Higher Oil Prices Lift Exxon's 4Q Profit

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NEW YORK (AP) — Exxon Mobil had a simple formula for success last quarter: It sold oil at higher prices.

Everything else was a struggle for the largest U.S. oil company. Production fell, its refineries suffered from high costs and falling fuel demand, and it made less money on chemicals. Even its big investment in natural gas hasn't paid off.

But oil's a different story. Global oil demand is outstripping supply. The U.S. benchmark price for crude rose 10 percent during the final three months of 2011. As a result, Exxon was able to charge customers more for crude — 27 percent more than a year earlier.

That helped the company's fourth-quarter income rise 2 percent. Net income totaled $9.4 billion, or $1.97 per share, compared with $9.25 billion, or $1.85 per share, a year earlier. Revenue rose nearly 16 percent to $121.6 billion.

Exxon Mobil Corp., like other major oil companies, is struggling to tap new sources of oil fast enough in an environment where big finds are rarer and costlier to exploit. Potential fields lie deep under the seabed, or in shale rock formations that require expensive technology to crack open. When Exxon can't find oil fast enough, it is stuck with existing fields where production is declining.

In the fourth quarter Exxon's oil and natural gas production fell 9 percent, even though it has plowed more than $20 billion a year into finding new sources since

2007.

Exxon says its investments will pay off long-term. Still, investors worried about the company's ability to raise production and sent the company's stock price down 2 percent on Tuesday.

Rivals like Chevron Corp. are struggling with the same challenges. Last week Chevron reported 2011 production levels that were the lowest since 2008.

Exxon's is also grappling with its $30 billion bet on natural gas from two years ago. In 2010, the company bought XTO Energy Inc., a huge natural gas producer. Exxon won praise for the deal because natural gas prices were falling. Experts assumed that prices would rise once the U.S. economy strengthened following the 2007-2009 recession.

The XTO Energy deal sparked a stampede by major energy companies into North American gas markets. A surge in drilling has since pushed production to record levels in the U.S., creating record levels of supply.

This January, the price of natural gas dropped to its lowest since 2002.

Now, Exxon is looking to oil to hedge its natural gas bet.

On Tuesday, the Irving, Texas energy giant said that it has shifted U.S. operations to focus more on developing wells rich in oil. It didn't give more details. But investor relations Vice President David Rosenthal told investors in a conference call that Exxon must commit itself to a "higher value, higher margin" business.

In the past year, "we've actually doubled the percentage of the rigs in that (U.S.) fleet that are drilling either liquids or liquids-rich plays," Rosenthal said.

Exxon still has high hopes for natural gas. The company said in December that by 2025, natural gas will replace coal as the second most popular fuel in the world. But for now, Exxon said, its focus will be on producing more oil.

Oppenheimer & Co. analyst Fadel Gheit said the company needs to do more. He said Exxon should follow competitors like Chesapeake Energy Corp. that have slashed gas production while investing heavily in oil wells.

"They don't want to have dead wood dragging them down," Gheit said.

Exxon's other businesses struggled in the fourth quarter.

Earnings dropped 63 percent at its refining business, which has been hurt by the rising cost of oil and declining gasoline prices. Stricter rules on car and truck fuel economy are expected to keep demand low for years in the U.S. and Europe.

Exxon's chemicals business saw profits decline 49 percent.

For the full year, Exxon's net income rose 34.8 percent while revenue rose 26.9 percent.

Last week, Chevron Corp. said profits slipped 3.2 percent. ConocoPhillips reported a 66-percent increase in quarterly earnings, though much of that came from the sale of a pipeline and other assets. Royal Dutch Shell will report its financial results later this week.

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