Murphy Oil Announces Preliminary Quarterly Earnings

October 24, 2006 4:31 PM ET

EL DORADO, Arkan.--(BUSINESS WIRE)--Oct. 24, 2006--Murphy Oil Corporation (NYSE: MUR) announced today that net income in the third quarter of 2006 was $222.8 million, $1.18 per diluted share, compared to net income of $231 million, $1.23 per diluted share, in the third quarter of 2005. Record quarterly profits for the Company's refining and marketing operations in the just completed 2006 quarter were offset by lower earnings in exploration and production operations.

Net income in the 2006 third quarter included income tax charges of $17.8 million, $.09 per diluted share, associated with a 10% tax rate increase on U.K. oil and natural gas profits. The new U.K. statutory tax rate, which was enacted in July 2006 retroactive to the beginning of 2006, now totals 50% on oil and gas profits. Net income in the 2005 third quarter included income from discontinued operations of $8.6 million, $.05 per diluted share, related to an adjustment of income taxes associated with the sale of most of the Company's conventional oil and gas assets in Western Canada in the second quarter 2004.

Net income in the 2006 and 2005 third quarters included pretax costs of $27.2 million and $34.1 million, respectively, associated with hurricanes that occurred in the U.S. during 2005. These costs are net of anticipated insurance recoveries. The costs in 2006 were mostly associated with unrecoverable repair costs at the Meraux, Louisiana refinery and costs associated with settlement of oil spill class action litigation. The components of the 2005 costs included incremental insurance expenses, uninsured losses within the Company's insurance deductibles, voluntary costs for Company donations and additional employee salaries, and depreciation and salaries for the temporarily idled Meraux refinery.

The Company is nearing completion of the Thunder Ridge exploratory drilling well in the Gulf of Mexico. If the well is unsuccessful, the Company would adjust its third quarter earnings for the after-tax cost incurred through September 30, 2006, which is approximately $14 million.

Third Quarter 2006 vs. Third Quarter 2005

Exploration and Production (E&P)

Reviewing quarterly results by type of business, the Company's income contribution from E&P operations was $118.8 million in the third quarter of 2006 compared to $204.6 million in the same quarter of 2005. The lower earnings in 2006 were primarily caused by lower oil production volumes, lower natural gas sales prices in North America, higher exploration expenses, higher maintenance costs for Terra Nova field equipment, higher property insurance costs, and net income tax charges. These were partly offset by higher sales prices for crude oil and lower E&P hurricane-related costs in 2006. An income tax charge of $17.8 million in the U.K. related to a 10% tax rate increase was partially offset by a $7.6 million benefit related to an adjustment of estimated prior-period taxes in Canada. The Company's worldwide crude oil and condensate sales prices averaged $55.50 per barrel for the 2006 third quarter compared to $53.15 per barrel in the same quarter of 2005. Total crude oil and gas liquids production was 79,642 barrels per day in the third quarter of 2006 compared to 94,151 barrels per day in the 2005 quarter, with the net decline primarily attributable to no production at the Terra Nova field, offshore Newfoundland, which was shut-in for equipment maintenance during the entire third quarter of 2006. Oil production in the United Kingdom was also lower in the 2006 period due to downtime for maintenance, and volumes produced in the United States declined due to lower production at fields in the Gulf of Mexico. U.S. production in 2005 was adversely affected by downtime resulting from Hurricane Katrina. Crude oil sales volumes averaged 73,112 barrels per day in the third quarter of 2006 compared to 93,910 barrels per day in the 2005 period. North American natural gas volumes were sold at an average of $6.90 per thousand cubic feet (MCF) during the 2006 third quarter compared to $8.54 per MCF during the 2005 quarter. Natural gas sales volumes were 74 million cubic feet per day in the third quarter 2006 compared to 70 million cubic feet per day in the third quarter of 2005. The increase in natural gas sales volumes was primarily due to virtually no downtime in the Gulf of Mexico for hurricanes in 2006 compared to significant downtime in 2005. Exploration expenses were $36 million in the 2006 quarter compared to $32.9 million in the same period of 2005, with the increase in 2006 mostly due to higher geophysical costs offshore Malaysia.
Refining and Marketing

