The net earnings of The Pure Oil Company for 1947 were $21,197,069, equal, after preferred dividends, to $4.77 per common share. This compares with net earnings of $17,107,961 in 1946, which were equal to $3.74 per common share. Total dividends amounted to $8,183,830, of which $2,212,170 was applicable to the 5% preferred stock and $5,971,660 to the common stock. The earned surplus account was increased by $13,013,239. The net current assets on December 31, 1947, were $48,702,231, as compared with $52,038,916 in 1946. Investments, construction and additions to fixed capital increased during the year by $39,000,000. This is compared with expenditures in 1946 of $29,000,000.

Organizational Changes

The Directors have made certain organizational changes, the effect of which is reflected in the list of officers which accompanies this report. This action was designed to secure the continuity of those policies which have resulted in the successful operation of the Company during the thirty-four years of its existence. At the same time, there was created an Executive Committee of the Board of Directors, which is delegated authority on matters not specifically acted upon by the Board.
The personnel of this committee includes the previous executive officers of the Company, thus making available their continued advice and counsel. The Chairman of the Board and the President are the chief active executive officers.

The Board of Directors of the Company is composed both of individuals who are officers of the Company and persons engaged in other occupations. The latter are of special service in orienting the operations of the Company into the general industrial pattern and serve in an impartial capacity as between the management and the various other elements whose interests should be recognized and served.

The Company has a number of coordinating committees, the necessity for which is obvious. The activities of these committees, however, are confined strictly to the function which the name implies, and the managerial responsibility and authority rests in individuals.

Four Vice Presidents are assigned definite functional activities covering the principal operations of the Company along the broad lines of production, transportation, refining and marketing. The election of certain Assistant Vice Presidents is designed to meet the same objectives.

All of the new officers are persons who have, through the years, carried on functions analogous to those which they will exercise in their present positions, and have abundantly justified their promotion.

Under the new arrangement, authority commensurate with responsibility is being conferred and procedure simplified and contacts maintained in a more effective and orderly manner. By the injection of younger men into positions of greater control and by clearing the avenues of progress for them, the conduct of the Company through future years is safeguarded. The Company has been operating under this general plan for nearly a year, and it is not too soon to say that the success of the plan has been demonstrated.

The Directors look upon these organization and personnel adjustments as an important factor in long-range policies in the evolution of the Company, which will have the flexibility necessary to meet conditions in the unstable economy of our
times. They believe that this plan meets the requirements of the human element in the Company's life and progress. It affords an appropriate occasion to review the development of the physical properties and the financial structure devised for their operation.

GENERAL REVIEW

The stockholder's interest in the Company is naturally concerned primarily with its present condition and its prospects for the future, and in order to appraise these intelligently, it would be enlightening to refer briefly to past history and particularly the results of the last ten years, which afford a cycle embracing all conceivable variations in operating conditions. The satisfactory results of the last year, taken alone, do not furnish an adequate basis for such appraisal.

At its inception, the Company was engaged in the public service business, supplying gas to a number of cities in Ohio. As a part of this operation, it became necessary to obtain a supply of natural gas. This was successful, but very substantial oil properties were developed incidentally. These oil properties in value and in income eventually overshadowed the public utility interests, which were disposed of in 1924.

The production of crude oil was, therefore, the first step in the integration of the Company. This was followed by the purchase of other oil producing properties, and refineries and transportation and marketing companies were acquired and built until eventually a full integration was accomplished. In order to do this, it was necessary to come to the public for money through the sale of various forms of securities. This organization period may be said to have virtually ended about 1937, and from that time the Company's operations have been entirely financed out of earnings.

