This report is respectfully submitted for the general information of the stockholders of Tide Water Associated Oil Company, and is not intended for use in connection with any sale or purchase of, or offer or solicitation of offers to buy or sell, any securities.

This report is sent to stockholders of the Company in advance of the solicitation by or on behalf of the Board of Directors of proxies for the Annual Meeting of Stockholders to be held May 2, 1946. Proxies will be solicited, and a proxy statement will be sent to stockholders, at a later date commencing on or about April 5, 1946.

Tide Water Associated Oil Company 17 Battery Place, New York 4, N. Y.
TIDE WATER ASSOCIATED OIL COMPANY
AND SUBSIDIARY COMPANIES

FINANCIAL AND OPERATING DATA

INCOME STATEMENT DATA

<table>
<thead>
<tr>
<th></th>
<th>1945</th>
<th>1944</th>
<th>1943</th>
<th>1942</th>
</tr>
</thead>
<tbody>
<tr>
<td>Earnings</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net income from operations $18,107,712</td>
<td>$17,767,202</td>
<td>$14,902,640</td>
<td>$10,663,930</td>
<td></td>
</tr>
<tr>
<td>Proportion applicable to common stock 16,413,139</td>
<td>15,537,202</td>
<td>12,652,640</td>
<td>8,413,930</td>
<td></td>
</tr>
<tr>
<td>Per share 2.57</td>
<td>2.45</td>
<td>1.98</td>
<td>1.52</td>
<td></td>
</tr>
<tr>
<td>Dividends</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Declared on preferred stock 1,694,573</td>
<td>2,250,000</td>
<td>2,250,000</td>
<td>2,250,000</td>
<td></td>
</tr>
<tr>
<td>Declared on common stock 6,396,809</td>
<td>6,580,715</td>
<td>5,420,341</td>
<td>4,962,603</td>
<td></td>
</tr>
<tr>
<td>Per share 1.00</td>
<td>1.00</td>
<td>0.85</td>
<td>0.70</td>
<td></td>
</tr>
<tr>
<td>Total dividends declared 8,091,362</td>
<td>8,630,715</td>
<td>7,760,541</td>
<td>6,712,603</td>
<td></td>
</tr>
<tr>
<td>Revenues</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total volume of business transacted 244,317,134</td>
<td>238,412,375</td>
<td>206,276,385</td>
<td>155,684,476</td>
<td></td>
</tr>
<tr>
<td>Expenses</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost of products sold and selling expenses 183,542,625</td>
<td>178,101,091</td>
<td>151,504,218</td>
<td>112,104,398</td>
<td></td>
</tr>
<tr>
<td>Depreciation, depletion and other book charges 31,282,130</td>
<td>19,722,364</td>
<td>17,233,891</td>
<td>16,457,258</td>
<td></td>
</tr>
<tr>
<td>Taxes</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Federal, state and local taxes (exclusive of Federal taxes on income) 5,679,085</td>
<td>6,082,201</td>
<td>5,707,037</td>
<td>4,943,799</td>
<td></td>
</tr>
<tr>
<td>Federal income and excess profits taxes (estimated) 1,310,000</td>
<td>10,384,000</td>
<td>9,999,035</td>
<td>4,940,700</td>
<td></td>
</tr>
<tr>
<td>Taxes collected from consumers for Governmental Agencies 25,508,453</td>
<td>21,480,332</td>
<td>21,004,079</td>
<td>28,585,180</td>
<td></td>
</tr>
</tbody>
</table>

BALANCE SHEET DATA—December 31

<table>
<thead>
<tr>
<th></th>
<th>1945</th>
<th>1944</th>
<th>1943</th>
<th>1942</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total consolidated assets $233,071,243</td>
<td>$260,133,868</td>
<td>$245,473,370</td>
<td>$226,700,000</td>
<td></td>
</tr>
<tr>
<td>Current assets 79,028,072</td>
<td>94,311,809</td>
<td>95,720,907</td>
<td>74,472,364</td>
<td></td>
</tr>
<tr>
<td>Current liabilities 30,571,155</td>
<td>44,340,023</td>
<td>35,329,841</td>
<td>24,910,735</td>
<td></td>
</tr>
<tr>
<td>Net working capital 48,056,917</td>
<td>49,971,786</td>
<td>38,391,066</td>
<td>39,491,629</td>
<td></td>
</tr>
<tr>
<td>Ratio of current assets to current liabilities 2.55 to 1</td>
<td>2.13 to 1</td>
<td>2.65 to 1</td>
<td>2.99 to 1</td>
<td></td>
</tr>
<tr>
<td>Investments and advances 7,267,094</td>
<td>11,574,203</td>
<td>12,102,811</td>
<td>14,204,008</td>
<td></td>
</tr>
<tr>
<td>Properties and equipment—net 140,450,890</td>
<td>147,485,770</td>
<td>133,712,641</td>
<td>134,115,502</td>
<td></td>
</tr>
<tr>
<td>Funded debt (including current portion) 21,250,000</td>
<td>24,500,000</td>
<td>31,636,400</td>
<td>36,436,400</td>
<td></td>
</tr>
<tr>
<td>Reserves 6,711,595</td>
<td>14,438,725</td>
<td>11,432,834</td>
<td>8,865,056</td>
<td></td>
</tr>
<tr>
<td>Capital stock—Preferred—outstanding 28,788,700</td>
<td>30,000,000</td>
<td>30,000,000</td>
<td>50,000,000</td>
<td></td>
</tr>
<tr>
<td>Capital stock—Common—outstanding 63,968,090</td>
<td>63,968,090</td>
<td>63,780,710</td>
<td>63,753,640</td>
<td></td>
</tr>
<tr>
<td>Undistributed surplus (after treasury stock adjustment) 84,824,017</td>
<td>61,118,436</td>
<td>50,154,205</td>
<td>42,890,964</td>
<td></td>
</tr>
<tr>
<td>Net worth of common stock 148,792,107</td>
<td>123,086,326</td>
<td>113,934,915</td>
<td>106,644,604</td>
<td></td>
</tr>
<tr>
<td>Book value per share 23.26</td>
<td>19.55</td>
<td>17.86</td>
<td>16.73</td>
<td></td>
</tr>
</tbody>
</table>

OPERATING STATISTICS

Barrels of 42 gallons each

<table>
<thead>
<tr>
<th></th>
<th>1945</th>
<th>1944</th>
<th>1943</th>
<th>1942</th>
</tr>
</thead>
<tbody>
<tr>
<td>Crude oil production 32,361,037</td>
<td>31,165,770</td>
<td>27,520,603</td>
<td>24,688,491</td>
<td></td>
</tr>
<tr>
<td>Condensate production 1,141,286</td>
<td>982,491</td>
<td>491,296</td>
<td>501,241</td>
<td></td>
</tr>
<tr>
<td>Crude oil purchases 43,112,262</td>
<td>41,072,166</td>
<td>38,429,809</td>
<td>30,471,677</td>
<td></td>
</tr>
<tr>
<td>Crude oil processed in refineries 58,483,430</td>
<td>54,294,379</td>
<td>47,780,615</td>
<td>39,326,016</td>
<td></td>
</tr>
<tr>
<td>Sales volume of crude oil and products 89,677,000</td>
<td>85,824,000</td>
<td>76,035,000</td>
<td>59,566,000</td>
<td></td>
</tr>
<tr>
<td>December 31 Producing acreage 121,694</td>
<td>118,003</td>
<td>113,209</td>
<td>106,063</td>
<td></td>
</tr>
<tr>
<td>Prospective acreage 1,989,980</td>
<td>1,887,936</td>
<td>1,001,189</td>
<td>879,008</td>
<td></td>
</tr>
<tr>
<td>Recoverable crude oil reserves (barrels) (net) 393,711,000</td>
<td>409,370,000</td>
<td>400,156,000</td>
<td>368,928,000</td>
<td></td>
</tr>
<tr>
<td>Bulk plants owned and leased 296</td>
<td>296</td>
<td>296</td>
<td>318</td>
<td></td>
</tr>
<tr>
<td>Service stations owned and leased 1,169</td>
<td>1,157</td>
<td>1,165</td>
<td>1,182</td>
<td></td>
</tr>
<tr>
<td>Payroll for the year $30,595,071</td>
<td>$27,914,211</td>
<td>$26,192,267</td>
<td>$25,148,745</td>
<td></td>
</tr>
<tr>
<td>Number of employees 10,116</td>
<td>9,317</td>
<td>9,273</td>
<td>9,635</td>
<td></td>
</tr>
<tr>
<td>Number of preferred stockholders 2,797</td>
<td>8,371</td>
<td>8,418</td>
<td>8,040</td>
<td></td>
</tr>
<tr>
<td>Number of common stockholders 27,083</td>
<td>25,303</td>
<td>24,592</td>
<td>24,686</td>
<td></td>
</tr>
</tbody>
</table>

Information on above data is contained in following pages.
TIDE WATER ASSOCIATED OIL COMPANY
17 Battery Place, New York 4, N. Y.

March 29, 1946

To the Stockholders of
Tide Water Associated Oil Company:

INTRODUCTORY

The year 1945 was one of the most momentous years in America's history. It saw the culmination of this country's greatest physical effort — victory over the Axis Powers in World War II. For more than three years our country fought for that victory not only with all its material resources and all the power of its science and industry but also with the lives of its men and women. In achieving that victory it spent its resources with the greatest prodigality, not for any material or political gain but to prevent the enslavement of untold millions of people who, unassisted, would have been unable to halt the march of the greedy Axis Powers. The humane and unselfish motives which inspired America added immeasurable glory to its triumph.

