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Energy Finance

Financial News for Major Energy Companies, Third Quarter 2007

Third Quarter 2007 Key Findings	
Net Income	$26.5 billion
Revenues	$301.8 billion
Highlights	11-percent decrease in net income relative to third quarter of 2006 (25-percent increase relative to the third-quarter average for 2003-2006)
	effects of higher oil prices overwhelmed by lower worldwide oil production and U.S. refining margins

Overview

Twenty-two major energy companies[1] reported overall net income (excluding unusual items) of $26.5 billion on revenues of $301.8 billion during the third quarter of 2007 (Q307). The level of net income for Q307 was 11-percent lower than in the third quarter of 2006 (Q306) (**Table 1)**, but was 25-percent higher than the third-quarter average for 2003-2006 after adjusting for price changes. Net income for Q307 decreased as the effects of lower U.S. natural gas prices, worldwide crude oil production, U.S. refining margins, and worldwide refinery throughput overwhelmed the effects of higher crude oil prices and worldwide natural gas production.

Overall, the petroleum line of business (which includes both oil and natural gas production and petroleum refining/marketing) registered an 18-percent decrease in net income between Q306 and Q307. A 5-percent decrease in worldwide oil and natural gas production net income was magnified by a 44-percent decrease in worldwide refining/marketing net income. The only line of business that reported higher earnings in Q307 relative to Q306 was worldwide natural gas and power, which recorded less than a 1-percent increase, while all the other lines of business (domestic and foreign oil and natural gas production, domestic and foreign refining/marketing, and worldwide chemical operations) reported lower earnings. (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 Q307 increased 12 percent relative to a year earlier while the price of natural gas decreased almost 1 percent. The U.S. refiner average acquisition cost of imported crude oil increased from $63.78 per barrel in Q306 to $71.18 per barrel in Q307 (**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 increase follows two consecutive quarters of decreases relative to the year-earlier quarter, which followed eighteen consecutive quarters in which crude oil prices increased relative to their year-earlier levels.

The average U.S. natural gas wellhead price decreased from $5.96 per thousand cubic feet (mcf) in Q306 to $5.91 per mcf in Q307 (**Table 2**). This decline follows last quarter's increase relative to a year earlier itself followed four consecutive quarters in which domestic natural gas prices fell relative to the year-earlier quarter.

The gross refining margin (the per-barrel composite wholesale product price less the composite refiner acquisition cost of crude oil) was 35 percent lower in Q307 than in Q306 (**Table 2**). A negligible decline in the petroleum product average price (from $85.37 per barrel to $85.17 per barrel) was overwhelmed by a $7.40 per barrel increase in the price of crude oil resulting in a substantially lower margin.

Worldwide Petroleum Earnings

Earnings from worldwide oil and natural gas production operations (i.e., upstream operations) decreased 5 percent between Q306 and Q307. Marginally lower foreign earnings were accompanied by a greater (in terms of both nominal and percentage changes) decrease in domestic earnings, resulting in a decline of more than $1.0 billion to $20.9 billion.

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)

	Q306	Q307	Percent Change[b]	2006	2007	Percent Change
	Financial Data (Millions of Dollars)		**(%)**	**(Millions of Dollars)**		**(%)**
Corporate						
Revenue (20)[c]	296,301	301,833	1.9	868,030	863,372	-0.5
Net Income (20)	29,669	26,540	-10.5	83,096	81,093	-2.4
Worldwide Lines of Business Net Income						
Petroleum (22)	33,232	27,109	-18.4	99,738	90,638	-9.1
Oil and Natural Gas Production (18)	21,990	20,852	-5.2	71,323	62,348	-12.6
Refining/Marketing (11)	11,242	6,257	-44.3	28,415	28,290	-0.4
Natural Gas and Power (10)	1,472	1,480	0.5	4,572	4,418	-3.4
Chemicals (7)	2,203	1,885	-14.4	5,774	5,201	-9.9
Domestic Net Income						
Oil and Natural Gas Production (13)	8,176	7,740	-5.3	26,649	23,097	-13.3
Refining/Marketing (11)	8,752	4,063	-53.6	22,423	20,598	-8.1
Foreign Net Income						
Oil and Natural Gas Production (5)	8,971	8,964	-0.1	28,945	26,847	-7.2
Refining/Marketing (5)	2,490	2,194	-11.9	5,992	7,692	28.4
	Operating Data					
Oil Production	**(Thousands of Barrels/Day)**		**(%)**	**(Thousands of Barrels/Day)**		**(%)**
Domestic (16)	3,075	2,949	-4.1	3,126	3,078	-1.5
Foreign (11)	5,116	4,818	-5.8	5,032	5,038	0.1
Natural Gas Production	**(Million Cubic Feet/Day)**		**(%)**	**(Million Cubic Feet/Day)**		**(%)**
Domestic (18)	20,610	20,725	0.6	20,224	20,992	3.8
Foreign (11)	15,739	16,091	2.2	16,741	16,894	0.9
Refinery Throughput	**(Thousands of Barrels/Day)**		**(%)**	**(Thousands of Barrels/Day)**		**(%)**
Domestic (11)	12,398	12,118	-2.3	12,204	11,897	-2.5
Foreign (5)	6,482	6,205	-4.3	6,271	6,222	-0.8

