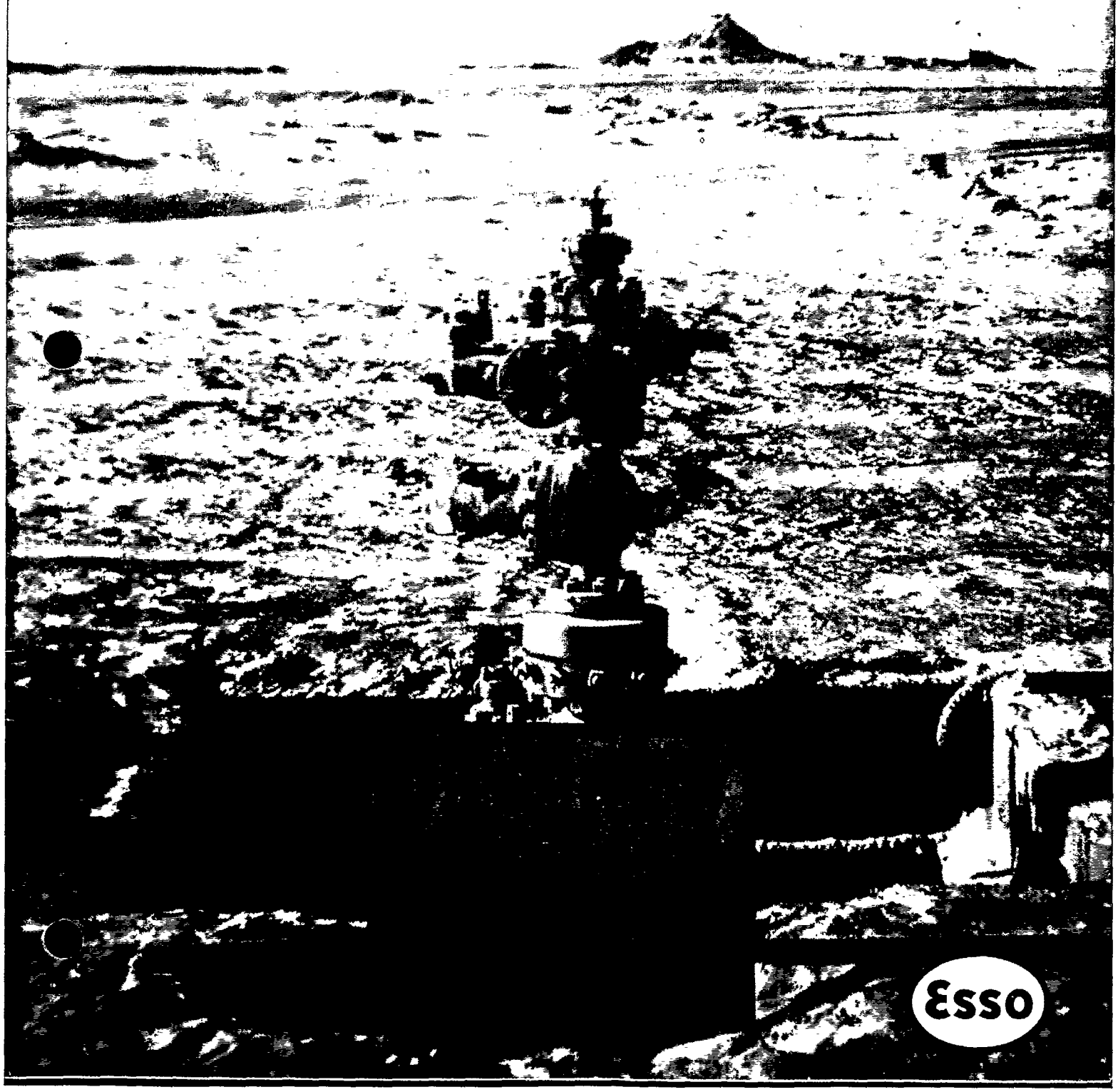
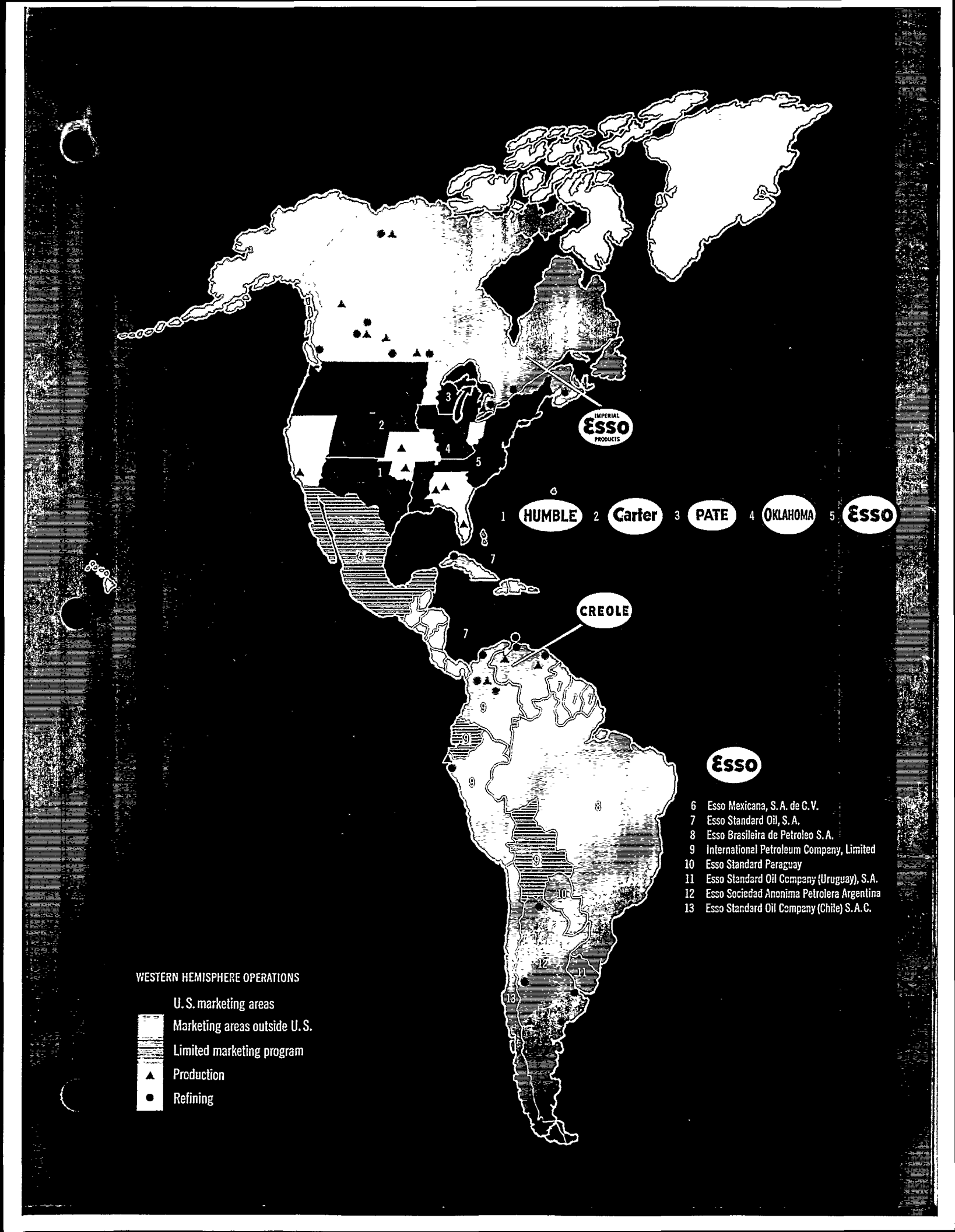
1959 Annual Report Standard Oil Company (New Jersey)

PLAINTIFF'S EXHIBIT
EXX-226
PENGAD-Bayonne,N.J.




IMPERIAL Esso PRODUCTS
1 HUMBLE 2 Carter 3 PATE 4 OKLAHOMA 5 Esso
CREOLE
Esso
6 Esso Mexicana, S.A. de C.V.
7 Esso Standard Oil, S.A.
8 Esso Brasileira de Petroleo S.A.
9 International Petroleum Company, Limited
10 Esso Standard Paraguay
11 Esso Standard Oil Company (Uruguay), S.A.
12 Esso Sociedad Anonima Petrolera Argentina
13 Esso Standard Oil Company (Chile) S.A.C.
WESTERN HEMISPHERE OPERATIONS
U.S. marketing areas
Marketing areas outside U.S.
Limited marketing program
Production
Refining

1959 Annual Report | Standard Oil Company (New Jersey)

30 ROCKEFELLER PLAZA, NEW YORK 20, NEW YORK

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The story of the year's operations • 15
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The terms *company, Jersey, our,* and *its,* as used in this report, sometimes refer collectively to all of the companies affiliated with Jersey, sometimes to one or more of them. The shorter terms are used only for convenience and simplicity.

to the shareholders...

In 1959 the Jersey organization produced and sold more oil than in any previous year. In doing so we earned $630,000,000, an increase of 12 per cent over earnings in 1958. As you will recall, our 1958 earnings were sharply reduced by the increase in the Venezuelan income tax and by decreased profit margins resulting from strong competitive pressure on prices brought about by excess capacity. Though these factors continued in 1959, we were successful in turning the trend of our earnings again upward.

As we have previously reported to you, the oil industry is going through a period of imbalance of supply and demand. Such periods have occurred before and are to be expected in a dynamic industry. The major factor in the current situation is excess capacity, with consequent intense competition and a weakening of price structure. We have responded to these conditions by vigorous efforts to reduce costs, to expand sales volumes, and to utilize our facilities still more efficiently. The year end results are evidence that we are having success in these efforts. While we expect present conditions to be with us for some time, the anticipated steady growth of demand for oil is a highly encouraging factor. Use of oil throughout the free world in 1959 increased 5.7 per cent over the previous year. We look for a slightly better gain in 1960.

The current problems of the petroleum industry are not only economic; they arise also from legislation and government regulation. Once again taxes on gasoline in the United States have been raised at both federal and state levels, and the federal government is proposing a still further increase. These taxes have now been raised to such a height that they may tend to discourage gasoline consumption and so become self-defeating. The nationwide gasoline tax, including state levies, now represents a sales tax of nearly 50 per cent of the average service station (retail) price excluding tax.

As the government's mandatory control of oil imports into the United States continued into its second year, serious inequities in the program were still unresolved. The import quotas for crude oil are allocated among companies on a sliding scale which is discriminatory against the larger companies and is in no way necessary for the government's declared purpose. The regulation, thus, has been shaped to result in an anti-big-business bias. In addition, heavy fuel oil imports continue to be restricted by law, even though domestic production is not sufficient to satisfy domestic demand. We believe that the restriction on imports of fuel oil is against the interests of the consumer and of the nation as a whole.

During the year a proposal to reduce the percentage depletion deduction by a graduated scale was wisely defeated in the United States Senate. It is important to reiterate that the depletion provision has been an incentive which has helped provide this country for decades with an abundant supply of oil. The percentage depletion provision in our tax laws is deeply rooted in the economics of the oil business. Its reduction or elimination would be contrary to the national interest because such action would tend toward higher costs of oil products to the consumer and the impairment of domestic oil resources.

In the past year there have been increasing pressures from the coal industry for the establishment of a national fuels policy by the Congress. The effect of the policy sought, if followed by legislative action, would be to subordinate consumer decisions to government planning and controls, and so to deny individuals the right of free choice as to what fuel they used. It seems clear that the real aim of the coal industry is to obtain, through

government protection and restrictions on competing fuels, a market position that in a free economy should be determined by factors of price, quality, service, and consumer preference.

There have been two significant legal developments on the domestic scene. In mid-February of this year the Federal District Court in Tulsa concluded that twenty-nine oil companies, including Jersey and three of its domestic affiliates, were innocent of the charge that the increases in prices of crude oil and gasoline which occurred in January, 1957, were collusive. In the light of the rash accusations that are often made against the oil industry, it is important to recall what took place. First, two congressional committees looked into the matter. Their hearings were followed by an eighteen-month grand jury investigation of all phases of the domestic oil industry. Despite these long preliminaries and the massive preparation of the government case, involving an F.B.I. investigation and the gathering of countless documents by subpoena, an indictment with respect only to the 1957 price increases resulted. On the trial of that indictment, the Federal Court in Tulsa directed a verdict of acquittal of the oil companies and did not even require them to go forward with their defense.

In another lawsuit the government claimed that there had been overcharges in the sale of Middle East crude oil to European customers in transactions financed by the Economic Cooperation Administration and its successor, the Mutual Security Agency, under our government's foreign aid program. After one of the cases against other oil companies was lost by the government and an appeal was also lost, the case against Jersey and its subsidiary, Esso Export Corporation, was dismissed late in 1959.

In the international area, Creole Petroleum Corporation has maintained continuous contacts with the Venezuelan government on ways to improve the climate for foreign investment in that country and to ensure that the Venezuelan oil industry remains competitive in world markets. A new three-year labor contract was signed with the unions in Venezuela on February 14, 1960, after extensive bargaining. While the new contract does increase the cost of Venezuelan oil, it will provide a base for continued harmonious relations with employees there.

Political conditions in the Middle East have been generally stable, and we continue to operate in that area under existing agreements. The situation in Cuba gives cause for concern. In the seventy-eight years we have operated in Cuba, we have made substantial contributions to the progress of its economy. It is our earnest hope that conditions will permit us to continue to do so, but the outlook at present is very uncertain.

Other major international events of the year were the inauguration of the European Economic Community and the initialing of the preliminary agreement of the European Free Trade Association. Jersey affiliates have long been established in the countries comprising these trading areas. They are expanding their facilities and planning their operations in order that they may contribute to and share in the economic progress that will undoubtedly follow this increased freeing of the channels of trade. Considerable progress was also made in western Europe toward relaxation of currency restrictions and elimination of controls over dollar imports.

Among the important organizational changes that occurred during the year were the steps taken to effect the consolidation of five of Jersey's principal operating affiliates in the United States into a single new company—the Humble Oil & Refining Company, incorporated in Delaware. This new company's operations will eventually extend over the entire United States, and the consolidation will lead to increased effectiveness and efficiency of operations, better ability to meet the keen competition existing in the United States, and greater opportunity for employees.

As for the future, all evidence points to a dynamic decade in the oil industry. The world is entering a new age of economic development. A revolution of rising expectations is sweeping those areas where a great majority of the world's people live. At the same time western Europe, which is the largest oil market abroad, is reaping the benefits of a freer market. In this favorable environment, prospects are that demand for all types of energy in the free world will continue to increase strongly in the sixties and that oil and gas combined will share somewhat more than proportionately in filling this demand.

Thus, we can expect an acceleration in the pace of change in the industry. The quality and flexibility of the human and material resources of the Jersey organization, however, are second to none, and we are confident that, whatever the challenges ahead, the company is in a position to participate effectively and profitably in emerging opportunities.

During the year Henry H. Hewetson retired as a director, and Arthur T. Proudfit resigned from the Board to return to Creole Petroleum Corporation as president. Cecil L. Burrill and Harold W. Fisher were elected to the Board of Directors.

It is a particular pleasure to acknowledge the support of our stockholders, our employees, and our customers. The success of the company is the fruit of their loyal cooperation. On behalf of the Board of Directors, we thank all for their part in the continuing progress of Jersey.

