HUMBLE OIL & REFINING COMPANY
(A TEXAS INSTITUTION)
AND SUBSIDIARY

ANNUAL REPORT
1939
ANNUAL REPORT

TO THE

STOCKHOLDERS

OF

Humble Oil & Refining Company

AND SUBSIDIARY

FOR THE YEAR ENDED
DECEMBER 31, 1939
May 4, 1940

To The Stockholders:

The Twenty-second Annual Report of the Humble Oil & Refining Company and its subsidiary, Humble Pipe Line Company, covering the year ended December 31, 1939, is submitted herewith. Comments with respect to some of the more important conditions in the industry are set forth in the paragraph immediately below. Following that, there is a discussion of the operations of the Humble Oil & Refining Company, including Humble Pipe Line Company. The Consolidated Balance Sheet and the statements of Income and Earned Surplus Accounts appear at the end of this report.

CONDITIONS IN THE INDUSTRY AFFECTING HUMBLE

The year 1939 was a good one from the standpoint of total demand for crude and products. There was an increase of 6.5% over 1938. Crude stocks in the United States were reduced by almost 38,000,000 barrels. Total stocks of all products decreased, although gasoline inventories rose 10,776,000 barrels. Because of greater participation in the crude oil markets by other States, particularly Illinois, the territory in which Humble operates, namely, Texas, New Mexico, and South Louisiana, did not share proportionately in the increased demand. The demand in Humble's territory increased only 2.9% during 1939. Production in this territory was only 2% higher than in 1938. The State of Texas, where Humble's largest production exists, produced only 38.2% of domestic production in 1939, compared with 39.2% in 1938. It is significant that while there was a slight increase in production in Humble's territory, the level of crude prices in 1939 was approximately 11% lower.
than in 1938. Under these conditions, it was inevitable that earnings from production in this territory should be lower generally than during the preceding year. Accordingly, since Humble is engaged primarily in the producing business, its revenues were substantially reduced.

FINANCIAL RESULTS

Income and Dividends

The consolidated net income of the Company, after payment or provision for all expenses, Federal, State, and local taxes, and deductions for depreciation, depletion, amortization, and other charges, was $29,950,287. This was equal to $3.33 on each of the 8,987,840 shares of capital stock outstanding at the end of the year. For 1938 the net income was $35,800,353, or $3.98 per share. As mentioned above, the decrease of $5,850,066 in net income was due primarily to a substantial reduction in crude prices, but it was also influenced by lower pipe line tariffs established in October, 1938. The dividend payment in 1939 was $2 per share, and amounted to $17,975,680, the same as in 1938.

Consolidated gross sales and other operating income, exclusive of taxes added to the selling price of products, amounted to $199,500,589 as compared with $205,458,293 for the previous year.

Cash and Working Capital

The Company was able to show an improvement in its working capital position without borrowing, even though its cash receipts from operations were $6,570,797 less than in 1938. Plans made early in the year 1939 contemplated balancing cash disbursements and receipts. This was accomplished, and the further sum of $4,000,000 was added to cash and demand loans receivable, largely because the opportunities for advantageous investment of cash in desirable leases and producing properties were less than in preceding years. In 1937 and 1938 cash disbursements exceeded receipts substantially, principally because we were making large investments in producing properties. A detailed account of cash transactions for the year 1939 is shown in the following statement of cash resources and their utilization.
Cash Resources

The net income for the year was ..................... $29,950,287

To this have been added the charges to income which did not require cash, such as, for example, provisions for depreciation, depletion, amortization, and properties, plant and equipment written off ........................................ 26,554,634

Cash receipts from operations exceeded cash disbursements for operations by ...................................... 56,504,921

Cash was also provided through a decrease in working assets and other miscellaneous assets in the amount of .......... 1,043,366

There was a cash balance on hand, in banks and out on demand loans at January 1, 1939, of ....................... 16,481,862

Cash resources available, after payment and accrual of operating costs, were ........................................... $74,030,149

These funds were utilized as follows:

During the year gross additions to properties, plant and equipment amounted to ........................................ $38,933,093

Additions to the property accounts which did not require funds, such as materials recovered from retired equipment, and a pro rata part of the depreciation provided for service equipment totaled ........................................ 3,836,938

Therefore, the cash utilized for capital expenditures was ... 35,096,155

A reduction in current payables together with the payment of contractual obligations which became due during the year required an expenditure of cash amounting to ........... 508,624

