Financial News for Major Energy Companies, Second Quarter 2006

Overview
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. Twenty-one major energy companies[1] reported overall net income (excluding unusual items) of $30.1 billion on revenues of $297.1 billion during the second quarter of 2006 (Q206). The level of net income for Q206 was 36 percent higher than in the second quarter of 2005 (Q205) (Table 1). Net income for Q206 increased primarily as a result of higher crude oil prices, higher U.S. refining margins, increased foreign oil and natural gas production, and higher foreign refinery throughput.

Overall, the petroleum line of business (which includes both oil and natural gas production and petroleum refining/marketing) registered a 29-percent increase in net income between Q205 and Q206. A 22-percent increase in oil and gas production net income augmented the 50-percent increase in refining/marketing net income. All lines of business reported higher earnings in Q206 relative to Q205 with the exception of worldwide chemicals. (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 of Q206 increased by more than one-third relative to the prices of a year ago while the price of natural gas was unchanged. The U.S. refiner average acquisition cost of imported crude oil increased 38 percent relative to a year ago, from $45.91 per barrel in Q205 to $63.19 per barrel in Q206 (Table 2). (See the current and recent issues of the *Short-Term Energy Outlook* for explanation of these price changes.) This was the sixteenth consecutive quarter in which crude oil prices increased relative to their year-earlier levels, after six consecutive quarters of falling or unchanged crude oil prices (relative to a year earlier).

The average U.S. natural gas wellhead price was unchanged between Q205 and Q206, at $6.20 per thousand cubic feet (Table 2). (See the current and recent issues of the *Short-Term Energy Outlook* for explanation of these price changes.) This was the ninth consecutive quarter in which natural gas prices increased or were unchanged relative to their year-earlier levels.

Worldwide Petroleum Earnings
Earnings from worldwide oil and natural gas production operations (i.e., upstream operations) increased 22 percent between Q205 and Q206. The increase in domestic earnings augmented a substantially larger (in terms of both nominal and percentage changes) increase in foreign earnings.

Overall earnings for domestic upstream operations in Q206 were 8 percent higher than in Q205 (Table 1). Domestic upstream earnings increased relative to a year ago as the effects of higher crude oil prices (Table 2) overwhelmed the effects of reduced production. A 10-percent decline in domestic crude oil production was accompanied by essentially unchanged (declined by less than 1 percentage point) domestic natural gas production by those U.S. majors reporting crude oil and/or natural gas production (Table 1). The results were mixed as slightly more than half of the 13 companies that reported separate income for domestic upstream operations recorded higher earnings than a year ago. Higher earnings were attributed to commodity prices that were either magnified by higher production levels (due to drilling efforts and acquisitions), or that outweighed

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)

	Q205	Q206	Percent Change	2005	2006	Percent Change
	Financial Data (Millions of Dollars)		**(%)**	**(Millions of Dollars)**		**(%)**
Corporate						
Revenue (20)	264,814	297,080	12.2	497,395	573,239	15.2
Net Income (20)	22,224	30,147	35.7	41,671	54,169	30.0
Worldwide Lines of Business Net Income						
Petroleum (22)	29,601	38,266	29.3	53,840	69,314	28.7
Oil and Gas Production (18)	21,714	26,462	21.9	41,803	52,115	24.7
Refining/Marketing (11)	7,886	11,804	49.7	13,507	17,198	27.3
Gas and Power (10)	827	1,366	65.2	3,037	3,823	25.9
Chemicals (8)	1,867	1,810	-3.0	4,561	3,864	-15.3
Domestic Net Income						
Oil and Gas Production (13)	8,769	9,495	8.3	17,168	19,311	12.5
Refining/Marketing (11)	5,867	9,534	62.5	10,136	13,652	34.7
Foreign Net Income						
Oil and Gas Production (5)	7,267	10,613	46.0	14,317	19,956	39.4
Refining/Marketing (5)	2,019	2,270	12.4	3,371	3,546	5.2
	Operating Data					
Oil Production	**(Thousands of Barrels/Day)**		**(%)**	**(Thousands of Barrels/Day)**		**(%)**
Domestic (17)	3,580	3,241	-9.5	3,570	3,174	-11.1
Foreign (12)	4,812	5,184	7.7	4,815	5,075	5.4
Natural Gas Production	**(Million Cubic Feet/Day)**		**(%)**	**(Million Cubic Feet/Day)**		**(%)**
Domestic (19)	20,898	20,792	-0.5	20,628	20,051	-2.8
Foreign (14)	16,272	16,580	1.9	16,806	17,541	4.4
Refinery Throughput	**(Thousands of Barrels/Day)**		**(%)**	**(Thousands of Barrels/Day)**		**(%)**
Domestic (11)	12,825	12,373	-3.5	14,243	13,998	-1.7
Foreign (5)	5,871	6,134	4.5	5,902	6,162	4.4

