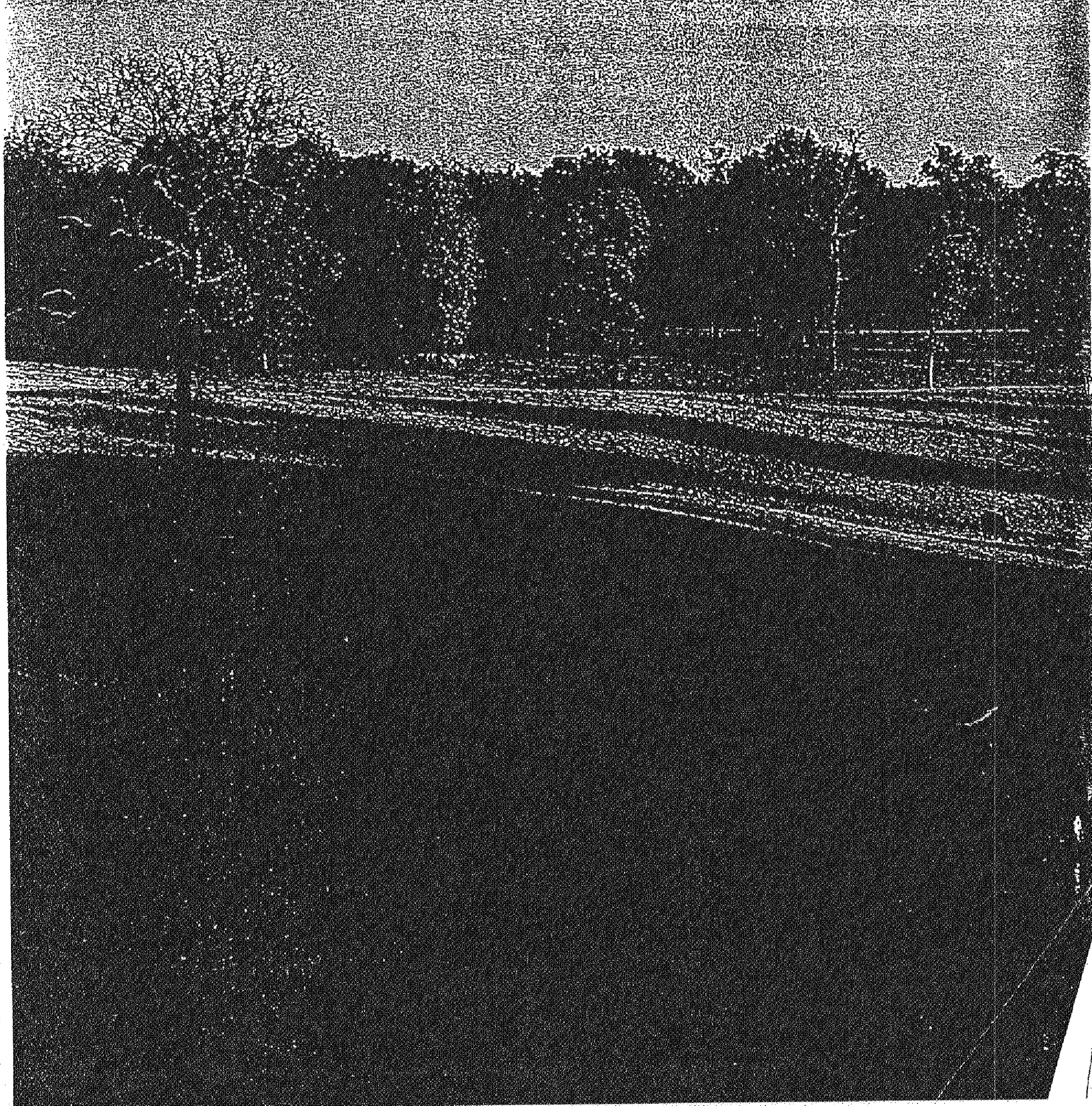
EXHIBIT 24

Diamond Shamrock

The Resourceful Company

Diamond Shamrock Corporation
World Headquarters
Diamond Shamrock Tower
717 North Harwood Street
Dallas, Texas 75201
U.S.A.



Highlights

Financial *(dollars in thousands, except per share)*	1983	1982	1981	1980	1979
Sales and operating revenues	$4,026,107	$3,177,379	$3,376,215	$3,145,394	$2,312,635
Income (loss) from continuing operations	(60,217)	149,543	230,156	213,246	160,439
Net income (loss)	(56,163)	185,091	121,265	208,386	181,690
Depreciation, depletion, and amortization	482,703	217,787	171,143	149,666	143,582
Funds provided by operations *(cash flow)*	476,877	446,527	462,899	423,926	360,353
Capital expenditures and investments	466,853	660,193	590,945	449,882	310,413
Stockholders' equity	2,743,327	1,407,231	1,349,735	1,329,162	1,101,446
Total assets	6,024,441	3,194,013	3,016,385	2,895,457	2,514,541
Debt as % of total capitalization	37.8%	34.9%	34.7%	35.4%	37.8%
Per common share					
Income from continuing operations	$ (.76)	$ 2.37	$ 3.68	$ 3.48	$ 2.72
Net income	(.71)	2.94	1.94	3.40	3.08
Stockholders' equity	20.50	22.14	21.48	21.29	18.55
Total assets	45.03	50.25	47.99	46.38	42.34
Dividends paid	1.76	1.76	1.70	1.62	1.51
Market price range	26⅝-18⅝	25¾-16½	39⅝-23¾	38⅞-23⅛	31½-19
Average common shares outstanding	85,998,124	62,900,574	62,612,062	61,215,673	59,032,147
Number of stockholders	68,516	52,078	49,200	48,701	46,841
Operations *(all figures net)*					
Proved reserves					
Crude oil and condensate *(millions of bbls.)*	120.2	33.3	36.0	36.0	37.3
Natural gas *(millions of oil-equivalent bbls.)*	152.5	146.6	155.2	148.9	144.3
Natural gas *(billions cu. ft.)*	915.2	879.5	931.3	893.5	865.9
Average daily production					
Crude oil and condensate *(bbls.)*	31,963	10,426	10,461	9,599	9,171
Natural gas *(oil-equivalent bbls.)*	43,852	46,702	51,443	50,460	50,264
Natural gas *(thousands cu. ft.)*	263,113	280,212	308,658	302,760	301,584
Refined products sales *(bbls./day)*	130,986	90,324	83,595	84,481	68,574
Natural gas liquids recovered *(bbls./day)*	20,711	23,008	23,705	23,316	24,005
Number of employees *(Dec. 31)*	13,364	10,880	13,545	13,952	13,788

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Today's Diamond Shamrock has been repositioned as an energy company to offer our shareholders attractive, long-term opportunities for investment growth.

Our transformation into a domestic integrated oil and gas company has resulted from a managed plan of investment in our strengths.

Over the past five years, we have assembled an inventory of oil, natural gas, and coal prospects that hold exciting potential for future earnings.

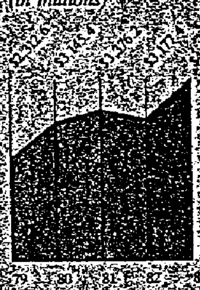
At the same time, we have structured our refining and marketing as well as chemical businesses to provide the strong cash flow necessary to aggressively pursue and develop those opportunities on a continuing basis.

More specifically, in the last five years we have:

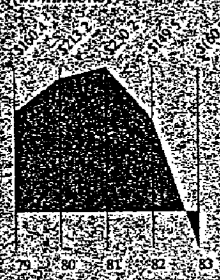
- increased daily oil production 500% through drilling and acquisitions in North America, Indonesia, and the North Sea.
- expanded natural gas production capacity by one-third.
- added 50% more oil-equivalent reserves.
- enlarged by six and a half times our net leasehold acreage worldwide.
- more than doubled refinery output.
- acquired one of the nation's largest independent fuel marketers.
- increased Diamond Shamrock-branded fuel outlets by one-third.
- built one of the most efficient and profitable coal businesses in the world.
- tripled coal reserves.
- streamlined and focused our chemical operations, among the nation's largest and most efficient.
- added an "alternative energy" business, as 50% owner of the world's largest geothermal energy project.

Our strong asset base, our energy prospects, and our financial strength attractively position Diamond Shamrock for the future.

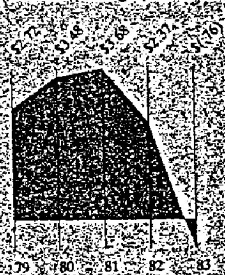
Sales and operating revenues
(in millions)



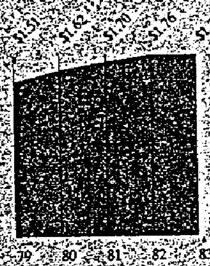
Income from continuing operations
(in millions)



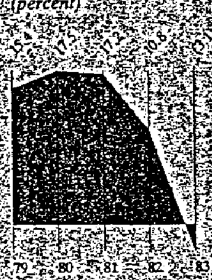
Earnings per common share from continuing operations



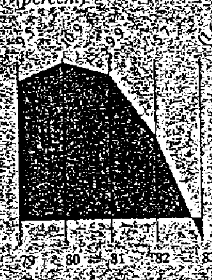
Dividends per common share
Indicated annual dividend = $1.76



Return on stockholders' equity
(percent)



Return on capital employed
(percent)



To Our Shareholders:

The past year has been one of the most active and exciting in the history of Diamond Shamrock.

We merged with Natomas Company, bringing us well over 50,000 barrels a day of net oil production, more than a five-fold increase, and adding geothermal energy to our business mix.

We acquired Sigmor Corporation, one of America's largest independent gasoline and convenience store retail chains. Sigmor also brought us a second refinery, enabling us to increase total crude oil throughput capacity 65% to nearly 117,000 barrels per day by the beginning of 1984.

We joined with some of the nation's leading oil companies in drilling an unusually promising high-stakes exploratory well off the North Slope of Alaska, indicating that we have achieved the size and financial strength to pursue opportunities of that magnitude.

Those were the milestones – the events by which we will remember 1983.

Write-offs result in loss for year.
The Alaskan exploratory venture demonstrated the risk and the potential of frontier exploration: The well encountered a vast reservoir which once held possibly billions of barrels of oil. However, the reservoir lacked an essential geologic feature – a trapping mechanism to seal the oil in place – allowing the oil to leak out long ago. It was a dry hole.

Because we wrote off that total investment of $194.3 million, pre-tax, and charged against earnings an additional $91.4 million in pre-tax adjustments and write-downs at year-end, we are reporting a loss from operations of $60.2 million, or $0.76 per share, for 1983. This compares to $149.5 million, or $2.37 per share, of income from operations in 1982.

Financial strength maintained.
The past year brought other developments which, though less dramatic, are most significant in indicating the fundamental strength of our businesses and in signaling our future direction.

As we had anticipated, demand for energy lagged behind the rate of economic expansion, resulting in increasing pressure on refined products profit margins, continuing curtailments of natural gas purchases, a downward drift in oil prices, and severely restricted demand in spot coal markets.

Despite these conditions, we achieved near-record cash flow from operations of $477 million. Debt as a percentage of capitalization increased modestly to 37.8% at year end, well within our 35% to 40% target range. The dividend held steady at $1.76 per share, reflecting our strong cash flow. Sales reached a record $4.0 billion, up from $3.2 billion in the previous year.

William H. Bricker

J. L. Jackson

Increase in oil production tops operating achievements.
Our Exploration Company set a new record for crude oil output, increasing oil production 6% from properties owned prior to the merger with Natomas.

Combined with four months of oil production contributed by Natomas, our total crude oil output rose 207% to 31,963 barrels per day averaged over the entire year. Oil production will increase dramatically again in 1984 as we benefit from a full 12 months of output from Natomas properties.

We increased our exposure to potentially significant new oil and gas reserves by acquiring additional exploratory prospects in the Gulf of Mexico, in Colombia, offshore Tunisia, and in the China Sea and the Dutch North Sea.

We continued to increase our natural gas production capacity, building total deliverability to 400 million cubic feet per day. The location and cost-effectiveness of our production and our contract mix could allow us to substantially increase gas volumes and profitability in the next two years, given a sustained, even modest, increase in demand.

We further upgraded our refineries, increased refining capacity, added a near-record number of branded fuel outlets, and sold a record number of gallons of refined products in 1983.

We began aggressively seeking long-term contract customers for a one-billion-ton Alaskan coal resource, in which we are operator and 50% interest owner. Several years of study has confirmed that we could become the lowest-cost supplier of energy to rapidly expanding Pacific Rim economies.

These developments represent opportunities to find, produce, and deliver substantial new supplies of oil, gas, and coal in 1984 and beyond.

Solid performance expected in 1984 as investments continue to pay off.
As an investor, what can you expect from Diamond Shamrock in 1984? Good performance.

In exploration and production, we will continue the same kind of highly focused drilling program that gave us record U.S. production in 1983: We will develop our most promising acreage while seeking outstanding exploratory prospects.

New domestic oil tracts already on stream will, we believe, result in a solid increase in crude oil volumes during 1984, while our Indonesian operations should increase the high production levels achieved in 1983. Our domestic natural gas production capability has increased substantially, although we expect only a modest increase in delivered volumes for the year due to continuing excess deliverability nationwide.

We will increase capital spending for exploration and development to $500 million worldwide. Given the lower cost of drilling and our rifle-shot approach to exploration, that investment bodes well for future production.

In refining and marketing, the competitive environment will keep pressure on profit margins. We will enhance profitability by enlarging our market share through an expanded number of company-owned and jobber outlets. Since we operated our refineries near 100% of capacity, as sales rise we also plan to increase refining capacity through incremental expansions.

We expect a repetition of last year's excellent performance in coal, based on our long-term sales contracts and efficient mining operations.

Our chemical businesses will show substantial improvement as the industrial economy expands, and will continue to provide attractive cash flow to the company.

Finally, our geothermal operations should show increased earnings as prices and capacity utilization rise.

The strong cash flow from these operations and from other sources, such as redeployment of assets, should reach an all-time high of over $1 billion – more than adequate to fund record capital spending and investments of more than $700 million, support our dividend, and pay down debt.

In short, we anticipate net positive results from all our businesses. Diamond Shamrock's earnings should rise substantially above the level reached in 1983 before write-offs and adjustments.

As we look to the year ahead, we believe you can expect solid performance from Diamond Shamrock.

William H. Bricker
Chairman and Chief Executive Officer

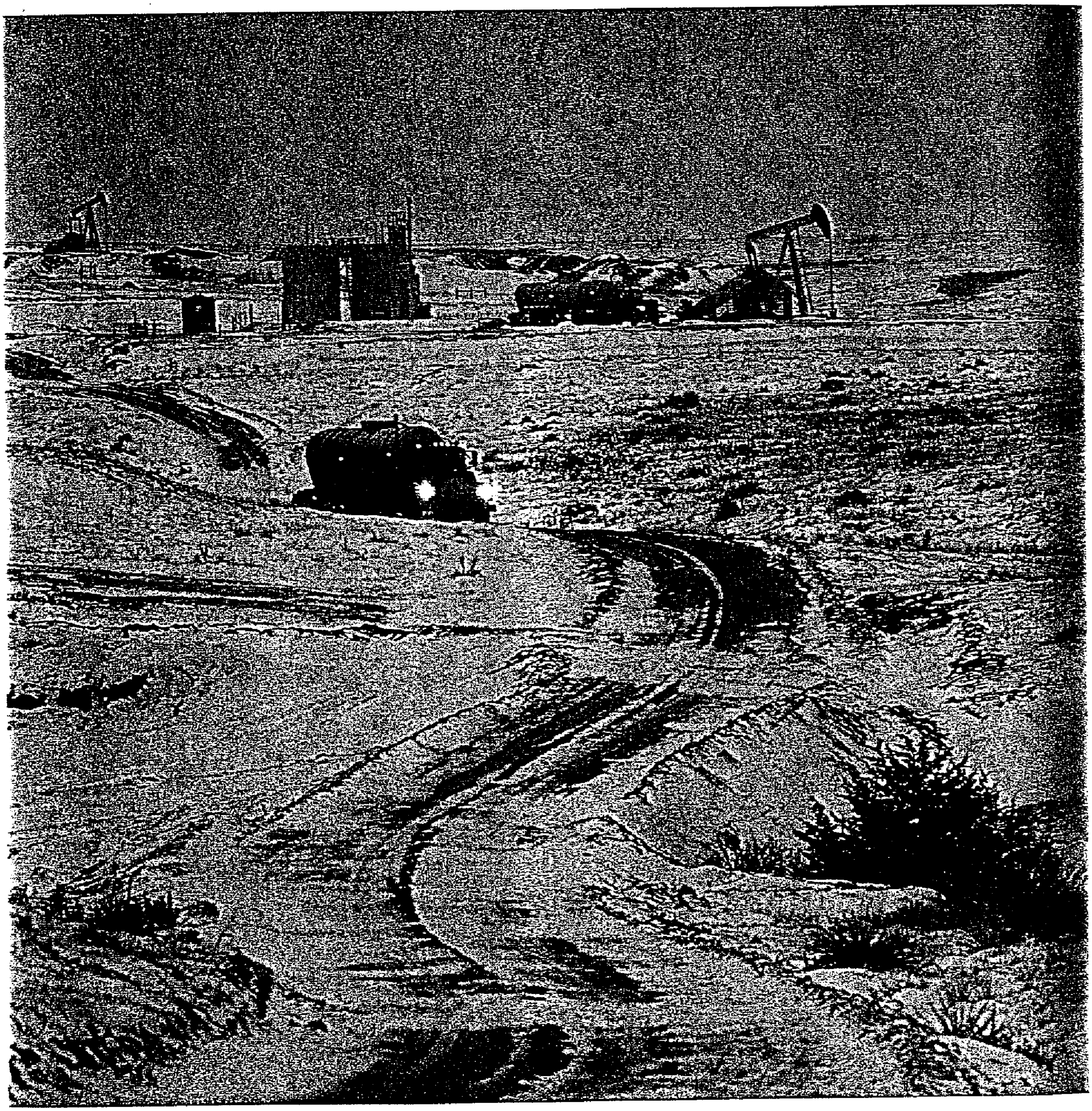
J. L. Jackson
President and Chief Operating Officer

J. Avery Rush, Jr.
Vice Chairman

February 16, 1984

J. Avery Rush, Jr.

As our oil production rises again in 1984, we are expanding our search for high-potential oil and gas reserves domestically and worldwide.



Oil production from properties we owned prior to the Natomas merger rose 6% in 1983, reaching a record level. Wells brought on stream at year-end and drilling in 1984 will substantially boost oil output again.

DIAMOND SHAMROCK EXPLORATION COMPANY

Exceptional achievements despite tough challenges.
It was a year of uncommon challenges for Diamond Shamrock Exploration Company: Natural gas production remained severely curtailed nationwide, world crude oil prices fell, and our Mukluk exploratory prospect in Alaska's Beaufort Sea was proven dry, resulting in a $194.3 million charge against earnings and a $73.9 million operating loss for the Exploration Company.

But 1983 was also a year of exceptional achievements and solid progress toward long-term earnings growth:

- Including four months of non-Indonesian production acquired with Natomas, Exploration Company crude oil output reached a new high, rising 30% over 1982 to 13,571 barrels per day.
- Natural gas production capacity also increased substantially, to 400 million cubic feet per day; and, while customer curtailments lowered 1983 deliveries to an average of 263 million cubic feet per day, as we entered 1984 deliveries had increased substantially.
- At year-end 1983, Exploration Company oil-equivalent reserves, including non-Indonesian reserves acquired with Natomas, were up 10% from year-end 1982 at 198 million barrels.*
- Our search for significant new sources of oil and gas in frontier areas around the world continued to expand.
- The Exploration Company achieved record sales of $294.8 million compared to $254.5 million the year before. Excluding the Mukluk write-off, 1983 operating profit was $120.4 million, compared to the previous year's $135.2 million which included a $30 million gain from sale of leases and the contribution of a royalty interest to the company's pension plans.

Over the coming year, we believe Diamond Shamrock Exploration Company will significantly increase its profitability and long-term potential for earnings growth through increasing crude oil production, higher natural gas volumes, and an expanded program of selective exploratory and development drilling.

Efficiency of drilling program improves.
Drilling about half as many wells in 1983 as in 1982, we concentrated on our highest-potential prospects onshore and on increasing production at four major platforms offshore.

As a result, we significantly increased reserve additions per well, and the percentage of productive wells improved to 75%, versus 66% in 1982. Not counting reserves acquired with Natomas, we replaced all of the oil and a substantial portion of the gas we produced in 1983.

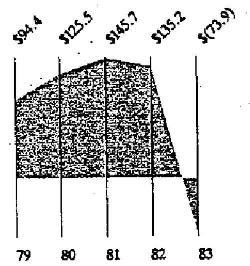
The cost-effectiveness of these higher quality wells was further enhanced by intense competition among oilfield service and equipment suppliers, which lowered drilling costs.

Oil production reaches all-time high.
Exclusive of production acquired from Natomas, we increased average oil output to 11,063 barrels per day for the year, 6% above the 1982's 10,426 barrels per day.

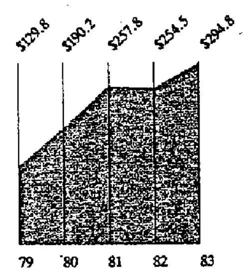
Most new production came from our Main Pass 72/74 offshore platforms, and from new oilfields in the Powder River Basin of Wyoming. In addition, we brought on new production in the East Texas Basin, the Permian Basin of West Texas, and in Northwest Kansas.

Including the Natomas properties, which were made part of the Exploration Company on August 31, 1983, average daily oil production for the entire year rose to 13,571 barrels.

