EXHIBIT 26

Annual Report For 1984

Diamond Shamrock

The Resourceful Company

About This Report.
From a rich and varied past, Diamond Shamrock has developed into one of the nation's leading integrated oil and gas companies. As we enter our 75th year, we share with you on the following pages a few glimpses of that past, as well as our view of today and of the future.

Contents.

Thank You Avery Rush.
Vice chairman Avery Rush will retire this year after 32 years of exemplary service. A man of multiple and keen abilities, he has shaped many important aspects of today's Diamond Shamrock.

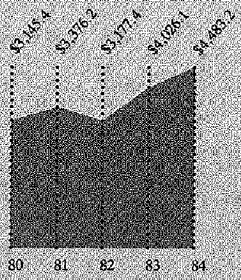
After joining Shamrock Oil and Gas in 1953, Avery rose through the ranks to become general counsel. He was elected chief financial officer of the newly formed Diamond Shamrock in 1967, and he headed corporate planning as well. As the '70s began, Avery assumed the leadership of our Oil and Gas Company and oversaw its orderly expansion during a turbulent decade for the industry. Then in the early '80s, at the request of the Board of Directors, he stayed on past normal officer retirement age to become vice chairman, lending his leadership to the transformation of Diamond Shamrock into a domestic integrated oil and gas company.

We are grateful that a businessman of such integrity and intellect has shared his life with Diamond Shamrock these many years, and we bid him happiness and continued fulfillment in the future.

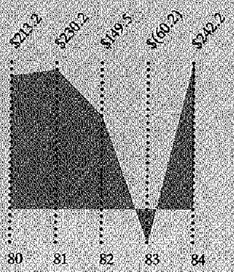
Highlights Of Financial And Operating Results

	1984	1983	1982	1981	1980
Financial *(dollars in millions, except per share)*					
Sales and operating revenues	**$4,483.2**	$4,026.1	$3,177.4	$3,376.2	$3,145.4
Income (loss) from continuing operations	**242.2**	(60.2)	149.5	230.2	213.2
Net income (loss)	**242.2**	(56.2)	185.1	121.3	208.4
Depreciation, depletion and amortization	**456.9**	482.7	217.8	171.1	149.2
Funds provided by operations *(cash flow)*	**790.3**	476.9	446.5	487.7	399.6
Capital expenditures	**601.1**	466.9	660.2	590.9	449.9
Stockholders' equity	**2,708.8**	2,743.4	1,407.2	1,349.7	1,329.2
Total assets	**5,396.4**	6,024.4	3,194.0	3,016.4	2,895.5
Debt as % of total capital	**28.6** %	37.8 %	34.9 %	34.7 %	35.4 %
Per common share:					
Income (loss) from continuing operations	**$ 1.78**	$ (.76)	$ 2.37	$ 3.68	$ 3.48
Net income (loss)	**1.78**	(.71)	2.94	1.94	3.40
Stockholders' equity	**20.51**	20.50	22.14	21.48	21.29
Total assets	**40.86**	45.02	50.25	47.99	46.38
Dividends paid	**1.76**	1.76	1.76	1.70	1.62
Market price range	**22⅝-16¾**	26⅝-18⅝	25¾-16½	39⅝-23¾	38⅞-23⅛
Average common shares outstanding	**125,911,204**	85,998,124	62,900,574	62,612,062	61,215,673
Number of common stockholders of record *(Dec. 31)*	**71,165**	68,516	52,078	49,200	48,701
Operations *(all figures net)*					
Proved reserves:					
Crude oil and condensate *(millions of bbls.)*	**144.1**	120.2	33.3	36.0	36.0
Natural gas *(millions of oil-equivalent bbls.)*	**155.5**	159.1	146.6	155.2	148.9
Natural gas *(billions cu. ft.)*	**933.1**	954.9	879.5	931.3	893.5
Average daily production:					
Crude oil and condensate *(bbls.)*	**73,336**	31,963	10,426	10,461	9,599
Natural gas *(oil-equivalent bbls.)*	**54,402**	44,970	46,702	51,443	50,460
Natural gas *(thousands cu. ft.)*	**326,409**	269,820	280,212	308,658	302,760
Refined products sales *(bbls./day)*	**143,059**	131,062	90,324	83,595	84,481
Number of employees *(Dec. 31)*	**12,738**	13,364	10,880	13,545	13,952

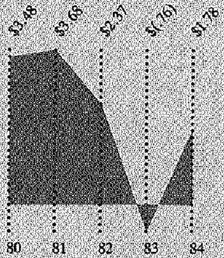
Sales And Operating Revenues
(in millions)



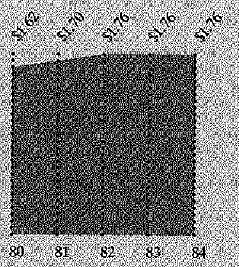
Income
From Continuing Operations
(in millions)



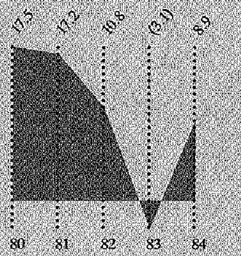
Earnings Per Common Share
From Continuing Operations



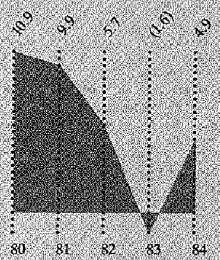
Dividends
Per Common Share
Indicated annual dividend = $1.76



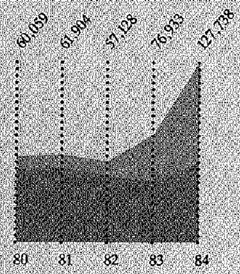
Return
On Stockholders' Equity
(percent)



Return
On Capital Employed
(percent)

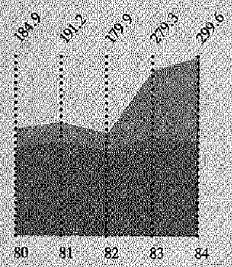


Average Daily Production
(oil-equivalent barrels)



Oil and condensate
Natural gas

Net Proved Reserves
(millions of oil-equivalent barrels)



Oil and condensate
Natural gas

NEW YORK — June 5, 1980 — "We've been looking at the economic environment facing us in the 1980s. It's changing, and it's going to be tougher. We've been . . . analyzing what it means in terms of strategies and operating decisions." — W. H. Bricker, presentation to the New York Society of Security Analysts

In 1980, we set out to build an oil and gas company that could prosper in the toughest of times, and excel when conditions are good.

To compete effectively against other companies and, increasingly, against entire countries, we directed our assets and investments toward our strengths.

We consolidated and reinforced the cash-generating businesses that fuel our growth businesses. We emphasized further development of those businesses that possess a truly competitive edge in their industries. And we anchored our long-term viability in financial strength and flexibility, allowing us to respond prudently to the dramatic changes in today's marketplace.

Guided by this philosophy, Diamond Shamrock achieved excellent results in 1984, despite overcapacity, intense competition, and falling prices, and we expect to remain intensely competitive during a possibly more difficult 1985.

With such solid performance in tough times, we believe we have exceptional potential when our primary industries rebound - and they will.

To Our Stockholders:

In the face of highly competitive and, in some cases, unprecedented conditions buffeting our major industries, Diamond Shamrock generated excellent results in 1984.

Net income rose to a record $242 million as crude oil production more than doubled, oil reserves increased 20%, natural gas production surged, record volumes of refined products were sold, and as chemical performance rebounded dramatically.

On a per-share basis, 1984 net income increased to $1.78, 45% above per-share earnings of $1.23 before write-offs and adjustments in 1983.

Sales revenues climbed 11% to a record $4.5 billion, and cash flow from operations reached an all-time high of $790 million. Augmented by funds from sales of assets and a reduction in working capital, this increased cash flow funded a record $240 million in dividends, $601 million in capital expenditures, $613 million in debt reduction, and repurchase of 1.7 million shares of stock.

Crowded with surplus worldwide capacity to produce oil, natural gas, coal, and refined products, today's energy markets have become intensely competitive, pushing prices downward despite increased demand. And in chemicals, considerable U.S. production capacity remains unused, even as the economic recovery spurs higher sales volumes.

We are pleased to report that our company not only has maintained, but has enhanced, the operating efficiency and flexibility, the financial strength, and the first rate performance of dedicated employees to withstand the current harsh environment.

Debt Ratio Dramatically Reduced; Assets Consolidated Into Strongest Operations.
During 1984 we substantially strengthened our balance sheet, bringing down the ratio of debt to total capitalization to 28.6% at year-end, versus 37.8% twelve months earlier. It is our lowest debt ratio in almost four decades.

We continued to redirect assets into the strongest areas in each of our businesses, more sharply focusing the direction of these operations.

For example, we sold half our interest in The Geysers geothermal project for $285 million at year end 1984. The sale converted a large amount of equity in a maturing project into cash for more growth-oriented projects.

We joint-ventured and sold several small businesses, redeployed our investment in West Coast and Canadian gasoline marketing assets by expanding further into our traditional market of growing Southwestern and Rocky Mountain states, and sold marginal properties to acquire higher quality exploration and development prospects.

New Investments Target Higher Oil And Gas Volumes, Efficiency, Competitiveness.
Likewise, we directed new investment dollars to our strengths, increasing total capital spending 29%, about two-thirds of which went to exploration and production of oil and gas resources.

We drilled 299 net oil and gas wells, more than twice the previous year's drilling. We identified and acquired high-potential exploratory prospects across the continental United States and Canada, in the deep waters of the Gulf of Mexico, off the Alaskan North Slope, and in the Asia Pacific region.

We invested in upgrading our retail gasoline outlets and saw sales volumes and earnings immediately rise at the improved units. We expanded our strategically placed refined products distribution system, enhancing our flexibility to market gasoline in targeted areas.

We developed new coal mines and invested in expanding and building new coal transportation facilities that cut our handling costs while reducing freight charges to our customers. We moved significantly closer to signing coal contracts that would allow development of the 1-billion-ton Alaskan coal resource we will operate.

We completed industry's largest agreement at the time to provide cogenerated electricity to a public utility, as our Chemicals Company began supplying power to the Houston utility under a 10-year, $1.3 billion contract.

In short, in all our businesses our people worked effectively to squeeze maximum value from Diamond Shamrock's assets and to enhance long-term profitability.

Their efforts paid off.

Oil And Gas Production And Reserves Rise; Further Increases Expected.
The more than doubling of Diamond Shamrock's oil production to 73,336 barrels per day resulted from a full year of production from Indonesian operations acquired in 1983, and from a 29% rise in output from North America. We found significantly more oil than we produced in 1984. Over the coming year, we expect oil volumes will continue to rise.