[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] 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.

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

	Q205	Q206	Percent Change
U.S. Energy Prices[a]			
Refiner Acquisition Cost of Imported Crude Oil ($/barrel)	45.91	63.19	37.6
Natural Gas Wellhead Price ($/thousand cubic feet)	6.20	6.20	0.0
U.S. Gross Refining Margin ($/barrel)[b]	17.78	24.66	38.7

[a] Energy Information Administration, Short-Term Energy Outlook, (Washington, DC, August 8, 2006), 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: The U.S. Gross Refining Margin is the difference between the composite wholesale product price and the composite refiner acquisition cost of crude oil.

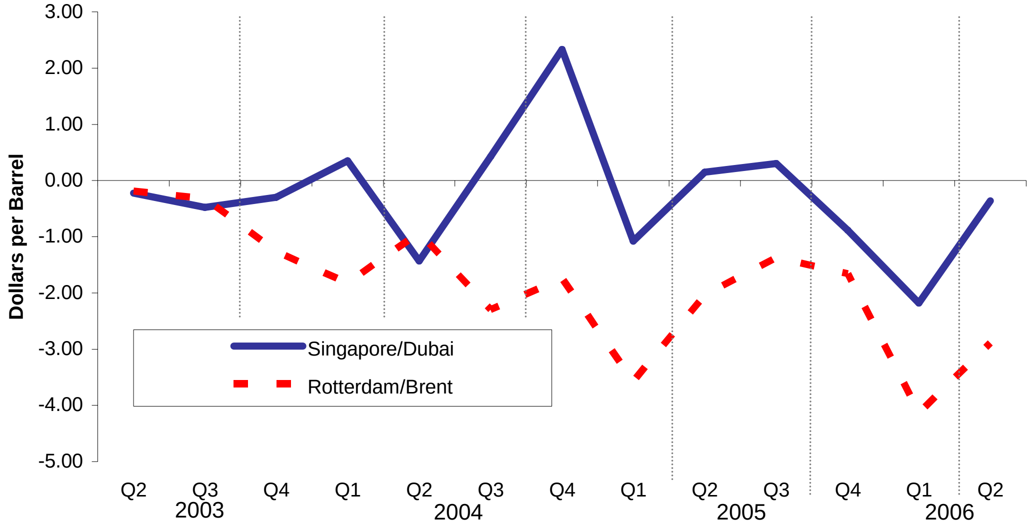
the effect of lower production levels (due to lingering effects of Hurricanes Katrina and Rita, natural field declines, and divestitures). The balance of the companies reported lower earnings, citing lower production levels due to lingering effects of Hurricanes Katrina and Rita, field degradation, and higher operating costs.

Net income from foreign upstream operations increased 46 percent relative to Q205 (Table 1), as all five companies that reported separate net income from foreign upstream operations reported an increase in Q206 relative to Q205. Foreign earnings primarily grew on the strength of higher crude oil prices (Table 2). Additionally, the 8-percent increase in foreign crude oil production and the 2-percent increase in natural gas production both put upward pressure on earnings. Company press releases noted that higher prices for both crude oil and natural gas were augmented in some cases by increased production, which was due to reasons such as bringing new production on-line, increased production from previously existing fields, and asset acquisitions.

Earnings from worldwide refining and marketing operations (i.e., downstream operations) increased 50 percent between Q205 and Q206 as higher U.S. margins and increased foreign refinery throughput offset lower U.S. refinery throughput and reduced industry-wide Asia/Pacific and European margins. Higher foreign earnings augmented much higher domestic earnings, resulting in a large increase from $7.9 billion in Q205 to $11.8 billion in Q206.