In the last ten years, the Company has expended a gross amount of $219,000,000 on its physical properties and other assets. These investments, in the opinion of those of the management who are most competent to judge, have increased greatly in excess of the valuation shown on the books during this period. The simplest case of this is in the Production Department.
Since the Company first began producing crude oil in 1913, it has produced approximately 500,000,000 barrels, and at the present time it has reserves of approximately the same amount. During the last ten years, it has produced 256,000,000 barrels, at the same time increasing its reserves by more than 100,000,000 barrels. Most of this produced and reserved crude oil is the result of the Company's own operations rather than through purchases. It has been twenty-two years since the Company purchased or acquired any producing properties other than through its own discovery and development. The Company has, therefore, acquired the greater portion of its reserves at the price only of developing and drilling, and the books do not show either as profit or property the value of oil in the ground discovered as a result thereof except to the extent of their depreciated and depleted cost of discovery and development. This means that the crude oil reserves and the producing properties are carried on the books of the Company at a much lower figure than they could be disposed of or than they are actually worth.

In the evolution of The Pure Oil Company as a completely integrated unit, the first step after the development of substantial crude oil properties was the acquisition of refineries, strategically located geographically, where the means of transportation from the Company's fields were the most economical and their position relative to potential markets was favorable. The need for new products and the changes in technique require constant development and construction in refinery equipment. The Pure Oil Company's refineries at the present time are modern and capable of turning out products of as high quality and with as great economy as any in the industry. The somewhat extensive program of new construction and rehabilitation which is now well under way should keep it in the forefront in this respect.

At the present time, the Company is operating five refineries, located at Smiths Bluff, Texas; Newark, Ohio; Toledo, Ohio; Midland, Michigan and Cabin Creek, West Virginia. In its construction program, the Company has had in mind the economic relationship between the volume of its crude production and its refining capacity, which latter is at the present time somewhat in excess of 100,000 barrels per day.
The present refineries, with the additions now in process of construction, are specially equipped to meet the greater variety of the products of petroleum which has developed through the years. They will have a flexibility which will enable them to shift from one product to another in accordance with market requirements and can concentrate upon those which, in the integrated pattern, afford the best prospect of profit.

The next stage in development involved the task of providing marketing outlets. The territory covered by them has been determined primarily by economical transportation. Through the years, this has required constant adjustment because of changes in facilities and market conditions. Generally speaking, we believe that the Company's marketing operation at the present time conforms especially well to these requirements.

As the distribution system of the Company is spread over twenty-six states, it would be impossible to form any very accurate judgment as to the actual replacement value of these properties at this time, but it would be many times the original cost, as the value of the real estate and the cost of construction have greatly increased over the thirty-four years during which they were acquired. Until sufficient outlets to care for the output of the Company's production and refineries were acquired, the Company pursued the policy in a number of different sections of securing a majority interest in existing companies and retained the services of the individuals who had developed them. This policy of continuing local management has proved advantageous and has resulted in absorbing into the Company's operations a personnel familiar with local conditions and possessed, we believe, of more than the average initiative and resourcefulness.

In the belief that public convenience and necessity are not furthered by an unlimited duplication of service stations and because the costs of operation are greatly increased by diluting the sales through superfluous stations, the Company has been very conservative in its building program in recent years. It has, nevertheless, been able to market all of its products at fair prices and for several years has made a satisfactory profit in this phase of its operations. In the not distant future, it will be obliged to make substantial expenditures in the way of moderniza-
tion and enlargement of existing facilities, but it is not contemplated that it will be necessary to either extend the territory now reached or to expend any substantial amount on the construction or acquisition of new stations.

Access to proper transportation facilities in the conduct of an integrated company is essential, and there is no such thing as a ready-made transportation system. If effective, it has to be tailor-made to meet the conditions under which a company operates, and this is not precisely the same with any two companies. The relative geographical location of oil fields, refineries and markets is different in every case and determines the nature of transportation requirements. Transportation simply links these elements together in the most effective way, and this can only be done as conditions develop.

The basic transportation system of The Pure Oil Company is at the present time unusually well fitted to its integrated pattern. The Company has four large deep-water terminals on the Gulf of Mexico and six on the Atlantic Coast, as well as seventeen on inland waterways, seventeen at strategic points along main pipe lines and five on the Great Lakes. Every advantage has been taken of water transportation where it is the most economical. From these terminals, which receive them in bulk, the products are distributed through short hauls by tank wagon and tank car to points of consumption. In the case of water transportation, these terminals are served almost entirely by ocean-going vessels or on the inland waterways by barges and towboats owned by the Company or subsidiaries in which it has a majority ownership.

