Financial News for Major Energy Companies

Twenty-two major energy companies reported overall net income (excluding unusual items) of $4.6 billion during the fourth quarter of 2001 (Q401). The level of net income represented a 65-percent decline relative to the fourth quarter of 2000 (Q400) (Table 1).

The majors' foreign upstream oil and natural gas production operations made the largest contribution to overall net income in Q401 at $2.0 billion (Table 1), with domestic upstream oil and natural gas production operations second at $1.8 billion, and worldwide downstream natural gas (i.e., those natural gas operations that occur between the wellhead and the consumer) and power operations third at $1.5 billion. The mergers of Chevron and Texaco, El Paso and Coastal, Phillips and Tosco, and Valero and Ultramar Diamond Shamrock (see the Mergers and Alliances web page maintained by EIA for more information about mergers) all reorganized assets already controlled by the majors rather than added assets not previously controlled by the majors. Consequently, these mergers did little to offset the effects of lower prices, which contributed to lower earnings from all lines of business. Other smaller mergers contributed to higher output levels of many companies, but were insufficient to prevent across-the-board declines in Q401 net income relative to a year earlier.

Year-long results from worldwide upstream petroleum operations were 7-percent lower in 2001 than in 2000, lowering corporate earnings for the entire year. However, the year-long results from petroleum refining and marketing (both domestic and foreign) and downstream natural gas and power were greater for 2001 than 2000, slowing the year's decline in corporate net income to 15 percent (relative to 2000). Acquisitions, higher natural gas prices and refining margins (Table 2), and an overall increase in liquids and natural gas production (Table 1) during the year diminished the decline in corporate earnings for 2001 relative to a year earlier.

Energy Price News

Oil and natural gas prices decline substantially from high levels of a year ago. The average natural gas wellhead price dropped 52 percent in Q401 from Q400 (Table 2). Natural gas prices have declined three consecutive quarters, reflecting an increase in natural gas inventories due to the unusually mild winter. Natural gas in storage (*Monthly Energy Review* (*MER*), Table 4.5) rose 33 percent in Q401 compared to the historically low level of Q400, and consumption declined 15 percent. The average number of days' worth of consumption available in storage increased 57 percent in Q401 compared to a year earlier, from 34 days to 53 days according to the *MER* (calculating the average storage level of each quarter in terms of the average daily consumption rate for that same quarter).

The world oil price (as represented by the U.S. refiner average acquisition cost of imported crude oil) declined by less than the price of natural gas, falling a lesser 40 percent, from $28.26 per barrel in Q400 to $17.06 per barrel in Q401 (Table 2). Worldwide demand for crude oil fell slightly, production decreased, and stock levels increased (although the rate of growth fell), further reducing prices. Oil prices have now declined five consecutive quarters.

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

	Q400	Q401	Percent Change	2000	2001	Percent Change
Financial Information						
Corporate	(millions of dollars)			(millions of dollars)		
Revenue (21)[b]	184,411	130,067	-29.5%	615,867	595,111	-3.4%
Net Income (22)	13,309	4,623	-65.3%	48,526	41,239	-15.0%
Lines of Business Net Income						
Petroleum (24)[c]	16,818	6,531	-61.2%	55,100	55,094	0.0%
Worldwide Oil and Natural Gas Production (19)[d]	13,376	4,752	-64.5%	43,194	40,061	-7.3%
Worldwide Refining/Marketing (18)[d]	3,442	1,779	-48.3%	11,906	15,033	26.3%
Worldwide Downstream Natural Gas and Power (8)[e]	1,701	1,468	-13.7%	8,011	10,021	25.1%
Chemicals (8)	110	-32	-129.2%	3,252	602	-81.5%
Other Businesses (5)	1,411	79	-94.4%	2,712	125	-95.4%
Domestic Net Income by Function						
Oil and Natural Gas Production (10)	6,615	1,846	-72.1%	20,874	18,490	-14.4%
Refining/Marketing (14)	2,459	991	-59.7%	9,252	12,007	29.8%
Foreign Net Income by Function						
Oil and Natural Gas Production (7)	4,181	2,016	-51.8%	14,757	11,829	-19.8%
Refining/Marketing (3)	983	788	-19.8%	2,637	3,064	16.2%
Operating Information						
Liquids[f] Production	(thousand barrels per day)			(thousand barrels per day)		
Domestic (17)	3,926	4,019	2.4%	3,737	3,853	3.1%
Foreign (17)	7,651	7,891	3.1%	7,508	7,564	0.7%
Natural Gas Production	(million cubic feet per day)			(million cubic feet per day)		
Domestic (18)	22,124	22,715	2.7%	21,349	21,610	1.2%
Foreign (17)	27,718	30,628	10.5%	24,928	26,643	6.9%
Refinery Inputs	(thousand barrels per day)			(thousand barrels per day)		
Domestic (14)	12,446	11,344	-8.9%	12,402	13,123	5.8%
Foreign (5)	7,183	6,835	-4.8%	9,379	9,601	2.4%

