ANNUAL REPORT

TO THE

STOCKHOLDERS

OF

HUMBLE OIL & REFINING COMPANY

FOR THE YEAR ENDED
DECEMBER 31, 1941
May 5, 1942.

To the Stockholders:

Humble Oil & Refining Company was organized in the spring of 1917, about the time the United States entered the first World War. At the close of 1941 Humble completed the first quarter century of its operations, about the time the United States entered the second World War. During this period epochal changes occurred in the oil business. Rapid developments in oil finding, producing, and refining operations made it possible for the industry to supply the increasing volume of products required by the remarkable expansion in use of automobiles and in industrial machine processes. The rapid growth of demand required and made possible great expansion in the oil industry. This was particularly true in Texas and Louisiana where crude oil production increased from less than 120,000 barrels daily in 1917 to 1,700,000 barrels a day in 1941.

Humble was fortunate in concentrating its efforts in Texas, New Mexico, and the Louisiana Gulf Coast where important oil development activities were taking place. In its twenty-five years of operation, Humble’s total gross production was nearly 800,000,000 barrels of crude oil and its net production 638,000,000 barrels. The Company’s daily production in 1941 exceeded the total daily production of the area in 1917 by approximately 50 per cent. Its purchases of crude oil for the period have been nearly twice its net production and have exceeded 1,200,000,000 barrels. In order to expand its operations the Company reinvested 58 per cent of its total net earnings over this period.

The industry has reason to be proud of its accomplishments in the last twenty-five years. Great technical developments and improvements in efficiency have taken place, resulting in lower costs of finding and producing oil, and the building up of large underground reserves of oil. Corresponding progress was made in the technique of refining and in the development of processes for the manufacture of a wide range of chemical products, opening new fields of service to the industry, and particularly providing numerous petroleum and chemical products vitally essential to the success
of our war effort. This progress has likewise resulted in substantial reductions in prices of products while quality has been constantly improved.

Aviation gasoline of 100 octane number, 100 viscosity index lubricating oils, toluene, synthetic rubber, and other products are being made in increasing quantities and improved quality, although maintenance of such operations is made much more difficult by the shortage of men and materials and shipping facilities incident to the war. The industry must continue to supply not only the products required by our military forces, but also those necessary for essential civilian use, including synthetic rubber, so that our war effort can continue with maximum efficiency and with minimum disturbance to the economic structure of the nation. This is truly an important assignment. To perform it requires ingenuity, skill, and determination on the part of the industry. The primary purpose and objective of the industry today is to do its part well in this emergency.

CONDITIONS IN THE INDUSTRY

The principal operations of the industry showed a steady upward trend in 1941, reaching a peak in the fourth quarter. Demand for crude oil and products showed an increase of 11 per cent over 1940. Supplies of all oils gained but 5 per cent over 1940. With demand increasing more rapidly than supply, stocks were reduced at the rate of 35,000 barrels daily or 12,000,000 barrels during the year. Crude oil production and refinery runs to stills reached record levels, each averaging about 3,850,000 barrels daily.

During 1941 prices of crude oil and major products advanced considerably from the depressed levels which had prevailed for some time. Crude oil prices in the Mid-Continent and Gulf Coast areas advanced about 15 cents a barrel in the first six months of 1941. Both wholesale and retail product prices improved during the year.

The areas in which Humble operates: namely, Texas, Southeast New Mexico, and the Gulf Coast of Louisiana and Mississippi, witnessed an improvement in supply, demand, and prices in 1941 corresponding to that for the United States. Texas' crude oil production was 1,391,000 barrels daily, about 3 per cent higher than 1940 but still slightly under the record level of 1937. Production in Mississippi and the Louisiana Gulf Coast expanded substantially over 1940, but New Mexico remained at about the same level.
FINANCIAL

EARNINGS AND DIVIDENDS

The consolidated net income of the Company for 1941 was $35,356,558 compared to $28,107,503 for 1940. This is equivalent to $3.93 a share as against $3.13 a share reported in 1940. The improvement in earnings resulted from a higher level of prices and an increase in the volume of crude oil and products sold. Gross operating income for the year was $232,142,043. The comparable figure for 1940 was $198,692,650.