For the Board of Directors

Eugene Holman / *Chairman*

April 4, 1960

M. J. Rathbone *President*

DIRECTORS

Marion W. Boyer
Cecil L. Burrill
Stewart P. Coleman
L. W. Elliott
Harold W. Fisher
Michael L. Haider
Eugene Holman
Peter T. Lamont
H. W. Page
M. J. Rathbone
David A. Shepard
E. E. Soubry
William R. Stott
Leo D. Welch
M. A. Wright

OFFICERS

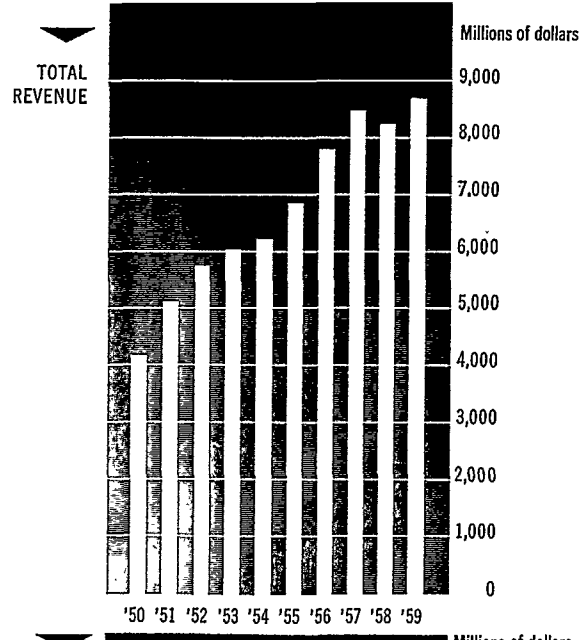
Eugene Holman, *Chairman of the Board*
M. J. Rathbone, *President*
L. W. Elliott, *Executive Vice-President*
David A. Shepard, *Executive Vice-President*
E. E. Soubry, *Executive Vice-President*
Leo D. Welch, *Executive Vice-President*
Stewart P. Coleman, *Vice-President*
Emilio G. Collado, *Treasurer*
A. O. Savage, *Comptroller*
J. O. Larson, *Secretary*

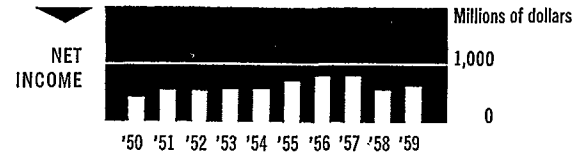
ANNUAL MEETING

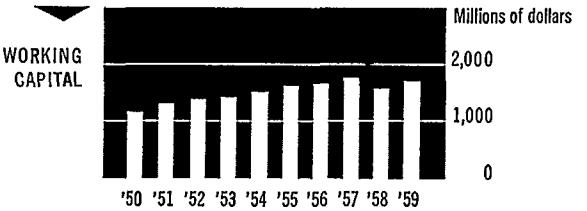
The next annual meeting of the shareholders of the company is to be held at the Lavino Field House of The Lawrenceville School, Lawrenceville, New Jersey, on Wednesday, May 25, 1960.

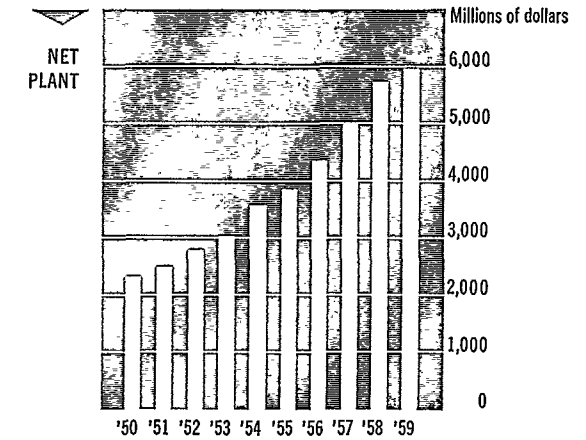
This huge customer, whose tanks are being filled with Esso products at Baltimore, will consume over 2,000 gallons of fuel per hour in flight.

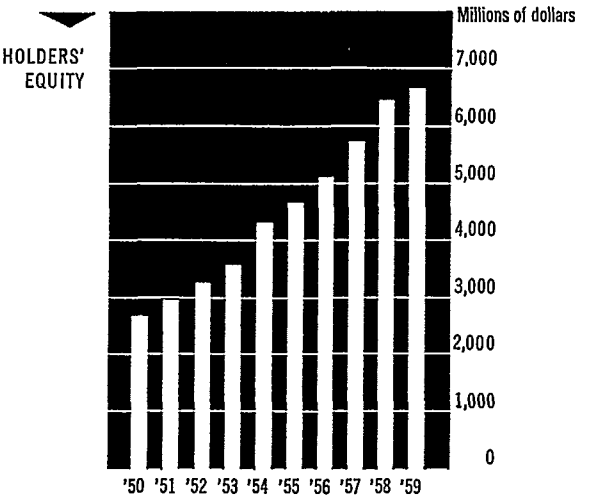












Standard Oil Company (New Jersey)

Ten-Year Financial Summary

MILLIONS OF DOLLARS

	Total revenue (including consumer and excise taxes)	Costs and other deductions	Net income	Cash dividends paid	Current assets	Current liabilities
1959	$8,714	$8,084	$630	$481	$3,309	$1,605
1958	8,261	7,699	562	465	3,120	1,532
1957	8,509	7,704	805	442	3,155	1,394
1956	7,789	6,980	809	412	3,008	1,358
1955	6,866	6,157	709	343	2,813	1,171
1954	6,236	5,651	585	280	2,625	1,103
1953	6,041	5,460	581	272	2,457	1,011
1952	5,749	5,208	541	257	2,361	988
1951	5,119	4,579	540	250	2,227	927
1950	4,176	3,765	411	151	1,816	674

	Net income per share	Cash dividends paid per share	Percentage of net income to total revenue	Ratio of current assets to current liabilities	Jersey shares outstanding (thousands)
1959	$2.93	$2.25	7.23	2.06	216,533
1958	2.72	2.25	6.81	2.04	214,890
1957	4.08	2.25	9.46	2.26	203,488
1956	4.11	2.10	10.38	2.21	196,939
1955	3.61	1.75	10.33	2.40	196,306
1954	3.19	1.52	9.38	2.38	196,306
1953	3.20	1.50	9.62	2.43	181,713
1952	2.98	1.42	9.41	2.39	181,713
1951	2.97	1.38	10.55	2.40	181,713
1950	2.26	0.83	9.85	2.70	181,713

Working capital	Property and equipment, less depreciation	Additions to property and equipment	Exploration expenses, including dry holes	Long-term debt	Shareholders' equity (book value)	Taxes and other payments to governments	Wages, salaries, and employee benefits
$1,704	$5,960	$ 729	$197	$792	$6,688	$2,518	$969
1,588	5,740	859	213	699	6,457	2,355	953
1,761	5,000	1,131	246	643	5,756	2,300	993
1,650	4,355	888	195	585	5,111	2,171	906
1,642	3,873	690	172	558	4,680	1,948	839
1,522	3,575	600	164	497	4,314	1,719	804
1,446	3,020	587	161	532	3,572	1,657	779
1,373	2,787	565	153	503	3,263	1,561	750
1,300	2,500	443	112	468	2,979	1,332	677
1,142	2,318	352	90	464	2,688	1,054	606

Number of shareholders (year end)	Number of employees (average)
582,000	146,000
503,000	154,000
463,000	160,000
403,000	156,000
324,000	153,000
297,000	155,000
284,000	156,000
269,000	158,000
254,000	157,000
222,000	152,000

Financial Review

Standard Oil Company (New Jersey) has investments in companies engaged in all phases of the oil business in many parts of the world. The consolidated financial statements on pages 28 to 31 combine the accounts of the parent company and affiliates whose outstanding voting shares are owned more than 50 per cent.

NET INCOME AND DIVIDENDS

Consolidated net income for 1959 was $629,778,000, an increase of 12 per cent over the $562,475,000 earned in 1958. Earnings per share were $2.93 for 1959 as compared with $2.72 for 1958, based on the average number of shares outstanding during each of the years. The increase was due primarily to record sales volumes and more efficient use of facilities in handling the higher operating levels attained in 1959. Together these factors more than offset the effects of continuing competitive pressures on prices.

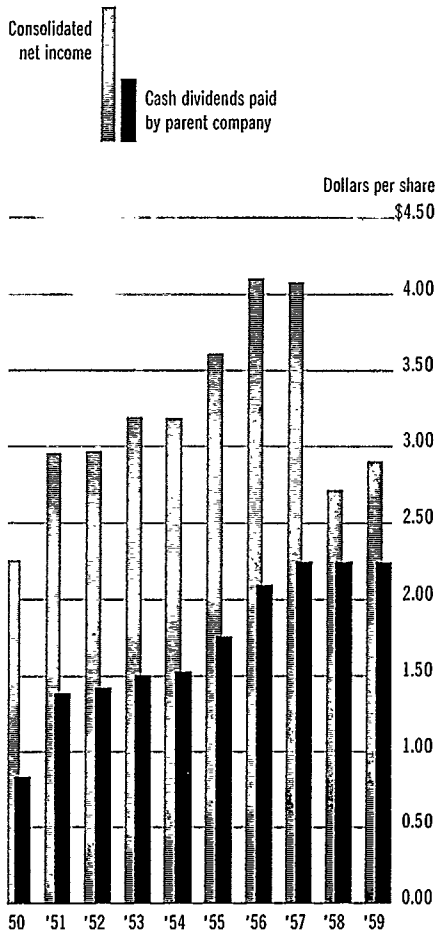
Operations in the United States accounted for 34 per cent of consolidated earnings in 1959. Other Western Hemisphere operations produced 38 per cent and Eastern Hemisphere operations the remaining 28 per cent.

Net income of the parent company for 1959 was $532,713,000 or $2.48 per share based on the average number of shares outstanding during the year. Comparable earnings for 1958 were $586,751,000 or $2.84 per share.

Cash dividends were paid at the rate of $2.25 per share in 1959, the same rate paid in the previous year. Total dividend payments were $481,438,000, an increase of $16,887,000 over 1958 which was due entirely to the greater number of shares outstanding. The 1959 dividend represented a distribution equal to 76 per cent of the consolidated net income.

REVENUES

Revenues from sales and investments, including the consumer and excise taxes collected on petroleum products, totaled $8,714,061,000, a gain of 5½ per cent over the total revenues in 1958. Worldwide petroleum product sales volumes in



Earnings and dividends

Cash dividends of $2.25 per share in 1959 continued the level of the preceding two years. The total payment of $481,438,000 was $16,887,000 higher than in 1958, reflecting an increase in the number of shares outstanding. The dividends paid were equal to 76 per cent of consolidated earnings and continued the unbroken record of payments in every year since 1882.

1959 increased 8 per cent to a new record level. The larger part of the gain was in the United States, where product sales volumes increased 12 per cent. Sales outside the United States, accounting for 60 per cent of Jersey's worldwide total, were up 5 per cent over 1958 sales.

Crude oil prices declined early in 1959 following a weakness in product prices evident in 1958. This product price weakness continued in 1959, with the result that average unit realizations were slightly below those of the previous year.

COSTS AND OTHER DEDUCTIONS

Total costs and other deductions from revenues were higher than in 1958 by $385,903,000, largely because of greater operating volumes, increased purchases of crude, and a rise in taxes. On a per barrel basis, however, costs were lower, reflecting continued careful control and improved efficiency. Although there was a reduction in the number of employees, higher rates caused wages, salaries, and employee benefits to rise by $16,505,000 to a total of $969,082,000 for the year. Of this amount, $24,205,000 was incurred in construction of facilities; the balance of $944,877,000, an increase of 3 per cent, was charged to operations.

Taxes and other payments to governments are a very substantial cost in the oil business and, as in other businesses, must be recovered in the price of products sold to the public. As summarized in the table below, payments by Jersey and its affiliates to various governments in 1959 totaled $2,517,800,000, equivalent to $11.71 per share. This was more than double payroll and employee benefit costs and five times dividend payments to shareholders.

	THOUSANDS OF DOLLARS 1959	1958
Income taxes. . .	$ 456,000	$ 400,000
Operating taxes: production, property, franchise, etc.. .	420,000	405,700
Consumer and excise taxes . . .	611,300	548,600
Import duties . .	1,030,500	1,000,900
Total	$2,517,800	$2,355,200

In the Consolidated Statement of Income for the years 1959 and 1958 (page 29), consumer and excise taxes collected on the sale of petroleum products have been included in Taxes and Other Payments to Governments rather than as a deduction from revenues as in prior years. This reclassification did not affect net income for either year.

The rise in payments to United States and foreign governments was due largely to the higher level of both operations and earnings as well as to the increases in consumer and excise taxes on petroleum products. With the federal excise tax on gasoline having been increased from 3 to 4 cents per gallon as of October 1, 1959, state and federal gasoline taxes taken together now average over 10 cents a gallon in the United States.

WORKING CAPITAL

Consolidated working capital at the year end was $1,704,439,000, an increase of $116,584,000 during the year. At December 31, 1959, cash on hand amounted to $229,981,000, and marketable securities, valued at the lower of cost or market, were $1,155,234,000. These two items totaled $1,385,215,000, of which the parent company held $1,138,013,000.

Inventories totaled $680,228,000 after the elimination of intercompany profits, an amount substantially below the replacement cost at the year end. Inventories of affiliates in the United States and some foreign countries are valued at cost under the last-in, first-out method. Inventories of affiliates in other foreign countries, accounting for 44 per cent of the total volume, are valued in accordance with local regulations and customs at cost, generally under the first-in, first-out method, or at market, whichever is lower.

Inventories of materials and supplies, generally priced at average cost, totaled $233,564,000, a decline for the second consecutive year.

INVESTMENTS IN MIDDLE EAST AND FAR EAST

Jersey's investments include a 50 per cent interest in Standard-Vacuum Oil Company, a 30 per cent interest in Arabian American Oil Company, a 12 per cent interest in Iraq Petroleum Company, Limited and associated companies through a 50 per cent ownership of Near East Development Corporation, and a 7 per cent interest in Iranian Oil Participants Limited. At December 31, 1959, Jersey's investments in these companies, including advances, were carried at $205,621,000, which compared with Jersey's equity in their net assets of $448,179,000. The company's equity in the estimated earnings of these companies for 1959 was

$97,910,000. Dividends received from them were $90,465,000.

PROPERTY, PLANT, AND EQUIPMENT

Consolidated capital expenditures during 1959 for property, plant, and equipment totaled $729,146,000, down 15 per cent from the amount spent in 1958. In addition to these capitalized expenditures, the consolidated companies spent and charged to income $197,203,000 in the search for crude oil and gas reserves. This amount included dry hole costs and geological, geophysical, and other exploration expenses. Drilling costs of productive wells are capitalized and depreciated under the unit-of-production method. Depreciation and depletion are computed on the basis of cost and estimated useful life of the respective assets.