The Company's refining and marketing operations generated a record quarterly profit of $126.6 million in the third quarter of 2006 compared to a profit of $32 million in the 2005 third quarter. Earnings improved in 2006 due to higher margins for both refining and retail marketing operations in North America compared to the 2005 third quarter. Murphy's downstream business incurred after-tax costs of $16.7 million related to hurricane repairs and oil spill class action litigation settlement in the just completed 2006 quarter, compared to various hurricane-related after-tax costs of $13.9 million in the 2005 quarter. In the 2005 period, the Company's Meraux, Louisiana, refinery experienced flooding associated with Hurricane Katrina and consequently, was shut down for the last 34 days of the prior-year quarter.

Corporate

The after-tax costs of the corporate functions were $22.6 million in the 2006 quarter compared to costs of $14.2 million in the 2005 quarter. The Company incurred more interest expense due to higher average debt balances and higher interest rates in the 2006 period. The Company also had higher administrative expenses in 2006 compared to 2005, including more employee incentive compensation expense.

First Nine Months 2006 vs. First Nine Months 2005

Exploration and Production (E&P)

The Company's exploration and production operations earned $525.4 million in the first nine months of 2006 and $619.4 million in the same period of 2005. The primary reasons for the lower earnings in this business in 2006 were lower crude oil and natural gas sales volumes in the 2006 period, and a $106.8 million after-tax gain in 2005 on the sale of most mature oil and gas properties on the continental shelf of the Gulf of Mexico. Higher crude oil sales prices were realized in 2006 compared to 2005. Exploration expenses were $129.4 million in 2006 compared to $143.2 million in 2005 as the prior-year period included unsuccessful drilling costs in the Republic of Congo. Crude oil and gas liquids production for the nine months of 2006 averaged 89,401 barrels per day compared to 104,588 barrels per day in 2005. The production decline in 2006 was primarily attributable to lower volumes at the Terra Nova field, which has been shut-in for equipment maintenance since May 2006. Also, U.S. oil volumes were lower during the 2006 period mostly due to lower production in the Gulf of Mexico at the Front Runner and Habanero fields. Natural gas sales were 82 million cubic feet per day in 2006 compared to 96 million cubic feet per day in 2005, with the reduction primarily caused by the sale of most mature properties on the continental shelf of the Gulf of Mexico in 2005 and field decline in the Gulf of Mexico, but partially offset by new production in 2006 from the Seventeen Hands field in the Gulf of Mexico. Crude oil and condensate sales prices averaged $52.80 per barrel in the 2006 period compared to $45.15 per barrel in 2005. North American natural gas was sold for $7.76 per MCF in 2006, up from $7.37 per MCF in 2005.

Refining and Marketing

The Company's refining and marketing operations generated a profit of $76.1 million in the first nine months of 2006 compared to a profit of $93.9 million in 2005. The lower 2006 result was based on higher hurricane-related expenses in the United States and lower margins in the U.K. The 2006 and 2005 results included net-of-tax hurricane related costs of $65.1 million and $13.9 million, respectively. The 2005 period was affected by 34 days of downtime at the Meraux refinery due to Hurricane Katrina; Meraux remained down for repairs for the first five months of 2006.

Corporate

Corporate after-tax costs were $50.8 million in the first nine months of 2006 compared to $30 million in the 2005 period. The Company had higher net interest expense in the 2006 period due to a combination of higher average debt levels partially offset by higher interest capitalized on development projects. The 2006 period included after-tax foreign exchange charges of $5.6 million, while 2005 included after-tax foreign exchange charges of $2.4 million. Higher administrative expenses in 2006, primarily related to employee incentive compensation costs, also contributed to the higher net corporate costs compared to 2005.

