Twenty-Second Annual Report

The Pure Oil Company

Chicago

For the Year Ended December 31, 1935
The Pure Oil Company
GENERAL OFFICES, CHICAGO

OFFICERS

<table>
<thead>
<tr>
<th>Officer</th>
<th>Title</th>
<th>Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>B. G. Dawes</td>
<td>Chairman of the Board</td>
<td>Columbus, Ohio</td>
</tr>
<tr>
<td>H. M. Dawes</td>
<td>President</td>
<td>Chicago</td>
</tr>
<tr>
<td>R. W. McIlvain</td>
<td>Vice-President</td>
<td>Chicago</td>
</tr>
<tr>
<td>C. B. Watson</td>
<td>Vice-President</td>
<td>Chicago</td>
</tr>
<tr>
<td>N. H. Weber</td>
<td>Vice-President</td>
<td>Chicago</td>
</tr>
<tr>
<td>F. S. Heath</td>
<td>Vice-President</td>
<td>Columbus, Ohio</td>
</tr>
<tr>
<td>Rawleigh Warner</td>
<td>Vice-President and Treasurer</td>
<td>Chicago</td>
</tr>
<tr>
<td>L. S. Wescoat</td>
<td>Vice-President and Secretary</td>
<td>Chicago</td>
</tr>
<tr>
<td>C. H. Jay</td>
<td>Asst. Secretary and Treasurer</td>
<td>Chicago</td>
</tr>
<tr>
<td>R. L. Milligan</td>
<td>Asst. Secretary and Treasurer</td>
<td>Chicago</td>
</tr>
<tr>
<td>W. V. Keeley</td>
<td>Asst. Secretary and Treasurer</td>
<td>Chicago</td>
</tr>
<tr>
<td>A. M. Brereton</td>
<td>Comptroller</td>
<td>Chicago</td>
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DIRECTORS

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>B. G. Dawes</td>
<td>W. F. Burdell</td>
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</tr>
<tr>
<td>H. M. Dawes</td>
<td>W. C. Fairbanks</td>
<td></td>
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<tr>
<td>I. B. Humphreys</td>
<td>F. S. Heath</td>
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<tr>
<td>Philip R. Clarke</td>
<td>J. E. Otis</td>
<td></td>
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<tr>
<td>Rawleigh Warner</td>
<td>R. W. McIlvain</td>
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<tr>
<td></td>
<td>C. B. Watson</td>
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</tbody>
</table>
The Pure Oil Company
Chicago

EARNINGS STATEMENT AND SURPLUS ACCOUNTS
For The Twelve Months Ended July 31, 1936

The Pure Oil Company has, pursuant to the provisions of Section 11 (A) (5) of the Securities Act of 1933, as amended, made generally available to its security holders this consolidated earnings statement and surplus accounts prepared by it, for the period from August 1, 1935, to July 31, 1936, such period beginning after the effective date of the Company's Registration Statement for $32,000,000.00 principal amount, Fifteen Year 4½% Sinking Fund Notes due July 1, 1950, filed with the Securities and Exchange Commission on June 27, 1935, and which became effective July 17, 1935. Copies of the earnings statement and surplus accounts published herein will be mailed on request to any holder of securities of the Company, and to other interested parties.
The Pure Oil Company and Subsidiaries

CONSOLIDATED INCOME AND SURPLUS ACCOUNTS

For the Twelve Months Ended July 31, 1936

INCOME ACCOUNT

GROSS OPERATING INCOME (after elimination of intercompany sales, etc.) $99,765,276.51

OPERATING CHARGES:

Cost of sales and services (exclusive of depreciation and depletion) $61,414,627.18
Selling, general and administrative expenses 17,224,372.63
Taxes (other than income taxes) 2,474,114.58
Bad debts 482,463.16
Net operating income before depreciation and depletion 81,595,577.55

NONOPERATING INCOME:

Dividends 824,720.61
Interest on securities and notes 62,936.51
Discounts earned 175,375.04
Total 1,063,032.16