This water transportation has been brought up to a high state of efficiency in the last few years, and obsolete equipment has been replaced by modern and new vessels. In its pipe line operations, the Company has, through the complete ownership of subsidiaries, 1,383 miles of main trunk and gathering lines. It owns a majority interest in a product pipe line between Detroit and Toledo; 47½% interest in a product line operating between Port St. Joe, Florida, and Chattanooga, Tennessee. And it owns substantial minority interests in a crude pipe line running from Oklahoma to Illinois and eastern connections and in a product pipe line from Oklahoma to Chicago and the Northwest.
Because of the narrow margin on which oil companies have to operate, the element of transportation costs is vital. The Pure Oil Company’s system was almost completed before the great advances in construction expenses took place in the last few years and is, therefore, carried on the books at a very low figure.

CRUDE OIL OPERATIONS

For many years following the close of the first World War and until recent months, there has been an abundant supply of oil readily available to meet all demands within this country. In fact, during much of the last twenty-five years, there has been a very substantial oversupply of crude. This oversupply at the outbreak of World War II was a great advantage and oil was one vital necessity which proved to be neither too little nor too late. However, this blessing to the nation was in a measure at the expense of the industry. Steel was equally as necessary as oil. Oil wells cannot be drilled and equipped, and reserves cannot be maintained except by the use of large quantities of steel. With oil available for war purposes from existing wells and with steel in short supply, there was a readjustment in the use of steel, with the result that, during most of the war, only a fraction of the steel required to maintain crude reserves by additional drilling was made available to the oil industry. This naturally meant that the drilling of new wells was slowed down to a snail’s pace at a time when our existing reserves were being produced at a higher rate than at any time in past history and in many cases at a rate higher than was economical.

While war requirements did not result in complete stoppage of oil development activities, the normal drilling momentum was lost, and it has taken many months to even partially regain this lost motion. Since the end of the war, the demand for petroleum products, and consequently the demand for crude, has increased over prewar requirements by several hundred thousand barrels per day.

Notwithstanding this, the Company has had a satisfactory year in its Production Department. The total production was 25,804,000 barrels as compared with 27,902,000 barrels in 1946, a five-year average of 28,078,000 barrels and a ten-year average of 25,619,000 barrels. The intensified exploration program has re-
sulted in a very substantial increase in reserves, much more than offsetting the oil produced during the year. The Company will continue to treat the finding and developing of new reserves as a policy which cannot be too aggressively pursued.

During the year, the Company's development work proved up and expanded in a number of important producing areas. In the Dollarhide pool in West Texas, it has discovered an important reserve which will be recovered from three different sands: the Devonian, Silurian and Ellenburger. In the Worland field in Wyoming, the year's operation has met favorable expectations. The Company has large holdings in leases on the Continental Shelf in the Gulf of Mexico, an area which is attracting a great deal of attention in the industry.

REFINERY OPERATIONS

Our total crude throughput in the refineries has been less than was the case for 1946, due to strikes which occurred at our Smiths Bluff (Texas), Cabin Creek (West Virginia) and Toledo (Ohio) refineries. That the strikes occurred was most unfortunate for all concerned, although it is gratifying to know that the operating results and efficiencies at the refineries, since the strikes were concluded, have been very substantially improved beyond those which had existed some time prior to the strikes. It is pleasing that employee relationships and attitudes at those plants have shown a very real improvement since work has been resumed. Under the circumstances our refinery operations during the year were on a satisfactory basis.