[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] 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] The companies having worldwide oil and gas production or refining/marketing operations includes both companies reporting domestic and foreign operations separately and those that merely report oil and gas operations or refining/marketing operations with no separation of domestic and foreign results. Thus, the number of companies with worldwide oil and 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.
[e] The contribution of downstream natural gas and electricity operations of the majors has grown to the point that they are reported separately by many of the majors. Consequently, "downstream gas and power" is now a separate line of business reported in "Financial News of Major Energy Companies".
[f] The term "liquids" refers to crude oil and natural gas liquids.

Sources: Company press releases and financial disclosures.

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

	Q400	Q401	Percent Change	2000	2001	Percent Change
U.S. Energy Prices[a]						
Refiner Acquisition Cost of Imported Crude Oil ($/barrel)	28.26	17.06	-39.6	27.72	21.98	-5.7
Natural Gas Wellhead ($/thousand cubic feet)	5.12	2.51	-51.6	3.60	4.09	13.6
U.S. Gross Refining Margin[b] ($/barrel)	10.46	9.59	-8.4	9.91	12.65	27.6

[a]Energy Information Administration, *Short Term Energy Outlook* , (Washington, DC, February 6, 2001), Table 4 and *Short Term Energy Outlook* , (Washington, DC, December 6, 2001), 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: All tables are in 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.

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.

Worldwide Petroleum News

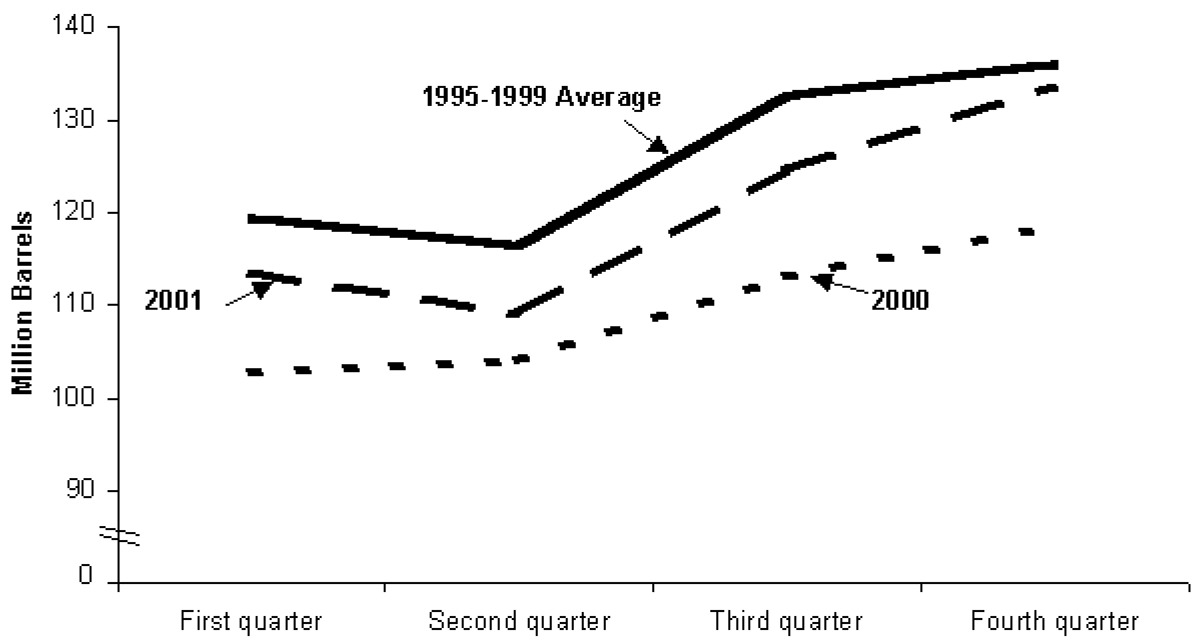
Earnings from worldwide oil and natural gas production operations fall by two-thirds due to lower prices. The overall results for both domestic and foreign oil and natural gas liquids (collectively known as "liquids") and natural gas exploration, development, and production (i.e., upstream petroleum) during Q401 were much lower (72 percent and 52 percent, respectively) than a year earlier (Table 1). Similarly, earnings for domestic and foreign upstream petroleum for the entire year declined too, albeit at more moderate rates (falling 14 and 20 percent, respectively), relative to 2000.

