U.S. Energy Information Administration
Independent Statistics and Analysis

Financial News for Major Energy Companies, Fourth Quarter 2002

Twenty major energy companies[1] reported overall net income (excluding unusual items) of $6.6 billion on revenues of $149 billion during the fourth quarter of 2002 (Q402). The level of net income for Q402 was 296 percent higher than in the fourth quarter of 2001 (Q401) (Table 1). The overall increase in net income was due primarily to higher crude oil and natural gas prices.

Overall, the petroleum line of business registered a 47-percent increase in net income between Q401 and Q402, as declines in refining/marketing net income were more than offset by increases in oil and gas production net income. Returns to worldwide gas and power operations increased, while losses from chemicals operations declined, but earnings from other businesses declined relative to a year earlier. (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

Oil and natural gas prices each increase relative to prices of a year ago. The world oil price (as represented by the U.S. refiner average acquisition cost of imported crude oil) increased 50 percent relative to a year ago, going from $16.94 per barrel in Q401 to $25.39 per barrel in Q402 (Table 2). As indicated in the latest *Short-Term Energy Outlook* (*STEO*) of the Energy Information Administration, upward pressure was exerted on crude oil prices by a 3-percent expansion in the U.S. economy, which contributed to the 2-percent increase in world petroleum demand. Concurrently, world petroleum supply increased by a slightly smaller 1 percent. The growth in demand relative to supply exerted upward pressure on world oil prices. Market conditions in the United States (slightly more than a 2-percent increase in petroleum demand, combined with an almost 1-percent decline in petroleum supply, and a 7-percent decline in crude oil stocks relative to a year ago (Figure 1)) added to the upward pressure on crude oil prices. This was the second consecutive quarter in which crude oil prices increased relative to their year-earlier levels, after eight consecutive quarters of falling or unchanged crude oil prices.

The average U.S. natural gas wellhead price increased 44 percent between Q402 and Q401 (Table 2). This marked the second consecutive quarter that natural gas prices have increased relative to a year earlier following six consecutive quarters of falling prices (relative to a year earlier). As indicated in the latest *STEO*, cooler weather than a year earlier (i.e., 20 percent more heating degree days in the United States) stimulated both an increase in natural gas-fired power generation (which increased 14 percent compared to a year earlier), and a more general 8-percent increase in U.S. natural gas demand. Increased imports (18 percent higher than in Q401) and reduced working natural gas in storage (3 percent higher at the beginning of the quarter and 18 percent lower at the end of the quarter relative to Q401 were insufficient to prevent higher natural gas prices.

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

	Q401	Q402	Percent Change	2001	2002	Percent Change
Financial Information						
Corporate	(Millions of Dollars)			(Millions of Dollars)		
Revenue (20)	114,948	149,053	29.7	536,768	527,596	-1.7
Net Income (20)	1,657	6,562	296.0	36,716	19,857	-45.9
Lines of Business						
Petroleum (22)	6,300	9,229	46.5	52,559	29,041	-44.7
Chemicals (9)	-74	-36	-51.0	315	835	165.0
Gas and Power (5)	321	413	28.7	1,847	1,494	-19.1
Coal and Other Businesses (3)	125	-13	-110.4	568	352	-38.0
Domestic Income by Function						
Oil and Gas Production (8)	1,722	3,593	108.6	17,739	4,791	-73.0
Refining/Marketing (11)	839	645	-23.1	7,541	468	-93.8
Foreign Income by Function						
Oil and Gas Production (5)	2,020	3,631	79.8	11,681	11,771	0.8
Refining/Marketing (3)	790	379	-52.0	3,067	840	-72.6
Operating Information						
Crude Oil and Natural Gas Liquids Production	(Thousands of Barrels Per Day)			(Thousands of Barrels Per Day)		
Domestic (16)	4,031	3,775	-6.4	3,879	3,871	-0.2
Foreign (13)	4,791	4,776	-0.3	4,259	4,488	5.4
Natural Gas Production	(Millions of Cubic Feet Per Day)			(Millions of Cubic Feet Per Day)		
Domestic (16)	20,872	19,251	-7.8	20,128	19,539	-2.9
Foreign (13)	18,159	18,604	2.5	14,829	16,985	14.5
Refinery Throughput by Location	(Thousands of Barrels Per Day)			(Thousands of Barrels Per Day)		
Domestic (12)	10,677	11,417	6.9	11,171	11,158	-0.1
Foreign (4)	5,468	5,458	-0.2	5,234	5,213	-0.4

[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 natural gas production or refining/marketing operations includes both companies reporting domestic and foreign operations separately and those that merely report oil and natural gas operations or refining/marketing operations with no separation of 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. So, too, for refining/marketing operations.

Sources: Company press releases and financial disclosures.