The petroleum industry of America in no small way shares in America's great achievement. It supplied not only America's armed forces with the petroleum products so essential to victory, but it actually furnished eighty per cent of all the petroleum products required by the war machines of America and her allies. The value of this industry's contribution to victory is attested by the members of the Army-Navy Petroleum Board, Admiral Horne, General Somervell, Admiral Cassady, and General Powers, the military chiefs who had intimate knowledge of the wartime petroleum problems and who knew the facts. In their letter to Ralph K. Davies, Deputy Petroleum Administrator for War, under date of November 10, 1945, they write—

"The Army-Navy Petroleum Board extends to you and through you to the entire staff of the Petroleum Administration for War and the entire American petroleum industry its deep appreciation and admiration for the super contribution which has been made to the victory of the United Nations by providing in full and on time the vast flood of petroleum products required by the armed forces during World War II.

"The fulfillment of this gigantic task was without question one of the great industrial accomplishments in the history of warfare. The urgent demands of the Army and the Navy for unprecedented volumes of aviation gasolines, motor gasoline, diesel oil, fuel oils, lubricants and countless other petroleum products vital to victory were unending and often appeared impossible of fulfillment.

"It is a very special tribute, therefore, that at no time did the services lack for oil in the proper quantities, in the proper kinds and at the proper places. Because of the resourcefulness, untiring and unceasing efforts, and outstanding accomplishments of the Petroleum Administration for War and the petroleum industry, not a single operation was delayed or impeded because of a lack of petroleum products. No government agency and no branch of American industry achieved a prouder war record.

"Yours must be a deep satisfaction in the knowledge that your agency and the petroleum industry have made so outstanding a contribution to the victory of the United Nations, a contribution fully and gratefully recognized by the armed forces."

This Company's part in the petroleum industry's war program has been loyally and faithfully fulfilled and from its wartime service to "America," the Company has again returned to serve Americans.

Among the most important problems to be solved by industry in the year 1946 are the disputes between "management and labor" on several issues, particularly wages. These disputes have greatly slowed down production and reconversion programs of vital importance to most industries, although in only a smaller degree to the petroleum industry. Some industrial leaders forecast dark and gloomy days, but their too pessimistic attitude
seemingly is not justified. The situation is serious and tremendous financial losses are being sustained by industry, by labor, and by the public generally, and those who need and are seeking employment are greatly handicapped by these unsettled conditions. However, these conditions are not too discouraging. Dark clouds have gathered over American industry in the past, but the vision, courage, intelligence of all parties, and the American spirit of "fair play" will, as in the past, dispel these ominous clouds, and a fair solution of these problems will mark the beginning of an era of great prosperity.

Title Water Associated Oil Company has endeavored to keep pace with America's forward march to insure continued security for all in this country of free industrial enterprise, and as a unit of American industry this Company has tried to gather its small share of the financial and scientific gains attained in that forward march. The result of its "stock taking" and review of its operations are statistically shown on the opening page of this report.

In the year 1945 the Company's total sales revenues were $244,317,000 or $5,905,000 more than the revenues from sales in the year 1944. After depreciation, all taxes (Federal, state and local), and payment of preferred dividends, the net income of the year 1945 applicable to common stock, amounted to $16,413,000, or $2.57 per share as compared with $15,537,000, or $2.43 per common share in the previous year.

During the year 1945, dividends amounting to $1,695,000 were paid on the preferred stock compared with $2,250,000 paid in the year 1944. The reduction in these dividends resulted from the redemption, with the Company's own available cash, of $20,000,000 of the former $4.50 preferred stock and the refunding of the balance of the $50,000,000 of that issue of preferred stock with a $30,000,000 issue of $3.75 preferred stock as explained in detail in a later section of this report.

The Company's current assets as of December 31, 1945 amounted to $79,028,000 and its current liabilities aggregated $30,971,000, indicating a net working capital of $48,057,000 and a current ratio of 2.55 to 1, while on December 31, 1944, its net working capital totaled $49,972,000 and the ratio of current assets to current liabilities was 2.13 to 1.

The Company's net crude oil reserves on December 31, 1945 were estimated at 393,711,000 barrels, or 15,659,000 barrels less than the reserves estimated at the beginning of the year. However, the presently estimated reserves exceed the reserves as at December 31, 1940 by 28,956,000 barrels notwithstanding the fact that from January 1, 1941 to and including December 31, 1945, the war and industrial demands for crude oil were so tremendous that this Company withdrew from its reserves in that period a total of 142,662,000 barrels of crude oil and condensates. The progressively increasing wartime demand during the year 1945 required this Company to withdraw from its reserves in that year alone, 33,502,000 barrels, an all-time high. In May, 1941, this Company was the thirteenth largest producer in America, but in August, 1945, owing to its great production to meet wartime demands, it was the ninth largest producer in America.

With these general prefatory comments, a review of the operations of the Company and its subsidiaries is now submitted.

COMPANY REPORT

This report reviews the operations of the Company during the year ended December 31, 1945, the results of which are reflected in the enclosed comparative consolidated statement of income and surplus and the comparative consolidated balance sheet as at December 31, 1945, supplemented by sundry information and notes and the report of the Company's auditors, Price, Waterhouse & Co.

It consists of four sections:

I. Income statement
II. Balance sheet comments
III. Operating data
IV. General

I. INCOME STATEMENT

Net Income from Operations

As stated in the introductory paragraphs, the net income of the year 1945 amounted to $18,108,000, as against $17,787,000 reported for the year 1944. The increase amounts to $521,000, or 1.8%. The dividend payments
on the Company's preferred stocks totaled $1,695,000 and the proportion of total net income applicable to the common stock amounted to $16,413,000, or $2.57 per share, in the year 1945, compared with $15,537,000, or $2.43 per share, in the year 1944, after deduction of preferred dividends totaling $2,250,000.

The net income of the year 1945 reflects the net effect of two adjustments incident to investments in war emergency facilities constructed during the war years at a cost of $22,043,000 for the purpose of enabling the Company to increase very materially its production of petroleum products for the armed forces of the United Nations. The construction of these wartime facilities was financed entirely by the Company without any financial or other assistance from the Government. The two adjustments consist of (a) a charge against income of an amount of $7,555,000 representing the difference between estimated prewar and actual cost of these wartime facilities and the cost of excess capacity of several of them installed solely for wartime production, and (b) a reduction of approximately $7,500,000 in the year's provision for estimated Federal taxes on income.

The first mentioned adjustment was authorized by the Directors because the war emergency facilities had ceased to serve the chief purpose for which they were constructed at excessive costs at a time when costs were of secondary importance and it is improper to burden postwar operations with depreciation based on the entire excessive cost of such facilities.

The second adjustment referred to above was the result of a reduction of approximately $13,129,000 in taxable income on account of accelerated amortization of investments in war emergency facilities. A Presidential proclamation dated September 29, 1945 permitted the amortization of investments in war emergency facilities constructed under "Certificates of Necessity" over a period beginning with the month following the completion of such facilities and ending with September 30, 1945. The Company's Federal income tax liability of the year 1945 was thereby reduced to an amount estimated at $1,310,000. While this accelerated amortization policy resulted in immediate advantages from a tax viewpoint, nevertheless future years' tax liabilities will be proportionately greater as no charges may be made against future years' taxable income for depreciation of such investments.

**Dividends**

Dividend declarations during the year 1945 totaled $8,091,000. Owners of the former $4.50 cumulative convertible preferred stock received $931,000 in dividends and owners of the new $3.75 cumulative preferred stock received $763,000. The declarations on the common stock amounted to $6,397,000, or $1.00 per share, this being the aggregate of four quarterly dividends each of 20 cents per share and a year-end dividend of 20 cents per share. The common stock dividend declarations during the year 1944 also totaled $1.00 per share.

**Revenues**

Total revenues from sales of crude oil and products, together with revenues from other operations, aggregated $244,317,000 during the year 1945, as against a total of $238,412,000 in the preceding year, indicating an increase of $5,905,000 notwithstanding a severe curtailment in sales of petroleum products to agencies of the U. S. Government on termination of the war. There was, however, an increase in civilian consumption of gasoline and lubricants during the latter part of the year. The Company is continuing its policy of supplying army and navy departments with products urgently required by them even now; and, fortunately, it is able to do its part in this respect without curtailing supplies for civilian consumers of its products.

**Provisions for Depreciation, Depletion, etc.**

These provisions, detailed in Table (D) of the Supplementary Notes, totaled $31,282,000 during the year 1945, as against a total of $19,722,000 in the year 1944. The total of the year 1945 is exceptionally large due to the special amortization charge of $7,555,000, mentioned in a preceding paragraph, and an increase in oil field exploration and charges incident thereto.

**Federal Taxes on Income**

In a preceding paragraph it was explained that the Company's taxable income of the year 1945 has been charged with the applicable portion of the accelerated amortization of investments in war emergency facilities. On account of such amortization charge, the taxable income of the year is not subject to excess profits tax. The normal and surtax thereon, plus a capital gains tax on sale of investments hereinafter referred to, have been estimated at $1,310,000.
Contract Renegotiation

The Company has been advised by the Reconstruction Finance Corporation Price Adjustment Board that the examination of reports for the year 1943 indicates that during the year 1943 the Company has not realized any excessive profits from contracts and subcontracts subject to renegotiation. Reports for the year 1944 will be submitted to the Board in the very near future, and reports for the year 1945 will follow in due time. The management is of the opinion that the examination of such reports will not disclose any excessive profits subject to recapture.

Interest on Funded Debt

Interest on the funded debt, together with other interest charges, amounted to $488,000 during the year 1945, as against comparable charges of $754,000 in the year 1944. The decrease of $266,000 is due to further reductions in the funded debt, as hereinafter explained.

