

PEAT, MARWICK, MITCHELL & CO.

CERTIFIED PUBLIC ACCOUNTANTS

1400 ONE MAIN PLACE

DALLAS, TEXAS 75250



The Board of Directors
Champlin Petroleum Company:

We have examined the consolidated balance sheet of Champlin Petroleum Company and subsidiaries, a wholly-owned subsidiary of Celanese Corporation, as of December 31, 1968 and the related statement of income and retained income 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 statement of consolidated income and retained income present fairly the financial position of Champlin Petroleum Company and subsidiaries at December 31, 1968 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Peat, Marwick, Mitchell & Co.

January 24, 1969

CHAMPLIN PETROLEUM COMPANY AND SUBSIDIARIES
(a wholly-owned subsidiary of Celanese Corporation)

Statement of Consolidated Income and Retained Income

Year ended December 31, 1968
with comparative figures for 1967

	<u>1968</u>	<u>1967</u>
	(Thousands of dollars except per share amounts)	
Sales	\$ <u>101,308</u>	<u>99,859</u>
Operating costs:		
Costs excluding items listed below	57,383	52,828
Selling and administrative	12,493	12,081
Depreciation, depletion and amortization (note 3)	13,999	12,385
Dry holes and surrendered leases	<u>5,015</u>	<u>3,532</u>
Total operating costs	<u>88,890</u>	<u>80,826</u>
Operating income	12,418	19,033
Interest and other income	<u>1,026</u>	<u>779</u>
Operating and other income	13,444	19,812
Provision for income taxes (note 4)	<u>3,125</u>	<u>5,300</u>
Net income	10,319	14,512
Retained income at beginning of year	<u>27,985</u>	<u>19,954</u>
	38,304	34,466
Cash dividend	<u>6,700</u>	<u>6,481</u>
Retained income at end of year	\$ <u><u>31,604</u></u>	<u><u>27,985</u></u>
Net income per common share	\$ <u><u>230.09</u></u>	<u><u>323.59</u></u>

See accompanying notes to consolidated financial statements.

CHAMPLIN PETROLEUM COMPANY AND SUBSIDIARIES
(a wholly-owned subsidiary of Celanese Corporation)

Notes to Consolidated Financial Statements

December 31, 1968

(1) Principles of consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Harbor Service Stations, Inc., Midland Gasoline Corporation, Star Oil Company, Cycler Oil Company and Empire Oil Company (purchased in 1968). All material intercompany accounts and transactions have been eliminated.

(2) Inventories

Inventories of crude oil and refined products are stated at average cost, which is less than market and does not include depreciation, depletion and amortization of property, plant and equipment. As of December 31, 1968 and 1967, the inventories were classified as follows:

	<u>1968</u>	<u>1967</u>
	(Thousands of dollars)	
Crude oil and refined products	\$ 7,300	7,214
Materials and supplies, at average cost	<u>1,687</u>	<u>2,020</u>
	<u>\$ 8,987</u>	<u>9,234</u>

(3) Property, plant and equipment

Allowances for depreciation, depletion and amortization of producing oil properties and depreciation of producing gas properties are provided on a modified straight-line method over asset lives ranging from 1 to 15 years. Allowances for depletion and amortization of producing gas properties are provided on the unit-of-production method determined by reference to periodic estimates of the gas reserves of the respective properties. Producing oil and gas properties aggregated \$153,821,000 in 1968 and \$150,512,000 in 1967. The remaining major classes of property, plant and equipment are depreciated on a modified straight-line method as follows:

	<u>Assets, at cost</u>		<u>Years</u>
	<u>1968</u>	<u>1967</u>	
	(Thousands of dollars)		
Refinery	\$ 24,799	23,783	10
Gas plants	33,003	32,416	15
Marketing facilities	46,805	41,345	5-20
Pipelines	15,740	15,311	10

CHAMPLIN PETROLEUM COMPANY AND SUBSIDIARIES
(a wholly-owned subsidiary of Celanese Corporation)

Notes to Consolidated Financial Statements, Continued

(3) Property, plant and equipment, cont.

Nonproducing leasehold and royalty costs aggregated \$12,657,000 in 1968 and \$9,560,000 in 1967.

(4) Income taxes

Significant variations in the relationship between the provision for Federal income taxes and income before taxes arise principally because of the deductions for tax purposes of intangible development costs and the excess of allowable depletion over cost depletion. Tax allocation accounting has been applied to all other timing differences.

The policy of the Company is to take the investment tax credit into income as a reduction in the provision for income taxes over the estimated useful lives of the related assets.

The Company will join with its parent in the filing of a consolidated Federal income tax return for 1968. The policy of the Company is to accrue its share of the income taxes payable and to make periodic remittances to Celanese Corporation. The provision for income taxes is as follows:

	<u>1968</u>	<u>1967</u>
	(Thousands of dollars)	
Current	\$ 3,923	5,261
Deferred	(798)	39
	<u>\$ 3,125</u>	<u>5,300</u>

(5) Pension and retirement plans

The Company has a pension plan and a retirement plan covering substantially all of its employees over 29-1/2 years of age. Charges to operations for both plans aggregated \$1,263,000 in 1968 and \$1,150,000 in 1967, including amortization of prior service costs over periods ranging from 10 to 15 years. The Company's policy is to fund costs accrued. Based on actuarial determinations, the plans are fully funded with respect to all vested benefits.