Murphy Oil Announces Quarterly Earnings

July 25, 2006 4:18 PM ET

EL DORADO, Ark.--(BUSINESS WIRE)--July 25, 2006--Murphy Oil Corporation (NYSE: MUR) announced today that net income in the second quarter of 2006 was $214.0 million, $1.13 per diluted share, compared to net income of $347.7 million, $1.85 per diluted share, in the second quarter of 2005. The income reduction in 2006 primarily related to a gain in the 2005 second quarter of $106.8 million, $0.57 per diluted share, on sale of mature oil and gas properties on the continental shelf of the Gulf of Mexico and losses in the refining and marketing business in 2006 caused by downtime and unrecoverable repair costs at the Meraux, Louisiana refinery following Hurricane Katrina. The 2006 second quarter included non-cash income tax benefits of $37.5 million, $0.20 per diluted share, related to Federal and provincial tax rate reductions enacted by Canadian governments in the second quarter 2006.

For the first six months of 2006, net income totaled $327.9 million, $1.73 per diluted share, compared to net income of $460.9 million, $2.46 per diluted share, for the same period in 2005. The lower year-to-date 2006 income was essentially caused by variances similar to those for the second quarter 2006.

Second Quarter 2006 vs. Second Quarter 2005

Reviewing quarterly results by type of business, the Company's income from exploration and production operations was $245.0 million in the second quarter of 2006 compared to $289.9 million in the same quarter of 2005. Income in this business included the Canadian income tax benefit of $37.5 million in the 2006 quarter and the gain on property sale of $106.8 million in the 2005 quarter. Excluding these items in each period, exploration and production earnings in the 2006 quarter were higher than in the 2005 quarter based mostly on higher oil prices. The 2006 period also benefited from lower exploration expense. Income in the 2006 quarter was unfavorably affected by lower crude oil and natural gas sales volumes compared to 2005. In Ecuador, income from a partial settlement of crude oil production volumes owed to the Company by its partners since 2004 was essentially offset by the income effects of a required revenue sharing with the government that was effective in April 2006. The Company's worldwide crude oil and condensate sales prices averaged $54.10 per barrel for the current quarter compared to $43.10 per barrel in the second quarter of 2005. Total crude oil and gas liquids production was 90,695 barrels per day in the second quarter of 2006 compared to 111,030 barrels per day in the 2005 quarter, with the decrease primarily attributable to a combination of lower production at the Terra Nova field offshore Eastern Canada and in the deepwater Gulf of Mexico. Terra Nova shut down in May 2006 following mechanical equipment failure, and the field is expected to restart in October. Crude oil sales volumes averaged 103,360 barrels per day in the second quarter of 2006 compared to 114,526 barrels per day in the 2005 period. The partial settlement of crude oil production volumes in Ecuador added sales volume of 9,375 barrels per day in the second quarter 2006. North American natural gas sales prices averaged $7.10 per thousand cubic feet (MCF) in the 2006 quarter compared to $7.25 per MCF in the same quarter of 2005. Natural gas sales volumes decreased from 107 million cubic feet per day in the second quarter of 2005 to 87 million cubic feet per day in the 2006 quarter, primarily due to fields in the Gulf of Mexico that were sold in June 2005. Exploration expenses were $30.2 million in the second quarter of 2006 compared to $40.0 million in the same period of 2005, with the decrease mostly due to lower expenses in 2006 for seismic programs and dry holes in Malaysia somewhat offset by higher seismic and dry hole costs in 2006 in the deepwater Gulf of Mexico.

The Company's refining and marketing operations incurred a loss of $13.2 million in the 2006 second quarter compared to a profit of $67.4 million in the same quarter of 2005. The Meraux refinery was down for repairs following Hurricane Katrina for a portion of the 2006 quarter prior to restarting in May. The earnings decline in the 2006 quarter was mostly due to downtime at Meraux and $26.5 million of unrecoverable Hurricane Katrina-related repair costs at this refinery. Income in the 2005 quarter included strong margins at the Meraux refinery.

