Financial News for Major Energy Companies, Second Quarter 2008

Second Quarter 2008 Key Findings	
Net Income	$30.4 billion
Revenues	$423.4 billion
Highlights	Major energy companies reported a 1-percent decline in net income relative to second quarter of 2007. However, this also represents a 31-percent increase relative to the second-quarter average for 2003-2007. Return on sales (net income ÷ revenue) fell from 10.5 percent in the second quarter of 2007 to 7.2 percent in the second quarter of 2008 due to the 44 percent increase in revenue.
	The effects of higher oil and natural gas prices overwhelm lower worldwide oil production and world-wide refining margins.

Overview

Nineteen major energy companies [1] reported overall net income (excluding unusual items) of $30.4 billion on revenues of $423.4 billion during the second quarter of 2008 (Q208). The level of net income for Q208 was 1-percent lower than in the second quarter of 2007 (Q207) (Table 1), but was 31-percent higher than the second-quarter average for 2003-2007 after adjusting for inflation. However, return on sales (net income ÷ revenue) fell from 10.5 percent in Q207 to 7.2 percent in Q208 due largely to the 44-percent increase in revenue. Net income for Q208 decreased as the effects of lower worldwide crude oil production, worldwide refining margins, and worldwide refinery throughput, more than offset the effects of higher crude oil and natural gas prices and greater worldwide natural gas production.

Overall, the petroleum line of business (which includes both oil and natural gas production and petroleum refining/marketing) registered a negligible increase in net income between Q207 and Q208. A $12.2-billion (50-percent) increase in worldwide oil and natural gas production net income was almost entirely matched by an 11.9-billion (78-percent) decrease in worldwide refining/marketing net income. All of the lines of business with the exception of domestic and foreign oil and natural gas production (i.e., domestic and foreign refining/marketing, and worldwide gas and power operations, and worldwide chemical operations) generated lower earnings in Q208 than in Q207. (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 Q208 increased 86 percent relative to a year earlier while the price of natural gas increased 43 percent. The imported average crude oil price increased from $62.30 per barrel in Q207 to $115.63 per barrel in Q208 (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 twenty-second time in the past twenty-four quarters (i.e., five and three-quarters years) that the price of crude oil was higher relative to the year-earlier quarter. (The first and second quarters of 2007 were the only exceptions since the second quarter of 2002.)

The average U.S. natural gas wellhead price increased from $6.89 per thousand cubic feet (mcf) in Q207 to $9.86 per mcf in Q208 (Table 2). Natural gas prices have generally fluctuated over the past two years, increasing five times relative to the year-earlier quarter and decreasing four times since the first quarter of 2006.

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)

	Q207	Q208	Percent Change[b]	First Half of 2007	First Half of 2008	Percent Change
Financial Data						
	(Millions of Dollars)		(%)	(Millions of Dollars)		(%)
Corporate						
Revenue (19)[c]	293,408	423,429	44.3	544,894	767,293	40.8
Net Income (19)	30,805	30,392	-1.3	54,727	58,697	7.3
Worldwide Net Income						
Petroleum (21)	39,312	39,639	0.8	65,358	72,767	11.3
Oil and Natural Gas Production (18)	24,167	36,358	50.4	43,266	66,884	54.6
Refining/Marketing (11)	15,145	3,281	-78.3	22,092	5,883	-73.4
Natural Gas and Power (10)	1,246	1,080	-13.3	2,300	2,545	10.6
Chemicals (6)	1,410	639	-54.7	3,005	1,856	-38.2
Domestic Net Income						
Oil and Natural Gas Production (13)	9,132	13,053	42.9	16,490	24,581	49.1
Refining/Marketing (11)	12,036	2,022	-83.2	16,871	3,491	-79.3
Foreign Net Income						
Oil and Natural Gas Production (5)	9,003	16,499	83.3	17,565	29,869	70.0
Refining/Marketing (5)	3,109	1,259	-59.5	5,221	2,392	-54.2
Operating Data						
Oil Production	(Thousands of Barrels/Day)		(%)	(Thousands of Barrels/Day)		(%)
Domestic (16)	3,098	2,998	-3.2	3,099	3,025	-2.4
Foreign (10)	5,112	4,664	-8.8	5,133	4,729	-7.9
Natural Gas Production	(Million Cubic Feet/Day)		(%)	(Million Cubic Feet/Day)		(%)
Domestic (18)	21,334	22,620	6.0	21,307	22,571	5.9
Foreign (11)	16,494	16,918	2.6	17,276	18,044	4.4
Refinery Throughput	(Thousands of Barrels/Day)		(%)	(Thousands of Barrels/Day)		(%)
Domestic (11)	11,725	11,723	0.0	11,698	11,663	-0.3
Foreign (5)	6,079	5,978	-1.7	6,257	6,039	-3.5

[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. Note that Dominion has been eliminated from the set of companies for the current and all past quarters. Further, EnCana Corporation has been added retroactively to the first quarter of 2006. The same reason underlies both changes; the companies included in this set of companies is kept as close as possible to the set of respondent companies to Form EIA-28 (Financial Reporting System (FRS)) and Dominion has left the FRS group for 2007 while EnCana has been added. For more information regarding the FRS companies, please see the Energy Finance page.