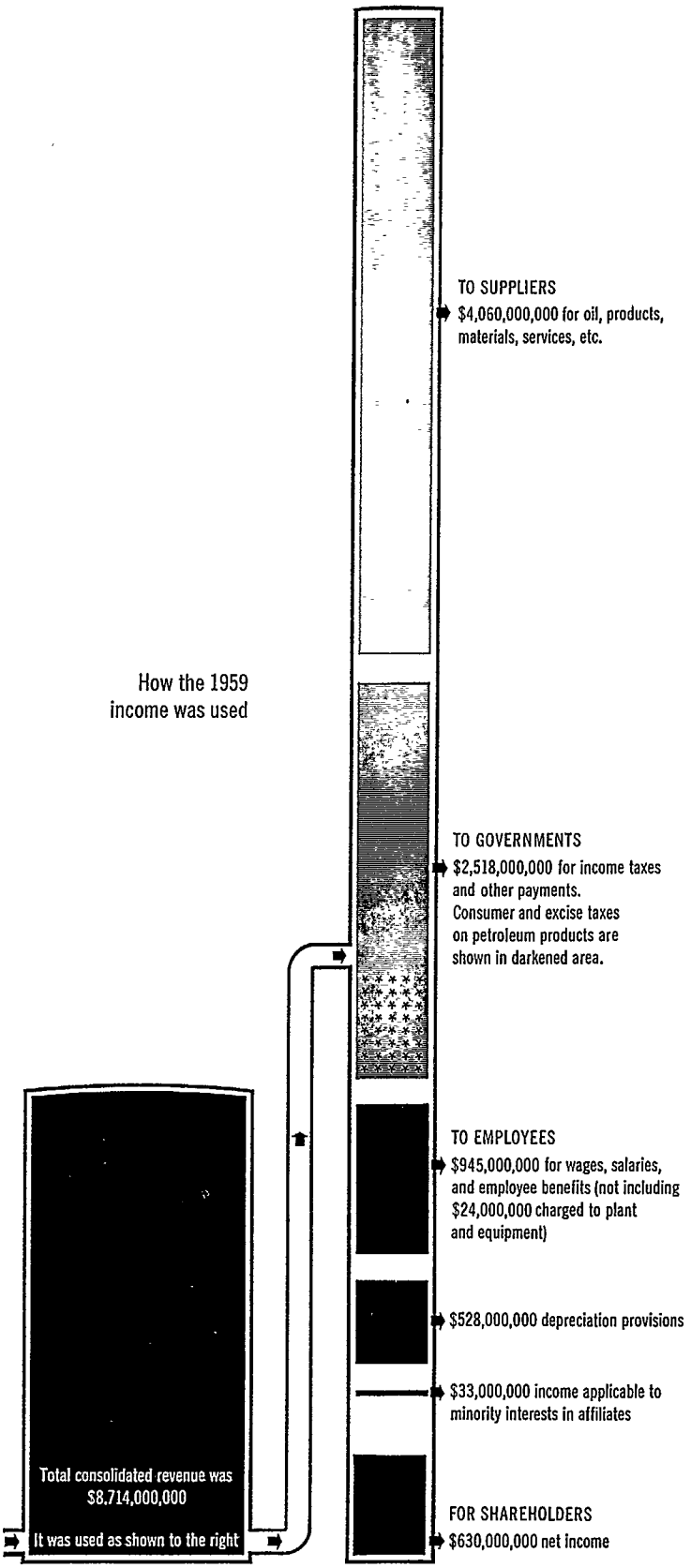
As described under Corporate Changes on page 12, Humble Oil & Refining Company (Texas) was merged into Jersey on December 1, 1959. Jersey's additional investment in connection with this merger was $53,240,000 in excess of the related equity in the book value of the underlying net assets of Humble. This excess is included in property, plant, and equipment at December 31, 1959, and will be amortized by charges against income based on the net crude production of Humble. However, the capital additions listed in the tabulation, Investment in Property, Plant, and Equipment, on page 11, do not include this amount.

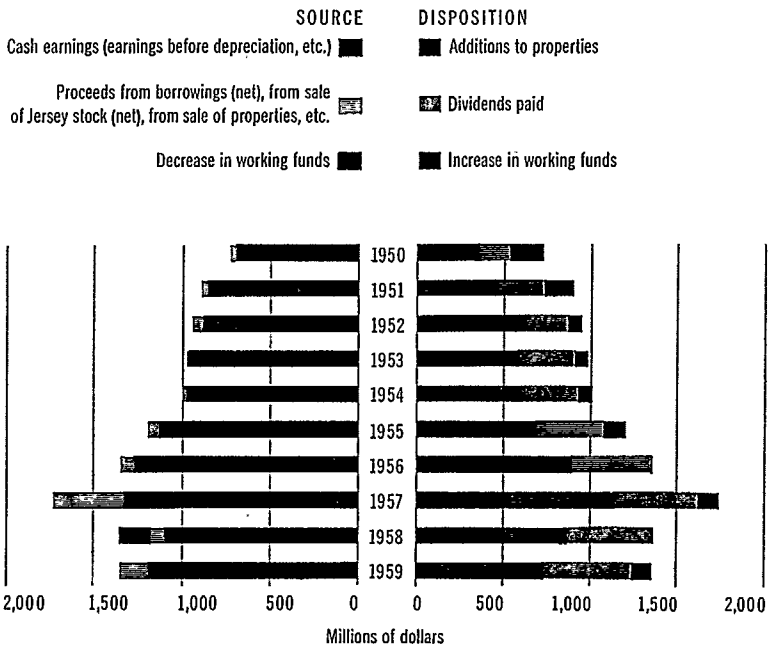
LONG-TERM DEBT

Long-term debt at December 31, 1959, was $791,642,000, a net increase during the year of $92,493,000. This increase resulted primarily from additional local borrowings of $42,164,000 by Esso Petroleum Company, Limited (United Kingdom), $23,861,000 by Esso-Nederland N.V. (Netherlands), and $12,692,000 by Esso Standard S.A.F. (France). These funds were borrowed to help finance major expansion programs of these affiliates. For the parent company alone, long-term debt totaled $310,610,000 at December 31, 1959, a reduction of $1,305,000 from the previous year end.

ANNUITY, INSURANCE, AND OTHER RESERVES

At the 1959 year end, reserves included $257,291,000 for annuities, $62,552,000





Working capital

In 1959 additions to plant facilities for Jersey's worldwide operations were again substantial, although lower than in any of the three years preceding. Improved cash earnings, supplemented by borrowings of some affiliates, resulted in an increase in working funds after making expenditures for additions to properties and meeting dividend requirements.

for marine and fire insurance, $69,453,000 for employee service and separation allowances required in foreign countries, and $20,516,000 for other purposes. To cover liabilities under annuity plans, the companies have deposited funds with trustees, provided book reserves, and purchased annuities under group contracts. In 1959 the consolidated companies paid $90,923,000 to trustees, insurance companies, and annuitants. These payments do not include those made by employees under current contributory plans. The companies also increased book reserves for annuities by $9,568,000, resulting in a total charge of $100,491,000 against current income. The actuarial liabilities under annuity plans are reviewed regularly, and adjustments are made as required.

CAPITAL STOCK

Merger of Humble (Texas) into Jersey (see Corporate Changes on page 12) involved issuance by Jersey of 1,565,579 shares having a value, based on market quotations, of $78,279,000. Of this amount, $10,959,000, which represented par value, was added to the parent company's capital stock account, and the balance of $67,320,000 was added to Capital: Amount in Excess of Par Value.

Of the 250,000,000 shares of Jersey's $7 par value capital stock authorized, 216,532,661 shares were issued and outstanding as of December 31, 1959.

SHAREHOLDERS' EQUITY

Consolidated shareholders' equity at the year end totaled $6,687,692,000, an increase of $230,488,000 during the year. This increase consisted of $148,340,000 of earnings in excess of dividends paid during 1959 and $82,148,000 representing the value of additional shares issued during the year. Consolidated earnings reinvested included $16,796,000 of statutory reserves of various foreign affiliates and $6,565,000 of restricted earnings of United States pipeline companies set aside since December 31, 1941, under the terms of the Elkins Act suit decree. These amounts are not available for dividend distribution.

CONTINGENT LIABILITIES AND COMMITMENTS

Jersey and certain of the consolidated companies were contingently liable at the

INVESTMENT IN PROPERTY, PLANT, AND EQUIPMENT (THOUSANDS OF DOLLARS)

	ADDITIONS—1959			INVESTMENT DECEMBER 31, 1959		NET INVESTMENT DECEMBER 31, 1958
	UNITED STATES	FOREIGN	TOTAL	GROSS	NET	
Producing . .	$187,895	$ 78,361	$266,256	$4,513,576	$2,694,766	$2,645,141
Refining . . .	50,458	130,953	181,411	2,527,151	1,511,400	1,477,193
Marketing . .	46,764	102,830	149,594	1,455,934	887,524	824,695
Transportation	18,487	97,567	116,054	1,203,124	753,353	696,524
Other	11,406	4,425	15,831	163,335	113,044	96,061
Totals . . .	$315,010	$414,136	$729,146	$9,863,120	$5,960,087	$5,739,614

year end for guaranteed notes and loans totaling $80,000,000.

In addition, at December 31, 1959, Imperial Oil Limited was obligated to provide funds totaling $94,000,000 in the event that various pipeline companies are unable to meet certain outstanding debt obligations.

At December 31, 1959, consolidated companies had 9,200 leases expiring more than three years after that date covering tankers, office buildings, service stations, and other properties. The minimum rentals applicable to these leases for 1960 are estimated at $98,000,000, including $71,000,000 for seventy-five tanker charters on which the average remaining life is approximately six years.

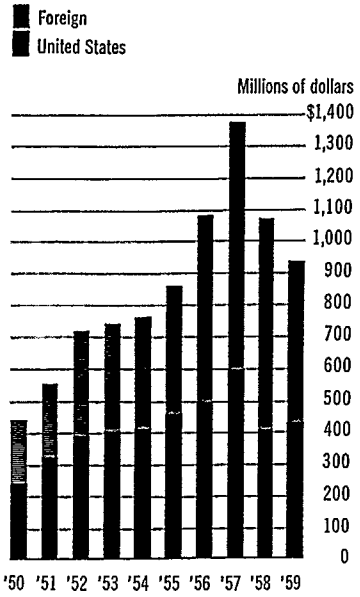
Several lawsuits are pending against the Jersey Company and some of the affiliates in which claims are made in substantial amounts. The company is advised by its general counsel that, while the legal and financial responsibility in respect of such litigation cannot be ascertained, it is his opinion that any ultimate liability will not be materially important in relation to the total assets of such companies. An action by the United States Government against Jersey and Esso Export Corporation, with regard to sales of Middle East crude oil financed by the Economic Cooperation Administration and its successor, the Mutual Security Agency, was dismissed by the government on December 31, 1959.

INCENTIVE STOCK OPTION PLAN FOR EXECUTIVES

At the 1959 annual meeting, Jersey shareholders adopted the Second Incentive Stock Option Plan for Executives. Under this plan up to 3,000,000 shares may be sold at an option price not less than 100 per cent of fair market value on the dates options are granted. Each option granted may be exercised only after two years of continuous employment immediately following the date of grant, but in no event prior to January 1, 1962. All options shall expire not later than ten years from the date of grant, and shall expire earlier in case of death or other termination of service. For this purpose, the parent company may use either newly issued shares or shares that have been previously issued and reacquired. On December 3, 1959, options were granted to 567 executives for 703,700 shares at $49.25 per share.

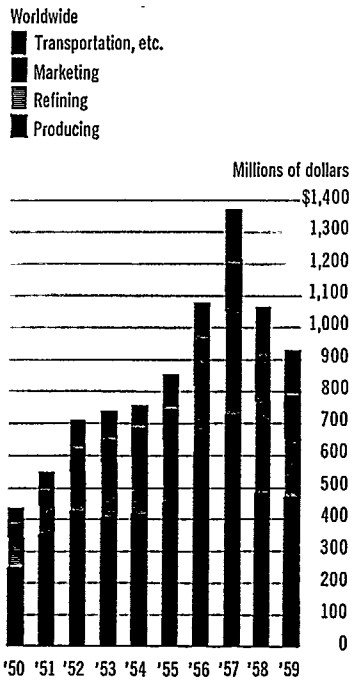
No new options were granted in 1959 under the original Incentive Stock Option Plan for Executives which was adopted by Jersey shareholders at the 1951 annual meeting. During the year, holders of options granted under that plan purchased 32,439 shares at prices not less than 95 per cent of the market value on the dates of grant. This resulted in a charge to income of $394,000, which represented the excess of Jersey's cost of such shares over the proceeds received. Options to purchase 16,780 shares expired during 1959, and at the year end options for 849,206 shares were outstanding, a decrease of 49,219 shares during the year. No more options will be granted under this plan.

During 1959, as a result of the merger of Humble (Texas), the parent company assumed obligations under options that had been granted pursuant to Humble's Incentive Stock Option Plan for Directors and Other Executives. Accordingly, based on the merger ratio of five Jersey for four Humble shares, outstanding options for 239,700 shares of Humble capital stock were converted into options for the purchase of 299,625 shares of Jersey. The company may use only reacquired



Capital and exploration expenditures

These charts indicate the large expenditures required to find and develop oil and gas reserves, and to replace, modernize, and expand refining, marketing, and transportation facilities. In view of Jersey's strong long-term growth position, the company's capital investment program is giving more emphasis to projects that should produce more immediate profits and permit a greater over-all use of existing excess capacities. In addition to the expenditures reported here, Jersey's share of the amounts spent in 1959 by nonconsolidated companies (owned 50 per cent or less) for similar purposes was $104,000,000.



TEN-YEAR SUMMARY OF CHANGES IN WORKING CAPITAL (MILLIONS OF DOLLARS)

	1959	1958	1957	1956	1955	1954	1953	1952	1951	1950
Total revenue (including consumer and excise taxes on petroleum products)	$8,714	$8,261	$8,509	$7,789	$6,866	$6,236	$6,041	$5,749	$5,119	$4,176
Less expenses										
Oil, products, materials, services, etc.	4,060	3,893	3,928	3,485	2,994	2,786	2,686	2,601	2,292	1,853
Taxes and other payments to governments	2,518	2,355	2,300	2,171	1,948	1,719	1,657	1,561	1,332	1,054
Wages, salaries, and employee benefits	945	916	953	861	797	760	743	713	643	576
Cash earnings	1,191	1,097	1,328	1,272	1,127	971	955	874	852	693
Other sources of funds										
Sale of Jersey stock			281							
Proceeds from sales of properties	36	31	28	26	34	31	34	21	25	39
Net change in long-term debt	92	57	58	27	61	(35)	29	35	4	(28)
Other (net)	33	4	32	25	(30)	31	(41)	11	12	24
Total funds available	1,352	1,189	1,727	1,350	1,192	998	977	941	893	728
Disposition of funds										
Additions to properties	729	859	1,131	888	690	600	587	565	443	352
Cash dividends to Jersey shareholders	481	465	442	412	343	280	272	257	250	151
Cash dividends to minority interests in affiliated companies	25	38	44	42	39	42	45	46	42	34
Total funds used	1,235	1,362	1,617	1,342	1,072	922	904	868	735	537
Increase/(decrease) in working capital	$ 117	$ (173)	$ 110	$ 8	$ 120	$ 76	$ 73	$ 73	$ 158	$ 191

shares to meet its obligations under these options.

At December 31, 1959, the company held 865,286 shares of its capital stock which it had acquired in the open market for satisfaction of options, which shares are included at a cost of $47,349,000 in Prepaid Charges and Other Assets in the Statement of Financial Position.

