Financial News for Major Energy Companies, First Quarter 2009

First Quarter 2009 Key Findings	
Net Income	$-7.0 billion
Revenues	$191.5 billion
Highlights	Major energy companies reported a 126-percent decrease in net income relative to first quarter of 2008. Further, this represents a 131-percent decrease relative to the first-quarter average for 2004-2008. Return on sales (net income ÷ revenue) decreased from 8.0 percent in the first quarter of 2008 to -3.7 percent in the first quarter of 2009 due to the 126 percent decrease in net income.
	The effects of higher worldwide refining margins and worldwide oil and natural gas production were overwhelmed by lower oil and natural gas prices and lower worldwide refinery throughput.

Overview

Nineteen major energy companies [1] reported an overall net loss (excluding unusual items) of $7.0 billion on revenues of $191.5 billion during the first quarter of 2009 (Q109). The level of net income for Q109 was 126-percent lower than in the first quarter of 2008 (Q108) (**Table 1**) and was 131-percent lower than the first-quarter average for 2004-2008 after adjusting for inflation. Further, return on sales (net income ÷ revenue) fell from 8.0 percent in Q108 to -3.7 percent in Q109 due largely to the 126-percent decrease in net income. Net income for Q109 decreased as the effects of higher worldwide refining margins and worldwide crude oil and natural gas production were overwhelmed by reduced oil and natural gas prices and worldwide refinery throughput. This is the first net loss recorded by the majors since at least the fourth quarter of 1999, which is the earliest period for which EIA has data.

Overall, the petroleum line of business (which includes both oil and natural gas production and petroleum refining/marketing) in Q109 saw net income decline 99 percent from the level of Q108. A $33.4-billion (110 percent) decrease in worldwide oil and natural gas production net income was slightly offset by a 1.6-billion (87 percent) increase in worldwide refining/marketing net income. All of the lines of business except for domestic and foreign refining/marketing operations (i.e., domestic and foreign oil and gas production, worldwide gas and power operations, and worldwide chemical operations) generated lower earnings in Q109 than in Q108. (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 imported average crude oil price for Q109 dropped almost $50 per barrel (55 percent) relative to a year earlier (Table 2). (See the current and recent issues of the *Short-Term Energy Outlook* for an explanation of these price changes and those discussed below.) This is the fourth time in the past twenty-seven quarters (i.e., six and three-fourths years) that the price of crude oil was lower relative to the year-earlier quarter. (The first and second quarters of 2007, and the fourth quarter of 2008 were the only other exceptions since the second quarter of 2002.)

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)

	Q108	Q109	Percent Change[b]
Financial Data			
	(Millions of Dollars)		(%)
Corporate			
Revenue (19)[c]	343,814	191,501	-44.3
Net Income (19)	27,393	-7,008	-125.6
Worldwide Net Income			
Petroleum (21)	32,246	394	-98.8
Oil and Natural Gas Production (18)	30,418	-3,016	-109.9
Refining/Marketing (11)	1,828	3,410	86.5
Natural Gas and Power (11)	1,529	1,084	-29.1
Chemicals (6)	1,217	403	-66.9
Domestic Net Income			
Oil and Natural Gas Production (13)	11,419	-2,099	-118.4
Refining/Marketing (11)	695	2,118	204.7
Foreign Net Income			
Oil and Natural Gas Production (5)	13,370	5,321	-60.2
Refining/Marketing (5)	1,133	1,292	14.0
Worldwide Capital Expenditures			
U.S. Oil and Natural Gas Production (8)	7,968	7,613	-4.5
Foreign Oil and Natural Gas Production (4)	7,456	8,801	18.0
Worldwide[d] Oil and Natural Gas Production (13)	21,494	21,764	1.3
Worldwide Refining/Marketing (10)	5,127	3,838	-25.1
Operating Data			
Oil Production	(Thousands of Barrels/Day)		(%)
Domestic (16)	3,041	3,133	3.0
Foreign (10)	4,780	5,161	8.0
Natural Gas Production	(Million Cubic Feet/Day)		(%)
Domestic (18)	22,532	23,837	5.8
Foreign (11)	19,169	19,277	0.6
Refinery Throughput	(Thousands of Barrels/Day)		(%)
Domestic (11)	11,601	11,204	-3.4
Foreign (5)	6,100	5,829	-4.4

[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.

[d] U.S. and foreign oil and natural gas capital expenditures do not necessarily sum to the worldwide total due to the manner in which these data are disclosed (i.e., some companies fail to separate their capital spending into domestic and foreign, but simply provide a worldwide total).

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

	Q108	Q109	Percent Change
U.S. Energy Prices[a]			
Imported Average Crude Oil Price ($/barrel)	89.74	40.13	-55.3
Natural Gas Wellhead Price ($/thousand cubic feet)	7.62	4.35	-42.9
U.S. Gross Refining Margin ($/barrel)[b]	13.54	28.69	111.9

[a] Energy Information Administration, *Short-Term Energy Outlook* , (April 14, 2009), Table 2.
[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 3.2.
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.

The average U.S. natural gas wellhead price declined from $7.62 per thousand cubic feet (mcf) in Q108 to $4.35 per mcf in Q109, a decrease of 43 percent (Table 2). Natural gas prices have generally fluctuated over the past three years, decreasing six times relative to the year-earlier quarter and increasing six times since the first quarter of 2006.

The gross refining margin (the per-barrel composite wholesale product price less the composite refiner acquisition cost of crude oil) was 112 percent higher in Q109 than in Q108 (**Table 2**). The average price for petroleum products declined by more than $34 per-barrel, but was exceeded by the more than $49 per-barrel decrease in the price of crude oil and resulted in a much larger margin.