[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.

Overall earnings for domestic upstream operations in Q307 were 5 percent lower than in Q306 (**Table 1**). Domestic upstream earnings decreased relative to a year ago as the effects of higher crude oil prices (**Table 2**) were overwhelmed by lower crude oil production (**Table 1**), as domestic natural gas prices and production were largely unchanged. The results were mixed as about half of the thirteen companies that reported separate net income for domestic upstream operations reported lower earnings than a year ago. Various company press releases noted several factors that collectively resulted in lower earnings, including reduced production levels (due to natural field declines and asset divestitures) and higher operating costs. Alternatively, the companies that reported higher earnings attributed them to higher production and higher realized prices.[2]

Net income from foreign upstream operations in Q307 were approximately unchanged (declining by 0.1 percent) relative to Q306 (**Table 1**), as three of the five companies that reported separate net income from foreign upstream operations reported a decrease in Q307 relative to Q306. Lower crude oil production put downward

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

	Q306	Q307	Percent Change
U.S. Energy Prices[a]			
Refiner Acquisition Cost of Imported Crude Oil ($/barrel)	63.78	71.18	11.6
Natural Gas Wellhead Price ($/thousand cubic feet)	5.96	5.91	-0.8
U.S. Gross Refining Margin ($/barrel)[b]	21.59	14.01	-35.1

[a] Energy Information Administration, *Short-Term Energy Outlook* , (November 6, 2007), 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 3.2b.
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.

pressure on earnings while increased crude oil prices and natural gas production applied upward pressure. Company press releases noted that earnings fell due to higher operating costs, higher taxes, and decreased production (due to renegotiated production-sharing contracts, entitlement effects, asset sales, mature field declines, and expropriated assets). Higher earnings were attributed to higher crude oil and natural gas prices received and production increases.

Earnings from worldwide refining and marketing operations (i.e., downstream operations) decreased 44 percent between Q306 and Q307 (Table 2) on diminished U.S. margins and worldwide refinery throughput. Lower foreign earnings were magnified by much lower domestic earnings, resulting in an decrease of slightly less than $5.0 billion, from $11.2 billion in Q306 to $6.3 billion in Q307 (Table 1).

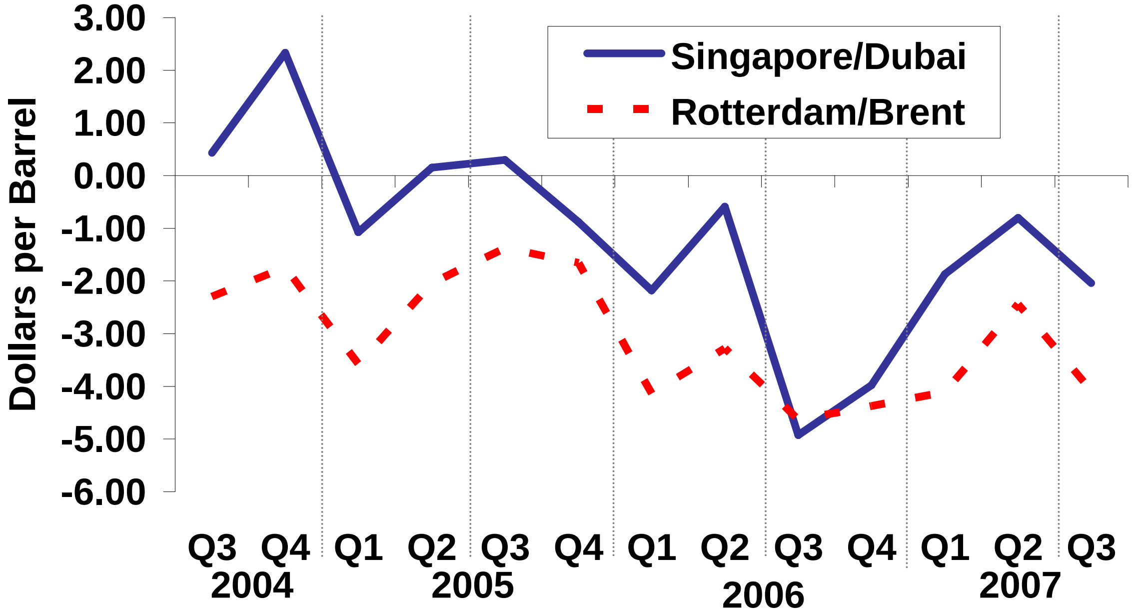
Profits from domestic downstream operations decreased by 54 percent in Q307 relative to Q306. Strongly affecting earnings was the 35 percent decline in the gross margin (Table 2), which put downward pressure on earnings. Further downward pressure on earnings was applied by reduced refinery output. The net effect of these and other factors was that U.S. refining/marketing earnings in Q307 were almost $5.0 billion lower than in Q306 at $4.1 billion (Table 1). The performance of the eleven companies that reported U.S. refining/marketing earnings was generally consistent as almost all (nine) reported lower earnings. Lower refining margins (due in part to decreased sweet/sour crude oil differentials, and increases in raw materials and feedstock costs), lower marketing margins, refinery outages (planned and unplanned), reduced product output, and trading losses were noted in press releases by the companies reporting lower earnings. The companies that reported higher earnings cited increased earnings from lubricants in their press releases.