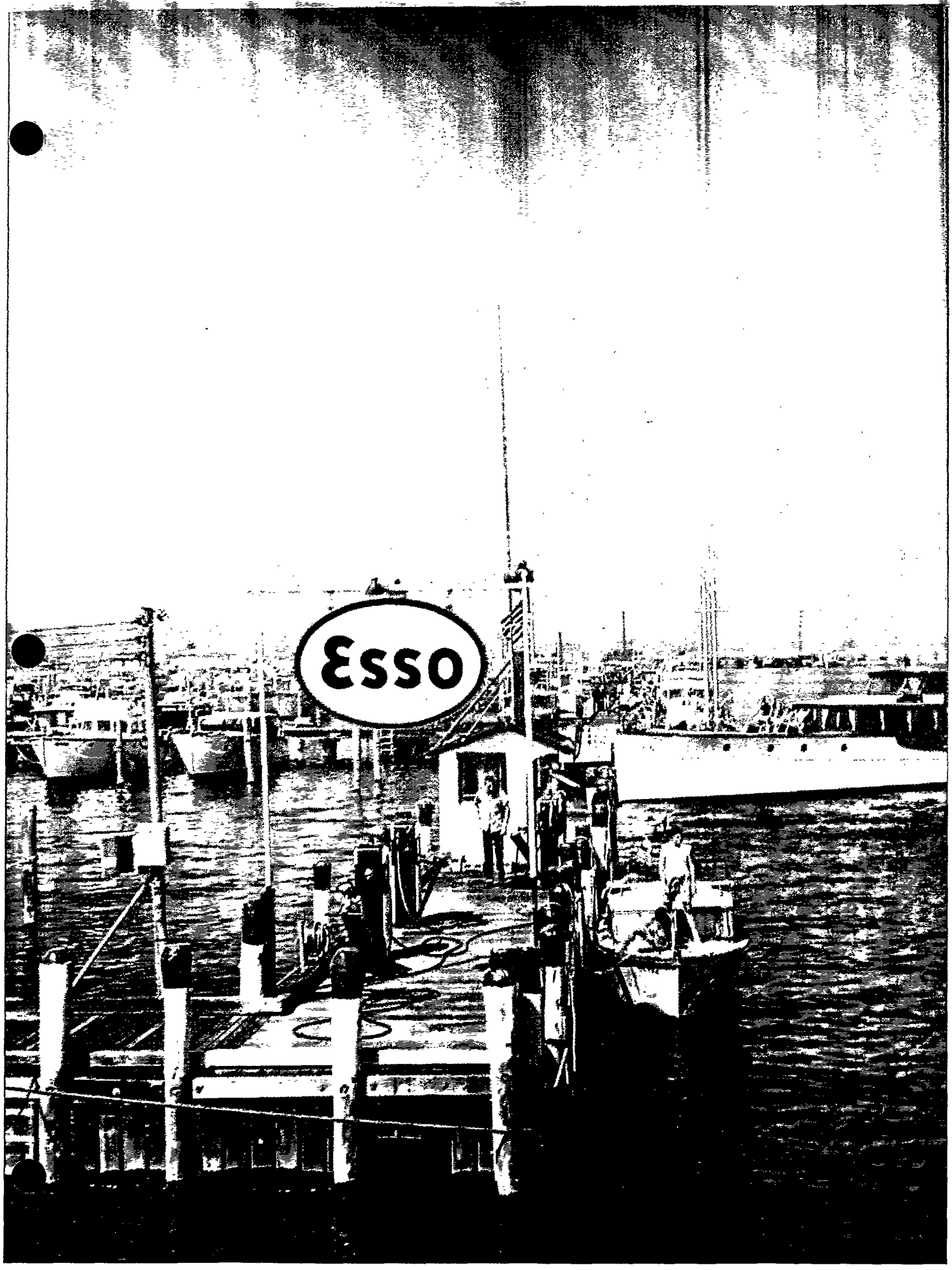
CORPORATE CHANGES

A new Humble Oil & Refining Company was formed in Delaware in 1959 to acquire the assets of the Humble Oil & Refining Company, a Texas corporation. This was the first step in a broad plan for the consolidation of producing, refining, marketing, and marine activities in the United States in order to achieve nationwide operation under unified management. The second and third steps in the plan were completed with the merging of Humble (Texas) into Jersey on December 1, 1959, and the merging of The Carter Oil Company and Esso Standard Oil Company, both 100 per cent owned by Jersey, into the newly formed Humble company at the turn of the year. As soon as feasible, Oklahoma Oil Co. and Pate Oil Company will likewise be merged into the new Humble company.

Esso Services, S.A., was formed to finance the construction of a pipeline under the terms of an agreement between Esso (Argentina) Inc. and the government oil company in Argentina. Esso Mediterranean, Inc., was formed for the purpose of acquiring and coordinating the activities of Jersey marketing affiliates in the eastern Mediterranean area, North and West Africa, and the Iberian Peninsula. Other new companies were organized to conduct exploration in Greece, Spain, and Algeria, as well as in additional areas in Libya. Jersey's ownership interest in Aksjeselskapet Norske Esso was increased from 56 to 78 per cent by the purchase of additional shares.

During January, 1960, Esso Standard (Inter-America) Inc., a wholly owned affiliate, offered to purchase the outstanding shares of International Petroleum Company, Limited, at $45 per share. Jersey accepted this offer and sold its 96.8 per cent investment in International in accordance with the terms of the offer.

This marina at Atlantic Highlands, New Jersey, is one of the largest on the east coast of the United States. The number of Esso marinas has more than doubled in five years, responding to rapid growth in the use of pleasure craft.


Esso

THOUSANDS OF BARRELS PER DAY

Standard Oil Company (New Jersey)

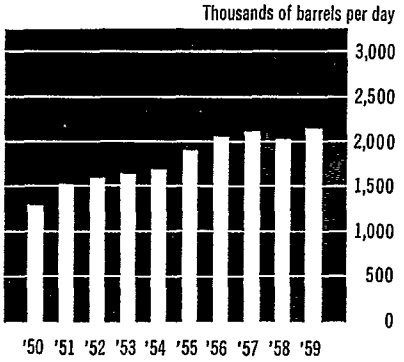
Ten-Year Operating Summary*

Gross† production of crude oil and natural gas liquids

	United States	Canada	Latin America	Europe and North Africa	Middle East and Far East	Total worldwide
1959	507	96	1,259	45	557	2,464
1958	472	88	1,219	42	508	2,329
1957	538	112	1,289	42	451	2,432
1956	546	122	1,208	33	457	2,366
1955	520	110	1,094	24	437	2,185
1954	484	98	932	14	405	1,933
1953	516	92	899	10	361	1,878
1952	504	77	909	9	330	1,829
1951	502	63	887	8	288	1,748
1950	423	37	797	8	212	1,477

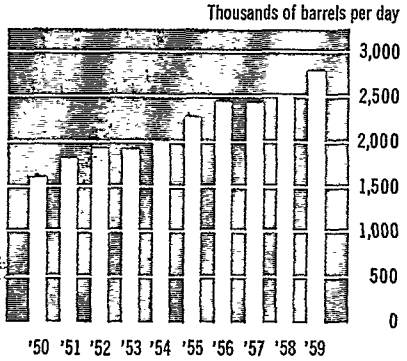
Net† production of crude oil and natural gas liquids

	United States	Canada	Latin America	Europe and North Africa	Middle East and Far East	Total worldwide
1959	440	85	1,051	42	528	2,146
1958	410	78	1,017	40	483	2,028
1957	467	98	1,075	39	433	2,112
1956	474	105	1,008	34	436	2,057
1955	452	95	914	24	421	1,906
1954	422	85	778	14	392	1,691
1953	451	79	752	10	349	1,641
1952	440	66	760	9	323	1,598
1951	438	56	744	8	286	1,532
1950	370	33	670	8	211	1,292



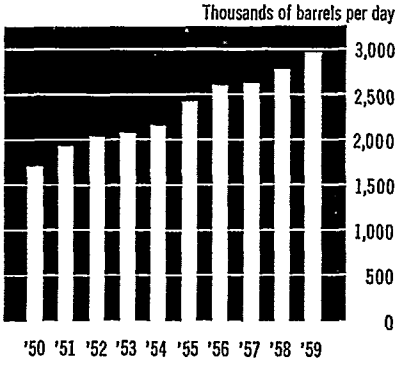
Refinery crude runs

	United States	Canada	Latin America	Europe and North Africa	Middle East and Far East	Total worldwide
1959	861	289	951	501	187	2,789
1958	749	269	880	418	173	2,489
1957	760	267	871	352	177	2,427
1956	827	275	832	348	165	2,447
1955	784	239	779	321	148	2,271
1954	720	214	650	289	124	1,997
1953	753	204	624	229	105	1,915
1952	779	191	642	211	93	1,916
1951	763	184	646	130	90	1,813
1950	684	171	599	84	67	1,605



Product sales

	Gasoline	Home heating oils, kerosene, diesel oils	Heavy fuels	Other products	Total worldwide
1959	1,040	840	932	179	2,991
1958	964	788	866	154	2,772
1957	897	722	852	150	2,621
1956	894	742	816	155	2,607
1955	856	673	760	139	2,428
1954	798	617	623	116	2,154
1953	764	582	621	103	2,070
1952	726	575	628	104	2,033
1951	664	530	633	106	1,933
1950	597	454	555	99	1,705



*These statistics include 100 per cent of the operations of those affiliates in which Jersey owns more than 50 per cent of the shares but only the stock ownership percentage for companies owned 50 per cent or less.

†Gross production includes royalties and oil payments due others but not the share of production of other joint owners or participants. Net production excludes royalties and oil payments due others and also the share of production of other joint owners or participants.

The story of the year's operations

MARKETING

Jersey's marketing organization again proved its ability to meet the intensely competitive conditions resulting from surpluses in the petroleum industry. While free world oil demand increased by not quite 6 per cent, affiliates' sales rose 8 per cent above the 1958 volume to a record 1,100,000,000 barrels for the year.

More than half of our gains were made in the United States, where affiliates expanded sales volumes in markets in which they have long been established and benefited also from outlets in new areas. Esso Standard Oil Company* increased sales volumes by 15 per cent; Humble Oil & Refining Company* entered Arizona and continued to expand in New Mexico; The Carter Oil Company* added outlets in Nebraska, Washington, and Oregon; and affiliates in the Middle West entered new areas in Wisconsin, Indiana, and Illinois.

Sales volumes continued to grow in western Europe. Product prices, however, were generally under intense competitive pressure, especially in Italy, Switzerland, Sweden, and Germany. Also, exports of oil from the Soviet bloc, while not large in total volume, adversely affected markets in several European countries. In addition, large surpluses of coal led certain European governments to take steps to give their coal industries artificial competitive strength. These steps, however, have not significantly affected the strong upward trend of demand for oil as a source of heat and power.

Vigorous economic activity in Canada, enhanced by the opening of the St. Lawrence Seaway and by iron ore development in Quebec and Labrador, brought more demand for petroleum products. Imperial Oil Limited, in which Jersey has a 70 per cent interest, increased sales volumes by more than 6 per cent.

In Latin America as a whole, Jersey affiliates increased sales despite the adverse economic effects in some areas of weak prices for export commodities. Action by the Peruvian government to raise the low ceiling of government-controlled prices on a number of items, including oil products, was encouraging.

Standard-Vacuum Oil Company, half owned by Jersey, increased its sales volumes in the Far East, Australasia, and Africa by 11 per cent over those of 1958, reflecting boom conditions in the Japanese domestic and export markets and an economic upsurge in Stanvac's sales area generally.

A further decline in international marine trade prevented Jersey's marine fuel sales from rising above 1958 levels.

In contrast to the marine sales situation, our aviation business advanced dramatically, showing a 22 per cent increase in volume. Sales of turbo fuels to commercial airlines doubled as more and more

Now a division of Humble Oil & Refining Company (Delaware). Companies mentioned on pages 15-26 are wholly owned, unless otherwise noted.

jet-powered aircraft went into use. Jersey's reputation for service, an important factor in expanding our aviation business, was strengthened by the addition of new systems for fast, safe refueling. Many of these facilities now consist of underground piping and hydrants that connect directly to the planes. Jersey was a pioneer in developing these systems and now has them in operation at more than a hundred airports around the world.

In order to meet the extremely competitive conditions that existed during the year and that are continuing, our marketing organization made further progress in the efficient use of manpower, in consolidation of bulk plants and terminals, and in distribution methods. New investments also brought about economies. For example, the establishment of plants for blending and packaging lubricating oils in Peru, Colombia, Chile, and Venezuela reduced the need to import packaged products.

Organizational changes undertaken in 1959 are expected to improve efficiency and growth potential. The merger of Jersey's domestic affiliates, now under way, is particularly promising from a marketing standpoint. Through Humble Oil & Refining Company (Delaware), the new company resulting from the merger, Jersey will be in a position to compete more effectively than ever before and to extend marketing to all fifty states as profitable opportunities appear. Though Jersey intends to retain use of the familiar Esso trademark, the search continues for a brand name to be used nationwide.

Another important change was the establishment of Esso Mediterranean, Inc., to coordinate activities of affiliates in the rapidly expanding markets of the eastern Mediterranean, North and West Africa, and the Iberian Peninsula.

Affiliates continued to find ways to spur sales of traditional products. The Brazilian company, for example, introduced a small, very inexpensive cooking stove that uses kerosene as its fuel. It was an immediate success, and the company sold over 300,000 of the stoves during the year. A similar program is under way in the Caribbean area.

Oil heating of homes continued to spread in western Europe. The potential of this market is enormous, inasmuch as Europeans now use, per capita, only one fifth as much oil for central home heating as is used in the United States. Jersey affiliates are applying technical and marketing skills developed in North America to keep ahead in this field.

In the United States Jersey affiliates have introduced a new sales and service program for oil-fired home heating systems. This program is designed to improve the efficiency of heating plants, creating substantial savings for the homeowner. So far the program has been offered only in a limited number of areas, but Jersey plans to expand the service and also to make the techniques available to the rest of the industry in order to encourage more people to heat with oil.

Jersey's worldwide network of eighty-six retail training schools, designed to help service station operators and marketing employees become better businessmen, gave training to 4,653 dealers and company salesmen during the year. This training is an effective aid in meeting competition at the retail level.

CHEMICALS

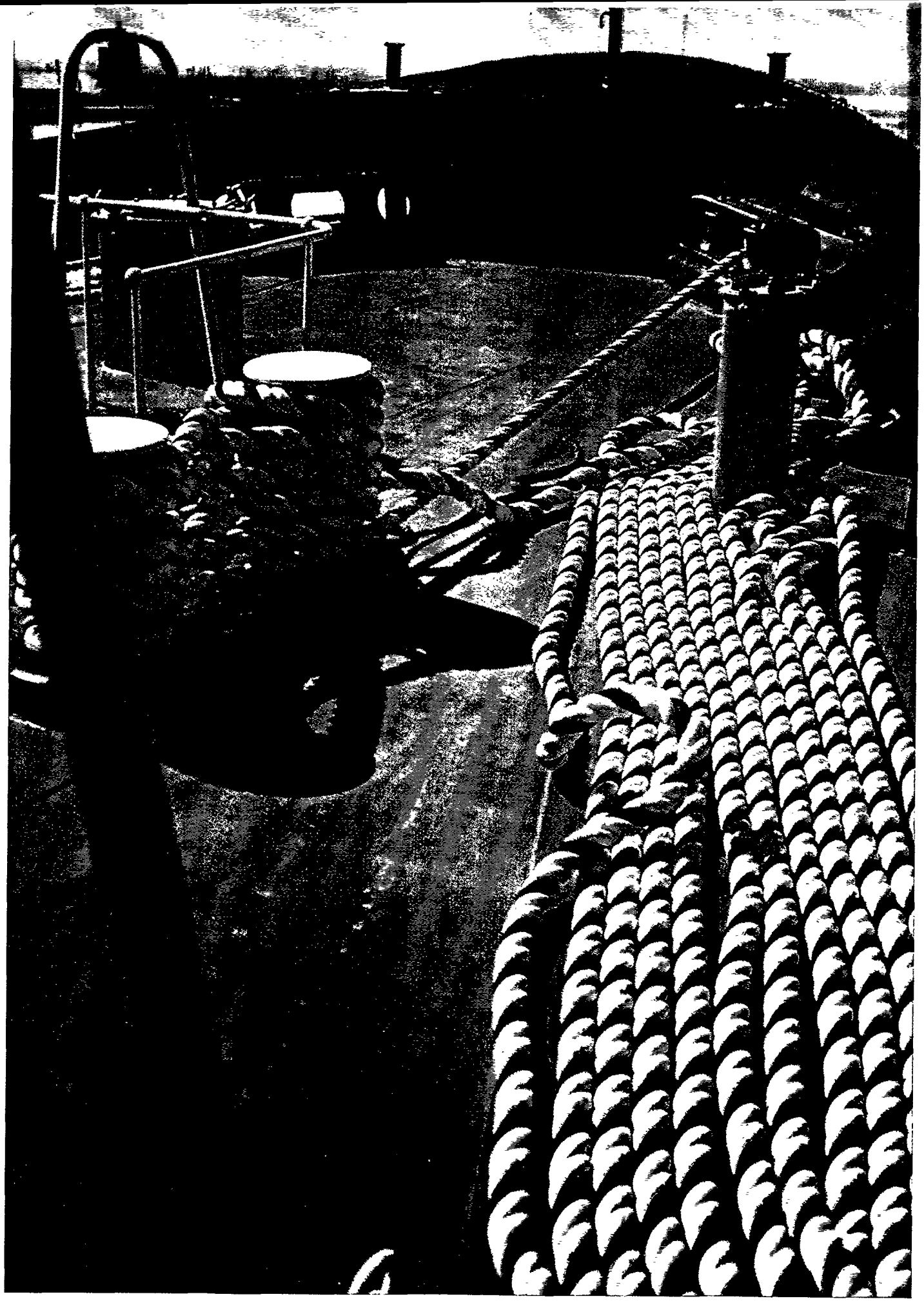
Demand for such oil-derived products as plastics, resins, synthetic rubbers, fibers, and detergents has been growing strongly both at home and abroad. In the United States the annual rate of growth has been 14 per cent in recent years, and it is expected to continue at not less than 10 per cent for the next several years. Jersey's revenue from petrochemical sales worldwide was $256,000,000 in 1959.