All 10 companies reporting domestic oil and natural gas earnings reported lower net income relative to Q400. (Note 1) Liquids and natural gas production (Note 2) rose slightly, chiefly due to acquisitions (e.g., Williams Companies acquired Barrett Resources during 2001). The year-long story for domestic oil and natural gas production in 2001 (relative to 2000) was also one of lower earnings, but a much smaller decline occurred as lower crude oil prices and higher natural gas prices were bolstered by increases in both liquids and natural gas production (Table 1). Acquisitions played a large role in production growth (including Amerada Hess' acquisition of Triton Energy, Devon Energy's acquisition of Mitchell Energy, Dominion Resources' acquisition of Louis Dreyfus, Kerr McGee's acquisition of HS Resources, and Williams' acquisition of Barrett Resources).

Similarly, all 7 of the companies reporting earnings from foreign upstream petroleum operations reported a decline in earnings. The majors' overseas oil and natural gas production during Q401 also increased relative to Q400. The increased production (Table 1) was chiefly contributed by Anadarko, Apache, Conoco, and Devon Energy, all of which made significant acquisitions between Q400 and Q401. Excluding these four companies, the remaining 13 companies reported a net increase of less than 1 percent in liquids production and 5 percent in natural gas production. For the year, net income from foreign upstream petroleum operations was 20 percent lower for 2001 than for 2000 as production increases were insufficient to offset lower prices.

Product prices decline faster than crude oil prices, halving net income from worldwide downstream petroleum operations. Earnings from the majors' domestic refining/marketing operations fell 60 percent relative to Q400 (Table 1). During Q401, U.S. refining margins (the per-barrel composite wholesale product price less the composite refiner acquisition cost of crude oil) decreased, a result also reported by some of the majors (e.g., Phillips, Premcor, and Valero). The price of crude oil fell more than $11 per barrel between Q400 and Q401, but wholesale refined product prices fell even faster, lowering the industry-wide refining margin by 87 cents per barrel, an 8-percent decrease. The industry-wide decrease in the refining margin was magnified by a 9-percent decrease in domestic refinery throughput by the companies reporting domestic refinery throughput (Table 1), relative to Q400. Also reducing the profits of downstream petroleum were lower marketing margins, which were reported by some of these companies (e.g., Sunoco), suggesting that retail prices fell faster than wholesale prices as inventories grew considerably over the previous year (especially for distillate, see Figure 1) undercutting retail prices. However, for the entire year, net income from domestic downstream operations for 2001 was 30-percent higher than for 2000 as higher margins (Table 2) were augmented by higher refinery throughput (Table 1).

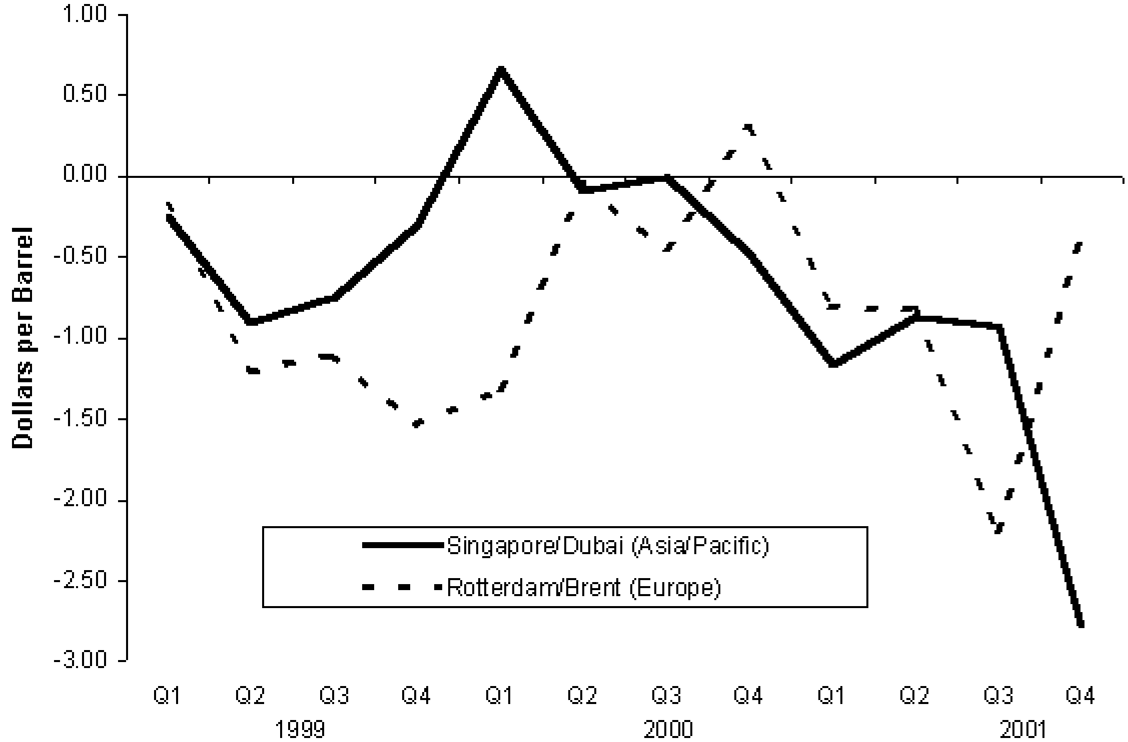
Figure 1. Quarterly U.S. Distillate Stocks, 1995-2001