Natural gas production rose a vigorous 21%, reaching 326 million cubic feet per day. This increase was due in large part to initiation of natural gas sales from new offshore production platforms and an aggressive natural gas marketing program. A modest decline in natural gas reserves was more than offset by the gain in oil reserves, which increased total reserves on an oil-equivalent basis by 7.3%. Reflecting the downward trend worldwide, our 1984 average oil price fell about a dollar per barrel, to $27.22, and gas prices slipped a few cents to $2.94 per thousand cubic feet.

In 1985, we plan to match or exceed the $356 million in capital expenditures we committed in 1984 to pursue a highly focused exploration and development program aimed at driving reserves and production upward. At the same time, however, we will closely monitor the outlook for oil prices and re-evaluate spending plans if appropriate. We believe the oil and gas business is a sound long-term investment.

Aggressive Retail Operations, Increased Volumes Offset Refinery Margin Squeeze.
Nationwide refinery overcapacity, aggravated by all-time high volumes of gasoline imports, kept the refining and marketing industry embroiled in a tooth and nail fight for market share. Refinery profit margins were severely squeezed as wholesale prices dropped.

But Diamond Shamrock surpassed the previous year's admirable performance while many competitors swam in red ink. We operated our refineries at nearly 100% of capacity, as sales of our products exceeded previous records for the third year in a row, reaching 143,059 barrels per day.

At our retail units, pump prices lagged the decline in wholesale prices, allowing retail fuel margins to widen. Combined with a dramatic rise in sales of fuel and merchandise at outlets renovated or built under our extensive upgrading of the retail system, retail operating profits increased strongly.

We expect continued pressure on margins as the industry shakes out its least efficient refiners and ineffective marketers. But we also expect to remain a strong, profitable marketer of quality refined products.

Strong Coal Performance Weathers Overcapacity, Falling Energy Prices.
Based on its mining efficiency and long-term production contracts, our coal business slightly exceeded the previous year's performance. Coal production increased modestly in 1984, reflecting higher shipments industrywide. But the industry remains depressed by overcapacity and slow growth in demand, which, combined with declining prices of competing energy sources, are exerting downward pressure on coal prices. In 1985 we foresee potentially worsening market conditions. Yet based on its demonstrated ability to control costs, we expect continuing solid performance from our Coal Company.

Economic Vitality Boosts Demand And Earnings In Chemicals.
Resurgent demand for automobiles, construction materials, and other manufactured goods drove up utilization rates and prices in chemicals, substantially raising chemicals operating profit.

We expect continued economic growth in 1985 will increase demand for our chemicals and support further pricing improvements, as more of the industry's excess manufacturing capacity is absorbed. Our chemical earnings also should rise, although more modestly.

Over the past several years we have sharply focused this business on the efficient production of commodity and specialty chemicals, and on strong cash generation.

Strategies: Growth In Exploration And Production, Flexibility Amidst Uncertainty.
We enter 1985 on the crest of unsettled, and potentially worsening, forces that are reshaping industries and economies worldwide. Although this instability makes it difficult to accurately forecast the year's performance at this time, further declines in energy prices could hold our 1985 earnings flat or force them down somewhat.

Diamond Shamrock's 1984 performance shows we are prepared. We believe financially strong, efficient energy producers such as Diamond Shamrock can remain very competitive. Our strategies to support and increase the values underlying your investment remain constant and appropriate: We are employing strong cash flow from our businesses to drive both increased production volumes today and expansion of oil and gas reserves for the longer term.

As the world's need for energy continues to rise, we believe energy-producing industries will regain their historically attractive investment value, and our growing levels of production will position us exceptionally well.

With two-thirds of our capital spending targeted for exploratory and development drilling in 1985, we have the flexibility to control capital funds as conditions and opportunities warrant.

In addition, our strengthened balance sheet represents a cautious approach to the unsettled conditions around us and a vigilance toward new opportunities that change sometimes brings: We're conserving the ability to swiftly adapt to change, while building the muscle to capitalize on opportunities.

People Make The Difference.
One final comment on Diamond Shamrock's performance. Over the past few years, difficult conditions have rocked all of the industries in which we operate. The chemicals, coal, refining and marketing, and now oil and gas industries have experienced dramatic changes. At Diamond Shamrock, our businesses have done very well indeed. In large part, we believe it's because of the quality of our people. At every level, we see intelligence, diligence, creativity, caring. No business really finds oil, efficiently mines coal, or produces a profit – people do. The performance of our people gives us confidence in Diamond Shamrock's future.

As we observe the company's 75th anniversary, we would like to thank you for your trust, and assure you that the people of Diamond Shamrock are working diligently to earn your continued support.

William H. Bricker
Chairman and Chief Executive Officer

J. L. Jackson
President and Chief Operating Officer

J. Avery Rush, Jr.
Vice Chairman

February 21, 1985

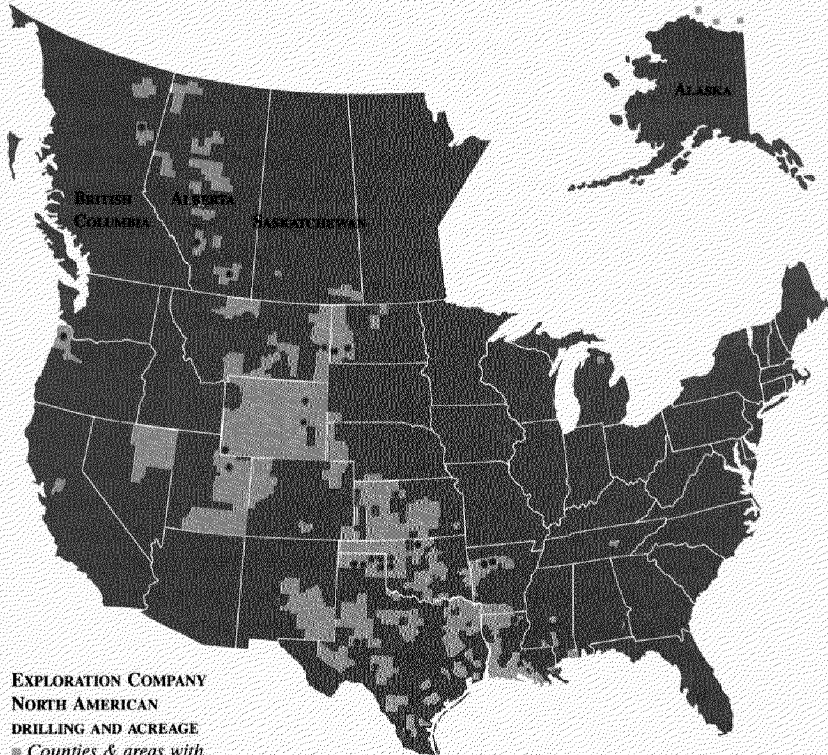
DIAMOND SHAMROCK EXPLORATION COMPANY

NORTH AMERICAN OIL PRODUCTION AND OPERATING PROFIT HIT ALL-TIME HIGH. It was a difficult year in the oil patch. Mergers and acquisitions reshaped the industry, while worldwide oil prices came under intensifying downward pressure as the year progressed.

Nevertheless, 1984 was a banner year for Diamond Shamrock Exploration Company. We increased oil production 29% in 1984, reaching a new high of 16,368 barrels per day. Oil reserves also rose – 6.2% over the prior year. Natural gas production climbed a robust 15% to 290 million cubic feet per day, as reserves fell slightly due to increased sales and our emphasis on drilling for oil.

Sources of these volume gains were widespread, including significant new production from the Gulf of Mexico, Wyoming, Oklahoma, Kansas, and Canada.

These surging volumes propelled operating profit to a record $160.8 million, compared to $117 million posted last year before write-offs. Including charges for our participation in the Mukluk exploratory well offshore Alaska, the Exploration Company reported a $77.3 million loss in 1983. Sales in 1984 rose 60% to $426.7 million.

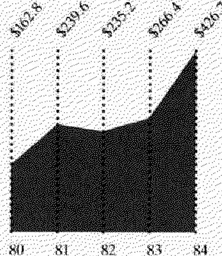


EXPLORATION COMPANY NORTH AMERICAN DRILLING AND ACREAGE
Counties & areas with significant lease holdings
Areas of significant drilling activity – 1984

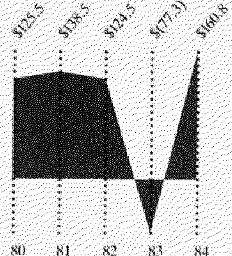
OBJECTIVE: OFFSET PRICE DECLINES THROUGH RISING PRODUCTION. In contrast to our growing volumes, the average price we received per barrel of North American oil declined 3% to $28.56. Our average natural gas price remained essentially flat from the prior year, slipping two cents per thousand cubic feet to $2.90.

By January 1985, natural gas prices had come under pressure, and oil prices had dropped more than $2 per barrel below our 1984 average. To counter the effects of these price trends, our objective has been, and continues to be, plain and simple: to increase oil and gas production capacity and sales volumes. We expect volumes to rise again, though at a more moderate pace, in 1985.

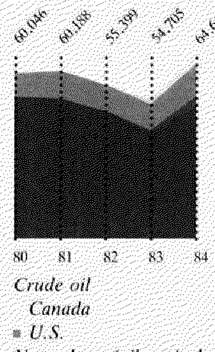
EXPLORATION COMPANY SALES
(in millions)



EXPLORATION COMPANY OPERATING PROFIT
(in millions)



EXPLORATION COMPANY NET PRODUCTION
(barrels per day)



Crude oil
Canada
U.S.
*Natural gas (oil equivalent)**
Canada
U.S.
** 6,000 cubic feet gas = 1 bbl. oil.*

New Production, Marketing Program Boost Natural Gas Sales. Unusually cold weather early in 1984 and the nation's economic recovery helped spur increased demand for natural gas, and new production from our offshore platforms fed the heightened demand.

A significant part of the year's sales increase also resulted from our aggressive natural gas marketing program, including the renegotiation of contracts and more short-term direct sales to end users and other purchasers. We also participated in the new concept of "pipeline special marketing programs," which are creating a growing spot market for natural gas. These programs have regained some of the industrial markets previously lost to fuel oil during the early '80s, and have penetrated new industrial markets as well.

Current natural gas market conditions offer intriguing opportunities: The rapid growth of a spot market and our ability to price competitively bode well for future gas sales. The surplus of gas deliverability is shrinking due to rising demand from a healthy economy and depletion of U.S. gas reserves faster than new ones are being found.

As supply swings more into balance with demand over the coming year, we expect to increase natural gas production by continuing an aggressive sales effort through flexible marketing programs.

We possess an important competitive edge in natural gas: 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 still receive attractive returns on investment.

Increased Capital Spending Produces Record Wells Drilled. With capital expenditures just for drilling up 39% to $108.8 million, we completed 61.8 net oil wells in 1984 – well above the 36.9 completed in the prior year. Net gas well completions totaled 50.1, compared to 38.3 net in 1983.