INCOME DEDUCTIONS:

Interest on sinking-fund notes 1,351,145.84
Amortization of debt discount and expense 89,134.46
Interest on bank loans, purchase obligations, etc. 365,924.16
Cash discounts allowed 210,059.03
Loss on disposition of capital assets, etc. (net) 62,259.42
Net income before income taxes, etc. 17,154,208.21

DEPRECIATION AND DEPLETION:

Provision for depreciation and depletion 7,698,670.03
Lease bonuses paid 541,775.42
Net income before income taxes, etc. 8,913,762.76

PROVISION FOR FEDERAL AND STATE INCOME TAXES (Note 4)

Net income before minority interests 8,329,711.42
Net income applicable to minority interests 738,185.50
Net income carried to earned surplus 7,591,525.92

SURPLUS ACCOUNTS

Fair Value Surplus

Balances—JULY 31, 1935 $26,318,702.33 $11,596,186.30

Add:

Net income for the period, per income account — 7,591,525.92
Excess of amount received ($15.00 per share) over stated value ($10.00 per share) of common stock sold through the exercise of warrants attached to fifteen-year 4 1/4% sinking-fund notes 1,089,150.00
Discount on purchase of preferred stocks of subsidiaries 56,038.27
Total 27,463,890.60 19,187,712.22

Deduct:

Cash dividends paid on preferred stocks:
Dividends accrued to April 1, 1936 on shares not exchanged under the plan submitted January 13, 1936 — 798,416.70
For the quarter ended July 1, 1936 — 575,266.25
Additional federal income tax and interest thereon applicable to prior years (Note 3) — 972,457.28
Transfer to preferred stock account under plan of exchange of January 13, 1936 533,800.00 5,427,900.00
Cash disbursement pursuant to plan of exchange of preferred shares — 339,243.75
Premium and unamortized discount and expense in connection with redemption of fifteen-year 4 1/4% sinking-fund notes from proceeds of sale of common stock through the exercise of warrants attached to notes — 177,066.75
Total 533,800.00 8,290,350.73

Balances—JULY 31, 1936 $26,930,090.60 $10,897,361.49

In the indenture of the sinking-fund notes, subject to certain provisions contained therein, the company agrees not to pay cash dividends or distributions which would reduce consolidated earned surplus below a certain amount which, at July 31, 1936, was $2,115,530.11.

The attached notes are an integral part of the above statements.
THE PURE OIL COMPANY AND SUBSIDIARIES
NOTES ATTACHED TO AND MADE A PART OF THE INCOME AND SURPLUS ACCOUNTS

For the Twelve Months Ended July 31, 1936

Notes:

(1) In accordance with the practice consistently followed by the companies, inventories are priced as follows:
   Crude oil at average of market prices at dates of production or purchase.
   Refined oils at refineries and terminals at recorded departmental cost which comprises crude oil at market quotations at time of transfer to refineries, plus processing costs; refined oils at marketing points at or below market prices at dates of transfer from refineries.
   Transportation costs are included at tariff rates.
   If quoted market prices are lower than above prices, the inventories are reduced to market.
   In following the pricing bases set forth above, crude and refined oils were stated at approximately $500,000.00 below market at July 31, 1936.
   Certain interdepartmental profits are included in the inventory prices with the net result that inventories at July 31, 1936 are carried at approximately $2,400,000.00 in excess of actual cost, plus transportation at tariff rates, of which approximately $500,000.00 was taken into the income account for the twelve months ended July 31, 1936.

(2) Since January 1, 1934, the company has provided for depletion by applying to the total barrels produced an "over-all" rate (per barrel) determined by dividing the total amount of producing properties subject to depletion, by the net oil reserves (in barrels) estimated by the company's production engineers.
   The "lease" or unit method of providing depletion is used by many oil-producing companies. Both the "lease" and "over-all" methods contemplate the ultimate amortization of the investment in oil-producing properties on the basis of estimated oil production; however, the yearly provisions to date under the "over-all" method have been materially less than would have been the case under the "lease" method.
   This is due to the fact that a disproportionate amount of oil has been produced from leases having a relatively high book value. The application of the "lease" method to such production would require a depletion provision on a basis believed by the management to be inconsistent with the company's total oil reserves. Under the "over-all" method the total recovery is depleted upon the basis of the average rate for all producing leases.