During the year, substantial progress was made with the very large building program which has been under way in the refineries for the past two years. The large coke unit at Toledo has been completed and is ready for operation, and the construction of the lube plant at Smiths Bluff is progressing satisfactorily. The specialty naphtha unit at the Smiths Bluff refinery went into operation early in the year and has performed to our complete satisfaction. This unit has provided many specialty products not heretofore manufactured by our Company and, in some instances, products which are available from very few refineries in the industry. The reconversion of certain war-time built equipment was completed, or substantially so, and it was placed in operation.
MARKETING OPERATIONS

The Company marketed about 3% more gasoline in 1947 than during the previous year, and the over-all increase in the sale of all products was approximately 4%. While the earnings of this department were slightly less than in 1946, they were substantial, and under the circumstances satisfactory results were accomplished. The whole industry has been severely handicapped during the year by the dislocation of transportation facilities, which was the outgrowth of the war. Unfortunately, this was not evenly distributed over the country, as the means of transporting products varied in different sections.

The capital expenditures of the department were not large and were devoted, in the main, to the enlargement and the rehabilitation of existing outlets. The Company concentrated, as it has for some time, upon putting as large a volume as possible through the smallest number of outlets and has attempted to confine itself in its operations to those districts which possessed the most favorable prospect of the most economical results.

In 1947, special emphasis was placed on a campaign for the instruction and training of the operators of service stations and salesmen. This was supplemented by continuous inspection and supervision by experienced engineers. The sales of tires, batteries and accessories through service stations have steadily increased. The volume of this merchandise sold in 1937 was approximately $3,000,000 as compared with $14,500,000 in 1947. This business has been profitable to the Company and is a convenience and service to our customers which has met with appreciation.

In its sales policy, the Company has, during the past years, assigned certain quotas to the various districts in which it operates. In the nature of the case, these were not religiously adhered to. During 1947, however, definite allocations were established due to the unprecedented demand for products, the dislocation in transportation and strikes. Amongst other reasons why this was necessary was to insure a fair division of the available products as between our owned direct outlets and the jobbers and marketers who have been selling the Company's products. This policy has been carefully carried out. The matter of price is a competitive one, and the
Company has been compelled to follow the generally prevailing prices. It would be impossible for The Pure Oil Company, or any other company, to hold the line against increasing costs. Adequate supply can only be obtained by adequate prices, and this applies with equal force to every phase of the industry.

TRANSPORTATION OPERATIONS

No major additions were made in the Company's pipe line, terminal or barging operations. Steps were taken to modernize the tanker fleet of The Pure Oil Company and its marine subsidiary by the sale of old vessels and the acquisition of newer, faster ships of greater efficiency and carrying capacity.

Our transportation system has again shown its flexibility in successfully handling a temporarily dislocated product supply situation due to the refinery strikes mentioned above.

SUPPLY AND DEMAND

The petroleum industry continues to be faced with the major task of expanding facilities and operating at capacity in order to meet the extraordinary demand for its products which continues to increase rapidly. The basic necessity to meet tomorrow's demand is a larger supply of crude oil. The industry is being called upon to carry the burden of the greatest increase in the nation's energy requirements in the last twenty-five years. This is not an abnormal, or temporary, condition, but rather is the natural outgrowth of our great industrial expansion, technological development and the desire of the American people to improve their standard of living.

The present inordinate demand upon the industry comes at a time when it is still struggling under the accumulated effects of a rigidly controlled war-time economy. It has been deprived of steel and other essential materials and a grossly inadequate price which it experienced for five years under government price control. These conditions have left their mark at a time when the industry faces problems of greater magnitude than at the peak of war-time demand. With consumption approximately one-third above the prewar level of 1941 and still in-
creasing, it is apparent that it must have far greater supplies of materials for plant expansion in order to maintain adequate productive capacity.

The remarkable performance of the industry will not preclude the possibility of temporary shortage of adequate supplies to meet high seasonal demands for some products in some localities because of transportation shortages. Every effort is being made to secure additional tankers, pipe line facilities and tank cars.

In addition to the greatly increased demand for industrial fuels and automotive products, requirements for fuel oil for household burners, diesel engines, farm tractors and the military have increased tremendously.