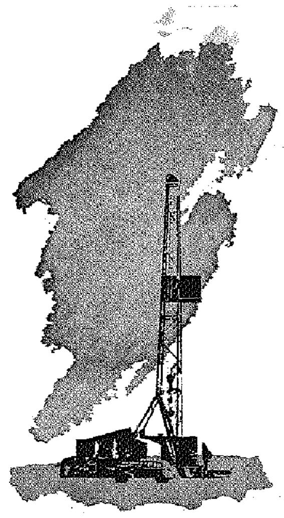
Since imports account for almost a third of our nation's oil supply, we can sell every competitively priced barrel we produce. Now with the rapid increase in our natural gas sales, we will strive to keep natural gas production capacity a step ahead of rising demand. As a result, in 1985 we expect to drill approximately equal numbers of oil and gas wells.

Net dry holes in 1984 increased to 129.5, from 26.9 in 1983, reflecting our increased emphasis on exploration. Roughly 40% of these dry holes were shallow, inexpensive exploratory wells in Kansas, drilled in search of small, isolated, but profitable oil reservoirs.

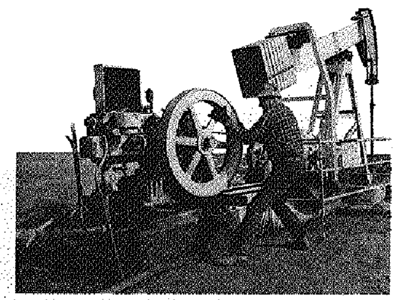
All told, we drilled a record 241.4 wells in 1984. Two-thirds of our capital expenditures for drilling were for development wells, largely in the mid-continent region, while our exploratory program was widespread in the United States and Canada, with particular emphasis in the Gulf of Mexico.

Drilling Expands Total Reserves. Although rising production depleted our gas reserves a bit faster than we replaced them, we increased oil reserves by 2.6 million barrels. Taken together, total oil and gas reserves rose slightly above the prior year's total.

We enhanced our potential for future reserve additions through $38 million in capital expenditures for new leases, as we took advantage of unusual opportunities in area-wide leasing in the Gulf of

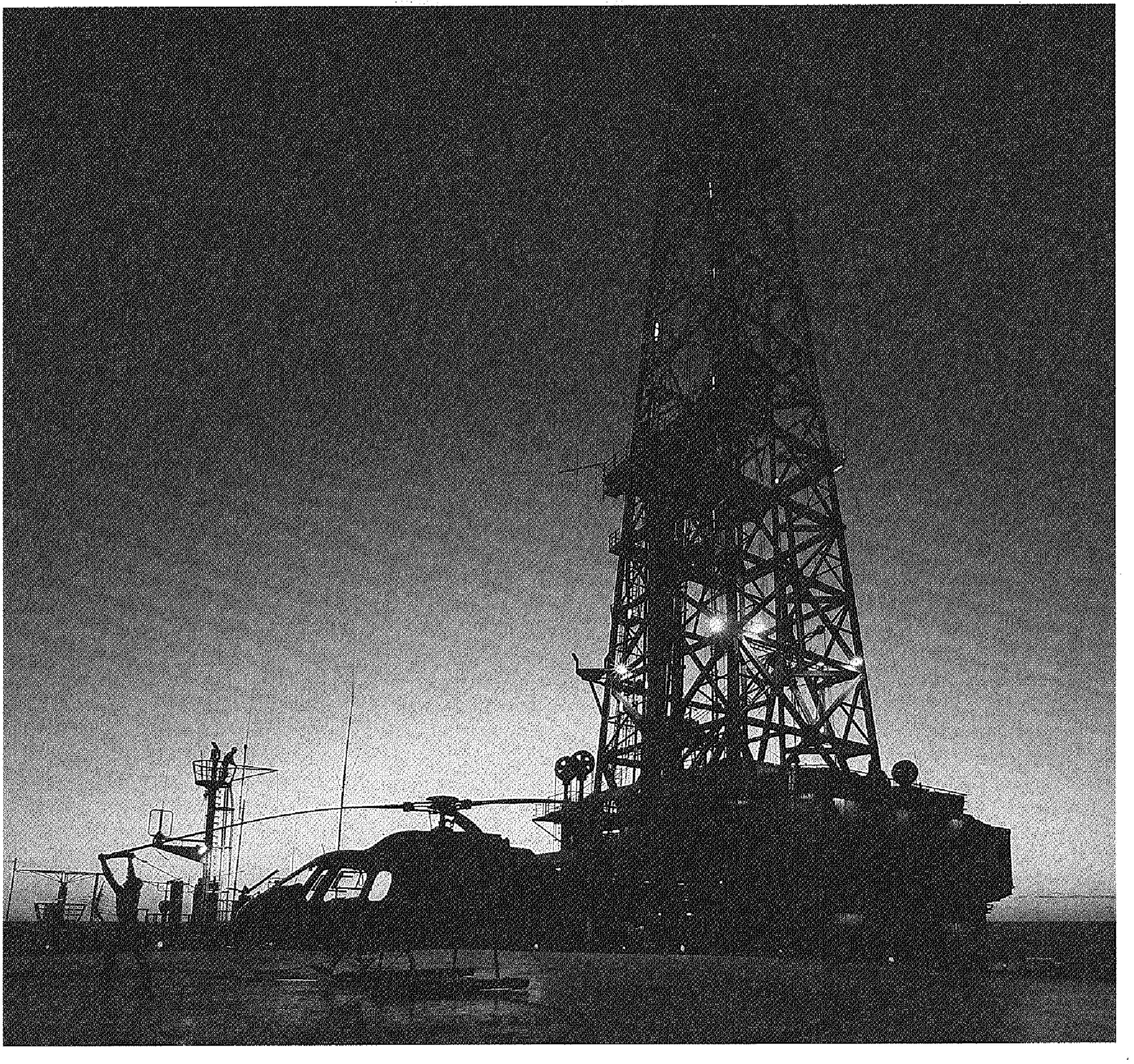


1929 *Wild overproduction slashed oil to 10¢ a barrel. Few companies had the resourcefulness to survive. We did.*



1928 *Some of our first wells are still producing. The prolific Texas Panhandle area continues to yield our greatest U.S. volumes.*

1944 *Oil production reached 863 barrels daily.* 1984: *Our worldwide oil output hit a record 73,336 bpd.*

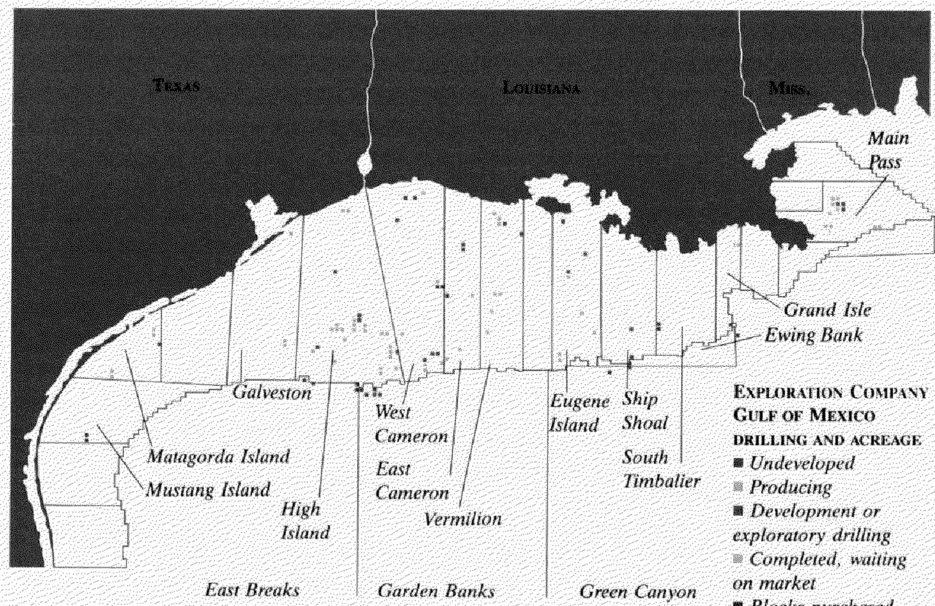


Through rising oil and gas production, we have advanced to the leading edge of North America's exploratory frontiers – the deep waters of the Gulf of Mexico, off the Alaskan North Slope, and in Canada – in search of significant new reserves.

Venturing into the Gulf just over 10 years ago, we have increased oil production there to more than one-third of our North American output, which hit a record 16,368 barrels per day in 1984. During the same years, our Gulf natural gas production quadrupled.

Mexico and offshore Alaska, in Canada and the lower 48 states. We searched out more profitable uses for our assets by divesting marginal properties and, in turn, acquiring higher-potential prospects.

Our strategy in the face of lower oil prices is not at all new. It is the same two-pronged approach that has steadily expanded our efficient production for many years: We will increase production by selectively broadening our involvement in established North American energy basins, thereby enhancing our ability to find oil and gas at low costs, while we judiciously expose ourselves to significant new reserves in higher-risk, higher-potential frontier areas.



EXPLORATION COMPANY GULF OF MEXICO DRILLING AND ACREAGE
- *Undeveloped*
- *Producing*
- *Development or exploratory drilling*
- *Completed, waiting on market*
- *Blocks purchased during 1984*

CAPITAL SPENDING TO INCREASE.
To pursue continued development of our oil and gas reserves and to continue our search for new sources, in 1985 we expect to exceed 1984's $154.7 million in capital expenditures for North American exploration and production. The majority of these funds will be earmarked for rapid development of new fields identified by our exploratory successes in 1984 and during the coming year.

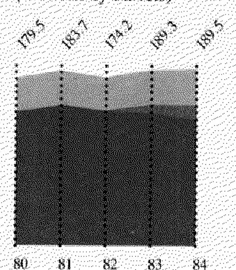
EXPLORATORY DRILLING TARGETS NEW HIGH-POTENTIAL PROSPECTS.
Among our exploratory prospects, the Alaskan Beaufort Sea continues to be one of the most promising unexplored regions within U.S. borders, potentially offering some of the world's largest oil reserves. We acquired interests in nine federal offshore tracts there during 1984, and are participating in drilling an exploratory well on the Colville Delta prospect early in 1985.

We are moving for the first time into the Central Valley of California, and will be exploring new prospects in the Paradox and San Juan basins of Utah and New Mexico, and in West Texas and Oklahoma. In Canada, we will drill offshore Lake Erie, and will continue an aggressive exploration effort in Alberta.

Meanwhile, we will continue to drill our large inventory of high-quality prospects in the mid-continent region – our traditional natural gas stronghold – taking advantage of our established position in the Texas Panhandle to build on our successful track record of the last 57 years.

