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

HUMBLE

ANNUAL REPORT
1940
ANNUAL REPORT

TO THE

STOCKHOLDERS

OF

Humble Oil & Refining Company

AND SUBSIDIARIES

FOR THE YEAR ENDED

DECEMBER 31, 1940
To the Stockholders:

This is submitted as the twenty-third annual report of Humble Oil & Refining Company and its subsidiaries. The operations of the Company for the year are reviewed in the following pages after a brief discussion of conditions in the industry. The consolidated balance sheet and the income and surplus accounts appear at the end of the report. Among the many developments of the year affecting Humble, three appear to be outstanding.

1. Volume of crude produced and handled and gross revenue and net income from all sources in 1940 were about the same as in 1939.

2. The Company entered into a contract with the United States Government under which it will construct and operate a plant at Baytown for the manufacture synthetically of toluol from petroleum. Toluol is a raw material used in the manufacture of explosives and is, therefore, an important item in national defense. Heretofore, it has been produced primarily as a by-product of coke oven operations. The carrying out of this contract successfully is one of the Company's most important undertakings.

3. The discovery of the Hawkins field in East Central Texas is one of outstanding importance which will add substantially to Humble's reserves.

CONDITIONS IN THE INDUSTRY

From the standpoint of volume, 1940 was a record year for the oil industry in the United States. Demand for crude oil and petroleum products in the domestic market increased 7 per cent over that of 1939, which was enough to offset a decrease in exports of 31 per cent and result in a net gain in total demand of 2 per cent. The production of crude oil in the United States reached a record level 6.6 per cent higher than in 1939, with Illinois accounting for 60 per cent of the total gain. Stocks of crude oil increased by about 22,000,000 barrels during the year, thus offsetting more than half of the reduction made in 1939. Stocks of petroleum products increased 15,500,000 barrels during 1940, due principally to an accu-
mulation of heating oils, which enjoyed a growing demand. Total accumula-
tion of stocks of all oils amounted to 107,000 barrels per day and offset
almost completely the reduction in stocks made in 1939. The following
table summarizes the principal items in supply and demand for all oils in
the United States in 1939 and 1940.

UNITED STATES
(Thousands of Barrels Per Day)

<table>
<thead>
<tr>
<th>Supply &amp; Demand—All Oils</th>
<th>1939</th>
<th>1940</th>
<th>Amount</th>
<th>Per Cent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Crude Oil Production</td>
<td>3,466</td>
<td>3,694</td>
<td>+ 228</td>
<td>+ 6.6</td>
</tr>
<tr>
<td>Natural Gasoline and</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Benzol Production</td>
<td>148</td>
<td>159</td>
<td>+ 11</td>
<td>+ 7.4</td>
</tr>
<tr>
<td>Imports</td>
<td>162</td>
<td>227</td>
<td>+ 65</td>
<td>+ 40.1</td>
</tr>
<tr>
<td>Total Supply</td>
<td>3,776</td>
<td>4,080</td>
<td>+ 304</td>
<td>+ 8.1</td>
</tr>
<tr>
<td>Domestic Demand</td>
<td>3,373</td>
<td>3,616</td>
<td>+ 243</td>
<td>+ 7.2</td>
</tr>
<tr>
<td>Exports</td>
<td>518</td>
<td>357</td>
<td>− 161</td>
<td>− 31.1</td>
</tr>
<tr>
<td>Total Demand</td>
<td>3,891</td>
<td>3,973</td>
<td>+ 82</td>
<td>+ 2.1</td>
</tr>
</tbody>
</table>

Change in Stocks of All Oils. — 115 + 107

Production of crude oil in Texas did not increase so much as for the
United States as a whole, even though the State produced more than
market demand. Although Texas has about 55 per cent of the United
States' known crude oil reserves, its participation in the total United
States' production decreased from 38.3 per cent in 1939 to 36.5 per cent
in 1940. This change was due to the fact that about 85 per cent of the
total United States' loss of exports was in shipments from Texas and due
to larger participation in the domestic market by states which developed
new oil reserves rapidly in 1940, notably Illinois, Kansas, Louisiana, and
Mississippi. The following table summarizes crude production and demand
for Texas in 1939 and 1940:

TEXAS
(Thousands of Barrels Per Day)