For the fifth consecutive year the Company paid an annual dividend of $2.00 a share. It reinvested in the business as much of its 1941 net income as it paid out in dividends. For every dollar paid to the stockholders in dividends, the Company paid 99 cents in taxes and $1.82 in salaries, wages, and commissions.

TAXES

Taxes paid or accrued in 1941 were $17,758,000, of which $17,228,700 was charged to income account. The total taxes for the year represent an increase of $4,520,000 over 1940. This does not include gasoline and other taxes of $6,300,000 collected from customers and employees and remitted to governmental agencies. Total taxes have more than doubled during the past five years as shown by the following tabulation:

<table>
<thead>
<tr>
<th>Year</th>
<th>Net Income After Taxes</th>
<th>Taxes</th>
</tr>
</thead>
<tbody>
<tr>
<td>1936</td>
<td>$34,183,000</td>
<td>$8,403,000</td>
</tr>
<tr>
<td>1937</td>
<td>46,924,000</td>
<td>11,405,000</td>
</tr>
<tr>
<td>1938</td>
<td>35,800,000</td>
<td>11,644,000</td>
</tr>
<tr>
<td>1939</td>
<td>29,950,000</td>
<td>11,312,000</td>
</tr>
<tr>
<td>1940</td>
<td>28,108,000</td>
<td>13,238,000</td>
</tr>
<tr>
<td>1941</td>
<td>35,357,000</td>
<td>17,758,000</td>
</tr>
</tbody>
</table>

BALANCE SHEET CHANGES

The Company's net working capital position improved $4,685,690 during the year. Current assets at the close of the year totaled $76,266,866, and net working capital totaled $45,823,214. Comparable figures at the end of the preceding year were $64,973,462 and $41,137,524, respectively. Inventories of crude oil, products, and materials and supplies were valued at $36,386,607 at the end of 1941, an increase of $3,707,898 during the year. This comparison is affected by changes in the method of accounting as explained in the following section. The market value of inventories
aggregated 30 per cent more than the book value. The net increase in fixed (capital) assets, after giving effect to depreciation, depletion, and retirements, was $12,015,355.

CHANGES IN ACCOUNTING PROCEDURES

During the year certain changes were made in accounting procedures which had a material effect on the financial statements. The most important of these changes was the adoption of the “last-in, first-out” method of valuing inventories of crude oil and products. This change in 1941 resulted in net income being $1,160,057 less than if the “first-in, first-out” method had been continued.

The policy of eliminating intercompany profits in inventories was adopted and made effective for the year 1941. Intercompany profits in inventories at January 1, 1941, amounting to $1,567,186, were charged to surplus. This change in policy did not materially affect net income for the year.

OPERATIONS

EXPLORATION

The Geologic and Geophysics Departments continued to explore for new oil prospects with about the same degree of success as obtained in 1940. Findings of new prospects were due in part to continued work in relatively unexplored areas in Southwest Texas, North Texas, and Mississippi. The greatest amount of exploration effort was spent along the Wilcox trend in Texas and Louisiana.

Humble's most important wildcat discovery in 1941 was the Bayou Sale field in Louisiana. Other discoveries were Maurbro, McKnight, South Noodle, and Parrott fields in Texas. The Company contributed to the discovery well of the Clara Couch field in Crockett County, Texas, and drilling by other companies proved for oil production some of the Company's leases in several additional fields. Revisions of previous estimates of Humble's recoverable oil reserves were small inasmuch as 1941 developments did not add materially to the size of oil fields except at Hawkins, where 2,500 acres have been added.

PRODUCTION

The Company produced 67,445,000 barrels of crude oil in 1941 compared to 60,646,600 barrels in 1940. Humble's part of this production was 54,740,000 in 1941 and 49,074,000 in 1940. On a daily basis the Company's part of the total production for 1941 was approximately 150,000
barrels compared to 134,100 barrels for the preceding year. The additional production was due to new development and a general improvement in demand.