GROWING EMPHASIS IN GULF OF MEXICO YIELDS GREATER PRODUCTION, OPPORTUNITIES FOR DISCOVERIES.
Over the last decade, our most significant North American production

EXPLORATION COMPANY NET PROVED RESERVES
(millions of barrels)

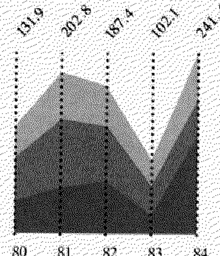


Oil and condensate
- *Canada*
- *U.S.*

*Natural gas (oil equivalent)**
- *Canada*
- *U.S.*

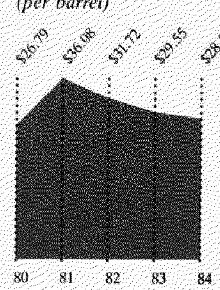
* *6,000 cubic feet gas = 1 bbl. oil.*

EXPLORATION COMPANY NET WELLS DRILLED



- *Oil*
- *Gas*
- *Dry*

EXPLORATION COMPANY AVERAGE OIL PRICE
(per barrel)

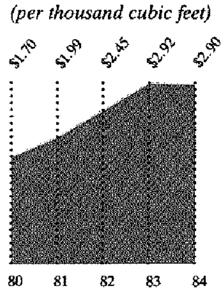


gains have come from the Gulf of Mexico. From a fledgling position of minor interests in a few tracts, our Gulf program has grown to encompass 109 working-interest tracts and accounted for 35% of our total North American oil and gas production in 1984.

Our Gulf tracts offer among the greatest opportunities to significantly increase oil reserves through drilling. We are on the leading edge of exploring this major energy province, searching in water depths beyond 600 feet, the barrier to conventional offshore drilling.

During 1984, we participated in a fourth successful exploratory well in Green Canyon Block 18, which tested at 2,425 barrels of oil and 2 million cubic feet of natural gas per day. A 30-well production platform is planned for this deep-water block, in which we have a 15% interest, with production expected to come on stream in 1987. We tested a deep-water natural gas discovery flowing 13.1 million cubic feet of gas per day in Garden Banks Block 224, where we are operator and 25% interest holder. Further drilling is under way. And we acquired interests in 12 new blocks, six of which are in deep frontier waters. These bring to 12 the number of deep-water tracts in which we own interests. Diamond Shamrock will operate half of them.

Exploration Company Average Natural Gas Price
(per thousand cubic feet)



Significant activity in the Gulf also included two gas discoveries in the Main Pass area, and commencement of natural gas sales from four offshore platforms.

In 1985, we expect to drill up to 21 exploratory wells offshore Texas and Louisiana.

Increasing Production Provides Short-Term Earnings Stability, Exciting Future Potential.
Our record tells a story of steady growth in production and operating profit. Year-to-year increases have been building momentum, as we move judiciously into less-explored environments that offer potentially greater rewards. During 1985, we expect to again increase oil and gas production, significantly counteracting the effects of today's declining energy prices. For the longer term, our expanding base of North American production and reserves positions Diamond Shamrock exceptionally well for eventual improvement in energy prices.

Diamond Shamrock International Petroleum Company

Production Volumes And Reserves Reach Record Highs.
Despite a world market awash in oil and falling oil prices, Diamond Shamrock International Petroleum Company performed well in its first full year of operations. We generated $345 million in operating profit from international crude oil and natural gas production, geothermal energy production, and petroleum trading.

International net oil and gas production increased to 58,700 oil-equivalent barrels daily, up from 52,300 barrels per day in the previous year. Total oil and gas reserves rose 22% as we extended Diamond Shamrock's search for additional sources of oil and gas to new contract areas in Indonesia and other frontier areas of the world.

We also sold half of our 50% interest in the maturing Geysers geothermal project for $285 million, to reinvest in more growth-oriented projects. At the same time, we intensified our study of undeveloped geothermal energy sources in the western United States, Hawaii, and the Asia Pacific region.

Diamond Shamrock International Petroleum was created in 1984 to operate the corporation's overseas petroleum interests and its geothermal business and to expand our exploration for oil and gas in high-potential frontier regions outside North America. At the end of 1984, the new company had assets of $2.3 billion.

Objective: Increased Volumes And Reserves.
Like Diamond Shamrock's North American oil and gas operations, our objective internationally is simply to increase oil and gas production volumes while expanding our reserve base. Much of our investment in 1985 will be dedicated to extending reserve life and to new field development. While this program is not expected to fully offset normal production declines in 1985, it will support growth in production volumes over the next several years.

Cash Flow From Production To Drive Exploration.
Strong cash flow from this current international production will support our 1985 exploration program in both the eastern and western hemispheres. Most of our production today comes from Indonesia, where gross crude oil and liquified petroleum gas output from our two producing contract areas surged to a record 282,600 barrels per day in 1984, from 238,700 barrels per day the previous year. Net production reached almost 53,900 barrels per day, surpassing 1983's 49,600 level.

(Production figures in 1984 consist of oil and liquified petroleum gas in actual barrels. In prior years, figures reflect oil plus LPG on an oil-revenue equivalent basis as historically reported by Natomas Company.)

Because of their effect on both cash flow and operating profit, market prices of our Indonesian crude oil are a primary concern. The average sales price of our Indonesian oil and gas liquids dropped to $27.15 per barrel, versus $28.65 in 1983. Current market conditions are continuing to exert downward pressure on prices.

Reserves Expand;
Capital Spending To Increase.
In 1984, our combined proved oil and natural gas reserves also rose substantially, hitting a record 110.1 million net oil-equivalent barrels, up from 90.0 million net oil revenue-equivalent barrels in the prior year. Again, most of the increase came from Indonesia, where our net oil and gas reserves set a year-end record of 102.6 million barrels, versus 81.3 million barrels the year before. The remaining additions were in the North Sea.

While both Indonesian contract areas logged reserve increases, the majority resulted from several discoveries in the Northwest Java contract area – where we have 34% of the contractors' interests – including delineation of the Bima Field (formerly called ZU), estimated to contain more than 100 million barrels of recoverable reserves.

Southeast Sumatra Efforts
Focus On Production.
Our Indonesian operating division, IIAPCO, manages three distinct life-cycle stages of oilfield development: harvesting every drop of oil that is practical from the maturing Southeast Sumatra contract area, continued development of the petroliferous Northwest Java area, and exploring the uncharted Arafura Sea in which we obtained two production-sharing interests in 1984 and early 1985.

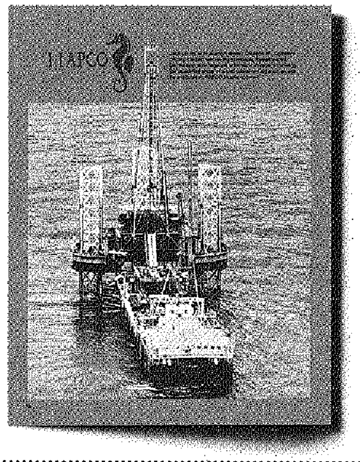
From the Southeast Sumatra contract area, where we are the operator with 53% of the contractors' interests, IIAPCO produced Indonesia's first barrels of offshore oil 15 years ago. This tract has reached a late stage of exploratory activity, and drilling has diminished. But the contract area remains a major cash generator.

Our strategy is focused on maximizing production while extending reserve life. Although gross crude oil production fell from 99,800 barrels per day in 1983 to 89,500 barrels daily in 1984, and daily net production declined from 24,700 barrels to 19,900 barrels, we believe our development work will slow these declines over the next several years.

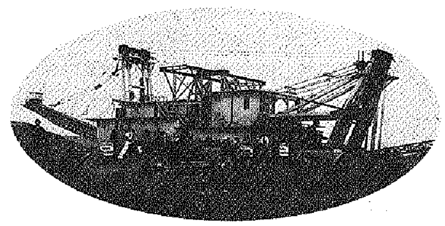
Our enhanced recovery project bore tangible results for the first time in 1984 when Pertamina, the Indonesian national oil company, recognized the first 900,000 barrels of secondary recovery oil and authorized the financial incentives associated with initial recovery.

Despite its maturity, Southeast Sumatra is not without pleasant surprises. For example, the Karmila area, discovered and brought into production in 1983, is producing at 22,600 barrels of oil per day – three times expectations.

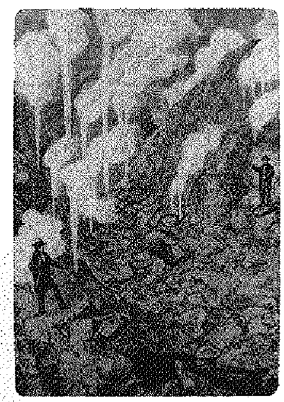
Northwest Java Offers Significant Development Opportunities.
More than two-thirds of International Petroleum's 1985 capital budget is earmarked for drilling and development in the Northwest Java contract area. Significantly larger than Southeast Sumatra, the area has many regions yet to be explored.