Source: Energy Information Administration, *Petroleum Supply Monthly*, DOE/EIA-0109 (Washington, DC), Table 51.

Fourth-quarter earnings from foreign refining/marketing operations declined by 20 percent relative to Q400 (Table 1), with all companies reporting foreign refining/marketing results registering a decline. The lower earnings were partially due to lower industry refining margins, which were $2.29 per barrel lower in the Asia/Pacific region and 68 cents per barrel lower in Europe compared to a year earlier (Figure 2). ChevronTexaco reported that its Asia/Pacific operations generated higher margins, but that its European operations generated lower margins. Conoco reported lower refining margins in Asia and Europe, which were partially offset by higher throughput. ExxonMobil indicated that its refining margins in Europe declined while its Asia/Pacific margins remained low and product sales declined. For the year, earnings for foreign downstream petroleum reported by the U.S. majors for 2001 were 16 percent greater than those reported for 2000 as higher refinery runs (Table 1), higher marketing margins (ExxonMobil), and higher sales (Conoco) more than offset lower average refining margins.

Figure 2. Quarterly Foreign Gross Refining Margins,[a] 1999 - 2001



[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 1999 and 2000, January 2000, 2001, and 2002, and July 2001), page 12.

Worldwide Downstream Natural gas and Power

Mild weather decreases sales and lowers natural gas margins. The majors reported a 14-percent decrease in net income from worldwide downstream natural gas and power operations (Table 1) in Q401. Weather during Q401 was noticeably warmer than a year earlier (27 percent fewer heating degree days), lowering residential and commercial demand for electricity by 2 percent according to the *Short-Term Energy Outlook*. Electricity demand by industrial users declined 10 percent as GDP for Q401 was slightly lower than a year earlier, resulting in an overall 5-percent decline in domestic electricity demand. Phillips reported lower natural gas liquids prices and Williams reported lower transportation rates and margins for their pipeline operations as reasons for their earnings declines. However, the yearly results for the majors reporting net income for worldwide downstream natural gas and power were one of the bright lights for the majors, generating a 25-percent increase relative to 2000. Increased sales of services, higher trading income, and acquisition of a power station were among the reasons cited for the increased earnings.

Chemical Operations and Other Businesses

Majors' chemical operations lose money while earnings from other businesses decline. The majors reported a 129-percent decline in net income from chemical operations (Table 1). Declines in net income from chemical operations relative to Q400 were reported by all of the eight reporting companies and only ExxonMobil avoided a loss for Q401. Product prices and sales volumes fell, depressing margins and earnings. The full year results for 2001 were hardly any better, falling 82 percent relative to 2000. Declines in product prices, increases in natural gas prices, and reduced margins were year-long problems that resulted in the lower earnings.

The majors' earnings from other businesses fell by 94 percent relative to Q400 (Table 1) as four of the five companies reported lower earnings and two reported losses during Q401 for a variety of businesses, including coal (Sunoco), copper mining (ExxonMobil), and global trade (Unocal). Dominion Capital (a financial services subsidiary of Dominon Resources) was the only "other business" to record higher earnings for Q401 relative to Q400 but the year-long results were so under whelming that Dominion Resources has announced its intention to divest the business. Other businesses of the majors generated a 95-percent decline in earnings for 2001 relative to 2000 for various reasons such as lower copper prices and volumes (ExxonMobil), but most companies failed to disclose the reasons for their declines.

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1. Nine of the 10 companies that reported net income from domestic oil and natural gas production also reported domestic oil and natural gas production volumes as did 9 other companies that did not report net income attributable to those activities.

2. Note that 17 companies reported domestic liquids production and 18 reported domestic natural gas production (Table 2).

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