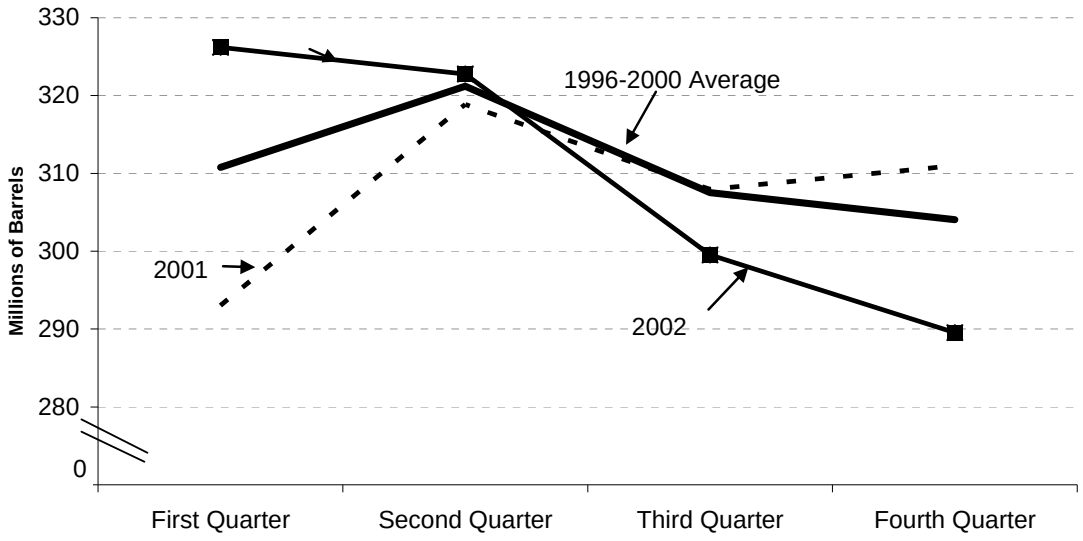
Table 2. U.S. Energy Prices and the U.S. Gross Refining Margin

	Q401	Q402	Percent Change
U.S. Energy Prices[a]			
Refiner Acquisition Cost of Imported Crude Oil ($/barrel)	16.94	25.39	49.9
Natural Gas Wellhead ($/thousand cubic feet)	2.50	3.60	44.0
U.S. Gross Refining Margin[b] ($/barrel)	8.17	8.76	7.2

[a]Energy Information Administration, *Short Term Energy Outlook* (STEO), (Washington, DC, March 6, 2003), Table 4 and STEO (Washington, DC, December 9, 2002), 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 and the December 9, 2002 STEO 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.

Figure 1. Quarterly U.S. Crude Oil Stocks, 1996-2000, 2001, and 2002



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

Worldwide Petroleum News

Earnings from worldwide oil and natural gas production operations increased 76 percent as higher foreign earnings augmented higher domestic earnings. Overall earnings for domestic oil and natural gas exploration, development, and production operations (i.e., domestic upstream operations) in Q402 more than doubled those of Q401 (Table 1). Domestic upstream earnings increased relative to a year ago as slightly lower crude oil production by the U.S. majors reporting crude oil production (Table 1) was

more than offset by higher crude oil prices (Table 2). Similarly, domestic natural gas prices increased while production levels fell 4 percent in Q402 relative to Q401. BP, ChevronTexaco, and ExxonMobil accounted for almost all of the increase in earnings for this line of business, despite lower crude oil and natural gas production relative to Q401. Several reasons were given for lower production levels, including Gulf of Mexico storms, Alaskan earthquakes, divestitures, and naturally-occurring declines in field production. All of the eight companies reporting separate net income for domestic upstream operations reported higher earnings in Q402 relative to Q401, citing higher oil prices received despite lower production levels in their earnings press releases. (Note 1)

Net income from foreign upstream operations increased 80 percent relative to Q401, as all of the 5 companies that reported separate net income from foreign upstream operations reported an increase. Higher crude oil prices (Table 2) were marginally offset by essentially flat foreign crude oil production (Table 1). Higher natural gas production in Q402 relative to Q401 further contributed to higher foreign upstream earnings. The increased natural gas production was chiefly due to acquisitions that occurred during or since Q401. Companies that were net acquirers included Anadarko, Apache, and Burlington. However, excluding these acquisitive companies still results in a nearly 6-percent increase in foreign natural gas production in Q402 compared to a year earlier. Among the remaining companies, reasons given for their production increases include the opening of new production fields.

