ANNUAL REPORT

1948

THE PURE OIL COMPANY

FOR THE FISCAL YEAR ENDED
DECEMBER 31, 1948
FINANCIAL AND OPERATING SUMMARY
YEARS 1947-1948

<table>
<thead>
<tr>
<th></th>
<th>1948</th>
<th>1947</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Income</td>
<td>$281,319,490</td>
<td>$244,412,577</td>
</tr>
<tr>
<td>Costs and Other Deductions</td>
<td>$239,647,354</td>
<td>$223,215,508</td>
</tr>
<tr>
<td>Net Income</td>
<td>$41,672,136</td>
<td>$21,197,069</td>
</tr>
<tr>
<td>Net Income per Common Share</td>
<td>$9.91</td>
<td>$4.77</td>
</tr>
<tr>
<td>Dividends Paid—</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Preferred Dividends per Share</td>
<td>$5.00</td>
<td>$5.00</td>
</tr>
<tr>
<td>Common Dividends per Share</td>
<td>$2.00</td>
<td>$1.50</td>
</tr>
<tr>
<td>Capital Expenditures</td>
<td>$46,000,000</td>
<td>$39,000,000</td>
</tr>
</tbody>
</table>

ON DECEMBER 31:

<table>
<thead>
<tr>
<th></th>
<th>1948</th>
<th>1947</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Assets</td>
<td>$81,624,545</td>
<td>$71,526,853</td>
</tr>
<tr>
<td>Current Liabilities</td>
<td>$23,928,211</td>
<td>$22,824,622</td>
</tr>
<tr>
<td>Net Working Capital</td>
<td>$57,696,334</td>
<td>$48,702,231</td>
</tr>
<tr>
<td>Property, Plant and Equipment, Less Reserves</td>
<td>$181,984,681</td>
<td>$157,628,084</td>
</tr>
<tr>
<td>Long-term Debt</td>
<td>$30,665,823</td>
<td>$32,556,242</td>
</tr>
<tr>
<td>Preferred Shares Outstanding</td>
<td>442,434</td>
<td>442,434</td>
</tr>
<tr>
<td>Common Shares Outstanding</td>
<td>3,982,031</td>
<td>3,982,031</td>
</tr>
</tbody>
</table>

Number of Stockholders—

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Preferred</td>
<td>6,525</td>
<td>6,748</td>
</tr>
<tr>
<td>Common</td>
<td>33,396</td>
<td>34,292</td>
</tr>
</tbody>
</table>

OPERATING STATISTICS (in barrels of 42 gallons each):

<table>
<thead>
<tr>
<th></th>
<th>1948</th>
<th>1947</th>
</tr>
</thead>
<tbody>
<tr>
<td>Crude Oil Production—Gross</td>
<td>32,212,113</td>
<td>29,588,698</td>
</tr>
<tr>
<td>Crude Oil Production—Net</td>
<td>28,104,512</td>
<td>25,804,339</td>
</tr>
<tr>
<td>Crude Oil Processed by Refineries</td>
<td>38,291,505</td>
<td>29,081,429</td>
</tr>
<tr>
<td>Total Wells Drilled</td>
<td>205</td>
<td>206</td>
</tr>
<tr>
<td>Productive Oil and Gas Wells Completed</td>
<td>160</td>
<td>163</td>
</tr>
</tbody>
</table>
To the Shareholders:

The net earnings of The Pure Oil Company for 1948 were $41,672,136, equal, after preferred dividends, to $9.91 per common share. In 1947, the Company's net earnings were $21,197,069, which were equal to $4.77 per common share. Total dividends in 1948 amounted to $10,174,420, of which $2,212,170 was applicable to the 5% preferred stock and $7,962,250 to the common stock. $31,497,716 was added to earned surplus. The net working capital on December 31, 1948 was $57,696,334 as compared with $48,702,231 in 1947. Investments, construction and additions to fixed capital during the year amounted to $46,000,000. In 1947, the total of these items was $39,000,000.

GENERAL REVIEW

During the year 1948, the oil industry was faced with many problems of major importance. In the early months of the year, and in the midst of a severe winter creating extraordinary demands from consumers of every category, the oil industry was able to meet the supply problems with a minimum of inconvenience to its customers. In the ensuing months of the year, the industry was able not only to meet the continuing increase in current demand, but to build up inventories to safeguard against a repetition of last year's experience.

