Financial News for Major Energy Companies, First Quarter 2008

First Quarter 2008 Key Findings	
Net Income	$28.3 billion
Revenues	$343.4 billion
Highlights	Major energy companies reported an 18-percent increase in net income relative to first quarter of 2007 (42-percent increase relative to the first-quarter average for 2003-2007). Return on sales (net income ÷ revenue) fell from 9.5 percent in the first quarter of 2007 to 8.2 percent in the first quarter of 2008 due to the 37 percent increase in revenue.
	The effects of higher oil and natural gas prices overwhelm lower worldwide oil production and U.S. refining margins.

Overview

Nineteen major energy companies [1] reported overall net income (excluding unusual items) of $28.3 billion on revenues of $343.4 billion during the first quarter of 2008 (Q108). The level of net income for Q108 was 18-percent higher than in the first quarter of 2007 (Q107) (Table 1), and was 42-percent higher than the first-quarter average for 2003-2007 after adjusting for inflation. However, return on sales (net income ÷ revenue) fell from 9.5 percent in Q107 to 8.2 percent in Q108 due to the 37 percent increase in revenue. Net income for Q108 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 22-percent increase in net income between Q107 and Q108. A 57-percent increase in worldwide oil and natural gas production net income overwhelmed a 73-percent decrease in worldwide refining/marketing net income. One-half of the lines of business (domestic and foreign oil and natural gas production, and worldwide gas and power operations) reported higher earnings in Q108 relative to Q107, while the balance (domestic and foreign refining/marketing, and worldwide chemical operations) recorded 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 Q108 increased 68 percent relative to a year earlier while the price of natural gas increased 20 percent. The U.S. refiner average acquisition cost of imported crude oil increased from $53.13 per barrel in Q107 to $89.37 per barrel in Q108 (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 twenty-first time in the past twenty-three 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 $6.37 per thousand cubic feet (mcf) in Q107 to $7.61 per mcf in Q108 (Table 2). Natural gas prices have generally fluctuated over the past two years, increasing four times relative to the year-earlier quarter and decreasing four 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 about 12 percent lower in Q108 than in Q107 (Table 2). A large increase in the average

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)

	Q107	Q108	Percent Change[b]
Financial Data			
	(Millions of Dollars)		(%)
Corporate			
Revenue (19)[c]	251,487	343,393	36.5
Net Income (19)	23,922	28,306	18.3
Worldwide Lines of Business Net Income			
Petroleum (21)	26,581	32,487	22.2
Oil and Natural Gas Production (18)	19,499	30,546	56.6
Refining/Marketing (11)	7,082	1,941	-72.6
Natural Gas and Power (10)	1,121	1,541	37.4
Chemicals (6)	1,595	1,217	-23.7
Domestic Net Income			
Oil and Natural Gas Production (13)	7,401	11,539	55.9
Refining/Marketing (11)	4,822	808	-83.2
Foreign Net Income			
Oil and Natural Gas Production (5)	8,919	13,378	50.0
Refining/Marketing (5)	2,260	1,133	-49.9
Operating Data			
Oil Production	(Thousands of Barrels/Day)		(%)
Domestic (16)	3,105	3,054	-1.6
Foreign (11)	5,154	4,820	-6.5
Natural Gas Production	(Million Cubic Feet/Day)		(%)
Domestic (18)	21,279	22,545	6.0
Foreign (11)	18,065	19,193	6.2
Refinery Throughput	(Thousands of Barrels/Day)		(%)
Domestic (11)	11,455	11,226	-2.0
Foreign (5)	6,409	6,091	-5.0

[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	Q107	Q108	Percent Change
U.S. Energy Prices[a]			
Refiner Acquisition Cost of Imported Crude Oil ($/barrel)	53.13	89.37	68.2
Natural Gas Wellhead Price ($/thousand cubic feet)	6.37	7.61	19.5
U.S. Gross Refining Margin ($/barrel)[b]	17.69	15.51	-12.4

[a] Energy Information Administration, *Short-Term Energy Outlook*, (May 6, 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.

price for petroleum products (from $70.82 per barrel to $104.88 per barrel) was exceeded by an even larger $36.24 per barrel increase in the price of crude oil resulting in a lower margin.

Worldwide Petroleum Earnings

Earnings from worldwide oil and natural gas production operations (i.e., upstream operations) increased 57 percent between Q107 and Q108. Much higher domestic earnings magnified an even greater (in terms of the nominal change) increase in foreign earnings, resulting in an increase of about $11 billion to $30.5 billion.

Overall earnings for domestic upstream operations in Q108 were 56 percent higher than in Q107 (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 Q108 were much greater relative to Q107 (Table 1), as all five companies that reported separate net income from foreign upstream operations reported an increase in Q108 relative to Q107. 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 73 percent between Q107 and Q108 (Table 2) due to lower U.S. and Asia/Pacific margins, and lower worldwide refinery throughput. Both domestic and foreign earnings were lower in Q108 than a year earlier and resulted in a decrease of more than $5 billion to $1.9 billion (Table 1).

Profits from domestic downstream operations in Q108 were 83 percent lower than in Q107. Putting downward pressure on earnings were the 12-percent decline in the industry-wide gross margin (Table 2) and the 2-percent decline in refinery throughput by the included companies. The net effect of these and other factors was that U.S. refining/marketing earnings of $0.8 billion in Q108 were about $4 billion lower than in Q107 (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 Q108 than in Q107. Higher crude oil and operating costs, lower marketing margins, trading losses, refinery outages, and reduced product sales were noted in press releases by the companies reporting lower earnings.

Earnings from foreign downstream operations decreased 50 percent between Q107 and Q108 (Table 1). Downward pressure on earnings from a 5 percent reduction in refinery throughput between Q107 and Q108 (Table 1), was magnified by lower Asia/Pacific refining margins and barely offset by slightly higher European refining margins. Asia/Pacific margins were $2.48 per barrel lower, while margins in Europe were $0.17 per barrel higher. All 5 companies reported lower earnings. Factors leading to lower earnings such as higher operating expenses, lower margins, and refinery outages were noted in the press releases.

Worldwide Downstream Natural Gas and Power

Worldwide downstream natural gas and power earnings increased 37 percent (Table 1) due to a variety of reasons. Eight of the ten companies reporting earnings reported higher earnings than a year earlier. Higher earnings were due to many reasons, including higher natural gas liquids prices received, completion of a liquefied natural gas train, increased pipeline rates, and expansion of operations. Little explanation was provided by the companies reporting lower earnings than a year earlier.

Worldwide Chemical Operations

Earnings from chemical operations decreased due to higher costs. Four of the six companies reporting results for this line of business recorded lower earnings, resulting in a 24-percent decline in earnings from the majors' chemical operations in Q108 relative to Q107 (Table 1). Approximately 55 percent of the reduction in earnings was due to Exxon Mobil (which accounted for 84 percent of Q108 chemical net income and 77 percent of Q107 net income). The major reason for lower earnings was lower margins, which were chiefly due to higher raw materials (primarily natural gas) prices, and reduced sales.

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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