Exploration Company operating profit
(in millions)



Exploration Company sales
(in millions)



* *Year-end reserve and production data do not include properties to be sold in 1984 under an agreement in principle signed in January with Apache Petroleum Company.*

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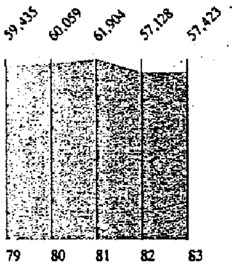
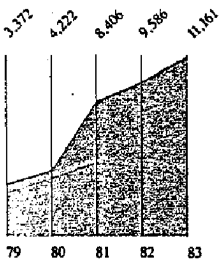
Exploration Company oil-equivalent production*
(in barrels per day)



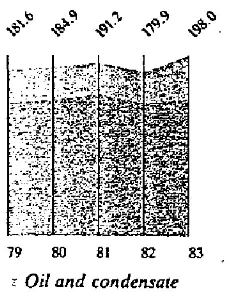
Natural gas
Crude oil
**6,000 cubic feet gas = 1 bbl. oil*

Exploration Company net acreage
(in thousands)

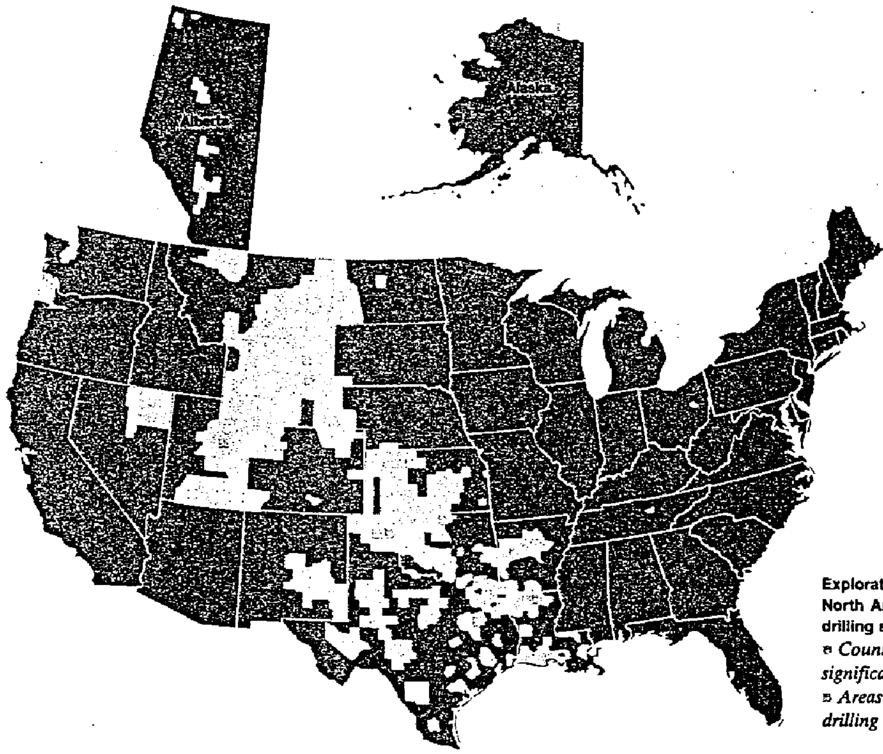


Foreign developed
Foreign undeveloped
U.S. developed
U.S. undeveloped

Exploration Company net proved reserves
(millions of barrels)



Oil and condensate
*Natural Gas (oil equivalent)**
**6,000 cubic feet gas = 1 bbl. oil*



Exploration Company North American drilling and acreage
Counties & areas with significant lease holdings
Areas of significant drilling activity – 1983

As we indicated at the time of the Natomas merger, part of these properties, in which we hold only small-percentage interests, will be sold. In January 1984 we signed a letter of intent calling for Apache Petroleum Company to purchase the domestic onshore properties acquired with Natomas. We will keep the remaining Natomas properties offshore the United States, in Canada, and in the British North Sea.

Oil production, revenues expected to rise. Our average oil price fell 7% to $29.47 per barrel during 1983. We foresee little change in 1984 prices and expect crude oil revenues to increase as we benefit from a full year of production from wells brought on stream or acquired in 1983.

As we entered 1984, Exploration Company properties were producing 15,734 barrels per day of crude oil.*

In addition, new fields discovered over the last year provide an attractive inventory of development prospects for 1984. Our objective is to bring oil production more into balance with our strong position in natural gas. Since U.S. oil demand outstrips domestic supply, we can sell every barrel we produce.

Natural gas offers strong earnings potential. Purchaser curtailments in 1983 reduced natural gas production 6% to 263 million cubic feet per day, more than offsetting a 19% price rise. However, we continued to build production capacity to 400 million cubic feet of gas per day,* giving us substantial gas supplies ready to bring to market as demand improves.

Although gas production at the beginning of 1984 has risen to 326 million cubic feet per day, substantially above the same time a year before, we expect only modest increases in average volumes and prices for the full year.

* *Year-end reserve and production data do not include properties to be sold in 1984 under an agreement in principle signed in January with Apache Petroleum Company.*

During 1984, we will increase natural gas production capacity through additional development drilling and completion of pipeline connections, especially at offshore platforms where logistics allow us to immediately market new production.

Although we expect U.S. natural gas supplies to exceed demand for some time to come, the combination of the location of our production and our contract mix holds the promise of substantially increasing our natural gas sales volumes and profitability in the next two years, given even modest, but sustained increases in demand over the 1983 level.

Key to future earnings in natural gas is our competitive edge: We are a cost-efficient producer, having avoided the temptation to drill for deep, expensive gas. We can bring gas to market at competitive prices and attractive return on investment.

Drilling budgets to double.
We are intensifying our search for high-potential oil and gas reservoirs worldwide by increasing 1984 Exploration Company drilling expenditures to more than $200 million, 95% over prior-year spending.

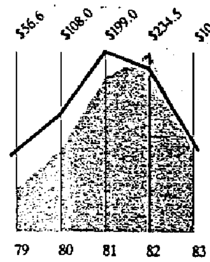
Within our 3.8 million net acres of undeveloped U.S. leaseholdings we will focus on exploring for oil reserves primarily in the Powder River and Williston Basins, as well as in West Texas and Kansas.

In the Gulf of Mexico, where we own interests in 103 tracts, including 16 acquired in 1983 federal lease sales, we are particularly interested in less-explored deep-water regions, where we made a significant oil discovery during 1983 in our Green Canyon Block 18.

Despite the disappointing results of the Mukluk No. 1 well, we believe Alaska to be among the world's most energy-rich frontiers. The Mukluk well indicated the potential reward of frontier exploration as it revealed a huge reservoir where vast quantities of oil had accumulated but later escaped, perhaps millions of years ago.

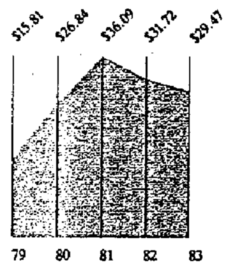
During 1984, we will actively evaluate five Alaska state tracts in the Beaufort Sea acquired during 1983 and other sections of the Alaskan North Slope to become available for leasing this year.

Exploration Company spending for drilling
(in thousands)

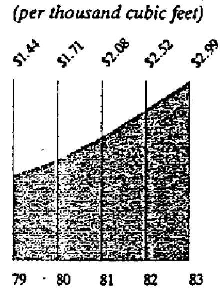


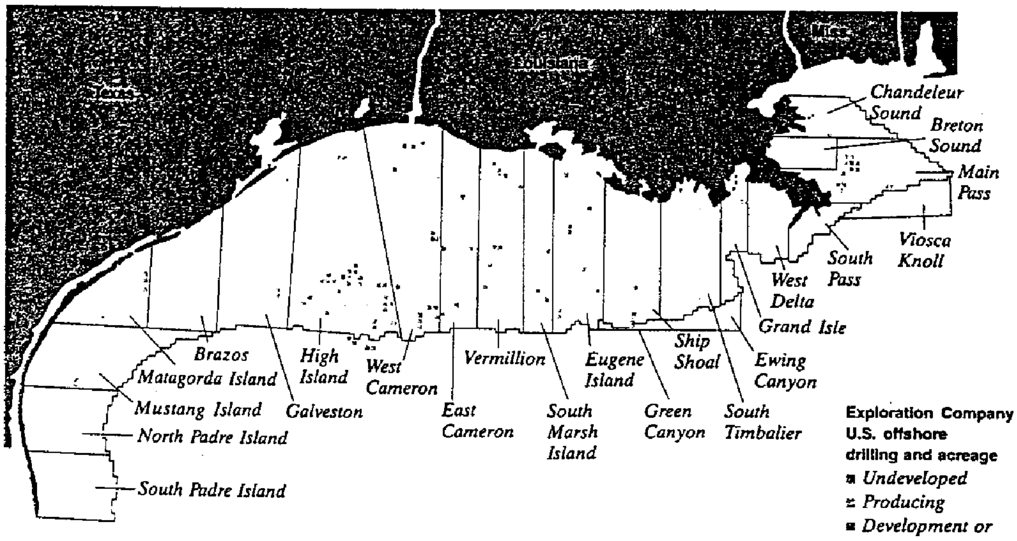
■ *Net well completions:*
'79 = 91.5, '80 = 130.2,
'81 = 201.7, '82 = 182.0,
'83 = 102.5

Exploration Company average oil price
(per barrel)



Exploration Company average natural gas price
(per thousand cubic feet)





Exploration Company U.S. offshore drilling and acreage
Undeveloped
Producing
Development or exploratory drilling
Completed, waiting on market

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Within our 6.8 million net acres of foreign leaseholdings, we are evaluating tracts acquired during 1983 in the British and Dutch sectors of the North Sea and a 1.2 million-acre concession in the Gulf of Gabes off Tunisia where we hold a 100% interest.

Of special interest will be exploration of three tracts acquired in 1983 covering 549,000 net acres on the eastern flank of the Colombian Andes. The prospect appears geologically similar to a significant producing formation nearby.

In addition, we are evaluating a 237,000-acre block in the South China Sea acquired in 1983, one of the few concessions granted to American companies by the Peoples Republic of China. We have a 25% interest in the block.

And we are continuing to evaluate and explore acreage offshore Australia.

We will continue to consider other means of enhancing returns on our overall investment, through trading of properties, joint ventures, acquisitions, or sale of limited-income producing oil and gas assets for redeployment in drilling projects of potentially greater return.

Oil and gas: An investment in the future.
For more than a decade, the world has not replaced its oil and gas reserves as fast as it has consumed them, especially in the United States. Now, U.S. oil and gas demand, which has lagged the general economic recovery, appears to be rising again. The world will need more energy, and we believe that for many years to come oil and gas will provide attractive profit opportunities for properly positioned companies.

Over the years, we have assembled a strong asset base. We have steadily increased the size and scope of our search for significant new sources of oil and gas in balance with continually developing production volumes. Now, driven by our growth, we have the momentum, the strategy, and the operating expertise to make the most of those assets.

NATOMAS COMPANY

Merger expands energy business.
Our merger with Natomas Company on August 31, 1983 was the major achievement of the year.

Natomas brought us substantial Indonesian oil and gas operations, a geothermal energy business, additional producing properties in Canada, the United States, and the British North Sea, and international exploration opportunities including Colombia, Tunisia, and the China Sea.

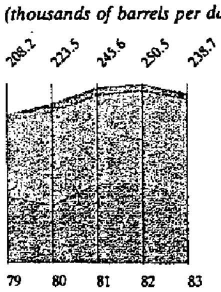
We have grouped the Indonesian oil and gas operations and the geothermal energy business together as Diamond Shamrock's Natomas Company. The other oil and gas assets, a gasoline and home heating oil business in Canada, and U.S. coal mining operations are reflected in the operating results of appropriate companies in Diamond Shamrock.

In its four months as a Diamond Shamrock subsidiary in 1983, Natomas contributed operating profit of $122.8 million – $106.8 million from Indonesian operations and $16 million from geothermal – on sales of $211 million.

Natomas boosts Diamond Shamrock oil reserves, production.
Through its IIAPCO Division, Natomas holds interests in two offshore oil and gas contract areas in Indonesia: 53% of the contractors' interest in the Southeast Sumatra area, where it is the operator, and 34% of a more extensive contract area in Northwest Java, operated by the Atlantic Richfield Company.

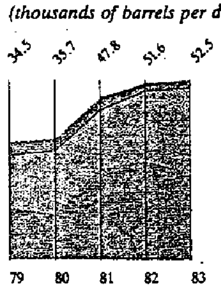
The contract areas are characterized by prolific reservoirs close to the surface. Together, these contract areas have more

Natomas gross production
(thousands of barrels per day)



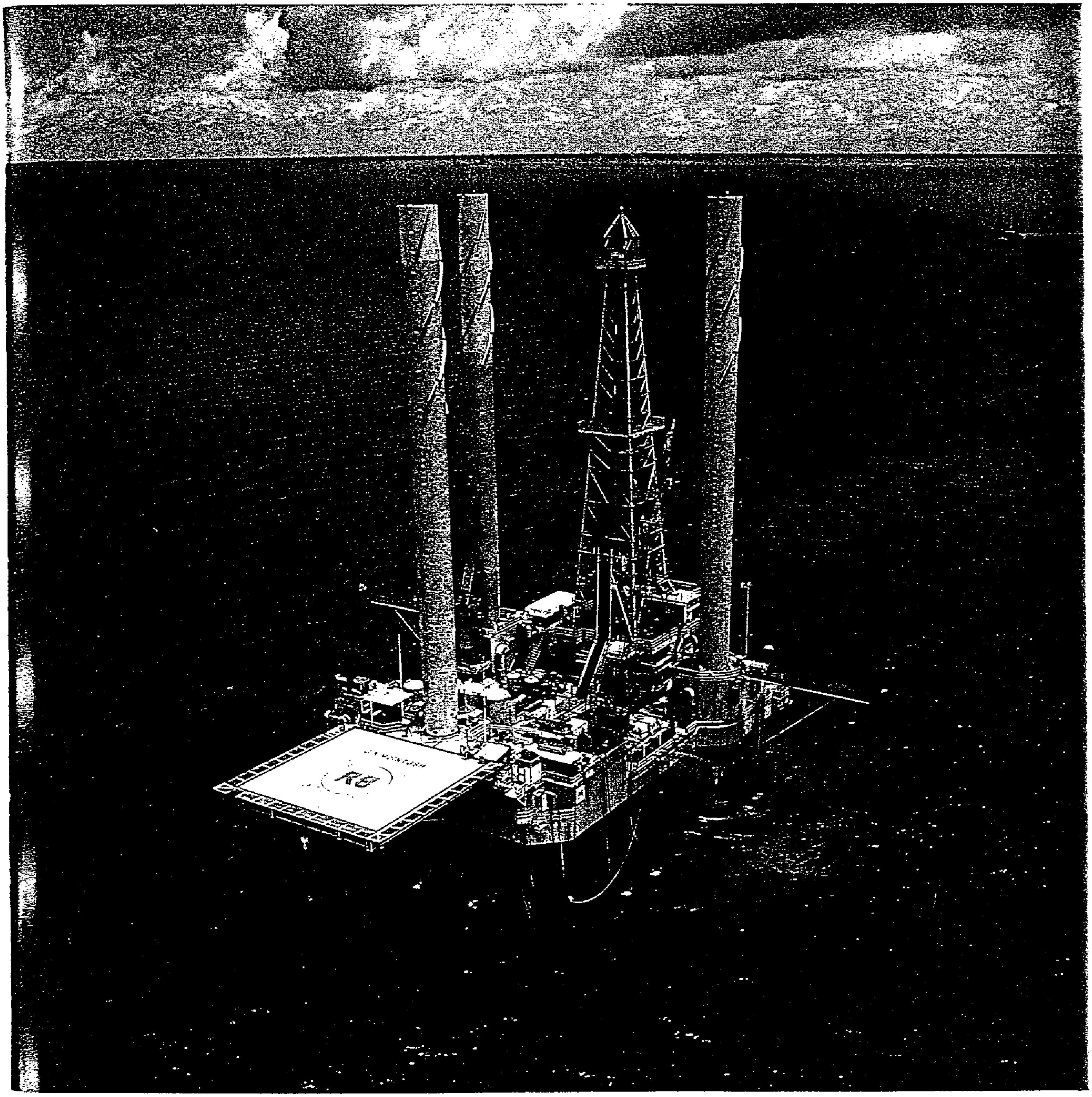
Southeast Sumatra oil
Northwest Java
Oil
Liquefied petroleum gas

Natomas net production
(thousands of barrels per day)



Southeast Sumatra oil
Northwest Java
Oil
Liquefied petroleum gas

Highly skilled at finding and producing oil in Indonesia, Natomas produces 52,000 net barrels per day – a level we expect to increase in 1984.



Our Natomas Company subsidiary achieved record net oil production and reserves in 1983. Among Natomas' primary objectives in 1984 is to identify new contract areas for future exploration and development.

than tripled our oil reserves and increased our oil production more than fivefold.

In 1983, Natomas' Indonesian operations increased full-year net oil and gas liquids production to 19.2 million barrels, or 52,500 barrels per day, slightly above a record 18.8 million barrels, or 51,600 barrels per day in 1982. During the same period, net oil and gas liquids reserves increased 9% to 73.9 million barrels.

Since we are accounting for the Natomas merger as a purchase, only its reserve and production statistics after August 31, 1983 are included in Diamond Shamrock's consolidated statistics.

Sumatra depletion offset by new projects and discoveries.

Southeast Sumatra is the smaller and more fully developed of Natomas' two Indonesian contract areas. Gross full-year 1983 oil production from this area was 36.4 million barrels, with 9 million barrels net to Natomas, compared to a gross 40.5 million and a net 10 million barrels in 1982.

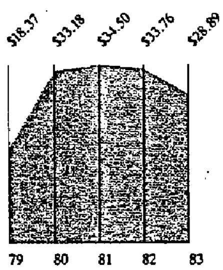
Since production from Southeast Sumatra's reservoirs declines rapidly, our IIAPCO division has focused on bringing new areas and reserves into production quickly. Two new areas, the Duma and the Karmila – both discovered in the first quarter of 1983 – were brought onto production during the third quarter.

In addition, IIAPCO intensified its workover program throughout the year, boosting production from old wells and stemming the normal, expected decline.

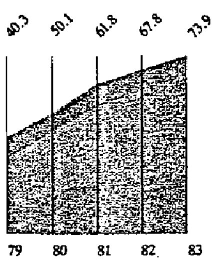
As a result of both the new areas and the workover efforts, gross production at year-end 1983 reached 105,000 barrels per day, up significantly from mid-year and near 1982 average levels.

IIAPCO also initiated a major secondary recovery project – the first of its kind in Indonesia – during the first quarter of 1984. A new waterflood facility is processing and injecting more than 200,000 barrels of water per day into productive

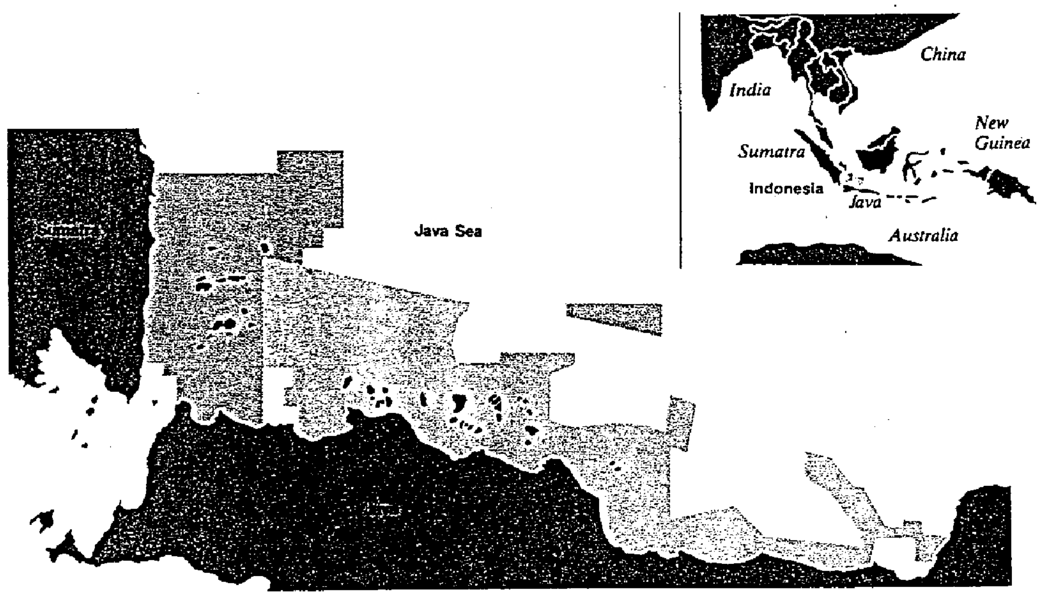
Natomas average oil price
(per barrel of Indonesian production)



Natomas net proved reserves
(millions of barrels)



■ *Southeast Sumatra oil*
Northwest Java
■ *Oil*
■ *Liquefied petroleum gas*



Natomas production areas
■ *Southeast Sumatra contract area*
■ *Northwest Java contract area*
■ *Areas of production*

reservoirs. This project is expected to significantly retard production declines, with initial results becoming evident by mid-1984.

Java net production reaches record high.
In Northwest Java, full-year 1983 gross production was 50.7 million barrels, with 10.1 million barrels net to Natomas, compared to 51 million gross, or 8.8 million net barrels, in 1982. Java production has included about 1.2 million net barrels of liquified natural gas in each of the last five years.

As a result of new discoveries and additional production facilities completed in the fourth quarter, production reached 195,000 barrels of oil and 20,000 barrels of natural gas liquids per day at the beginning of 1984, a rate equivalent to 78.5 million gross barrels annually.

Production outlook steady.
As we look for additional oil sources in 1984, Natomas' spending for drilling and development is expected to surpass $260 million.

All told, we expect to increase 1983's high level of production capacity this year. Anticipated declines in production capacity in Sumatra will, we are confident, be more than offset by production capacity increases in Java. The Java contract area contains large, undeveloped areas in known producing basins, offering many opportunities for significant increases in production.

Exploration program seeks new contract areas.
We have, in addition, budgeted $25 million to identify promising unawarded contract areas in Indonesia, enlisting our years of experience there, our skilled personnel, and good working relationship with Pertamina, the Indonesian government-owned oil company.

This plan is in keeping with our belief that Indonesia represents one of the best places in the world, politically and geologically, to explore for, find, and produce a barrel of oil.

Diamond Shamrock enters a profitable "alternative" energy business.
As 50% owner of the world's largest geothermal energy project, Natomas adds a profitable, growing new dimension to Diamond Shamrock's expanding profile in energy production.

Natomas and Union Oil Company of California, the project operator, find and produce steam from naturally heated underground reservoirs at The Geysers in Northern California and supply it to generating plants operated by Pacific Gas and Electric Company (PG&E).

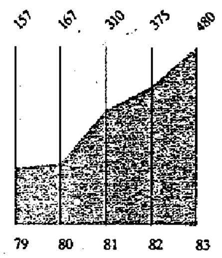
Geothermal energy provides an economical, long-term source of supply, with a pricing formula that keeps geothermal costs under PG&E's average for fossil and nuclear fuels.

For Diamond Shamrock, geothermal offers an attractive source of earnings and cash flow. We have contracted to supply steam for 50 years after the last PG&E generating plant is built.

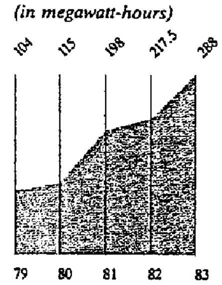
Earnings, production rise to record level.
During 1983, geothermal operating profit for the full year set a record of $51.8 million, 65% over the prior year, reflecting substantial increases in the price of steam and in plant capacity.

Natomas' share of steam generated 2.5 million megawatt-hours of electricity in 1983, equal on a Btu basis to about 4.4 million barrels of oil, or enough electricity to supply half the needs of a city the size of San Francisco. This 32% rise over 1982 resulted primarily from start-up of two new 119-megawatt generating plants, one in late 1982, the other in early 1983.