II. BALANCE SHEET COMMENTS

ASSETS

Current and Net Working Assets

Current assets as at December 31, 1945 totaled $79,028,000 as against a total of $94,312,000 as at December 31, 1944. The decrease of $15,284,000 is attributable principally to the employment of $21,476,000 in the redemption of shares of the Company's former $4.50 cumulative convertible preferred stock.

The current assets of $79,028,000 comprise three classes of assets, namely, (a) cash and marketable securities totaling $35,873,000; (b) accounts and notes receivable of $14,836,000; and (c) inventories of crude oil, products, materials and supplies carried at a book value of $28,319,000.

The net working assets, namely, total current assets less total current liabilities, amounted to $48,057,000 as at December 31, 1945, and the ratio of current assets to current liabilities was 2.55 to 1 compared with a ratio of 2.13 to 1 as at December 31, 1944.

Cash Resources

These amounted to a total of $35,873,000 as at December 31, 1945.

The cash in banks and in the Company's offices for current operations totaled $23,922,000 as against a total of $15,772,000 at the end of the previous year; and the total of cash and securities in special depositories included in above total cash resources of $35,873,000 amounted to $8,162,000. These special depositories were established (a) for the accumulation of funds required periodically for the payment of interest and reduction of the principal of the funded debt and (b) to provide a cash reserve for profitable employment as and when opportunities therefor present themselves. The redemption of shares of the former $4.50 preferred stock during the year 1945, with resulting annual reduction of $1,125,000 in dividend requirements, may be cited as an example.

The Company's total investment in securities of the United States Government, including those carried in a special construction fund for the replacement of tankers lost during the war, amounted to $16,240,000 as at December 31, 1945.

Accounts Receivable

The total of accounts and notes receivable amounted to $14,836,000 as at December 31, 1945 compared with $28,920,000 as at December 31, 1944. The decrease is attributable to a reduction in volume of products sold to agencies of the U.S. Government for war purposes and a general acceleration in collection of outstanding accounts receivable. Amounts due from agencies of the U. S. Government totaled $2,527,000 on December 31, 1945 as against the total of $11,937,000 on December 31, 1944. The balance in accounts receivable outstanding on December 31, 1945 was less than total sales revenues for the month of December 1945, indicating a very satisfactory collection record.

Inventories

The net book value of crude oil and products, totaling 14,061,000 barrels, was $20,755,000 as at December 31, 1945, after deduction of a reserve of $4,600,000 established as protection against a possible decline in the unit values of crude oil and products, the current cost of which has risen substantially during recent years as result of increases in transportation and manufacturing costs. The corresponding net book value of the 16,955,000 barrels
of crude oil and products carried in inventories on December 31, 1944 was $22,828,000 after deduction of a reserve of $4,500,000. The decrease of 2,894,000 barrels in total inventories is due mainly to the heavy demands for navy fuel oil during the entire year 1945. Such demand is continuing currently.

The book value of construction and maintenance materials and supplies on hand on December 31, 1945 amounted to $7,565,000 representing an increase of $748,000 over the inventory of $6,817,000 reported as at December 31, 1944.

The total of the two classes of inventories aggregated $28,319,000 as at December 31, 1945, compared with the total of $29,645,000 as at December 31, 1944.

**Construction Fund**

The balance in this account represents money collected from War Shipping Administration for the insured value of tankers lost during the war. It is expected that eventually part or all of this money will be expended in acquiring tankers to replace those lost.

Practically all of the money in this account is invested in U. S. Government securities.

**Investments and Advances**

This group of assets consists of (a) investments in capital stocks of companies engaged in one or more branches of the petroleum industry; (b) other investments and advances; and (c) accounts collectible over a period of years and which may, therefore, not be included among current assets. This group of assets totaled $7,267,000 as at December 31, 1945.

The corresponding total as at December 31, 1944 was $11,574,000. The decrease of $4,307,000 is due mainly to the sale of 101,969 shares of the capital stock of Mission Corporation and 90,000 shares of the capital stock of South Penn Oil Company, acquired and formerly included in this group of assets at a cost of $4,267,000. These shares of stock were sold as the reasons which prompted their acquisition no longer exist and the proceeds of $6,525,000 realized on sale of the shares could be, and were, employed to good advantage in redemption of shares of the Company's former $4.50 preferred stock.

At present, this Company still owns 78,743 shares of South Penn Oil Company capital stock.

**Properties and Equipment**

This classification includes the investments in (a) oil lands and leases, crude oil reserves, and the many types of facilities and equipment employed in the production of oil and gas; (b) transportation and storage facilities, such as pipe lines, tankers, tank cars, automotive equipment, and steel tanks and concrete reservoirs; (c) refineries and natural gasoline plants; (d) bulk distributing plants and service stations; and (e) miscellaneous facilities which may not be included in any one of the first four classes.

The gross book value of properties and equipment in service as at December 31, 1945 amounted to $396,505,000, and the reserves for depreciation, depletion, and amortization totaled $256,045,000, leaving a net book value of $140,460,000, as against a net book value of $147,486,000 as at December 31, 1944. The decrease of $7,026,000 represents the net difference between gross capital expenditures of $24,033,000 during the year 1945 and the net credits of $31,059,000 for retirements, depreciation, etc., inclusive of the special credit of $7,555,000 for amortization of war emergency facilities referred to on page 3 of this report.

Section III of this report contains additional information on the subject of gross capital expenditures.

**LIABILITIES**

**Current Liabilities**

The total of these liabilities amounted to $30,971,000 inclusive of the amount of $7,000,000 representing the principal value of serial notes payable within the year 1946 and commented on hereafter in paragraphs dealing with the funded debt.

The current liabilities of $30,971,000 are $13,569,000 less than the corresponding total as at December 31, 1944 notwithstanding the inclusion of serial notes totaling $7,000,000 payable within one year from date of balance sheet. This substantial reduction is accounted for by (a) a decrease of $9,074,000 representing the difference
between the provision for estimated Federal taxes on income of the year 1945 and the provision for the year 1944, and (b) a decrease of $9,398,000 in accounts payable attributable to a decrease in purchases of products and services and reduced construction activities during December, 1945.

Funded Debt

The annual report for the year 1944 gave an outline of the refinancing of the funded debt accomplished in that year, as result of which the debt had been reduced from $31,636,000 as at December 31, 1943 to $24,500,000 consisting of a new issue of Serial Notes due August 15, 1954, subject to annual interest rates averaging less than 2% over the life of the issue.

In April 1945, the Company prepaid the first serial note of $3,250,000 due August 15, 1945, and on December 15, 1945 it gave notice that on January 15, 1946 it would prepay the serial notes of $2,000,000 each originally due August 15, 1953 and August 15, 1954, respectively. Thus, although the total funded debt amounted to $21,250,000 on December 31, 1945, it was reduced to $17,250,000 fifteen days later. Notes totaling $3,000,000 will mature on August 15, 1946 and are, therefore, included among current liabilities as at December 31, 1945, together with the two notes of $2,000,000 each paid on January 15, 1946.

Reserves

The several reserves included under this heading amount to $6,712,000 as at December 31, 1945, compared with a total of $14,439,000 reported as at December 31, 1944. The reduction of $7,727,000 is accounted for principally by the cancellation of a reserve for post-war adjustments established in December, 1941 and reserves for wartime uncertainties established during the years 1942, 1943, and 1944 as safeguards against the possibility (a) that unpredictable abnormal conditions after World War II might necessitate adjustments in book value of properties and equipment or (b) that earnings of the war years might be subject to later adjustments. The reserves for these contingencies amounted to $8,000,000 as at December 31, 1944.

Recent careful study and consideration by Directors and management led to the present conclusion that these reserves, set aside out of former years' income and surplus, were no longer required and should be returned to surplus before the close of accounts for the year 1945.

The principal portion of the remaining reserves totaling $6,712,000 as at December 31, 1945 consists of (a) an amount of $4,354,000 representing the difference between the net book value and insured value of the Company's tankers lost through enemy action prior to February 1943, held in suspense pending the replacement of such tankers, and (b) a reserve of $2,000,000 for possible additional Federal taxes on income of prior years.

Another reserve established during the war years but to be maintained for the present is for possible declines in unit values of crude oil and products now on hand and acquired at present high costs. This reserve amounts to $4,600,000 as at December 31, 1945. It is, however, deducted directly from inventories included among current assets.

Capital Stock and Surplus

The total book value of the two classes of capital stocks and surplus amounted to $177,581,000 as at December 31, 1945, segregated as follows:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>$3.75 preferred stock</td>
<td>$28,789,000</td>
</tr>
<tr>
<td>Common stock, par value of 6,396,809 shares</td>
<td>$63,968,000</td>
</tr>
<tr>
<td>Surplus (after treasury stock adjustment)</td>
<td>84,824,000</td>
</tr>
<tr>
<td>Total</td>
<td>148,792,000</td>
</tr>
<tr>
<td></td>
<td>$177,581,000</td>
</tr>
</tbody>
</table>

The annual report for the year 1944 showed a preferred stock capitalization of $50,000,000, represented by 500,000 shares of $4.50 cumulative convertible preferred stock. As at December 31, 1945, the outstanding preferred stock consisted of 287,887 shares of $3.75 cumulative preferred stock of a stated value of $28,789,000. The change in the preferred stock situation is due to the following refinancing accomplished during the year 1945.

