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Energy Finance

Financial News for Major Energy Companies, Fourth Quarter 2008

Fourth Quarter 2008 Key Findings	
Net Income	$5.8 billion
Revenues	$236.1 billion
Highlights	Major energy companies reported a 78-percent decrease in net income relative to fourth quarter of 2007. Further, this represents a 73-percent decrease relative to the fourth-quarter average for 2003-2007. Return on sales (net income ÷ revenue) decreased from 8.3 percent in the fourth quarter of 2007 to 2.5 percent in the fourth quarter of 2008 due to the 78 percent decrease in net income.
	The effects of higher U.S. refining margins and foreign oil production were overwhelmed by lower oil and natural gas prices, lower U.S. oil production, and lower worldwide natural gas production.

Overview

Twelve major energy companies [1] reported overall net income (excluding unusual items) of $5.8 billion on revenues of $236.1 billion during the fourth quarter of 2008 (Q408). The level of net income for Q408 was 78-percent lower than in the fourth quarter of 2007 (Q407) (**Table 1**) and was 73-percent lower than the fourth-quarter average for 2003-2007 after adjusting for inflation. Further, return on sales (net income ÷ revenue) fell from 8.3 percent in Q407 to 2.5 percent in Q408 due largely to the 78-percent decrease in net income. Net income for Q408 decreased as the effects of higher U.S. refining margins and foreign crude oil production were overwhelmed by reduced oil and natural gas prices, U.S. oil production, worldwide natural gas production, and U.S. refinery throughput. This is the lowest net income recorded by this set of companies since the second quarter of 2002 after adjusting for inflation.

Overall, the petroleum line of business (which includes both oil and natural gas production and petroleum refining/marketing) in Q408 saw net income decline 70 percent from the level of Q407. A $17.4-billion (73 percent) decrease in worldwide oil and natural gas production net income was exacerbated by a 2.1-billion (55 percent) decrease in worldwide refining/marketing net income. All of the lines of business, with the exception of foreign refining/marketing operations (i.e., domestic and foreign oil and gas production, domestic refining/marketing, worldwide gas and power operations, and worldwide chemical operations), generated lower earnings in Q408 than in Q407. (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 imported average crude oil price for Q408 dropped almost $30 per barrel (36 percent) relative to a year earlier (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 third time in the past twenty-six quarters (i.e., six and one-half years) that the price of crude oil was lower relative to the year-earlier quarter. (The first and second quarters of 2007 were the only other exceptions since the second quarter of 2002.)

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)

	Q407	Q408	Percent Change[b]	2007	2008	Percent Change
Financial Data						
	(Millions of Dollars)		(%)	(Millions of Dollars)		(%)
Corporate						
Revenue (12)[c]	315,152	236,099	-25.1	1,103,760	1,353,168	22.6
Net Income (12)	26,266	5,806	-77.9	97,717	100,228	2.6
Worldwide Net Income						
Petroleum (14)	27,766	8,275	-70.2	109,522	121,488	10.9
Oil and Natural Gas Production (12)	23,974	6,564	-72.6	79,154	104,862	32.5
Refining/Marketing (9)	3,792	1,711	-54.9	30,368	16,626	-45.3
Natural Gas and Power (6)	536	464	-13.5	2,090	2,441	16.8
Chemicals (6)	1,285	166	-87.1	5,922	3,326	-43.8
Domestic Net Income						
Oil and Natural Gas Production (8)	7,135	3,685	-48.4	26,106	37,086	42.1
Refining/Marketing (9)	1,574	-2,555	-262.3	21,947	6,890	-68.6
Foreign Net Income						
Oil and Natural Gas Production (5)	12,438	8,198	-34.1	38,835	53,120	36.8
Refining/Marketing (5)	2,218	4,266	92.3	9,364	10,300	10.0
Worldwide Capital Expenditures						
U.S. Oil and Natural Gas Production (7)	6,214	9,596	54.4	22,336	34,933	56.4
Foreign Oil and Natural Gas Production (4)	8,184	8,543	4.4	28,253	33,309	17.9
Worldwide[d] Oil and Natural Gas Production (11)	20,332	29,754	46.3	70,453	98,695	40.1
Worldwide Refining/Marketing (8)	4,613	5,990	29.9	14,150	19,876	40.5
Operating Data						
Oil Production	(Thousands of Barrels/Day)		(%)	(Thousands of Barrels/Day)		(%)
Domestic (11)	2,816	2,740	-2.7	2,822	2,697	-4.4
Foreign (9)	4,704	4,795	1.9	4,811	4,580	-4.8
Natural Gas Production	(Million Cubic Feet/Day)		(%)	(Million Cubic Feet/Day)		(%)
Domestic (12)	15,823	14,736	-6.9	15,661	15,799	0.9
Foreign (7)	17,596	17,128	-2.7	16,245	16,705	2.8
Refinery Throughput	(Thousands of Barrels/Day)		(%)	(Thousands of Barrels/Day)		(%)
Domestic (9)	11,104	10,740	-3.3	11,040	10,768	-2.5
Foreign (5)	6,247	6,384	2.2	6,303	6,008	-4.7