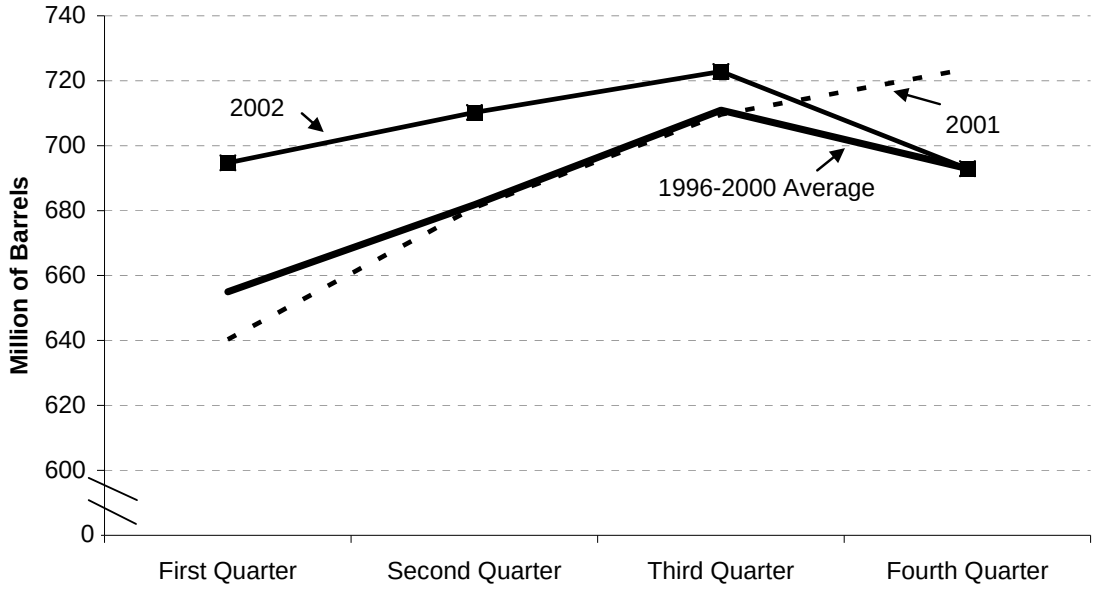
Earnings from worldwide downstream petroleum operations declined in the face of higher crude oil prices, despite higher industry-wide refining margins. Both U.S. and foreign downstream petroleum operations of the U.S. majors recorded lower net income in Q402 than in Q401, with foreign operations recording the larger decline.

The U.S. gross refining margin (the per-barrel composite wholesale product price less the composite refiner acquisition cost of crude oil) in Q402 was 16 percent higher than in Q401 (Table 2). Lower levels of refined product stocks in Q402 than in Q401 (Figure 2) put upward pressure on product prices, which increased 40 percent from a year earlier (calculated by adding the price of crude oil and the gross refining margin in Table 2)

A 7-percent increase in domestic refinery throughput relative to Q401 by U.S. majors reporting domestic refinery throughput (Table 1) should have magnified the benefits of the higher refining margins and resulted in higher net income than a year earlier. However, U.S. downstream net income actually fell 25 percent relative to Q401 (Table 1) as the results of three companies with large West Coast operations (i.e., more than half of the corporate refining capacity of each is located on the West Coast) dominated the results of the remaining companies. (Note 1) These three companies all reported losses from domestic refining/marketing in Q402 and indicated that the chief reason was low West Coast refining margins. Excluding the results of these three companies results in a 39-percent increase in net earnings for domestic downstream, a result that is consistent with higher refining margins and increased refinery throughput. (Exclusive of the three West Coast refiners, refinery throughput reported by the U.S. majors increased 3 percent.)

Fourth-quarter earnings from foreign downstream operations fell 52 percent relative to Q401 (Table 1) as the company-level and industry-wide stories diverged. All three of the companies that reported separate foreign refining/marketing results reported lower net

Figure 2. Quarterly U.S. Petroleum Product Stocks, 1996-2000, 2001, and 2002



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

income from these operations, with two reporting losses. Losses were partially due to foreign currency losses and an extended shutdown of a U.K. refinery. These corporate results occurred in a relatively favorable industry environment that recorded higher refining margins in Q402 than in Q401 (Figure 3), increasing by $2.94 per barrel in the Asia/Pacific region and by 53 cents per barrel in Europe compared to a year earlier.