Worldwide Petroleum Earnings

Earnings from worldwide oil and natural gas production operations (i.e., upstream operations) for Q109 fell more than $33 billion relative to one year earlier. Domestic earnings fell more than $13 billion while foreign earnings fell $8 billion (earnings that cannot be allocated between domestic and foreign operations fell an additional $12 billion, resulting in an extremely large decrease of earnings and a loss of $3.0 billion. (Note: Worldwide write-downs due to impaired oil and natural gas reserves[2] totaled more than $12 billion during Q109, which accounted for a large portion of the reported losses.)

Earnings for **domestic upstream** operations in Q109 were 118 percent lower than in Q108 (**Table 1**). Domestic upstream earnings decreased relative to a year earlier as the effects of lower crude oil and natural gas prices (**Table 2**) overwhelmed the effects of increased crude oil and natural gas production (e.g., from BP's Thunder Horse field). Twelve of the 13 companies that reported separate net income for domestic upstream operations reported lower earnings than a year earlier, 5 of which reported losses. The overwhelming reasons noted in company press releases for lower earnings were lower crude oil and natural gas prices, and the resulting impairments of reserves. The solitary company reporting higher earnings did so due to much greater production levels.

Net income from **foreign upstream** operations in Q109 was more than $8 billion lower than in Q108 (**Table 1**), as all 5 companies that reported separate net income from foreign upstream operations reported a decrease in earnings. The effects of lower crude oil and natural gas prices put downward pressure on earnings, which more than offset the upward pressure from higher crude oil and natural gas production. Company press releases noted overwhelmingly that earnings fell because of lower crude oil prices.

Earnings from worldwide refining and marketing operations (i.e., downstream operations) increased 87 percent between Q108 and Q109 (Table 2) despite decreased refinery throughput. Domestic and foreign refining/marketing earnings both increased in Q109 relative to a year earlier despite lower refinery throughput and resulted in an increase of more than $1 billion to $3.4 billion (**Table 1**).

Profits from **domestic downstream** operations in Q109 were more than three times greater than in Q108, increasing more than $1.4 billion from Q108 (**Table 1**), but were 39 percent lower than the first-quarter average for 2004-2008 after adjusting for inflation. The performance of the eleven companies that reported U.S. refining/marketing earnings was somewhat mixed as only seven of the companies reported higher earnings in Q109 than in Q108. Higher earnings were attributed to increased refining marketing margins, which were somewhat offset by lower marketing margins and refinery throughput. The four companies that reported lower earnings indicated that lower corporate refinery throughput (at least partially due to planned turn-arounds) and sales (at least partially due to lower demand and divestitures), and lower Gulf Coast refining margins were among the reasons for lower earnings.

Earnings from **foreign downstream** operations increased 14 percent between Q108 and Q109 (**Table 1**). European and Asia/Pacific refining margins increased while refinery throughput fell, putting mixed pressure on earnings. Against this varied industry background, four of the five companies reported higher earnings than a year earlier. Higher refining and sales margins, and lower expenses were noted in the press releases as reasons for increased earnings.

Worldwide Downstream Natural Gas and Power

Worldwide downstream natural gas and power earnings declined 29 percent (Table 1) due to lower revenues and higher operating costs. The results were almost uniform as 10 of the 11 companies that provided earnings information reported lower earnings in Q109 than in Q108. Company press releases attributed lower earnings to higher operating costs, lower processing and storage revenues, and impaired Venezuelan assets. The company reporting higher earnings cited increased sales of pipeline capacity and trading gains.

Worldwide Chemical Operations

Earnings from chemical operations decreased due to lower sales volumes and margins. All of the 6 companies reporting results for this line of business recorded lower earnings, resulting in a 67-percent decline in earnings from the majors' chemical operations relative to Q108 (**Table 1**). Among the reasons given for lower earnings were lower commodity margins and lower sales volumes.

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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[1] The nineteen companies are Anadarko Petroleum Corporation, Apache Corporation, Chesapeake Energy Corporation, Chevron Corporation, ConocoPhillips Inc., Devon Energy Corporation, El Paso Corporation, EnCana Corporation (U.S. operations only), EOG Resources, Inc., EQT Corporation (formerly Equitable Resources Inc.), Exxon Mobil Corporation, Hess Corporation, Marathon Oil Corporation, Occidental Petroleum Corporation, Sunoco, Inc., Tesoro Corporation, Valero Energy Corporation, Williams Companies, and XTO Corporation. Additionally, the results from the U.S. lines of business (e.g., U.S. oil and gas exploration and production) of BP, plc and Royal Dutch Shell are included. Hence, the number of companies reporting petroleum operations is 21, rather than 19.

[2] The non-cash charge resulted from application of the ceiling test as prescribed by the Securities and Exchange Commission (SEC) for companies that follow the full-cost method of accounting. Under the full-cost method of accounting, a company's net book value of its oil and gas properties, less related deferred income taxes, may not exceed a calculated "ceiling." The test is performed separately for each country in which the company operates. The ceiling is the estimated after-tax stream of future net revenues from proved oil and gas properties, discounted at 10 percent per year using costs and prices held flat, plus the cost of unevaluated properties. Any excess is written off as a non-cash expense. The expense may not be reversed in future periods, even though higher oil and gas prices may subsequently increase the ceiling. Full-cost companies must use the prices in effect at the end of each accounting quarter to calculate the ceiling value of reserves. Future net revenues are calculated assuming continuation of prices and costs in effect at the time of the calculation, except for changes that are fixed and determinable by existing contracts. Although the SEC recently modified its rules applicable to the ceiling test, the new rules do not take effect until year-end 2009 (Devon Energy, http://investor.dvn.com/phoenix.zhtml?c=67097&p=irol-newsArticle&ID=1284909&highlight= (as of May 12, 2009)).

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