[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.

[d] U.S. and foreign oil and natural gas capital expenditures do not necessarily sum to the worldwide total due to the manner in which these data are disclosed (i.e., some companies fail to separate their capital spending into domestic and foreign, but simply provide a worldwide total).

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.

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

	Q407	Q408	Percent Change	2007	2008	Percent Change
U.S. Energy Prices[a]						
Imported Average Crude Oil Price ($/barrel)	82.44	52.60	-36.2	67.13	92.57	37.9
Natural Gas Wellhead Price ($/thousand cubic feet)	6.39	6.06	-5.2	6.39	8.08	26.4
U.S. Gross Refining Margin ($/barrel)[b]	13.69	20.83	52.1	19.89	17.78	-10.6

[a] Energy Information Administration, *Short-Term Energy Outlook* , (February 10, 2009), 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 average U.S. natural gas wellhead price declined from $6.39 per thousand cubic feet (mcf) in Q407 to $6.06 per mcf in Q408, a decrease of 5 percent (Table 2). Natural gas prices have generally fluctuated over the past two years, decreasing five times relative to the year-earlier quarter and increasing six 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 52 percent higher in Q408 than in Q407 (**Table 2**). The average price for petroleum products declined by almost $23 per-barrel, but was exceeded by the almost $30 per-barrel decrease in the price of crude oil and resulted in a much larger margin.

For the entire year of 2008, crude oil and natural gas prices increased relative to 2007 (**Table 2**). Meanwhile, refining margins fell as the increase in average product prices was exceeded by the increase in crude oil prices. The average price for petroleum products increased by more than $23 per-barrel, but the price of crude oil increased by more than $25 per-barrel and resulted in a smaller margin.

Worldwide Petroleum Earnings

Earnings from worldwide oil and natural gas production operations (i.e., upstream operations) for Q408 were substantially less than the year earlier level. Lower domestic earnings magnified an even greater (in terms of the nominal change) decrease in foreign earnings, resulting in a decrease of more than $17 billion to $6.6 billion. However, the story for all of 2008 was quite different as domestic earnings increased almost $11 billion and foreign earnings increased more than $14 billion on the strength of higher oil and gas prices and slightly higher natural gas production.

Earnings for **domestic upstream** operations in Q408 were 48 percent lower than in Q407 (**Table 1**). Domestic upstream earnings decreased relative to a year earlier as the effects of lower crude oil and natural gas prices (**Table 2**), and lower crude oil and natural gas production formed an overwhelming combination. The results were consistent as all 8 of the companies that reported separate net income for domestic upstream operations reported lower earnings than a year earlier, with 2 reporting losses. The overwhelming reason noted in company press releases for lower earnings was lower crude oil and natural gas prices, and lower crude oil production, which was partly due to shut-in production because of hurricanes during the third quarter of 2008 and divestitures.

Domestic upstream earnings for 2008 were considerably higher (42 percent) than for 2007 (**Table 1**). The effects of higher crude oil and natural gas prices (**Table 2**), and higher natural gas production offset the effects of lower crude oil production.