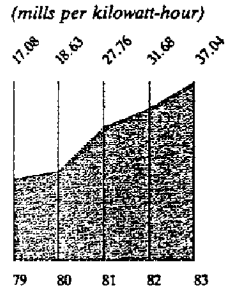
Natomas' average share of geothermal capacity
(in megawatt-hours)



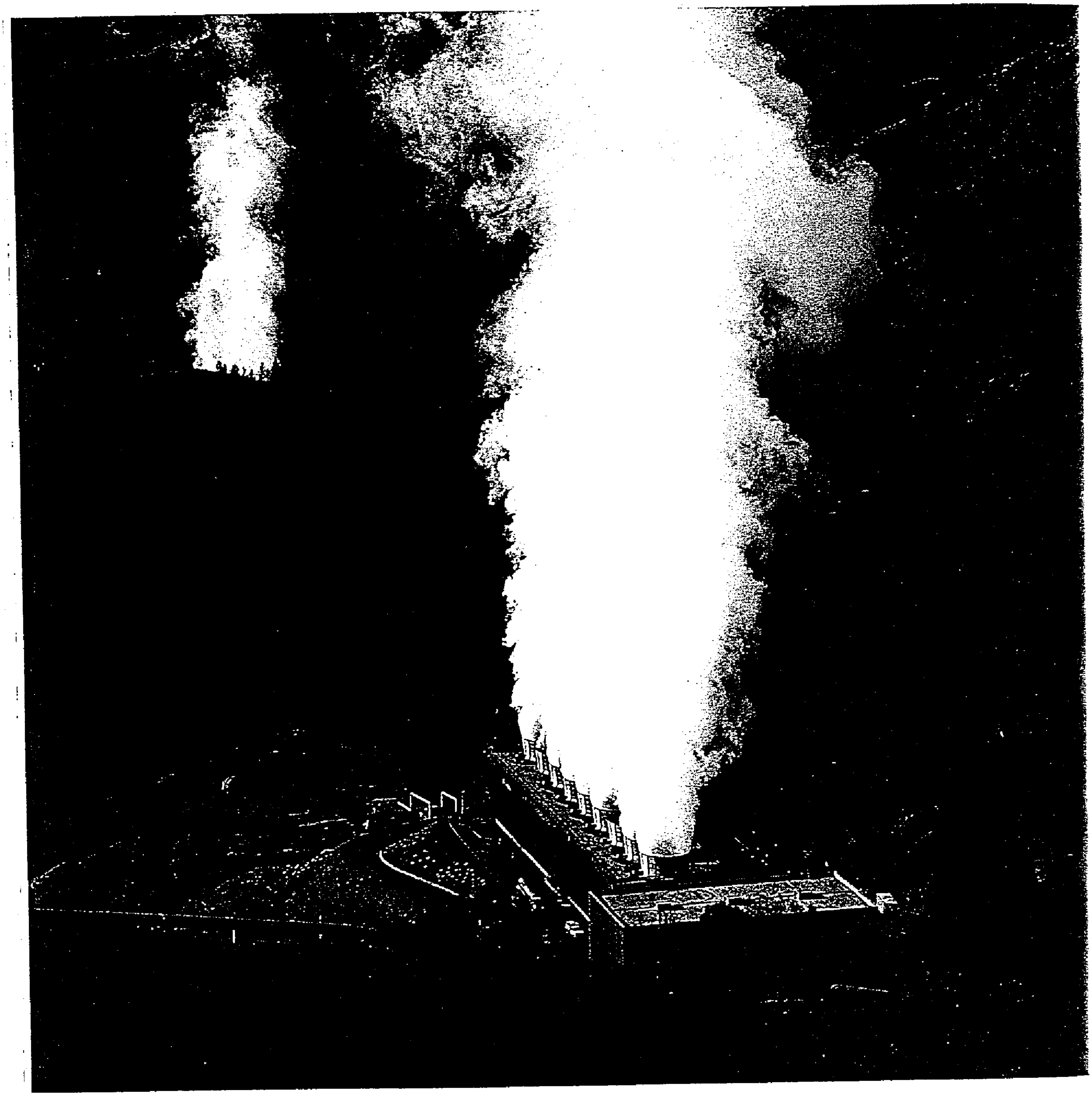
Share of capacity utilized
(in megawatt-hours)



Steam price
(mills per kilowatt-hour)



Geothermal steam production and operating profit rose to record levels in 1983. We anticipate further increases in 1984.



In 1983, Natomas supplied enough geothermal steam to generate half the electricity for a city the size of San Francisco. Natomas explores for and produces steam from naturally heated reservoirs in which the company has a 50% interest.

In addition, utilization of plant capacity increased despite sustained, above-normal precipitation in Northern California, which acted to curtail geothermal energy production in favor of cheaper hydroelectric power.

Further gains expected.
In 1984, no capacity will be added from new plants, and hydro-curtailments will continue to restrict steam sales. However, we expect earnings to grow due to modest increases in the steam price and in anticipated plant utilization. Beyond 1984, PG&E's use of nuclear fuel could moderate steam prices, although the timing of any effects remains uncertain.

Among our principal objectives in 1984 is the maximizing of plant output through a cooperative program with PG&E to improve reliability and maintenance efficiency of PG&E's generating equipment. We also are working closely with the utility in its planning of two new generating plants to ensure efficiency of design and operation.

Since we are paid for steam based on the amount of electricity generated, increased efficiency at the customer's plant shows up in our bottom line.

In addition, we will continue to study experimental water reinjection to extend the life of our steam reserves.

Plant construction, drilling to expand future production.
Drilling during 1984 will target development of reserves previously proven for a new 119-megawatt plant PG&E has under way. Start-up of the Unit 20 plant is scheduled for year-end 1985. Reserves also have been proven for another 119-megawatt plant set to come on line in 1988. Together, the plants will increase our customer's generating capacity at The Geysers by 25%.

Through exploratory drilling in 1984, we will continue to evaluate the potential for establishing additional reserves for future generating plants at The Geysers. We also will be evaluating plans for developing our Hawaiian geothermal prospect, where we have drilled two exploratory wells, and for another prospect in Northern California where we began drilling a second exploratory well in January of this year.

Geothermal complements our energy businesses.
Besides contributing diversity to our energy businesses, geothermal energy provides technology and experience with which we can consider other alternative energy sources in the future.

And much like our other businesses, our geothermal operation is a low-cost producer, providing solid earnings and cash flow and strong growth potential for many years to come.

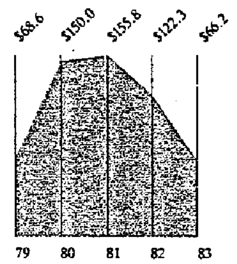
DIAMOND SHAMROCK REFINING AND MARKETING COMPANY

Solid performance in a very tough year.
We projected that Diamond Shamrock Refining and Marketing Company would face some tough challenges going into 1983. We were right.

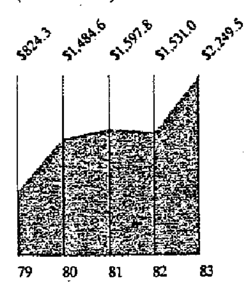
Vigorous competition at both the retail and wholesale levels caused severe pressures on profit margins throughout the year. Results were also affected by our continual review of asset performance, with 1983 earnings including $8.9 million of pre-tax adjustments and asset write-downs.

We ended the year generating $66.2 million in operating profit – solid performance under the circumstances – but significantly below last year's $122.3 million. Sales increased to $2.2 billion in

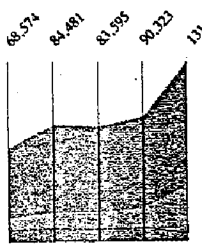
Refining and Marketing Company operating profit
(in millions)



Refining and Marketing Company sales
(in millions)

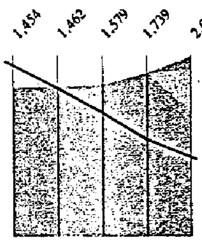


Refining and Marketing Company product sales
(barrels per day)



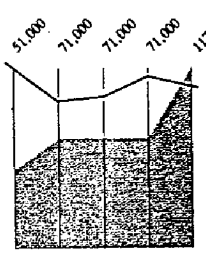
Motor Gasoline
Diesel
Aviation Fuel
Other

Motor fuel outlets
(on Dec. 31)



Jobber-owned branded stations
Company-owned branded stations
Company-owned other stations
National trend (thousands of stations): '79 = 164.8, '80 = 158.5, '81 = 151.2, '82 = 144.7, '83 = 139.3*
**National Petroleum News estimates*

Refinery capacity
(barrels per day of crude oil throughput)



% Utilization: '79 = 98.8, '80 = 80.6, '81 = 83.3, '82 = 94.0, '83 = 88.9

1983 versus $1.5 billion the previous year, largely due to addition of the Sigmor businesses in January 1983.

Sigmor acquisition enhances competitive ability.
1983 saw the completion of Diamond Shamrock's acquisition of Sigmor Corporation, the restructuring of our refining and marketing organization, and its relocation of headquarters to San Antonio. We effectively completed the meshing of two organizations into one cost-effective company, capable of competing profitably in today's environment through aggressive retailing and efficient refining and distribution.

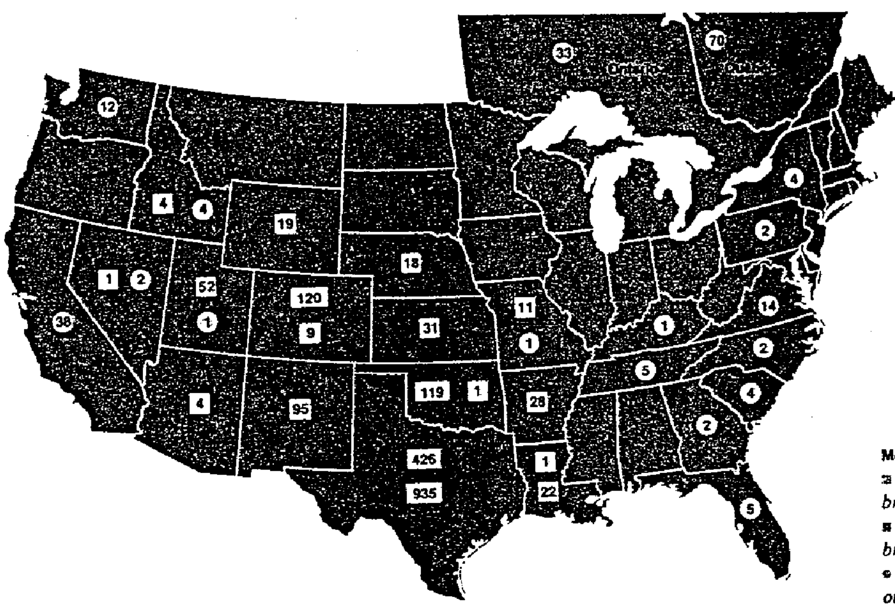
Marketing network expands.
We benefitted from addition of retail profits at the 550 stations acquired with Sigmor and preserved our motor fuel market share during a period when demand remained virtually flat. Merchandise sales in the outlets acquired with Sigmor went up 24% over the previous year.

Our wholesale jobber network expanded 12% – to 1,438 independently owned Diamond Shamrock-branded stations. We moved into Nebraska, Missouri, and new areas of Arkansas, enlarging branded wholesale marketing to 14 states, concentrated in the nation's growing Southwestern and Rocky Mountain regions.

Natomas brought us 103 retail outlets which profitably market motor fuels in the Canadian provinces of Ontario and Quebec, and a prosperous retail heating oil business serving 7,000 households in Ontario.

Refined products output increases.
With the addition of Sigmor's refinery at Three Rivers in South Texas, we increased motor gasoline production capacity 45% to 95,000 barrels per day at year-end. Our crude charge capacity increased 65% to over 117,000 barrels per day.

At the Three Rivers plant we enhanced our motor gasoline production capacity with the completion of a deasphalting unit to convert low-value residual fuel oil into feedstock for producing motor fuels. We also began producing military jet fuel at Three Rivers and at the McKee refinery in the Texas Panhandle during 1983.



Motor fuel outlets
Jobber-owned branded stations
Company-owned branded stations
Company-owned other stations

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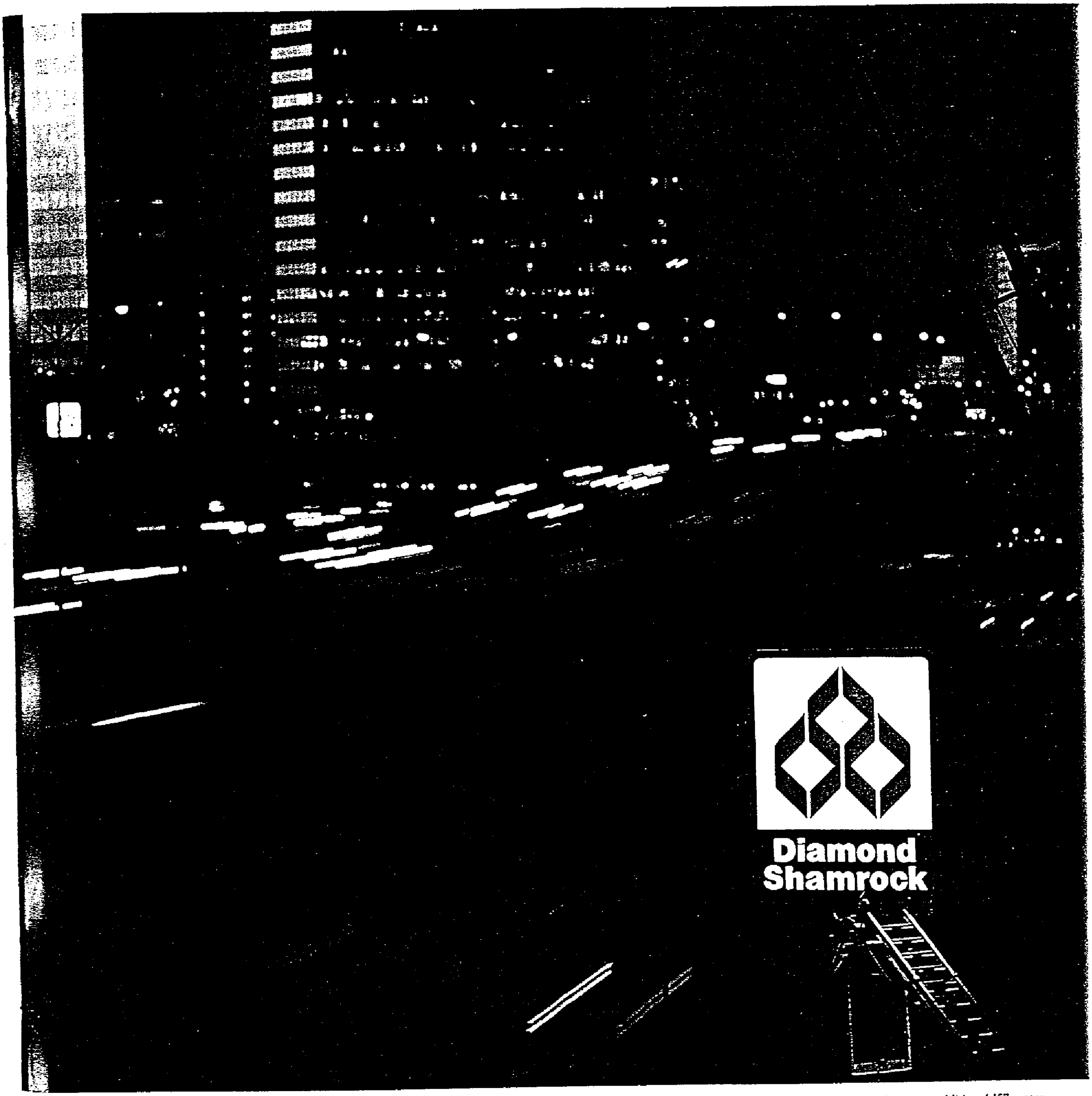
Efficient refining, aggressive marketing, and a well-placed distribution network keep our Refining and Marketing business strong and growing.



Our sign was raised over an additional 157 motor fuel outlets (net) in 1983, the fifth straight year of increases. Having concentrated our marketing area in growing Southwestern and Rocky Mountain states, we expect sales of our products to rise in 1984.

In natural gas processing, curtailments of residue gas purchases by interstate pipeline companies resulted in lower natural gas liquids production and higher natural gas costs. The effect on operating profit was partially offset, however, by higher ethane and propane prices.

An aggressive posture.
Our strategy for the year ahead is to energetically strengthen our competitiveness in the refining, distribution, and marketing of petroleum products.

We will continue to acquire feedstocks for our refineries at the lowest possible prices, continue to improve the energy efficiency of our plants, and maximize operating efficiency throughout the organization.

Although we expect 1984 to be characterized by intense competition and flat consumer demand for refined products, we intend to expand fuel sales volumes as we pursue an accelerated remodeling and reidentification program to enhance the image of our outlets. We also will add new company-owned retail outlets in our existing marketing area.

We will solicit additional Diamond Shamrock jobber business in our marketing area, and we will expand our product pipelines from the refineries to our strategically located product terminals to increase distribution channels to our customers.

Increased volumes and earnings expected.
We have weathered what may have been the worst downturn in the history of the refining and marketing industry. Many of our competitors did not. More than 100 refineries nationwide have closed since January 1981, reducing much of the industry's excess capacity.

Current market conditions provide opportunities for businesses with efficient refining, aggressive marketing, and geographic advantages. Ours is such a company. Though profit margins will remain slim throughout the industry, we expect to achieve increased volumes, increased earnings, and a record market share in 1984.

DIAMOND SHAMROCK COAL COMPANY

Strong earnings defy weak industry conditions.
For the second year in a row, poor economic conditions in 1983 severely depressed coal markets.

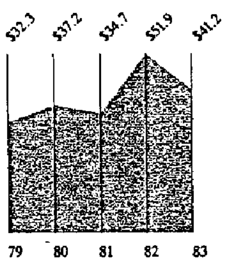
And once again Diamond Shamrock Coal Company was among the coal industry leaders, turning in operating profit of $41.2 million, compared to a record $51.9 million the previous year. Earnings in 1983 were affected by year-end charges of $3.7 million pre-tax, related primarily to a disputed sales contract. Sales were $278.1 million in 1983 compared to $335.1 million the year before, reflecting sharply lower spot market sales volumes.

This solid performance testifies to the soundness of our business strategies, the premium quality of our reserves, and our leadership in mining efficiency. These are the strengths that make our coal business a viable source of long-term earnings growth as well as strong near-term earnings and cash flow.

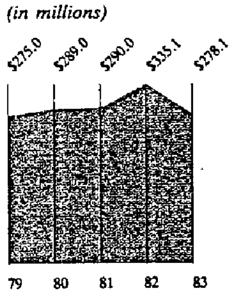
Solid performance expected.
In 1984, we expect flat, but solid, performance from our coal business, although it will be another challenging year for the industry. U.S. coal demand and prices should trail the national economic upturn due to the slower recovery and excess capacity in steel manufacture and electricity generation, and to those industries' surplus of coal inventories.

In addition, the coal industry must renew its labor contract, which expires in September, with the United Mine Workers of America. UMWA employees represent

Coal Company operating profit
(in millions)



Coal Company sales
(in millions)



'ighly efficient in mining quality steam and metallurgical coals, we consistently rank as an industry leader in operating performance.

Most of our low-sulfur, high-Btu coal is sold through long-term contracts with electric utilities. A 100,000-ton stockpile of steam coal mined by our Amherst Division fuels Dayton Power & Light's Killen Plant near Manchester, Ohio.

64% of our coal mining workforce, principally at the Amherst and Gateway divisions. Labor contracts covering the remainder of our bargaining employees expire in 1985.

In export markets, demand for U.S. coal will remain generally depressed due to slow economic recovery, high interest rates, the dollar's high rate of exchange, and escalating production and domestic transportation costs. Although competition will remain strenuous from low-priced Polish and South African coal in Europe and from Australian coal in the Pacific, we believe exports provide some of the greatest long-term opportunities to substantially increase coal earnings.

Alaskan coal exports offer dramatic potential.
We are rapidly moving ahead with development plans for reserves just off Alaska's Cook Inlet, where we are operator and own 50% interest in an estimated 1-billion-ton coal resource.

During 1983, we conducted extensive tests to assess shipping and burning characteristics of coal samples mined at the site and continued preparation of mining plans that would allow us to begin full-scale operations in four to five years.

We have launched an active marketing program to identify potential customers for these low-sulfur reserves. Targeting the rapidly expanding Pacific Rim, we could become a major supplier of steam coal to nations such as Japan, Korea, and Taiwan, at prices competitive with any in the world.

Long-term contracts, efficiency provide earnings strength.
Fundamental to our past and long-term success is a strategy of building our earnings base on long-term sales contracts. These agreements assure our customers a stable supply of quality coal at a reasonable price while providing Diamond Shamrock a dependable source of profit. In 1983, we sold 90% of our high-Btu, low-sulfur steam and metallurgical coal production through such contracts, mostly to electric utilities and steel makers. Maintaining this stable earnings base through additional long-term contracts will continue to be our primary marketing objective.

A key competitive advantage is operating efficiency, in which it appears we again outpaced the industry in 1983. Our achievements included significantly raising potential for increased profitability at our Amherst Division with new equipment and an improved maintenance program. Throughout our operations, we increased cost-effectiveness by training our cost-center managers to regard themselves as profit-center managers, measuring their effectiveness in terms of return on assets – equipment and people.

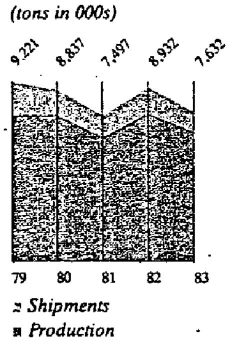
We are implementing similar efficiency programs at the small mining operations in Kentucky and Utah we acquired through the Natomas merger.

Another competitive edge is our reserve base of over 1.5 billion tons, including 315 million tons of lignite. We produce some of the world's best metallurgical and quality steam coals – low in sulfur, high in heat-generating capability. Most of our production is mined near the largest U.S. coal markets.

We continually reassess the value of these coal assets to maximize returns from them. That means maintaining the flexibility both to increase or decrease development of selective resources as the market demands and to liquidate assets lacking the present or potential performance we require.

In short, efficiency, strategically located reserves, and premium quality product have allowed Diamond Shamrock Coal Company to lead the industry in virtually

Coal Company
coal production and shipments
(tons in 000s)



every performance measure. As we view coal to be a long-term source of earnings growth, these competitive strengths promise to keep us a profitable, low-cost, world supplier of steam and metallurgical coal for many years to come.

DIAMOND SHAMROCK CHEMICALS COMPANY

Chemicals investment consolidated. Major changes in our chemical operations, dictated by investment strategy and economic challenges, have more sharply defined the focus of this business.

During 1983 we reduced our participation in some of our proprietary chemical businesses, and we continued to streamline our commodity chemical operations, further lowering the break-even point in these strong, cash-generating businesses.

At year-end, we charged against earnings $58.6 million in pre-tax write-offs and other adjustments relating mostly to businesses associated with Diamond Shamrock's divestiture program. The charge reduced Chemical Company operating profit to $12 million for the year. Sales were $942.1 million.

As the dust of change settled, Diamond Shamrock Chemicals Company was focused as a highly efficient, profitable, leading U.S. chemical producer. Having maintained profitability during the worst two years in modern chemical industry history, these businesses are clearly on the upswing, and we believe their earnings potential is as sound as ever.

Commodities show strong improvement. Reflecting better conditions in the industrial economy, capacity utilization at our chlorine and caustic soda plants – our largest chemical business – rose an average of 15% in 1983.

Operating profit in commodities rose 63% to $45 million before write-offs and adjustments.

Products in these businesses serve as key components in the manufacture of many durable goods, especially those related to building construction and manufacture of automobiles.

We expect demand for commodities to grow, keeping this business a profitable, strong net generator of cash for Diamond Shamrock. Significantly, most of the industrywide production capacity shut down during the last two years will probably never emerge from mothballs, helping to firm prices and margins as demand rises.

Diamond Shamrock is the only major U.S. chlor-alkali chemicals producer that has not been forced to shut down capacity in the last seven years.

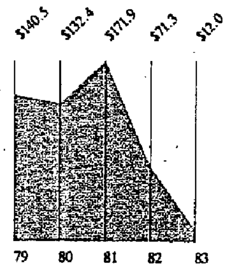
Efficiencies enhance competitiveness. Efficiency has been and will continue to be the key to competitiveness in our chemical businesses. We have that edge in manufacturing, distribution, and customer service.

Although our plants are among the most modern in the industry, in many cases employing state-of-the-art technology developed by Diamond Shamrock, in 1983 we made additional efficiency improvements through better utilization of manpower, improved work flow, and better control of working capital.