The Pure Oil Company in 1948 had the greatest volume of business in its history and its net income was the highest in its history. When considering the Com-
pany's earnings, we must, however, take into consideration the fact that depreciation, which is an expense deduction in the computation of net earnings, is based on the original cost of the properties involved and not on the cost of their replacement today.

The conditions which surrounded the rate of depreciation shown in company statements in the last two years are so different from those which had prevailed before that time as to require comment.

Depreciation is an amount which must be deducted and set aside from the total gross income of a company. It represents the decrease in the value of its property as a result of ordinary wear and tear. It is an accounting recognition of the fact that the cost of replacing worn-out property is just as much an expense as, for example, the payment of wages.

If it were always possible to replace obsolete or worn-out properties at their original cost and thus pay for them out of the depreciation reserves previously set aside, the problem would be much simplified. If this could be done, the value of such properties would always be the same except for such increases or decreases as are shown in the reserve account. But, unfortunately, when the time comes to replace the properties which have worn out, the cost of the new properties may be very much greater than the original cost of the old, or of the depreciation reserves set aside to replace them.

During the past year, replacement costs, because of general inflationary trends, have been very much greater than have heretofore been considered normal. As a result, the reserves, which accepted accounting principles require should be based on original costs, have been wholly inadequate for replacement purposes. This means that the true earnings of most corporations, judged by past standards, are now essentially less than is reflected in company statements.

The United States Government, for income tax purposes, requires that depreciation must, as already indicated, be based on original cost and not on the cost of replacement.

It is not feasible and probably would be misleading to deviate from the existing practice in the accounting of corporations. Pending such time as the cost of new properties is stabilized or some new accounting method is generally accepted, the stockholder should realize that dollar earnings are affected to the extent that the depreciation reserves previously set aside are inadequate to cover present
replacement costs. It is essential, therefore, for corporations, during an inflationary period such as the present, to retain a greater proportion of the earnings shown in company statements than has been necessary in previous years.

PROPERTY INVESTMENT

Throughout the year 1948, The Pure Oil Company has made steady progress on the refinery construction program which was started shortly following the end of the war. Several of these major projects have been completed during the year and the balance should be completed by mid-1949. These added facilities will provide a greater flexibility in manufacturing, increased throughput capacity, improved quality of product, and new and additional products.

The Company has had to make large capital expenditures both for increased plant facilities and for exploration and development costs, in its search for and production of oil. These costs have been greater than normal due to the necessity for meeting the increasing demand for petroleum products. Capital expenditures for the year totalled $46,000,000. These expenditures in the long run should prove highly profitable, but it should be realized that they run into larger sums than formerly were considered necessary to devote to these purposes.

An illustration of the increased capital investment which is required for the operation of the petroleum industry today is the cost of drilling wells and equipping leases. This higher cost may be attributed to a number of factors. The principal one is the necessity for drilling to deeper formations. The added cost of these deeper wells is disproportionately higher than those which are shallower. Labor and material costs have increased greatly. In addition, extensive expenditures are required to provide new facilities designed to realize optimum recoveries from our oil and gas reservoirs. The gas that is produced with oil can be processed to obtain therefrom natural gasoline, propane and butane. After these valuable by-products are extracted, the residue gas can be either sold as fuel, or returned to the producing sands to maintain reservoir pressures.

These installations are necessary both as a conservation measure to prevent the waste of gas and to increase the ultimate recovery of crude oil. In addition a substantial profit is realized from the sale of the by-products of the gas.

Similar conditions apply to refinery construction and, to a varied extent, to most of the operations of the Company. It is necessary to keep our refineries
modernized in order to gain the benefits accruing from new techniques. These new methods effect economies, increase production, improve quality, and supply many of the new materials which modern industry is utilizing to their advantage, and ours. Chemicals are but one example.

It was only by plowing back earnings into new equipment and exploration effort that the oil industry has removed any need for government rationing of oil products to the consuming public.

In recent years the American people have come to fully realize the importance of domestic reserves of crude oil. In addition to current industrial needs, the country is faced with the unknown demands that would be placed upon the industry in the event of another war. Therefore, many oil companies are doing extensive research in the matter of developing synthetic liquid fuels from our own domestic sources of shale, natural gas and coal.

The Bureau of Mines of the U. S. Department of the Interior is giving this problem not only its intelligent and able attention, but already has in operation three pilot plants which will be of great aid in solving the problems involved. However, the public interest will be best served if the commercial development of these plants is left in the hands of private industry.