<table>
<thead>
<tr>
<th></th>
<th>1939</th>
<th>1940</th>
<th>Amount</th>
<th>Per Cent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Crude Demand</td>
<td>1,380</td>
<td>1,313</td>
<td>− 67</td>
<td>− 4.9</td>
</tr>
<tr>
<td>Crude Production</td>
<td>1,325</td>
<td>1,347</td>
<td>+ 22</td>
<td>+ 1.7</td>
</tr>
<tr>
<td>Change in Crude Stocks</td>
<td>− 55</td>
<td>+ 34</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Posted prices for crude at the well, which are the basic expression of the
market for this commodity in the United States, remained substantially
unchanged during 1940. Product prices started at comparatively high
levels, due to a rise in the last four months of 1939, but declined steadily throughout the year. By mid-year all of the improvement in prices during the latter part of 1939 had been lost, and the continued decrease during the last half reduced prices to an abnormally low level. The weakness was particularly pronounced in Texas due to loss of export markets and high tanker rates. Refinery margins were reduced during the year as a result of the factors outlined above. Since December there has been general improvement in the condition of the oil industry in Texas.

**EARNINGS**

Gross operating income for the year was $198,692,650, compared with $199,500,589 for the preceding year. This income is derived from the sale of crude oil and products, from pipe line revenues, and other items, but excludes the amount of gasoline or other taxes specifically added to the selling price of products.

The consolidated net profit of the Company for 1940 was $28,107,503 equivalent to $3.13 per share on outstanding capital stock, compared to $29,950,287 and $3.33 per share for 1939. The decrease in net earnings was due in large part to the increase in taxes paid by the Company.

**TAXES**

During 1940, charges to income for Federal, State, and local taxes amounted to $12,201,761, compared with $10,922,784 in 1939. The Company collected gasoline and other taxes of $5,136,652, not included in the above, from customers and employees, and remitted the amount to Federal and State Governments. Taxes absorbed by the Company, including amounts charged to surplus and other accounts, were equivalent to $1.47 per share of outstanding capital stock during the year, as compared with $1.26 per share in the preceding year.

**BALANCE SHEET**

Current and working assets exceeded current liabilities at the end of 1940 by $41,137,524, amounting to an improvement in net working capital for the year of $838,585. Inventories other than materials and supplies increased $2,324,960 during the year and amounted to $26,990,643 at the end of the year. This change was due principally to an accumulation of 2,642,155 barrels of crude oil and petroleum products. The additional storage is required to handle operations economically. The aggregate cost of inventories at the end of the year was 9.47 per cent less than the aggregate market value.
Net plant and equipment showed an increase of $8,743,351 during the year, taking into account retirements, depreciation, depletion, and amortization. The addition to net plant and equipment would have been $1,858,460 larger but for a change in accounting procedure which was adopted as of January 1, 1940. The change involved charging general leasing and exploration costs as current expenses, whereas such expenditures were capitalized during previous years. Total expenditures for additions to fixed property accounts under the changed procedure amounted to $35,038,962, the greater part of which was for acquisition and development of oil properties.

EXPLORATION

About the same amount of geophysics and geologic work was carried on in the search for new oil prospects in 1940 and 1939. However, during 1940 the work was more successful than in the two preceding years, both as to quantity and quality of structures located. Prospects found in 1940 appear to be more promising than those of the two previous years, but a final appraisal must await tests by drilling. The finding of a large number of structures was due to carrying on a substantial part of our exploration work in relatively unexplored areas, such as North Texas, Mississippi, and Southwest Texas.

Actual discovery of production in 1940 also exceeded that of 1939. The outstanding discovery of 1940 was the Hawkins field in Wood County, Texas, which is classified as the only major oil field found in the United States last year. The discovery well was drilled by another company, but it appears that Humble owns more than 80 per cent of the acreage likely to be productive. Four new fields discovered as a result of our own wildcat drilling program were Fisher's Reef, Red Fish Reef, and East Flour Bluff in Texas, and South Crowley in Southern Louisiana. Humble also contributed toward the drilling of discovery wells in several other fields, among them the Rowan field in Brazoria County and the Lolita field in Jackson County. Drilling by another company resulted in the discovery of the Willamar field in Willacy County, Texas, where a considerable part of the field appears to be located on Humble leases.