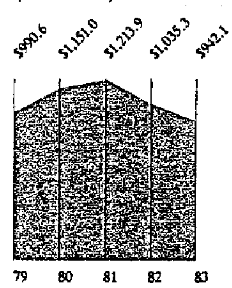
Most significant among our efficiencies, 1983 marked the first full year of operation at our 200-megawatt cogeneration facility – a highly important factor in controlling costs in the chlor-alkali business.

The cogeneration facility provides a secure, cost-effective energy source to our largest chlorine and caustic soda plant, supplying 100% of its electricity and steam needs. Electricity is a major cost in making these products.

Chemicals Company operating profit
(in millions)



Chemicals Company sales
(in millions)



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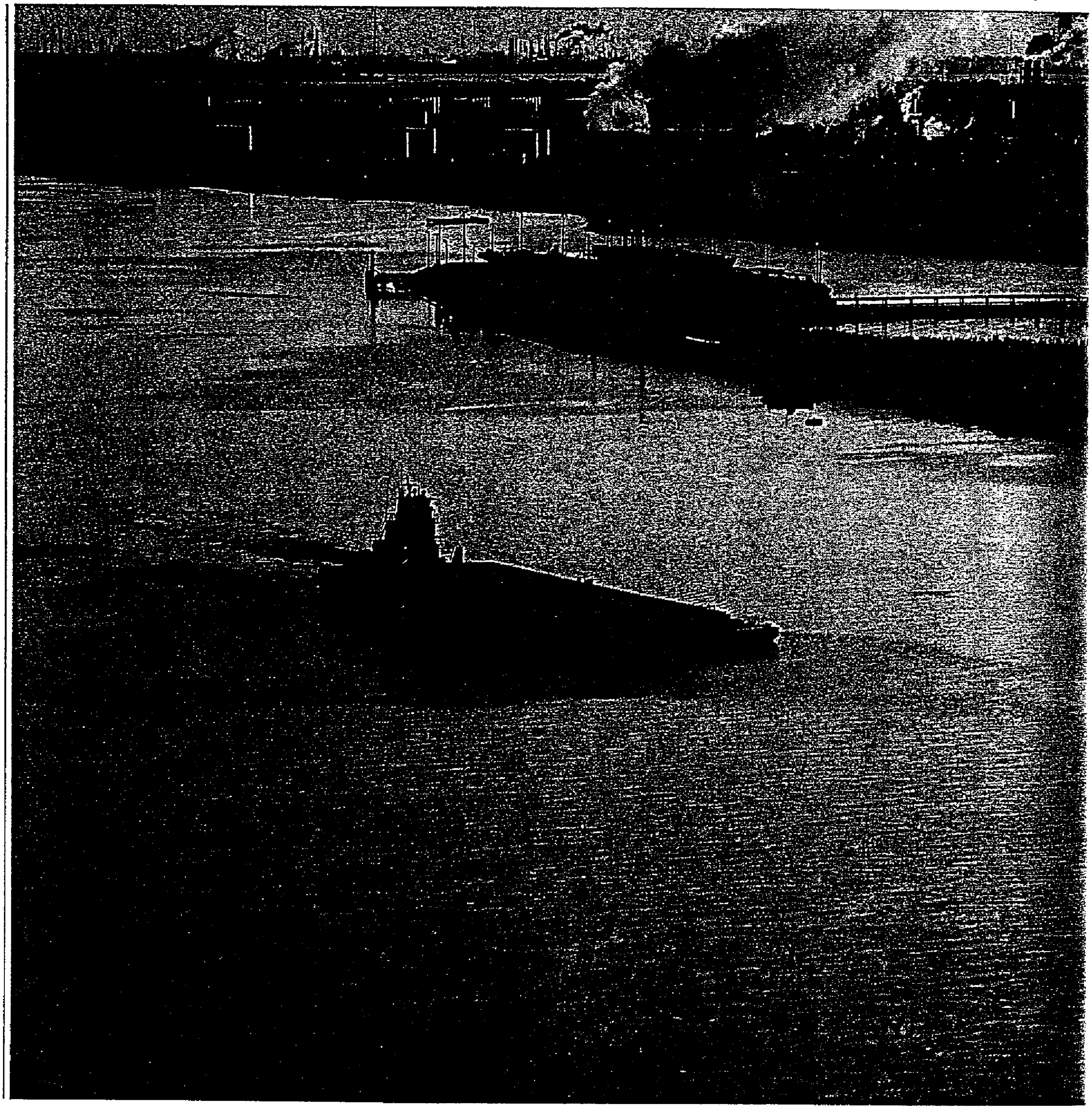
Our Chemicals Company – with strong cash-generating businesses – is among the nation's largest and most efficient chemical producers.



Chlorine and caustic soda barges move past our Deer Park Works' loading docks in the huge Houston Ship Channel petrochemical complex. Our bulk transport fleet, among the chemical industry's largest, gives us an edge in meeting customer needs.

Marketing flexibility, size provide competitive strengths.

We've honed another competitive edge by focusing on the customer's unique needs – by maintaining the manufacturing flexibility to match a customer's product specifications, and, with one of the largest bulk transportation fleets among U.S. chemical companies, to better satisfy delivery requirements.

As a result, against difficult circumstances and stiff competition, all our chemical businesses have maintained or improved their market share:

- We are the nation's third largest merchant of chlorine and caustic soda – our biggest chemical business. Our production capacity is concentrated on the Gulf coast, source of the strongest demand for these products.
- In sodium silicates we rank second nationally. We have the competitive advantage of efficiency through the industry's most modern technology. With plants placed near major markets, we further maximize our competitiveness through distribution efficiency.
- We are the nation's largest manufacturer of chrome chemicals and a leading supplier to world chrome markets. Our chrome chemicals plant is the largest and most technologically advanced in the world.
- And we rank first nationally in potassium-alkali chemicals.

Proprietary businesses.

At mid-year we joint-ventured our worldwide agricultural chemicals and animal health businesses with Showa Denko, K.K., a leading Japanese chemicals and pharmaceuticals firm, to form SDS Biotech Corporation.

Headed by Allan J. Tomlinson, formerly president and chief operating officer of Diamond Shamrock, the 50-50 joint venture company will sell agrichemical products worldwide, with emphasis on expanding Pacific Rim markets.

By capitalizing on both parent companies' product lines, research capabilities, and marketing expertise, these businesses can enhance their potential for long-term, self-sustaining growth.

The partial year of earnings from agricultural chemicals and animal health operations prior to the joint venture were $24.6 million, on sales of $131 million. These results are reported as part of Diamond Shamrock Chemicals Company. Diamond Shamrock's share of SDS Biotech operating results after June 30, 1983 are included in equity earnings.

Also during 1983, we considered the sale of other proprietary businesses, principally the solidly profitable Process Chemicals and Metal Coatings divisions. However, we were unable to reach an acceptable agreement.

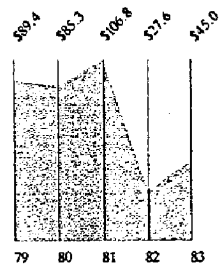
Because these specialty chemicals businesses showed strong earnings improvements in 1983 and are generating some of the highest returns on capital employed in the corporation, we have elected to support and aggressively run them, with emphasis on further improving their returns.

Operating profit from specialty chemicals rose 35% in 1983 to $15 million on sales of $301 million, compared to $298.9 million the previous year.

Diamond Shamrock: A major chemical producer.

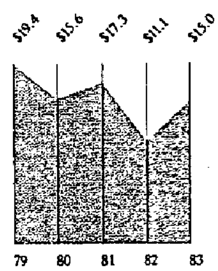
Our Chemical Company by itself would rank among the "Fortune 500" group of companies. As a dependable, efficient, long-term supplier, our chemical businesses will continue to provide an important source of earnings and cash flow to Diamond Shamrock.

Commodity chemicals operating profit*
(in millions)



* *excludes write-offs and adjustments*

Specialty chemicals operating profit
(in millions)



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FINANCIAL POSITION

For the full year 1983, the Company posted an after-tax loss from operations of $60,217,000, the result of a $111,700,000 after tax write-off of investments in the Mukluk No. 1 exploratory well and five associated leases in the Alaskan Beaufort Sea, as well as $62,100,000 in additional year-end after-tax charges, primarily in chemical operations.

Most of these charges reflect outflows of cash prior to 1983, and therefore do not affect funds from operations for the year. Total funds provided by operations during 1983 was $476,877,000 compared with $446,527,000 in 1982 and $462,899,000 in 1981. After covering dividends, operations provided $329,200,000 for capital spending and investment in 1983, compared with $336,229,000 in 1982 and $359,984,000 in 1981. Including proceeds from the sale of investments and facilities, internal sources funded 94% of the Company's capital spending and investment in 1983, compared with 61% in 1982 and 84% in 1981.

At $466,853,000, 1983 capital spending and investment was 29% below 1982 levels, and 21% below 1981 levels. Management presently anticipates capital spending and investment in 1984 to increase to more than $700,000,000, reflecting full-year exploration and production spending for Natomas Company as well as a near doubling from 1983 levels of exploration and production expenditures for the Company's other oil and gas properties. The Company acquired Natomas in August 1983, resulting in the issuance of new common and preferred stock and an increase in the Company's net long-term assets of $1,367,660,000.

As in 1983, management expects internal sources to essentially fund operations, projected capital spending and investments and dividends in 1984. Internal sources of funds are expected to include the proceeds resulting from the proposed sale by Natomas North America, a subsidiary of the Company, of its producing and non-producing oil and gas properties in the continental United States, excluding Federal offshore leases, to Apache Petroleum Company for $160,000,000 cash. These properties are therefore recorded as current assets in the accompanying Consolidated Financial Statements.

In January 1983, the Company acquired Sigmor Corporation for cash and newly issued preferred stock, increasing net long-term assets by $92,147,000. In addition, in July 1983, the Company formed SDS Biotech Corporation with Showa Denko, K. K., a Japanese company, and contributed to the 50/50 joint venture the current and long-term assets and liabilities associated with its primary agricultural chemicals and animal health businesses, reducing total debt of the Company by $149,786,000.

Although each of the above transactions has had an effect on the Company's working capital, the net result has been essentially level, year-to-year, with 1983 year-end working capital at $321,372,000 compared with 1982 year-end working capital of $313,288,000. 1982 working capital was below the year-end 1981 level of $472,007,000 due to decreased sales, sale of receivables and an emphasis on inventory control.

At December 31, 1983, the Company's relationship of current assets to current liabilities (Current Ratio) was 1.4 compared to 1.7 at year-end 1982 and 2.0 at year-end 1981, while the relationship of cash and receivables to current liabilities (Quick Ratio) was 0.7 compared with 0.9 at year-end 1982 and 1.1 at year-end 1981. Current liabilities include certain costs and expenses associated with both the Natomas acquisition and year-end charges which do not reflect anticipated ongoing business activity. Management is confident the above measures of liquidity will move upward as increasing business activity strengthens current assets.

During the second quarter of 1983, the Company used proceeds from the issuance of 3,442,378 shares of Common Stock to reduce variable-rate debt. At the same time, an additional 1,057,622 shares of Common Stock were exchanged for debt, which was then retired. The Company also sold $250,000,000 of fixed-rate debt securities during the second quarter, using the net proceeds to retire variable-rate debt.

For the full year, total debt increased $938,306,000 due to the acquisitions of Sigmor and Natomas, which brought $995,694,000 in previously outstanding debt to the Company. The acquisitions increased stockholders' equity by $1,450,710,000. At December 31, 1983, total debt was 37.8% of total capitalization, including deferred taxes, compared to 34.9% at December 31, 1982, and 34.7% at December 31, 1981.

The Company presently has unused lines of credit totaling $1,000,000,000, of which $523,800,000 was supporting commerical paper, bankers acceptances and money market borrowings at December 31, 1983. With debt within the range of 35%-40% of total capitalization, which management considers appropriate for the Company, sufficient available lines of credit, and expectations of ample internal sources of funds, as noted above, management is of the opinion that the Company has the financial resources required to meet anticipated needs.

A discussion of the effects of inflation on the Company is found under "Inflation Adjusted Financial Data" in the Supplementary Information section of this Annual Report.

OPERATING RESULTS

For the full year 1983, sales and operating revenues were 27% above 1982 levels, and 19% above 1981 levels, the result of the acquisition of Sigmor on January 14, 1983 and of Natomas on August 31, 1983. Sigmor's operations have been included in the Company's refining and marketing segment, along with the Canadian refined products marketing operations acquired with Natomas. Natomas' Indonesian, U.S. and other foreign oil and gas producing businesses are included in the Company's exploration and production segment, while its U.S. coal businesses have been placed in the Company's coal segment.

As both acquisitions were accounted for as purchases, their sales and operating revenues and earnings are not reflected in the Company's results prior to their dates of acquisition. However, a pro forma presentation of the combined results of the Company, Natomas and Sigmor for the full years 1983 and 1982 is included in the "Financial Summary" section of this Annual Report.

As anticipated, severe weakness in energy and industrial markets during the first half of 1983 depressed earnings substantially. Although business conditions improved somewhat during the second half, results from operations for the year were far below past performance. Prior to the year-end charges discussed under "Financial Position" above, after-tax income from operations was $113,583,000, including a $15,904,000 LIFO benefit from inventory reductions. Comparable income from continuing operations was $149,543,000 in 1982, including $30,101,000 in pre-tax gains from lease sales and the contribution of a royalty interest to the Company's pension plans, and $230,156,000 in 1981.

Including year-end charges and extraordinary gains totaling $4,054,000 from early retirement of Natomas Energy Company debt and an exchange of stock for debentures during the year, the Company posted a net loss of $56,163,000 for 1983. This compares with net income of $185,091,000 for 1982 (which includes a $35,548,000 extraordinary gain from a stock/debenture exchange) and $121,265,000 for 1981 (which includes a $108,891,000 charge for discontinued operations).

The Company's exploration and production segment posted 1983 operating profits of $32,975,000 after a pre-tax write-off of $194,300,000 for the Mukluk No. 1 well and five associated leases. The segment's operating profits were $135,192,000 in 1982 and $145,664,000 in 1981.

Exploration and production results include $106,848,000 in operating profits from four months of production at Natomas' Indonesian holdings. As noted above, no Natomas earnings are included in prior-year operating results. As the Indonesian operations entered 1984, their crude oil production was at an all-time high, and are expected to be a major source of operating profits for the coming year. The Company's other foreign exploration and production operations generated $4,464,000 in operating profits versus $10,571,000 in 1982, and $9,518,000 in 1981. The decline was principally due to increased dry hole expenses.

The Company's domestic exploration and production operations generated $115,963,000 in operating profits prior to the Mukluk write-off, compared with $124,621,000 in 1982 and $136,146,000 in 1981. 1982 results included $30,101,000 in profits from sale of leases and contribution of a royalty interest to the Company's pension plans.

Domestically, although crude oil prices were below 1982 levels, production volumes began to steadily increase at mid-year, and entered 1984 well above previous records. As a result, earnings in the coming year are expected to benefit from substantially higher domestic oil volumes. Although natural gas prices received by the Company increased 19% in 1983 versus 1982, following the trend of a 21% increase in natural gas prices between 1982 and 1981, excess supply in domestic markets resulted in significant reductions in average production volumes during the year. 1983 natural gas sales volumes averaged 263,113,000 cubic feet per day compared with 280,212,000 in 1982 and 308,658,000 in 1981. While natural gas volumes had grown significantly at year-end due to several severe cold waves in the United States, it is difficult at this time to determine if these effects will last. As a result, management presently expects only modest increases in natural gas volumes and prices for 1984.

In refining and marketing, full-year operating profits of $66,182,000 include $8,900,000 in pre-tax charges, primarily reflecting the write-down of a pipeline. 1982 operating profits were $122,298,000, while 1981 results were $155,759,000.

The substantial drop versus prior-year earnings primarily reflects intense competition in the first quarter, which eliminated profit margins at the refining and wholesale level, and sharply narrowed them at retail. During the second and third quarters, margins strengthened and volumes improved throughout the business. Although margins again came under severe pressure in the fourth quarter, volumes remained high. Management anticipates steadily increasing volumes through 1984, with margins strengthening through the spring and summer driving seasons. As noted above, Sigmor operating results are not included in this segment's reported operating profits for 1982 and 1981, although 21% of Sigmor results are included in the Company's equity earnings for those years.

The refining and marketing segment's natural gas processing operations posted substantially lower results in 1983 versus prior years, as restricted volumes and higher unit costs for raw materials more than offset increased product prices. The segment's feedstocks businesses continued to be adversely affected by low margins throughout the year.

In the coal segment, operating profits of $41,234,000 included a pre-tax charge of $3,700,000, primarily reflecting costs associated with a past contract dispute. This compares to operating profits of $51,860,000 in 1982 and $34,656,000 in 1981. The 1983 decline essentially reflects extreme softness in spot markets for coal. Although coal markets are expected to remain soft through 1984 and a labor agreement with the United Mine Workers of America covering 64% of our mine workforce is scheduled to expire in September of 1984, the segment's long-term sales contracts combined with continued attention to cost control and mining efficiency are expected to maintain 1984 operating profits at or above 1983 levels.

Full-year operating profits of $12,023,000 for the Company's chemicals segment include $58,600,000 in pre-tax write-offs and other adjustments relating mostly to businesses associated with the Company's divestiture program. 1982 chemicals operating profits were $71,282,000, and 1981 chemicals operating profits were $171,882,000. 1983 chemicals operating results reflect poor business conditions in the first quarter. Demand improved significantly during subsequent quarters, suggesting strong earnings performance from this segment in 1984. In addition, 1982 and 1981 chemicals results include full-year earnings from businesses contributed to the SDS Biotech joint venture discussed under "Financial Position" above. Subsequent to July 1983, the Company's 50% ownership of these businesses has been reflected in its equity earnings.

As expected, the Company's ongoing chemicals operations have had steadily increasing volumes through the year, and have seen some price strengthening as they move into 1984. Management expects a significant increase in operating profits from chemicals in 1984, compared to 1983 operating results prior to the year-end charges discussed above.

The acquisition of Natomas brought the Company a new business segment late in the third quarter – geothermal energy. This business drills for and supplies naturally generated steam to electrical power plants owned and operated by a California utility. During the four months the geothermal segment was part of the Company, it generated $16,001,000 in operating profits. As noted above, prior-year segment reports do not include comparable results. In 1982 and 1983, increases in production capacity and prices allowed year-to-year earnings gains, despite utilization reductions due to unusually strong production from cheaper, competing hydroelectric capacity. In 1984, increased capacity utilization and further price gains are expected to continue this trend.

Although management expects the competitive environment to remain challenging through 1984, the prospects for increased volumes throughout most of its operations and increased prices in many during 1984 should result in a significant increase in operating earnings in the coming year compared to 1983 results prior to year-end charges described above.

Consolidated Statement of Income
(dollars in thousands, except per share)

	Year Ended December 31,		
	1983	1982	1981
Revenues			
Sales and operating revenues	$4,026,107	$3,177,379	$3,376,215
Equity earnings (losses)	(15,445)	(11,684)	7,192
Other revenues, net	24,620	58,290	22,509
	4,035,282	3,223,985	3,405,916
Costs and Expenses			
Cost of products sold and operating expenses	3,056,989	2,272,444	2,353,147
Exploration costs, including dry holes	73,067	72,544	56,626
Depreciation, depletion and amortization	482,703	217,787	171,143
Selling and administrative	216,480	213,736	216,499
Research and development	23,764	46,453	51,479
Taxes other than income taxes	111,993	96,705	105,325
Interest	100,703	72,873	75,441
	4,065,699	2,992,542	3,029,660
Income (Loss) Before Tax Provision	(30,417)	231,443	376,256
Provision for Income Taxes			
Current	8,150	10,469	56,596
Deferred	21,650	71,431	89,504
	29,800	81,900	146,100
Income (Loss) from Continuing Operations	(60,217)	149,543	230,156
(Loss) from Discontinued Operations	–	–	(108,891)
Extraordinary Item	4,054	35,548	–
Net Income (Loss)	$ (56,163)	$ 185,091	$ 121,265
Per Common Share			
Continuing operations	$ (.76)	$ 2.37	$ 3.68
Discontinued operations	–	–	(1.74)
Extraordinary item	.05	.57	–
Net income (loss)	$ (.71)	$ 2.94	$ 1.94

The Financial Summary is an integral part of this and related Consolidated Financial Statements.

Consolidated Balance Sheet

(dollars in thousands)

	December 31, 1983	1982	1981
Assets			
Current Assets			
Cash and temporary cash investments	$ 153,533	$ 82,565	$ 66,176
Receivables, less doubtful receivables	439,161	325,227	472,873
Inventories	369,360	348,573	362,447
Assets held for sale	160,000	—	—
Prepaids and other current assets	45,409	32,212	61,837
Total Current Assets	1,167,463	788,577	963,333
Properties and Equipment, less depreciation and depletion	4,448,847	2,114,436	1,765,651
Investments	247,960	193,306	182,521
Intangible Assets, less amortization	132,584	70,822	82,835
Deferred Charges	27,587	26,872	22,045
	$6,024,441	$3,194,013	$3,016,385
Liabilities and Stockholders' Equity			
Current Liabilities			
Notes payable	$ 21,645	$ 10,527	$ 13,188
Long-term debt payable within one year	38,468	8,600	8,964
Accounts payable	414,659	301,015	299,128
Taxes payable	74,868	68,524	62,805
Accrued liabilities	296,451	86,623	107,241
Total Current Liabilities	846,091	475,289	491,326
Long-Term Debt	1,797,855	894,170	822,317
Long-Term Capital Lease Obligations	25,302	30,927	32,412
Deferred Income Taxes	364,656	364,094	305,993
Other Liabilities and Deferred Credits	247,210	22,302	14,602
Stockholders' Equity			
Preferred Stock, $1.00 par value			
Authorized shares – 100,000,000			
Issued shares – 6,682,333	6,683	–	–
Common Stock, $1.00 par value			
Authorized shares – 300,000,000			
Issued shares – 126,961,585; 63,565,110; and 62,878,401	126,962	380,501	366,556
Paid-in capital	1,803,210	–	–
Retained earnings	854,282	1,058,122	994,636
Cumulative translation adjustment	(38,788)	(31,369)	(10,847)
Common Treasury Stock, at cost – 400,000; 1,000; and 24,345 shares	(9,022)	(23)	(610)
Total Stockholders' Equity	2,743,327	1,407,231	1,349,735
	$6,024,441	$3,194,013	$3,016,385

See "Commitments and Contingencies"

The Financial Summary, which includes a description of the successful efforts method of accounting for the Company's oil and gas producing activities, is an integral part of this and related Consolidated Financial Statements.