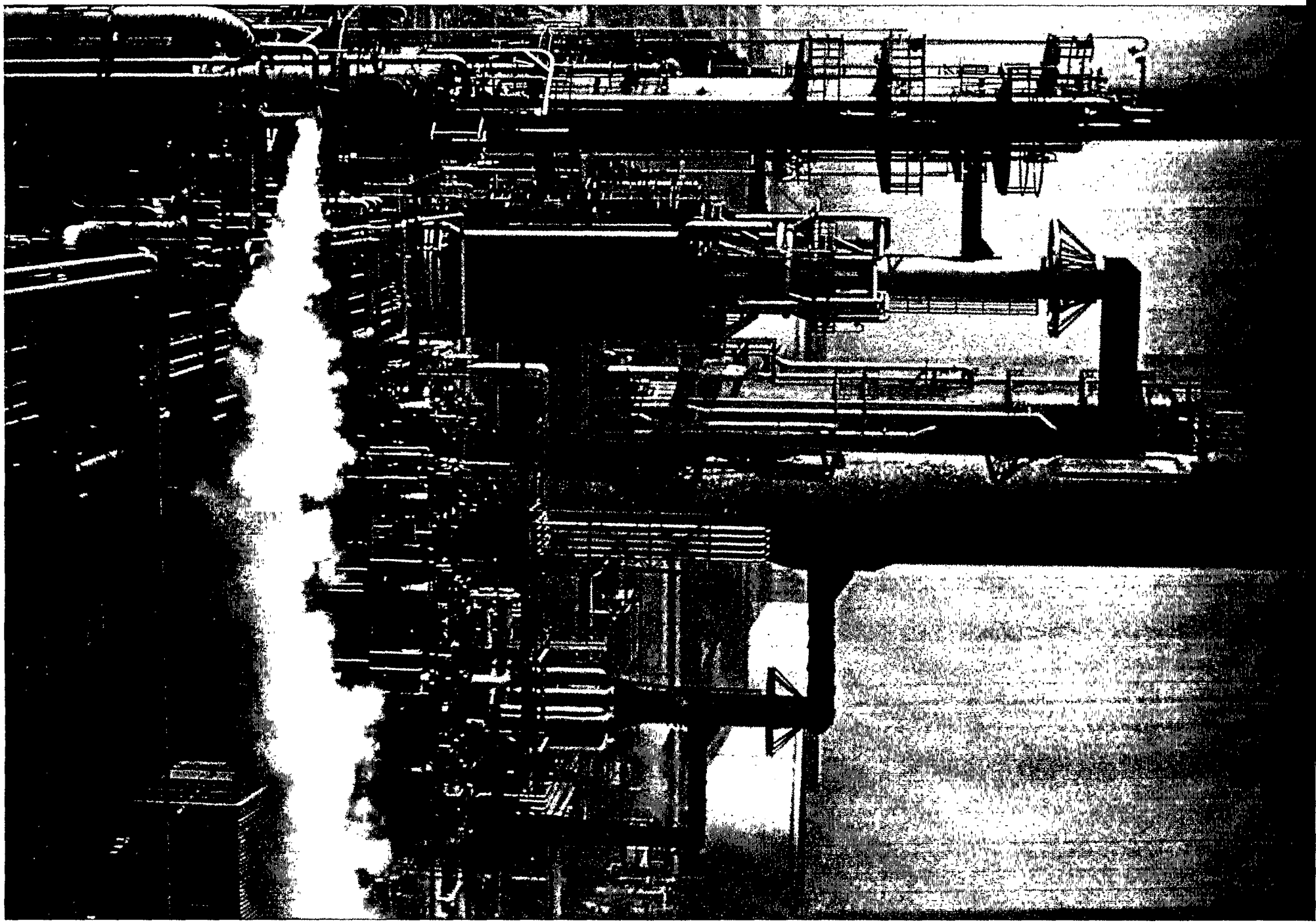
Our sales in the United States, made primarily through Enjay Company, Inc., increased by 35 per cent to record levels.

Atlas Bucron tires, made of butyl rubber, were introduced in the domestic market in the summer of 1959 and met with enthusiastic acceptance by customers. Butyl, which Jersey Standard developed and is currently producing, has been the principal rubber used in inner tubes for a number of years. Now it is being put increasingly to such new uses as wire and cable insulation, hoses, and industrial belts. Many new car models have over 150 individual butyl parts. Sales of this versatile material increased by 35 per cent during 1959, and manufacturing capacity is being expanded.

Work neared completion on a plant at Baytown, Texas, to manufacture polypropylene, an important new plastic used to

This colorful mooring line, made of Escon polypropylene, a new Jersey petrochemical, was recently tested by the "Esso Zurich." Polypropylene rope is well adapted to marine use, since it floats, is stronger wet than dry, and is lighter than ropes of equivalent strength.





make fibers, films, pipe, and a variety of molded products. The plant, employing a continuous manufacturing process developed by Jersey research, is scheduled to go on stream early in 1960 with an annual capacity of 40,000,000 pounds.

Jersey's petrochemical sales are growing at an even faster rate abroad than in the United States. Plants in other countries, for which substantial capital outlays were made in 1959, now constitute more than a third of the company's total petrochemical investments. Major additions to capacity were made in Germany and France; a second project for Germany was announced; and Standard-Vacuum has begun construction of the first major petrochemical installation in Australia.

Jersey's chemical business is backed by an extensive research program. About 25 cents of every research dollar is now directed to this field. During 1959 research continued to emphasize the development of new plastics, synthetic rubbers, and basic organic chemicals. In addition to the polypropylene process already mentioned, processes were developed to manufacture chlorinated butyl and latex, two important additions to our line of butyl rubbers, and to make a new family of resins called Butons, which are useful as surface coatings and in the manufacture of pipes and structural forms.

RESEARCH

Jersey's scientific research program marked its fortieth anniversary. What began as a modest effort in 1919, with twenty-six employees, has grown to a point where 3,970 employees were engaged in this work in 1959, and expenditures totaled $67,200,000.

Our continuing long-range search for new products and processes was given impetus during the year by centralization of basic research in a new group in Esso Research and Engineering Company.

Esso Research continued work on high-energy solid propellants for rockets under an expanded, nonprofit contract with the United States Department of Defense. Results to date include successful firings of laboratory-scale rocket motors powered by experimental fuels.

Other accomplishments included the development, for jet aircraft, of a fuel yielding more energy per gallon and of a lower cost synthetic lubricant giving better performance at high temperatures. Also developed were a lubricant for diesel locomotives that reduces engine wear and has superior cleansing properties and two engine-cleaning additives for motor oils. In addition, a number of improvements were made in existing products and refining processes. Process research, by increasing the capacity of refining units that are already in operation, reduces the need for new capital investments.

Jersey Production Research Company and other affiliates pushed ahead on new methods of finding and producing oil, and applied new techniques to reduce drilling costs. Better integration of geological and geophysical techniques added to our understanding of rock formations and oil accumulation. Field tests indicated that a new long-lasting drill bit will lower drilling costs. Research also continued on methods of increasing oil recovery by underground burning, solvent extraction, and flooding with chemically treated water.

A new marine testing and improvement program inaugurated by Esso Research and nineteen other affiliates was aimed at achieving substantial savings in the very large amounts affiliates spend each year to transport crude oil and products by water. Top priority is being given to the problem of tanker corrosion which, despite today's best efforts, costs the company over $20,000,000 a year.

The search for new uses for oil went ahead. Successful trial application of asphalt to railroad beds to reduce track maintenance costs is expected to open up important new outlets for this product. Thin asphalt films have also proved successful as a cover for seed beds in arid areas, reducing losses of soil moisture by evaporation. These and other related uses for asphalt could possibly make productive substantial portions of the world's now arid land. Work is also under way on a plastic-like material for road surfacing and on a home heating unit employing ultrasonic waves to atomize the fuel and increase its combustion efficiency.

Testifying to the scope of Jersey research activity was the fact that the company ranked first among oil and chemical companies and fourth among all corporations in the number of United States patents received in 1959.

Esso Research opened a new technical center in Florham Park, New Jersey, to

One of the most efficient refineries in the free world is this Esso A.G. facility in Cologne, Germany, which completed its first year of operation in 1959.

permit the consolidation of engineering personnel responsible for designing Jersey refineries around the world.

EXPLORATION

The 1959 exploration and producing programs were planned in light of the fact that Jersey has substantial spare producing capacity. From a volume standpoint the company is in a good position to meet its crude oil requirements for some time. Therefore Jersey endeavored to better its competitive position by further diversification of supply sources and by improving operating efficiency.

Emphasis was put on exploration in countries that presently import their oil supplies but that, potentially, could fill their own requirements. With this objective, Esso Iberia, Inc., negotiated for a concession of approximately 800,000 acres in Spain; Esso Hellenic, Inc., applied for rights to nearly 1,000,000 acres in Greece; and Esso Sahara, Inc., began exploring new acreage in Algeria.

Jersey went ahead with the search for oil in Guatemala, Argentina, Turkey, and Portuguese Guinea, and participated in exploratory ventures in India, Pakistan, British Somaliland, the Philippines, New Guinea, Australia, Oman, and on the Trucial Coast of the Arabian peninsula. The exploration venture in Denmark was concluded after efforts to find oil there had proved unsuccessful. Exploration in Cuba uncovered no new prospective areas for drilling and is being terminated.

The outstanding exploration success of the year was attained by Esso Standard (Libya) Inc. Its discovery well at Zelten tested at 17,500 barrels a day. During the year three more wells were completed in efforts to delineate the oil-bearing structure, and indications are that this was a major find, warranting full-scale development. Plans for a pipeline to the coast and for a tanker loading terminal are well advanced. Jersey also acquired a half interest in three large concessions in Libya held by other companies. Three discoveries have already been made on these properties, which Esso Sirte Inc. will operate. Our company has crude oil reserves in every major producing area in the free world. The success in Libya further improves this well-diversified position.

In Canada, Imperial had its most successful discovery year in a decade. Development is already well under way at Judy Creek, the company's major find in Alberta, and at nearby Virginia Hills, a second important discovery.

The Athabasca tar sands in northern Alberta comprise one of the world's largest accumulations of hydrocarbons. During the year Imperial acquired a 30 per cent interest in large holdings of these sands and will participate in a project to study physical and economic aspects of recovering the hydrocarbons in liquid form.

Elsewhere in the world, affiliates participated in a significant discovery in eastern Venezuela and added to reserves in Lake Maracaibo; made a discovery at Cazaux, France; and in Iran found what appears to be a major field at Ahwaz, as well as making a discovery on the Persian Gulf coast.

Domestic affiliates continued an aggressive exploration program along the Gulf Coast and in the Rocky Mountain area. Although they drilled 11 per cent fewer exploration wells, they found more oil than in 1958. Major discoveries were in the Bayou Sale field, Louisiana, in Red Fish Reef on the Texas coast, and on the King Ranch in southwest Texas.

Worldwide, Jersey affiliates drilled 332 net exploration wells, compared to 428 the year before. Drilling in proved areas was down from 981 net wells in 1958 to 941. Most of the reduction in drilling was in Venezuela, where spare producing capacity continues to grow.

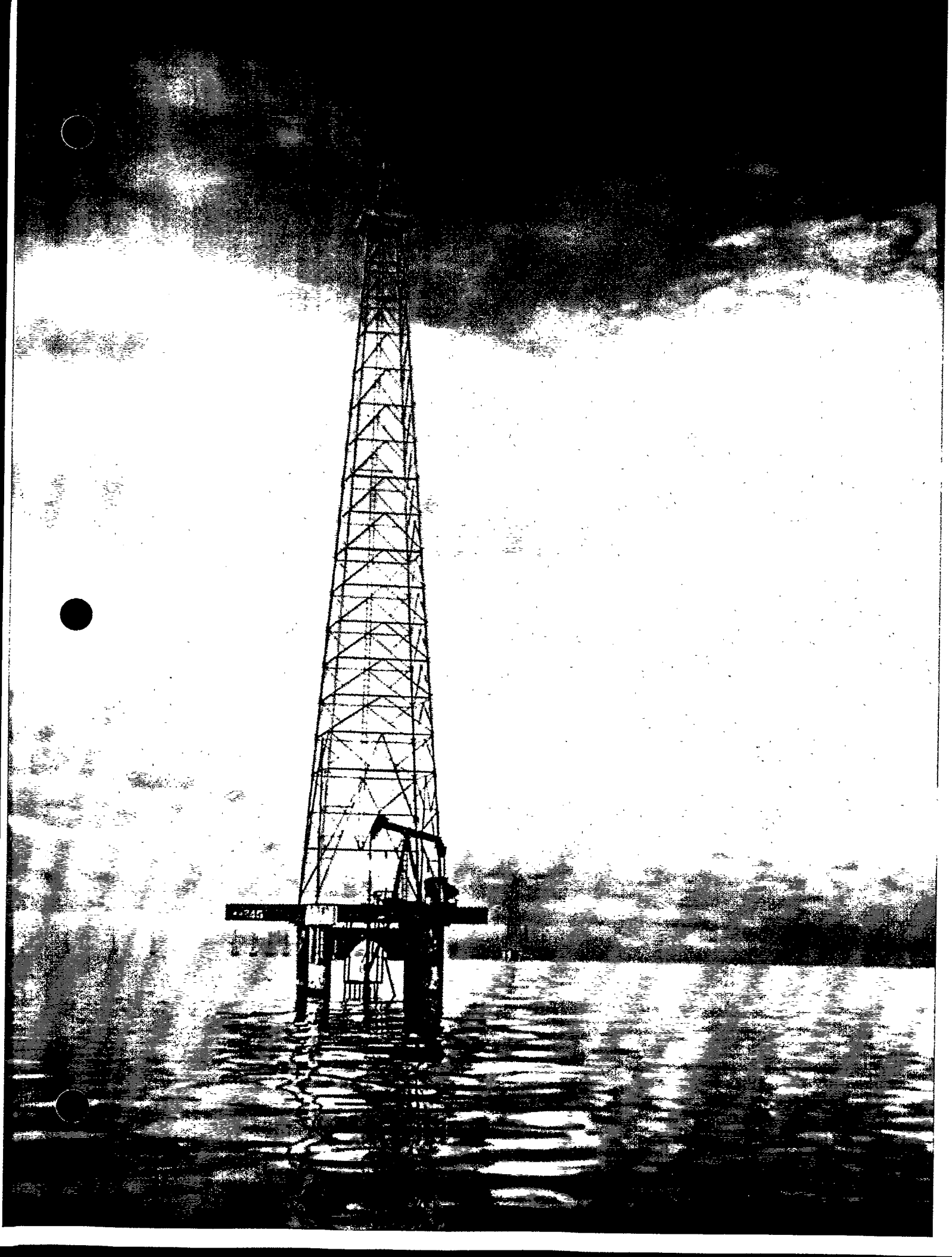
Despite the reduction in drilling, overall additions to reserves were greater than withdrawals. Affiliates continued to lead the industry in volume of reserves in the United States, Canada, Venezuela, Peru, and western Europe.

