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Energy Finance

Financial News for Major Energy Companies, Fourth Quarter 2007

Fourth Quarter 2007 Key Findings	
Net Income	$28.3 billion
Revenues	$329.6 billion
Highlights	24-percent increase in net income relative to fourth quarter of 2006 (31-percent increase relative to the fourth-quarter average for 2003-2006)
	effects of higher oil and natural gas prices overwhelm lower worldwide oil production and U.S. refining margins

Overview

Sixteen major energy companies [1] reported overall net income (excluding unusual items) of $28.3 billion on revenues of $329.6 billion during the fourth quarter of 2007 (Q407). The level of net income for Q407 was 24-percent higher than in the fourth quarter of 2006 (Q406) (Table 1), and was 31-percent higher than the fourth-quarter average for 2003-2006 after adjusting for inflation. Net income for Q407 increased as the effects of lower worldwide crude oil production, U.S. refining margins, and worldwide refinery throughput were overwhelmed by 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 28-percent increase in net income between Q406 and Q407. A 50-percent increase in worldwide oil and natural gas production net income overwhelmed a 35-percent decrease in worldwide refining/marketing net income. Most lines of business (domestic and foreign oil and natural gas production, foreign refining/marketing, and worldwide gas and power operations) reported higher earnings in Q407 relative to Q406 with the exception of domestic refining/marketing and worldwide chemical operations, which recorded 58-percent and 23-percent, respectively, decreases. (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 Q407 increased 54 percent relative to a year earlier while the price of natural gas increased 6 percent. The U.S. refiner average acquisition cost of imported crude oil increased from $53.39 per barrel in Q406 to $82.44 per barrel in Q407 (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 is the twentieth time in the past twenty-two quarters (i.e., five and one-half 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 $6.02 per thousand cubic feet (mcf) in Q406 to $6.38 per mcf in Q407 (Table 2). Natural gas prices have generally declined over the past year and one-half and this is only the second time that they have increased relative to the year-earlier quarter since the second quarter of 2006.

The gross refining margin (the per-barrel composite wholesale product price less the composite refiner acquisition cost of crude oil) was about 2 percent lower in Q407 than in Q406 (Table 2). A large increase in the average price for petroleum products (from $68.67 per barrel to $97.50 per barrel) was exceeded by an even larger $29.05 per barrel increase in the price of crude oil resulting in a slightly lower margin.

Comparing 2006 and 2007, the changes in the yearly averages for the prices were far more modest as the crude oil price increased by 23 percent and the natural gas price fell by less than 1 percent. However, the change in the annual average gross refining margin was greater than that of the fourth quarter, increasing by 3 percent.

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)

	Q406	Q407	Percent Change[b]	2006	2007	Percent Change
	Financial Data					
	(Millions of Dollars)		**(%)**	**(Millions of Dollars)**		**(%)**
Corporate						
Revenue (16)[c]	250,065	331,728	32.7	1,082,992	1,162,680	7.4
Net Income (16)	23,342	28,640	22.7	105,778	109,920	3.9
Worldwide Lines of Business Net Income						
Petroleum (18)	24,370	30,976	27.1	123,983	123,414	-0.5
Oil and Natural Gas Production (15)	18,251	27,015	48.0	89,927	90,393	0.5
Refining/Marketing (11)	6,119	3,961	-35.3	34,056	33,021	-3.0
Natural Gas and Power (7)	348	412	18.3	2,047	1,819	-11.1
Chemicals (6)	1,677	1,285	-23.4	6,395	5,901	-7.7
Domestic Net Income						
Oil and Natural Gas Production (10)	6,522	8,766	34.4	33,524	32,893	-1.9
Refining/Marketing (11)	4,113	1,730	-57.9	26,058	23,098	-11.4
Foreign Net Income						
Oil and Natural Gas Production (5)	8,875	12,772	43.9	37,820	39,619	4.8
Refining/Marketing (5)	2,006	2,231	11.2	7,998	9,923	24.1
	Operating Data					
Oil Production	**(Thousands of Barrels/Day)**		**(%)**	**(Thousands of Barrels/Day)**		**(%)**
Domestic (16)	3,101	3,044	-1.8	3,068	3,035	-1.1
Foreign (11)	5,250	4,882	-7.0	5,094	5,127	0.7
Natural Gas Production	**(Million Cubic Feet/Day)**		**(%)**	**(Million Cubic Feet/Day)**		**(%)**
Domestic (18)	19,957	20,792	4.2	19,450	20,138	3.5
Foreign (11)	17,081	18,623	9.0	16,779	17,329	3.3
Refinery Throughput	**(Thousands of Barrels/Day)**		**(%)**	**(Thousands of Barrels/Day)**		**(%)**
Domestic (11)	11,768	11,494	-2.3	11,944	11,462	-4.0
Foreign (5)	6,265	6,124	-2.3	6,268	6,253	-0.2

[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.

