



PONTIAC REFINING CORP.

Accountants' Report

Financial Statements - December 31, 1967

PEAT, MARWICK, MITCHELL & CO.

CERTIFIED PUBLIC ACCOUNTANTS

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1400 ONE MAIN PLACE

DALLAS, TEXAS 75250

The Board of Directors
Pontiac Refining Corp.:

We have examined the balance sheet of Pontiac Refining Corp., a wholly-owned subsidiary of Celanese Corporation since June 1, 1967, as of December 31, 1967 and the related statement of income and retained income for the seven months 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 balance sheet and statement of income and retained income present fairly the financial position of Pontiac Refining Corp. at December 31, 1967 and the results of its operations for the seven months then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding period, after giving retroactive effect to the accounting changes and adjustments discussed in note 4 to the financial statements.

Peat, Marwick, Mitchell & Co.

January 25, 1968

PONTIAC REFINING CORP.

Statement of Income and Retained Income

Seven months ended December 31, 1967

(Thousands of dollars
except for per share amount)

Sales	\$ <u>47,936</u>
Operating costs:	
Costs excluding items listed below	44,275
Selling and administrative	227
Depreciation	<u>295</u>
Total operating costs	<u>44,797</u>
Operating income	3,139
Other income	<u>11</u>
Operating and other income	<u>3,150</u>
Provision for income taxes (note 3)	<u>1,581</u>
Net income	<u>1,569</u>
Retained income at beginning of year:	
As previously reported	9,731
Adjustments (note 4)	<u>1,517</u>
As restated	<u>11,248</u>
	12,817
Cash dividend	<u>1,000</u>
Retained income at end of year	\$ <u>11,817</u>
Net income per common share	\$ <u>7,845</u>

See accompanying notes to financial statements.

PONTIAC REFINING CORP.

Notes to Financial Statements

December 31, 1967

(1) Inventories

Inventories of refined products (\$2,604,000) and supplies (\$1,313,000) at December 31, 1967 are stated at the lower of cost (average) or market. Inventories of crude oil (\$1,219,000) at December 31, 1967 are stated at the lower of cost (first-in, first-out) or market.

(2) Property, plant and equipment

Allowances for depreciation of property, plant and equipment are provided on the straight-line method over an estimated useful life of 10 years, except for transportation equipment which has an estimated useful life of 4 years. The major classes of property, plant and equipment are as follows:

	<u>Assets, at cost</u>
	(Thousands of dollars)
Plant, lines and dock facilities	\$ 25,762
Land and rights-of-way	716
Transportation equipment	120
Other	<u>311</u>
	<u>\$ 26,909</u>

(3) Income taxes

The Company will join with its parent in the filing of a consolidated Federal income tax return for 1967. The policy of the Company is to accrue its share of the income taxes payable and to make periodic remittances to Celanese Corporation.

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.

Deferred Federal income taxes at December 31, 1967 represent the cumulative amount of taxes which have been deferred as a result of using accelerated depreciation for tax purposes and straight-line depreciation for financial statement purposes. The provision for income taxes is comprised of taxes currently payable, \$1,446,000, and deferred taxes, \$135,000.

PONTIAC REFINING CORP.

Notes to Financial Statements, Continued

(4) Accounting changes and prior years adjustments

Previously reported retained income at May 31, 1967 has been restated as follows:

	Increase (decrease) in May 31, 1967 balance (Thousands of dollars)
Changes in accounting methods:	
Valuation of inventories	\$ (220)
Reserve for refinery turnarounds	(150)
Deferred investment tax credit	(211)
	<u>(581)</u>
Adjustments to earnings of prior periods:	
Elimination of capital surplus representing excess book value over cost of acquired subsidiary (fully amortized)	1,376
Elimination of excess liability for sales price adjustment	755
Sundry adjustments of accruals	(33)
	<u>2,098</u>
Net adjustments to May 31, 1967 balance	<u>\$ 1,517</u>

(5) Sales and crude supply contracts

Substantially all the Company's production of refined products is sold to one customer under the terms of a contract expiring in 1972. Quantities of refined products to be delivered to that customer reduce substantially in the last year of the contract. The Company purchases its supply of crude products under the terms of various contracts expiring in 1972 and 1977.

(6) Retirement plans

The Company has retirement plans covering substantially all employees. Charges to operations for the plans amounted to \$99,000 for the seven-month period ended December 31, 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.