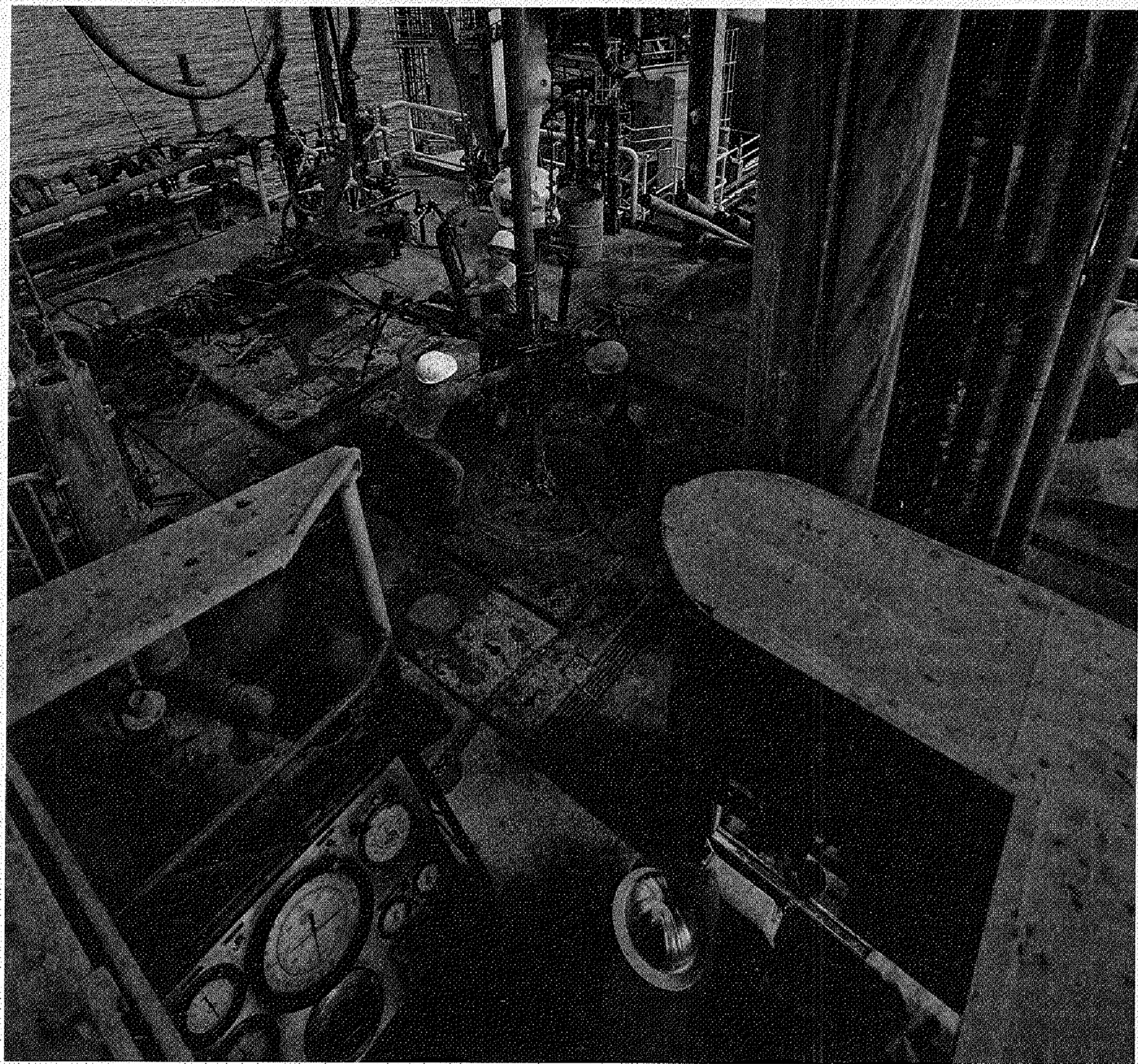
1971 *Our IIAPCO division was the first to produce oil offshore Indonesia. We produced a record 53,900 bpd there in 1984.*



1922 *Natomas's California gold dredging evolved into the international oil businesses we acquired in 1983.*



1847 *Natural steam fields were discovered in California. A century later, our Thermal Power division pioneered the world's largest geothermal energy project there.*



Internationally, we are developing a new Indonesian offshore field estimated to hold 100 million barrels of recoverable oil reserves, and we are selectively searching for new reserves in the Asia Pacific region, Tunisia, the North Sea, and Colombia.

Diamond Shamrock International Petroleum Company's net oil and natural gas reserves expanded more than 20% in 1984, and production of oil and gas reached a record 58,700 barrels daily.

Drilling in 1984 resulted in completion of 104 gross wells, 72 of which found oil or gas, and seven new production platforms were installed. As a result, gross crude oil and LPG production rose to 193,100 barrels per day, from 138,900 barrels per day in 1983. Net daily production increased from 24,900 barrels the prior year to 34,000 barrels in 1984.

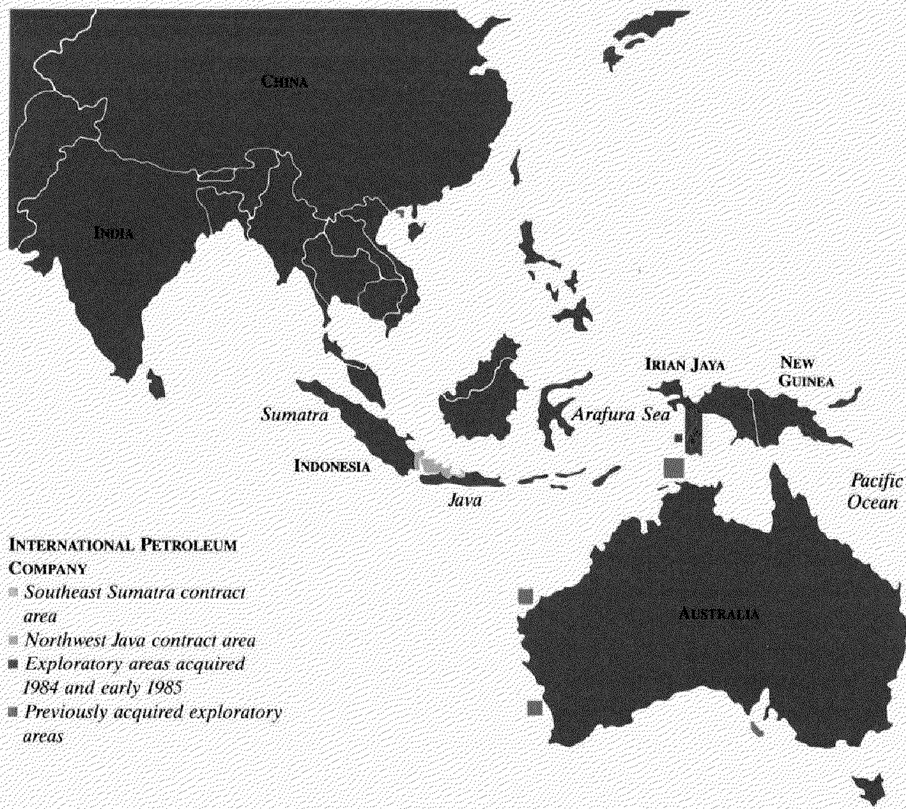
A significant portion of the Northwest Java drilling was concentrated on delineating the 15,000-acre Bima Field. Initial production from Bima is expected to be on stream by year end 1986, with peak flow projected to reach 70,000 gross barrels per day from 100 wells by the end of 1988.

North Sea Production Increases. Net production from our North Sea properties increased from 2,732 oil-equivalent barrels per day in 1983 to 4,818 per day in 1984 despite limitations caused by installation of gas lift equipment on the Buchan Field production facility in the British North Sea. Completion of this new installation – which will enhance recovery – and resumption of Buchan Field production is expected by April.

Drilling in 1985 is scheduled for four British North Sea blocks where we have a 20% interest. In addition, early in 1985 we were awarded two prime offshore blocks where we have a 20% and 16.5% interest, respectively. We are planning seismic work for these high-potential prospects in 1985, with exploratory drilling to begin in 1986.

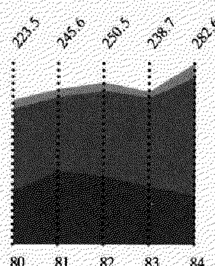
In the Dutch North Sea, weak demand depressed natural gas production. However, exploratory drilling on non-producing blocks yielded several discoveries in which we own small-percentage interests. Further exploration and development drilling planned for 1985 should yield reserve additions which will more than offset declines from currently producing fields.

Our Worldwide Search For Reserves Is Expanding.
In 1984, our global perspective and intent became remarkably evident.



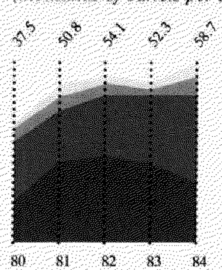
International Petroleum Company
Southeast Sumatra contract area
Northwest Java contract area
Exploratory areas acquired 1984 and early 1985
Previously acquired exploratory areas

Indonesian Gross Production*
(thousands of barrels per day)



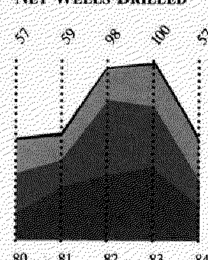
Northwest Java liquified petroleum gas
Northwest Java oil
Southeast Sumatra oil
** Years prior to 1984 from Natomas Co. records.*

International Petroleum Company Net Production*
(thousands of barrels per day)



*British and Dutch North Sea oil and gas***
Northwest Java liquified petroleum gas
Northwest Java oil
Southeast Sumatra oil
** Years prior to 1984: pro forma basis; from Natomas Co. records.*
*** Dutch North Sea natural gas in oil-equivalent barrels (6,000 cubic feet gas = 1 bbl. oil).*

International Petroleum Company Net Wells Drilled



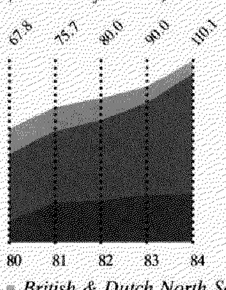
Dry
Producing:
British & Dutch North Sea
Northwest Java
Southeast Sumatra
** Years prior to 1984: pro forma basis.*

Equipped with a cadre of internationally experienced explorationists and Diamond Shamrock's financial strength, we carried our hunt for major oil and gas resources not only to new, unexplored areas of Indonesia, but to other corners of the world.

By third quarter 1984 we acquired a 20% interest in a contract area operated by the Malaysian company Promet BHD, and began exploring that 4.6 million acre tract off the island of Irian Jaya. In the fourth quarter, the Indonesian government advised that we will be awarded a production-sharing contract in 1985 for an adjacent Arafura Sea tract. The contract area, for which we will be the operator with 60% of the contractors' interests, covers 28 million acres – more than the state of Tennessee. Promet holds the remaining 40%. Both areas provide promising future exploration opportunities.

Our exploratory program also expanded to prospects in the South China Sea and Australia, where a dry hole was drilled in each area during 1984, and to a new area off Papua New Guinea. We plan to drill a half dozen exploratory wells in these areas in 1985.

International Petroleum Company
Net Proved Reserves*
(millions of barrels)



- *British & Dutch North Sea oil and gas***
- *Northwest Java oil and liquified petroleum gas*
- *Southeast Sumatra oil*

* *Years prior to 1984: pro forma basis*
** *Dutch North Sea natural gas in oil-equivalent barrels (6,000 cubic feet gas = 1 bbl. oil).*

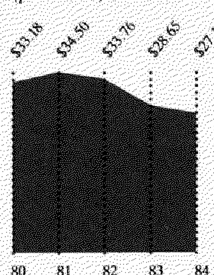
Elsewhere, we are interpreting seismic data from a 1.2 million acre tract offshore Tunisia, where we plan an exploratory well in the second half of 1985. In Colombia, we are evaluating several onshore prospects in the Honda and Ermitano blocks, including one where an exploratory well is planned for first quarter 1985.