Consolidated Statement of Stockholders' Equity
(dollars in thousands)

	1983		1982		1981	
	Shares	Amount	Shares	Amount	Shares	Amount
$2.07 Preferred Stock, $1.00 par value						
January 1,	–	$ –				
Acquisition of Sigmor Corporation	4,184,749	79,981				
Conversion to $1.00 par value	–	(75,762)				
Conversion to Common Stock	(2,216)	(36)				
December 31,	4,182,533	$ 4,183				
$4.00 Preferred Stock, $1.00 par value						
January 1,	–	$ –				
Acquisition of Natomas Company	2,500,000	2,500				
Conversion to Common Stock	(200)	–				
December 31,	2,499,800	$ 2,500				
Common Stock, $1.00 par value						
January 1,	63,565,110	$ 380,501	62,878,401	$ 366,556	62,434,575	$352,944
Employee benefit plans' purchases	159,685	3,752	673,875	13,832	390,277	12,258
Exercise of stock options	125,727	956	12,834	113	53,549	1,354
Newly issued	4,500,000	99,788	–	–	–	–
Conversion to $1.00 par value	–	(416,298)	–	–	–	–
Acquisition of Natomas	58,625,700	58,626	–	–	–	–
Conversion from $2.07 Preferred	2,216	36	–	–	–	–
Conversion from $4.00 Preferred	245	–	–	–	–	–
Cancellation of Common Treasury Stock	(17,098)	(399)	–	–	–	–
December 31,	126,961,585	$ 126,962	63,565,110	$ 380,501	62,878,401	$366,556
Paid-In Capital						
January 1,		$ –				
Conversion of Common Stock to $1.00 par value		416,298				
Conversion of $2.07 Preferred Stock to $1.00 par value		75,762				
Acquisition of Natomas Company		1,309,603				
Exercise of stock options		1,547				
December 31,		$1,803,210				
Retained Earnings						
January 1,		$1,058,122		$ 994,636		$976,286
Net income (loss)		(56,163)		185,091		121,265
Dividends on Common Stock		(143,755)		(110,298)		(102,915)
Dividends on Preferred Stock		(3,922)		–		–
Sale of Common Treasury Stock		–		(11,307)		–
December 31,		$ 854,282		$1,058,122		$994,636
Cumulative Translation Adjustment						
January 1,		$ (31,369)		$ (10,847)		$ 3,791
Translation adjustments		(7,419)		(20,522)		(14,638)
December 31,		$ (38,788)		$ (31,369)		$(10,847)
Common Treasury Stock						
January 1,	(1,000)	$ (23)	(24,345)	$ (610)	(5,063)	$ (68)
Purchase of Common Treasury Stock	(530,931)	(12,077)	(3,041,900)	(72,139)	(22,500)	(618)
Employee benefit plans' purchases	114,578	2,673	29,344	697	2,255	63
Deferred incentive awards	255	6	901	23	963	13
Sale of Common Treasury Stock	–	–	3,035,000	72,006	–	–
Cancelled	17,098	399	–	–	–	–
December 31,	(400,000)	$ (9,022)	(1,000)	$ (23)	(24,345)	$ (610)

The Financial Summary is an integral part of this and related Consolidated Financial Statements.

Consolidated Statement of Changes in Financial Position
(dollars in thousands)

	Year Ended December 31, 1983	1982	1981
Funds Provided			
Continuing operations			
Income (loss)	$ (60,217)	$ 149,543	$230,156
Add – Income charges (credits) not requiring (providing) current resources			
Depreciation, depletion and amortization	482,703	217,787	171,143
Deferred income taxes	21,650	71,431	89,504
Equity (earnings) losses, net of dividends received	16,779	14,416	(2,887)
Other, net	15,962	(6,650)	(222)
Continuing operations	476,877	446,527	487,694
Discontinued operations	–	–	(24,795)
Operations	476,877	446,527	462,899
Financing and other sources			
Increase in long-term debt and capital lease obligations	1,049,246	736,076	181,827
Sale/issuance of Common Stock	1,383,826	75,364	13,688
Issuance of Preferred Stock	175,606	–	–
Proceeds from sale of investments and facilities	108,488	69,059	138,271
Other, net	43,281	(12,955)	4,713
Financing and Other Sources	2,760,447	867,544	338,499
Working capital			
Decrease (increase) in receivables	(113,934)	147,646	34,356
Decrease (increase) in inventories	(20,787)	13,874	25,934
Decrease (increase) in assets held for sale	(160,000)	–	–
Decrease (increase) in prepaids and other current assets	(13,197)	29,625	(48,956)
Increase (decrease) in notes payable	11,118	(2,661)	(276)
Increase (decrease) in long-term debt payable within one year	29,868	(364)	1,500
Increase (decrease) in accounts payable	113,644	1,887	30,068
Increase (decrease) in taxes payable	6,344	5,719	10,127
Increase (decrease) in accrued liabilities	209,828	(20,618)	11,923
Working Capital	62,884	175,108	64,676
Total Funds Provided	3,300,208	1,489,179	866,074
Funds Utilized			
Acquisition of Natomas Company			
Properties and equipment	2,245,646	–	–
Goodwill	75,000	–	–
Long-term debt	(770,873)	–	–
Other long-term liabilities, net	(182,113)	–	–
Acquisition of Sigmor Corporation			
Properties and equipment	292,356	–	–
Long-term debt	(224,821)	–	–
Other long-term assets, net	24,612	–	–
Expenditures for properties and equipment	412,794	612,698	549,746
Investments	54,059	47,495	41,199
Dividends	147,677	110,298	102,915
Purchase of Common Stock	12,077	72,139	618
Reduction of long-term debt and capital lease obligations	1,142,826	630,160	170,116
Total Funds Utilized	3,229,240	1,472,790	864,594
Increase in cash and temporary cash investments	$ 70,968	$ 16,389	$ 1,480

The Financial Summary is an integral part of this and related Consolidated Financial Statements.

The accompanying Consolidated Financial Statements have been prepared in conformity with generally accepted accounting principles, the most significant of which are described below. These, along with the remainder of the Financial Summary, are an integral part of the Consolidated Financial Statements.

SIGNIFICANT ACCOUNTING POLICIES

Consolidation and Equity Accounting.
The Consolidated Financial Statements include the accounts of Diamond Shamrock Corporation and all domestic and foreign subsidiaries ("the Company"). The Company uses the equity method to account for its investments in affiliates and joint ventures ("associated companies"), except that non-corporate joint ventures in oil, gas and geothermal exploration and production are consolidated on a pro rata basis. Under the equity method, the Company recognizes its proportionate share of the net income or loss of associated companies currently, rather than when realized through dividends or disposal.

All significant intercompany accounts and transactions have been eliminated. Foreign subsidiaries and associated companies are included principally on the basis of fiscal years ending November 30.

Translation of Foreign Currencies.
The foreign currency accounts of the Company and associated companies, not having the United States dollar as their functional currency, are translated into United States dollars as follows: asset and liability accounts at the prevailing year-end exchange rates; income and expense items at the average monthly exchange rates in effect during the year. Translation gains and losses are included as a component of stockholders' equity.

Inventory Valuation.
Inventories are valued at the lower of cost or market. Cost for crude oil, petroleum products and chemicals is determined principally by the last-in, first-out ("LIFO") method. Coal, merchandise, supplies and foreign inventories are valued at average cost.

Properties and Equipment.
Properties and equipment are carried at cost. Major additions are capitalized; expenditures for repairs and maintenance are charged against earnings.

The Company uses the successful efforts method of accounting for the costs incurred in the acquisition, exploration, development and production of oil and gas reserves. Under this method, all geological and geophysical costs are expensed; all development costs, whether or not successful, are capitalized as costs of proved properties; exploratory drilling costs are initially capitalized, but if the effort is determined to be unsuccessful, the costs are then charged against earnings; depletion is computed based on an aggregation of properties with common geological structural features or stratographic conditions, such as reservoirs or fields; and unproved properties, both onshore and offshore, are periodically assessed and a valuation allowance (included as an element of depletion) is provided by a charge against earnings where impairment exists. Costs attributable to the acquisition, exploration and development of geothermal reserves are capitalized.

Interest.
The Company capitalizes the interest cost associated with major property additions and mineral development projects while in progress, such amounts being amortized over the useful lives of the related assets.

Depreciation, Depletion and Amortization.
Properties and equipment are depreciated generally on the straight-line basis over their estimated useful lives. Coal, oil, gas, geothermal and other raw material resources are depleted on the unit-of-production basis generally over estimated aggregate recoverable reserves. Intangible assets are amortized on a straight-line basis over their legal or estimated useful lives, not to exceed 40 years. Goodwill amounts which resulted from acquisitions prior to 1970 ($17,436,000 at December 31, 1983) are not amortized.

Pensions.
The Company has a number of trusteed pension plans, both contributory and noncontributory, covering substantially all full-time employees, other than employees engaged in the mining of coal who participate in miners' benefit plans. The Company also has an unfunded, noncontributory, supplemental retirement plan for certain officers. Pension cost is comprised of current service cost and amortization of past service cost over periods ranging from 10 to 40 years. Accrued pension cost is funded on a current basis.

Income Taxes.
Income taxes are provided during the year in which transactions affect the determination of financial statement income, regardless of when they are recognized for tax purposes. Deferred income taxes are provided for timing differences. Investment tax credits are accounted for using the flow-through method.

Earnings Per Common Share.
Earnings per Common share are based on earnings (after Preferred dividends in 1983) divided by the weighted average number of shares of Common Stock outstanding in each year (85,998,124 shares in 1983, 62,900,574 shares in 1982 and 62,612,062 shares in 1981).

Reclassifications.
Certain amounts in 1982 and 1981 have been reclassified to conform to the presentation adopted in 1983. These reclassifications had no effect on net income or stockholders' equity.

HOLDING COMPANY FORMED (REORGANIZATION)

Stockholders, at a special meeting held on August 30, 1983, approved the Plan and Agreement of Reorganization and the Plan and Agreement of Merger (the "Plans") whereby Diamond Shamrock Chemicals Company (formerly named Diamond Shamrock Corporation) became a wholly-owned subsidiary of New Diamond (subsequently renamed Diamond Shamrock Corporation). At the time of the merger, each outstanding share of Common and $2.07 Preferred Stock of Diamond Shamrock Chemicals Company ("Chemicals Company") became one share of Common Stock and one share of $2.07 Preferred Stock, respectively, of the new Diamond Shamrock Corporation.

The Certificate of Incorporation of the new Diamond Shamrock Corporation ("Parent") adopted under the Plans authorizes the Company to issue two classes of capital stock divided into 300,000,000 shares of Common Stock with $1.00 par value and 100,000,000 shares of Preferred Stock with $1.00 par value. (See "Acquisition of Natomas Company".)

The Chemicals Company transferred ownership of certain subsidiaries engaged in the exploration for and production of crude oil and natural gas, the refining of crude oil and sale of refined petroleum products and the mining of coal to its Parent as of January 26, 1984. Concurrent with such transfer the Chemicals Company assigned to and its Parent assumed liability for substantially all of the Chemicals Company's then outstanding domestic long-term debt.

ACQUISITION OF NATOMAS COMPANY

Effective August 31, 1983, a wholly-owned subsidiary of the Company was merged into Natomas Company, which then became a wholly-owned subsidiary of the Company. Natomas is principally engaged in the exploration for and production of crude oil and natural gas, geothermal exploration and production and coal mining. Under the terms of the merger agreement, each common share of Natomas was converted into 1.05 Common shares of the Company and each preferred share of Natomas was converted into a share of the Company's $4.00 Preferred Stock. A total of 58,625,700 shares of Common Stock and 2,500,000 shares of $4.00 Preferred Stock were issued. The total cost of the acquisition was $1,471,106,000.

The acquisition of Natomas was accounted for as a purchase. Natomas' assets and liabilities were recorded at their fair values, with the excess of cost over the fair values of the net assets acquired ($75,000,000) being amortized over 40 years. The results of Natomas' operations have been included in the Company's 1983 Consolidated Statement of Income since the date of acquisition. (See "Pro Forma Results of Operations".)

ACQUISITION OF SIGMOR CORPORATION

Effective January 14, 1983, Sigmor Corporation, one of the United States' largest independent gasoline retailers, was merged into a wholly-owned subsidiary of the Company. Under the terms of the merger agreement, holders of 4,086,186 shares of Sigmor common stock elected to receive $17.50 per share while other Sigmor stockholders elected to receive 0.44 of a share of the Company's $2.07 Preferred Stock for each share of Sigmor common stock owned, a total of 4,184,749 Preferred shares. The total cost of the acquisition was $161,875,000. The Company had owned 21 percent of Sigmor's common stock since 1978. The acquisition of Sigmor was accounted for as a purchase. Sigmor's assets and liabilities were recorded at their fair values. The results of Sigmor's operations have been included in the Company's 1983 Consolidated Statement of Income since the date of acquisition. (See "Pro Forma Results of Operations".)

Subsequent to its acquisition of Sigmor and as contemplated in the merger agreement, the Company sold certain of the acquired Sigmor assets to Tetco, Inc., a company wholly owned by the Turner family (the former majority owners of Sigmor). The sales proceeds ($43,201,000) were used to reduce the then outstanding borrowings under Sigmor's bank credit agreement. (See "Long-Term Debt and Credit Arrangements".)

PRO FORMA RESULTS OF OPERATIONS

Pro forma combined results of operations (unaudited) for 1983 and 1982 (as though the acquisitions of Natomas and

Sigmor had taken place on January 1, 1982) would have been as follows:

	1983	1982
Sales and operating revenues	$4,624,730	$5,325,259
Income (loss) from continuing operations	(74,286)	99,665
Net income (loss)	(69,415)	135,213
Per Common share		
Continuing operations	$ (.69)	$ .74
Net income (loss)	(.65)	1.03

The pro forma combined results of operations are not necessarily indicative of the actual results that would have occurred had the acquisitions taken place January 1, 1982, or of the future results of the combined companies.

ACQUISITION OF AMHERST COAL COMPANY

At a special meeting held on August 4, 1981, the stockholders of Amherst Coal Company approved an Agreement and Plan of Merger providing for the merger of a wholly-owned subsidiary of the Company into Amherst, which then became a wholly-owned subsidiary of the Company. Under the terms of the Agreement, each Amherst stockholder received 333.588 shares of the Company's Common Stock for each share of Amherst common stock owned (a total of 6,200,000 Common shares). The acquisition of Amherst was accounted for as a pooling of interests.

DISCONTINUED OPERATIONS

At June 30, 1981, the Company provided for estimated losses on the discontinuance of its Plastics and Animal Nutrition businesses, including $69,177,000 for anticipated operating losses. The loss from discontinued operations in the accompanying Consolidated Statement of Income includes this provision and the results of operations prior to discontinuance. Sales and operating revenues of discontinued operations were $187,572,000 in 1981.

The loss from discontinued operations was as follows:

	1981
Loss from operations, before tax benefit	$ 30,445
Income tax benefit	(13,060)
Loss from operations	$ 17,385
Estimated loss from disposal, before tax benefit	$134,775
Income tax benefit	(43,269)
Estimated loss from disposal	$ 91,506
Loss from discontinued operations	$108,891

EXTRAORDINARY ITEM – EARLY EXTINGUISHMENT OF DEBT

On September 26, 1983, the Company repurchased $7,830,000 principal amount of 8⅞% Sinking Fund Debentures due March 15, 1997, issued by Natomas Energy Company, a subsidiary of the Company. The extinguishment of this debt resulted in an extraordinary gain of $804,000, net of applicable income taxes of $684,000.

On April 27, 1983, the Company exchanged 1,057,622 shares of newly issued Common Stock to retire $27,500,000 principal amount of its 7¾% Sinking Fund Debentures due August 1, 1994. The exchange resulted in an extraordinary gain of $3,250,000 after deducting related expenses. The transaction was non-taxable for income tax purposes.

On March 30, 1982, the Company exchanged 3,035,000 shares of Common Treasury Stock to retire $97,081,000 principal amount of various sinking fund debentures. The exchange resulted in an extraordinary gain of $35,548,000 after deducting related expenses. The transaction was non-taxable for income tax purposes.

DIVIDENDS

Dividends have been paid on the Company's Common Stock for fifty-one consecutive years. The current annual dividend rate is $1.76 per Common share. The Company paid dividends of $1.76 per Common share in 1983 and 1982 and $1.70 per Common share in 1981. The Company paid dividends of $.34 per share of $2.07 Preferred Stock and $1.00 per share of $4.00 Preferred Stock. Total dividends paid were $147,677,000 in 1983, $110,298,000 in 1982 and $102,915,000 in 1981, including dividends paid by Amherst of $1,673,000 in 1981.

BUSINESS AND GEOGRAPHIC SEGMENTS

The Company's revenues are principally derived from five business segments: Exploration and Production, Refining and Marketing, Coal, Geothermal and Chemicals. Exploration and Production is engaged in the exploration for and production of crude oil and natural gas. Refining and Marketing is engaged in the processing of crude oil and natural gas and the sale of refined petroleum products and natural gas. Coal is engaged in the mining and sale of coal for steam generation and metallurgical applications. Geothermal is engaged in the exploration for and development of geothermal reserves and the sale of geothermal steam used to produce electricity. Chemicals is engaged in the manufacture and sale of a variety of commodity and specialty chemicals.

Business Segments

1983	Exploration and Production	Refining and Marketing	Coal	Geothermal	Chemicals	Corporate	Consolidated Financial Statements
Sales and operating revenues							
Outside customers	$ 474,610	$2,249,478	$278,063	$ 31,170	$ 942,072	$ 50,714	$4,026,107
Intersegment	143,692	2,859	77	–	735	683	
Total	$ 618,302	$2,252,337	$278,140	$ 31,170	$ 942,807	$ 51,397	
Operating profit	32,975	66,182	41,234	16,001	12,023	(183,387)	(14,972)
Equity earnings (losses)	–	(4,979)	(924)	–	(9,542)	–	(15,445)
Identifiable assets	2,939,039	823,740	297,343	749,860	1,062,974	151,485	6,024,441
Investment in equity affiliates	–	1,047	66,510	–	118,066	4,791	190,414
Expenditures for properties and equipment	276,922	37,829	20,418	14,770	33,341	29,514	412,794
Depreciation, depletion, and amortization	360,026	33,252	14,314	7,490	60,649	6,972	482,703

1982	Exploration and Production	Refining and Marketing	Coal	Chemicals	Corporate	Consolidated Financial Statements
Sales and operating revenues						
Outside customers	$ 254,532	$1,530,531	$335,058	$1,035,337	$ 21,921	$3,177,379
Intersegment	129,867	7,058	–	1,096	–	
Total	$ 384,399	$1,537,589	$335,058	$1,036,433	$ 21,921	
Operating profit	135,192	122,298	51,860	71,282	(137,505)	243,127
Equity earnings (losses)	–	(7,705)	(431)	(2,980)	(568)	(11,684)
Identifiable assets	1,161,790	431,669	252,311	1,094,025	254,218	3,194,013
Investment in equity affiliates	–	44,408	50,551	73,291	1,557	169,807
Expenditures for properties and equipment	439,223	24,429	30,405	102,946	15,695	612,698
Depreciation, depletion, and amortization	122,272	11,664	14,617	59,857	9,377	217,787

1981	Exploration and Production	Refining and Marketing	Coal	Chemicals	Corporate	Consolidated Financial Statements
Sales and operating revenues						
Outside customers	$ 257,814	$1,597,820	$290,018	$1,213,913	$ 16,650	$3,376,215
Intersegment	110,897	12,058	–	1,394	–	
Total	$ 368,711	$1,609,878	$290,018	$1,215,307	$ 16,650	
Operating profit	145,664	155,759	34,656	171,882	(138,897)	369,064
Equity earnings (losses)	–	6,939	276	(688)	665	7,192
Identifiable assets	859,482	454,144	221,292	1,215,864	265,603	3,016,385
Investment in equity affiliates	–	52,313	35,142	67,904	2,245	157,604
Expenditures for properties and equipment	317,488	40,726	25,948	140,451	25,133	549,746
Depreciation, depletion, and amortization	85,241	10,079	8,743	59,663	7,417	171,143

Geographic Segments

1983	United States	Indonesia	Other Foreign	Consolidated Financial Statements
Sales and operating revenues	$3,521,430	$ 179,813	$324,864	$4,026,107
Operating profit (loss)	(148,988)	114,179	19,837	(14,972)
Assets	4,192,701	1,389,062	442,678	6,024,441

1982	United States	Foreign	Consolidated Financial Statements
Sales and operating revenues	$2,898,022	$279,357	$3,177,379
Operating profit	222,315	20,812	243,127
Assets	2,909,018	284,995	3,194,013

1981	United States	Foreign	Consolidated Financial Statements
Sales and operating revenues	$3,073,969	$302,246	$3,376,215
Operating profit	335,749	33,315	369,064
Assets	2,639,032	377,353	3,016,385

Intersegment sales and operating revenues are generally derived from transactions made at prevailing market rates or arms-length negotiated transactions.

Business segment operating profit is sales and operating revenues less applicable segment operating expenses. In determining business segment operating profit none of the following is included: equity earnings, interest, Corporate expense and discontinued operations.

Identifiable assets, expenditures for properties and equipment, and depreciation, depletion and amortization relate to those assets that are utilized by the respective segment. Corporate assets are principally cash, investments and other assets that cannot be directly associated with the operations or activities of a segment, including the assets of discontinued operations.

Sales to Sigmor, an associated company prior to January 14, 1983, amounted to $419,140,000 in 1982 and $501,649,000 in 1981, 13% and 15%, respectively, of consolidated sales and operating revenues. (See "Acquisition of Sigmor Corporation".)

Net foreign assets, including the Company's investment in associated companies accounted for by the equity method were $1,184,307,000 at December 31, 1983, $221,674,000 at December 31, 1982 and $271,770,000 at December 31, 1981.

Results of foreign operations, after applicable local taxes, which includes earnings of subsidiaries and associated companies included in income from continuing operations, amounted to earnings of $39,374,000 in 1983, a loss of $4,496,000 in 1982 and earnings of $2,488,000 in 1981. Foreign currency transaction gains and losses, resulting from fluctuations in exchange rates, reflected in current earnings amounted to losses of $1,967,000 and $2,030,000 in 1983 and 1982, respectively, and a gain of $367,000 in 1981.

TAXES

Income (loss) before tax provision was comprised of earnings from the following:

	1983	1982	1981
United States	$(152,487)	$214,513	$355,619
Foreign	122,070	16,930	20,637
	$ (30,417)	$231,443	$376,256

The Company's worldwide provision for income taxes was comprised of the following:

	1983	1982	1981
Current			
Federal	$(41,961)	$(9,561)	$ 35,971
State and local	845	3,983	4,090
Foreign	49,266	16,047	16,535
	$ 8,150	$10,469	$ 56,596
Deferred			
Federal	$(15,292)	$67,964	$ 87,002
State and local	1,828	3,417	4,842
Foreign	35,114	50	(2,340)
	$ 21,650	$71,431	$ 89,504
	$ 29,800	$81,900	$146,100

The principal reasons for the difference between the statutory Federal income tax rate and the Company's worldwide provision for income taxes were:

	1983	1982	1981
Tax provision (credit) at statutory Federal rate (46%)	$(13,991)	$106,463	$173,078
Increase (reduction) resulting from			
Excess foreign income taxes	56,900	10,720	712
Investment tax credits	(9,638)	(20,601)	(28,418)
Excess statutory percentage depletion	(13,394)	(9,907)	(6,948)
Equity (earnings) losses	7,105	5,375	(3,309)
Federal minimum tax	3,906	–	2,208
Capital gains	–	(4,367)	(2,349)
Other, net	(1,088)	(5,783)	11,126
	$ 29,800	$ 81,900	$146,100

The provision for deferred income taxes was comprised of the tax effects of timing differences as follows:

	1983	1982	1981
Intangible drilling costs	$29,618	$28,630	$52,263
Accelerated depreciation	29,122	29,581	20,337
Capitalized interest	14,735	15,109	10,879
Development wells and related items	1,239	7,460	(1,036)
Coal minimum royalties	4,746	6,405	3,197
Asset write-offs	(36,058)	–	–
Foreign income taxes	(16,122)	–	–
Other, net	(5,630)	(15,754)	3,864
	$21,650	$71,431	$89,504

At December 31, 1983, the Company had $36,200,000 of unused investment tax credits for Federal income tax purposes which expire between 1995 and 1998.