(3) In July, 1936 the company paid additional Federal Income Taxes (which had been in controversy) and interest thereon, applicable to certain years prior to 1930, in the aggregate amount of $1,187,385.64. Of this amount $972,457.28, which had not previously been provided for, was charged to earned surplus account. In accordance with a reservation made in connection with the settlement, the Company is now preparing to file suit to recover an amount approximately equal to such surplus charge covering Federal Income Taxes and interest applicable to certain other years prior to 1930.
   The Company and its subsidiaries, in common with other oil companies, were assessed Federal Gasoline and Lubricating Oil Tax on certain inventories on hand June 21, 1932. On August 15, 1936 the company and its subsidiaries were assessed approximately $277,000.00 covering this tax and interest thereon. The income and surplus on the attached statement has not been reduced by the amount of this assessment. Claim for abatement of this tax, and interest, has been filed and the company believes it has good grounds for finally eliminating this assessment.

(4) The accompanying statements of consolidated income and surplus for the twelve months ended July 31, 1936 are interim statements prepared from the books without audit, adjusted in respect of certain items considered applicable to the period ended that date, but are subject to such adjustments, if any, as might be determined upon examination by independent public accountants. The companies regularly close their accounts and file Federal Income Tax returns on a calendar year basis. No provision has been made for Federal Surtax on undistributed profits applicable to the operations for seven months of 1936.
Twenty-Second Annual Report of the Directors of

The Pure Oil Company

For the Year Ended December 31, 1935

Chicago, February 28, 1936.

To the Shareholders:

Herewith is submitted the twenty-second annual report of the Pure Oil Company:

The operating results for the past year have been the most satisfactory since those disclosed by the Annual Report of 1929. The earnings of the company after all charges except interest on funded debt were $9,806,259.12 as compared with $1,039,138.74 in 1934. After deducting interest charges, the earnings for the twelve months of 1935 were $8,150,026.73 as compared with a deficit of $884,872.24 in 1934. The Pure Oil Company's proportion of the earnings of associated companies in which it owns a minority interest was $1,658,174.34. Of this amount, $899,939.35 was not declared out in dividends by these companies and is not reflected in the earnings statement of The Pure Oil Company for 1935. The excess of current assets over current liabilities on December 31, 1935 was $24,685,287.23. On December 31, 1934, it was $12,175,502.61.

The average retail price recovered for gasoline was approximately the same as in 1934, as was the price of crude oil. During the year the company was compelled to buy 5,951,846 barrels of crude oil to meet its refinery and marketing requirements as compared with 4,102,403 barrels in 1934. The total sales of gasoline showed an increase of 14.61% over 1934 as compared with an average in the industry of slightly over 6%. The total net crude oil production was 22,930,295 barrels as compared with 18,538,226 barrels in 1934.

Financial

During the year, the company retired its outstanding long-term 5 1/4% notes and its bank indebtedness. $13,000,000. of these 5 1/4% notes were of the maturity of 1937, and $15,500,000. of the maturity of 1940. The composite interest rate of the new securities issued for this purpose was 4% as compared with the composite rate of 5 1/4% on the obligations which were refunded.

On April 1, 1936, the accumulated unpaid dividends on the outstanding preferred shares of the company will amount to an aggregate of $6,564,162. The Directors felt that in view of the encouraging increase in earnings in the past year, they should submit a plan to the owners of the preferred shares which would have the effect of placing them on a current dividend basis. The following is a quotation from the letter of the President of the company submitting this offer on January 13th. The reception of this offer by the shareholders, the press, and the investment advisory bureaus has been definitely favorable.