The industry is presently engaged in a very large expansion program, and its ability to supply the demand over the next two or three years will depend to a large extent on securing the necessary manpower and materials to complete the construction program now projected.

CONCLUSION

This is not a time when it is prudent to indulge in long-term predictions. The subject of this report has been devoted largely to a description of the machinery of operation and the properties of the Company, which discloses a solidly entrenched institution, equipped because of its flexibility and inherent strength to meet conditions as they develop. Since this is a fact, one may reasonably look forward with confidence to the coming year.

By Order of the Board of Directors,

HENRY M. DAWES

Chairman, Executive Committee.
THE PURE OIL COMPANY • THIRTY

THE PURE OIL COMPANY

Consolidated Balance Sheet

ASSETS

CURRENT ASSETS:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$14,326,088</td>
</tr>
<tr>
<td>U. S. Government securities, at cost</td>
<td>1,328,895</td>
</tr>
<tr>
<td>Accounts and notes receivable, less reserve of</td>
<td>20,419,249</td>
</tr>
<tr>
<td>$577,474</td>
<td></td>
</tr>
<tr>
<td>Inventories</td>
<td></td>
</tr>
<tr>
<td>Crude oil, refined oils and merchandise (Note 1)</td>
<td>$27,662,080</td>
</tr>
<tr>
<td>Materials and supplies, at latest cost less</td>
<td></td>
</tr>
<tr>
<td>allowance for condition</td>
<td>7,790,541</td>
</tr>
<tr>
<td>Total</td>
<td>35,452,621</td>
</tr>
<tr>
<td></td>
<td>$71,526,853</td>
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</tbody>
</table>

INVESTMENTS, ADVANCES, ETC.:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investments in and advances to subsidiaries not consolidated, at cost</td>
<td>$8,387,984</td>
</tr>
<tr>
<td>Investments in securities of other companies</td>
<td>3,221,137</td>
</tr>
<tr>
<td>Deferred receivables, etc., less reserve of $620,670</td>
<td>1,067,742</td>
</tr>
<tr>
<td>Fund for replacement of equipment (cash)</td>
<td>610,981</td>
</tr>
<tr>
<td>Total</td>
<td>13,287,844</td>
</tr>
</tbody>
</table>

PROPERTY, PLANT AND EQUIPMENT (Note 2):

<table>
<thead>
<tr>
<th>Classification</th>
<th>Gross</th>
<th>Reserve</th>
</tr>
</thead>
<tbody>
<tr>
<td>Producing</td>
<td>$169,542,259</td>
<td>$83,351,177</td>
</tr>
<tr>
<td>Transportation</td>
<td>22,899,992</td>
<td>10,646,278</td>
</tr>
<tr>
<td>Refining</td>
<td>63,640,278</td>
<td>33,609,858</td>
</tr>
<tr>
<td>Marketing</td>
<td>48,496,580</td>
<td>20,720,551</td>
</tr>
<tr>
<td>Other</td>
<td>2,435,493</td>
<td>1,058,654</td>
</tr>
<tr>
<td>Total</td>
<td>$307,014,602</td>
<td>$149,386,518</td>
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</tbody>
</table>

PREPAID AND DEFERRED CHARGES

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prepaid and deferred charges</td>
<td>2,097,395</td>
</tr>
</tbody>
</table>

CONTRACTS, RIGHTS, PATENTS, TRADE-MARKS, ETC.