Dividends paid amounted to .................................. 17,975,680

The result was a total cash expenditure, for other than operating cost, of .............................................. 53,580,459

The cash remaining on hand, in banks and out on demand loans at December 31, 1939, was ....................... 20,449,690

Total cash resources, as above, accounted for ............... $74,030,149
Inventories

Inventories of crude oil and manufactured products decreased 1,112,792 barrels during the year. Balance sheet values of inventories are based on "Cost—First In, First Out." In determining cost, interdepartmental profits have been eliminated, but intercompany profits have not been eliminated as it is impracticable to do so. The aggregate cost of inventories at December 31, 1939 was 10.27% less than the aggregate market value.

Fixed (Capital) Assets

Gross additions to property accounts during the year amounted to $38,933,093 which is $16,611,321 less than in 1938. As was the case last year, the greater part of this expenditure was in the production department in the acquisition and maintenance of oil reserves, development of new prospects and fields and in the drilling of wells, though the drilling of wells has been held to a minimum. Capital expenditures in the refining and sales departments were approximately the same as in 1938.

EXPLORATION ACTIVITIES

Humble carried on about the same amount of geological and geophysical prospecting as during the preceding year. Approximately the same number of prospects were found, but it appears that they are of lower quality.

Humble discovered only two new oil fields, at South Thompsons in Texas and Potash in Louisiana, and two small gas fields. This is at a lower rate than in the preceding year and is in keeping with the general experience of the industry. Additional oil was added to our reserves from discoveries made by others at the West Ranch (Jackson County), Angleton, Sun, and Cedar Lake fields in Texas and the Paradis field in Louisiana. Developments at Friendswood, Lovell Lake, Segno, Kelsey, Tomoconnor, Means, and Sand Hills in Texas and Chalkley in Louisiana resulted in further material increases to our oil reserves. The total of the increases from these various sources was several times greater than the Company's production during the year.
PRODUCING, PURCHASING AND TRANSPORTATION

In 1939 the Company produced 59,225,500 barrels of crude oil, of which its part was 47,605,300 barrels, a daily average of 130,425 barrels. This compares with 57,866,000 barrels produced in 1938, of which 46,364,000 barrels was the Company's part, a daily average of 127,025 barrels. The Company is now operating 6,813 oil wells, an increase of 419 wells over 1938. In addition to these, Humble has an interest in 595 wells operated by others and has royalty interests in 1,976 wells. During 1939 the Company completed 706 wells, of which 95 were dry holes, as compared to 907 completions with 109 dry holes in 1938. Part-interest wells drilled by others during the year number 100 as compared with 130 for 1938.

The Company purchased, during the year, 88,287,000 barrels of crude oil, a daily average of 241,900 barrels. This compares with total purchases in 1938 of 81,170,000 barrels, a daily average of 222,380 barrels. Crude oil handled by Humble Pipe Line Company totaled 140,926,500 barrels, a daily average of 386,100 barrels. This compares with 139,970,000 barrels handled in 1938, or an average of 383,480 barrels per day.

The Company's net production increased 2% in 1939, slightly more than the per cent of gain in Texas' production. However, Humble's showing would have been less favorable except for increased participation in the East Texas field as a result of legal action. The Company filed suit for larger allowable in East Texas because it was receiving only 9.9% of the allowable although it had 14.4% of the reserves. Following a temporary injunction, the Railroad Commission revised its order, and the Company was given 11.15% of the allowable, resulting in an increase of 5,800 barrels per day. This case is being litigated currently in the Federal courts, and it is hoped that an ultimate decision will bring about a just apportionment of the East Texas field allowable to the Company's properties and will establish a more equitable basis for making allocations throughout the State.

Combined deliveries of natural gas by the Pledger and Tomball systems increased from less than twelve billion cubic feet in 1938 to over sixteen billion cubic feet in 1939.
Recycling plants for fields with gas-condensate production constitute a new phase of gas operations. This is the only means developed for efficiently extracting distillate where a market is not available for gas. The Company has gas-condensate reserves in 39 of the 96 Texas fields with this type of production.

MANUFACTURING

Refinery operations decreased slightly during the year. Crude runs totaled 55,845,000 barrels, an average of 153,000 barrels per day, as compared with 56,592,000 barrels, an average of 155,050 barrels per day in 1938.