Earnings from foreign downstream operations decreased 12 percent between Q306 and Q307 (Table 1). Refinery throughput decreased 4 percent between Q306 and Q307 (Table 1), putting downward pressure on earnings. Although industry-wide margins were higher (Figure 1), by $0.55 per barrel in Europe and by $2.89 per barrel in Asia/Pacific, the companies reported lower realized margins, which also put downward pressure on earnings. The company results were consistent for those companies separately reporting foreign downstream earnings as four of the five reported lower earnings. The companies reporting lower earnings noted lower margins and refinery throughput in their press releases. The company reporting higher earnings noted a large benefit from German tax legislation, which overwhelmed lower refinery throughput.

Worldwide Downstream Natural Gas and Power

Worldwide downstream natural gas and power earnings increased almost 1 percent (Table 1) primarily due to greater volumes and lower costs. Most of the companies reported higher earnings than a year earlier, yet their results barely outweighed the results of the three companies that reported lower earnings. Higher earnings were due to a variety of reasons, including higher electricity sales, reduced fuel costs, increased LNG sales, and increased pipeline rates, utilization, and throughput. Lower earnings were attributed to trading losses, lower sales volumes, and higher costs.

Figure 1. Quarterly Foreign Refining Margins, 2004 - 2007



Source: Energy Intelligence Group, *Oil Market Intelligence*, (June 2005, 2006, and 2007; January 2005, 2006, and 2007; and October 2007), page 12.

Worldwide Chemical Operations

Earnings from chemical operations decreased due to lower margins for some products, higher costs, and reduced sales. Almost all (6 of 7) of the companies reporting results for this line of business recorded lower earnings, overwhelming the results of the single company that reported increased earnings and resulting in a 14-percent decline in earnings from the majors' chemical operations in Q307 relative to Q306 (**Table 1**). Approximately half of the reduction in earnings was due to Exxon Mobil (which accounted for 64 percent of Q307 chemical net income and 61 percent of Q306 net income). The major reasons for lower earnings were lower margins (prices for some products declined while natural gas prices were essentially unchanged), higher operating and environmental costs, and reduced sales (in part due to planned maintenance). Alternatively, the single company reporting higher earnings attributed them to higher margins and increased 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 twenty-two companies are Amerada Hess Corporation; Anadarko Petroleum Corporation; Apache Corporation; BP p.l.c. (only U.S. operations included); Chesapeake Energy Corporation; Chevron Corporation; ConocoPhillips; Devon Energy Corporation; Dominion Resources, Inc.; El Paso Corporation; EOG Resources, Inc.; Equitable Resources Inc.; Exxon Mobil Corporation; Lyondell Chemical Company; Marathon Oil Corporation; Occidental Petroleum Corporation; Royal Dutch Shell (only U.S. operations included); Sunoco, Inc.; Tesoro Corporation; Valero Energy Corporation; Williams Companies; and XTO Energy Inc.
[2] Realized prices and margins are the prices and margins that the companies actually received.

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