"For each share of the present 8% preferred shares, (which is callable at $110. per share on any dividend date on sixty days prior notice), will be offered in the alternative, either: (a) one and thirty-four hundredths (1.34) shares of the new 6% preferred shares and $1.50 in cash, or (b) one share of the new 8% preferred shares and twenty-four hundredths (.24) of one share of the new 6% preferred shares and $1.30 in cash.

"For each share of the present 6% preferred shares, one and eighteen hundredths (1.18) shares of the new 6% preferred shares and $1.50 in cash, or (b) one share of the new 8% preferred shares and twenty-four hundredths (.24) of one share of the new 6% preferred shares and $1.30 in cash.

"For each share of the present 5 1/4% preferred shares, one and sixteen hundredths (1.16) shares of the new 6% preferred shares and $0.87 1/2 in cash.
"The acceptance of this offer of exchange by the preferred shareholders is entirely a voluntary matter. Should a considerable number of them indicate, by their failure to participate, that they prefer to maintain their present status, the Directors would be disposed to follow their wishes and withdraw the plan. The Directors, therefore, must reserve the right to withdraw this offer at any time before March 10, 1936, subject to the right of extension for a further period or periods not in any event to exceed in the aggregate thirty days, and return all shares deposited for exchange.

"The consummation of such a plan will in my opinion have the following effects:

"All of the then outstanding preferred shares of the Company on April 1, 1936, will be placed on a current dividend basis by the release and discharge of $6,564,162.00 of accumulated dividend charges without drawing materially on the cash resources of the Company. The total cost involved in accomplishing this purpose is, I believe, less than that of any other plan that has been suggested or could be practicably devised. The preferred shareholders will obtain the cash payment as above stated on April 1, 1936. The position of the common shares will be improved by the release of the accumulated dividend charges, and the holders of the notes of the Company will likewise benefited inasmuch as warrants for the purchase of common shares are attached to such notes."

PRODUCTION

The management believes that from 300,000,000 to 400,000,000 barrels is a fair estimate of the crude reserves of the company at this time. At the end of the year the company carried such crude properties, as are subject to depletion on its books at a valuation of $31,983,537. On the basis of 300,000,000 barrels total, this would represent a valuation of 10.66¢ per barrel. The present market for this crude oil at the well varies from a low of 81¢ to a high of $2.12, out of which of course lifting charges have to be paid. The average market price in those fields which contain most of the company's production is approximately $1.15 per barrel.

The general operations of the department have been satisfactory, and the prospective territory available for exploratory work is gratifying both in its character and its extent.

MARKETING

During the past year the company has not acquired any extensive marketing properties or engaged in important enlargements. Its increases in sales, which are materially beyond the average of the industry, are the result of general conditions and intensified activities in existing territories. The expenses of operation have been decreased and the results over previous years correspondingly improved.

REFINING

During the last five years of generally depressed conditions, refinery construction has been cut to the irreducible minimum that prudence would permit. Each year, however, during this period, the demand for the company's products has increased. This has developed a situation which will require very substantial expenditures during the coming year or two for refinery additions and improvements. The particularly favorable locations of these refineries in relation to our supply of crude and to their ultimate markets and the ramified transportation facilities of the company make it unnecessary to build any new units.

TRANSPORTATION

The management believes that, generally speaking, the transportation of its commodities, both crude and refined, is being carried on on an extremely economical basis. The maximum economy in pipe line transportation has, in many cases, been accomplished by cooperation with other units in the industry, with the effect of securing such pipe line volume as will result in the lowest cost. There are some links in the system which
need to be fortified, but no relatively large operations in this line are anticipated this year.

TAXES AND GOVERNMENTAL BURDENS

It is impossible to forecast with any degree of accuracy new burdens in the form of taxes and the expense of social legislation. The regulations for the application of many of these laws have not been worked out. Some, by their terms, are contradictory of others, and the legal status of some has not been adjudicated. The general implication that they constitute a menacing burden seems clear. It is, however, reasonable to assume that they will not bear any more oppressively upon the oil business than upon other industries.