During the early months of the year 1945, your Directors reviewed and considered proposals for a reduction in capital represented by the Company's preferred stock with resulting decrease in preferred stock dividend requirements. Such reduction recommended itself by reason of a general downward trend in preferred stock dividend
rates and in order profitably to employ surplus available cash not required for operations, capital expenditures, or scheduled reduction of the funded debt. After careful examination and appraisal of several alternate plans, the Directors approved a plan which involved

(a) the issue of 300,000 shares of a new $3.75 cumulative preferred stock;
(b) an offer to holders of the then outstanding 500,000 shares of $4.50 cumulative convertible preferred stock to exchange their shares for 300,000 shares of the new $3.75 preferred stock, on a share-for-share basis and subject to allotment if more than 300,000 shares of the $4.50 preferred stock were offered in exchange for shares of the new $3.75 preferred stock;
(c) the sale to a group of underwriters at $105 per share, of the number of shares of the new $3.75 preferred stock which would not be exchanged for shares of the $4.50 preferred stock; and
(d) the redemption on or about July 1, 1945, at $105 per share and accrued dividends of such of the 500,000 shares of the $4.50 preferred stock as would be outstanding at that time.

On the effective date of the registration statement filed with the Securities and Exchange Commission, the exchange offer was made to holders of the former $4.50 preferred stock. On May 7, 1945, the expiration date of the offer, the records indicated that stockholders had offered to exchange 172,398 shares of the $4.50 preferred stock for an equal number of shares of the new $3.75 preferred stock, the dividends on which accrued from April 1, 1945. The remaining 127,602 shares of the new preferred stock were then sold to the underwriters on May 14, 1945 at $105 per share plus dividends accrued to that day. (Since then, shares of the $3.75 preferred stock have been sold on the New York Stock Exchange for as high as $112 per share.) The 327,602 shares of the former $4.50 preferred stock not tendered in exchange for shares of the new $3.75 preferred stock, were called for redemption on July 2, 1945 at $105 per share plus a dividend of $1.12 1/2 for the three months ended June 30, 1945, involving a total disbursement of $34,766,000, the funds therefor having been provided as follows:

(a) Cash received for 127,602 shares of the new $3.75 preferred stock sold to underwriters on May 14, 1945 at $105 per share plus dividends accrued to that date $13,455,000
(b) Surplus cash withdrawn from several special deposit accounts included among current assets and not required for current operations $21,311,000
Total $34,766,000

As at December 31, 1945, for various reasons, owners of 13,158 shares of the former $4.50 preferred stock had not offered them for redemption, although no dividends accrued on such shares subsequent to June 30, 1945.

As the result of foregoing exchange and redemption, the preferred stock dividend requirements were decreased from $2,250,000 per annum to $1,125,000 per annum, a reduction of 50 per cent. The transactions, however, involved a net outlay of $1,000,000 for premiums paid to stockholders and $476,000 for underwriters' standby charges, commissions, sundry expenses, and registration fee. These total charges of $1,476,000 to surplus will, however, be recovered in less than 16 months' time by reason of the reduction in preferred stock dividend payments.

The Certificate of the Designations, Powers, Preferences, and Other Rights of the $3.75 cumulative preferred stock obligates the Company to deposit in a sinking fund, on or before May 1 in each year, beginning with May 1, 1946, for the purchase or redemption of the $3.75 preferred stock, an amount which shall be not less than 5% and not more than 15% of the Company's consolidated net profit for the fiscal year next preceding such May 1. At any time, of course, the Company may purchase shares of the $3.75 preferred stock in the open market or at private sale and may apply such purchases against the above defined sinking fund requirements at a price of $105 per share.

Up to December 31, 1945, the Company had purchased 12,113 shares at a total cost of $1,233,000, or $101.81 per share (as this report goes to press, shares of the $3.75 preferred stock were being sold for $111 per share on the New York Stock Exchange). The 12,113 shares purchased by the Company were retired as at
December 31, 1945 and will be credited against the sinking fund requirements at $105 per share. The first redemption in compliance with the sinking fund provisions is scheduled for July 1, 1946, and the indicated results thereunder will be reported to the stockholders at the annual meeting to be held on May 2, 1946.

The common capital stock had a book value of $148,792,000 as at December 31, 1945 compared with a total of $125,087,000 as at December 31, 1944. The increase of $23,705,000 is the net result of following credits and debits during the year 1945:

**Credits:**
- Net income from operations .......................................................... $18,108,000
- Reserves for wartime and post-war contingencies established prior to January 1, 1945 and reverted to surplus ........................................ 8,000,000
- Credit on account of reduction in reserve for Federal income taxes of prior years ................................................................. 3,896,000
- Gross profit on sale of certain capital assets ................................... 2,258,000
- Premium of $5.00 per share on 127,602 shares of $3.75 cumulative preferred stock sold to underwriters ............................................ 638,000
- Other credits (net) .......................................................... 1,010,000
- **Total credits** .................................................................. $33,910,000

**Debits:**
- Premium of $5.00 per share on 327,602 shares of the former $4.50 preferred stock called for redemption on July 2, 1945 ......................... $ 1,638,000
- Expenses incident to issue of 300,000 shares of the new $3.75 preferred stock .............................................................. 476,000
- Dividends
  - On the $4.50 preferred stock .................................................. 931,000
  - On the $3.75 preferred stock .................................................. 763,000
  - On the common stock ($1.00 per share) ................................ 6,397,000
- **Total debits** .................................................................. $10,205,000
- **Net increase in surplus** .................................................. $23,705,000

As result of the foregoing increase in surplus, the book value of the common stock was increased from $19.55 as at December 31, 1944 to $23.26 per share as at December 31, 1945.

The second item listed under "Credits" above, was discussed in preceding paragraphs titled "Reserves." The fourth item under "Credits" represents the gross profit realized on sale of capital assets, namely, the shares of capital stock of South Penn Oil Company and Mission Corporation. The shares were sold for a total of $6,525,000 resulting in a profit of $2,258,000. The Federal capital gains tax, estimated at $565,000 has been included in the provision of $1,310,000 charged against earnings as the year's estimated Federal taxes on taxable income.

**III. OPERATING DATA**

The great demand for petroleum products required by the armed forces during World War II caused this Company to do its utmost in the task of producing, manufacturing, and delivering the greatest possible volume of such products. Just prior to termination of the war, it was obtaining the maximum production of aviation gasoline and lubricating oils, fuel oil, and other petroleum products from its enlarged and modern refinery installations. Immediately on termination of the war, the demand for further manufacture and deliveries of aviation gasoline for war purposes ended. On the other hand, the end of gasoline rationing caused a substantial increase in civilian consumption of gasoline, while the fuel oil requirements of the United States Navy and other governmental agencies remained at high levels. For these reasons, the Company's present production of crude oil and petroleum products is not materially lower than its maximum production during the first half of the year 1945.

The activities and operating results of the Company's principal departments during the year 1945 are reviewed in the following paragraphs of this section. Preliminarily to such review, however, a brief outline of the Company's operations and territories in which it operates may be of interest.
The Company is composed of three main divisions:

(a) The Eastern Division operates in the Middle Atlantic and New England states;
(b) The Mid-Continent Division operates in most of the Mid-Continent states; and
(c) The Western Division operates in the Pacific Coast and other Western states and in the Hawaiian Islands.

Each of the three divisions is engaged in the four principal activities of an integrated oil company, namely, the production, transportation, and refining of crude oil, and the marketing of petroleum products.

The activities of these three divisions are carefully and closely coordinated, and their operating and capital budgets are planned and determined by the principal executives and department heads at annual budget meetings. Thus, while the three divisions operate in separated territories, their close contact with one another and one overall centralized general direction result in complete integration into one consolidated operating company.

Production Departments

The net production of crude oil amounted to 32,361,000 barrels during the year 1945, the greatest volume of crude oil ever produced by the Company in a single year. The corresponding production in the year 1944 having totaled 31,166,000 barrels, the production in the year 1945 reflects an increase of 1,195,000 barrels, or 3.8%, notwithstanding some curtailment in production on termination of the war. The Company also produced or received as its share from ownership in cycling plants in which it has undivided interests, a total of 1,141,000 barrels of condensates (gasoline and other liquefied petroleum products) during the year 1945, compared with the total of 982,000 barrels produced or received during the year 1944.

During the year 1945, the production departments of the three divisions expended a total of $19,053,000 in developing producing properties, acquiring additional prospective acreage, and drilling test wells on prospective oil lands. Large sums were also expended in exploratory operations and for rentals on prospective oil lands. 177 wells were completed as producers, 6 of them being gas wells, and at the end of the year 1945 the Company was producing crude oil from 5,195 wells and gas from 60 wells.

A total of 218,000 acres of prospective oil lands were acquired during the year 1945, and leases to 112,000 acres of lands previously acquired as prospective oil or gas lands were released by quitclaim. Considerable acreage has recently been acquired in Wyoming because of its attractive oil bearing possibilities. Large tracts of leased lands were also acquired in the south-eastern states of this country. As at December 31, 1945, the Company's holdings of oil lands, leased or owned in fee, amounted to 122,000 acres of proven lands and 1,990,000 acres of prospective oil lands.

The Company's net recoverable proved reserves of crude oil and condensates had been estimated at 403,370,000 barrels as at January 1, 1945. The net production of crude oil and condensates during the year 1945 amounted to 33,502,000 barrels, but this withdrawal from reserves was partly offset by the addition of 17,843,000 barrels during the year resulting from successful drilling tests on prospective acreage, extension of proven acreage, development of deeper zones, and revisions. The estimated total reserves of crude oil and condensates amounted to 393,711,000 barrels as at December 31, 1945. The Company also owns, or has undivided interests in, large reserves of gas. Increasingly large volumes of such gas, after extraction of liquid petroleum products contained therein, are being sold to public utility companies. The sale of such gas represents an important source of this Company's income, the total of which amounted to $1,737,000 during the year 1945.