MEDICAL AND SURGICAL PLAN

Effective January 1, 1949, the Company provided certain surgical, medical and hospital benefits to all its employees and without cost to them. Similar protection may be secured under the plan for dependents of employees at low cost. This new plan is a strong link in our chain of employee benefits. When added to the retirement plan begun in 1936 and the group life insurance plan in 1926, it provides a far-reaching protection to all members of The Pure Oil family. We are pleased to report that the new plan has met with an enthusiastic reception.

PRODUCTION

During the past year, the Company continued its policy of drilling exploratory wells almost entirely on large blocks of leases. Where discovery is made, the possible benefits and profits are much greater than they are in exploring smaller
tracts, because the reserves when acquired cover much larger areas, and the development cost is substantially less. By this method, the Company is free to drill only the number of wells necessary to extract the reserves. The efficiency of such operation is much greater. Waste is prevented because it shuts the door to unnecessary drilling. Ultimate recoveries are increased.

This is a bolder approach than that of drilling on smaller leases, where obtainable, which are closer to already producing property. But the production record of the Company has fully justified the policy, as is evidenced by the successful development of a substantial number of important new fields. At the present time, the Company has large undeveloped holdings in a number of properties where important initial discoveries have been made. These provide unusually favorable prospects for intensive development.

The Production Department may be particularly proud of its record of accomplishment in helping to meet the national shortage of available crude oil. This threat now seems to have passed, thanks to the tremendous effort on the part of the industry, to which our Company made its full contribution. The achievement is remarkable when viewed in the light of the severe handicaps of high costs, high taxes and shortage of materials and manpower.

Production from such recently discovered major fields as Worland in Wyoming and Dollarhide in West Texas reached substantial proportions. It should continue to increase as development progresses. Other areas, such as the Beaver Creek field in Michigan, contributed to our new production to a lesser degree.

A discovery made on a large block of unitized leases fully owned by the Company is worthy of special mention. This new field is known as West Poison Spider and is located twenty-eight miles west of Casper, Wyoming. The discovery well, completed in the “Frontier Sand” early in 1948, had the distinction of being the deepest producing oil well in the world. It is 199 feet deeper than Pike’s Peak rises above sea level. The second well in that field, completed later in the year, was the first one in the country to produce important quantities of oil from the Mesa Verde formation, which is a producing zone lying some 5,000 feet nearer the surface than the deeper sand. The full value of this discovery cannot be appraised until after additional development.

The Orinoco Oil Company, operating in Venezuela, and in which The Pure Oil Company owns a seventy-five per cent interest, disposed of its properties in
November, 1948. The proceeds of the sale, approximating $4,000,000, were applied by Orinoco toward the repayment to The Pure Oil Company of advances made in prior years.

The Company plans to maintain its high rate of exploration activity in order to supply its current needs and to participate in the rapidly expanding market for petroleum and its products. Even with the promising discoveries made recently, neither the Company nor the industry can afford to curtail exploration or drilling programs. If this work were not done, the heavy demands now being made on the industry would force the production of oil beyond the efficient rate of extraction, and thus reduce the ultimate maximum recovery from the nation's underground reserves.

Because of the increasingly greater depths at which new oil is to be found and the remoteness of the areas to be explored, the industry is faced with a continued increase in the cost of exploration, development and production.

The Company's gross crude oil production totalled 32,212,113 barrels compared with 29,588,698 barrels in 1947. Net production was 28,104,512 barrels compared with 25,804,339 barrels the previous year, an increase of 9%.

During the year, the underground crude oil reserves of the Company increased substantially.

REFINING

The refining operations of the Company during the year were on a satisfactory level and basis. During the previous year, a substantial part of our capacity was shut down for four months due to strikes, and the Toledo plant did not resume operations until late March, 1948. But in spite of the curtailed operation at the Toledo refinery, crude oil runs and production approached the highest record in the Company's history.

During the year, substantial benefits were realized from the rehabilitation and construction program and were reflected in the operating results. This program is now nearing completion, and the new equipment should be in full operation within a very short time. The plant for the manufacture of lubricating oils and greases at our Smiths Bluff, Texas refinery should be in production within the next sixty days. The catalytic cracking unit at the Heath, Ohio refinery and the
The coke unit at the Toledo, Ohio refinery are both in full operation, and have fully equalled expectations. The addition of these facilities makes possible a more uniform type of operation; creates desirable flexibility and results in a more economic and profitable operation.