The company's retirement plan underwritten by the Prudential Insurance Company this year can, we believe, be adjusted to conform to conditions as they develop and the interpretation of existing laws or new laws which may be passed.

The tax on gasoline, however, is a discriminatory one which bears harshly upon the motoring public and the oil industry. At the present time the average tax directly assessed on gasoline by the various state, local and governmental organizations is approximately equal to the present price per gallon for gasoline at the refinery. It is estimated that the total investment of the petroleum industry approximates $13,276,000,000, and that the total taxes paid by it and upon its products last year totaled $1,127,259,000, of which $807,262,000, was derived from the taxation of gasoline alone. The taxes levied upon petroleum products by no means represent the total tax burden of the American motorist, for an additional $480,000,000, was assessed by Federal, State and local authorities in the form of fees and other taxes. It is an interesting commentary on present-day tendencies that this industry which pays salaries and wages aggregating $1,216,764,000, per annum is assessed an annual tax on its products and operations equal to $1,127,259,000.

It would seem reasonable to suppose that before long the motorists upon whom most of this burden must eventually fall would refuse longer to submit to such an intolerable discrimination.

GENERAL

The problem of orderly control of crude production is one with which the industry has been struggling for many years. Most of the oil producing states have laws controlling the production in the various fields within its boundaries. It is, however, difficult, both practically and legally, to bring about a coordination between the states in meeting this situation. At the present time, the Federal Government, through laws passed under the Interstate Commerce Clause of the Constitution, is rendering valuable assistance through its ability to acquire certificates from the producer that oil consigned to points beyond the limits of a state shall be accompanied by a certificate that it was legally produced in conformity with the state's laws. The states of Oklahoma, Texas, New Mexico, Kansas, Illinois and Colorado, have formed a Compact which has been approved by Congress, under which a needed degree of coordination and cooperation is secured in matters concerned with the production of oil. The operations of this Compact have apparently met with a most favorable reception by the public and the states involved and by the petroleum industry as a whole. All of the producing states have not as yet joined in the movement, but in view of its successful operation, the prospects for their doing so seem favorable.

The stocks of crude oil above ground which were estimated on January 1, 1935 as being 337,000,000 barrels were reduced to the extent of 22,000,000 barrels.

Generally speaking, the statistical position of the industry is improved and the prospects for a more prosperous year in 1936 seem good.

Respectfully submitted,
HENRY M. DAWES, President.
### The Pure Oil Company TWENT'5

#### CONSOLIDATED BALANCE SHEET ASSETS

**CURRENT ASSETS:**
- Cash in banks and in transit, working funds, etc. $9,486,801.55
- Receivables—
  - Notes and acceptances $548,099.35
  - Accounts $7,044,835.43
  - Less—Reserve for doubtful receivables 7,592,934.78
- Inventories, quantities and condition determined by the companies—
  - Crude and refined oils, and merchandise (Note 1) $15,554,004.01
  - Materials and supplies, at current cost less allowance for condition 2,903,312.54

**INVESTMENTS AND ADVANCES:**
- Subsidiary not consolidated 75% owned, at cost (Note 2)—
  - Capital stock and advances $3,330,341.29
- Capital stock of Great Lakes Pipe Line Company—13,722 shares, at cost 1,372,200.00
- Capital stock and bonds of other companies, at cost; market prices not quoted (Note 5) 2,597,416.53
- Deferred receivables, etc., less reserve of $231,859.00 1,023,189.20

**EMPLOYEES' SAVINGS INVESTMENT FUND:**
- Fund assets—
  - Cash $51,854.45
  - Company's sinking fund notes 50,000.00 par value
  - Company's 6%-cumulative-preferred shares 20,956 shares
- Additional assets provided by company pending final settlements—
  - Cash $27,237.26
  - Company's 8%-cumulative-preferred shares 4,281 shares
  - Other investments—at cost 203,782.48

