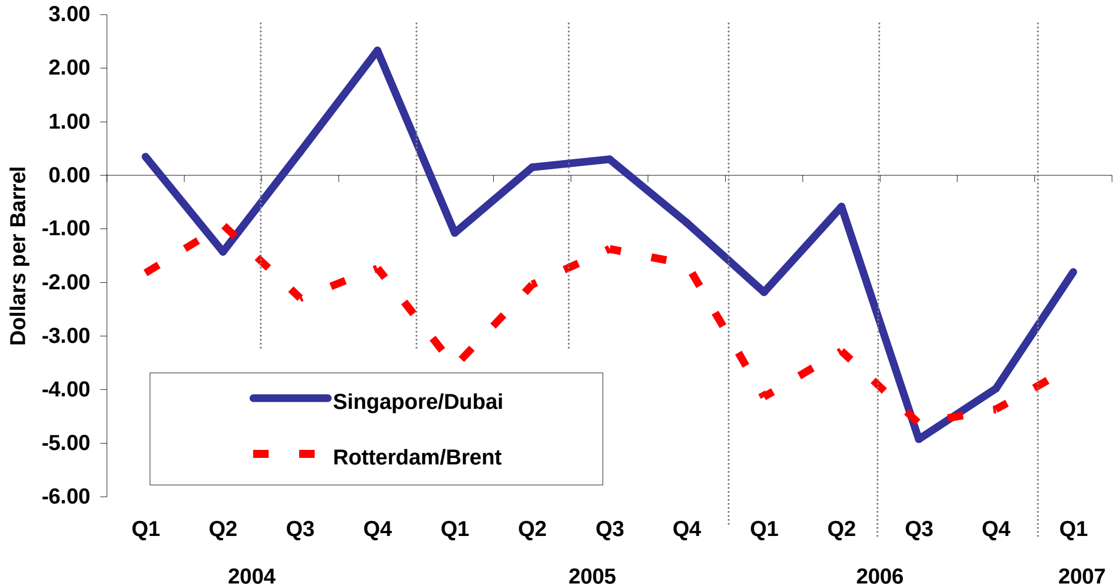
[a] Energy Information Administration, *Short-Term Energy Outlook* , (May 8, 2007), Table 4.
[b] Compiled from data in Energy Information Administration, *Petroleum Marketing Monthly* , DOE/EIA-380 (Washington, DC), Table 1, Table 4 and Table 5; and Energy Information Administration, *Monthly Energy 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.

Net income from foreign upstream operations in Q107 decreased 4 percent relative to Q106 (**Table 1**), as half of the four companies reported separate net income from foreign upstream operations reported a decrease in Q107 relative to Q106. Lower crude oil prices put downward pressure on earnings as did reduced natural gas production, while higher production of crude oil put upward pressure on earnings. Company press releases noted that earnings fell due to lower natural gas prices received by the companies, higher operating costs, and decreased production (due to renegotiated production-sharing contracts and reduced European demand for natural gas). Higher earnings were attributed to lower taxes.

Earnings from worldwide refining and marketing operations (i.e., downstream operations) increased 36 percent between Q106 and Q107 as higher worldwide industry margins were coupled with higher worldwide refinery throughput (Table 2). Higher domestic earnings were magnified by much higher foreign earnings, resulting in an increase of more than $1.8 billion, from $5.1 billion in Q106 to $6.9 billion in Q107 (**Table 1**).

Profits from domestic downstream operations increased 22 percent in Q107 relative to Q106 as a 1-percent increase in petroleum product stock and essentially unchanged refinery output, put scant downward pressure on earnings. Meanwhile, higher gross refining margins (the per-barrel composite wholesale product price less the composite refiner acquisition cost of crude oil), which increased by 10 percent between Q106 and Q107 (**Table 2**), put upward pressure on earnings. The net effect of these and other factors was that U.S. refining/marketing earnings in Q107, which were $4.7 billion (**Table 1**), were more than $800 million higher than in Q106. The performance of the eleven companies that reported U.S. refining/marketing earnings was generally consistent as most (eight) reported higher earnings. Higher refining and marketing margins, and higher refinery throughput were noted in press releases by some of the companies reporting higher earnings. Companies that reported lower earnings cited planned and unplanned refinery outages in their press releases.

Figure 1. Quarterly Foreign Refining Margins, 2004 - 2007



Note: Refining margin is defined as netback crude oil price less spot crude oil price. 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.
Source: Energy Intelligence Group, *Oil Market Intelligence* , (June 2004, 2005, and 2006; January 2005 and 2006, and March 2007), page 12.

Earnings from foreign downstream operations increased 80 percent between Q106 and Q107 (**Table 1**). Refinery throughput increased 4 percent between Q106 and Q107 (**Table 1**) and industry-wide margins were higher (**Figure 1**) in both Europe (by $0.57/barrel) and Asia/Pacific (by $0.37/barrel), which put upward pressure on earnings. The company results were consistent for those companies separately reporting foreign downstream earnings as all five reported higher earnings. The companies reporting higher earnings noted higher margins and refinery throughput in their press releases.

Worldwide Downstream Natural Gas and Power

Worldwide downstream natural gas and power earnings decreased 26 percent (Table 1) primarily due to mark-to-market adjustments. Seven of the ten companies reported lower earnings than a year earlier, but for a variety of reasons. Lower earnings were attributed to such varied factors as lower NGL prices and higher operating costs, but the preponderant reason was mark-to-market adjustments that generated losses. Higher earnings were attributed to higher natural gas sales due to colder weather than a year earlier and higher prices received.

Worldwide Chemical Operations

Earnings from chemical operations fell due to lower margins for several products. Six of the seven companies reporting results for this line of business recorded lower earnings, resulting in a 12-percent decrease in earnings from the majors' chemical operations in Q107 relative to Q106 (**Table 1**). The lower earnings occurred despite Exxon Mobil (which accounted for 72 percent of Q107 chemical net income and 49 percent of Q106 net income). The foremost reason for lower earnings was lower margins on the chemicals produced by most of the companies reporting separate income for chemical operations (e.g., olefins, polyolefins, caustic soda, and phenol). Alternatively, Exxon Mobil cited higher margins as the reason for its increased earnings.

About this Report

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 do not provide separate information for the company's U.S. operations.

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