PRODUCING

Gross production of crude oil and natural gas liquids averaged 2,464,000 barrels a day worldwide, 6 per cent above that in 1958. Nearly all producing affiliates contributed to this improvement, with the largest increases recorded by the companies operating in North America and in the Middle East and Far East.

Because of continued severe prorationing in Texas and Louisiana, Humble could produce at only half its potential. Nevertheless the company was able to increase its production by 7 per cent to 408,000 barrels per day. Carter's additional development drilling in Utah, Wyoming, and

Jersey's affiliates produce oil from 1,400 net wells in Venezuela's famed Lake Maracaibo, which covers one of the world's most prolific oil fields.



Montana, and its expanded waterflood facilities, raised its production by 11 per cent to a record 99,000 barrels daily.

Severe prorationing continued also in Alberta, and Imperial was able to use only 40 per cent of its production capacity. Nevertheless, a growth in Canadian demand and expanded export markets enabled the company to raise production 10 per cent. Production in Venezuela by Creole Petroleum Corporation and International Petroleum Company, Limited, increased by 4 per cent to 1,222,000 barrels a day. Jersey owns 95 per cent of Creole and 97 per cent of International. Jersey's share of production by affiliates in Europe grew 6 per cent to 45,000 barrels daily.

Politically, the Middle East remained relatively calm during 1959, and operations there continued to grow. Affiliates in Iraq, Iran, and Saudi Arabia all set production records for the year. Iraq Petroleum Company, Limited, in which Jersey has a 12 per cent interest, brought its new Jambur field into sustained production and found new deeper producing zones in the Bai Hassan field, which is scheduled to begin producing in 1960. Jersey's share of production by Middle Eastern affiliates averaged 515,000 barrels daily, up 10 per cent from the 1958 average.

In the Far East, Standard-Vacuum continued to develop the Lirik field in central Sumatra and increased production by 9 per cent, bringing Jersey's share to an average of 42,000 barrels daily.

Strong demand for natural gas persisted in the United States, and affiliates increased their sales volumes by 16 per cent to 1,526,000,000 cubic feet daily. Total revenue from sales of gas and gas liquids was about $140,000,000.

Jersey's gas reserves in this country exceed in energy content the company's domestic crude oil reserves. A $75,000,000 program, under way to further develop this resource, includes the King Ranch gas plant and related facilities in southwest Texas. When completed in 1960, these will process and cycle 800,000,000 cubic feet of gas daily. Another part of the program was completed during the year as Humble put into operation a 30-inch pipeline to carry gas 238 miles from the King Ranch to customers in the Houston area.

In western Canada gas gives promise of becoming important for Imperial, especially in view of the company's recent large discoveries in Alberta and the beginning of exports to gas transmission systems in the United States. Imperial's gas sales during 1959 increased by 27 per cent to more than 97,000,000 cubic feet per day.

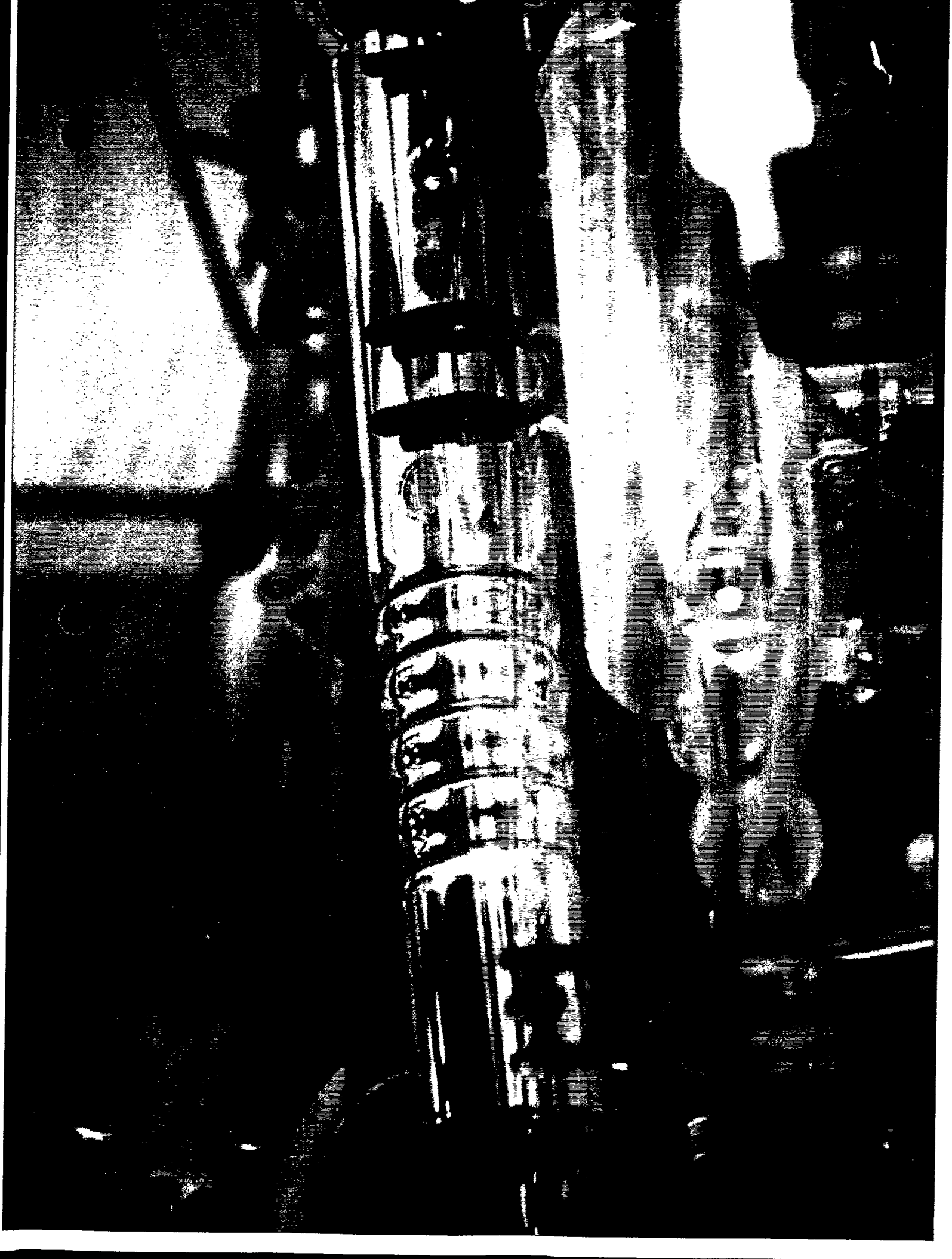
Affiliates throughout the world continued their efforts to reduce operating costs and to develop more efficient producing methods. They undertook major secondary recovery projects, promoted and took part in unitization programs, automated field facilities where practical, and effected other economies. A pressure maintenance system nearing completion at Kirkuk in Iraq will provide for the injection of 1,000,000 barrels of water a day into the oil field and will be the largest project of its kind in the world. Creole continued construction of its fourth gas injection plant at Lake Maracaibo, and Arabian American Oil Company, in which Jersey has a 30 per cent interest, completed its second major installation of this type in Saudi Arabia. Drilling costs are being substantially reduced by the extended use of new techniques for completing wells with less pipe and by improved drilling practices.

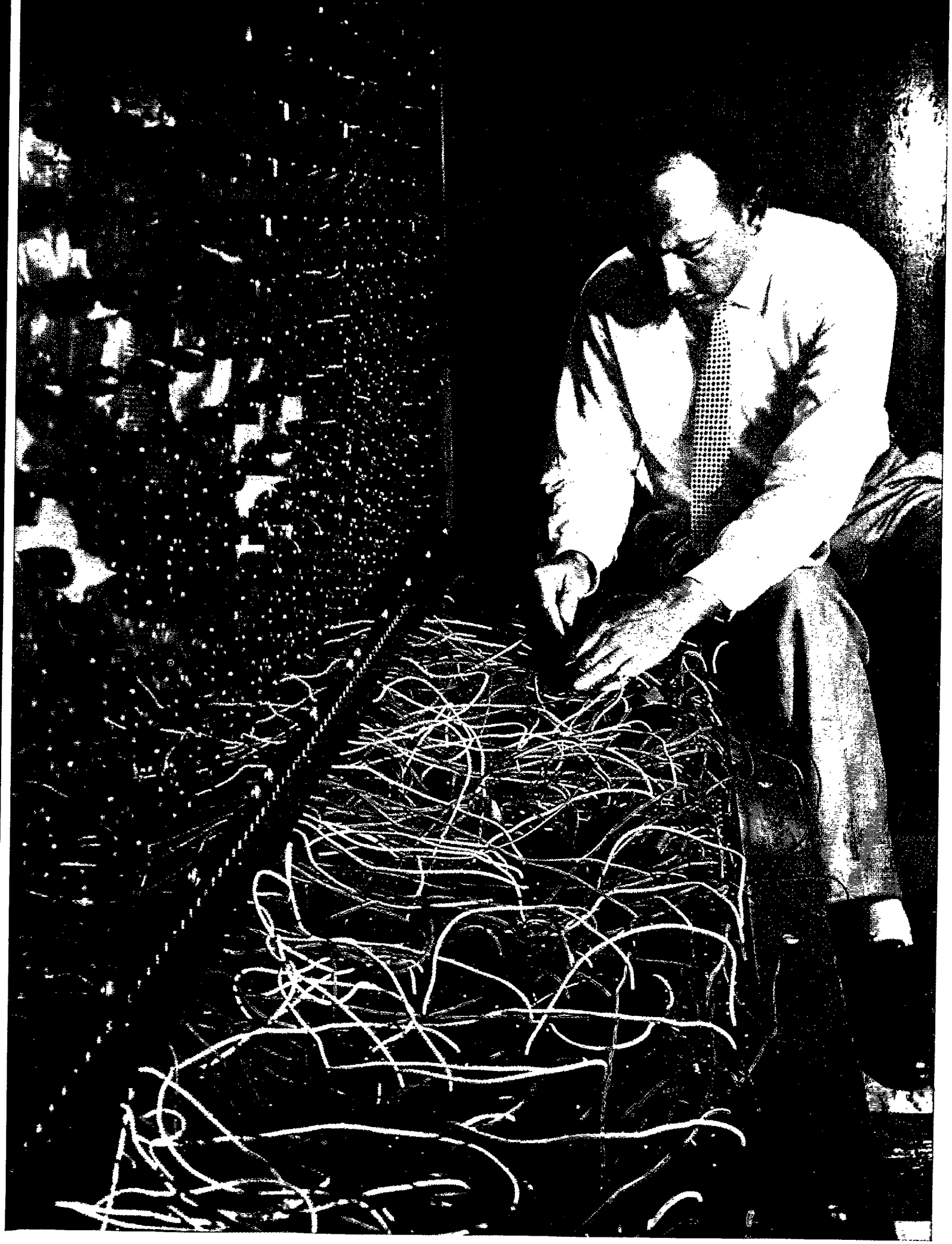
REFINING

Jersey refineries processed an average of 2,789,000 barrels of crude oil a day, 12 per cent more than in 1958. These operating levels were attained largely through more complete use of existing facilities.

Affiliates are now able to keep processing equipment in operation for longer periods than in the past, which helps reduce manufacturing costs. One of the catalytic cracking units at Baton Rouge ran nearly four years before being shut down recently for repairs, whereas runs of one and a half years were once considered satisfactory. A whole series of technical developments has made such performance possible. For example, some parts of a processing unit can now be safely inspected, and even repaired, while the unit is running. Instruments using radioisotopes measure corrosion inside refinery equipment while it is operating. Continuous analyzers keep watch on product quality during the manufacturing process. Electronic computers evaluate, in a few minutes, alternative operating

A quarter of all Jersey's research is directed to the petrochemical field. Here an Esso Research scientist seeks to isolate a new chemical that may have commercial application.





schedules whose analysis might previously have taken a full month.

Jersey affiliates process crude oil at fifty different locations around the globe and are planning new investments to meet anticipated higher demand. During the year affiliates announced plans to construct refineries at Karlsruhe, West Germany, and in Jamaica, The West Indies, and to participate in projected refineries in Pakistan and in Algeria. Negotiations were also under way for building a refinery in Libya to supply local needs from indigenous crude oil production. Plans for a refinery in Adelaide, Australia, are progressing.

The Common Market and the formation of the European Free Trade Area provide opportunities for more flexible and economical operations of Esso refineries in Europe. As the tariff barriers are reduced, our affiliates can supply petroleum products in Europe from the most advantageously located refinery and thereby reduce distribution costs.

Two new European refineries went into operation in 1959. One was a 40,000-barrel-daily plant at Whitegate, Ireland, in which Esso Petroleum Company, Limited, has a 40 per cent interest and which will supply nearly all of Ireland's product needs. Esso Standard S.A.F., in which Jersey has a 63 per cent interest, inaugurated the other—an installation with an initial daily capacity of 32,000 barrels, located near Bordeaux, France. Construction proceeded on new refineries at Rotterdam, the Netherlands; Milford Haven, Wales; and near Oslo, Norway. All three are scheduled to go on stream in 1960. Construction is also progressing on refineries in Luzon, the Philippines, and Japan.

Imperial Oil completed a $13,400,000 modernization of its Calgary refinery four months ahead of schedule, and added a $2,600,000 alkylation plant at Winnipeg.

TRANSPORTATION

The excess availability of tankers in the free world, which has existed since mid-1957, became more acute in 1959. By the end of the year 350 vessels totaling some 5,700,000 deadweight tons were idle throughout the industry. This surplus is expected to continue for several years as substantial numbers of large carriers, still on order, are delivered and force smaller, older vessels into economic obsolescence.

Jersey affiliates, which own and operate 122 ocean tankers and have an additional 160 under long-term charter, felt the impact of this situation. Cost reduction programs during the year resulted in the sale of eleven old, relatively small vessels. At the end of 1959, Jersey had eighteen such carriers in tieup. The company continued to take advantage of the lower per-ton construction and operating costs of large tankers. Fifteen vessels in the 32,000- to 47,000-deadweight-ton class were put into service, and affiliates have arranged to obtain from the shipyards twelve ships of the 77,000-deadweight-ton class in place of sixteen 47,000-ton carriers ordered in prior years. Delivery of these tankers will begin in 1961, in time to meet further expected growth of Jersey's business.

To keep pace with the increasing size of tankers, loading and unloading facilities are being improved in Lake Maracaibo, Venezuela, and at Aruba, Netherlands Antilles. Esso Petroleum's new refinery at Milford Haven, Wales, when completed, will be able to handle vessels of 100,000 deadweight tons; the new Esso refinery near Oslo, Norway, will also accommodate the largest tankers. Construction progressed on two new terminals in the Persian Gulf. One, being built by Basrah Petroleum Company, Limited, in Iraq, is a unique facility that, because of shallow water, will load tankers offshore some twenty-five miles from Fao from a platform fed by underwater pipes. Elsewhere in the Persian Gulf, Iranian Oil Participants Limited laid a 99-mile, large-diameter pipeline from the mainland to the new terminal being built on Kharg Island. Jersey's interest in Basrah Petroleum is 12 per cent, and its interest in the Iranian Consortium is 7 per cent.