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

	Q207	Q208	Percent Change
U.S. Energy Prices[a]			
Imported Average Crude Oil Price ($/barrel)	62.30	115.63	85.6
Natural Gas Wellhead Price ($/thousand cubic feet)	6.89	9.86	43.1
U.S. Gross Refining Margin ($/barrel)[b]	29.47	12.66	-57.0

[a] Energy Information Administration, *Short-Term Energy Outlook* , (August 12, 2008), 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 gross refining margin (the per-barrel composite wholesale product price less the composite refiner acquisition cost of crude oil) was 57 percent lower in Q208 than in Q207 (Table 2). A large increase in the average price for petroleum products (from $91.77 per barrel to $128.29 per barrel) was exceeded by an even larger $53.33 per barrel increase in the price of crude oil resulting in a much lower margin.

Worldwide Petroleum Earnings

Earnings from worldwide oil and natural gas production operations (i.e., upstream operations) increased 50 percent between Q207 and Q208. Much higher domestic earnings magnified an even greater (in terms of the nominal change) increase in foreign earnings, resulting in an increase of more than $12 billion to $36.4 billion.

Overall earnings for domestic upstream operations in Q208 were 43 percent higher than in Q207 (Table 1). Domestic upstream earnings increased relative to a year earlier as the effects of higher crude oil prices, natural gas prices (Table 2), and natural gas production, overwhelmed the effects of lower crude oil production (Table 1). The results were consistent as 12 of the 13 companies that reported separate net income for domestic upstream operations reported higher earnings than a year earlier. The overwhelming reason noted in company press releases for higher earnings was higher crude oil prices and, to a lesser degree, higher natural gas prices, which were somewhat offset by higher operating costs and production levels. Alternatively, the company that reported lower earnings did so chiefly because of a large mark-to-market write-down.

Net income from foreign upstream operations in Q208 were much greater relative to Q207 (Table 1), as all five companies that reported separate net income from foreign upstream operations reported an increase in Q208 relative to Q207. The effect of lower crude oil production (in part, because of divestitures in Venezuela and production sharing agreements) put downward pressure on earnings, but was overwhelmed by the effects of higher crude oil and natural gas prices, and higher natural gas production. Company press releases noted that earnings overwhelmingly increased because of higher crude oil prices.

Earnings from worldwide refining and marketing operations (i.e., downstream operations) decreased 78 percent between Q207 and Q208 (Table 2) due to lower refining margins, and lower refinery throughput worldwide. Both domestic and foreign earnings were lower in Q208 than a year earlier and resulted in a decrease of almost $12 billion to $3.3 billion (Table 1).

Profits from domestic downstream operations in Q208 were 83 percent lower than in Q207. Putting downward pressure on earnings were the $16.81/per barrel (57 percent) decline in the industry-wide gross margin (Table 2) and a miniscule decline in refinery throughput by the included companies. The net effect of these and other factors was that U.S. refining/marketing earnings of $2 billion in Q208 were about $10 billion lower than in Q207 (Table 1). The performance of the eleven companies that reported U.S. refining/marketing earnings was consistent as all companies reported lower earnings (three of which reported losses) in Q208 than in Q207.

Higher crude oil and operating costs, lower marketing margins, reduced product sales, and trading losses were noted in press releases by the companies reporting lower earnings. [Increased losses attributable to the use of derivatives to mitigate crude oil price risk have led to a decreased use of derivatives for at least one of the companies.]

Earnings from foreign downstream operations decreased 60 percent between Q207 and Q208 (Table 1). Downward pressure on earnings from a 2-percent reduction in refinery throughput between Q207 and Q208 (Table 1), was magnified by both lower Asia/Pacific and European refining margins. Asia/Pacific margins were $3.95 per barrel lower (a fraction of the U.S. decline) and margins in Europe were $2.35 per barrel lower. All 5 companies reported lower earnings (three of which reported losses). Factors leading to lower earnings such as higher operating expenses and lower margins were noted in the press releases.

Worldwide Downstream Natural Gas and Power

Worldwide downstream natural gas and power earnings decreased 13 percent (Table 1) due to mark-to-market write-downs. The results of the two companies that reported lower earnings overwhelmed those of the seven companies reporting higher earnings than a year earlier. Lower earnings primarily were attributed to mark-to-market write-downs, with higher operating costs also mentioned. Higher earnings were due to many reasons, including higher natural gas liquids prices received, completion of a liquefied natural gas train, and expansion of operations.

Worldwide Chemical Operations

Earnings from chemical operations decreased due to lower margins. All of the six companies reporting results for this line of business recorded lower earnings, resulting in a 55-percent decline in earnings from the majors' chemical operations in Q208 relative to Q207 (Table 1). Approximately 80 percent of the reduction in earnings was due to Exxon Mobil (which accounted for 108 percent of Q208 chemical net income and 72 percent of Q207 net income) and Shell. The major reasons for lower earnings were lower margins and higher operating costs.

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 (only U.S. operations included), EOG Resources, Inc., Equitable Resources Inc., Exxon Mobil Corporation, Hess Corporation, Marathon Oil Corporation, Occidental Petroleum Corporation, Sunoco, Inc., Tesoro Corporation, Valero Energy Corporation, The Williams Companies, and XTO Energy Inc. 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.

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