At December 31, 1983, there were accumulated undistributed earnings after applicable local taxes of foreign subsidiaries, associated companies and the Company's domestic international sales corporations of $66,124,000 for which no provision was necessary for foreign withholding or other income taxes because that amount had been reinvested in properties and equipment and working capital.

Taxes other than income taxes were comprised of the following:

	1983	1982	1981
Windfall profit	$ 17,652	$18,159	$ 32,583
Gross production	30,285	26,904	22,941
Real and personal property	25,093	18,836	20,621
Payroll	22,955	19,165	18,640
Other	16,008	13,641	10,540
	$111,993	$96,705	$105,325

PENSIONS

The charge against earnings for pension cost, including officers' supplemental pensions, but excluding contributions to coal miners' benefit plans, was $23,915,000 in 1983, $22,531,000 in 1982 and $19,148,000 in 1981 of which approximately 91% related to United States employees.

In March 1982, the Company contributed its overriding royalty interest in certain properties located in Henderson County, Texas (the Opelika field) to the collective investment trust for several of its employee pension plans. The overriding royalty interest had a fair market value of $18,000,000 as determined by a firm of independent petroleum engineers. Prior to consummating this transaction, the Company received an opinion from an independent fiduciary that the contribution would be in the best interests of the plans' participants and that the terms of the transaction were at least as favorable to the plans as those an unrelated party would receive in an arms-length transaction. The effect of the contribution was to increase the Company's 1982 income before tax provision by $18,000,000 (included in other revenues, net) and to reduce the Company's accrued pension liability by the same amount.

In 1981, for its United States Retirement Income Pension Plan, the Company changed its actuarial cost method from

Under the Natomas Thrift Plan, eligible participating employees may elect to contribute up to 16% of their monthly salaries, the initial 6% on a before tax basis. Contributions are made to a trust for investment into three different funds including a Company stock fund. The Company contributes an amount equal to 100% of the participant's initial 6% monthly contribution. Participants are at all times fully vested in their contributions and become fully vested in the Company's contributions over a three year period. The Company's contribution to the Natomas Plan amounted to $508,000 in 1983.

At December 31, 1983, 3,215,216 Common shares were reserved for issuance under the Plans.

RECEIVABLES

	December 31, 1983	1982	1981
Notes and accounts receivable	$442,758	$328,333	$476,899
Less—Allowance for doubtful receivables	3,597	3,106	4,026
	$439,161	$325,227	$472,873

A summary of the changes in the allowance for doubtful receivables follows:

	1983	1982	1981
January 1,	$3,106	$4,026	$4,652
Additions charged against earnings	3,301	2,497	1,562
Write-offs, net of recoveries	(2,810)	(3,417)	(2,188)
December 31,	$3,597	$3,106	$4,026

INVENTORIES

	December 31, 1983	1982	1981
Finished and in-process materials	$201,507	$215,319	$185,079
Supplies	82,176	70,725	65,803
Raw materials	85,677	62,529	111,565
	$369,360	$348,573	$362,447

The current cost of inventories valued under the LIFO cost method (approximately 47%, 64% and 60% of total inventories at December 31, 1983, 1982 and 1981, respectively) exceeded their LIFO carrying values by $69,159,000, $118,510,000 and $111,675,000 at December 31, 1983, 1982 and 1981, respectively.

During 1983 and 1982, the Company reduced certain of its inventory quantities. The reduction resulted in a liquidation of LIFO inventory quantities carried at the lower costs that prevailed in prior years. The effect of the inventory reduction was to decrease the 1983 loss from continuing operations and to increase 1982 income from continuing operations by $15,904,000 ($.18 per share) and $883,000 ($.01 per share), respectively.

ASSETS HELD FOR SALE

Assets held for sale at December 31, 1983 are comprised of all of the United States oil and gas producing and non-producing properties, excluding Federal offshore leases, of Natomas North America, Inc., a subsidiary of the Company. Such assets are valued at their estimated realizable value, based upon an agreement in principle for their sale.

PROPERTIES AND EQUIPMENT

	December 31, 1983	1982	1981
Exploration and production	$4,152,389	$1,528,268	$1,155,465
Refining and marketing	770,880	339,498	285,405
Coal	229,870	182,059	155,338
Geothermal	760,359	–	–
Chemicals	899,310	1,031,253	1,028,657
Corporate	82,097	100,495	95,794
	$6,894,905	$3,181,573	$2,720,659
Less – Accumulated depreciation and depletion	2,446,058	1,067,137	955,008
	$4,448,847	$2,114,436	$1,765,651

Authorized expenditures under approved appropriations for additions to properties and equipment over the next several years were $397,414,000 at December 31, 1983, after deducting expenditures through that date.

The provision for depreciation and depletion was $476,423,000 in 1983 (including $179,946,000 for the impairment of five leases in the Beaufort Sea associated with the Mukluk No. 1 exploratory well); $210,531,000 in 1982 and $163,785,000 in 1981. At December 31, 1983, costs of $127,685,000 attributable to geothermal reserves not yet in production were not subject to depletion.

The charge against earnings for maintenance and repairs was $112,051,000 in 1983, $110,729,000 in 1982 and $119,096,000 in 1981.

INVESTMENTS

On July 14, 1983, the Company and Showa Denko, K.K., a Japanese company, formed SDS Biotech Corporation, a 50/50 joint venture to carry on a worldwide agricultural chemicals business. The operations of the joint venture include the Company's former agricultural chemicals and animal health businesses, together with its research facilities at Concord Township, Ohio, and related support functions. These assets were transferred to the joint venture at their book value, and the joint venture assumed certain indebtedness of the Company related to the businesses totaling $149,786,000 and other liabilities arising out of these businesses.

Effective June 30, 1982, the Company and Switzerland based Chemnor Corporation formed an electrochemical technology joint venture, Eltech Systems Corporation. The Company holds a 49% interest in the joint venture, to which it either sold or contributed various assets including the stock of subsidiary corporations, manufacturing facilities, electrochemical technology and international marketing expertise. The joint venture also assumed various liabilities. Upon formation of the joint venture the Company realized $65,000,000 in cash. The Company retained the patents and licenses related to its metallic catalytically-activated electrodes. Eltech and its affiliates are, however, licensees of that technology.

	December 31,		
	1983	1982	1981
Investments and advances to associated companies, at equity			
Unincorporated			
Montco Coal Partnership (⅔)	$ 20,167	$ 14,913	$ 10,000
Diamond Shamrock Chuitna Coal Joint Venture (½)	24,458	14,627	5,361
Tenneco Entex Falcon Joint Venture (¼)	12,426	10,333	8,282
Incorporated			
SDS Biotech Corporation (50%)	37,547	–	–
SDS Biotech K.K. (50%)	7,519	6,171	6,455
Sigmor Corporation (21%)	–	40,645	48,983
Carbocloro S.A. Industrias Quimicas (50%)	33,386	37,276	37,244
Eltech Systems Corporation (49%)	21,619	10,408	–
Hawkeye Coal Company (50%)	3,849	5,179	5,567
Other	29,443	30,255	35,712
	$190,414	$169,807	$157,604
Investments, at cost, and long-term receivables			
The 1600 Corporation	29,946	–	–
Other	27,600	23,499	24,917
	$247,960	$193,306	$182,521

Effective January 14, 1983, the Company acquired the remaining 79% of Sigmor. (See "Acquisition of Sigmor Corporation".)

The 1600 Corporation is the successor to the pipe business of Sigmor. (See "Commitments and Contingencies".)

INTANGIBLE ASSETS

	December 31,		
	1983	1982	1981
Intangibles resulting from acquisitions – excess of cost over fair value of net assets acquired	$105,611	$ 31,481	$ 38,643
Patents, trademarks, formulae, processes, etc., purchased	67,341	76,615	85,063
	$172,952	$108,096	$123,706
Less – Amortization	40,368	37,274	40,871
	$132,584	$ 70,822	$ 82,835

The provision for amortization was $6,280,000 in 1983, $7,256,000 in 1982 and $7,358,000 in 1981.

LONG-TERM DEBT AND CREDIT ARRANGEMENTS

	December 31, 1983	1982	1981
Parent			
Borrowings supported by unused revolving credit agreement			
Commercial paper/money market	$ 323,800		
Bankers acceptances	200,000		
Bank term loan/credit agreement	150,000		
	$ 673,800		
Chemicals Company			
Sinking Fund Debentures			
5%	$ –	$ 5,231	$ 5,231
7¾%	–	28,904	31,489
8¼%	–	40,753	47,053
9% due 1985-1999	70,195	70,195	75,000
9⅛% due 1985-2000	100,000	100,000	100,000
7.70% due 1991-2001	88,687	88,687	125,000
8½% due 1997-2008	99,684	99,663	148,964
11¼% due 1994-2013	149,615	–	–
Notes			
4.65%	–	10,500	12,000
4⅞%	–	1,875	2,250
10⅝% due 1993	99,794	–	–
Pollution control/Industrial revenue financings	47,287	53,736	45,314
Bank term loan/credit agreement	–	200,000	200,000
Commercial paper supported by unused revolving credit agreement	–	177,150	9,961
Other loans	27,574	26,076	29,019
	$ 682,836	$902,770	$831,281
Natomas			
Debentures			
8⅞% due 1991-1997	$ 17,272		
15½% due 1989	84,652		
Notes			
15% due 1985	51,764		
15¾% due 1986	53,424		
7¾% due 1986 (Sfr 50,000,000)	36,100		
8¼% due 1987 (Sfr 50,000,000)	26,000		
Bonds			
8% due 1984	9,711		
7½% due 1990 (Sfr 75,000,000)	29,700		
Institutional loans	161,124		
Bank and other loans	9,940		
	$ 479,687		
	$1,836,323	$902,770	$831,281
Less – Due within one year	38,468	8,600	8,964
	$1,797,855	$894,170	$822,317

The loan agreements and indentures covering Chemicals Company Notes and Debentures contain conventional restrictions on declaration and payment of dividends and acquisition of the Chemicals Company's Common Stock. The most restrictive of these provisions relate to the 9⅛% Sinking Fund Debentures due November 15, 2000; under such provisions the amount of consolidated Chemicals Company retained earnings free of such restrictions was approximately $872,080,000 at December 31, 1983. Effective January 26, 1984, with the assumption of all of the Chemicals Company's sinking fund debentures, notes and $42,272,000 principal amount of pollution control/industrial revenue financings and other loans by its Parent, these debt restrictions became those of the Company. (See "Holding Company Formed (Reorganization)".)

Included in the Company's consolidated retained earnings at December 31, 1983, were undistributed equity earnings of associated companies of $2,742,000.

The aggregate maturities of long-term debt outstanding at December 31, 1983 for the next five years were as follows: 1984 – $38,468,000; 1985 – $98,882,000; 1986 – $151,849,000; 1987 – $44,976,000; and 1988 – $56,652,000.

In June 1981, the Company entered into a Bank Term Loan/Credit Agreement. The term loan provides for the borrowing of up to $200,000,000. Borrowings can be repaid at any time with a final maturity at the earlier of June 15, 1987 or the date on which the unpaid principal amount thereunder is less than $50,000,000. The Agreement provides that at maturity any outstanding borrowings under the term loan are convertible, at the Company's option, into a four year credit loan repayable in four equal annual installments. Interest on such borrowings is based upon, at the Company's option, the prime rate, Eurodollar rate or certificate of deposit rate. Borrowings outstanding under this Agreement were $150,000,000 at December 31, 1983 and $200,000,000 at December 31, 1982 and 1981.

In November 1982, in anticipation of its acquisition of Sigmor, the Company entered into a Revolving Credit and Term Loan Agreement with a group of financial institutions that were parties to a similar credit agreement with Sigmor. The November 1982 Agreement which became effective at the time of the Sigmor acquisition, provided for the borrowing of up to $200,000,000 on a revolving credit basis and would have matured December 31, 1987.

On January 14, 1983, concurrent with its acquisition of Sigmor, the Company borrowed $151,157,000 under the Agreement to refund the then outstanding balance of Sigmor's credit agreement with those same financial institutions. In October 1983, borrowings outstanding under this Agreement were repaid and the Agreement cancelled.

In May 1983, the Company sold $150,000,000 of 11¼% Sinking Fund Debentures due May 1, 2013 at 99.735% and $100,000,000 of 10⅝% Notes due May 1, 1993 at 99.78%. The net proceeds of the issues were used to refinance the Company's commercial paper and money market borrowings.

In November 1983, the Company entered into a new Revolving Credit and Term Loan Agreement, replacing various revolving credit agreements then in effect. The 1983 Revolving Credit Agreement provides for the borrowing of up to $1,000,000,000 on a revolving credit basis and matures November 14, 1988. Borrowings outstanding at the maturity date are convertible, at the option of the Company, into a three year term loan. Interest on borrowings is based upon, at the Company's option, the prime rate, Eurodollar rate or certificate of deposit rate. The 1983 Revolving Credit Agreement also provides for a commitment fee of ⅜% for the first $350,000,000 of unused commitment and ¼% for the remainder. At December 31, 1983, there were no borrowings outstanding under this Agreement.

Notes payable at December 31, 1983, 1982 and 1981 consisted of debt obligations of foreign subsidiaries at an average interest rate of 12.2%, 18.5% and 14.1%, respectively. The maximum amount of notes payable outstanding, principally the Company's commercial paper and short-term bank debt in 1982 and 1981, was $21,645,000 during 1983, $77,040,000 during 1982 and $47,943,000 during 1981. The average amount of notes payable outstanding was $13,112,000 during 1983, $13,634,000 during 1982 and $56,112,000 during 1981 at an average interest rate of 13.4%, 12.2% and 16.5%, respectively.

Total interest costs incurred were as follows:

	1983	1982	1981
Interest expense	$100,703	$ 72,873	$75,441
Capitalized interest	42,862	32,846	23,650
	$143,565	$105,719	$99,091

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PREFERRED STOCK

At December 31, 1983, 100,000,000 shares of Preferred Stock with $1.00 par value, were authorized and 4,182,533 shares of $2.07 Cumulative Convertible Preferred Stock and 2,499,800 shares of $4.00 Cumulative Convertible Preferred Stock were issued. At December 31, 1982 and 1981, there were no shares of Preferred Stock issued. The rights and preferences of shares of authorized but unissued Preferred Stock are to be established by the Company's Board of Directors at the time of issuance.

In conjunction with the acquisition of Natomas, the Company's Board of Directors authorized the creation of a series of Preferred Stock to consist of a maximum of 2,500,000 shares with $1.00 par value, being designated the $4.00 Cumulative Convertible Preferred Stock. Each outstanding share is entitled to one vote per share, is convertible at any time into 1.228 shares of the Company's Common Stock, shall receive a cash dividend of $4.00 per share, is callable at $52.80 per share ($131,989,000 in the aggregate) and has a liquidation value of $50.00 per share ($124,990,000 in the aggregate) plus accrued but unpaid dividends, if any. (See "Acquisition of Natomas Company".)

In conjunction with the acquisition of Sigmor, the Company's Board of Directors authorized the creation of a series of Preferred Stock to consist of a maximum of 4,183,374 shares with $1.00 par value, being designated the $2.07 Cumulative Convertible Preferred Stock. Each outstanding share is entitled to one vote, is convertible at any time into the Company's Common Stock on a one-for-one basis, shall receive a cash dividend of $2.07 per share ($.34 per share in 1983) and has a liquidation value of $31.82 per share ($133,088,000 in the aggregate) plus accrued but unpaid dividends, if any. (See "Acquisition of Sigmor Corporation".)

COMMON STOCK

At December 31, 1983, 300,000,000 shares of Common Stock with $1.00 par value were authorized. At December 31, 1983, 1982 and 1981, 126,961,585, 63,565,110 and 62,878,401 shares, respectively, were issued.

In May 1983, the Company sold 3,442,378 shares of newly issued Common Stock at $22.875 per share. The net proceeds of the sale were used to repay the Company's commercial paper borrowings. In April 1983, the Company exchanged 1,057,622 shares of newly issued Common Stock to retire $27,500,000 principal amount of its 7¾% Sinking Fund Debentures due August 1, 1994. (See "Extraordinary Item – Early Extinguishment of Debt".)

COMMON TREASURY STOCK

At its meeting on October 15, 1981, the Board of Directors authorized the purchase of up to 2,000,000 shares of the Company's Common Stock. During 1981, the Company purchased 22,500 shares of its Common Stock at an average cost of $27.46 per share. On February 9, 1982, the Company completed the purchase of the remaining 1,977,500 shares in open market transactions at an average cost of $25.02 per share. On March 1, 1982, the Board of Directors authorized the purchase of up to 2,000,000 additional shares of the Company's Common Stock. During 1982, the Company purchased 1,064,400 shares of its Common Stock in open market transactions at an average cost of $21.29 per share. (See "Extraordinary Item – Early Extinguishment of Debt".)

During the first quarter of 1983, the Company acquired 130,931 shares of its Common Stock at an average cost of $23.33 (129,556 of the shares were received as payment for assets sold). During the fourth quarter of 1983, the Company purchased 400,000 shares of its Common Stock in open market transactions at an average cost of $22.55 per share.

STOCK OPTIONS

The Company's 1980 Long-Term Incentive Plan, administered by the Compensation Committee of the Board of Directors, is intended to provide officers and key employees with an incentive to remain in the employ of and enhance the long-term performance of the Company through the use of stock options, Stock Appreciation Rights ("SARS") and Performance Units. Under the terms of the 1980 Plan, options are granted at prices equal to the market price of the Company's Common Stock at the dates of grant, become exercisable in varying installments and expire 10 years from date of grant. Options and SARS may no longer be granted under the superseded 1971 Stock Option Plan; however, any options or SARS outstanding thereunder remain in effect.

The holder of an option which includes SARS may surrender such option, when exercisable, and receive, at the discretion of the Company, Common Stock and/or cash equal to the difference between the option price and the Common Stock's market price on the date of surrender. Options surrendered upon exercise of SARS are not available for regrant. Performance Units were granted concurrently with certain options and SARS for an award period of three years, with an achievable value which cannot exceed the fair market value of the Company's Common Stock at the date of grant. The value actually assigned the Performance Units upon completion of the ensuing award period is contingent on achieving specific performance objectives in excess of minimum targets.

The grant or exercise of an option does not result in a charge against the Company's earnings. However, any excess of Common Stock market price over the option price of options which include SARS does result in a charge against the Company's earnings; a subsequent decline in market price results in a credit to earnings, but only to a maximum of the earnings charges incurred in prior years on unexercised SARS. The charge against earnings for SARS was $117,000 in 1983 and the credit to earnings for SARS was $308,000 in 1982 and $1,049,000 in 1981. There was no charge against earnings for Performance Units, as the Units earned no value in the 1983 and 1982 award periods.

At December 31, 1983, 894,143 Common shares were reserved for future grants under the 1980 Plan, and options representing 1,112,678 Common shares were exercisable. Detail of options outstanding follows:

	Shares		
	1983	1982	1981
January 1,	1,680,622	1,375,562	1,160,386
Granted	392,900	419,750	303,430
Natomas options assumed	232,815	–	–
Exercised	(138,729)	(12,834)	(53,549)
Cancelled	(513,472)	(101,856)	(34,705)
December 31,	1,654,136	1,680,622	1,375,562

Exercise prices of options outstanding at December 31, 1983 ranged from $9.05 to $38.69 per share.

LEASE COMMITMENTS

The Company leases certain transportation and marketing facilities, office space and machinery and equipment under cancellable and non-cancellable leases, most of which expire within 20 years and may be renewed by the Company.

The Company's properties and equipment under capital lease principally relate to its chemicals segment and were as follows:

	December 31,		
	1983	1982	1981
Processing facilities	$21,584	$26,326	$26,788
Transportation, marketing and general facilities	20,377	26,529	26,010
	$41,961	$52,855	$52,798
Less–Accumulated depreciation	21,967	27,775	26,061
	$19,994	$25,080	$26,737

Included in the provision for depreciation and depletion was depreciation applicable to assets under capital lease of $2,307,000 in 1983, $2,481,000 in 1982 and $2,749,000 in 1981.

Minimum annual rentals at December 31, 1983 were as follows:

	Capital Leases	Operating Leases
1984	$ 4,796	$ 85,192
1985	4,947	77,455
1986	4,831	68,153
1987	4,850	43,237
1988	3,690	39,918
1989 and thereafter	20,127	254,695
	$43,241	$568,650
Less–		
Executory costs	74	
Interest equivalents	15,288	
Present value	$27,879	
Less–Current portion	2,577	
Long-term capital lease obligations	$25,302	

Rental expense for operating leases was as follows:

	1983	1982	1981
Total rentals	$92,632	$82,437	$62,680
Less–Sublease rental income	7,085	3,957	1,847
Rental expense	$85,547	$78,480	$60,833

COMMITMENTS AND CONTINGENCIES

The Company owns a 50% interest in Diamond Shamrock Alberta Gas Ltd. ("DSAG"), an associated company in Canada. DSAG is engaged in the production and sale of polyvinyl chloride resins and has been included in discontinued operations. DSAG arranged financing in the amount of $72,680,000 ($68,406,000 remained unpaid at December 31, 1983) with two United States insurance companies, the loan being secured by a mortgage on DSAG's plant and equipment. The Company and its venture partner have committed to the lenders that they will purchase from DSAG all of the polyvinyl chloride resin produced.

The Company also owns a 50% interest in Carbocloro S.A. Industrias Quimicas, an associated company in Brazil which is engaged in the production and sale of chlorine and caustic soda. Carbocloro has completed an expansion doubling its capacity for the production of those products. Carbocloro arranged financing for the expansion in the amount of $100,000,000 ($88,889,000 remained unpaid at December 31, 1983) with a group of international banks. The loan is secured by a mortgage on the assets acquired for the expansion. The loan agreement requires Carbocloro to meet specific financial criteria which had not been achieved at December 31, 1983. The Company and its venture partner have committed to the lenders that the specified financial criteria will be achieved as contemplated in the loan agreement.

At December 31, 1983, the Company was a party to several coal leases, production from which has not commenced. The agreements, having terms of generally 20 years, call for aggregate minimum royalty payments (whether or not coal is produced) of approximately $15,526,000 annually. Such minimum royalty payments may be offset against royalties payable on future production.

In 1981, Natomas was advised by the Indonesian government, that in its view, Natomas was obligated to pay additional amounts relating to pre-1978 crude oil liftings by Natomas in excess of its annual allocation. Natomas has reached a settlement with the Indonesian government that requires it to make a series of payments estimated as follows: $59,729,000 in 1988; $31,942,000 in 1989; $24,508,000 in 1990; and $24,394,000 in 1991.

A subsidiary of the Company, together with several other companies, is a defendant in several hundred lawsuits in which the plaintiffs allege personal injury from exposure to "Agent Orange" and other herbicides composed in whole or in part of 2,4,5-trichlorophenoxyacetic acid or containing some amount of dioxin. Those herbicides (hereinafter "Agent Orange") were sold to the United States Government by the subsidiary and the other defendants for use by the United States during military operations in Vietnam. The suits, which seek substantial amounts in damages, have been transferred to the United States District Court for the Eastern District of New York for coordinated or consolidated pretrial proceedings. In December 1983, that Court formally certified a class action in which the plaintiff class consists of present and former servicemen who were in the United States, New Zealand or Australian Armed Forces assigned to Vietnam at any time from 1961 to 1972 who were injured while in or near Vietnam by exposure to Agent Orange. The class also includes spouses, parents, and children of the servicemen born before January 1, 1984, directly or derivatively injured as a result of the exposure. The Court specifically noted that the class definition does not imply a conclusion that anyone in the class was injured as a result of exposure to Agent Orange. A separate class action was certified with respect to plaintiffs' claims for punitive damages. Trial of the claims of certain representative plaintiffs is scheduled to commence before the Court and a jury in May 1984. The Court has preliminarily determined that the claims and defenses in the class action will be governed by a "Federal or national consensus common law," the rules of which remain to be enunciated by the Court. In view of numerous unresolved issues, including the unsettled question of the substantive law that will be applied to determine liability, and the extensive pre-trial discovery that remains to be taken on the issue of whether Agent Orange caused any of the injuries alleged by the plaintiffs, it is not possible to make an informed judgment as to the outcome or to quantify the potential liability, if any, of the Company. The Company intends to continue to defend the litigation vigorously.