Total wells drilled in which Humble had an interest were 7.5 per cent lower than in 1940, whereas total wells drilled in the territory in which Humble operates were 3 per cent higher. The following tabulations present pertinent information about the number of wells drilled and operated by or for the account of Humble in 1941 and 1940:

<table>
<thead>
<tr>
<th>WELLS OPERATED AT END OF YEAR</th>
<th>1941</th>
<th>1940</th>
</tr>
</thead>
<tbody>
<tr>
<td>By Humble</td>
<td>7,655</td>
<td>7,250</td>
</tr>
<tr>
<td>By others, Humble part interest</td>
<td>682</td>
<td>650</td>
</tr>
<tr>
<td>By others, Humble royalty interest</td>
<td>2,382</td>
<td>2,175</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>10,719</strong></td>
<td><strong>10,075</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>WELLS DRILLED DURING YEAR</th>
<th>1941</th>
<th>1940</th>
</tr>
</thead>
<tbody>
<tr>
<td>By Humble Oil</td>
<td>490</td>
<td>509</td>
</tr>
<tr>
<td>By Others Oil</td>
<td>26</td>
<td>24</td>
</tr>
<tr>
<td><strong>Total producers</strong></td>
<td><strong>516</strong></td>
<td><strong>533</strong></td>
</tr>
<tr>
<td>Dry holes</td>
<td>73</td>
<td>93</td>
</tr>
<tr>
<td><strong>Total wells drilled</strong></td>
<td><strong>589</strong></td>
<td><strong>626</strong></td>
</tr>
</tbody>
</table>

*Wells in which Humble has a part interest.

The total production of casinghead gasoline plants decreased about 8,000,000 gallons during 1941. About 39,800,000 gallons of natural gasoline and about 35,500,000 gallons of isobutane and other products were produced. There has been an increase in demand for isobutane as a blending agent for aviation gasoline.

Arrangements were completed late in 1941 for the construction of a large cycling plant in the Katy field in which the majority of producers in the field have a joint interest. Humble has an interest of about 45 per cent in this project. This proposed plant was designed to extract a maximum of isobutane for use in the manufacture of 100 octane aviation gasoline, and a high priority rating has been secured for construction materials. It is planned to process over 250,000,000 cubic feet of gas daily, from which it is estimated about 6,000 barrels of products will be extracted.
It is contemplated that some of the dry gas will be sold, but the greater part will be returned to the reservoir in order that pressure may be maintained and the ultimate recovery of products increased.

**Purchasing and Transportation**

Crude oil purchases and sales by Humble in 1941 were the largest in its history. The Company purchased an average of 251,500 barrels daily compared to 235,400 barrels a day in 1940. Its purchases amounted to 1.68 barrels of crude for each barrel of its own net production.

Humble Pipe Line Company transported 391,000 barrels daily in 1941, an increase of 10,000 barrels a day over 1940. This gain resulted from higher crude production and purchases although there was a decline in the amount of common carrier oil handled on joint tariffs. At the end of the year Humble Pipe Line Company had in service 5,300 miles of trunk lines and 2,600 miles of gathering lines.

Late in 1940 the Attorney General of the United States filed, on behalf of the Government, a suit against the American Petroleum Institute and all of the principal oil companies in the nation. The petition alleged violation of the antitrust and various other Federal laws. One of the grounds for complaint against defendant pipe line companies was that the dividends paid to their respective producing and shipping company stockholders were in effect rebates in violation of the Elkins Act. It was considered advisable to seek a settlement of this phase of the lawsuit because of the uncertainty of litigation and the large amount involved, which might have been as much as three times the alleged rebates over a period of six years in case of an adverse decision. After long negotiations an agreement was reached which was carried through by the Government's filing in December 1941, of a separate suit against all the individuals and companies concerned in this particular phase of the general suit, and by the entry of an agreed judgment, whereby the payment of future dividends to shipper-owner stockholders of pipe line corporations is limited to 7 per cent of the Interstate Commerce Commission's valuation of the pipe line companies' property used in their carrier business. Through a reduction in pipe line tariffs effective December 1941, it is estimated that the earnings of Humble Pipe Line Company will be reduced to the level provided by the agreement. The original antitrust suit is left on the docket for future disposition.