On the whole, oil fields discovered in 1940 by the industry in the area in which Humble operates, with the exception of Hawkins, probably will average less in reserves per field than will the discoveries of 1939. During 1940, 116 fields were found, compared with 83 during 1939. Extensions to known fields were relatively unimportant in 1940, so that no large revisions in previous estimates of reserves for old fields were required.
PRODUCING

The principal items in the operations of the Production Department are compared below for 1939 and 1940:

Crude Production (Barrels)

<table>
<thead>
<tr>
<th></th>
<th>1939</th>
<th>1940</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross, Total</td>
<td>59,225,500</td>
<td>60,646,600</td>
</tr>
<tr>
<td>Net, Total</td>
<td>47,605,300</td>
<td>49,074,000</td>
</tr>
<tr>
<td>Gross, Per Day</td>
<td>162,200</td>
<td>165,700</td>
</tr>
<tr>
<td>Net, Per Day</td>
<td>130,400</td>
<td>134,100</td>
</tr>
</tbody>
</table>

Wells Operated at Year End

<table>
<thead>
<tr>
<th></th>
<th>Oil</th>
<th>Gas</th>
</tr>
</thead>
<tbody>
<tr>
<td>By Humble</td>
<td>6,813</td>
<td>97</td>
</tr>
<tr>
<td>By Others, Humble Part Interest</td>
<td>595</td>
<td>16</td>
</tr>
<tr>
<td>By Others, Humble Royalty Interest</td>
<td>1,976</td>
<td>2,175</td>
</tr>
</tbody>
</table>

Wells Completed During Year

<table>
<thead>
<tr>
<th></th>
<th>By Humble</th>
<th>By Others*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oil</td>
<td>579</td>
<td>81</td>
</tr>
<tr>
<td>Gas</td>
<td>32</td>
<td>5</td>
</tr>
<tr>
<td>Dry</td>
<td>95</td>
<td>14</td>
</tr>
<tr>
<td>Total</td>
<td>706</td>
<td>100</td>
</tr>
</tbody>
</table>

Gasoline Plant Production (Gallons)

<table>
<thead>
<tr>
<th></th>
<th>1939</th>
<th>1940</th>
</tr>
</thead>
<tbody>
<tr>
<td>Natural Gasoline</td>
<td>43,234,000</td>
<td>42,382,000</td>
</tr>
<tr>
<td>Butane, Propane, and Other By-Products</td>
<td>38,497,000</td>
<td>40,919,000</td>
</tr>
</tbody>
</table>

*Wells in which Humble has a part interest.

The Company's gross oil production increased 2.4 per cent over the previous year, and its net production increased 3.1 per cent. Its gross production in Texas increased 1.3 per cent, and its participation in the State's production remained about the same as in 1939. Total wells drilled by the Company and by others jointly interested with it, in Texas, the Louisiana Gulf Coast, and Southeast New Mexico were 14.5 per cent less than in 1939, whereas total wells drilled in the area were 2 per cent greater than in 1939. The number of wells drilled in the United States increased about 10 per cent to 30,000 last year. A large part of the increase in drilling was due to development in Kansas, Nebraska, Louisiana, and Mississippi.

During the year, the contract for the purchase by the Company of gas for Humble's Baytown and Ingleside refineries from a gas company expired. The Baytown refinery is now being supplied with gas from our own Production Department. The Ingleside refinery will also be supplied by the Production Department during the year, but at present it continues to use gas purchased from an outside company. There was an increase of
nearly 50 per cent in the volume of gas produced by the Company in 1940, and a further increase is indicated for the year 1941.

The production of condensate, which is a high-gravity liquid with a large yield of gasoline, continued to increase in volume and importance during the year. Humble has a small interest in a cycling plant producing condensate in the Opelika field in East Central Texas, and contemplates building a plant jointly with other producers in the Katy field of the Texas Gulf Coast during 1941.

PURCHASING AND TRANSPORTATION

In 1940, Humble purchased 235,400 barrels of oil per day. It purchased 1.75 barrels of oil from others for every barrel of its own net production. Humble's sales of crude, excluding deliveries to its own refineries, were over 200,000 barrels per day. Purchases in 1940 were 6,500 barrels per day lower than in 1939. This was reflected in a decrease of nearly 5,000 barrels to 381,300 barrels in the daily average crude handled by Humble Pipe Line Company. During the year Humble Pipe Line Company entered several fields for the first time, and as a result, constructed 186 miles of gathering lines and 33 miles of trunk lines.