The Company continues to expand its production of specialty products. Over a period of years, and very rapidly over the last four or five years, chemical synthesis has become an important factor in the development of new products. Present day equipment makes this possible, and the Company's program calls for the manufacture of an additional volume of these products to meet the existing market demand. Many chemical products now used in medical science are produced from oil. Plastics have been made from refinery products and are used in a wide range of new articles. Perhaps the most striking example of this new development came in the war years, and resulted in the establishment of the synthetic rubber industry in this country. This was based primarily on crude oil as a raw material and is essentially a refinery product.

There seems to be almost no limit to the possibilities of new uses and developments in the chemical field, and there is no raw material which can be processed and transformed into these products as effectively and as cheaply as crude oil. During the year, the Company's production of this type of product increased 80% over the preceding year.

The Company's new Research and Development Laboratories are now being constructed on a tract of 140 acres, located at Crystal Lake, Illinois, a suburb of Chicago. Ground was broken during the late summer, and construction is well under way. It is expected that the laboratories will be completed during the latter part of this year. They will provide the Company with the research facilities needed in the development of new products and the improvement of existing products and processes.

During the year, the Company processed 34,502,121 barrels of crude oil through its own refineries, and had 3,789,444 barrels processed through facilities other than its own.

TRANSPORTATION

Our transportation system of pipe lines, lake and ocean tankers, river barge equipment, transportation trucks, and network of terminals functioned efficiently.
The modernization of the Company's tanker fleet has been completed, and the advantages of faster ships, greater efficiency and carrying capacity were realized for the greater part of the year.

Due to difficulties in obtaining material, it has been impossible to enlarge the storage capacity at some of our water terminals to the extent required by reason of the increasing volume being handled and the larger carrying capacity of the marine equipment. Additional capacity is needed to store the quantities required to meet the increasing demand for heating oils, which are produced during the entire year but are largely marketed during the five months' winter season period. No major pipe line extensions were made during the year. Only the required additions to our crude oil gathering systems were constructed. However, as the operations of the Producing Division indicate, substantial new fields are being found and developed, which will necessitate additional pipe line facilities to move the crude oil to refineries or connecting pipe lines. Material for such lines is in extremely short supply, but as soon as it is available, additional facilities of this type must necessarily be installed.

MARKETING

The Company marketed about the same volume of products in 1948 as it sold during the previous year. The earnings of this department were slightly higher than those of the preceding year, notwithstanding the increased cost of operation. The whole industry has been severely handicapped for several years, due to the shortage of materials needed for necessary maintenance and rehabilitation of marketing properties. This was partly due to governmental restrictions.

The capital expenditures of the department were not large. They consisted mainly of minor construction and replacement of worn-out equipment. During the coming year, it will be necessary to make substantial expenditures for rehabilitation and replacement of some facilities, although it will continue to be the Company's policy to move as large a volume as possible through the smallest number of outlets.

The program for the instruction and training of service station operators and salesmen was continued. This covers not only the sale of petroleum products,
but also includes tires, batteries and accessories, which continue to yield a substantial profit to the Company and its dealers and are a convenience and service to our customers.

During the year, the Company was obliged to continue to allocate quotas of products to certain districts in which it operates. It is expected that during the current year it will be possible to completely relax these restrictions, thus permitting an aggressive sales campaign, for which our employees are fully trained.

INDUSTRIAL RELATIONS

The past year has brought gratifying improvement in the relations between the Company and its employees. We have had many evidences of appreciation of Company benefits, such as the new medical and surgical protection. As is our policy, wage scales have been maintained equal to prevailing levels in the various localities for the skills involved. The Pure Oil News has carried articles in which the business problems of the Company have been explained. Believing that differences are seldom due to ill-will, but rather to misunderstanding the facts, it is our purpose to make clear the policies in which management and employees have a common interest.

Realizing too, that the good will of the communities in which we operate is an important factor in industrial relations, we have begun a series of newspaper advertisements, explaining the ways in which the Company and the communities are of value to each other. These have been well received.

SUPPLY—DEMAND

The industry has recently emerged from a twenty-year period during which subnormal prices prevailed. This was due to the development of excess capacity in all divisions of the industry, which in turn resulted from the stimulus of relatively high prices during and immediately following World War I and the effect of the great technological advances made by the industry. For many years supply exceeded demand and resulted in very cheap oil. These low prices stimulated the consumption of oil, which expanded disproportionately to the use of other sources of energy.
At the beginning of World War II, the industry had approximately 1,000,000 barrels per day of potential crude oil production in excess of requirements. Its manufacturing and other facilities were also substantially greater than required by demand. These reserves were fully utilized as a result of World War II demands, and for the first time in twenty years a delicate balance between supply and demand was created. This in turn required an aggressive program of large scale rehabilitation and expansion at a time when critical materials and manpower were in extremely short supply.