The gross book value of properties and equipment of the producing departments amounted to $222,393,000 as at December 31, 1945, and the net book value after deduction of reserves for depreciation and depletion totaling $131,085,000, amounted to $91,308,000.

Transportation Departments

These departments operate the Company's facilities and equipment employed in transporting its produced and purchased crude oil from the oil fields to the refineries, and the products from the refineries to distributing facilities and points of consumption. To the extent required, they arrange for transportation services supplied by others, including common carriers. The principal means of transportation are tankers, pipe lines, railroads, and automotive equipment.
Since April 20, 1942 and almost up to the end of the year 1945, the Company's ocean going tankers were under charter to the United States War Shipping Administration, but all such tankers have now been returned to the Company.

The most important change in means of transportation during the year 1945 occurred in the East. During the major part of the year 1945, the Eastern Division received a substantial portion of its refinery requirements of crude oil through the War Emergency Pipe Line known as "The Big Inch", connecting the East Texas fields with the New York and Philadelphia areas. On termination of the war, however, transportation of Mid-Continent crude oil by tankers gradually replaced transportation by pipe line, and by the end of the year the War Emergency Pipe Line ceased operations. Thereafter the Company's supply of Gulf Coast and Mid-Continent crude oil for its Bayonne, New Jersey, refinery was again transported exclusively by tanker, as in the years preceding the war.

During the year 1945, the transportation departments' gross capital expenditures amounted to $324,000, practically all of which was expended for replacements of facilities and equipment worn out during the war period. Inability to purchase urgently required automotive equipment limited expenditures therefor to nominal sums, and the replacement of tankers lost during the war has been held in abeyance.

The Company's gross investment in transportation facilities amounted to $39,782,000 as at December 31, 1945, and the reserves for depreciation totaled $31,929,000 resulting in a net book value of $7,853,000.

Manufacturing Departments

The Company's two principal refineries are located at Bayonne, New Jersey, and Avon, California. It also has smaller refineries at Drumright, Oklahoma, and Watson and Santa Maria, California. Important plants manufacturing natural gasoline from wet gas produced in conjunction with crude oil are located in the Ventura, California, oil field.

During the war years the Company expended considerable sums for catalytic cracking, alkylation, and isomerization plants together with complementary facilities in order to do its full part in supplying the armed forces and industries with high octane gasoline and other products so urgently needed for the prosecution of the war and for home industry. As indicated in previous reports, this intensified construction program was carried on progressively, and various units or additions to plants were placed in operation successively during the war period so that by far the major portion of the program was completed as of January 1, 1945 and all of it in time for the peak war demands well before the end of the war. The operation of these facilities enabled the Company to manufacture 100 octane aviation gasoline in unprecedented quantities while still manufacturing very large volumes of other products highly essential to the war effort.

The abrupt ending of the war and the consequent unexpected immediate termination of manufacture of 100 octane aviation gasoline materially altered the Company's subsequent refining program. In erecting the new facilities to accomplish the maximum war effort, adequate flexibility had been incorporated in the design so that the physical facilities might readily be utilized for peacetime products with relatively few and unimportant adjustments. However, the application of the facilities, the type of materials processed, and the products manufactured are at material variance with the war program. The employment of these modern refining facilities enables the Company to manufacture the several grades of motor gasoline of a quality far superior to that of the respective grades manufactured prior to the war. The high standards of products now being manufactured and marketed are a tribute to the careful and exhaustive studies by Company engineers, technologists, and the efficient research and development departments in the selection of the type and extent of facilities required.

Gross capital expenditures of the manufacturing departments amounted to $3,928,000 during the year 1945, and at the end of the year the total gross investment in refining properties and equipment totaled $94,601,000. After deduction therefrom of depreciation reserves aggregating $66,522,000 the remaining net book value was $28,079,000.

Marketing Departments

The principal function of these departments in peace times is the distribution and marketing of petroleum products for domestic civilian consumption. During the war years these functions were severely handicapped, by reason of gasoline rationing and inability to obtain the personnel required for the high type of service which the Company normally renders and to which the public had become accustomed in prewar years.
Immediately on termination of the war all restrictions for domestic consumption on quantity and quality of gasoline and most restrictions on other products were removed, and the marketing departments received the long awaited opportunity to resume and improve the type of distribution and services rendered by them prior to the war. The modernization of the Company's refineries enabled the sales department to fulfill the Company's promise to market gasolines and other products of a quality superior to that in prewar days, and the response of the motorists and other consumers has been remarkable and most gratifying.

The demand for fuel and diesel oils required by all domestic and industrial consumers, as well as the U. S. Navy and War Shipping Administration, is very large, and the Company is doing everything in its power to be of greater service in this respect. The Company is also resuming the export of petroleum products in increasing volumes, being fully conscious of opportunities for such exports to the Philippines and other Far Eastern countries as well as to Europe and other parts of the world.

The total volume of crude oil and refined products sold during the year 1945 amounted to 89,677,000 barrels as against a total of 85,824,000 barrels marketed during the year 1944.

Capital expenditures of the marketing departments amounted to $633,000 during the year 1945, a large part of which was for replacement of worn-out buildings and equipment. Construction of new plants and service stations has been begun and will be continued in the year 1946 to the extent that such installations are necessary adequately to serve the motoring public and industrial consumers. It is to be hoped that the industry will avoid a needless over-expansion and resulting increase in the cost of distributing and marketing petroleum products.

The gross book value of properties and equipment employed in marketing activities aggregated $38,320,000 as at December 31, 1945, and the net book value thereof, after deduction of depreciation reserves totaling $25,569,000, amounted to $12,751,000.

IV. GENERAL

Personnel

The Company's splendid contributions to winning the war were due in great measure to the earnest and energetic support and cooperation of its loyal employees who numbered 10,116 on December 31, 1945.

Approximately 1,490 of the Company's employees had been granted leaves of absence to serve in the armed forces of the United States, and to date 836 have been welcomed back into the Company's service by officers and employees who are proud of the part played by their fellow Americans. Many remain in the armed services, continuing to discharge faithfully and loyally whatever duties are assigned to them. We expectantly await the time when they may return to the Company's employ.

We record with sorrow the loss of 91 former employees of this Company who gave their lives in their efforts to win peace for the world. They died while serving under the honored flag of their country and their sacrifices will not be forgotten. Again we express to their bereaved families our deep and abiding sympathy, and as a symbol of the continuing sorrow felt by the officers and employees of this Company, a gold star commemorative of every employee who gave his life for his country has been added to this Company's Roll of Honor.

During the year 1945 and the first quarter of this year, representatives of this Company devoted much time to meetings with representatives of several groups of employees for the purpose of negotiating, through collective bargaining, agreements covering hours, wages, and working conditions. All questions in dispute were settled without serious interference with operations. Generally satisfactory agreements were negotiated, and it is anticipated that they will assure continuance of pleasant relationships between the Company and its employees.

In the latter part of the year 1945 the Board of Directors announced that in all domestic operations, other than service station and marine operations, and as soon as practicable, the Company would return to a normal work week of five days and not exceeding 40 hours in any week, and at the same time a fifteen percent increase was authorized in the base compensation of all employees (excepting the President) who were placed on a working schedule not in excess of forty hours per week.

An additional increase equal to three percent of the base compensation in effect immediately prior to the fifteen percent increase was granted all employees in the domestic service effective January 1, 1946, subject to the exceptions noted above.
The employees of the Company continue to enjoy many welfare and benefit plans, including group life insurance, sickness and accident benefits, retirement allowances supplementing Federal Social Security benefits, pay during vacation, and military service benefits.

Robert E. Ryerson, Vice President of the Company in charge of all sales of the Eastern Division, resigned as Vice President and also retired from the Company's employ on December 31, 1945, due to ill health. On the 15th day of February, E. F. McCabe was appointed General Sales Manager, Eastern Division, taking over the former duties of Mr. Ryerson.

Lloyd F. Bayer, Chairman of the Operating Committee of the Western Division and Vice President in charge of the Manufacturing Department of the Western Division, on the successful completion of the war program of the Manufacturing Department, asked to be, and was, relieved of responsibility for the management and operation of that department so that he might more effectively carry out his responsibilities and duties as Chairman of the Operating Committee of the Western Division and devote his full time to that position. Accordingly, on February 28, 1946 Herschel Y. Hyde, who has been in the Company's employ for more than eighteen years, and who for sixteen years was in charge of the Research and Development Department of the Western Division, was appointed Vice President in charge of manufacturing, Western Division.

On the same day, T. L. Wark, employed in this Company's Geological and Production Departments for more than 25 years, and since January, 1945 General Manager of the Production Department, Western Division, was appointed Vice President in charge of production, Western Division.

Petroleum Administration

The cessation of hostilities with Japan, following closely upon the end of the war in Europe in midyear, brought about the rapid discontinuance of war controls affecting the petroleum industry. The industry rapidly returned to normal peacetime operations, and had generally achieved that position by the end of the year. Gasoline rationing ceased the day following the announcement of Japan's capitulation and within the next few weeks practically all of the directives which had been issued by the Petroleum Administration for War were revoked.

The Petroleum Industry War Council, the national advisory agency appointed by the Petroleum Administrator for War prior to Pearl Harbor, continued in existence until the official closing of its activities on December 12, 1945. The cooperation between the Federal government and the Petroleum Industry War Council which made possible the splendid record of accomplishment in supplying petroleum products to the armed forces was unique in the annals of government-industry relationships and received the highest commendation from Government officials.