Worldwide Petroleum Earnings

Earnings from worldwide oil and natural gas production operations (i.e., upstream operations) increased 50 percent between Q406 and Q407. Much higher domestic earnings magnified a greater (both in terms of nominal and percentage changes) increase in foreign earnings, resulting in an increase of almost $9 billion to $26.7 billion. However, the full-year results for 2007 were a modest 1-percent greater than those of 2006.

Overall earnings for domestic upstream operations in Q407 were 40 percent higher than in Q406 (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).

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

	Q406	Q407	Percent Change	2006	2007	Percent Change
U.S. Energy Prices[a]						
Refiner Acquisition Cost of Imported Crude Oil ($/barrel)	53.39	82.44	54.4	59.02	72.32	22.5
Natural Gas Wellhead Price ($/thousand cubic feet)	6.02	6.38	6.0	6.41	6.39	-0.3
U.S. Gross Refining Margin ($/barrel)[b]	15.28	15.06	-1.5	19.29	19.86	3.0

[a] Energy Information Administration, *Short-Term Energy Outlook* , (December 11, 2007 and March 11, 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 results were consistent as nine of the ten 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 lower crude oil production levels. Alternatively, the company that reported lower earnings attributed them to higher production costs and lower sales.

Overall earnings for domestic upstream operations in 2007 were approximately the same as in 2006 (Table 1), declining by 0.4 percent. The effects of higher crude oil prices and natural gas production were offset by lower natural gas prices (Table 2) and crude oil production (Table 1). The results were consistent as seven of the ten companies that reported separate net income for domestic upstream operations reported lower earnings than a year ago. Company press releases noted that the companies had higher operating costs and lower crude oil production levels in 2007.

Net income from foreign upstream operations in Q407 were much greater relative to Q406 (Table 1), as all five companies that reported separate net income from foreign upstream operations reported an increase in Q407 relative to Q406. Much lower crude oil production (in part due to divestitures in Venezuela) put downward pressure on earnings, which was overwhelmed by the effects of higher crude oil prices and natural gas production. Company press releases noted that earnings increased primarily due to higher crude oil prices received. Additionally, increased demand for natural gas, and increased production of natural gas put upward pressure on earnings, which were somewhat offset by reduced crude oil production (due to Venezuelan divestitures, production-sharing agreements, asset sales, and mature field declines).

Results from foreign upstream operations for 2007 were 5 percent higher relative to those for 2006 (Table 1), as three of the five companies that reported separate net income from foreign upstream operations reported an increase. The primary reason cited for higher earnings was increased crude oil prices. Alternatively, lower crude oil production (in part due to divestitures in Venezuela) was the primary reason cited for lower earnings.

Earnings from worldwide refining and marketing operations (i.e., downstream operations) decreased 35 percent between Q406 and Q407 (Table 2) due to lower U.S. margins and lower worldwide refinery throughput. Higher foreign earnings were more than offset by even lower domestic earnings, resulting in a decrease of $2.2 billion from Q406 to $4.0 billion in Q407 (Table 1). Earnings from worldwide downstream operations were slightly lower for all of 2007 than for all of 2006 as the effects of higher worldwide margins were overwhelmed by the effects of lower refinery throughput.

Profits from domestic downstream operations decreased by 58 percent in Q407 compared to Q406. Putting downward pressure on earnings were the 2-percent decline in the industry-wide gross margin (Table 2) and the 2-percent decline in refinery output by the included companies. The net effect of these and other factors was that