Consumption has continued to increase, and made necessary the operation of the industry's entire range of partially obsolete and high cost facilities. The continued uncertainty regarding the coal supply has further increased the use of heating oils. In 1920, coal furnished 80% of the energy requirements of the country. This has presently shrunk to an estimated 49% of the total. Practically all of this additional load has been taken on by the petroleum industry. This additional heating and energy load is in large part seasonal, which in turn necessitates substantial additions to storage capacity in order to meet the requirements. The industry has not been able fully to increase its storage capacity, due to the shortage of materials for the purpose.

Nevertheless, and despite every difficulty, the task performed by the petroleum industry in meeting the unprecedented demands made on it has created industrial history. Since 1941, domestic consumption has increased 42%, divided as follows: Motor Fuel, 30%; Kerosene, 61%; Gas Oil and Distillate Fuel Oil, 95%; Residual Fuel Oil, 29%; and other products, 52%.

In 1948, 40,000 new oil wells were drilled, which is a new high record. As a result, underground liquid petroleum reserves now exceed 26,000,000,000 barrels, another new high record.

Yet, in order to assure an adequate supply for national security and defense, it is necessary that the domestic underground reserves of crude oil and the manufacturing and transportation equipment incident thereto be still further expanded to a level which will enable the industry again to provide whatever margin of supply of petroleum products which would be necessary if the nation again becomes involved in large scale warfare. To do this, a continuous and active search for oil is imperative. Manufacturing, transportation and storage facilities must be increased beyond the limits of present capacities.
These results can be obtained only by the continued dynamic growth and aggressiveness of the industry functioning as a free enterprise, with continued cooperation between the industry and the government as presently conducted through the National Petroleum Council.

CONCLUSION

It is not possible to accurately forecast future business developments at this time. International as well as domestic conditions have increased normal uncertainties. However, the Company has strengthened its position during the past year both as to its properties and its resources; it has increased its crude oil reserves; it has added greatly to its refining equipment and improved the quality and efficiency of its other operations.

That there will be an increased demand for petroleum products is the generally accepted view, since they have entered so deeply into the economic life of the country that they have become a necessity.

The Company has the necessary flexibility to meet changing conditions as they arise, and looks forward to the coming year with confidence.

By Order of the Board of Directors,

[Signatures]

President

Chairman of the Board
## Consolidated Balance Sheet

### Assets

**CURRENT ASSETS:**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$21,341,556</td>
</tr>
<tr>
<td>U. S. Government securities, at cost.</td>
<td>$2,345,505</td>
</tr>
<tr>
<td>Accounts and notes receivable, less reserve of $851,086</td>
<td>$16,546,623</td>
</tr>
<tr>
<td>Inventories—</td>
<td></td>
</tr>
<tr>
<td>Crude oil, refined oils and merchandise (Note 1)</td>
<td>$32,618,396</td>
</tr>
<tr>
<td>Materials and supplies, at latest cost less allowance for condition</td>
<td>8,772,405</td>
</tr>
<tr>
<td></td>
<td>41,390,801</td>
</tr>
<tr>
<td></td>
<td>$81,624,545</td>
</tr>
</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>$1,511,904</td>
</tr>
<tr>
<td>Investments in securities of other companies</td>
<td>$3,174,875</td>
</tr>
<tr>
<td>Deferred receivables, etc., less reserve of $630,647</td>
<td>922,273</td>
</tr>
<tr>
<td></td>
<td>5,609,052</td>
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</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>$181,604,212</td>
<td>$87,753,452</td>
</tr>
<tr>
<td>Transportation</td>
<td>24,148,812</td>
<td>11,270,026</td>
</tr>
<tr>
<td>Refining</td>
<td>79,423,359</td>
<td>36,095,821</td>
</tr>
<tr>
<td>Marketing</td>
<td>52,120,747</td>
<td>22,229,417</td>
</tr>
<tr>
<td>Other</td>
<td>3,224,131</td>
<td>1,187,864</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$340,521,261</strong></td>
<td><strong>$158,536,580</strong></td>
</tr>
<tr>
<td><strong>Prepaid and Deferred Charges</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Contracts, Rights, Patents, Trade-Marks, Etc.</strong></td>
<td>1,749,574</td>
<td></td>
</tr>
</tbody>
</table>