Petroleum Resources

The statements made in the introductory section of this report with regard to the tremendous withdrawals from reserves of crude oil, might lead to the belief that those reserves are being depleted too rapidly. However, this is not the case, and it will be shown in the following paragraph that the nation's reserves are actually being increased.

The recently released annual report of the committee on petroleum reserves of the American Petroleum Institute indicates that estimated petroleum reserves in the United States on December 31, 1945 amounted to 20,826,813,000 barrels of crude oil and condensate, an increase of 373,582,000 barrels over the committee's estimate of 20,453,231,000 barrels as of December 31, 1944, notwithstanding the production of 1,736,717,000 barrels during the year 1945. The committee's annual reports for the years 1940 to 1945 inclusive show that, although approximately 9,060,073,000 barrels of crude oil and condensate were produced during those six years, the estimated crude oil reserves as of December 31, 1945 exceeded the estimated reserves of December 31, 1939 by 2,343,801,000 barrels. These results should allay fears entertained by some people regarding a possible early exhaustion of this extremely important national resource.

Mindful of its own need for additional reserves of crude oil, this Company increased its geological and geophysical programs during the year 1945 to include areas not heretofore actively investigated, namely, the Rocky Mountain states, Montana, Wyoming, and Colorado. Geophysical work is being carried on through gravity
meter and seismograph surveys, preferred attention being given to the larger intermontane basins of Wyoming. Also, reconnaissance field investigations were completed with respect to the westerly portions of the states of Washington and Oregon.

Furthermore, during 1945, investigations were carried on in the Atlantic Coastal Plain extending from New York Bay southward to the Carolinas. Investigations are also under way in other portions of eastern United States offering possibilities for future discoveries.

Foreign Markets

In prewar days this Company distributed petroleum products throughout the world, but during the war the demand of the armed forces of America and her allies and governmental restrictions forced the Company to discontinue exports, with few exceptions. Since V-J Day, however, it has again resumed exports of its products to many of the foreign markets served by it before the war.

Shortly after V-J Day, at the request of the United States military authorities, representatives of this Company's Western Division proceeded to the Far East as civilian advisors on petroleum distribution in that area. Initial supplies of petroleum products have already been sent to key markets in the Philippine Islands and other points in the Far East.

The Eastern Division of this Company is reestablishing sales outlets for lubricating oils in foreign countries as rapidly as governmental restrictions are lifted and shipping is available, and since the close of the war, shipments of lubricants have been made to the Company’s distributors in Holland, Belgium, Portugal, Eire, Sweden, Switzerland, Iran, Iraq, Egypt, Palestine, Turkey, Syria, Union of South Africa, and the Gold Coast of Africa.

Lubricants have also been shipped to France and its colonies, and to the United Kingdom through the respective government purchasing missions. The Company’s distributors in France and Italy are again active and are selling their quota of lubricants imported by their governments, and they are prepared to resume direct purchases from the Company as soon as normal commercial trade relations with these countries are restored. Export trade with the South American and Central American countries is again approaching a normal basis, and sales of lubricants in Canada are increasing.

Stockholders

On December 31, 1945 there were 29,880 stockholders of this Company. The 287,887 outstanding shares of the Company’s $3.75 preferred stock were owned by 2,797 stockholders, and the 6,396,809 shares of its common stock were owned by 27,083 stockholders.

CONCLUSION

The Company’s operations during the past year were very satisfactory notwithstanding the fact that purchases of petroleum products by the government were greatly reduced after V-J Day. The civilian demand for petroleum products was unexpectedly large thereafter and even though sales to the Army, Navy and Merchant Marine were greatly reduced, a substantial demand for products prevailed even during the balance of the year. Nevertheless, the results of the year 1945 may not be accepted as typical for post-war years.

The cost of labor and materials will be materially greater in the year 1946 than in the year 1945, and the full effect of the recent increases may not be apparent until the year 1947. Also, the total volume of products to be sold in 1946 may be expected to be less than in 1945 since it may not be anticipated that the increase in civilian consumption, substantial as it is, will be sufficient in volume or value to compensate for the decrease in sales to governmental agencies. However, it is confidently expected that this Company’s future volume of business will be greater than that of any of the prewar years.

Industry must and will do its full share to bring about the promised era of prosperity, depending on economic and efficient operation to offset as far as possible the increase in cost of labor and material. Above all we must have faith and confidence—faith in America, and confidence in the ability of the American people to solve its problems satisfactorily.
To the Company's officers and to its employees, for their unselfish devotion to the Company's best interests, the Directors extend their grateful appreciation.

Respectfully submitted,

BY ORDER OF THE BOARD OF DIRECTORS

WILLIAM F. HUMPHREY,
President

U. B. BOUCKE,
Vice President and Controller
TIDE WATER ASSOCIATED OIL COMPANY
(Incorporated in Delaware)
AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF INCOME AND SURPLUS
FOR THE YEAR ENDING DECEMBER 31, 1945
(With comparative figures for the year 1944)

Sales of crude oil and petroleum products, together with revenue from other operations (exclusive of intercompany transactions) (Note 1) $244,317,134 $238,412,375

Costs and operating expenses:
Cost of products sold and selling expenses (exclusive of amounts shown separately below) (Notes 1, 2 and 3) $183,542,625 $178,101,091
Insurance 852,804 1,214,527
Provisions for depreciation, depletion, etc. (Table D) 31,282,130 19,722,364
General and administrative expenses 4,373,345 4,196,979
Taxes, other than Federal taxes on income 5,679,085 6,082,201

Operating income 1,268,584 1,580,109
Non-operating income (Table E)  $ 18,637,145  $ 29,095,213
Total income (before interest and Federal taxes on income and other charges) $19,905,729 $30,675,322

Interest, and amortization of funded debt expenses 488,017 754,120
Provision for wartime uncertainties — 1,750,000

Balance  $ 488,017  $ 2,504,120

Provision for the current year for estimated Federal taxes on income (Note 4) 1,310,000 10,384,000
Net income from operations for the year 18,107,712 17,787,202
Other credits (net) (Table F) 13,689,251 18,107,712
Net profit added to surplus 31,796,963 19,594,946
Surplus at beginning of the year 61,232,152 50,267,921

Less—Dividends:
On $4.50 preferred stock 931,052 2,250,000
On $3.75 preferred stock 763,521 —
On common stock 6,396,809 6,380,715

Surplus at end of the year, per balance sheet (Note 9) 84,937,733 61,232,152

Above statement does not include the amounts of $25,508,453 and $21,480,332 collected during 1945 and 1944, respectively, for Federal, State and Municipal governments in the form of taxes on sales of gasoline, lubricating oils and other products.
### Current and Working Assets:

#### Cash Resources:
- **Cash in banks and on hand:**
  - 1945: $23,921,714
  - 1944: $15,771,962

#### Marketable Securities (at cost, less reserves):
  - 1945: 3,788,909
  - 1944: 3,647,630

#### Special Deposit and Redemption Funds - not restricted:
- 1945: $212,212
- 1944: $289,623

#### Accounts Receivable (Note 5):
- 1945: $15,076,419
- 1944: $29,143,768

#### Less - Reserve for doubtful accounts:
- 1945: $380,959
- 1944: $383,142

#### Notes and Trade Acceptances Receivable:
- 1945: $15,000
- 1944: 2,604

#### Inventories:
- **Crude and heavy fuel oil (at cost, lower than market):**
  - 1945: $7,396,652
  - 1944: $9,461,743

- **Refined oil products, finished and in process (at cost, lower than market):**
  - 1945: 17,958,775
  - 1944: 17,866,285

- **Materials and supplies (at cost or below):**
  - 1945: 7,564,515
  - 1944: 6,817,162

#### Less - Reserve for possible decline in inventory values (Note 2):
- 1945: 4,600,000
- 1944: 4,500,000

#### Total Current and Working Assets:
- 1945: $23,921,714
- 1944: $15,771,962

### Construction Fund:
- Cash: $6,125
- U.S. Government securities: 4,540,000

### Investments and Advances (Table A):
- Total: $79,028,072

### Properties and Equipment (Table B):
- Gross book figures: 396,504,609
- Reserves for depreciation, depletion and amortization: 256,044,710

### Deferred Charges:
- Prepaid taxes, insurance and rents: $1,505,254
- Other deferred expenses: 264,499

Total: $233,071,243

### Consolidated December 31

<table>
<thead>
<tr>
<th></th>
<th>1945</th>
<th>1944</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash in banks and on hand</td>
<td>$23,921,714</td>
<td>$15,771,962</td>
</tr>
<tr>
<td>Marketable securities</td>
<td>3,788,909</td>
<td>3,647,630</td>
</tr>
<tr>
<td>Special deposit and redemption funds</td>
<td>816,212</td>
<td>16,327,623</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>33,872,835</td>
<td>33,747,113</td>
</tr>
<tr>
<td>Notes and trade acceptances receivable</td>
<td>125,335</td>
<td>156,274</td>
</tr>
<tr>
<td>Loans to employees</td>
<td>15,000</td>
<td>2,604</td>
</tr>
<tr>
<td><strong>Total current and working assets</strong></td>
<td>$23,921,714</td>
<td>$15,771,962</td>
</tr>
<tr>
<td>Cash</td>
<td>6,125</td>
<td>6,125</td>
</tr>
<tr>
<td>U.S. Government securities</td>
<td>4,546,125</td>
<td>4,546,125</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$23,921,714</td>
<td>$15,771,962</td>
</tr>
</tbody>
</table>

### Other Financial Figures:
- December 31, 1945: $233,071,243
- December 31, 1944: $260,133,868
ITED OIL COMPANY

in Delaware)

IY COMPANIES

Balance Sheet

Year 31, 1945

As at December 31, 1944)

