
ENERGY, INC.

Energy, Inc. (NYSE symbol "EI") is a diversified global energy concern with assets of \$23.5 billion and net income of \$1.8 billion on total revenues of \$21 billion. Energy, Inc. has holdings in crude oil production, refining and marketing; natural gas production, processing, gathering and transportation; and power production (cogeneration). In addition, Energy, Inc. has a nonjurisdictional gas and power marketing affiliate and an environmental services company, both based in the U.S. Energy, Inc. operates in the U.S. and Canada, Indonesia, Argentina and Great Britain.

ANALYSTS' REVIEW

Energy, Inc. is a mid-size, mid-range diversified global company with an aggressive expansion strategy. We rank the company as a "Buy/Hold." We note several issues associated with the various product lines.

Energy Inc. Operations

	1997	1996
Oil production (mb/day)	350	335
U.S.	100	104
International	250	230
Refining throughput (mb/day)	738	614
U.S.	378	317
International	360	297
Gas production (mmcf/d)	1,365	1,336
U.S.	1,035	1,022
International	329	314
Gas liquids production (mb/d)	157	143
Worldwide pipeline throughput (tcf/y)	2.5	2.40
Power (megawatts)	400	350
Average oil price (U.S.\$)		
U.S.	\$14.51	\$15.62
International	\$14.81	\$16.05
Average gas price (U.S.\$)		
U.S.	\$2.26	\$2.08
International	\$2.43	\$2.28

Note: mb/d=million barrels per day; mmcf/d=million cubic feet per day; tcf/y=trillion cubic feet per year.

Crude oil and natural gas production.

Energy, Inc.'s oil and gas subsidiary (**Success Exploration**) ranks 20th in worldwide oil production and 15th in worldwide natural gas production. Unlike most U.S. oil producers, Energy, Inc. appears to be stepping up its investment in domestic programs. Energy, Inc. improved its position in U.S. and Canadian natural gas production with the acquisition in 1996 of **Bold Oil and Gas**, an aggressive independent operating mainly in the U.S. Gulf Coast onshore and Western Sedimentary Basin in Canada. Energy, Inc. has not participated extensively in the U.S. Gulf offshore, a position that is being re-evaluated. In worldwide oil and gas production, Energy, Inc.'s largest

position is in Indonesia (as **Energy Asia**). Current economic issues in Southeastern Asia and pressure on the Indonesian rupiah have created considerable exchange rate risk for Energy, Inc. and other producers in the region. In addition, the Energy, Inc. board submitted a report under the Foreign Corrupt Practices Act. More favorable concession terms from the Indonesian government make Energy, Inc.'s strong position, relative to the size of the company, an attractive feature of the stock barring fallout from other issues. While Energy, Inc. did not participate in the \$2.2 billion marginal field sale in Venezuela, the company is moving to penetrate the key Latin American upstream markets from its base in Argentina where Energy del Sur explores for and produces natural gas, operates pipelines and participates in electric power production.

Natural gas liquids and refined products

Energy, Inc. has natural gas processing plants in Texas, Louisiana and Canada. The company maintains an active liquids trading business through its U.S.-based gas and power marketing affiliate, **Challenge Partners** (see below). The company is seeking additional processing interests in Canada and Latin America and expects to also establish international liquids trading with initial positions in Latin America and Asia.

Through its subsidiary **Marginal Refining**, Energy, Inc. owns refining assets on the Mississippi Gulf Coast and Pennsylvania. Energy Inc. may be seeking to sell or merge into a consolidated downstream venture reported to be under consideration a major integrated oil.

Electricity (cogeneration)

Energy, Inc. has pursued aggressive cogeneration opportunities on the Houston Ship Channel (**Energy Inc. Power**), in Eastern Canada (as **EastCan Power**), in Argentina (as **Energy del Sur**) and Great Britain (as **Energy U.K.**). EastCan Power is a member of a multi-party complaint to the Ontario Energy Board related to discriminatory discount pricing by the provincial crown corporation, **Ontario Hydro**. Energy, Inc. has considerable financial exposure related to power purchase contracts from its facilities in the U.S. and Eastern Canada and has lowered the book value of its generating assets in Argentina. However, the company plans to consolidate its holdings into a separate subsidiary and has assembled a war chest for related acquisitions, particularly in Latin America and Eastern Europe and, surprisingly, Northern Africa. The company is reportedly seeking to participate as a partner in distribution companies separated from integrated utilities, or in integrated utilities, associated with privatization initiatives in Spain. Further, this is reported to lead to a U.S. strategy for acquiring interest in a strong mid-sized regional electric/gas utility.

Natural gas gathering and pipeline transmission

Energy, Inc. owns and operates natural gas gathering facilities in Texas and Louisiana, operates Pertamina gathering facilities in Indonesia under contract (Energy Asia) and pipelines in Argentina (Energy del Sur). The company is currently involved in a filing challenging affiliate gathering rates before the Texas Railroad Commission. Through its regulated subsidiary **Energy Pipe**, Energy, Inc. owns and operates 750 miles of intrastate pipeline facilities in Texas and Louisiana and 1,800 miles of interstate pipeline in the U.S. Energy, Inc. is known to be investigating opportunities to participate in pipeline projects that would carry Western Sedimentary Basin gas to the U.S. Pacific Northwest and from the Rocky Mountains to the upper Midwest. Energy Pipe is one of five interstate pipeline companies under staff review at the Federal Energy Regulatory Commission related to the spindown of interstate pipeline assets to intrastate jurisdiction. Energy Pipe is also a critical player in a closely-watched filing before the Illinois Public Service Commission related to local distribution company (LDC) unbundling. Outside of the U.S. and Canada, Energy, Inc. is aggressively seeking opportunities to develop additional gathering and pipeline assets in Latin America (linked to upstream opportunities), Spain, Eastern Europe and Central Asia.

Risk management (trading) and gas and power marketing

Challenge Partners is 10th in liquids marketing/trading, 8th in gas marketing/trading and 9th in power trading in the U.S./Canada. Challenge has pursued an aggressive strategy for positioning around physical and financial assets and has created innovative programs for retail marketing systems management (the **You Trade** system is considered to be one of the industry's early electronic standards). Challenge has minimal crude and refining product hedging for internal management. Challenge is a member of an industry advisory board to the New York Merc as it works toward a London contract for natural gas. Challenge is also a sponsor of a major study being conducted at the University of Houston CBA Energy Institute on critical factors associated with and recommendations for the development of commodity trading programs in emerging markets.

In anticipation of a futures contract for gas in Europe and growth in trading and marketing in that region, Energy Inc. established **Challenge Partners Europe**. Already Challenge Partners Europe is third in gas trading activities, and is expected to be a leader in building markets off of the new Interconnector bringing additional North Sea gas to the Continent.

Environmental services

Energy, Inc. has maintained a presence in the environmental services industry for a number of years through its subsidiary **EcoServices**. Based in Meeker, Colorado, EcoService's main businesses are oil field remediation and wetlands restoration. The company, through licensing arrangements, controls patents for clean coal combustion technologies and solar and wind technologies as well as remediation technologies. A planned spinoff of EcoServices was aborted when market response was gauged to be too negative to support the IPO. Since that time, prospects for the environmental services industry has vastly improved and Energy, Inc. now intends an aggressive plan to double revenues for this division in three years. Energy, Inc. intends to build an international strategy for EcoServices around the company's key energy projects and assets worldwide.