**Manufacturing**

Humble refineries processed daily an average of over 190,000 barrels of crude oil during the year. This is the largest throughput in the history of the Company and represents an increase of 18 per cent over 1940 when 161,000 barrels daily were processed. The production of aviation gasoline was increased by 40 per cent during 1941, and plans have been made for
still further increases in 1942. High priority ratings have been secured for expansion of alkylation facilities, for the construction of a superfractionating unit to make aviation base stock, and for another alkylation plant. Construction was started in August 1941, on a fluid catalyst cracking unit which will be completed in 1942. The unit is designed to process 14,000 barrels daily of gas-oil and to improve the yield and octane of gasoline.

As reported last year, the Company entered into an important contract with the United States Government for the construction of a plant to manufacture toluene. Construction of the plant was completed a month ahead of schedule, and the first shipment of toluene was made on October 23, exactly one year from the date on which the contract was approved by the Undersecretary of War. Humble operates the plant for the Government and provides the raw materials used for processing.

Although this is a report on 1941 operations, it seems appropriate here to state that Humble has entered into contracts with the Government for the construction and the operation by Humble of a large Government plant to produce butadiene, a principal raw material used in the manufacture of synthetic rubber of the Buna type. Humble will supply the butylenes used in the manufacture of butadiene in this plant. In order to produce these butylenes, it will invest from ten to twelve million dollars in new refinery equipment, including an additional fluid catalyst cracking unit, utility facilities, and other auxiliary equipment. Further, Humble has been called on to supply raw materials, assist the Government in the construction of, and operate a Government-owned plant for the manufacture of butyl rubber in substantial quantities. These undertakings, along with the manufacture of large quantities of toluene, 100 octane and 91 octane aviation gasolines, high quality aviation lubricants and other essential war products, tie Humble’s activities in with the war effort in a substantial way and constitute a most important phase of its manufacturing efforts.

MARKETING

Total sales through 240 service stations were 5 per cent greater in 1941 than in 1940; sales through 128 bulk stations were 30 per cent greater; and tank car and direct sales were greater by 100 per cent. Sales of aviation gasoline and fuel oil accounted for practically all of the increase in tank car and direct sales. Gross revenues for the year were favorably affected by an increase both in volume and in price.
PERSONNEL

At the close of 1941 there were 13,440 employees, including those on military leave, on the pay rolls of the Humble Companies, an increase of 752 for the year. More than 20 per cent of this increase, however, was due to the fact that the number of employees on military leave increased from 78 at the end of 1940 to 246 at the end of 1941. Total pay rolls in 1941 amounted to $30,794,146. Average annual compensation per employee in 1941 was more than $100 higher than in 1940 as wages and salaries were advanced by more than 12 per cent by general increases made effective in April and in September. Sales agents' commissions of $2,009,352 are not included in the above-mentioned pay roll figures. Each year the Companies contribute to the welfare of the employees through the Annuity & Thrift Plan, vacation allowances, social security taxes, sickness and accident benefits, death benefits, and other means. Such contributions totaled $5,570,714 in 1941, equivalent to 18 per cent of the pay roll for the year. Of this amount, $2,508,952 was contributed to the Annuity & Thrift Plan, supplementing employees' payments to the Plan of $2,638,036. At the close of the year nearly 96 per cent of the employees eligible were participating in the Plan.

The fine spirit of loyalty and co-operation exhibited by employees is particularly gratifying in the present emergency. The Board of Directors and the officers wish to express their appreciation and commendation for the splendid work of all those in the employ of the Companies, for the confidence and support received from the stockholders, and for the consideration and spirit of understanding shown by our customers and the public generally.

By Order of the Board of Directors

H. C. WIESS

President
To the Board of Directors of
Humble Oil & Refining Company:

We have examined the consolidated balance sheet of Humble Oil & Refining Company and its wholly owned subsidiary company, Humble Pipe Line Company, as at December 31, 1941 and the consolidated statements of income and surplus for the year then ended. In connection with our examination, we reviewed the system of internal control and procedures of the companies and, without making a detailed audit of the transactions, examined or tested their accounting records and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary.