**PROPERTY, PLANT, EQUIPMENT, LEASEHOLDS, RIGHTS, ETC. (Notes 3 and 4):**

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<tr>
<th>CLASSIFICATION</th>
<th>Gross</th>
<th>Reserves</th>
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<tr>
<td>Producing</td>
<td>$105,920,804.29</td>
<td>$56,418,504.62</td>
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<td>Transportation</td>
<td>15,229,476.51</td>
<td>5,894,649.84</td>
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<td>Manufacturing</td>
<td>22,593,585.65</td>
<td>12,876,676.50</td>
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<td>Marketing</td>
<td>34,333,344.51</td>
<td>13,361,186.31</td>
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<td>Other properties</td>
<td>2,703,498.06</td>
<td>1,207,794.73</td>
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<td>Total</td>
<td>$180,780,709.02</td>
<td>$89,758,812.00</td>
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<td>Net total</td>
<td>$91,021,897.02</td>
<td>19,731,718.18</td>
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<td>Contracts, rights, patents, trade-marks, etc.</td>
<td>$110,753,615.20</td>
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**Prepaid and Deferred Charges:**
- Debt discount and expense in process of amortization $1,145,744.41
- Prepaid insurance, rentals, interest, etc. and miscellaneous deferred charges 494,097.59

The attached notes are an
SECOND ANNUAL REPORT, 1935

(Ohio) and Subsidiaries

HIEET—DECEMBER 31, 1935

LIABILITIES

CURRENT LIABILITIES:
- Bank loans of subsidiaries ........................................ $ 658,926.00
- Purchase obligations (Note 5) .................................. 773,472.71
- Accounts payable .................................................... 6,937,601.06
- Accrued interest on sinking-fund notes—payable January 1, 1936 . 680,000.00
- Other accrued liabilities ........................................... 1,425,752.75 $10,475,752.52

LONG-TERM DEBT:
- Fifteen-year 4½% sinking-fund notes, due July 1, 1950 (Note 6) . $32,000,000.00
- Bank loans maturing from 1937 to 1940 ................................ 5,000,000.00
- Deferred purchase obligations (Note 5) .......................... 1,743,112.91

EMPLOYEES' SAVINGS INVESTMENT FUND (net cash receipts from employees on subscriptions to Fund; payable at the option of the subscribers in company's 6% preferred shares prior to April 1, 1939, or in cash or shares on April 1, 1939) ........................................... 1,285,930.61

DEFERRED CREDITS, AND OTHER RESERVES ......................... 295,314.46

MINORITY INTERESTS IN CAPITAL STOCK AND SURPLUS OF SUBSIDIARIES (includes capital stock and applicable surplus of approximately $1,000,000 to be purchased over a period of years):
- Capital stock ......................................................... $ 2,968,806.22
- Surplus ................................................................. 1,303,088.38

CAPITAL STOCK:
Cumulative preferred—authorized, 900,000 shares, par value $100.00; issued 300,000 shares (including shares held in Employees' Savings Investment Fund)—

<table>
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<th>Rate</th>
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<td>5 1/4%</td>
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<td>6</td>
<td>169,076</td>
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<td>8</td>
<td>130,000</td>
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<td>300,000</td>
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(Cumulative dividends unpaid at December 31, 1935 amounted to $15.371 per share on the 5 1/4%, $17.621 per share on the 6%, and $23.50 per share on the 8% preferred shares, or a total of $6,049,171.00) (Note 7)

Common—authorized, 4,000,000 shares, no-par value (960,000 shares issued in the name of the company and reserved for warrants attached to sinking-fund notes); outstanding, 3,038,370 shares ........................................... 30,383,700.00

SURPLUS (per summary attached):
- Paid-in surplus ................................................. $26,374,740.60
- Earned surplus (Note 4) ....................................... 15,353,428.88

In the indenture of the sinking-fund notes, subject to certain provisions contained therein, the company agrees not to pay cash dividends or distributions which would reduce consolidated earned surplus below a certain amount which, at December 31, 1935, was $7,543,430.11.