Outstanding progress was made with the alkylation units. Because of indications of increasing demand for 100 octane aviation gasoline, we began construction in December of 1939 of a second alkylation unit with an expected capacity of 1,000 barrels per day. Another important development was the installation at Baytown refinery of a new solvent extraction plant early in 1939 to produce high quality motor oils and Pennsylvania quality bright stocks.

During the year our natural gasoline production amounted to 43,233,900 gallons with approximately 38,497,700 gallons of by-products, principally butane and propane. Comparable production for 1938 was 42,452,700 gallons of natural gasoline and 31,475,000 gallons of by-products.

MARKETING

The Company's marketing business, other than bulk sales direct from refineries, increased 9% in volume over 1938; the greater part of this increase was in gasoline sales. Aviation gasoline sales increased 53.7%, the largest per cent increase in any product.

At the close of the year there were in operation 129 bulk stations and 229 service stations, 3 more bulk stations and 31 fewer service stations than at the close of 1938. The 31 service stations which the Company ceased operating in 1939 were leased to dealers.
PERSONNEL

Little change was made in the personnel of Humble Oil & Refining Company and Humble Pipe Line Company during the year. Total number of employees of the two companies on December 31, 1939 was 12,943 as compared with 13,235 at the end of 1938. The total payrolls for the year 1939 amounted to $28,352,320 in salaries and wages, and $1,912,623 in sales agents' commissions. This compares with salaries and wages of $28,694,567 and sales agents' commissions of $1,968,031 in 1938. Employees Welfare Expenses, consisting of Social Security Taxes, contributions to Employees Annuity and Thrift Plan, Free Sickness and Accident Benefits, Free Death Benefits, Termination Allowances, vacations, etc., totaled $5,559,420 for the year as compared with $6,451,645 for 1938.

Participation in the Company's Annuity and Thrift Plan continued to increase during the year 1939, with 12,014 employees actually participating, which is 96% of the 12,462 eligible for the plan. During the year employees paid into the plan $2,558,297, and the Company paid in, as regular and additional contributions, a total of $2,413,454.

CONCLUSION

The management wishes to express appreciation and commendation for the splendid work and cooperation of the organization and gratitude for the confidence and support of the stockholders.

By Order of the Board,

R. L. BLAFFER,
Chairman

H. C. WIESS,
President

{ 9 }
HUMBLE OIL & REFINING
Consolidated Balance Sheet
as at December 31, 1939

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>LIABILITY</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CURRENT AND WORKING ASSETS:</strong></td>
<td><strong>LIABILITIES:</strong></td>
</tr>
<tr>
<td>Cash ............................................ $16,771,449.56</td>
<td><strong>CURRENT LIABILITIES:</strong></td>
</tr>
<tr>
<td>Demand Loans Receivable ............... 3,678,240.73</td>
<td>Oil and Gas Accounts Payable ...... $8,647,636.99</td>
</tr>
<tr>
<td>Notes Receivable ......................... 298,422.26</td>
<td>Other Accounts Payable ............. 7,369,810.92</td>
</tr>
<tr>
<td>Accounts Receivable (Less reserves) .... 9,790,532.99</td>
<td>Long-Term Debt Due in 1940 .......... 333,544.26</td>
</tr>
<tr>
<td>Inventories:</td>
<td>Reserve for Income Taxes and Other</td>
</tr>
<tr>
<td>Crude Oil (at cost)* ................. $12,354,110.93</td>
<td>Accrued Liabilities ................. 4,034,860.63</td>
</tr>
<tr>
<td>Refined Products (at cost) ........... 11,902,165.36</td>
<td><strong>LONG-TERM INDEBTEDNESS:</strong></td>
</tr>
<tr>
<td>Other Merchandise (at cost) ......... 409,406.67</td>
<td>Long-Term Notes Payable ............ 40,007,600.00</td>
</tr>
<tr>
<td>Materials and Supplies (at cost or less) 5,500,462.92</td>
<td>Other Long-Term Debt ................ 2,713,837.86</td>
</tr>
<tr>
<td>Stocks and Bonds of Corporation (at cost or less) 370,864.55</td>
<td><strong>DEFERRED CREDITS:</strong></td>
</tr>
<tr>
<td>(Inc. 12,160 sh. of Company's own capital stock)</td>
<td>576,722.08</td>
</tr>
<tr>
<td>Long-Term Notes, Mortgages, and Deferred Accounts Receivable 7,401,608.19</td>
<td></td>
</tr>
<tr>
<td><strong>FIXED (CAPITAL) ASSETS:</strong></td>
<td><strong>CAPITAL ACCOUNT:</strong></td>
</tr>
<tr>
<td>Lands, Leases and Easements, Rights, Plant and Equipment, Incomplete Construction, and Miscellaneous Property 472,021,569.06</td>
<td></td>
</tr>
<tr>
<td><strong>LESS RESERVES FOR:</strong></td>
<td>Capital Stock—Authorized and Issued (9,000,000 shares, no par value) 175,000,000.00</td>
</tr>
<tr>
<td>Depreciation, Depletion, and Amortization 167,699,443.13 304,322,125.93</td>
<td></td>
</tr>
<tr>
<td><strong>PREPAID AND DEFERRED CHARGES</strong> 2,379,253.44</td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL ASSETS</strong> 375,447,820.35</td>
<td></td>
</tr>
</tbody>
</table>