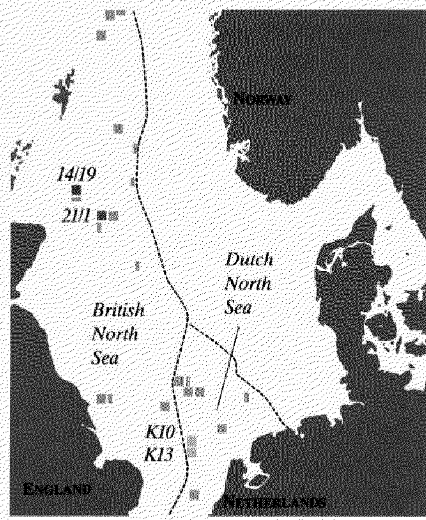
Geothermal Has Record Year; Assets Partially Redeployed.
1984 was a peak year for our geothermal operations as operating profit rose to $67.3 million. Drier weather reduced generation of competing hydroelectric power, and the implementation of a new maintenance program to improve efficiency of generating equipment drove plant operating rates up 23%, reaching 74% of capacity.

Steam prices, based on fossil and nuclear fuel costs to our customer, Pacific Gas and Electric Co., rose modestly in 1984. Prices are expected to approximately match 1984 levels over the coming year. However, start-up of PG&E's Diablo Canyon nuclear plant, combined with lower fossil fuel prices, is expected to push steam prices modestly downward for the next few years.

Geothermal drilling in 1984 concentrated on development of reserves for a new 119-megawatt plant scheduled for start-up in late 1985, and this 12% increase in capacity should more than offset steam price declines. Also, we are experimenting with extending reserve life by water injection into geothermal strata and are working with PG&E in planning another 119-megawatt plant scheduled for completion in 1988.

International Petroleum Company
Average Indonesian Oil Price
(per barrel, includes LPG)





International Petroleum Company
North Sea Acreage
- *Oil production*
- *Gas production*
- *Other prospecting license areas*

In Hawaii this year, we will complete a geothermal well expected to confirm potential for commercial development of steam reserves. As operator and 50% interest owner, we are negotiating with a local utility for installation during the next several years of a 25- to 30-megawatt generating plant.

And in Indonesia, during 1984 we presented a plan to the government for development of geothermal energy there. Negotiations continue and a decision is expected this year.

At year end 1984 we sold half our 50% interest in The Geysers project to Union Oil Co. for $285 million. The sale turns a large amount of equity in a profitable but maturing project into cash for use in more growth-oriented projects. We retain a 25% interest in The Geysers, allowing us continued participation in the world's largest geothermal energy project. Future growth in the business, however, will depend upon successful development of currently untapped geothermal resources.

SCOPE OF TRADE IN PETROLEUM PRODUCTS WIDENS.
In 1984 we took the first steps to increase the size and profit potential of our oil trading group, Natomas Trading Company.

The subsidiary opened a Houston office and added oil and refined products traders to its staff as, for the first time, it began trading and marketing on a global basis – moving away from its historic role as an in-house marketing arm only. We are considering further staff and geographic expansion for 1985 as world energy markets become more competitive.

BY MAXIMIZING CASH FLOW, WE CAN EXPAND PRODUCTION AND EXPLORATION OPPORTUNITIES.
In summary, the principal focus of Diamond Shamrock International Petroleum's energies is on our role as a major producer of crude oil and gas liquids in Indonesia. We are concentrating on maximizing cash flow through accelerating the pace of drilling and production to wring as much oil as we can from our contract areas. Simultaneously, we are capitalizing on that cash flow and the talents of our people to judiciously step out to promising unexplored regions of Indonesia, the Asia Pacific, and other economically and politically stable areas of the world.

We believe this strategy will bring us long-term growth in international oil and gas production, allowing us to further intensify our search for significant new reserves worldwide.

DIAMOND SHAMROCK REFINING AND MARKETING COMPANY

EARNINGS HOLD FIRM AND VOLUMES REACH NEW RECORD, DESPITE DIFFICULT CONDITIONS.
The operating environment in 1984 can be summed up in two words: intense competition.

However, Diamond Shamrock Refining and Marketing Company generated operating profit of $81 million, an 8% rise over the prior year, excluding pre-tax adjustments and asset write-downs in 1983. This was an outstanding accomplishment considering the losses and declining profitability prevailing throughout this industry.

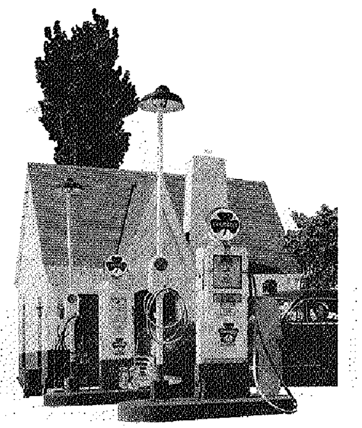
Increased sales of our refined products, which rose 9% to a record 143,059 barrels per day, and a strong increase in operating profit from our aggressive retail operations offset razor-thin profit margins at the wholesale level. Sales revenues rose slightly to $2.27 billion, compared to $2.25 billion the previous year.

Integration of the aggressive retail system we acquired from Sigmor Corp. in 1983 has firmly improved our ability to cope with today's highly competitive conditions and industry consolidation. That strategic transaction added a strong retail earnings stream, higher refinery volumes, and new sources of cash flow to our traditional business of wholesaling motor fuels to Diamond Shamrock's expanding jobber network.

STRATEGIES AIM AT INCREASING VOLUMES THROUGH MARKET SHARE GROWTH.
To maintain our level of profitability while improving our prospects for earnings growth, we intend to increase market share for Diamond Shamrock motor fuels through cost-efficient refining and products distribution and through

***1929** Rich in "worthless" natural gas, we began extracting its liquids to make high-grade gasoline. Our marketing business was born.*

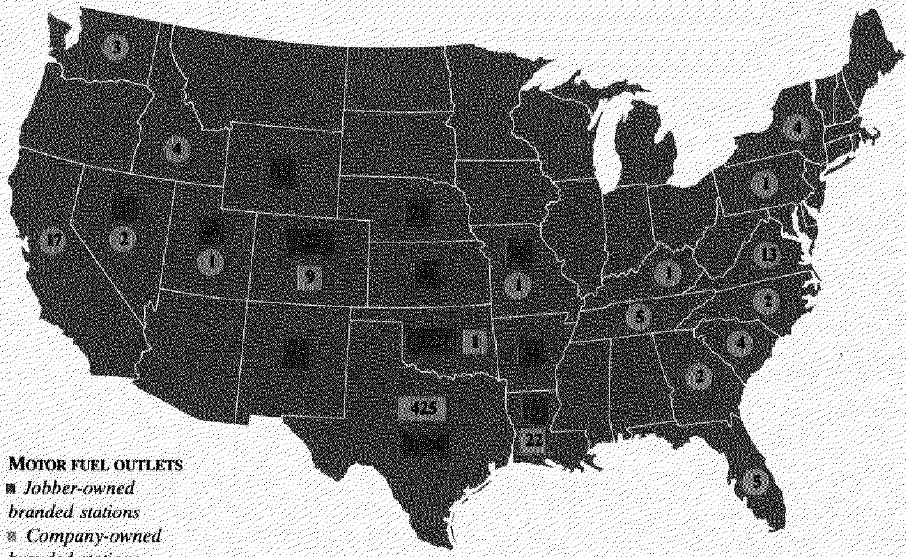
***1951** Efficient catalytic cracking boosted refinery capacity to 10,000 bpd. Today we can refine over 120,000 bpd of crude oil.*



***1946** We grew to about 200 stations from one in 1932. Today, we market through 2,059 independent and company-owned outlets.*

Effective competition is the name of the game in today's overcrowded refining and marketing industry. With record fuel sales in 1984, we are outperforming our peers.

We've further enhanced competitiveness through modernizing our company-owned retail system and by acquiring and building additional motor fuel outlets in our primary marketing area. Vastly increased sales of convenience merchandise and higher gasoline volumes at the upgraded outlets have contributed significantly to our profitability.



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

a higher profile in our strong regional market of Southwestern and Rocky Mountain states.

We aim to add company- and jobber-owned Diamond Shamrock gasoline stations, increase the appeal of our outlets to customers, offer new services and conveniences, and increase advertising. Most of all, we will continue to lead all our marketing areas in price competitiveness.

Overcapacity, Gasoline Imports Reduce Refinery Profitability.
The severe pinch in wholesale profit margins began early in the year as the nationwide glut of refinery capacity that provoked strenuous competition in 1983 was further aggravated by a build-up of gasoline inventories during the unusually cold winter:
High demand for heating oil forced refiners to dramatically increase production, unavoidably producing motor fuels at the same time.

As the warm-weather driving season began, refiners were left not only with far more manufacturing capacity than is needed to meet demand, but also with storage tanks brimming with products. At the same time, U.S. markets were deluged with record high volumes of imported gasoline. Thus, prices fell throughout the last nine months of 1984, even though demand was rising.

Sales Volumes, Retail Profits Rise.
Reflecting our aggressive marketing, both of our refineries – McKee in the Texas Panhandle and Three Rivers in South Texas – ran near full capacity the entire year, compared to operating rates of 75% for the industry. Our total crude oil throughput reached 116,928 barrels per day, up 12% from the prior year.

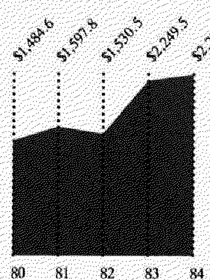
Retail sales increased to $875.6 million in 1984, up about 3% from the previous year, while operating profit more than doubled from 1983's $17.7 million, reaching $38.7 million including $9.6 million in gains from sales of retail assets. Retail gasoline margins actually widened during the year, because wholesale prices dropped faster than prices at the pump.

Operating profit from Natural Gas Processing was essentially flat in 1984, despite lower natural gas liquids prices and slightly lower process gas volume.

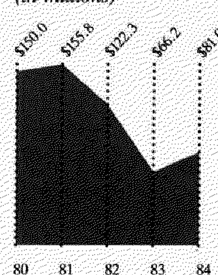
1985 Outlook: The Shakeout Will Continue, And So Will Our Strength.
Since 1980 the nation's population of more than 300 refineries has shrunk to 220 active plants operating at only three-fourths of capacity. More than 2 million barrels a day of refined products production capacity has been shut down.

This shakeout will continue in 1985. The U.S. refining industry will further reduce capacity through mergers, consolidations,

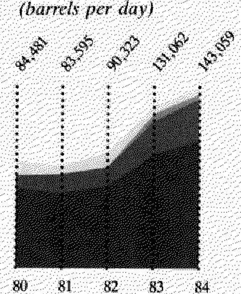
Refining And Marketing Company Sales
(in millions)



Refining And Marketing Company Operating Profit
(in millions)



Refining And Marketing Company Product Sales
(barrels per day)



Other
■ *Aviation fuel*
■ *Diesel*
■ *Motor gasoline*

and closings. Less efficient refiners, particularly those independents that lack a strong marketing system, are likely to continue sinking into red ink.

At the same time, we expect gasoline consumption in our economically vibrant market area will continue to rise.