CONTINGENT LIABILITIES:
Federal taxes for a number of years are subject to review by U. S. Treasury Department; reputable independent tax counsel for company state that a number of controversial issues are still under consideration and that it is impossible at the present time to state with any degree of accuracy what the final result will be.

$157,183,874.58 part of the above statement.
The Pure Oil Company and Subsidiaries

CONSOLIDATED INCOME AND SURPLUS ACCOUNTS

For the Year Ended December 31, 1935

INCOME ACCOUNT

<table>
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<tr>
<th>Description</th>
<th>Amount</th>
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<tbody>
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<td>Gross Operating Income (after elimination of intercompany sales, etc.)</td>
<td>$92,416,784.85</td>
</tr>
<tr>
<td>Costs, Operating and General Expenses</td>
<td>$71,066,725.75</td>
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<tr>
<td>Taxes (including income taxes)</td>
<td>3,204,735.50</td>
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<td>74,271,461.25</td>
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<td>$18,145,323.60</td>
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<td>Net operating income before depreciation and depletion</td>
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<td></td>
<td>$19,191,715.14</td>
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<td>Other Income:</td>
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<tr>
<td>Dividends</td>
<td>$844,138.18</td>
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<tr>
<td>Interest and discount earned</td>
<td>202,253.36</td>
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<td>1,046,391.54</td>
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<tr>
<td>Total</td>
<td>$18,489,029.62</td>
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<td>Other Deductions:</td>
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<td>Interest on bank loans, etc.</td>
<td>$470,619.50</td>
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<td>Cash discounts allowed</td>
<td>183,044.60</td>
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<tr>
<td>Loss on disposition of capital assets, etc. (net)</td>
<td>49,021.42</td>
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<td>702,685.52</td>
</tr>
<tr>
<td>Net income before interest charges on sinking-fund notes, depreciation, depletion, etc.</td>
<td>$16,832,797.23</td>
</tr>
<tr>
<td>Interest and Discount on Sinking-Fund Notes</td>
<td>$1,656,232.39</td>
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<tr>
<td>Provision for Depreciation and Depletion</td>
<td>$8,062,498.42</td>
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<tr>
<td>Net income before minority interests</td>
<td>$8,770,298.81</td>
</tr>
<tr>
<td>Income Applicable to Minority Interests</td>
<td>$620,272.08</td>
</tr>
<tr>
<td>NET INCOME CARRIED TO EARNED SURPLUS</td>
<td>$8,150,026.73</td>
</tr>
</tbody>
</table>

SURPLUS ACCOUNTS

<table>
<thead>
<tr>
<th>Description</th>
<th>Paid-in Surplus</th>
<th>Earned Surplus</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance—December 31, 1934</td>
<td>$26,280,376.93</td>
<td>$8,488,243.82</td>
</tr>
<tr>
<td>Add:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net income for the year, per income account</td>
<td></td>
<td>8,150,026.73</td>
</tr>
<tr>
<td>Total</td>
<td>$26,280,376.93</td>
<td>$16,638,270.55</td>
</tr>
<tr>
<td>Add:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Discount on purchase of preferred stocks of subsidiaries</td>
<td>94,363.67</td>
<td></td>
</tr>
<tr>
<td>Deduct:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unamortized balance of discount and expense on refunded issue, and premiums, etc. in connection with refunding of ten-year 5 1/2% sinking-fund gold notes</td>
<td></td>
<td>1,284,841.67</td>
</tr>
<tr>
<td>Balance—December 31, 1935</td>
<td>$26,374,740.60</td>
<td>$15,353,428.88</td>
</tr>
</tbody>
</table>

The attached notes are an integral part of the above statements.
THE PURE OIL COMPANY AND SUBSIDIARIES
NOTES ATTACHED TO AND MADE A PART OF THE FINANCIAL STATEMENTS
For the year ended December 31, 1935

Notes:

(1) Crude and refined oils in the aggregate are priced at approximately $400,000 below market at the end of the year. Certain interdepartmental profits are included therein, with the net result that inventories are carried at approximately $2,200,000 in excess of actual cost, of which $900,000 was taken into income for the year 1935.