Claiborne P. Deming, President and Chief Executive Officer, commented, "A significant achievement was accomplished late in the third quarter when we settled the class action litigation covering the Meraux refinery oil spill that occurred following Hurricane Katrina. The settlement is subject to final court approval, which is expected in January."
In the third quarter, the Company's board of directors sanctioned development of the Thunderhawk field in Mississippi Canyon Block 734. First production at Thunderhawk is currently anticipated in early 2009.

The record level of third quarter results for our refining and marketing business demonstrates what these downstream assets are capable of achieving in a favorable business environment. However, refining and marketing margins in the U.S. have been much weaker in the early portion of the fourth quarter compared to the last two months of the third quarter. Crude oil prices have softened a bit from the higher prices seen in the third quarter, and U.S. natural gas prices also face pressure from what appears to be a very early fill of winter storage. We anticipate total worldwide production in the fourth quarter 2006 of approximately 94,000 barrels of oil equivalent per day. We currently expect earnings in the fourth quarter to be in the range of $.40 to $.60 per diluted share. Results could vary based on commodity prices, drilling results, timing of oil sales, and refining and marketing margins.”

The public is invited to access the Company's conference call to discuss third quarter 2006 results on Wednesday, October 25 at 12:00 p.m. CDT either via the Internet through the Investor Relations section of Murphy Oil's website at http://www.murphyoilcorp.com/ir or via the telephone by dialing 1-800-366-7417. The telephone reservation number for the call is 11072692. Replays of the call will be available through the same address on Murphy Oil's website, and a recording of the call will be available through October 29 by calling 1-800-405-2236. Audio downloads will also be available on the Murphy website through November 30, 2006 and via Thomson StreetEvents for their service subscribers.

The forward-looking statements reflected in this release are made in reliance upon the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. No assurance can be given that the results discussed herein will be attained, and certain important factors that may cause actual results to differ materially are contained in Murphy's January 15, 1997 Form 8-K report on file with the U.S. Securities and Exchange Commission.

MURPHY OIL CORPORATION
CONSOLIDATED FINANCIAL DATA SUMMARY
(Unaudited)

<table>
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<tr>
<th>THIRD QUARTER</th>
<th>2006</th>
<th>2005</th>
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<tbody>
<tr>
<td>Revenues</td>
<td>$ 4,153,422,000</td>
<td>3,316,919,000</td>
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<tr>
<td>Income from continuing operations</td>
<td>$ 222,775,000</td>
<td>222,399,000</td>
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<tr>
<td>Net income</td>
<td>$ 222,775,000</td>
<td>230,948,000</td>
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Income from continuing operations per Common share
- Basic $ 1.20 1.20
- Diluted $ 1.18 1.18

Net income per Common share
- Basic $ 1.20 1.25
- Diluted $ 1.18 1.23

Average shares outstanding
- Basic 186,211,753 184,355,365
- Diluted 189,238,922 188,069,208

FIRST NINE MONTHS

| Revenues | $10,943,603,000 | 8,681,733,000 |
| Income from continuing operations | $ 550,722,000 | 683,345,000 (a) |
| Net income | $ 550,722,000 | 691,894,000 (a) |

Income from continuing operations per Common share
- Basic $ 2.96 3.71 (a)
- Diluted $ 2.91 3.64 (a)
### Net income per Common share

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<tr>
<td>Basic</td>
<td>$ 2.96</td>
<td>3.76 (a)</td>
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<tr>
<td>Diluted</td>
<td>$ 2.91</td>
<td>3.69 (a)</td>
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### Average shares outstanding

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<tr>
<td>Basic</td>
<td>185,948,743</td>
<td>184,083,392</td>
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<tr>
<td>Diluted</td>
<td>189,067,278</td>
<td>187,740,260</td>
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(a) Includes after-tax gain on sale of mature oil and gas properties on the continental shelf of the Gulf of Mexico of $106,764,000 ($0.57 per diluted share) in the nine months ended September 30, 2005.

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SOURCE: Murphy Oil Corporation