<table>
<thead>
<tr>
<th>CURRENT LIABILITIES:</th>
<th>December 31,</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1945</td>
</tr>
<tr>
<td>Funded debt, due within one year (Note 11)</td>
<td>$ 7,000,000</td>
</tr>
<tr>
<td>Purchase obligations, due within one year</td>
<td>1,507,046</td>
</tr>
<tr>
<td>Accounts payable, trade</td>
<td>10,439,265</td>
</tr>
<tr>
<td>Wages and miscellaneous accounts payable</td>
<td>4,027,981</td>
</tr>
<tr>
<td>Taxes payable, other than current Federal taxes on income</td>
<td>4,992,062</td>
</tr>
<tr>
<td>Accrued interest</td>
<td>145,545</td>
</tr>
<tr>
<td>Dividend on preferred stock, payable January 2, 1946 and 1945</td>
<td>269,894</td>
</tr>
<tr>
<td>Dividend on common stock, payable January 3, 1946</td>
<td>1,279,362</td>
</tr>
<tr>
<td>Accrual for the current year for estimated Federal taxes on income (Note 4)</td>
<td>1,310,000</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td><strong>$ 30,971,155</strong></td>
</tr>
</tbody>
</table>

| Liability for redemption of $4.50 cumulative convertible preferred stock without par value (13,158 shares at $105. per share plus dividend) | 1,396,384 | — |
| Less—Cash in bank in special fund | 1,396,384 | — |
| **DUE TO AFFILIATED COMPANIES** | 13,469 | 14,919 |

| FUNDED DEBT, due after one year: | 3,467,055 | 4,934,497 |
| Serial Notes (Note 11) | 14,250,000 | 21,250,000 |
| **RESERVES (Table C)** | 6,711,595 | 14,438,725 |

| DEFERRED CREDITS | 77,162 | 69,178 |

<table>
<thead>
<tr>
<th>CAPITAL STOCK AND SURPLUS:</th>
<th>Shares at December 31</th>
</tr>
</thead>
<tbody>
<tr>
<td>1945</td>
<td>1944</td>
</tr>
<tr>
<td>Preferred stock without par value:</td>
<td></td>
</tr>
<tr>
<td>Authorized — 873,779 shares</td>
<td></td>
</tr>
<tr>
<td>Issued and outstanding:</td>
<td></td>
</tr>
<tr>
<td>$4.50 cumulative convertible</td>
<td>500,000</td>
</tr>
<tr>
<td>$3.75 cumulative (Note 7)</td>
<td>287,887</td>
</tr>
<tr>
<td>Common stock, $10 par value (Note 8):</td>
<td></td>
</tr>
<tr>
<td>Authorized — 10,000,000 shares</td>
<td></td>
</tr>
<tr>
<td>Issued</td>
<td>6,408,132</td>
</tr>
<tr>
<td>Surplus, per statement attached (Note 9)</td>
<td>84,937,733</td>
</tr>
<tr>
<td>Less—Common stock in treasury, at cost</td>
<td>11,323</td>
</tr>
<tr>
<td>Common stock outstanding and surplus</td>
<td>6,396,809</td>
</tr>
<tr>
<td></td>
<td>$233,071,243</td>
</tr>
</tbody>
</table>
### TABLE (A) INVESTMENTS AND ADVANCES

<table>
<thead>
<tr>
<th>Description</th>
<th>December 31,</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1945</td>
</tr>
<tr>
<td>Affiliated Companies</td>
<td></td>
</tr>
<tr>
<td>Investments in capital stocks (at cost or below, less allocated reserves)</td>
<td></td>
</tr>
<tr>
<td>Companies more than 50% owned</td>
<td>$1,591,296</td>
</tr>
<tr>
<td>Companies not more than 50% owned</td>
<td>162,780</td>
</tr>
<tr>
<td>Advances, less allocated reserves</td>
<td>386,648</td>
</tr>
<tr>
<td>South Penn Oil Company—1945, 78,743 shares, 1944, 168,743 shares</td>
<td>2,756,005</td>
</tr>
<tr>
<td>Mission Corporation—1945, nil; 1944, 101,969 shares</td>
<td>1,116,518</td>
</tr>
<tr>
<td>Other investments and receivables (at cost or below)</td>
<td>2,370,365</td>
</tr>
<tr>
<td>Total, per balance sheet</td>
<td>$7,267,094</td>
</tr>
</tbody>
</table>

### TABLE (B) PROPERTIES AND EQUIPMENT

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Developed properties</td>
<td>$212,439,099</td>
<td>$128,524,282</td>
<td>$83,914,817</td>
<td>$80,715,878</td>
</tr>
<tr>
<td>Undeveloped properties</td>
<td>9,953,802</td>
<td>31,929,131</td>
<td>7,853,250</td>
<td>8,803,253</td>
</tr>
<tr>
<td>Transportation</td>
<td>39,782,381</td>
<td>25,569,290</td>
<td>12,750,569</td>
<td>13,444,160</td>
</tr>
<tr>
<td>Refining</td>
<td>94,601,370</td>
<td>66,522,195</td>
<td>28,079,175</td>
<td>36,842,675</td>
</tr>
<tr>
<td>Marketing</td>
<td>38,319,859</td>
<td>25,569,290</td>
<td>12,750,569</td>
<td>13,444,160</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>1,408,098</td>
<td>939,096</td>
<td>469,002</td>
<td>514,047</td>
</tr>
<tr>
<td>Total, per balance sheet</td>
<td>$396,504,609</td>
<td>$256,044,710</td>
<td>$140,459,899</td>
<td>$147,485,770</td>
</tr>
</tbody>
</table>

The gross book figures of properties and equipment represent cost in cash, bonds, capital stocks or investments given in exchange, except for the book figures of certain properties and equipment which were reduced as of January 1, 1932 and other exceptions, the net effect of which is relatively unimportant.

### TABLE (C) RESERVES

<table>
<thead>
<tr>
<th>Description</th>
<th>December 31,</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1945</td>
</tr>
<tr>
<td>Post-war adjustments</td>
<td>—</td>
</tr>
<tr>
<td>Wartime uncertainties</td>
<td>—</td>
</tr>
<tr>
<td>Tanker replacements</td>
<td>$4,353,840</td>
</tr>
<tr>
<td>Additional Federal taxes on income (Note 6)</td>
<td>2,000,000</td>
</tr>
<tr>
<td>Marine equipment repairs</td>
<td>215,101</td>
</tr>
<tr>
<td>Other</td>
<td>142,654</td>
</tr>
<tr>
<td>Total, per balance sheet</td>
<td>$6,711,595</td>
</tr>
</tbody>
</table>
### TABLE (D) PROVISIONS FOR DEPRECIATION, DEPLETION, ETC.

<table>
<thead>
<tr>
<th>Description</th>
<th>1945</th>
<th>1944</th>
</tr>
</thead>
<tbody>
<tr>
<td>Depreciation and depletion</td>
<td>$18,457,205</td>
<td>$16,273,160</td>
</tr>
<tr>
<td>Accelerated amortization, to eliminate excessive wartime construction costs and excess capacity of wartime facilities</td>
<td>7,554,849</td>
<td>—</td>
</tr>
<tr>
<td>Amortization of undeveloped leasehold costs</td>
<td>976,804</td>
<td>930,373</td>
</tr>
<tr>
<td>Rentals of undeveloped acreage</td>
<td>1,108,900</td>
<td>883,262</td>
</tr>
<tr>
<td>Dry hole losses and property retirements (net)</td>
<td>3,184,372</td>
<td>1,635,569</td>
</tr>
<tr>
<td><strong>Total, per statement of income</strong></td>
<td><strong>$31,282,130</strong></td>
<td><strong>$19,722,364</strong></td>
</tr>
</tbody>
</table>

### TABLE (E) NON-OPERATING INCOME

<table>
<thead>
<tr>
<th>Description</th>
<th>1945</th>
<th>1944</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest</td>
<td>$208,160</td>
<td>$279,461</td>
</tr>
<tr>
<td>Dividends from affiliated companies</td>
<td>156,036</td>
<td>135,365</td>
</tr>
<tr>
<td>Other dividends received</td>
<td>384,160</td>
<td>697,945</td>
</tr>
<tr>
<td>Miscellaneous income</td>
<td>520,228</td>
<td>467,338</td>
</tr>
<tr>
<td><strong>Total, per statement of income</strong></td>
<td><strong>$1,268,584</strong></td>
<td><strong>$1,580,109</strong></td>
</tr>
</tbody>
</table>

The dividends from affiliated companies in the year 1945 comprise (a) $149,890 from domestic companies, which was $89,287 less than this Company's share of the earnings of all such companies, and (b) $6,146 from foreign companies. "Other dividends received" include $283,475 from South Penn Oil Company.