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$244,540,177</td>
</tr>
</tbody>
</table>

The attached notes are an integ
LIABILITIES

CURRENT LIABILITIES:
Serial notes due within one year $1,250,000
Accounts payable, etc. 18,689,183
Dividend payable January 1, 1948 553,043
Accrued liabilities 2,332,396
Provision for Federal income taxes $8,177,370
Less—U. S. Treasury tax notes 8,177,370
$22,824,622

LONG-TERM DEBT:
Serial notes (original issue $31,000,000, dated July 31, 1945, interest 1.50% to 2.95%) due 1949 to 1965 $27,325,000
Deferred purchase obligations, etc. (including mortgage notes on marine equipment) 5,231,242 32,556,242

RESERVES:
For replacement of equipment $384,035
For replacement of inventories 2,000,000
For contingencies, including possible additional income taxes for prior years 4,900,000 7,284,035

MINORITY INTERESTS IN CAPITAL STOCK AND SURPLUS OF SUBSIDIARIES 2,784,811

CAPITAL STOCK AND SURPLUS:
Capital stock—
Cumulative preferred—authorized 1,000,000 shares, par value $100; 442,434 5% shares outstanding $44,243,400
Common—authorized 10,000,000 shares, no par value—3,982,031 shares outstanding, assigned value $10 per share 39,820,310 $84,063,710

Surplus—
Paid-in surplus (no change during year) $19,038,823
Earned surplus since April 1, 1932 (summary attached) (Note 5) 75,987,934 95,026,757 179,090,697 $244,540,177

Foot of the above statement.
The Pure Oil Company • Thirty

Consolidated Income and
For the Year Ended

Income Account

**Gross Operating Income** ......................................................... $244,412,577

**Costs and Expenses:**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Costs, operating, selling and general expenses</td>
<td>$197,661,110</td>
</tr>
<tr>
<td>Provision for depreciation and depletion (including lease bonuses paid)</td>
<td>$13,766,714</td>
</tr>
<tr>
<td>Taxes (other than Federal taxes on income)</td>
<td>$5,368,361</td>
</tr>
<tr>
<td><strong>Operating income</strong></td>
<td><strong>$27,616,392</strong></td>
</tr>
</tbody>
</table>

**Other Income:**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividends</td>
<td>$806,284</td>
</tr>
<tr>
<td>Interest and discount earned</td>
<td>$763,873</td>
</tr>
<tr>
<td>Profit on disposition of capital assets, etc.</td>
<td>$1,663,728</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$30,850,277</strong></td>
</tr>
</tbody>
</table>

**Other Deductions:**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash discounts allowed</td>
<td>$608,152</td>
</tr>
<tr>
<td>Interest on serial notes, purchase obligations, etc.</td>
<td>$893,035</td>
</tr>
<tr>
<td><strong>Income before Federal taxes on income, etc.</strong></td>
<td><strong>$29,349,090</strong></td>
</tr>
</tbody>
</table>

**Provision for Federal Taxes on Income** ....................................... 7,616,753

**Income before provision for minority interests.** .......................... $21,732,337

**Income Applicable to Minority Interests** .................................... 535,268

**Net income for the year** ...................................................... $21,197,069

The attached notes are an integral part of the above statement.
FOURTH ANNUAL REPORT • 1947

THE PURE OIL COMPANY AND SUBSIDIARIES

Earned Surplus Accounts
December 31, 1947

EARNED SURPLUS

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance—December 31, 1946</td>
<td>$62,974,695</td>
</tr>
<tr>
<td>Add—Net income for the year</td>
<td>21,197,069</td>
</tr>
<tr>
<td>DEDUCT:</td>
<td></td>
</tr>
<tr>
<td>Cash dividends declared on—</td>
<td></td>
</tr>
<tr>
<td>Preferred shares</td>
<td>$2,212,170</td>
</tr>
<tr>
<td>Common shares</td>
<td>5,971,660</td>
</tr>
<tr>
<td>Balance—December 31, 1947 (Note 5)</td>
<td>8,183,830</td>
</tr>
<tr>
<td></td>
<td>$75,987,934</td>
</tr>
</tbody>
</table>

The attached notes are an integral part of the above statement.

AUDITORS' CERTIFICATE

TO THE BOARD OF DIRECTORS AND SHAREHOLDERS,
THE PURE OIL COMPANY:

We have examined the consolidated balance sheet of The Pure Oil Company (an Ohio corporation) and its subsidiaries as of December 31, 1947, and the consolidated statements of income and surplus for the year then ended, have reviewed the systems of internal control and the accounting procedures of the companies and, without making a detailed audit of the transactions, have examined or tested accounting records of the companies 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.