(2) The assets of the subsidiary not consolidated consist mainly of undeveloped concessions in Venezuela, South America. The subsidiary follows the policy of capitalizing carrying charges (which are advanced by the parent company) and therefore reports no profit or loss.

(3) The depreciated cost of the parent company's tangible properties, per books, was reduced, either directly or through the reserves for depreciation and depletion, to fair value determined in an appraisal made as of April 1, 1932 by company executives under authority of the Board of Directors. Subsequent additions and the properties of subsidiaries are included at cost, and subsequent retirements and provisions for depreciation and depletion have been made on the basis of appraisal or cost values. Contracts, rights, trade-marks, etc. are stated at values determined in the above-mentioned appraisal, plus relatively minor additions at cost.

(4) Since January 1, 1934, the company has provided for depletion by applying to the total barrels produced an "over-all" rate (per barrel) determined by dividing the total amount of producing properties subject to depletion, by the net oil reserves (in barrels) estimated by the company's production engineers.

The "lease" or unit method of providing depletion is used by many oil-producing companies. Both the "lease" and "over-all" methods contemplate the ultimate amortization of the investment in oil-producing properties on the basis of estimated oil production; however, the yearly provisions to date under the "over-all" method have been materially less than would have been the case under the "lease" method.

This is due to the fact that a disproportionate amount of oil has been produced from leases having a relatively high book value. The application of the "lease" method to such production would require a depletion provision on a basis believed by the management to be inconsistent with the company's total oil reserves. Under the "over-all" method the total recovery is depleted upon the basis of the average rate for all producing leases.

(5) Purchase obligations were incurred chiefly in the acquisition of marketing facilities. Unencumbered title to certain properties and investments will be obtained on final payments.

(6) The sinking-fund notes carry nondetachable warrants for the purchase of 30 common shares for each $1,000.00 note at $15.00 per share, the purchase price increasing periodically after July 1, 1938.

(7) Under date of January 13, 1936, there was submitted to the Preferred Shareholders a detailed plan containing an offer to exchange their present holdings for an increased number of new Preferred shares and a cash payment. This plan, if declared operative, will dispose of accrued dividends to April 1, 1936.

To the Board of Directors,
The Pure Oil Company:

We have made an examination of the consolidated balance sheet of THE PURE OIL COMPANY AND SUBSIDIARY COMPANIES as at December 31, 1935 and of the consolidated income and surplus accounts for the year ended that date. In connection therewith, we examined or tested accounting records of the companies and other supporting evidence and obtained information and explanations from officers and employees of the companies; we also made a general review of the accounting methods and of the operating and income accounts for the year, but we did not make a detailed audit of the transactions.

As explained in Note 4 of the financial statements, the company, since January 1, 1934, has provided for depletion through the application of the "over-all" method. To date the provisions made under this method have been materially less than those which would have been made under the "lease" method used by many oil-producing companies.

Subject to the comments in the preceding paragraph, in our opinion, based upon such examination, the accompanying consolidated balance sheet and related income and surplus accounts fairly present, in accordance with accepted principles of accounting consistently maintained by the companies during the year under review, the financial position of the companies at December 31, 1935 and the results of their operations for the year ended that date.

The Pure Oil Company

TRANSFER AGENTS
Guaranty Trust Company of New York, New York
City National Bank and Trust Company of Chicago, Chicago
The Provident Savings Bank and Trust Co., Cincinnati, Ohio
P. G. Miller, Columbus, Ohio

REGISTRARS
Central Hanover Bank and Trust Co., New York
Ohio National Bank of Columbus, Columbus, Ohio
First National Bank, Cincinnati, Ohio
Continental Illinois National Bank and Trust Company of Chicago, Chicago