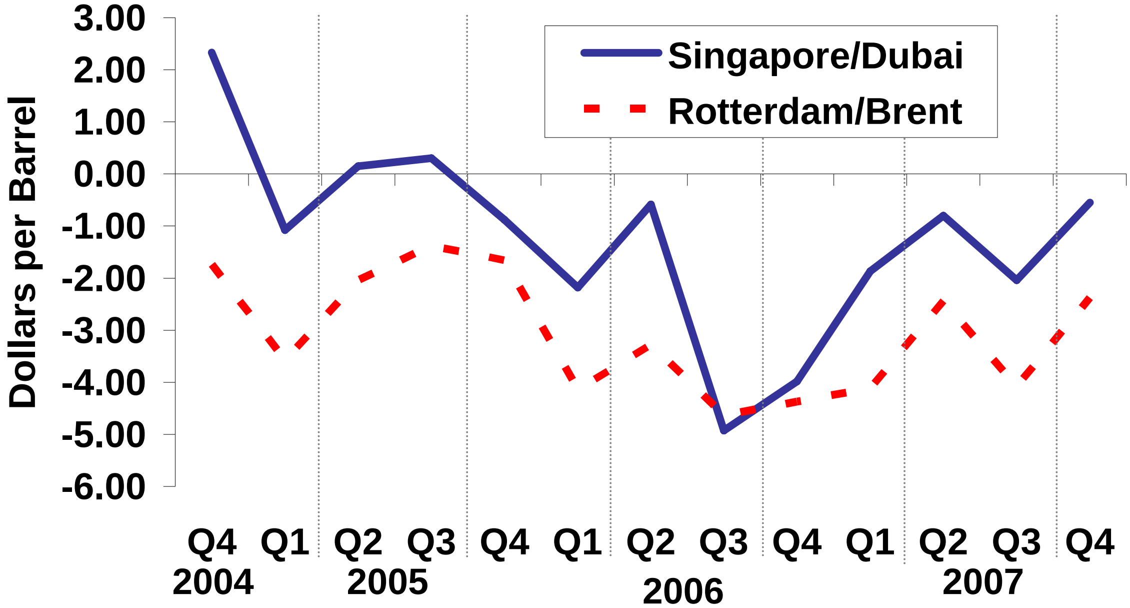
U.S. refining/marketing earnings of $1.7 billion in Q407 were about $2.4 billion lower than in Q406 (Table 1). The performance of the eleven companies that reported U.S. refining/marketing earnings was consistent as nine companies reported lower earnings (three of which reported losses) in Q407 than in Q406. Higher crude oil costs (despite increased sweet/sour crude oil differentials and less reliance on sweet/light crude oil), lower marketing margins, and trading losses were noted in press releases by the companies reporting lower earnings. The companies that reported higher earnings cited higher margins in their press releases.

Profits from domestic downstream operations for all of 2007 were 11 percent lower than for all of 2006. A slightly higher (3 percent) industry-wide gross margin (Table 2) was more than offset by a 4-percent decline in refinery output by the included companies as seven of eleven companies reported lower earnings.

Earnings from foreign downstream operations increased 11 percent between Q406 and Q407 (Table 1). Downward pressure on earnings from a 2 percent reduction in refinery throughput between Q406 and Q407 (Table 1), was more than offset by higher worldwide refining margins (Figure 1). European margins were $1.99 per barrel higher and margins in the Asia/Pacific were $3.43 per barrel higher. Higher earnings by Exxon Mobil overwhelmed lower earnings by the other four companies. Higher operating expenses and lower margins were cited in the press releases of the companies reporting lower earnings. Asset sales and accounting adjustments were among the reasons cited for Exxon Mobil's higher earnings.

Foreign downstream earnings for 2007 were 24 percent greater than in 2006 (Table 1). Essentially unchanged refinery throughput combined with higher industry-wide refining margins in both Europe (by $0.85 per barrel) and Asia/Pacific (by $1.60 per barrel) put upward pressure on earnings, which were higher for three of the five companies.

Figure 1. Quarterly Foreign Refining Margins, 2004 - 2007



Source: Energy Intelligence Group, *Oil Market Intelligence*, (June 2005, 2006, and 2007; January 2005, 2006, 2007, and 2008), page 12.

Worldwide Downstream Natural Gas and Power

Worldwide downstream natural gas and power earnings increased 18 percent (Table 1) primarily due to greater volumes and lower costs. Four of the seven companies reporting earnings reported lower earnings than a year earlier, yet their results were outweighed by the results of the three companies that reported higher earnings. Higher earnings were due to a variety of reasons, including higher natural gas liquids prices received, completion of a liquefied natural gas train, and increased pipeline rates. Lower earnings were attributed to smaller gains from trading, lower sales volumes, and unusually favorable market conditions of Q406 that did not recur in Q407.

Earnings for all of 2007 were 11 percent lower than for all of 2006. The approximate $200 million fall to $1.8 billion was due to factors such as lower margins and smaller gains from trading.

Worldwide Chemical Operations

Earnings from chemical operations decreased due to lower margins for some products, higher costs, and reduced sales. All six of the companies reporting results for this line of business recorded lower earnings (two companies reported losses in Q407), resulting in a 23-percent decline in earnings from the majors' chemical operations in Q407 relative to Q406 (Table 1). Approximately 40 percent of the reduction in earnings was due to Exxon Mobil (which accounted for 82 percent of Q407 chemical net income and 74 percent of Q406 net income). The major reason for lower earnings was lower margins, which were augmented by higher operating costs.

Companies reporting chemical earnings indicated that their earnings for all of 2007 were 8 percent lower than earnings from all of 2006. The major reason for lower earnings was lower margins, supplemented by lower output due to planned maintenance.

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 sixteen companies are Anadarko Petroleum Corporation, Apache Corporation, BP p.l.c. (only U.S. operations included), Chesapeake Energy Corporation, Chevron Corporation, ConocoPhillips Inc., Devon Energy 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, Royal Dutch Shell (only U.S. operations included), Sunoco, Inc., Tesoro Corporation, Valero Energy Corporation, and XTO Energy Inc.

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