A subsidiary of the Company is a defendant in a purported class action lawsuit alleging liability as a result of the manufacture of herbicides at its former Newark, New Jersey plant. The defendants also include all subsequent owners of the property after such subsidiary sold it in 1971. The plaintiffs purport to bring this action on behalf of former employees of the subsidiary and residents of

Newark in the vicinity of the former plant who allege personal injuries resulting from alleged exposure to dioxin. In addition, the plaintiffs include certain businesses and property owners which allege damages as a result of the discovery of dioxin at the site. No specific monetary damages are alleged. Since the suit is only in an early stage, and since in the opinion of the Company there is no reliable medical evidence which connects dioxin to any illness or injury other than chloracne, it is not possible to make any informed judgment as to the outcome or quantify the potential liability, if any, of the Company. The Company intends to defend the litigation vigorously.

The Company and The B.F. Goodrich Company are parties to a Federal Trade Commission administrative complaint that alleges that the acquisition by Goodrich of the Company's Plastics subsidiary would illegally reduce competition in the domestic production of vinyl chloride monomer and polyvinyl chloride resins. The Company and Goodrich believe the sale was entirely lawful and they are contesting the complaint vigorously. The Company has agreed, however, that if a final judgment of a Federal appeals court requires Goodrich to divest itself of the acquired assets and they are not sold to a third party, the Company will reacquire them.

The Company is also a party to a number of other lawsuits, the outcomes of which are not expected to have a material effect on the Company's operations or financial position.

Loan guarantees associated with indebtedness of associated companies and other entities amounted to $1,966,000 at December 31, 1983. The Company is also contingently liable in the amount of $46,501,000 for notes receivable sold with recourse, such notes arising from the sale of the pipe business of Sigmor.

The Company's commitments for future purchases are for quantities not in excess of anticipated requirements and at prices which will not result in a loss. The Company anticipates that it will sustain no losses in the fulfillment of its existing sales commitments.

Report of Independent Accountants

To the Stockholders and Board of Directors
Diamond Shamrock Corporation

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of income, stockholders' equity and changes in financial position present fairly the financial position of Diamond Shamrock Corporation and its subsidiaries at December 31, 1983, 1982 and 1981, and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied. Our examinations of these statements were 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.

Price Waterhouse

Dallas, Texas
February 16, 1984

Report of the Company

To the Stockholders
Diamond Shamrock Corporation

The Company is responsible for all information and representations contained in the accompanying Consolidated Financial Statements and other portions of this Annual Report. In the preparation of the information contained in this Annual Report, it has been necessary to make estimates and judgments based on data provided by the Company's accounting and control systems. The accompanying Consolidated Financial Statements have been prepared in conformity with generally accepted accounting principles and have been examined by Price Waterhouse, independent accountants, whose report thereon is included in this Annual Report.

In meeting its responsibility for the reliability of the Consolidated Financial Statements, the Company depends on its accounting and control systems. These systems are designed to provide reasonable assurance that assets are safeguarded against loss from unauthorized use and that transactions are executed in accordance with the Company's authorizations and are recorded properly. The Company believes that its accounting and control systems provide reasonable assurance that errors or irregularities that could be material to the Consolidated Financial Statements are prevented or would be detected within a timely period.

The Board of Directors pursues its oversight role for the Consolidated Financial Statements through the Audit Committee which is composed solely of directors who are not employees of the Company. The Audit Committee meets with the Company's financial management and operations auditors periodically to review the work of each and to monitor the discharge of their responsibilities. The Audit Committee also meets periodically with the Company's independent accountants, who have free access to the Audit Committee without representatives of the Company present, to discuss accounting, control, auditing and financial reporting matters.

The independent accountants provide an objective review as to the Company's reported operating results and financial position. The Company also has an active operations auditing program which monitors the functioning of the Company's accounting and control systems and provides additional assurance that the Company's operations are conducted in a manner which is consistent with applicable laws.

R M Ahlstrom

R. M. Ahlstrom, Vice President, Finance
Chief Financial Officer

R W Arp

R. W. Arp, Controller
Principal Accounting Officer

Dallas, Texas
February 16, 1984

Supplementary Information *(unaudited)*
(dollar amounts in tables are in thousands, except per share)

QUARTERLY DATA

	1983				
	March 31,	June 30,	September 30,	December 31,	For the Year
Sales and operating revenues	$855,433	$978,374	$1,014,533	$1,177,767	$4,026,107
Operating profit (loss)	12,141	45,839	85,964	(158,916)	(14,972)
Income (loss) from continuing operations	4,634	26,271	38,909	(130,031)	(60,217)
Extraordinary item	–	3,250	804	–	4,054
Net income (loss)	4,634	29,521	39,713	(130,031)	(56,163)
Per Common share					
Continuing operations	$ .07	$ .38	$ .42	$ (1.05)	$ (.76)
Extraordinary item	–	.05	.01	–	.05
Net income (loss)	.07	.43	.43	(1.05)	(.71)
Dividends	.44	.44	.44	.44	1.76
Market price					
High	26⅜	25¾	26⅝	25¾	26⅝
Low	20⅝	20⅝	21¼	18⅝	18⅝

	1982				
	March 31,	June 30,	September 30,	December 31,	For the Year
Sales and operating revenues	$791,135	$857,709	$773,196	$755,339	$3,177,379
Operating profit (loss)	42,302	49,256	75,576	75,993	243,127
Income from continuing operations	29,149	31,926	42,272	46,196	149,543
Extraordinary item	35,548	–	–	–	35,548
Net income	64,697	31,926	42,272	46,196	185,091
Per Common share					
Continuing operations	$ .47	$ .51	$ .66	$ .73	$ 2.37
Extraordinary item	.57	–	–	–	.57
Net income	1.04	.51	.66	.73	2.94
Dividends	.44	.44	.44	.44	1.76
Market price					
High	25¾	22⅝	20⅞	24¾	25¾
Low	19⅛	17¼	16½	18⅝	16½

	1981				
	March 31,	June 30,	September 30,	December 31,	For the Year
Sales and operating revenues	$872,650	$810,448	$820,569	$872,548	$3,376,215
Operating profit	96,974	86,866	90,841	94,383	369,064
Income from continuing operations	60,774	55,248	54,401	59,733	230,156
(Loss) from discontinued operations	(9,656)	(99,235)	–	–	(108,891)
Net income (loss)	51,118	(43,987)	54,401	59,733	121,265
Per Common share					
Continuing operations	$ .97	$ .88	$ .87	$ .96	$ 3.68
Discontinued operations	(.15)	(1.59)	–	–	(1.74)
Net income	.82	(.71)	.87	.96	1.94
Dividends	.42	.42	.42	.44	1.70
Market price					
High	36¾	39⅝	38⅞	29¾	39⅝
Low	30	27¾	23¾	25¼	23¾

Due to the August 31, 1983 acquisition of Natomas, the average number of Common shares outstanding used in calculating the fourth quarter earnings per Common share was significantly higher than the weighted average number of Common shares outstanding used in calculating earnings per Common share in each of the first three quarters and for the year. As a consequence of these share differences, along with the wide variation in quarterly earnings, calculated earnings per Common share for the year 1983 does not equal the sum of the four quarters.

Price Waterhouse have made a limited review of the quarterly data presented above, in accordance with standards established by the American Institute of Certified Public Accountants. However, such limited review procedures do not constitute an examination in accordance with generally accepted auditing standards and accordingly, Price Waterhouse express no opinion thereon.

OIL AND GAS PRODUCING ACTIVITIES

In November 1982, the Financial Accounting Standards Board ("FASB") issued Standard No. 69, "Disclosures about Oil and Gas Producing Activities". This Standard continues the previous disclosure requirements of the FASB and the Securities and Exchange Commission ("SEC") concerning proved oil and gas reserve quantities, capitalized costs, costs incurred and the method of accounting used, and requires new disclosures about the results of operations from oil and gas producing activities and a standardized measure of discounted future net cash flow relating to proved oil and gas reserves.

Results of Operations.

Results of operations from oil and gas producing activities were as follows:

	1983			
	United States	Indonesia	Other Foreign	Worldwide
Sales	$259,761	$179,813	$35,036	$474,610
Transfers	143,692	–	–	143,692
	$403,453	$179,813	$35,036	$618,302
Production costs				
Windfall profit tax	$ 17,652	$ –	$ –	$ 17,652
Gross production tax	24,806	–	4,090	28,896
Other	37,254	36,862	4,286	78,402
Exploration costs	57,189	2,228	13,650	73,067
Depreciation and depletion	325,805	26,409	6,878	359,092
Gain on sale of leases	(780)	–	–	(780)
	$461,926	$ 65,499	$28,904	$556,329
Income (loss) before tax provision	$(58,473)	$114,314	$ 6,132	$ 61,973
Provision for income taxes	(30,414)	64,016	10,427	44,029
Results of operations	$(28,059)	$ 50,298	$(4,295)	$ 17,944

	1982		
	United States	Foreign	Worldwide
Sales	$235,185	$19,347	$254,532
Transfers	129,867	–	129,867
	$365,052	$19,347	$384,399
Production costs			
Windfall profit tax	$ 18,159	$ –	$ 18,159
Gross production tax	19,429	3,046	22,475
Other	32,846	750	33,596
Exploration costs	68,434	4,110	72,544
Depreciation and depletion	120,975	714	121,689
Gain on sale of leases			
Opelika field	(18,000)	–	(18,000)
Other	(12,101)	–	(12,101)
	$229,742	$ 8,620	$238,362
Income before tax provision	$135,310	$10,727	$146,037
Provision for income taxes	49,917	7,306	57,223
Results of operations	$ 85,393	$ 3,421	$ 88,814

	1981		
	United States	Foreign	Worldwide
Sales	$239,558	$18,256	$257,814
Transfers	110,897	–	110,897
	$350,455	$18,256	$368,711
Production costs			
Windfall profit tax	$ 32,583	$ –	$ 32,583
Gross production tax	18,880	2,865	21,745
Other	22,377	586	22,963
Exploration costs	51,427	5,199	56,626
Depreciation and depletion	84,198	636	84,834
Gain on sale of leases	(3,116)	–	(3,116)
	$206,349	$ 9,286	$215,635
Income before tax provision	$144,106	$ 8,970	$153,076
Provision for income taxes	62,330	6,119	68,449
Results of operations	$ 81,776	$ 2,851	$ 84,627

Capitalized Costs.

Included in properties and equipment are capitalized amounts applicable to the Company's oil and gas producing activities. Such capitalized amounts include the cost of mineral interests in properties, completed and incomplete wells, and related support equipment as follows:

	December 31, 1983*			
	United States	Indonesia	Other Foreign	Worldwide
Proved properties	$1,196,634	$1,403,852	$135,820	$2,736,306
Unproved properties	449,956	723,900	27,848	1,201,704
	$1,646,590	$2,127,752	$163,668	$3,938,010
Less – Accumulated depreciation and depletion	686,834	938,561	10,950	1,636,345
	$ 959,756	$1,189,191	$152,718	$2,301,665

**Excludes costs related to assets held for sale. (See "Assets Held for Sale".)*

	December 31, 1982		
	United States	Foreign	Worldwide
Proved properties	$1,028,681	$12,035	$1,040,716
Unproved properties	413,176	5,974	419,150
	$1,441,857	$18,009	$1,459,866
Less – Accumulated depreciation and depletion	438,753	4,657	443,410
	$1,003,104	$13,352	$1,016,456

	December 31, 1981		
	United States	Foreign	Worldwide
Proved properties	$ 802,792	$10,235	$ 813,027
Unproved properties	260,635	–	260,635
	$1,063,427	$10,235	$1,073,662
Less – Accumulated depreciation and depletion	344,890	3,946	348,836
	$ 718,537	$ 6,289	$ 724,826

Costs Incurred.

Costs incurred by the Company in its oil and gas producing activities (whether capitalized or expensed) were as follows:

	1983*			
	United States	Indonesia	Other Foreign	Worldwide
Property acquisition costs	$158,063	$1,223,290	$142,955	$1,524,308
Exploration costs	68,616	35,596	15,689	119,901
Development costs	87,037	68,730	2,698	158,465
	$313,716	$1,327,616	$161,342	$1,802,674

**Excludes costs related to assets held for sale. (See "Assets Held for Sale".)*

	1982		
	United States	Foreign	Worldwide
Property acquisition costs	$190,879	$ –	$190,879
Exploration costs	113,977	8,632	122,609
Development costs	165,584	3,226	168,810
	$470,440	$11,858	$482,298

	1981		
	United States	Foreign	Worldwide
Property acquisition costs	$ 90,563	$ –	$ 90,563
Exploration costs	92,175	5,331	97,506
Development costs	149,671	1,087	150,758
	$332,409	$ 6,418	$338,827

Oil and Gas Reserves.
The Company's net interests in estimated quantities of proved developed and undeveloped reserves of crude oil, including condensate (in thousands of barrels), and natural gas (in millions of cubic feet) at December 31, 1983, 1982 and 1981, and changes in such estimated quantities in 1983, 1982 and 1981 were as follows:

	United States		Indonesia		Other Foreign		Worldwide	
	Oil	Gas	Oil	Gas	Oil	Gas	Oil	Gas
Proved developed and undeveloped reserves								
January 1, 1981	35,868	861,567			93	31,926	35,961	893,493
Revisions of previous estimates	(746)	(17,609)			4	1,293	(742)	(16,316)
Extensions, discoveries and other additions	4,599	151,885			30	14,921	4,629	166,806
Production	(3,806)	(108,975)			(12)	(3,684)	(3,818)	(112,659)
December 31, 1981	35,915	886,868			115	44,456	36,030	931,324
Revisions of previous estimates	(6,287)	(8,990)			(18)	(8,502)	(6,305)	(17,492)
Extensions, discoveries and other additions	7,354	70,181			7	1,020	7,361	71,201
Production	(3,793)	(98,791)			(11)	(3,489)	(3,804)	(102,280)
Sale of reserves in place	(17)	(3,252)			–	–	(17)	(3,252)
December 31, 1982	33,172	846,016	–	–	93	33,485	33,265	879,501
Purchase of reserves in place	2,220	33,095	80,646	4,684	10,500	60,198	93,366	97,977
Revisions of previous estimates	368	(20,235)	–	–	(709)	(1,261)	(341)	(21,496)
Extensions, discoveries and other additions	2,257	49,533	–	–	1,044	1,087	3,301	50,620
Enhanced recovery	2,044	1,474	–	–	–	–	2,044	1,474
Production	(4,170)	(84,903)	(6,706)	(272)	(520)	(4,665)	(11,396)	(89,840)
Sale of reserves in place	(67)	(3,076)	–	–	–	–	(67)	(3,076)
December 31, 1983*	35,824	821,904	73,940	4,412	10,408	88,844	120,172	915,160
Proved developed reserves								
January 1, 1981	25,948	785,175	–	–	80	25,480	26,028	810,655
December 31, 1981	30,963	820,605	–	–	86	30,025	31,049	850,630
December 31, 1982	26,403	807,160	–	–	82	30,882	26,485	838,042
December 31, 1983*	29,368	791,099	61,652	4,412	10,297	79,694	101,317	875,205

**Excludes reserves related to assets held for sale. (See "Assets Held for Sale".)*

Future Net Cash Flow.

Presented below is the standardized measure of discounted future net cash flow ("standardized measure") relating to the Company's proved oil and gas reserves. The Company cautions that this standardized measure is not a measure of fair market value, and that the standardized measure presented for the Company's proved oil and gas reserves is not representative of their value. The standardized measure is intended to assist financial statement users in making comparisons between companies. The Company believes that the fair market value of its proved oil and gas reserves is substantially in excess of such standardized measure.

As prescribed by Standard No. 69, the standardized measure has been prepared assuming year-end selling prices adjusted for future fixed and determinable contractual price changes, year-end development and production costs, year-end statutory tax rates adjusted for future tax rates already legislated and a 10% annual discount rate.

	December 31, 1983			
	United States	Indonesia	Other Foreign	Worldwide
Future revenues	$3,395,166	$2,096,000	$605,432	$6,096,598
Future production and development costs	(854,450)	(876,300)	(173,859)	(1,904,609)
Future income taxes	(1,096,330)	(519,100)	(191,141)	(1,806,571)
Future net cash flow	$1,444,386	$ 700,600	$240,432	$2,385,418
Annual discount at 10% rate	(517,861)	(161,300)	(95,903)	(775,064)
Standardized measure of discounted future net cash flow	$ 926,525	$ 539,300	$144,529	$1,610,354

	December 31, 1982		
	United States	Foreign	Worldwide
Future revenues	$3,244,994	$179,719	$3,424,713
Future production and development costs	(924,865)	(50,905)	(975,770)
Future income taxes	(989,558)	(56,957)	(1,046,515)
Future net cash flow	$1,330,571	$ 71,857	$1,402,428
Annual discount at 10% rate	(508,466)	(23,686)	(532,152)
Standardized measure of discounted future net cash flow	$ 822,105	$ 48,171	$ 870,276

	December 31, 1981		
	United States	Foreign	Worldwide
Future revenues	$2,803,318	$203,764	$3,007,082
Future production and development costs	(689,753)	(45,131)	(734,884)
Future income taxes	(886,731)	(74,493)	(961,224)
Future net cash flow	$1,226,834	$ 84,140	$1,310,974
Annual discount at 10% rate	(470,489)	(34,976)	(505,465)
Standardized measure of discounted future net cash flow	$ 756,345	$ 49,164	$ 805,509

The following are the principal sources of change in the standardized measure of the discounted future net cash flow:

	1983	1982	1981
January 1,	$ 870,276	$ 805,509	$ 678,973
Purchase of reserves in place	896,839	–	–
Sales and transfers of oil and gas produced, net of production costs	(473,370)	(310,284)	(291,599)
Net changes in prices and production costs	139,171	159,502	154,711
Extensions, discoveries, and improved recovery, less related costs	140,056	165,982	276,210
Previously estimated development costs	139,661	50,790	46,682
Revisions of previous quantity estimates	13,743	(45,680)	(59,700)
Accretion of discount	159,559	137,244	116,672
Net change in income taxes	(166,575)	(57,565)	(79,184)
Opelika field	–	(18,000)	–
Other	(109,006)	(17,222)	(37,256)
December 31,	$1,610,354	$ 870,276	$ 805,509

GEOTHERMAL RESERVES

The Company's estimated quantities (in thousands of equivalent barrels of oil) of proved and probable geothermal reserves at December 31, 1983 and changes in such estimated quantities and average realized price in 1983, were as follows:

	1983
January 1,	–
Purchase of reserves in place	172,799
Production	(1,847)
December 31,	170,952
Average realized price (per megawatt hour)	$37.04

COAL RESERVES

The Company's estimated quantities (in thousands of tons) of recoverable proved and probable coal reserves (excluding lignite) at December 31, 1983, 1982, 1981 and 1980 and changes in such estimated quantities and average realized price in 1983, 1982, 1981 and 1980 were as follows:

The Company	1983	1982	1981	1980
January 1,	654,209	630,623	475,204	418,637
Purchase of reserves in place	111,756	31,907	190,008	64,145
Revisions of previous estimates	–	–	(3,434)	–
Production	(6,913)	(7,134)	(6,123)	(7,578)
Sale of reserves in place	(214)	(1,187)	(25,032)	–
December 31,	758,838	654,209	630,623	475,204
Associated Companies				
January 1,	389,918	382,418	202,955	–
Purchase of reserves in place	–	–	179,701	203,000
Revisions of previous estimates	(40)	8,041	–	–
Production	(230)	(541)	(238)	(45)
December 31,	389,648	389,918	382,418	202,955
Average realized price (per ton)	$36.92	$36.70	$34.77	$30.31

Average realized price reflects sales of both steam and metallurgical coal (excluding sub-bituminous coal, none of which was sold) at a wide range of prices.

INFLATION ADJUSTED FINANCIAL DATA

In the opinion of some, inflation of the magnitude that existed in years prior to 1982 reduced the usefulness and comparability of the historical dollar financial statements that companies have traditionally prepared. In an effort to enhance usefulness, as well as provide comparability by mitigating the impact of inflation, the Financial Accounting Standards Board issued its Standard No. 33 which requires the presentation of specific financial data adjusted to a constant dollar and current cost basis.

The constant dollar basis adjusts historical cost into dollars having the same general purchasing power. The constant dollar data presented was arrived at by restating the Company's historical cost inventories, properties and equipment, cost of products sold and operating expenses and depreciation and depletion to average 1983 dollars by applying the "Consumer Price Index for All Urban Consumers".

The current cost basis adjusts historical costs to reflect changes in specific prices of the assets consumed by the Company's operations, as if all products sold were produced in the current year and as if all properties and equipment were completely revalued and depreciation and depletion calculated on those current year prices. The current cost of properties and equipment, excluding mineral resources, was calculated by using engineering estimates and external industry price indexes. For mineral resources, external industry price indexes were used as well as engineering estimates and the current price of similar leaseholds. Depreciation and depletion was computed by the same method as was used in preparing the historical Consolidated Financial Statements. Inventories were adjusted to current prices by using gross inventories, before deduction of the LIFO reserve. Income from continuing operations adjusted for changing prices follows:

	1983		
	Consolidated Financial Statements *(Historical Cost)*	Adjusted For General Inflation *(Constant Dollar)*	Adjusted for Changes in Specific Prices *(Current Cost)*
Sales and operating revenues	$4,026,107	$4,026,107	$4,026,107
Other revenues	9,175	9,175	9,175
	$4,035,282	$4,035,282	$4,035,282
Less –			
Cost of products sold and operating expenses	3,056,989	3,081,316	3,086,440
Exploration costs, including dry holes	73,067	73,067	73,067
Depreciation, depletion and amortization	482,703	596,954	646,104
Selling and administrative	216,480	216,480	216,480
Research and development	23,764	23,764	23,764
Taxes other than income taxes	111,993	111,993	111,993
Interest	100,703	100,703	100,703
Provision for income taxes	29,800	29,800	29,800
	$4,095,499	$4,234,077	$4,288,351
(Loss) from continuing operations	$ (60,217)	$ (198,795)	$ (253,069)
Gain from decline in purchasing power of net amounts owed		62,930	62,930
Decrease in excess of specific prices over general inflation			
Inventories			(34,813)
Properties and equipment			(321,858)
Net change in stockholders' equity from the above	$ (60,217)	$ (135,865)	$ (546,810)
Per Common share	$ (.76)	$ (1.63)	$ (6.41)

The drilling cost index used to value the current cost of producing properties fell 9% during the year while the Consumer Price Index used for the constant dollar valuation continued to rise. This was a major cause in the decrease in the excess of specific prices over general inflation of $321,858,000 for properties and equipment as shown above.