We have accepted the balances of the fixed (capital) assets and relative reserves of the companies as at January 1, 1934 at the amounts shown on the books and records of the companies.

Effective January 1, 1941, the company changed its method of valuing inventories of crude oil, petroleum products, and other salable merchandise so as to apply the principle of "last-in, first-out" in the valuation of such inventories. Heretofore, the inventories were valued at approximate cost on the basis of "first-in, first-out." As a result of this change in method, which we approve, the inventories at December 31, 1941 were $1,690,527 less than they would have been if valued on the "first-in, first-out" basis. The effect on consolidated net profit (being profit after Federal income taxes) for the year 1941 was a reduction of $1,160,057 in such profit. The application of the change in method of valuing inventories is subject to review and acceptance by the United States Treasury Department.

In our opinion, the accompanying consolidated balance sheet of Humble Oil & Refining Company and its wholly owned subsidiary company and the related consolidated statements of income and surplus, together with the notes thereto, present fairly the consolidated position of the companies at December 31, 1941, and the consolidated results of their operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent (except for the change in method of inventory valuation) with that of the preceding year.

Price, Waterhouse & Co.
### ASSETS

#### CURRENT ASSETS:
- Cash in banks and on hand: $21,708,780
- United States Treasury tax notes: 5,000,000
- Notes and accounts receivable:
  - Notes receivable: $41,265
  - Accounts receivable—trade, less reserve of $44,490: 7,396,982
  - Due from affiliated companies: 5,143,820
  - Miscellaneous accounts receivable: 529,412
- Inventories (Note 1):
  - Crude oil: $11,461,674
  - Petroleum products: 14,410,114
  - Other salable merchandise: 602,913
  - Materials and supplies: 9,911,906
- Total Current Assets: $76,266,866

#### INVESTMENTS AND ADVANCES:
- Notes and accounts receivable, collectible out of oil: $1,106,451
- Note receivable, secured by land: 2,033,509
- Notes receivable from employees, secured by homesites: 236,176
- Miscellaneous securities and other accounts: 905,257

#### FIXED (CAPITAL) ASSETS (Note 2):
- Lands, leases and easements, plant and equipment, and pipe lines, at cost: $520,878,280
- Less—Reserves for depreciation, depletion, and amortization: 195,797,448
- 325,080,832

#### PREPAID AND DEFERRED CHARGES:
- Deferred lease rentals: $1,153,788
- Miscellaneous: 506,876
- 1,660,664
- Total Prepaid and Deferred Charges: $407,289,755

### LIABILITIES, CAPITAL STOCK, AND SURPLUS

#### CURRENT LIABILITIES:
- Accounts payable for oil and gas purchased: $10,042,836
- Other accounts payable: 4,386,337
- Due to affiliated companies: 472,998
- Purchase obligations and notes payable, due in 1942: 389,607
- Loan from Trustees of Annuity Trust, due in 1942: 629,936
- Reserve for Federal income taxes and other taxes (Note 3): 13,459,628
- Wages and miscellaneous accruals: 1,064,090
- Total Current Liabilities: $30,443,652

#### LOANS FROM TRUSTEES UNDER DECLARATIONS OF TRUST WITH RESPECT TO ANNUITIES (Note 4):
- 5,591,953

#### LONG-TERM INDEBTEDNESS:
- Loan from Standard Oil Company of New Jersey, payable in annual installments of $7,000,000 from July 1, 1943, interest at 2.5%: $35,000,000
- Notes payable to banks, due December 27, 1943: 5,000,000
- Purchase obligations payable 1943 to 1955: 2,014,167
- 42,014,167

#### DEFERRED CREDITS:
- 477,840

#### CAPITAL STOCK AND SURPLUS:
- Capital stock, authorized and issued, 9,000,000 shares of no par value: $175,000,000
- Capital surplus (no change during 1941): 554,912
- Earned surplus: 153,481,965
- Less—12,160 shares of own capital stock held in treasury, at cost: $329,036,877
- 328,762,143