In our opinion, the accompanying consolidated balance sheet and related statements of income and surplus present fairly the position of The Pure Oil Company and subsidiaries at December 31, 1947, and the results of their operations for the year, and are in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ARTHUR ANDERSEN & CO.

Chicago, Illinois,
February 24, 1948.
NOTES:

(1) Inventories of crude and refined oils are priced at cost, on the “last-in first-out” method, which in the aggregate is below market. Merchandise other than refined oils is stated at the lower of cost (first-in first-out) or market.

(2) As at April 1, 1932, the net ledger amount of the parent company’s properties was reduced (either directly or through the reserves for depreciation and depletion) to reflect fair value as determined in an appraisal as of that date 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.

(3) The companies have various law suits pending against them, some of which are for large amounts; however, general Counsel of the company have reported that, while it is impossible to ascertain the ultimate liability in respect of such litigation as of December 31, 1947, it is their opinion that the aggregate amount thereof will not be materially important in relation to the total assets of the companies.

(4) Since January 1, 1934, the company has provided for depletion and depreciation of producing properties 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 and depreciation by the net oil reserves (in barrels) estimated by the company’s production engineers.

(5) So long as any of the serial notes are outstanding the company, without the consent of the holders of at least 75% of the principal amount then outstanding, may not pay any dividends on its common or preferred shares which will reduce consolidated earned surplus to less than $40,000,000 and $35,000,000, respectively.

The audit certificate of Arthur Andersen & Co. appears herewith and it is the intention of the Directors to continue the services of these accountants for the year 1948.
THE PURE OIL COMPANY
GENERAL OFFICES, CHICAGO

DIRECTORS
Lester Armour B. G. Dawes J. H. McCoy J. E. Otis
Sewell L. Avery Henry M. Dawes R. W. McIlvain Rawleigh Warner
Philip R. Clarke J. A. Elkins J. W. McIntosh C. B. Watson
L. S. Wescoat

EXECUTIVE COMMITTEE
Henry M. Dawes, Chairman
Rawleigh Warner, Vice Chairman

OFFICERS
Rawleigh Warner, Chairman of the Board
L. S. Wescoat, President

Comer Plummer
Vice President for Production

J. P. Langfitt
Vice President for Refining

R. L. Milligan
Treasurer

C. W. Snider
Asst. Vice President for Marketing

Curtis Dawes
Asst. Vice President for Southern Marketing Operations

G. W. Sanders
Asst. Vice President for Wholesale Marketing

W. J. Arnold
Asst. Vice President for Accounting

J. H. Botkin
Comptroller

D. D. Irwin
Vice President for Transportation and Supply

R. H. McElroy
Vice President for Marketing

C. H. Jay
Secretary

R. W. McIlvain, Jr.
Asst. Vice President for Production

W. V. Keeley
Asst. Vice President for Insurance and Taxes

J. W. Rees
Asst. Vice President for Personnel

F. J. Blaise
Asst. Secretary and Asst. Treasurer

Harry L. Wylie
Asst. Treasurer

TRANSFER AGENTS
Guaranty Trust Company of New York, New York
The City National Bank and Trust Co., Columbus, Ohio
P. G. Miller, Pure Oil Building, Chicago

REGISTRARS
Central Hanover Bank and Trust Co., New York
The Ohio National Bank of Columbus, Columbus, Ohio
City National Bank and Trust Company of Chicago, Chicago

NOTICE OF THE 1948 ANNUAL MEETING OF SHAREHOLDERS, REQUEST FOR PROXY, PROXY STATEMENT AND PROXY WILL BE MAILED TO SHAREHOLDERS ON OR ABOUT MARCH 10, 1948.

The accompanying report and financial statements are submitted for the general information of the shareholders of The Pure Oil Company, and are not intended for use in connection with any sale or purchase of, or offer or solicitation of offers to buy or sell any shares or securities of this company.