Ironically, however, even with rising demand and falling refinery capacity, the business will remain characterized by overcapacity. Intense competition at the retail level will continue and possibly even intensify if gasoline imports increase. Wholesale profit margins also will likely remain under pressure in 1985. But Diamond Shamrock is positioned to benefit from strong retail operations and an entrepreneurial jobber network, a strategic distribution system, low-cost refining, and high market share in principal markets.

Upgrading Retail Outlets Enhances Competitiveness.
In 1984, we embarked on a $28 million capital program to enhance the appeal of our retail system through modernizing all 522 company-owned outlets not scheduled for rebuilding or divestiture. We totally rebuilt and added convenience stores at 33 existing locations, and constructed 13 new units with convenience stores at newly acquired locations.

Monthly merchandise sales at the renovated outlets doubled from year-earlier figures, and motor fuel sales at these stations rose 11%.

Our retail modernization responds to changing demographics in our increasingly urban market – where half the gasoline-buying public is female – and follows a strategy of enhancing our competitiveness as a fuel marketer by attracting customers with more than appealing fuel prices.

The new and renovated retail outlets feature contemporary color schemes and graphics, spacious driveways, bright lighting, and interior layouts that take advantage of customer flow patterns. We have adjusted our merchandise mix, with emphasis on highly popular convenience items such as candy, beverages, snack foods, and common household necessities.

To further stimulate retail sales, we broadened our credit card program by allowing customers to charge retail merchandise on the Diamond Shamrock credit card.

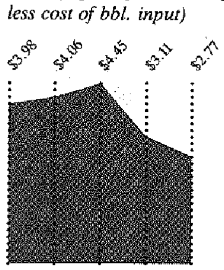
In keeping with our strategy of redeploying assets to our strengths, we sold marginally profitable outlets outside our traditional market area, including 107 Canadian retail stations acquired through the Natomas merger, and about two dozen "Fill-Em-Fast" units in Washington state and California. Additional sales of outlying units are likely.

In turn, besides our investments in upgrading our retail system, we purchased 16 units in El Paso and Amarillo and are renovating them to match our Diamond Shamrock-owned and branded "Sigmor" outlets. In addition, we plan to acquire additional existing retail properties and land for new construction, concentrating on high-growth areas of the Southwest.

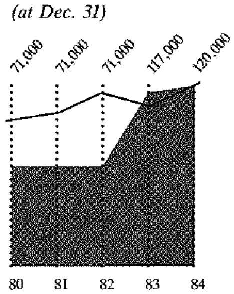
Pipeline Expansion Increases Marketing Opportunities.
During 1984, we expanded the capacity of our pipeline system between the McKee refinery and the Amarillo Products Terminal by 10,000 barrels of motor fuels per day, while construction of pump stations boosted capacity to our terminal near Lubbock by 3,000 barrels per day. In 1985, we are planning a major expansion of our pipeline to Denver, as well.

Since about two-thirds of the motor fuels produced at McKee are exchanged with other companies, an increase in pipeline volumes delivered to Texas Panhandle, New Mexico, and Colorado markets gives us more flexibility to grow through product exchanges in other areas we have targeted for expansion, such as Arkansas, Kansas, Missouri, and Oklahoma.

Refined Products Spread
(average price per bbl. output less cost of bbl. input)

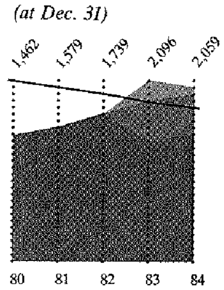


Refinery Capacity
(at Dec. 31)



■ *Barrels per day of crude oil throughput*
■ *% utilization: 80 = 80.6, 81 = 83.3, 82 = 94.0, 83 = 88.9, 84 = 97.4.*

Motor Fuel Outlets
(at Dec. 31)



■ *Company-owned other stations*
■ *Company-owned branded stations*
■ *Jobber-owned branded stations*
■ *National trend (thousands of stations): 80 = 158.5, 81 = 151.2, 82 = 144.7, 83 = 136.6, 84 = 130.0.*

New Capabilities Added At Refineries.
We upgraded both refineries, increasing our efficiency and total throughput capacity. At McKee, we replaced a second crude tower with an efficient, modern design that also will allow continued incremental expansions in capacity. A deasphalting unit was added at Three Rivers just as 1984 began, allowing us to increase the gallons of light refined products we can squeeze out of a barrel of oil. Our refineries are run by dedicated, experienced people who know how to produce high-quality products at low cost.

Industry Challenges Include Proposed Lead Phase-down.
Currently, half our gasoline sales consists of unleaded gasoline. The Environmental Protection Agency's proposed lead phase-down (a 90% reduction of lead use in leaded gasoline by 1986) is a challenge facing us in the year ahead.

Lead phase-down schedules, if adopted as currently proposed, would require both refineries to install additional processing facilities, which would take about two years and substantial expenditures to bring on stream. However, the lead phase-down could eventually reduce capacity throughout the industry, as refiners who lack the capital to purchase technology close down, thereby helping bring supply closer into balance with demand.

We Remain Strong And Are Building For The Future, Despite Industry Difficulties.
Looking ahead to 1985, we are committing about $20 million in capital expenditures to add more retail outlets and to rebuild a number of existing ones – emphasizing suburban and commuter markets as areas for growth. We are continuing to strengthen our network of 170 jobbers and 1,537 jobber stations and to expand gasoline marketing in and around our existing market area. We will emphasize use of the credit card as a marketing device, extending the non-gas purchase program to jobbers. And we plan to expand our advertising in 1985 to stimulate business from new customers.

Success in 1985 and throughout the '80s will require low operating costs, creative marketing strategies, and strong market presence. We have all these, plus a growing earnings stream from retail sales. We will weather the shakeout profitably, and believe our performance indicates exciting earnings prospects as conditions improve.

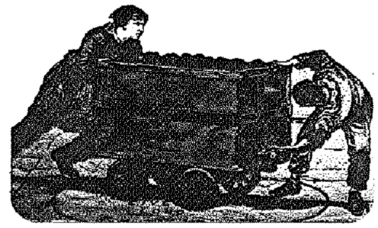
DIAMOND SHAMROCK COAL COMPANY

Earnings Remain Strong As Industry Conditions Weaken.
Coal Company operating profit slipped to $43.2 million in 1984, a 4% decline prior to 1983 year-end adjustments, reflecting lower sales revenues and softening conditions in domestic and export markets.

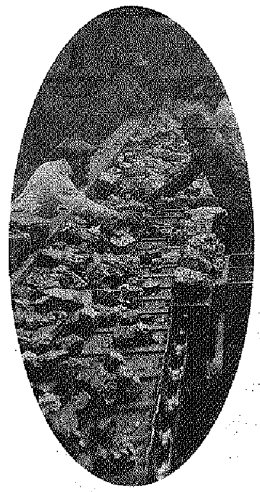
This was solid earnings performance in a difficult operating environment for the coal industry.

Effectively competing in today's marketplace of lower energy prices, excess coal production capacity, and cheap foreign imports requires strong operations, the operating flexibility to adapt to change, and the resourcefulness to find or create new growth opportunities in a slow-growing industry.

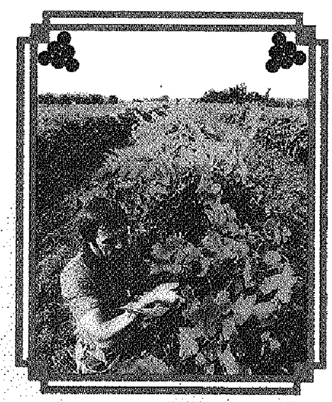
We've built our coal business on a high-quality product, cost-efficient operations, and long-term contracts



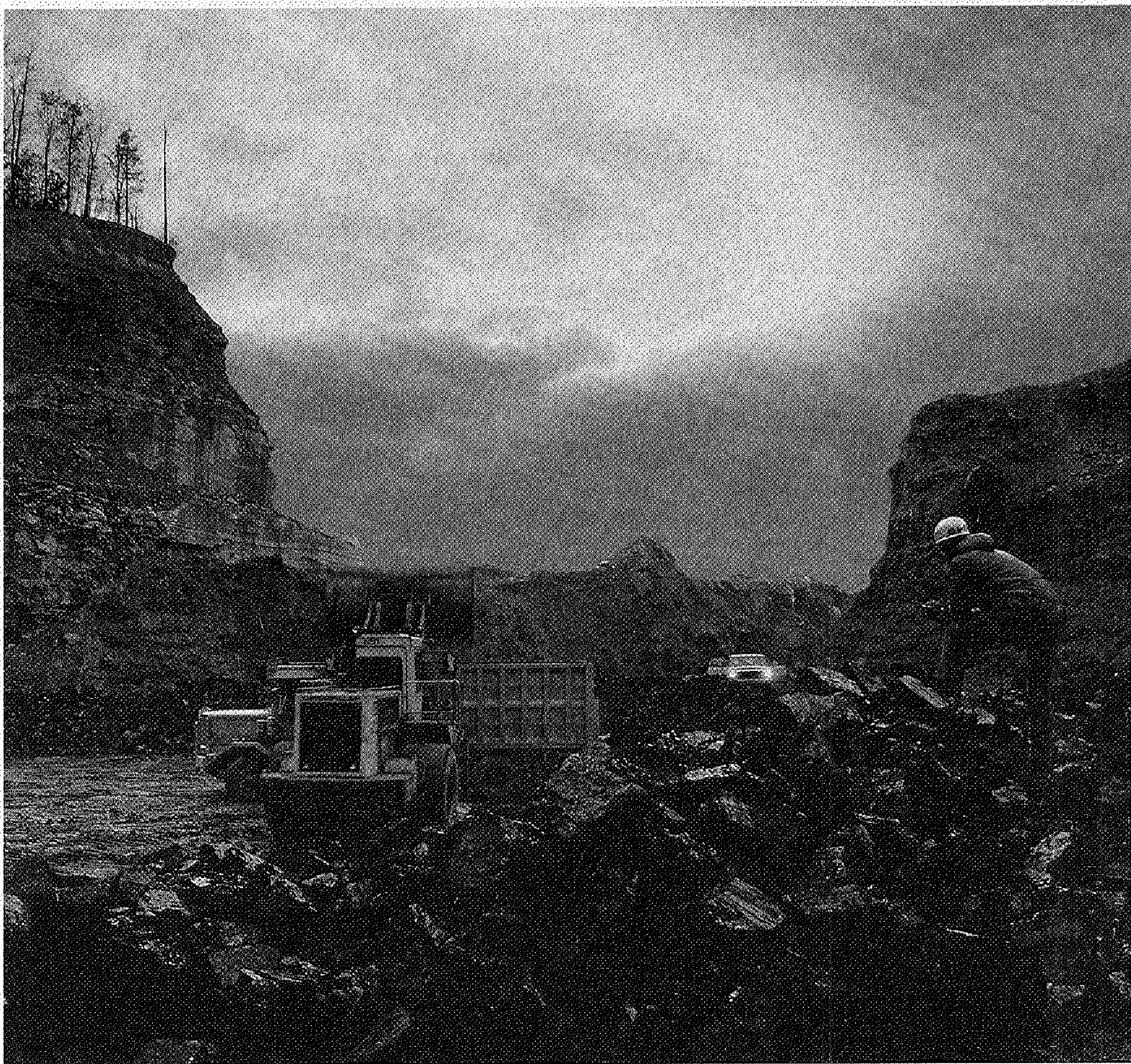
1893 *Miners at our predecessor coal operations wouldn't have believed we can load rail cars at 4,000 tons per hour at the largest of our loading facilities.*



1912 *Coal sorting and grading, once done manually at our Amherst Division, today is automated at 12,900 tons per hour at 10 locations.*



1976 *We bottled wine from grapes grown on former surface-mine sites to demonstrate our quality of reclamation.*



Our consistent, strong profitability in coal has been built on cost-efficient mining of high-quality surface and underground reserves under long-term production contracts.