#### CONTINGENT LIABILITIES (Note 5):
- 407,289,755
HUMBLE OIL & REFINING COMPANY
AND SUBSIDIARY COMPANY

Consolidated Income Account
For the Year Ended December 31, 1941

GROSS OPERATING INCOME:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales of crude oil and petroleum products</td>
<td>$229,295,618</td>
</tr>
<tr>
<td>Sales of merchandise</td>
<td>$760,881</td>
</tr>
<tr>
<td>Other gross operating revenue</td>
<td>$2,085,544</td>
</tr>
<tr>
<td></td>
<td><strong>$232,142,043</strong></td>
</tr>
</tbody>
</table>

OPERATING CHARGES:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Costs, operating, and general expenses</td>
<td>$156,327,276</td>
</tr>
<tr>
<td>Taxes, other than Federal income taxes</td>
<td>$9,551,038</td>
</tr>
<tr>
<td><strong>Balance</strong></td>
<td><strong>$66,263,729</strong></td>
</tr>
<tr>
<td>Depreciation</td>
<td>$17,791,024</td>
</tr>
<tr>
<td>Depletion and amortization</td>
<td>$1,609,750</td>
</tr>
<tr>
<td>Surrendered leases</td>
<td>$2,385,506</td>
</tr>
<tr>
<td>Retirements</td>
<td>$83,471</td>
</tr>
<tr>
<td><strong>Profit From Operations</strong></td>
<td><strong>$44,393,978</strong></td>
</tr>
</tbody>
</table>

NON-OPERATING INCOME ........................................ | $357,926  |

NON-OPERATING CHARGES:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest charges</td>
<td>$1,420,038</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>$297,583</td>
</tr>
<tr>
<td><strong>Profit Before Federal Income Taxes</strong></td>
<td><strong>$43,034,283</strong></td>
</tr>
</tbody>
</table>

PROVISION FOR FEDERAL INCOME TAXES (Note 3) .... | $7,677,725 |

NET PROFIT FOR THE YEAR ......................... | **$35,356,558** |
HUMBLE OIL & REFINING COMPANY
AND SUBSIDIARY COMPANY

Consolidated Statement of Earned Surplus
For the Year Ended December 31, 1941

BALANCE, DECEMBER 31, 1940 ............ $137,851,300

ADD:
Net profit for the year 1941 ............. $ 35,356,558
Refund of employees' Annuity and Thrift
Fund provisional contributions ............ 9,060 35,365,618

$173,216,918

DEDUCT:
Dividends paid in cash—$2 per share ........ $ 17,975,680
Adjustment of inventories to eliminate
therefrom the intercompany profits as at
January 1, 1941 .......................... 1,567,186
Additional provision for Federal income taxes
of prior years ............................ 192,087 19,734,953

BALANCE, DECEMBER 31, 1941 .......... $153,481,965
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1—INVENTORIES:

The inventories of crude oil, petroleum products, and other salable merchandise at December 31, 1941 were valued by applying the principle of “last-in, first-out.” In applying this principle, the inventories at January 1, 1941 were considered to represent the basic inventories. The quantities of crude oil and petroleum products at December 31, 1941 were less (except for two groups of products) than the quantities in the basic inventories, and the total quantities were, therefore, priced at the unit prices used in valuing the inventories as at December 31, 1940. The unit price of crude oil represented the approximate cost of the oil, including transportation. The portion of the basic inventory of crude oil estimated to be oil produced by the company was valued on the basis of the average cost of oil produced in 1940, and the portion of the basic inventory estimated to be crude oil purchased was valued on the basis of cost during the period of accumulation determined on the “first-in, first-out” principle. The unit prices of petroleum products in the basic inventory represented cost to the company, determined by adding to the cost of crude oil processed the cost, on the “first-in, first-out” principle, of processing.

Intercompany and interdepartmental profits have been eliminated from the inventories. The aggregate market value of crude oil, petroleum products and other salable merchandise was approximately 30% more than the aggregate cost thereof, as shown in the accompanying balance sheet, at December 31, 1941.