MANUFACTURING

Refining operations were at a record level during 1940. Crude runs to stills averaged 161,000 barrels per day, an increase of 8,000 barrels per day, or 5.2 per cent over 1939. Production of total aviation gasoline was about the same as in 1939, but the output of 100 octane gasoline was increased materially during the year by expansion of alkylation facilities. Humble produces about one-eighth of the total amount of high quality blending agents used in 100 octane number aviation gasoline in this country. A further expansion of alkylation facilities will be made in 1941 to meet increased requirements resulting from the national defense program.

Construction of a new unit specially designed for distilling and processing Gulf Coast crudes for the manufacture of high grade lubricating oils was begun in 1940. This unit, with a crude capacity of 30,000 barrels per day, was placed in operation early in 1941.

The outstanding occurrence in our refinery operations in 1940 was the signing of a contract during the latter part of the year under which Humble will construct and operate a plant at Baytown for the manufacture of toluol for the United States Government. Ownership of the plant rests with the Government. Humble will operate the plant on the
basis of cost plus a fixed fee. The Company will provide the raw materials for this operation. The contract provides for the completion of the plant by October, 1941, but we hope to have it in operation prior to that time, particularly if present schedules for delivery of material and equipment are met.

Among the major projects planned for 1941 is the construction of a fluid catalyst gas-oil cracking unit, necessitated by demand for improved high quality of motor gasoline.

MARKETING

Total sales of products by our Sales Department amounted to 122,000,000 gallons in 1940. This was an increase of 12 per cent over 1939, due principally to a gain in gasoline, both in automobile motor fuel and aviation gasoline. There was an increase in sales of aviation gasoline through our Marketing and Sales Departments of 74 per cent over 1939, which in turn showed a gain of 54 per cent over 1938. Retail gasoline prices in the area in which Humble distributes its products continued to decline during 1940, reaching unduly low levels toward the end of the year.

PERSONNEL

Humble Oil & Refining Company and Humble Pipe Line Company had 12,688 employees on December 31, 1940. Total payrolls for the year 1940 amounted to $27,928,178, and in addition, the Company paid $1,751,432 to sales agents in commissions. Employees welfare expenses, consisting of contributions to the Annuity and Thrift Plan, social security taxes, vacation allowances, sickness and accident benefits, workmen's compensation payments, and other items, amounted to $5,558,192 for 1940. In addition, the Humble Companies contributed $3,145,178 to the 1932 Annuity Fund in order to meet actuarial requirements. During the year, employees constituting 97 per cent of all those eligible under the Annuity and Thrift Plan participated in it and paid $2,497,933 into the fund.

CONCLUSION

The management takes this opportunity of expressing appreciation for the splendid work and cooperation of the entire Humble personnel and also of acknowledging its gratitude for the confidence and support of the stockholders.

By order of the Board of Directors,

R. L. BLAFFER  
Chairman

H. C. WIESS  
President
**HUMBLE OIL & REFINING**  
*Consolidated Balance Sheet*  
*as at December 31, 1940*

### ASSETS

**CURRENT AND WORKING ASSETS:**

- Cash .................................. $ 20,584,277.17
- Demand Loans Receivable .......... 3,678,240.73
- Notes Receivable ....................... 230,991.59
- Accounts Receivable (Less Reserves) 7,801,244.07

**Inventories:**

- Crude Oil (at cost)* ............. $13,268,135.63
- Refined Products (at cost)* .... 13,254,291.19
- Other Merchandise (at cost) ... 468,216.30
- Materials and Supplies
  *(at cost or less)* .............. 5,688,066.08 $ 32,678,709.20

**STOCKS AND BONDS OF CORPORATIONS** *(at cost or less)*  
*(Inc. 12,160 sh. of Company's own capital stock)*

- Total Assets .......................... $386,228,708.97

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*Interdepartmental profits have been eliminated, but intercompany profits have not been eliminated in determining cost of inventories as it is impracticable to do so. The aggregate cost of crude oil, refined products, and other merchandise was 9.47% less than the aggregate market value thereof at December 31, 1940.*