Net income from **foreign upstream** operations in Q408 was more than $4 billion lower than in Q407 (**Table 1**), as four of the five companies that reported separate net income from foreign upstream operations reported a decrease in earnings. The effects of lower crude oil and natural gas prices, and lower natural gas production put downward pressure on earnings, which more than offset the upward pressure from higher crude oil production. Company press releases noted that earnings overwhelmingly dropped because of lower crude oil prices. The solitary company reporting higher earnings did so due to the absence of a loss from its oil sands operations.

Foreign upstream earnings for 2008 were more than $14 billion higher than in 2007 (**Table 1**). The effects of higher crude oil and natural gas prices and higher natural gas production overwhelmed the effects of lower crude oil production.

Earnings from worldwide refining and marketing operations (i.e., downstream operations) decreased 55 percent between Q407 and Q408 (Table 2) despite increased foreign earnings. Domestic and foreign refining/marketing earnings moved in opposite directions in Q408 relative to a year earlier and resulted in a decrease of more than $2 billion to $1.7 billion (**Table 1**).

Profits from **domestic downstream** operations in Q408 were more than two and one-half times lower than in Q407. Putting upward pressure on earnings was a $7 per-barrel (52 percent) increase in the industry-wide gross margin (Table 2). However, other factors such as reduced refinery throughput by the included companies put overwhelming offsetting pressure on earnings. The net effect of these and other factors was that U.S. refining/marketing earnings in Q408 were more than $4 billion lower than in Q407 (**Table 1**). The performance of the nine companies that reported U.S. refining/marketing earnings was somewhat consistent as six of the companies reported lower earnings in Q408 than in Q407. Lower corporate refinery throughput and sales, and lower Gulf and West Coast refining margins were noted in press releases by the companies reporting lower earnings. The three companies that reported higher earnings indicated higher refining and marketing margins among the reasons for increased profits.

Domestic downstream earnings for all of 2008 were 69 percent lower than for 2007. A lower industry wide refining margin (Table 2) and refinery throughput (**Table 1**) combined to create an environment in which annual earnings fell by more than $15 billion, comparing 2008 to 2007.

Earnings from **foreign downstream** operations increased 92 percent between Q407 and Q408 (**Table 1**). European and Asia/Pacific refining margins increased along with refinery throughput, putting upward pressure on earnings. Against this consistent industry background, all 5 companies reported higher earnings than a year earlier. Factors leading to higher earnings, such as higher refining and sales margins and derivatives gains, were noted in the press releases.

Foreign downstream earnings were 10 percent higher in 2008 than in 2007 (**Table 1**). European refining margins increased, but Asia/Pacific margins fell along with refinery throughput. The net effect of these and other effects were earnings that increased almost $1 billion.

Worldwide Downstream Natural Gas and Power

Worldwide downstream natural gas and power earnings declined 14 percent (Table 1) due to lower prices received and higher operating costs. The results were roughly consistent as 4 of the 6 companies that provided earnings information reported lower earnings in Q408 than in Q407. Lower earnings were attributed to higher operating costs, lower commodity prices, and decreased sales volume in company press releases. The companies reporting higher earnings cited higher margins, pipeline income, and trading earnings.

Worldwide downstream natural gas and power earnings for all of 2008 were 17 percent higher than in 2007 (**Table 1**).

Worldwide Chemical Operations

Earnings from chemical operations decreased due to lower sales volumes and margins. Five of the six companies reporting results for this line of business recorded lower earnings, resulting in an 87-percent decline in earnings from the majors' chemical operations relative to Q407 (**Table 1**). Among the reasons given for lower earnings were lower commodity margins, lower sales volumes, asset write-downs, and increased operating costs. The company reporting higher earnings cited higher margins on caustic soda.

Chemical earnings for all of 2008 were 44 percent lower than for all of 2007. Reasons for the $2.6 billion decline included lower commodity margins, lower sales volume, 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 fourteen companies are Anadarko Petroleum Corporation, Chevron Corporation, ConocoPhillips Inc., Devon Energy Corporation, EOG Resources, Inc., EQT Corporation (formerly Equitable Resources Inc.), Exxon Mobil Corporation, Hess Corporation, Marathon Oil Corporation, Occidental Petroleum Corporation, Sunoco, Inc., and Valero Energy Corporation. 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 14, rather than 12.

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