Materials and supplies are carried in the accompanying balance sheet at cost or less.

NOTE 2—FIXED (CAPITAL) ASSETS AND RELATIVE RESERVES:

The investment in lands, leases and easements, plant and equipment, and pipe lines at December 31, 1941 may be summarized as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oil lands, leases, easements, and crude oil production plant and equipment (including unamortized leasing and exploration costs—$14,556,411)</td>
<td>$314,229,348</td>
</tr>
<tr>
<td>Pipe lines and crude oil storage facilities</td>
<td>103,988,245</td>
</tr>
<tr>
<td>Refineries</td>
<td>85,490,968</td>
</tr>
<tr>
<td>Marketing stations, facilities and equipment</td>
<td>10,403,303</td>
</tr>
<tr>
<td>Houston office building and equipment</td>
<td>6,766,416</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$520,878,280</strong></td>
</tr>
</tbody>
</table>

Properties are stated on the balance sheet at cost, and include intangible drilling costs since January 1, 1931 on wells completed as producing
wells; prior to that date intangible drilling costs were charged to income account. Leasing and exploration costs were capitalized from January 1, 1934 to December 31, 1939, and amortization has been provided on the basis of the estimated recoverable oil reserves; the unamortized balance in the property accounts at December 31, 1941 was $14,556,411. Since January 1, 1940, the company has charged the major portion of expenditures for leasing and exploration to the income account. The cost of leases on undeveloped properties is capitalized, and no amortization is provided thereon, but the cost of leases relinquished is charged to income account. Rentals of undeveloped leases are charged to income account as paid. Certain lease rentals which are payable over several years and not subject to cancellation by relinquishment of the lease have been charged to deferred charges.

Provisions for depletion of producing leases and depreciation of lease and well equipment have been computed under the unit of production method and have been based on quantities of commercially recoverable oil as estimated by the company's engineers and geologists. Depreciation of refineries, pipe lines, marketing facilities and miscellaneous properties has been provided for on a straight-line basis at rates estimated to be sufficient to amortize the cost of the facilities over their useful lives. The composite rates of depreciation used for pipe lines have for many years been applied under the group system of depreciation to various classes of property. This group system of depreciation has been extended in 1941 to cover the refineries and marketing facilities of the company.

NOTE 3—INCOME TAXES:

The Federal income tax returns of the companies for 1936 and prior years have been settled with the Treasury Department. The reserve for Federal income taxes at December 31, 1941 is sufficient, in the opinion of officials of the companies, to cover the liabilities for the years which have not yet been settled. No provision for excess profits tax is required for 1941.

NOTE 4—LOANS FROM TRUSTEES:

The companies' liability under annuity and thrift plans for employees has been provided for by contributions to the funds created under declarations of trust. At December 31, 1941, the company was indebted to the 1932 Annuity Trust in the amount of $6,220,989, represented by $4,333,882 due on demand and $1,887,107 payable in three annual installments of $629,036 each. It is anticipated that no part of the demand loans will be called in 1942.

NOTE 5—CONTINGENT LIABILITIES:

The companies have suits pending against them, some of which are for large amounts, but counsel of the company has reported that while it is impossible to ascertain the ultimate legal and financial liability in respect of litigation as of December 31, 1941 against the companies, it is his opinion that such ultimate liability will not be materially important in relation to the total assets of the companies.
BOARD OF DIRECTORS

H. C. Wiess          E. E. Townes
John R. Suman        L. T. Barrow
Hines H. Baker       D. B. Harris
David Frame          J. A. Neath

EXECUTIVE OFFICERS

H. C. Wiess, President

E. E. Townes .......... Vice President and General Counsel
John R. Suman ........ Vice President
L. T. Barrow .......... Vice President
Hines H. Baker ....... Vice President
D. B. Harris .......... Treasurer
H. K. Arnold .......... Secretary and Assistant Treasurer
R. E. Seagler ....... General Attorney
Gay Carroll .......... Comptroller

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