*Interdepartmental profits have been eliminated, but intercompany profits have not been eliminated in determining costs of inventories as it is impracticable to do so. The aggregate cost of crude oil, refined products, and other merchandise was 10.27% less than the aggregate market value thereof at December 31, 1939.
HUMBLE OIL & REFINING COMPANY AND SUBSIDIARY
CONSOLIDATED INCOME ACCOUNT
For Year Ended December 31, 1939

GROSS OPERATING INCOME:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales of Petroleum and Its Products</td>
<td>$195,474,747.94</td>
</tr>
<tr>
<td>Sales of Other Merchandise</td>
<td>734,771.71</td>
</tr>
<tr>
<td>Other Gross Operating Income</td>
<td>3,291,069.03</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$199,500,588.68</strong></td>
</tr>
</tbody>
</table>

OPERATING CHARGES:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Costs, Operating, and General Expenses</td>
<td>130,028,210.97</td>
</tr>
<tr>
<td>*Taxes</td>
<td>10,922,784.17</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>140,950,995.14</strong></td>
</tr>
</tbody>
</table>

Net Operating Income Before Depreciation, Depletion, and Abandonments: 58,549,593.54

Depletion and Surrendered Leases: 6,211,812.51

Depreciation, Retirements, and Other Amortization: 20,342,820.71

**NET OPERATING INCOME**: 31,994,960.32

NON-OPERATING LOSS (Net): 848,164.46

**INCOME BEFORE INTEREST CHARGES**: 31,146,795.86

INTEREST CHARGES: 1,196,508.07

**NET PROFIT ACCRUED TO CORPORATION**: $29,950,287.79

CONSOLIDATED EARNED SURPLUS ACCOUNT
For Year Ended December 31, 1939

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>EARNED SURPLUS, DECEMBER 31, 1938</td>
<td>$120,108,671.45</td>
</tr>
<tr>
<td>NET PROFIT FOR YEAR</td>
<td>29,950,287.79</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>150,058,959.24</strong></td>
</tr>
</tbody>
</table>

ADJUSTMENT OF EARNED SURPLUS (Net): $228,266.02

DIVIDENDS PAID: 17,975,680.00

**EARNED SURPLUS, DECEMBER 31, 1939**: $131,855,013.22

*In addition to the amount of taxes shown above, there was paid (or accrued) for State gasoline, Federal excise, and social security, etc. taxes the sum of $4,881,193.20.

Note: Interdepartmental profits and interdepartmental and intercompany transactions have been excluded. Intercompany profits included in inventories have not been eliminated as it is impracticable to do so.
BOARD OF DIRECTORS

R. L. Blaffer, Chairman
H. C. Wiess E. E. Townes
James Anderson John R. Suman
L. T. Barrow Hines H. Baker
Stuart A. Giraud

EXECUTIVE OFFICERS

H. C. Wiess, President
R. L. Blaffer . . . .Chairman of Board and Treasurer
E. E. Townes . . . .Vice President and General Counsel
James Anderson . . . .Vice President
John R. Suman . . . .Vice President
L. T. Barrow . . . .Vice President
Jas. S. Crate . . . .Secretary and Assistant Treasurer
L. H. Attwell, Jr. . . . .Comptroller
R. E. Seagler . . . .General Attorney

Stock transferred by the Company in Houston and
by the Guaranty Trust Company in New York
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