The pipeline systems carried increased volumes in almost all areas. In the United States and Canada, crude oil deliveries increased by about 8.5 per cent and product deliveries by 8 per cent. Throughput abroad increased substantially, too. The line from Wilhelmshaven, West Germany, to the Ruhr area that supplies Esso A.G.'s Cologne refinery and other German refineries completed its first year of operation. Plans were made to increase its capacity during 1960 by 56 per cent, to 300,000 barrels a day. Jersey has a 47 per cent interest in this pipeline. Esso Petroleum announced plans to construct a 72-mile,

Years of oil reservoir behavior can be predicted in minutes by this computer in Jersey Production Research Company's Tulsa laboratories. Such research helps the company obtain maximum oil recovery at minimum cost.

10-inch line to carry products from its Fawley refinery to London. This will be the first major commercial products line in England.

During the latter part of 1959, the South European Pipe Line Company, in which Jersey has a 28 per cent interest, announced plans to construct a large-diameter pipeline to carry crude oil 460 miles from the French Mediterranean port of Lavera (near Marseilles) to refineries to be built on the Rhine near Strasbourg, France, and Karlsruhe, West Germany.

A 75-mile products pipeline was constructed from a coastal refinery and terminal near Valparaiso to Santiago, Chile. Jersey's affiliate has a 26 per cent interest in this new facility. Esso (Argentina) Inc., as part of its expanded activities, announced plans to build a 400-mile, 14-inch crude pipeline under contracts with the Argentine Government oil company.

RELATIONS WITH EMPLOYEES AND THE PUBLIC

In its efforts to hold rising costs in check, the company reduced manpower in 1959 in several operations throughout the world. To ease the impact of these moves, special early retirement arrangements were offered to qualified older employees, and, for others, the company provided separation allowances in amounts related to length of service. Local managements were able to help many individuals find new employment.

Managements overseas were increasingly successful in developing national employees to assume positions at higher levels of responsibility. Today about 97 per cent of Jersey's more than 96,000 employees abroad are citizens of the countries in which they work.

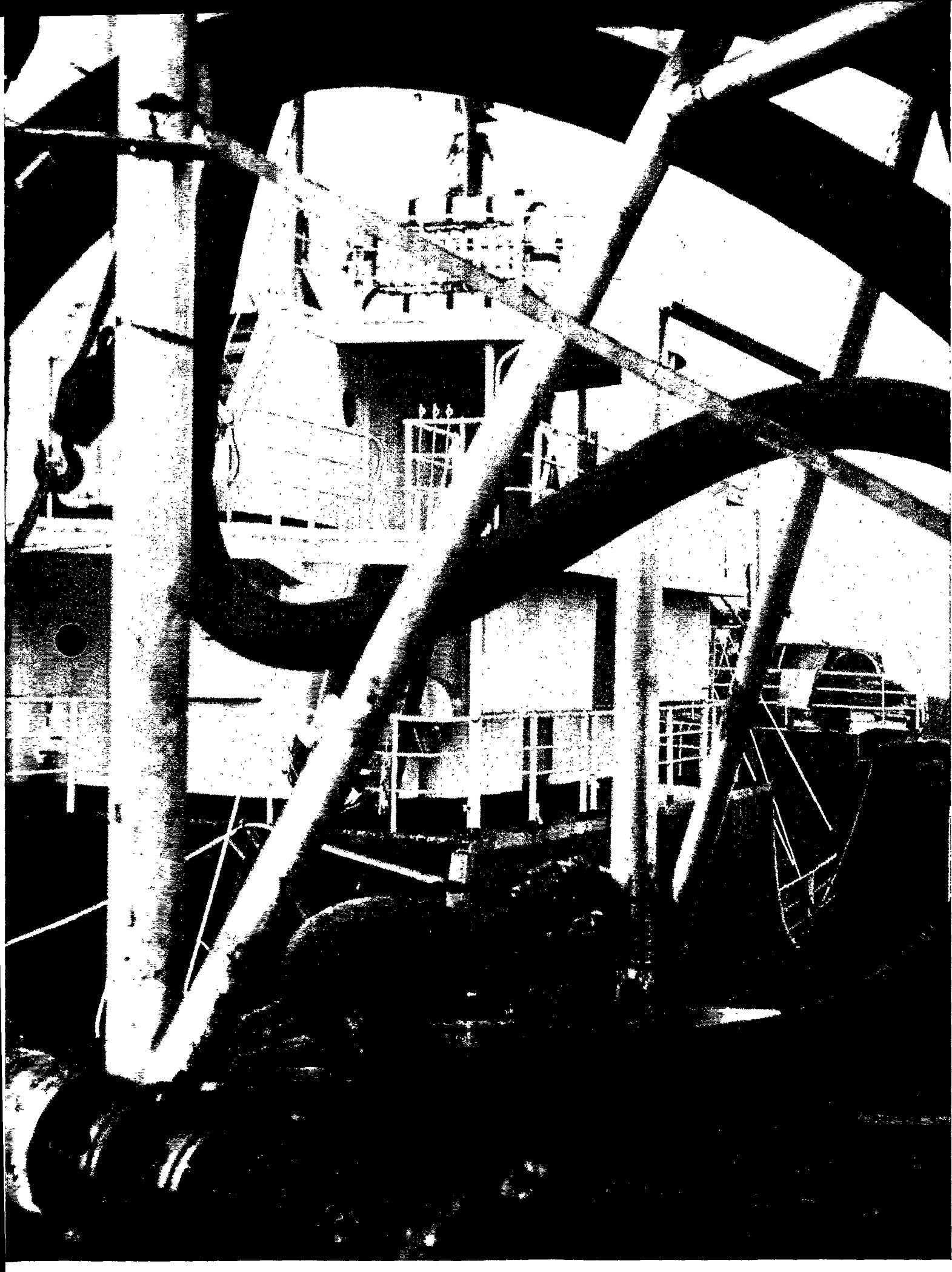
Several large international unions made a number of Jersey's domestic installations the targets of vigorous organizing drives during the year. The independent union continues to be the form of representation chosen by the vast majority of Jersey employees. A number of upward adjustments in basic wage and salary schedules were made in both domestic and foreign operations.

The continued interest of shareholders in the company's affairs was evidenced by the thousands who wrote, telephoned, or visited our offices and who attended the annual and special stockholders' meetings. More shareholders were added to the list of Jersey's owners during 1959 than in any other year in the company's history. By the year end the total had reached 582,000—a growth of almost 80,000 in one year and an increase of almost 100 per cent over a five-year period. With the stock going into the hands of more and more individuals, it is also being dispersed more widely geographically, as populations shift.

During 1959, as in previous years, we reported to the public our views on issues affecting the company's operations. We warned, for example, of the dangers of a proposed national fuels policy that, if adopted, would penalize consumers by reducing competition. We voiced our opinion that the sliding scale that the government uses to allocate oil imports is seriously inequitable. Jersey continued to question the advisability of further increases in state and federal gasoline taxes, which now add almost 50 per cent to the average retail price of regular gasoline in the United States.

Grants totaling $1,951,500 were made by the Esso Education Foundation in its continuing program of support to private education. Since its establishment in 1955 by Jersey and certain domestic affiliates, the Foundation has distributed almost $8,000,000 to aid privately supported institutions of higher learning.

A marine terminal is a vital link that connects oil supplies and markets. At this Stanvac terminal in Bangkok, a tanker unloads products from the company's Palembang, Sumatra, refinery.



CONSOLIDATED STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 1959-1958

	1959	1958
CURRENT ASSETS		
Cash	$ 229,980,921	$ 225,782,208
Marketable securities, at lower of cost or market	1,155,234,300	1,072,932,364
Notes and accounts receivable, less estimated doubtful amounts	1,010,633,669	946,615,000
Inventories:		
Crude oil and petroleum products	640,211,015	584,292,710
Other merchandise	40,017,198	35,376,828
Materials and supplies	233,563,987	255,422,447
Total current assets	3,309,641,090	3,120,421,557
LESS—CURRENT LIABILITIES		
Notes and loans payable	236,420,420	257,561,469
Accounts payable and accrued liabilities	870,459,152	831,431,866
Income taxes payable	498,322,272	443,573,024
Total current liabilities	1,605,201,844	1,532,566,359
WORKING CAPITAL	1,704,439,246	1,587,855,198
INVESTMENTS AND LONG-TERM RECEIVABLES, at cost or less	456,326,810	435,824,819
PROPERTY, PLANT, AND EQUIPMENT, less depreciation and depletion	5,960,086,505	5,739,614,027
PREPAID CHARGES AND OTHER ASSETS	168,600,538	182,833,066
TOTAL ASSETS LESS CURRENT LIABILITIES	8,289,453,099	7,946,127,110
DEDUCTIONS		
Long-term debt	791,641,979	699,149,057
Deferred credits	109,032,431	94,946,060
Annuity, insurance, and other reserves	409,811,948	382,564,346
Equity of minority shareholders in affiliated companies	291,274,425	312,263,214
NET ASSETS	$6,687,692,316	$6,457,204,433
SHAREHOLDERS' EQUITY		
Capital:		
Stock issued—(see page 10)	$1,515,728,627	$1,504,227,844
Amount in excess of par value	859,928,833	789,281,166
Earnings reinvested and employed in business	4,312,034,856	4,163,695,423
	$6,687,692,316	$6,457,204,433

The financial review on pages 7 to 12 is an integral part of this statement.

CONSOLIDATED STATEMENT OF INCOME

FOR THE YEARS 1959 AND 1958

	1959	1958
REVENUES		
Sales and other operating revenue (including consumer and excise taxes)	$8,521,989,212	$8,092,169,206
Dividends, interest, and other revenue	192,071,940	168,686,469
	8,714,061,152	8,260,855,675
COSTS AND OTHER DEDUCTIONS		
Crude oil, products, materials, and services	4,010,005,598	3,845,322,067
Taxes and other payments to governments (see page 8)	2,517,827,443	2,355,236,776
Wages, salaries, and employee benefits	944,877,116	915,908,851
Depreciation, depletion, and retirements	527,725,136	487,515,349
Interest and other financial charges	50,143,235	47,310,444
Income applicable to minority interests	33,705,101	47,086,949
	8,084,283,629	7,698,380,436
NET INCOME	$ 629,777,523	$ 562,475,239

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

FOR THE YEAR 1959

	CAPITAL			
	PAR VALUE OF STOCK ISSUED	AMOUNT IN EXCESS OF PAR VALUE	EARNINGS REINVESTED AND EMPLOYED	TOTAL
Balances at December 31, 1958	$1,504,227,844	$789,281,166	$4,163,695,423	$6,457,204,433
Stock issued (see page 10)	11,500,783	70,647,667		82,148,450
Consolidated net income for 1959			629,777,523	629,777,523
Cash dividends paid in 1959			(481,438,090)	(481,438,090)
Balances at December 31, 1959	$1,515,728,627	$859,928,833	$4,312,034,856	$6,687,692,316
Standard Oil Company (New Jersey), parent company	$1,515,728,627	$859,928,833	$1,486,382,610	$3,862,040,070
Affiliates operating in Western Hemisphere			2,636,898,635	2,636,898,635
Affiliates operating in Eastern Hemisphere			188,753,611	188,753,611
	$1,515,728,627	$859,928,833	$4,312,034,856	$6,687,692,316

The financial review on pages 7 to 12 is an integral part of these statements.

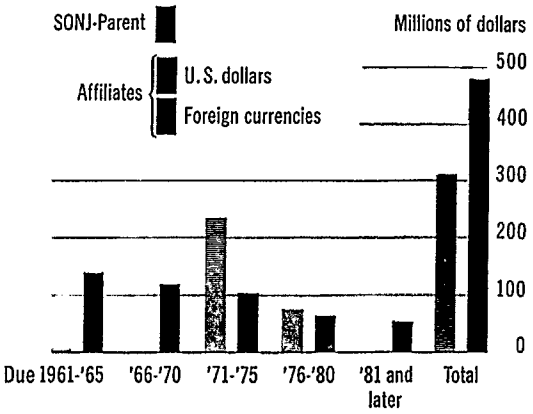
CONSOLIDATED NET ASSETS AND EARNINGS—GEOGRAPHICALLY

The approximate geographical distribution of net assets at December 31, 1959, and the source of net income for the year ended on that date were as follows:

	UNITED STATES	OTHER WESTERN HEMISPHERE	EASTERN HEMISPHERE	TOTAL
CURRENT ASSETS				
Cash	$ 136,772,000	$ 63,879,000	$ 29,330,000	$ 229,981,000
Marketable securities	1,117,310,000	37,033,000	891,000	1,155,234,000
Other current assets	696,895,000	642,569,000	584,962,000	1,924,426,000
	1,950,977,000	743,481,000	615,183,000	3,309,641,000
LESS—CURRENT LIABILITIES	567,040,000	495,642,000	542,520,000	1,605,202,000
WORKING CAPITAL	1,383,937,000	247,839,000	72,663,000	1,704,439,000
OTHER ASSETS				
Investments and long-term receivables	59,212,000	102,859,000	294,256,000*	456,327,000
Property, plant, and equipment, less depreciation and depletion	3,014,325,000	2,004,609,000	941,153,000	5,960,087,000
Prepaid charges and other assets	92,145,000	41,269,000	35,186,000	168,600,000
	4,549,619,000	2,396,576,000	1,343,258,000	8,289,453,000
DEDUCTIONS				
Long-term debt	379,890,000	93,231,000	318,521,000	791,642,000
Reserves and deferred credits	84,171,000	336,128,000	98,546,000	518,845,000
Minority interests	939,000	242,845,000	47,490,000	291,274,000
	465,000,000	672,204,000	464,557,000	1,601,761,000
NET ASSETS	$4,084,619,000	$1,724,372,000	$ 878,701,000	$6,687,692,000
NET INCOME	$ 216,387,000	$ 238,739,000	$ 174,652,000	$ 629,778,000

*Includes $205,621,000 Middle East and Far East investments and receivables described more fully on page 8. Jersey's equity in the related net assets of these nonconsolidated companies was $242,558,000 more than its investment therein at December 31, 1959.

The procedures followed in translating accounts of foreign affiliates into dollars are: (1) inventories at rates prevailing when acquired, other current assets and current liabilities at year-end rates, (2) other assets and long-term debt at rates prevailing at acquisition, and (3) reserves at rates prevailing when provided. Foreign exchange differences arising from the foregoing procedures have been included in consolidated net income.



CONSOLIDATED STATEMENT OF LONG-TERM DEBT

DECEMBER 31, 1959

JERSEY PARENT COMPANY		
25-year 2¾% Debentures—due July 15, 1974	$150,000,000	
25-year 2⅜% Debentures—due May 15, 1971	85,000,000	
3% Promissory notes payable to insurance companies and others—due February 1, 1979	75,000,000	
Loans payable—due 1961	609,812	$310,609,812
CONSOLIDATED AFFILIATES		
Affiliates had long-term indebtedness in currencies equivalent to the United States dollar amounts shown below; figures in parentheses indicate weighted average interest rates.		
British pounds (5.5%)	118,607,485	
Canadian dollars (3.4%)	81,425,177	
United States dollars (3.6%)	70,638,883	
German deutsche marks (6.4%)	53,939,966	
French francs (5.4%)	47,275,142	
Netherlands florins (4.9%)	39,675,221	
Belgian francs (5.2%)	19,125,700	
Norwegian kroner (5.1%)	13,351,557	
Cuban pesos (4.6%)	9,206,752	
Swedish kronor (5.2%)	6,905,966	
Italian lire (5.9%)	6,225,759	
Danish kroner (5.8%)	4,679,157	
Swiss francs (4.3%)	4,363,314	
Finnish markkaa (5.9%)	2,933,885	
Other currencies (5.2%)	2,678,203	481,032,167
		$791,641,979

NOTE: This statement does not include indebtedness of $22,497,224, maturing within one year from December 31, 1959, which is included in notes and loans payable under current liabilities.