### TABLE (F) OTHER (CHARGES) AND CREDITS

<table>
<thead>
<tr>
<th>Description</th>
<th>1945</th>
<th>1944</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reversal of reserve for wartime uncertainties</td>
<td>$5,500,000</td>
<td>—</td>
</tr>
<tr>
<td>Reversal of reserve for post-war adjustments</td>
<td>2,500,000</td>
<td>—</td>
</tr>
<tr>
<td>Adjustment of reserve for prior years' Federal taxes on income</td>
<td>3,895,502</td>
<td>$1,000,000</td>
</tr>
<tr>
<td>Adjustment of reserve for depreciation (subsidiary company)</td>
<td>175,000</td>
<td>—</td>
</tr>
<tr>
<td>Amounts received in excess of net book value on redemption and sale of certain assets</td>
<td>342,573</td>
<td>339,639</td>
</tr>
<tr>
<td>Profit on sale of 101,969 shares Mission Corporation</td>
<td>1,234,276</td>
<td>—</td>
</tr>
<tr>
<td>Profit on sale of 90,000 shares South Penn Oil Company</td>
<td>1,023,750</td>
<td>—</td>
</tr>
<tr>
<td>Adjustment of prior years' sales and other revenue (net)</td>
<td>62,067</td>
<td>998,274</td>
</tr>
<tr>
<td>Adjustments and refunds of prior years' taxes</td>
<td>393,339</td>
<td>99,466</td>
</tr>
<tr>
<td>Charges upon redemption of 1940 issues of funded debt</td>
<td>—</td>
<td>(651,104)</td>
</tr>
<tr>
<td>Premium paid on redemption of $4.50 cumulative convertible preferred stock:</td>
<td>(1,638,010)</td>
<td>—</td>
</tr>
<tr>
<td>$5.00 per share on 327,602 shares not exchanged</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Premium of $5.00 per share received on 127,602 shares $3.75 cumulative preferred stock</td>
<td>638,010</td>
<td>—</td>
</tr>
<tr>
<td>Expenses of issuance of 300,000 shares of $3.75 cumulative preferred stock</td>
<td>(476,236)</td>
<td>—</td>
</tr>
<tr>
<td>Other credits</td>
<td>60,456</td>
<td>91,953</td>
</tr>
<tr>
<td>Other charges</td>
<td>(21,476)</td>
<td>(70,484)</td>
</tr>
<tr>
<td><strong>Net credits, per statement of income</strong></td>
<td><strong>$13,689,251</strong></td>
<td><strong>$1,807,744</strong></td>
</tr>
</tbody>
</table>
SUPPLEMENTARY INFORMATION AND NOTES TO
CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1945

(Continued from preceding page)

Basis of consolidation:

The consolidated financial statements include the accounts of all subsidiary companies except three which
are not considered significant and are carried as investments.

NOTE (1) — Purchases and sales of products:

In accordance with the provisions of Directive 59 issued by the Petroleum Administration for War in
1942 the Company sold to other oil companies in 1945 petroleum products amounting to approximately $23,000,000
and purchased from other companies petroleum products amounting to approximately $13,000,000 which amounts
were included in sales and cost of sales, respectively.

NOTE (2) — Reserve for possible decline in inventory values:

The amount of $4,600,000 has been provided by the Board of Directors as a reserve against possible losses
from future decline in the value of inventories, of which amount $500,000 was provided in 1944 and $100,000 in
1945. These provisions were charged to cost of products sold.

NOTE (3) — Reimbursement of excess costs:

Amounts of excess transportation and compensable product costs billed to Reconstruction Finance Corpora-
tion have been credited to cost of products sold.

NOTE (4) — Federal income tax:

The Company's tax officials are of the opinion that the parent Company, on the basis of the invested capital
method and the excess profits credit so determined, is not liable for excess profits tax.

NOTE (5) — Accounts receivable:

Accounts receivable at December 31, 1945 included approximately $2,527,000 receivable from U. S.
Government departments and agencies, comprising principally receivables arising from sale of products. During
the year it was determined by the Government that business subject to renegotiation for the year 1943 required
no refund by the Company but the Company has not reached a final agreement with the Government for the year
1944. The extent, if any, to which the earnings and position of the Company may be affected by final settlement
is not determinable at this time but, in the opinion of Company officials, the examination of reports for the years
1944 and 1945 will not indicate any excessive profits.

NOTE (6) — Reserve for additional Federal taxes on income:

The Company's Federal income tax returns for all years through 1941 have been examined by the United
States Treasury Department, and all taxes assessed for such years paid. It is the opinion of the Company's tax
officials that the reserve which has been provided for the remaining unsettled tax years is adequate.
SUPPLEMENTARY INFORMATION AND NOTES TO
CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1945

(Continued from preceding page)

NOTE (7) — Preferred stock:

The $3.75 preferred stock without par value (voting) is redeemable at the option of the Company in
whole or in amounts of not less than 25,000 shares at $108 per share prior to July 1, 1948; at $107 and $106 during
the succeeding two year periods respectively; and at $105 on or after July 1, 1952. The Company is obligated
(beginning with May 1, 1946) to deposit in a special bank account of the Company properly designated, as a
sinking fund to be applied to the purchase or redemption (at $105 per share plus accrued dividends) of the $3.75
preferred stock, an amount which shall not be less than 5% and not more than 15% of the Company’s consolidated
net profit for the fiscal year of the Company next preceding such May 1.

NOTE (8) — Common stock:

Under the terms of the indenture for the Serial Notes issued in 1944, the Company has agreed not to
declare any dividends in cash or property on any of its common stock unless, after giving effect to such dividends,
(a) the “consolidated current assets” shall be at least twice the “consolidated current liabilities” and (b) the
“consolidated net current assets” shall be at least 60% of the “consolidated funded debt”. (The terms in quotation
marks are defined in the indenture and the amounts thereof may not necessarily correspond to the amounts in the
accompanying balance sheet.)

NOTE (9) — Undistributable earned surplus of subsidiary pipe line companies:

Earned surplus includes approximately $980,000 of earned surplus of pipe line subsidiaries not distributable
under Consent Decree in Elkins Act suit.

NOTE (10) — Cash held as agent:

Tide Water Associated Oil Company, acting as agent for War Shipping Administration in the operation
of tankers, held at December 31, 1945 cash amounting to $824,190 which is not included in the accompanying
balance sheet.

NOTE (11) — Serial notes:

The serial notes maturing subsequent to December 31, 1945, together with the interest rates thereon, are
listed below:

<table>
<thead>
<tr>
<th>Maturity Date</th>
<th>Interest Rate</th>
<th>1945 Principal Amount</th>
<th>1944 Principal Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>August 15, 1946</td>
<td>1.375%</td>
<td>$3,000,000</td>
<td>$3,000,000</td>
</tr>
<tr>
<td>August 15, 1947</td>
<td>1.50%</td>
<td>$3,000,000</td>
<td>$3,000,000</td>
</tr>
<tr>
<td>August 15, 1948</td>
<td>1.625%</td>
<td>$2,750,000</td>
<td>$2,750,000</td>
</tr>
<tr>
<td>August 15, 1949</td>
<td>1.75%</td>
<td>$2,500,000</td>
<td>$2,500,000</td>
</tr>
<tr>
<td>August 15, 1950</td>
<td>1.90%</td>
<td>$2,000,000</td>
<td>$2,000,000</td>
</tr>
<tr>
<td>August 15, 1951</td>
<td>2.00%</td>
<td>$2,000,000</td>
<td>$2,000,000</td>
</tr>
<tr>
<td>August 15, 1952</td>
<td>2.125%</td>
<td>$2,000,000</td>
<td>$2,000,000</td>
</tr>
<tr>
<td>August 15, 1953</td>
<td>2.25%</td>
<td>$2,000,000</td>
<td>$2,000,000</td>
</tr>
<tr>
<td>August 15, 1954</td>
<td>2.375%</td>
<td>$2,000,000</td>
<td>$2,000,000</td>
</tr>
</tbody>
</table>

$21,250,000 $21,250,000

*On December 15, 1945, the notes due in 1953 and 1954 totaling $4,000,000 were called for pay-
ment on January 15, 1946. They are therefore included in current liabilities together with $3,000,000
due August 15, 1946.

NOTE (12) — Wartime reserves and accelerated amortization:

Reference should be made to the President’s Report for comments on (1) the reversal of the reserves for
post-war adjustments and wartime uncertainties, and (2) the charge for accelerated amortization and its effect
upon Federal income tax.
To the Stockholders of

Tide Water Associated Oil Company

We have examined the consolidated balance sheet of Tide Water Associated Oil Company and subsidiary companies as at December 31, 1945 and the related statement of income and surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances, and included such tests of the accounting records and other supporting evidence and such other procedures as we considered necessary. Receivables from U. S. Government departments were not confirmed, but we satisfied ourselves by other means as to these items.

In our opinion, the accompanying consolidated balance sheet and related statement of income and surplus present fairly the position of Tide Water Associated Oil Company and subsidiary companies as at December 31, 1945, and the results of their operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Price, Waterhouse & Co.
TIDE WATER ASSOCIATED OIL COMPANY

BOARD OF DIRECTORS

L. F. Bayer
Carl H. Beal
Samuel A. Bishop
Adolph Boissievain
U. B. Boucke
H. S. Chase
Johnston DeForest
Thomas A. J. Dockweiler

J. P. Edwards
B. I. Graves
H. P. Grimm
Frank Haskell
John Hertz
D. L. Hines
John Jay Hopkins
William F. Humphrey

L. D. Jurs
Severance A. Millikin
R. B. Pringle
Edward H. Salrin
Edward L. Shea
Paul Shoup
Elisha Walker
Olin Wellborn, III

EXECUTIVE OFFICERS

PRESIDENT
William F. Humphrey

VICE-PRESIDENTS

P. E. Allan
L. F. Bayer
U. B. Boucke
H. S. Chase

L. C. Decius
B. I. Graves
K. R. Hankinson
D. L. Hines

L. D. Jurs
Richard T. Lyons
Edward H. Salrin
J. W. Warner

CONTROLLER
U. B. Boucke

TREASURER
K. R. Hankinson

SECRETARY
William J. Burker

EXECUTIVE SECRETARY
J. P. Edwards

Transfer Agents

Tide Water Associated Oil Company, New York 4, N. Y.

Registrars

The Chase National Bank of the City of New York, New York 15, N. Y.
Bank of America National Trust and Savings Association, San Francisco 20, Calif.