Profits from domestic downstream operations increased 63 percent in Q206 relative to Q205 as a large increase in gross margins were slightly offset by reduced refinery throughput. Product stock levels were slightly higher relative to a year earlier and put scant downward pressure on gross refining margins (the per-barrel composite wholesale product price less the composite refiner acquisition cost of crude oil), which increased by 39 percent between Q205 and Q206 (Table 2) Reduced domestic refinery throughput relative to Q205 by those U.S. majors reporting domestic refinery throughput (Table 1), which was attributed to the lingering effects of Hurricanes Katrina and Rita and the continued closure of BP’s Texas City refinery, put downward pressure on earnings. The net effect of these and other factors was that U.S. refining/marketing earnings increased slightly more than $3.6 billion, to $9.5 billion in Q206 (Table 1). The performance of the 11 companies that reported U.S. refining/marketing earnings was consistent. Ten of the companies reported higher earnings in Q206 than in Q205, citing higher refining margins, greater utilization rates, and increased operating efficiency, in addition to large light/heavy and sweet/sour crude oil price differentials, and tighter product specifications. Alternatively, the solitary company that reported lower earnings reported trading losses in Q206, which reduced earnings below those of a year ago.

Figure 1. Quarterly Foreign Refining Margins, 2003 - 2006



[a] Gross refining margin is defined as netback crude oil price less spot crude oil price. The netback price is calculated by multiplying the spot price of each refined product by the percentage share in the yield of a barrel of crude oil. Transport and out-of-pocket refining costs are then subtracted to arrive at netback price.
Note: The gross refining margin for Dubai crude oil refined in Singapore is used a proxy for Asia/Pacific gross refining margins. Similarly, the gross refining margin for Brent crude oil refined in Rotterdam is used as a proxy for European gross refining margins.
Source: Energy Intelligence Group, *Oil Market Intelligence* , (June 2003, 2004, and 2005; January 2004, 2005, and 2006, and July 2006), page 12.

Earnings from foreign downstream operations increased 12 percent between Q205 and Q206 (Table 1). Refinery throughput increased by almost 5 percent between Q205 and Q206 (Table 1) but the upward pressure that it placed on earnings was somewhat offset by lower industry-wide margins (Figure 1) in both Europe (by $0.85/barrel) and Asia/Pacific (by $0.51/barrel). The company results were consistent for those companies separately reporting foreign downstream earnings as four of the five reported higher earnings. The companies reporting higher earnings cited higher refining margins in their press releases. The company that reported lower earnings cited higher tax rates and operating expenses.

Worldwide Downstream Natural Gas and Power

Worldwide downstream natural gas and power earnings increased 65 percent (Table 1**) due to a variety of factors.** The results were consistent as all ten companies reported higher earnings, but for a variety of reasons. Higher earnings were attributed to higher pipeline rates received (due to the expiration of discounted rates to certain customers), higher NGL sales margins, reduced operating costs, and higher LNG sales.

Chemical Operations

Lower margins and exit result in decreased earnings from the majors' chemical operations. Four of the eight companies reporting results for this line of business recorded lower earnings while the balance recorded higher earnings, resulting in a 3-percent decrease in earnings from the majors' chemical operations in Q206 relative to Q205 (Table 1). Lower earnings were partially due to Kerr-McGee's exit from chemicals. Company press releases also cited lower margins, higher feedstock costs, and lower sales volumes. Alternatively, higher earnings credited were to higher margins and higher sales volumes.

[1]The companies included are Amerada Hess Corporation, Anadarko Petroleum Corporation, Apache Corporation, BP p.l.c. (only U.S. operations included), Chesapeake Energy Corporation, Chevron Corporation, ChevronTexaco Corporation, ConocoPhillips Inc., Devon Energy Corporation, Dominion

Resources, Inc., El Paso Corporation, EOG Resources, Inc., Equitable Resources Inc., Exxon Mobil Corporation, Kerr-McGee Corp., Lyondell Chemical Company, Marathon Oil Corporation, Occidental Petroleum Corporation, Royal Dutch Shell (only U.S. operations included), Sunoco, Inc., Tesoro Petroleum Corporation, Valero Energy Corporation, Williams Companies, Inc., and XTO Energy Inc.

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