The attached notes are an integr
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Ohio) AND SUBSIDIARIES

December 31, 1948

LIABILITIES

CURRENT LIABILITIES:
Serial notes due within one year.................... $ 1,275,000
Accounts payable, etc. .......................... 18,581,872
Dividend payable January 1, 1949................. 533,043
Accrued liabilities ............................... 3,518,296
Provision for Federal income taxes ........... $ 13,960,383
Less—U. S. Treasury tax notes .................. 13,960,383 — $ 23,928,211

LONG-TERM DEBT:
Serial notes (original issue $31,000,000, dated
July 31, 1945, interest 1.50% to 2.95%)
due 1950 to 1965................................. $ 26,050,000
Deferred purchase obligations, etc. (including
mortgage notes on marine equipment)............ 4,615,823 30,665,823

RESERVE FOR CONTINGENCIES, INCLUDING POSSIBLE ADDITIONAL INCOME TAXES FOR PRIOR YEARS........................................ 1,500,000

MINORITY INTERESTS IN CAPITAL STOCK AND SURPLUS OF SUBSIDIARIES.................... 3,587,091

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)............ 108,184,195 127,223,018 211,286,728

$270,067,853

Portion of the above statement.
# THE PURE OIL COMPANY

## THIRTY

### THE PURE OIL COMPANY

**Consolidated Income and**

**For the Year Ended**

### INCOME ACCOUNT

<table>
<thead>
<tr>
<th>Gross Operating Income</th>
<th>$281,319,490</th>
</tr>
</thead>
</table>

### Costs and Expenses:

- **Costs, operating, selling and general expenses**................. $204,372,244
- **Provision for depreciation and depletion (including lease bonuses paid)** (Note 4)........................................... 16,352,987
- **Taxes (other than Federal income taxes)**............................ 6,591,483

Operating income .................................................................. $ 54,002,776

### Other Income:

- **Dividends** ................................................................. $ 1,009,569
- **Interest and discount earned**........................................... 642,282
- **Profit on disposition of capital assets, etc. (net)**.............. 747,532

Total .................................................................................. $ 56,402,159

### Other Deductions:

- **Cash discounts allowed**.................................................. $ 703,703
- **Interest on serial notes, purchase obligations, etc.**............ 1,013,144

Income before Federal income taxes, etc. ............................... $ 54,685,312

### Provision for Federal Income Taxes:

Income before provision for minority interests........................ $ 42,724,674

### Income Applicable to Minority Interests:

- **Income Applicable to Minority Interests**............................ 1,052,538
- **Net income for the year**.................................................. $ 41,672,136

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

Earned Surplus Accounts
December 31, 1948

EARNED SURPLUS

Balance—December 31, 1947 ....................... $ 75,987,934

Add:
Net income for the year ............................... $41,672,136
Transfer from reserve for contingencies, including
possible additional income taxes for prior years

<table>
<thead>
<tr>
<th>Amount</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>3,400,000</td>
<td>45,072,136</td>
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<thead>
<tr>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>$121,060,070</td>
</tr>
</tbody>
</table>

Deduct:
Cash dividends declared on—
Preferred shares ................................ $2,212,170
Common shares ................................... 7,962,250

<table>
<thead>
<tr>
<th>Amount</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>$10,174,420</td>
<td>12,875,875</td>
</tr>
</tbody>
</table>

Unrecovered balance of investment in foreign sub-

diary ....................................................... 2,701,455

<table>
<thead>
<tr>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>$108,184,195</td>
</tr>
</tbody>
</table>

Balance—December 31, 1948 (Note 5) ............

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, 1948 and the consolidated statements of income and surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and related statements of income and surplus present fairly the financial position of The Pure Oil Company and its subsidiaries as of December 31, 1948 and the results of their operations for the year then ended, and were prepared in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Arthur Andersen & Co.

Chicago, Illinois,
February 25, 1949.
Notes Relating to and Made a Part of the Consolidated Financial Statements

For the Year Ended December 31, 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 reserve 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 lawsuits 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, 1948, 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 (a) pay any dividends on its common shares which will reduce consolidated earned surplus to less than $40,000,000 or (b) pay any dividends on its preferred shares which will reduce consolidated earned surplus to less than $35,000,000.

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 1949.
NOTICE OF THE 1949 ANNUAL MEETING OF SHAREHOLDERS, REQUEST FOR PROXY, PROXY STATEMENT AND PROXY WILL BE MAILED TO SHAREHOLDERS ON OR ABOUT MARCH 10, 1949.

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.