The loss from continuing operations for 1983 was increased by $138,578,000 on a constant dollar basis and $192,852,000 on a current cost basis. The reductions were mainly attributable to the increased depreciation and depletion charged against earnings from the upward revaluation of properties and equipment from historical dollars to dollars as measured on the constant dollar and current cost bases. The Company's use of the LIFO method of valuing inventories charges current costs against earnings, and mitigates the differences between earnings reported on the historical, constant dollar and current cost bases. Also, the Company's tax provision was not restated to reflect a deduction for depreciation on an inflation-adjusted basis in accordance with current Federal income tax regulations.

The gain of $62,930,000 in 1983 from the decline in the purchasing power of net amounts owed is a measure of the impact of inflation on monetary items that will be converted into fixed amounts of dollars regardless of price changes. As the Company was in a net monetary liability position, a gain was reported since its obligations will be repaid with dollars having less purchasing power. This gain partially offsets the reduction in earnings on a constant dollar basis and on a current cost basis.

The change in stockholders' equity on both the constant dollar and current cost bases results from the revaluation of inventories and properties and equipment.

The Company is constantly seeking ways to cope with the impact of inflation, including periodically assessing the performance goals which it has established for its businesses and the adoption, where appropriate, of accounting methods (e.g. LIFO) that better match current costs with current revenues.

Since constant dollar and current cost are subjective data, the Company cautions that it be used as a relative measure of performance rather than as a precise measure of performance between business entities.

Selected Supplementary Financial Data
(in historical dollars unless otherwise indicated) follows:

	1983	1982	1981	1980	1979
Sales and operating revenues	$4,026,107	$3,177,379	$3,376,215	$3,145,394	$2,312,635
Constant dollar	4,026,107	3,278,457	3,698,558	3,803,024	3,174,367
Depreciation and depletion	476,423	210,531	163,785	142,818	136,854
Constant dollar	590,674	300,173	263,983	281,602	281,987
Current cost	639,824	345,751	306,010	325,003	313,453
Income (loss) from continuing operations	(60,217)	149,543	230,156	213,246	160,439
Constant dollar	(198,795)	71,356	167,569	148,906	126,083
Current cost	(253,069)	25,778	125,543	105,505	94,617
Income (loss) from continuing operations, per Common share	(.76)	2.37	3.68	3.48	2.72
Constant dollar	(2.37)	1.13	2.67	2.44	2.14
Current cost	(3.00)	.41	2.00	1.72	1.60
Dividends per Common share	1.76	1.76	1.70	1.62	1.51
Constant dollar	1.76	1.82	1.87	1.96	2.07
Inventories	369,360	348,573	362,447	388,381	320,439
Constant dollar	444,446	453,056	471,697	556,802	503,240
Current cost	438,519	481,942	510,051	584,583	524,268
Properties and equipment, net	4,448,847	2,114,436	1,765,651	1,634,988	1,410,697
Constant dollar	5,193,676	2,819,903	2,576,198	2,611,943	2,425,073
Current cost	5,491,952	3,440,037	3,316,041	3,048,611	2,837,056
Excess of current cost over constant dollar cost					
Inventories	(5,927)	28,886	38,354	27,781	21,028
Properties and equipment, net	298,276	620,134	739,843	436,668	411,983
Long-term debt and capital lease obligations at December 31,	1,823,157	925,097	854,729	844,975	750,916
Gain from decline in purchasing power of net amounts owed	62,930	49,718	99,430	124,744	138,917
Total assets at December 31,	6,024,441	3,194,013	3,016,385	2,895,457	2,514,541
Stockholders' equity at December 31,	2,743,327	1,407,231	1,349,735	1,329,162	1,101,446
Per Common share	20.50	22.14	21.48	21.29	18.55
Constant dollar	3,563,242	2,217,181	2,269,532	2,474,538	2,298,623
Per Common share	26.63	34.88	36.11	39.64	38.70
Current cost	3,855,591	2,866,201	3,047,729	2,938,987	2,731,634
Per Common share	28.81	45.09	48.49	47.08	45.99
Market price per Common share at December 31,	19.88	20.88	25.38	35.38	31.50
Constant dollar	19.88	21.54	26.89	40.85	40.89
Average consumer price index (1967 equals 100)	298.4	289.2	272.4	246.8	217.4

Historical Information *Continuing Operations*
(dollars in thousands, except per share)

	1983	1982	1981
Operations			
Sales and operating revenues	$4,026,107	$3,177,379	$3,376,215
Earnings (losses)	(60,217)	149,543	230,156
Financial Position			
Current assets	$1,167,463	$ 788,577	$ 963,333
Current liabilities	846,091	475,289	491,326
Properties and equipment, less depreciation and depletion	4,448,847	2,114,436	1,765,651
Total assets	6,024,441	3,194,013	3,016,385
Capital Structure			
Long-term debt	$1,797,855	$ 894,170	$ 822,317
Long-term capital lease obligations	25,302	30,927	32,412
Deferred income taxes	364,656	364,094	305,993
Stockholders' equity	2,743,327	1,407,231	1,349,735
Total	$4,931,140	$2,696,422	$2,510,457
Other Data			
Capital expenditures	$ 466,853	$ 660,193	$ 590,945
Dividends	147,677	110,298	102,915
Depreciation, depletion and amortization	482,703	217,787	171,143
Funds provided by operations	476,877	446,527	487,694
Per Common Share			
Earnings (loss)	$ (.76)	$ 2.37	$ 3.68
Dividends	1.76	1.76	1.70
Book value	20.50	22.14	21.48
Financial Ratios			
Current ratio	1.4	1.7	2.0
Earnings as a percent of sales and operating revenues	(1.5)%	4.7%	6.8%
Total debt as a percent of total capital	37.8	34.9	34.7
Dividends per share as a percent of earnings per share	–	74.3	46.2
Percent return on average capital employed	(1.6)	5.7	9.9
Percent return on average stockholders' equity	(3.1)	10.8	17.2
Effective tax rate	–	35.5	39.0

1980	1979	1978	1977	1976	1975	1974	1973
$3,145,394	$2,312,635	$1,783,168	$1,595,008	$1,361,765	$1,161,375	$ 971,423	$ 620,707
213,246	160,439	123,487	169,005	146,698	130,009	101,555	36,291
$ 973,187	$ 857,885	$ 667,914	$ 585,526	$ 510,035	$ 445,128	$ 369,319	$ 283,982
437,984	428,157	321,837	275,626	249,659	201,665	241,199	171,892
1,634,988	1,410,697	1,344,120	1,176,807	948,700	724,922	622,865	467,789
2,895,457	2,514,541	2,214,575	1,941,050	1,607,623	1,269,024	1,088,150	852,554
$ 809,847	$ 712,544	$ 672,628	$ 569,881	$ 439,986	$ 366,709	$ 269,288	$ 196,780
35,128	38,372	40,783	41,629	39,226	–	–	–
259,614	198,523	164,572	131,775	92,401	74,743	58,443	55,018
1,329,162	1,101,446	984,457	894,780	759,310	609,276	502,701	412,943
$2,433,751	$2,050,885	$1,862,440	$1,638,065	$1,330,923	$1,050,728	$ 830,432	$ 664,741
$ 449,882	$ 310,413	$ 381,408	$ 438,579	$ 400,058	$ 213,182	$ 216,939	$ 132,993
91,910	78,009	65,263	55,515	44,535	37,532	30,798	24,646
149,666	143,582	129,216	97,052	92,024	76,686	53,215	51,149
399,617	310,380	255,883	280,782	260,267	216,746	147,999	82,447
$ 3.48	$ 2.72	$ 2.11	$ 3.06	$ 2.69	$ 2.51	$ 1.98	$ .60
1.62	1.51	1.42	1.175	.95	.80	.6125	.5125
21.29	18.55	16.75	15.38	13.83	11.85	10.54	8.51
2.2	2.0	2.1	2.1	2.0	2.2	1.5	1.7
6.8%	6.9%	6.9%	10.6%	10.8%	11.2%	10.5%	5.9%
35.4	37.8	40.1	38.2	37.5	35.6	36.8	33.4
46.6	55.5	67.3	38.4	35.3	31.9	30.9	85.4
10.9	9.5	8.1	12.8	13.5	15.0	14.6	5.8
17.5	15.4	13.1	20.4	21.4	23.4	22.2	9.0
38.5	34.0	31.0	38.0	38.5	37.5	37.5	30.0

Corporate Officers


William H. Bricker


Charles E. Stewart


Riley M. Epps


Roger R. Hemminghaus

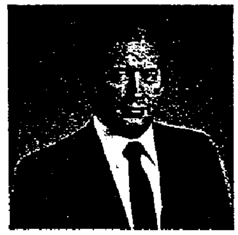

Richard W. Arp


J. L. Jackson


Richard M. Ahlstrom


Robert E. Garbesi


James F. Kelley


Timothy J. Fretthold


J. Avery Rush, Jr.


Gerald G. Carlton


C. Barton Groves


C. Dale McDoulett, Jr.


Donald C. Mielke

William H. Bricker
Chairman and Chief Executive Officer, joined Diamond Shamrock in 1969 as vice president and general manager of the Biochemicals Division. He has served as corporate vice president and president of the corporation's chemical company, and as executive vice president, chief operating officer, and president and chief executive officer of the corporation. Mr. Bricker, 52, earned B.S. and M.S. degrees from Michigan State University.

J. L. Jackson
President and Chief Operating Officer, was most recently corporate executive vice president and president of the Coal Unit, a position he assumed upon the merger with Falcon Seaboard in 1979. At Falcon Seaboard he served as corporate executive vice president, president of the Falcon Coal Co. subsidiary, and director of the parent company. Mr. Jackson, 52, has a B.S. from The University of Texas.

J. Avery Rush, Jr.
Vice Chairman, joined Shamrock Oil and Gas Corp. in 1953 as an attorney. He became general counsel, vice president, and executive vice president. In 1967, he was elected vice president, finance, for the newly formed Diamond Shamrock Corp., and subsequently president of the Oil and Gas Unit and corporate executive vice president. Mr. Rush, 61, has B.A. and LL.B. degrees from The University of Texas.

Charles E. Stewart
Corporate Executive Vice President and President of Diamond Shamrock Chemicals Co., joined Diamond Alkali Co. in 1957 as a sales trainee. He served in several management positions in the Electro Chemicals and Soda Products divisions, including vice president and general manager of Soda Products and vice president and general manager of the Process Chemicals Division. He has been corporate vice president for planning and development and president of the International Technology Unit. Mr. Stewart, 48, is a graduate of Marquette University.

Richard M. Ahlstrom
Corporate Vice President, Finance, joined Diamond Alkali Co. in 1960 as a trainee. He has served in several financial and planning positions, as chief financial officer and treasurer of a South American subsidiary, manager of administration in the Specialty Chemicals Division, assistant treasurer of the corporation, treasurer, and vice president and treasurer. Mr. Ahlstrom, 49, received an A.B. from Harvard.

Gerald G. Carlton
Corporate Vice President, Administration, joined Diamond Alkali Co. in 1961 as an accountant. He subsequently held several employee relations positions within the company's chemical operations before being named a group employee relations manager, then corporate director of employee relations. Mr. Carlton, 48, is a graduate of Ohio University.

Riley M. Epps
Corporate Vice President and President of Diamond Shamrock Refining and Marketing Co., joined Shamrock Oil and Gas Corp. in 1959 as assistant to the vice president in charge of sales. There, he was named general manager of marketing and vice president in charge of sales. He subsequently became group vice president – sales and raw materials for the Oil and Gas Unit. Mr. Epps, 55, holds a B.S. degree from Texas A&M University.

Robert E. Garbesi
Corporate Vice President and President of Diamond Shamrock Coal Co., was most recently executive vice president of the Coal Unit. He came to Diamond Shamrock in that position upon the merger with Falcon Seaboard in 1979, and was formerly senior vice president of Consolidation Coal Co. Mr. Garbesi, 58, has a B.S. degree from Miami University (Ohio).

C. Barton Groves
Corporate Vice President and President of Diamond Shamrock Exploration Co., joined the Oil and Gas Unit in 1973 as a geophysicist. He became division exploration manager, unit vice president – exploration, and unit executive vice president. Mr. Groves, 46, holds a B.S. degree from Texas Tech University.

Roger R. Hemminghaus
Corporate Vice President, Planning and Development, joined Diamond Shamrock in February 1984. Previously, he was vice president, planning, United Energy Resources, Inc., where he also had been vice president, planning/United Gas Pipeline, and vice president, supplemental supply. He has held management positions with Energy Cooperative, Inc. and Exxon Company, USA. Mr. Hemminghaus, 47, has a B.S. degree from Auburn University.

James F. Kelley
Corporate Vice President and General Counsel, joined Diamond Shamrock in March 1981. He was previously deputy general counsel of United Technologies Corporation, having served that corporation as vice president and general counsel of its United Technologies International subsidiary and as chief administrative officer of that subsidiary. A graduate of Yale University, Mr. Kelley, 42, also has a J.D. from the University of Chicago.

C. Dale McDoulett, Jr.
Corporate Vice President and Chairman and Chief Executive Officer of Diamond Shamrock's Natomas Co. subsidiary, was most recently corporate vice president for development. He came to Diamond Shamrock in 1979, upon the merger with Falcon Seaboard, as vice president, administration of the Coal Unit. He became vice president, marketing and development, for the unit, then corporate director, development. Mr. McDoulett, 39, holds B.B.A. and J.D. degrees from the University of Oklahoma.

Richard W. Arp
Controller, joined Diamond Alkali Co. in 1961 as a tax accountant and served in similar capacities for TRW, Inc., and DeSoto, Inc., from 1965 to 1969. Named assistant tax manager for Diamond Shamrock in 1969, Mr. Arp became manager of tax administration, corporate tax manager, corporate director of taxes, assistant controller, and assistant division manager of plastics. Mr. Arp, 47, has a B.S. degree from Kent State University and an M.B.A. from Case Western Reserve University.

Timothy J. Fretthold
Secretary, joined Diamond Shamrock in 1977 following service as an attorney for the Securities and Exchange Commission. He has served as a corporate attorney, assistant secretary, and senior counsel. Mr. Fretthold, 34, has a B.A. degree from Yale University and a J.D. from Case Western Reserve University.

Donald C. Mielke
Treasurer, joined Diamond Alkali Co. in 1963 as a trainee. He has served as an accountant in the Industrial Chemicals Division, financial analyst for the Electro Chemicals Division, manager of administration of the Electrode Corporation subsidiary, staff assistant in the Treasury Department, and assistant treasurer. Mr. Mielke, 41, is a graduate of Penn State University.

Board of Directors

B. Charles Ames
Chairman and Chief Executive Officer of Acme-Cleveland Corporation, machine tools manufacturer, Cleveland, Ohio; director since 1979; age 58. (1*, 2)

J. David Barnes
Chairman and Chief Executive Officer of Mellon National Corporation and Mellon Bank, Pittsburgh, Pennsylvania; director since 1971; age 54. (3, 4)

William H. Bricker
Chairman and Chief Executive Officer of Diamond Shamrock Corporation, Dallas, Texas; director since 1974; age 52. (1, 4*, 5*)

W. L. Lyons Brown, Jr.
Chairman and Chief Executive Officer of Brown-Forman Corporation, a consumer products company, Louisville, Kentucky; director since 1977; age 47. (3*, 4)

Philip E. Coldwell
Chairman of Coldwell Financial Consultants, Washington, D.C., financial consultant to banks and other financial organizations; former member of the Board of Governors, Federal Reserve System; director since 1980; age 61. (1, 2)

Gene Edwards
Chairman and Chief Executive Officer of The First National Bank of Amarillo, Amarillo, Texas; director since 1979; age 59. (1, 2*)

Raymond A. Hay
Chairman and Chief Executive Officer of The LTV Corporation, engaged in steel, aerospace and energy businesses, Dallas, Texas; director since 1979; age 55. (2, 4, 5)

Allen C. Holmes
National Managing Partner of Jones, Day, Reavis & Pogue law firm, Cleveland, Ohio; director since 1977; age 63. (3, 5)

J. L. Jackson
President and Chief Operating Officer, Diamond Shamrock Corporation, Dallas, Texas; director since 1983; age 52. (1, 4, 5)

John T. Kimbell
Independent business consultant; former Vice Chairman and director of Baxter Laboratories, manufacturer of medical care products, Lake Forest, Illinois; director since 1974; age 58. (2, 4)

Wallace Macgregor
Independent metals and minerals consultant, Tiburon, California; former director of Natomas Company; director since 1983; age 66.

Richard W. Manderbach
Independent energy consultant, South Pasadena, California; former Senior Vice President-Energy-Worldwide of Bank of America; former director of Natomas Company; director since 1983; age 66.

J. Avery Rush, Jr.
Vice Chairman of Diamond Shamrock Corporation, Dallas, Texas; director since 1982; age 61. (4)

W. Thomas York
Chairman and Chief Executive Officer of AMF Incorporated, manufacturer of leisure and industrial products, White Plains, New York; director since 1978; age 50. (1, 3)

1 Member of the Board Composition Committee
2 Member of the Audit Committee
3 Member of the Compensation Committee
4 Member of the Executive Committee
5 Member of the Administration Committee

* Committee chairman

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General Information

Toll-free stockholder information line.
Stockholder Services: For information about your stockholder account, the dividend reinvestment program, or other stockholder services, call the toll-free number below and ask for Stockholder Services.

Investor Relations: For general information about Diamond Shamrock, for investment data, or for information about the company's business performance, ask for Investor Relations.

The toll-free numbers are 800/527-7822 (outside Texas) and 800/442-7289 (in Texas).

Annual Meeting.
Diamond Shamrock stockholders are encouraged to attend the company's Annual Meeting in the Plaza Ballroom, Plaza of the Americas Hotel, 703 North Pearl Boulevard, Dallas, Texas, at noon Dallas time, Thursday, April 19, 1984. Proxy statements and proxy forms for the meeting have been mailed to stockholders with this Annual Report.

Investor Supplement and Form 10-K.
Additional operating statistics and information, together with the company's 1983 Annual Report to the Securities and Exchange Commission on Form 10-K, are available in the 1983 Investor Supplement to this Annual Report. Stockholders may obtain a copy of the Supplement free of charge by writing to the Director of Investor Relations at our headquarters in Dallas.

Principal markets.
Common stock market symbol: *DIA*
New York Stock Exchange
Pacific Stock Exchange
Frankfurt Stock Exchange (Federal Republic of Germany)
Basel Stock Exchange (Switzerland)
Geneva Stock Exchange (Switzerland)
Zurich Stock Exchange (Switzerland)

Transfer agent and registrar.
AmeriTrust Company
900 Euclid Avenue
Cleveland, Ohio 44101
Telephone 216/687-5000

Independent accountants.
Price Waterhouse
Dallas, Texas

Equal opportunity employer.
Diamond Shamrock fully supports the concept and practice of providing equal employment opportunities for all persons. It is our policy to recruit, hire, compensate, train, promote, transfer, and retain all qualified employees without regard to race, color, religion, sex, age, national origin, handicap, or veteran status.

Principal offices.
Diamond Shamrock Corporation
World Headquarters
Diamond Shamrock Tower
717 North Harwood Street
Dallas, Texas 75201
Telephone 214/922-2000

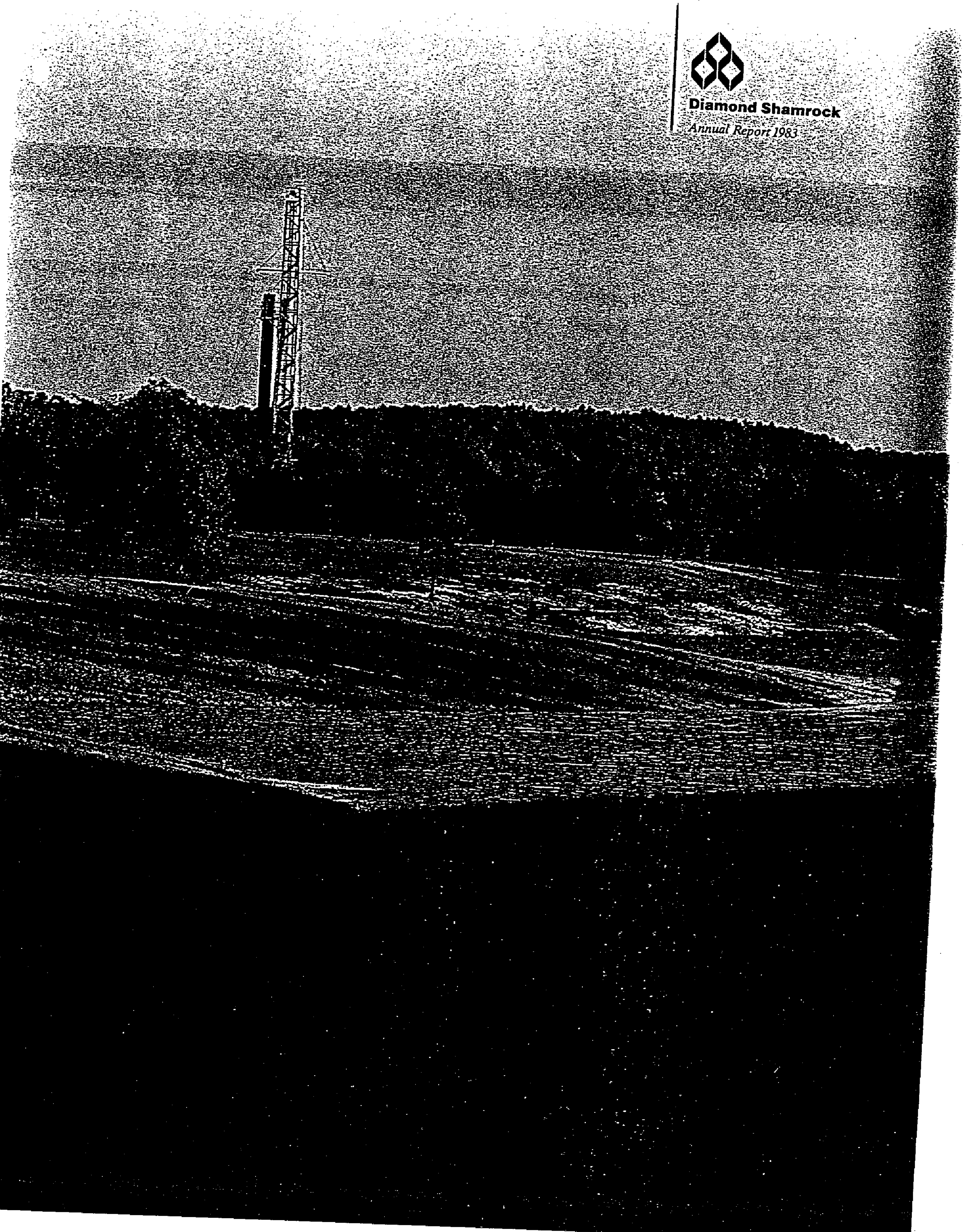
Diamond Shamrock Chemicals Company
Diamond Shamrock Building
351 Phelps Court
Irving, Texas 75061-1433
Telephone 214/659-7000

Diamond Shamrock Coal Company
1200 First Security Plaza
Lexington, Kentucky 40507
Telephone 606/231-5300

Diamond Shamrock Exploration Company
Diamond Shamrock Building
112 West 8th Street
Amarillo, Texas 79173
Telephone 806/378-3500

Diamond Shamrock Refining and Marketing Company
3643 East Commerce
San Antonio, Texas 78220-0267
Telephone 512/223-2631

Natomas Company
International Building
601 California Street
San Francisco, California 94108
Telephone 415/981-5700



Diamond Shamrock

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