



## Financial News for Independent Energy Companies, Fourth Quarter 2005

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The "Financial News for Independent Energy Companies" is issued several weeks after the close of each quarter to report recent trends in the financial performance of independent energy companies, which are typically smaller than the majors and do not have integrated production/refining operations. The information is compiled from companies' quarterly reports and press releases. Earnings for the 28 independent energy companies included in this report grew 130 percent in the fourth quarter of 2005 (Q405) over earnings in the fourth quarter of 2004 (Q404) (see Table 1). All three types of energy companies included in this report -- independent oil and natural gas producers, oil field service companies, and refiner/marketers -- had increased income over the year-ago quarter, as crude oil prices, natural gas prices, and gross refining margins all increased (see Table 2). Further, each of the companies included in this report had positive earnings for both the 4<sup>th</sup> quarter and for the 2005 year. All three groups also showed growth in their yearly total earnings, as net income grew 118 percent for the 28 companies from 2004 to 2005.

**Increases in both natural gas and crude oil prices boost independent producers' earnings.** Net income of the independent oil and gas producers included in this report rose 94 percent between Q404 and Q405, as revenues rose 41 percent (see Table 1). Independent oil and gas producer earnings were boosted by a 32-percent increase in the price of crude oil and a 72-percent increase in the price of natural gas over year-ago prices (see Table 2). Yearly total earnings showed a similar pattern, growing 78 percent from \$1.7 billion in 2004 to \$3.0 billion in 2005.

**Oil field companies' revenue and earnings increase with higher drilling rig counts.** Net income of U.S. oil field companies included in this report jumped 143 percent, as revenues rose 22 percent (see Table 1). U.S. oil field company earnings were strengthened by an increase in the worldwide rig count of 18 percent from 2,531 in Q404 to 2,979 in Q405, according to Baker Hughes data. Higher rig counts and the resulting higher demand for rig services directly increased the demand for the equipment and services supplied by oil field companies. This increase in demand raised day rates on equipment and margins on overall operations, thereby increasing companies' profits. The ODS-Petrodata Day Rate Indices were sharply higher in Q405 from Q404, as well as the yearly average for 2005 compared to 2004. Yearly total earnings reflected this with growth of 139 percent. Helping to drive this was the 15 percent increase in the worldwide rig count.

The rig count growth rate over the year-ago quarter of 18 percent for the United States matched the worldwide growth rate of 18 percent (see Figure 1). Decomposing the total U.S. rig count into its components, the natural gas rig count grew 15 percent while the oil rig count grew 35 percent over the period. The natural gas rig count has now increased for twelve consecutive quarters relative to its year-earlier level. For the year as a whole, the average natural gas rig count grew 16 percent from 1,025 in 2004 to 1,186 in 2005, while the oil rig count grew 18 percent from 165 in 2004 to 194 in 2005.

Breaking down overall (oil plus natural gas) rig counts on a regional basis shows that while rig counts grew 18 percent in the United States from Q404 to Q405, they jumped 36 percent in Canada and grew 8 percent in the rest of the world. Yearly total rig counts followed a similar pattern, with 16 percent growth in the United States from 2004 to 2005, 24 percent in Canada, and 9 percent in the rest of the world.

**Refiner earnings up sharply with higher margins.** Earnings of the independent refiners included in this report increased from \$38 million in Q404 to \$134 million in Q405 (see Table 1). Driving this earnings growth was an increase in average refining margins of 60 percent from Q404 to Q405 (see Table 2). (The average refining margin is the difference between the composite wholesale refined petroleum product price and the composite refiner acquisition cost of crude oil.) Refining margins increased because the increase in refined product prices (calculated from Table 2 by adding the price of crude oil and the gross refining margin) of \$21.03 more than offset the \$12.84 increase in the price of crude oil. Yearly total earnings also showed strong growth, increasing from \$236 million in 2004 to \$566 million in 2005.

Table 2. U.S. Energy Prices and the U.S. Gross Refining Margin						
	Q404	Q405	Percent Change	2004	2005	Percent Change
<b>U.S. Energy Prices</b>						
Refiner Acquisition Cost of Imported Crude Oil (\$/barrel)	39.91	52.75	32.2	35.99	49.18	36.6
Natural Gas Wellhead Price (\$/thousand cubic feet)	5.92	10.17	71.8	5.50	7.45	35.5
<b>U.S. Gross Refining Margin (\$/barrel)</b>	13.75	21.94	59.5	13.81	18.62	34.8

<sup>a</sup> Energy Information Administration, Short-Term Energy Outlook, (Washington, DC, December 6, 2005 and February 7, 2006), Tables 4 and A4.

<sup>b</sup> 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.

Table 1. Revenue and Net Income Summaries for Independent Energy Companies (Million Dollars)						
Companies	Q404	Q405	Percent Change	2004	2005	Percent Change
<b>Revenue</b>						
Oil and Gas Producers (10) <sup>a</sup>	2,317	3,262	40.8	8,135	11,005	35.3
Oil Field Companies (15)	14,612	17,884	22.4	49,592	58,333	17.6
Refiners (3)	3,382	4,732	39.9	12,051	16,963	40.8
<b>Total Revenue (28)</b>	20,311	25,877	27.4	69,779	86,301	23.7
<b>Net Income</b>						
Oil and Gas Producers (10)	484	941	94.4	1,703	3,034	78.1
Oil Field Companies (15)	945	2,295	142.8	2,998	7,164	139.0
Refiners (3)	38	134	256.2	236	566	140.0
<b>Total Income (28)</b>	1,467	3,369	129.7	4,937	10,764	118.0

<sup>a</sup>The number of companies reporting revenue and net income is in parentheses.

Notes: The net income data have been adjusted to exclude the effects of unusual items such as accounting changes. Percentages are calculated from unrounded data.

Sources: Compiled from companies' quarterly reports to stockholders.

Figure 1: U.S. Quarterly Rig Counts: Oil, Gas & Total, 1998-2005