OPINION OF INDEPENDENT PUBLIC ACCOUNTANTS

TO THE SHAREHOLDERS OF STANDARD OIL COMPANY (NEW JERSEY)

In our opinion, based on our examinations and on the reports of other independent accountants as to certain subsidiary companies in Great Britain, the accompanying statements present fairly the consolidated financial position of Standard Oil Company (New Jersey) and its subsidiary companies at December 31, 1959, and the results of their operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. The examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as were considered necessary in the circumstances.

PRICE WATERHOUSE & CO.

56 PINE STREET
NEW YORK, MARCH 17, 1960

PRINCIPAL AFFILIATES, their activities and main areas of operations

UNITED STATES

ENJAY COMPANY, INC. (100%) • Marketing of chemical products in the United States and Canada.

ESSO EXPORT CORPORATION (100%) • Worldwide wholesale marketing of crude oil, petroleum products, and chemicals; coordination of interaffiliated supply movements and international bunkering, aviation, and petrochemical sales activities.

ESSO RESEARCH AND ENGINEERING COMPANY (100%) • Research and development.

ESSO TANKERS, INC. (100%) • Management services, technical advice, engineering assistance, and chartering service for affiliates.

ETHYL CORPORATION* (50%) • Manufacture and sale of antiknock compound in the United States.

GILBERT & BARKER MANUFACTURING COMPANY (100%) • Manufacture and worldwide sale of oil burners and service station equipment.

HUMBLE OIL & REFINING COMPANY (100%) • Integrated oil activities in the United States. Its three principal divisions and present locations of their operations are:

Carter Division—Exploration, producing, refining, and marketing in central United States, Pacific Northwest, and Rocky Mountain areas.

Esso Standard Division—Refining, transportation, and marketing in certain eastern seaboard and southern states.

Humble Division—Exploration and/or producing in the southeast, southwest, Gulf Coast, Pacific Coast areas, and Alaska; refining and transportation in Texas; marketing in Texas, New Mexico, and Arizona.

INTERSTATE OIL PIPE LINE COMPANY (100%) • Pipeline transportation in Louisiana, Mississippi, Illinois, and Montana.

JERSEY PRODUCTION RESEARCH COMPANY (100%) • Production research.

OKLAHOMA OIL CO. (100%) • Marketing in Kentucky, Wisconsin, Indiana, Michigan, Illinois, and Iowa.

PATE OIL COMPANY (100%) • Marketing in Milwaukee, Wisconsin, area.

PLANTATION PIPE LINE COMPANY* (49%) • Pipeline transportation of products from Louisiana to North Carolina.

YELLOWSTONE PIPE LINE COMPANY* (40%) • Pipeline transportation of products from Montana to Washington.

CANADA

IMPERIAL OIL LIMITED (70%) • Exploration, producing, transportation, refining, and marketing in Canada.

INTERPROVINCIAL PIPE LINE COMPANY* (23%) • Pipeline transportation of crude oil from Alberta to Sarnia, Ontario.

TRANS MOUNTAIN OIL PIPE LINE COMPANY* (6%) • Pipeline transportation of crude oil from Edmonton, Alberta, to Vancouver, British Columbia, and to Ferndale, Washington.

LATIN AMERICA

CREOLE PETROLEUM CORPORATION (95%) • Exploration, producing, transportation, refining, and marketing in Venezuela.

ESSO BRASILEIRA DE PETROLEO S.A. (100%) • Marketing in Brazil.

ESSO SOCIEDAD ANONIMA PETROLERA ARGENTINA (100%) Producing, refining, transportation, and marketing in Argentina.

ESSO STANDARD OIL COMPANY (CHILE) S.A.C. (100%) • Marketing in Chile.

ESSO STANDARD OIL COMPANY (URUGUAY), S.A. (100%) • Marketing in Uruguay.

ESSO STANDARD OIL, S.A. (100%) • Refining and marketing in Caribbean area and Central America.

INTERNATIONAL PETROLEUM COMPANY, LIMITED (97%) • Exploration, producing, transportation, refining, and marketing in Colombia and Peru; marketing in Ecuador; producing interests in Venezuela.

LAGO OIL & TRANSPORT COMPANY, LIMITED (100%) • Refining in Aruba, Netherlands Antilles.

PANAMA TRANSPORT COMPANY (100%) • Marine transportation.

EUROPE AND AFRICA

AKSJESELSKAPET NORSKE ESSO (78%) • Refining and marketing in Norway.

A/S ESSO-RAFFINERIET, NORGE (99.9%) • Refining in Norway.

DANSK ESSO A/S (99.9%) • Marketing in Denmark; marine transportation.

ESSO A.G. (100%) • Refining and marketing in West Germany.

ESSO BELGIUM (99.9%) • Refining and marketing in Belgium.

ESSO EXPORT LIMITED (100%) • Wholesale marketing in various Eastern Hemisphere countries.

ESSO MEDITERRANEAN, INC. (100%) • Marketing in eastern Mediterranean area, North and West Africa, and the Iberian Peninsula.

ESSO-NEDERLAND N.V. (99.9%) • Marketing in the Netherlands.

ESSO PETROLEUM COMPANY, LIMITED (100%) • Refining, transportation, and marketing in the United Kingdom and Ireland.

ESSO STANDARD (AUSTRIA) A.G. (100%) • Marketing in Austria.

ESSO STANDARD ITALIANA-S.p.A. (100%) • Marketing and refining in Italy.

ESSO STANDARD (LIBYA) INC. (100%) • Exploration in Libya.

ESSO STANDARD S.A.F. (63%) • Refining, transportation, and marketing in France.

ESSO STANDARD (SWITZERLAND) (99.9%) • Marketing in Switzerland.

GEWERKSCHAFT BRIGITTA* (50%) • Exploration and producing in West Germany.

N.V. NEDERLANDSE AARDOLIE MIJ.* (50%) • Exploration and producing in the Netherlands.

OY ESSO AB (100%) • Marketing in Finland.

SOCIETE ESSO DE RECHERCHES ET D'EXPLOITATION PETROLIERES ESSO REP (56%) • Exploration and producing in southwest France.

STANIC INDUSTRIA PETROLIFERA-S.p.A.* (50%) • Refining in Italy.

SVENSKA ESSO AB (100%) • Marketing in Sweden.

MIDDLE EAST AND FAR EAST

ARABIAN AMERICAN OIL COMPANY* (30%) • Exploration, producing, refining, marketing, and transportation in Saudi Arabia.

IRANIAN OIL PARTICIPANTS LIMITED* (7%) • Exploration, producing, refining, and transportation in Iran.

IRAQ PETROLEUM COMPANY, LIMITED, AND ASSOCIATED COMPANIES* (12%) • Producing in Iraq, Qatar; transportation in Iraq, Qatar, Syria, and Lebanon; refining in Lebanon.

MEDITERRANEAN STANDARD OIL CO. (100%) • Purchase and sale of Middle East crude oil and products.

STANDARD-VACUUM OIL COMPANY* (50%) • Exploration, producing, transportation, refining, and marketing in Far East, Australasia, and Africa.

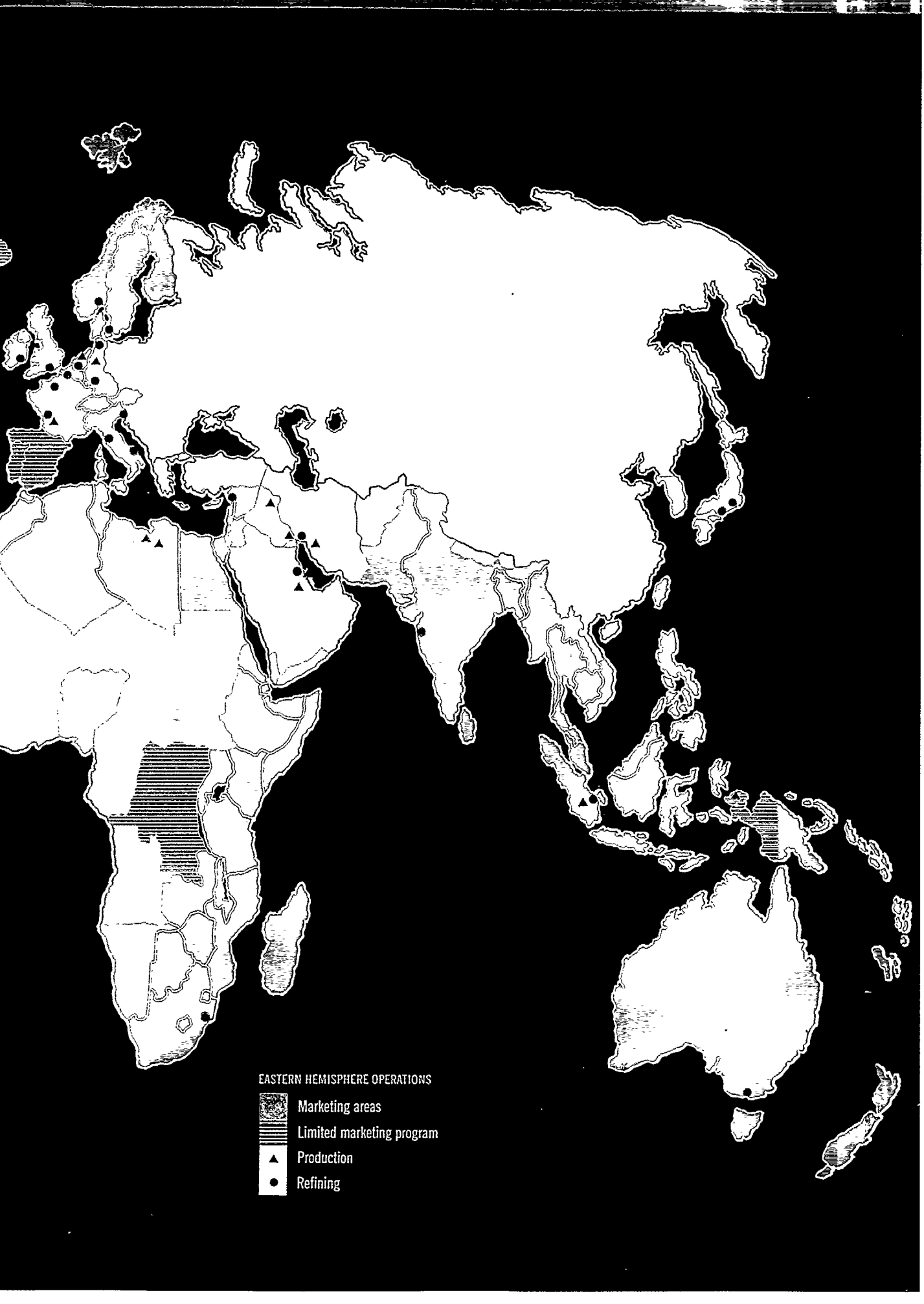
TRANS-ARABIAN PIPE LINE COMPANY* (30%) • Pipeline transportation of crude oil from Saudi Arabia to Mediterranean terminal in Lebanon.

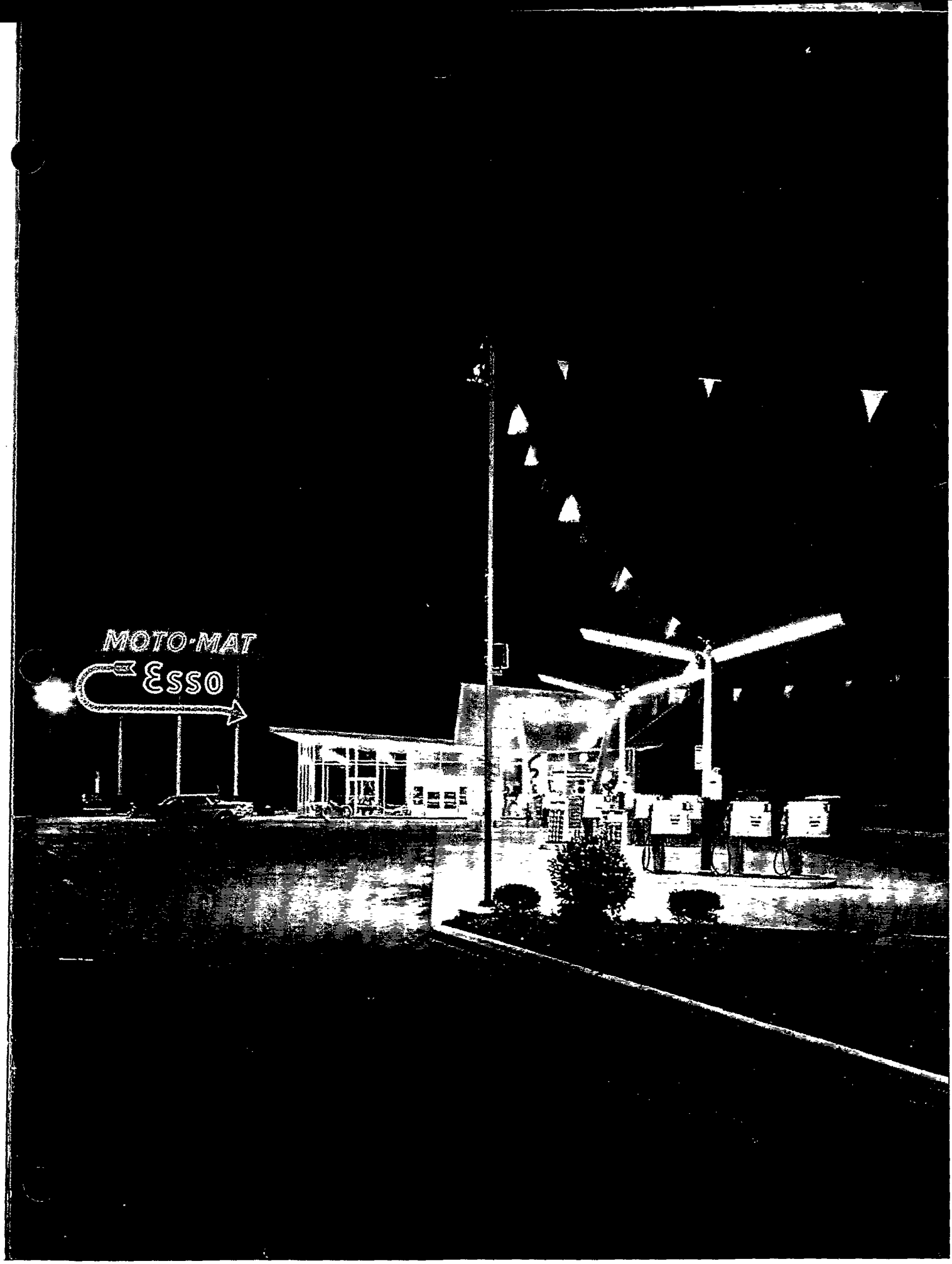
NOTE: In most instances Jersey's percentage of ownership in each company, shown in parentheses, has been rounded out to the nearest whole figure. Some relatively small companies are included in order to indicate the worldwide scope of the affiliates' operations.

*Not included in Standard Oil Company (New Jersey) consolidation since the company is not owned over 50 per cent.

PHOTOGRAPH ON OUTSIDE BACK COVER:
To give fast, complete service to the traveler, this experimental "Moto-Mat" service station on Louisiana's U. S. Route 61 provides high-quality products, a nursery and playground, travel information and reservation service, and machines that dispense hot and cold food and drink.

Printed in U.S.A. prad-900


EASTERN HEMISPHERE OPERATIONS
Marketing areas
Limited marketing program
Production
Refining


MOTO·MAT
ESSO