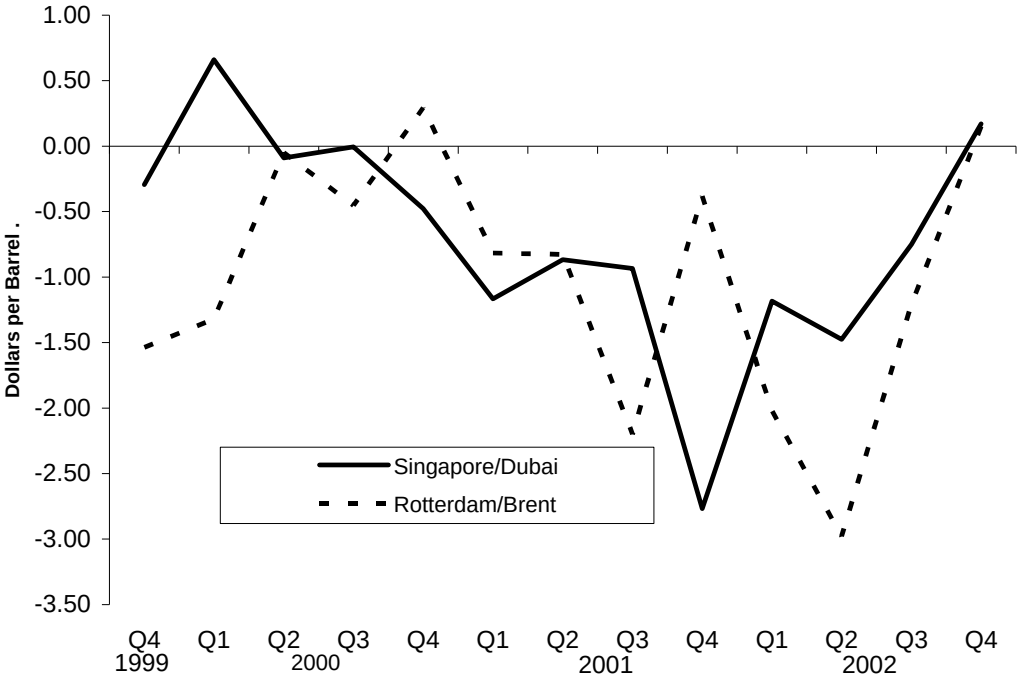
Worldwide Downstream Natural Gas and Power

Worldwide downstream natural gas and power records a 24-percent increase in earnings relative to a year ago due to increased demand for electricity and natural gas. Increased demand for domestic electricity (6 percent) and natural gas (8 percent) in Q402 relative to Q401 led to four of the six companies reporting higher earnings in Q402 than in Q401. Higher earnings also were due to higher earnings and prices from LNG operations and acquisitions (a power plant, an LNG facility, and an oil and gas production company). The two companies that reported lower net income in Q402 than in Q401 noted that ".... predevelopment costs associated with emerging integrated gas projects" contributed to their lower earnings. (Note 2)**.**

Chemical Operations and Other Businesses

Losses from majors' chemical operations reduced by higher margins and sales. The majors reported losses of $36 million from chemical operations in Q402, an improvement from the losses of $74 million in Q401 (Table 1). The company results were mixed; one of the nine companies reported larger losses than a year earlier, three reported smaller losses, one company reported lower earnings, and four companies

Figure 3. Quarterly Foreign Refining Margins, 1999 - 2002



Source: Energy Intelligence Group, *Oil Market Intelligence* (January 2000, 2001, 2002; June 2000, 2001, and 2002; and January 2003), p. 12.

reported higher earnings (some of which had reported losses a year earlier). Lower margins and higher energy costs were among the reasons given for the higher losses/lower earnings. Alternatively, higher sales volumes and margins, and lower costs were cited as reasons for the lower losses/higher earnings.

The majors' earnings from assorted other businesses fell from $125 million of earnings in Q401 to $13 million of losses in Q402 (Table 1), chiefly because of ExxonMobil's exit from its mining operations. ExxonMobil's mining operations had dominated the results in recent periods (accounting for 90 percent of Q302 earnings and 92 percent of Q401 earnings).

[1] Amerada Hess Corporation, Anadarko Petroleum Corporation, Apache Corporation, BP p.l.c. (only U.S. operations included), Burlington Resources, Inc., ChevronTexaco Corporation, ConocoPhillips Inc., Devon Energy Corporation, Dominion Resources, Inc., EOG Resources, Inc., Exxon Mobil Corporation, Kerr McGee Corporation, Lyondell Chemical Company, Marathon Oil Corporation, Occidental Petroleum Corporation, Premcor Inc., Royal Dutch/Shell Group (only U.S. operations included), Sunoco, Inc., Tesoro Petroleum Corporation, Unocal Corporation, Valero Energy Corporation, and XTO Energy, Inc. (new for Q402).
Note 1. The three companies and their percentages are: ChevronTexaco, 58.1 percent; Shell Oil, 77.6 percent; and Tesoro, 70.7 percent.
Note 2. El Paso and Williams reported their fourth quarter earnings too late for inclusion in this report. During Q302 these companies accounted for 2.1 percent of the earnings for this line of business, mainly because Williams recorded a loss almost as large as El Paso's earnings. In Q401 their share was 73.2 percent.

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