The after-tax costs of the corporate function were $17.8 million in the 2006 quarter compared to $9.6 million in the 2005 quarter with the cost increase due to unfavorable foreign currency exchange effects and higher compensation expenses in 2006.
Net income was $327.9 million in the first six months of 2006 compared to $460.9 million in the same 2005 period. The Company's exploration and production business earned $406.6 million in the first six months of 2006 compared to $414.8 million in the same period of 2005. Earnings in 2006 benefited from higher oil prices, the $37.5 million Canadian income tax benefit and $15.7 million of pretax insurance proceeds related to Gulf of Mexico production lost in the fourth quarter 2005 following Hurricane Katrina, but the current period had lower oil and natural gas sales volumes. Additionally, the 2005 period included a $106.8 million after-tax gain on sale of oil and gas properties in the Gulf of Mexico. Crude oil and gas liquids production for the first six months of 2006 averaged 94,365 barrels per day compared to 109,892 barrels per day in 2005. The production decrease in 2006 was mostly caused by lower production at Terra Nova due to equipment downtime and lower volumes produced in the deepwater Gulf of Mexico. Natural gas sales were 86 million cubic feet per day in 2006 down from 110 million cubic feet per day in 2005, with the decline mostly resulting from Gulf of Mexico fields sold in June 2005. Crude oil and condensate sales prices averaged $51.67 per barrel in the 2006 period compared to $41.55 per barrel in 2005. North American natural gas was sold at an average of $8.17 per MCF in 2006, up from $6.98 per MCF in 2005. Exploration expenses were $93.4 million in 2006 compared to $110.3 million in 2005, with the reduction in 2006 period primarily caused by lower dry hole costs in the Republic of Congo.

The Company's refining and marketing operations incurred a loss of $50.5 million in the first six months of 2006, compared to a profit of $61.9 million in the same 2005 period. The current year result was unfavorable mostly due to downtime and repair costs at the Meraux refinery following Hurricane Katrina. Meraux incurred $39.5 million of repair costs in 2006 which are not expected to be recoverable from insurance.

Corporate after-tax costs were $28.2 million in the first six months of 2006 compared to costs of $15.8 million in the 2005 period. Unfavorable foreign currency exchange results and higher stock-based compensation expense accounted for most of the higher net costs in 2006.

Claiborne P. Deming, President and Chief Executive Officer, commented, "During the second quarter, progress was made toward future natural gas production offshore Sarawak, Malaysia, based on the previously announced signing of a Heads of Agreement for a gas contract with the Malaysian state oil company Petronas. An oil discovery at Thunder Bird was also announced during the quarter in Mississippi Canyon in the Gulf of Mexico, and a nearby prospect named Thunder Ridge began drilling last week.

"Looking into the third quarter, we currently expect earnings to range from $0.50 to $0.70 per diluted share. This earnings estimate includes a tax charge of $18 million, $0.10 per diluted share, associated with a 10% tax rate increase on oil and gas profits in the U.K. North Sea that was enacted on July 19. Total third quarter 2006 production volumes should average about 90,000 barrels of oil equivalent per day, while average sales volumes are estimated at 83,000 barrels of oil equivalent per day. The production decline in the third quarter versus the just completed quarter is primarily due to the shutdown at Terra Nova, lower production in the deepwater Gulf of Mexico, lower heavy oil production in Canada following a fire at the Seal non-operated battery and partial downtime for planned maintenance at U.K. North Sea fields. The Company will have higher oil production at Syncrude in the third quarter due to start-up of the new coker. The Terra Nova production vessel is in the shipyard for maintenance and this field should come back onstream early in the fourth quarter. The Company's share of maintenance costs during the shutdown at Terra Nova have been estimated at $8 million in the third quarter. Oil prices continue to be affected by the world's political events and have just recently hit all-time highs. Some easing of oil prices would not be surprising as the quarter progresses. These higher crude oil prices have stymied retail gasoline margins early in the third quarter leading to weaker margins than those experienced during most of the second quarter. The Meraux refinery has restarted and the plant is nearing normal operations. The remaining Meraux refinery repair costs anticipated to be incurred in the third quarter range from $10 - $15 million. As usual, projected results for the third quarter could be affected by 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 second quarter 2006 results on Wednesday, July
26, 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](http://www.murphyoilcorp.com/ir) or via the telephone by dialing 1-800-240-7305. The telephone reservation number for the call is 11065920. 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 July 30 by calling 1-800-405-2236.

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)

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<th>SECOND QUARTER 2006</th>
<th>FIRST SIX MONTHS 2005</th>
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<tr>
<td>Revenues</td>
<td>$3,798,918,000</td>
<td>$6,790,181,000</td>
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<tr>
<td>Net income</td>
<td>$214,075,000(a)</td>
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<td>Net income per Common share</td>
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<td>Diluted</td>
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<tr>
<td>Diluted</td>
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(a) The second quarter and first six months of 2006 include non-cash income tax benefits of $37.5 million related to Federal and provincial tax rate reductions in Canada.

(b) The second quarter and first six months of 2005 include a $106.8 million after-tax gain on sale of mature oil and gas properties on the continental shelf of the Gulf of Mexico.

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**SOURCE:** Murphy Oil Corporation