### LIABILITIES

**CURRENT LIABILITIES:**

- Oil and Gas Accounts Payable .......... $ 7,688,792.93
- Other Accounts Payable .............. 8,955,376.03
- Long-Term Debt Due in 1941 ........... 1,020,506.82
- Reserve for Income Taxes and Other Accrued Liabilities 5,989,261.87 $ 23,835,937.65

**Loans FROM TRUSTEES OF ANNUITY TRUST** ............... 6,220,988.81

**LONG-TERM INDEBTEDNESS:**

- Long-Term Notes Payable ........... 40,045,887.50
- Other Long-Term Debt ............... 2,371,848.87 42,417,736.37

**Deferred Credits** .................. 347,833.87

**CAPITAL ACCOUNT:**

- Capital Stock—Authorized and Issued
  *(9,000,000 shares, no par value)* 175,000,000.00
- Surplus—
  - Capital Surplus ................. $ 554,912.38
  - Earned Surplus—
    - Unappropriated ................. 138,406,212.27
    - Appropriated ................. 137,881,299.89 138,406,212.27

**Total Liabilities** ................... $386,228,708.97
HUMBLE OIL & REFINING COMPANY AND
SUBSIDIARIES

Consolidated Income Account
For Year Ended December 31, 1940

GROSS OPERATING INCOME:
Sales of Petroleum and its Products... $195,287,304.73
Sales of Other Merchandise........ 736,483.45
Other Gross Operating Income....... 2,668,862.16 $198,692,650.34

OPERATING CHARGES:
Costs, Operating, and General Expenses 130,783,780.64
*Taxes .................................. 12,201,760.88 142,985,541.52

Net Operating Income Before Depre-
ciation, Depletion, and Abandonments 55,707,108.82

Depletion and Surrendered Leases...... 4,378,774.38
Depreciation, Retirements, and Other Amortization ............. 21,382,213.17 25,760,987.55

NET OPERATING INCOME.............. 29,946,121.27

NON-OPERATING Loss (Net).............. 422,227.70

INCOME BEFORE INTEREST CHARGES...... 29,523,893.57

INTEREST CHARGES.................... 1,416,390.79

NET PROFIT ACCRUED TO CORPORATION.. $ 28,107,502.78

*In addition to the amount of taxes shown above, there was paid (or accrued) for state gasoline, federal excise, and social security taxes the sum of $5,136,652.06.

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.
HUMBLE OIL & REFINING COMPANY AND SUBSIDIARIES

Consolidated Statement of Surplus
For Year Ended December 31, 1940

**EARNED SURPLUS:**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance, December 31, 1939</td>
<td>$131,855,013.22</td>
</tr>
<tr>
<td>Profit for the year 1940 per statement attached</td>
<td>28,107,502.78</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>159,962,516.00</strong></td>
</tr>
</tbody>
</table>

Deduct—

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividends paid in cash—$2 per share</td>
<td>$17,975,680.00</td>
</tr>
<tr>
<td>Amount contributed to the 1932 Annuity Trust Fund to increase its reserves to the estimated amount required at the end of 1939 on an actuarial basis</td>
<td>3,145,178.00</td>
</tr>
<tr>
<td>Provision for prior years' tax liabilities</td>
<td>715,379.50</td>
</tr>
<tr>
<td>Surplus deficit of Peninsular Oil and Refining Company included in consolidation for the first time</td>
<td>266,051.73</td>
</tr>
<tr>
<td>Other charges (Net)</td>
<td>8,926.88</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>22,111,216.11</strong></td>
</tr>
</tbody>
</table>

Balance, December 31, 1940                                                   $137,851,299.89

**CAPITAL SURPLUS:**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance, December 31, 1939, and December 31, 1940</td>
<td>554,912.38</td>
</tr>
<tr>
<td><strong>Total, December 31, 1940, carried to balance sheet</strong></td>
<td><strong>$138,406,212.27</strong></td>
</tr>
</tbody>
</table>
BOARD OF DIRECTORS

R. L. BLAFFER, Chairman
H. C. Wiess E. E. Townes
James Anderson John R. Suman
L. T. Barrow Hines H. Baker
David Frame D. B. Harris

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
Hines H. Baker ..... Vice President
H. K. Arnold ..... Secretary and Assistant Treasurer
R. E. Seagler ..... General Attorney
Gay Carroll ..... Comptroller
J. K. Vaughan ..... Assistant Comptroller

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