We intend to follow this pattern as we find creative means to expand our customer base and our earnings in this highly competitive business.

with large coal users – which accounted for 90% of our 1984 sales. Through this strategy we have avoided the wide, cyclical swings in earnings experienced by many other coal companies. As a result, we have provided a consistent source of cash flow to the corporation and remained a stable, dependable supplier and employer.

We are embarking on a program to enlarge the Coal Company's size and earnings by adding mining operations and through new marketing initiatives. Our expertise in achieving cost-efficiency and the stability of long-term sales agreements will be the cornerstones of our growth strategies.

OUTLOOK: STEADY EARNINGS IN A SLOW-GROWTH ENVIRONMENT. Despite record production volumes as the coal industry emerged from its recessionary slump, 1984 was not a boom year for coal. The substantial surplus of production capacity built over the past two decades and falling prices of competing fuels provoked intensified price competition among coal suppliers, dampening industrywide earnings.

In 1985, the industry expects further downward pressure on prices and reduced demand for coal as customers work off inventories they accumulated in anticipation of a strike, which did not occur, by members of the United Mine Workers of America.

At Diamond Shamrock, we expect earnings to remain at 1984's level as we retain the cost-efficiency to compete effectively.

Over the next few years, we see slow growth in U.S. coal consumption, continued supply overcapacity, and strong price competition. We expect demand in coal's biggest markets, electric power generation, steel production, and industrial manufacturing, to show only modest overall growth. And export markets, now throttled by the high value of the dollar abroad and by non-competitive operating and transportation costs in the United States, will continue to lose out to cheap coal from such sources as Poland, South Africa, Colombia, and Australia.

OBJECTIVE: EARNINGS GROWTH THROUGH EFFICIENCY AND MARKETING. To take advantage of the opportunities in future years, we will maintain our geographically diverse reserve position and utilize the expertise of our people in planning and operating highly efficient mines and in marketing innovations.

In addition, we will pursue acquisition of operating properties that already possess long-term production contracts in order to maximize the value of our natural and human resources and to become a more significant contributor to the earnings of the corporation. Diamond Shamrock Coal Company has the efficiency, the managerial and operational flexibility, and the commitment to expand and remain strong during the slow-growth years.

We will cultivate new markets for our strategically located, unassigned coal reserves through projects such as our proposed Alaskan mine, which could provide the lowest-cost source of energy to the economically expansive Asian Pacific Rim.

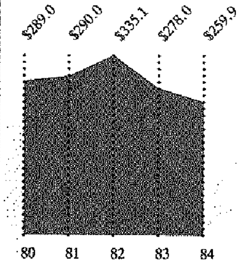
Through capital expenditures of more than $45 million in 1984, we made significant progress toward these objectives by:

• Expanding two rail car loading facilities in Eastern Kentucky and beginning construction of a new loading and processing plant in West Virginia. This new capacity improves cost-efficiency and competitiveness by reducing our handling costs and transportation fees paid by the customer.

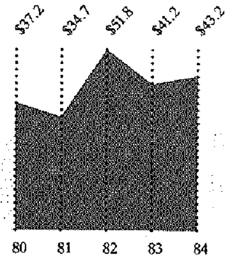
• Initiating development of a new 2-million-ton per year surface mine in West Virginia, thereby providing us lower-cost production capability in an increasingly competitive market.

• Opening a new underground mine in Eastern Kentucky, where production capacity could reach 2 million tons per year by 1987.

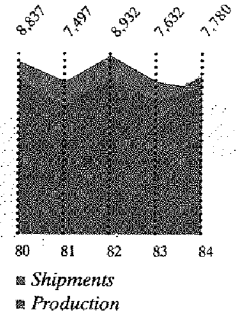
COAL COMPANY SALES
(in millions)



COAL COMPANY OPERATING PROFIT
(in millions)



COAL PRODUCTION AND SHIPMENTS
(in thousands of tons)



• Reaching a formal agreement with the Japanese Electric Power Development Company to conduct an extensive study of the economic and technical feasibility of utilizing our Alaskan coal. Technical results from test burns in Japan were very promising. In Korea and Taiwan, our reception from large coal buyers also has been positive.

For 1985, we plan approximately $50 million in capital expenditures to continue these and similar projects.

In addition, we continue to review all our assets to determine the best way to maximize return from our 1.5 billion-ton reserve of steam, metallurgical and lignite coals – through selective development of reserves, joint ventures, or redeployment.

We are mounting a global search for opportunities to employ our coal expertise in new markets and new development prospects. In the Far East, for example, the combination of good quality coal reserves and rapidly growing demand for electricity generation offers unique potential to employ our expertise in developing new mining operations.

Strategy: We'll Control Costs And We'll Market Aggressively.
In summary, our consistent, high level of profitability has been built on cost-efficient mining of high-quality reserves produced under long-term contracts. As we open new mines to replace depleted reserves and to expand our customer base, we will follow this pattern. We also will continue to minimize our exposure to the erratic swings of the spot market.

Diamond Shamrock Coal Company has achieved the capability to undertake any financially rewarding coal project. We intend to capitalize on that expertise to increase the return from our coal assets and contribute a larger share of corporate earnings.

Growing in an environment of surplus production capacity will require us to aggressively pursue our strategies. We must beat the competition to scarce new long-term contracts, search out reasonably priced, high-quality reserves, and evoke our resourcefulness and creativity in developing new markets for our coal. But none of it will be possible without strict control of costs as a foundation. That is our strategy.

DIAMOND SHAMROCK CHEMICALS COMPANY

Earnings Rise Dramatically; Further Gains Expected In '85.
Our Chemicals Company had a very good year, and expects even better results in 1985.

The operating strengths of our chemicals businesses and the economic upturn boosted Chemicals Company operating profit to $116.3 million, 65% more than operating profit in 1983 before year-end charges. Results in 1983 included $58.6 million in pre-tax write-offs and other adjustments related mostly to businesses associated with Diamond Shamrock's divestiture program.

Greatly increased demand for automobiles, housing, and other manufactured goods in 1984 drove our plant operating rates upward and firmed chemicals prices. Costs increased only modestly as prices for raw materials and energy stabilized.

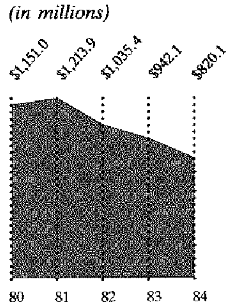
However, competition remains strong due to excess production capacity industrywide and to high exchange rates for the dollar, which make imported chemicals less expensive in U.S. markets while increasing the cost of our chemicals for export.

We're meeting the challenges head-on with chemicals businesses structured to vigorously compete in the consolidating marketplace of the '80s. That means cost-efficiency. And it means keeping our present customers and bringing in new ones to maintain and increase sales volumes and market share.

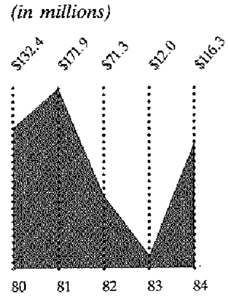
By consolidating our operations over the last several years, we have more sharply defined their focus, resulting in a stronger Chemicals Company – a highly efficient, powerful cash generator. A "can do" spirit pervades our people top to bottom, as the organization has geared to rapidly recognize and respond to new but scarcer opportunities for growth.

Reflecting these strengths, operating profit in our commodity chemicals businesses climbed 93% in 1984 to $86.9 million, while specialty chemicals operating profit rose 62% to $24.3 million. Total Chemicals Company sales were down from the previous year due

Chemicals Company Sales
(in millions)



Chemicals Company Operating Profit
(in millions)



to divestiture and joint venture of several businesses whose results were partially or fully included in 1983 results.

UTILITY TO PURCHASE $1.3 BILLION IN COGENERATED ELECTRICITY.
Among the most significant events of 1984, our production facilities near Houston began sales of about $1.3 billion of cogenerated electricity under a 10-year contract with Houston Lighting & Power.

Cogeneration, or the simultaneous production of electricity and steam from the same fuel source, gives us firm control over power costs at our two largest chemical plants, which represent over 70% of our chlor-alkali production capacity. Electricity amounts to about half the cost of manufacturing chlorine and caustic soda, and steam is used extensively in plant processes.

At the time, the agreement was the largest cogeneration contract between a U.S. utility and an industrial firm, and is expected to be a model for future contracts. We will continuously provide HL&P 225 megawatts of electricity – enough to supply the daily needs of 150,000 homes.

NEW COGENERATION PLANT UNDER CONSTRUCTION.
As part of our $45 million in Chemicals Company capital expenditures for 1984, we also broke ground on a 100-megawatt cogeneration facility at our chemicals plant in the Houston suburb of Deer Park. The plant replaces and expands cogeneration capacity built in the '40s, and will be similar in design and efficiency to our larger cogeneration facility completed in 1982 at the neighboring Battleground Plant. The new plant is scheduled to start up in early 1986.

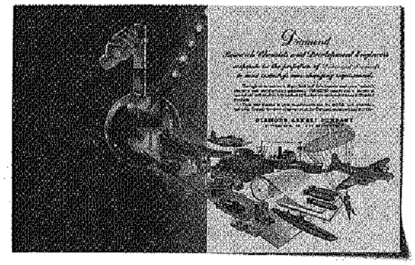
'85 PROMISES MORE EARNINGS GROWTH.
We expect demand for our commodity and specialty chemicals to continue rising, but at a much slower pace than the recovery years of 1983 and '84. Automobile and housing markets, although healthy, have reached an apparent plateau. But if the economy remains strong, we believe demand for our chemicals will grow significantly in plastics, aluminum, pulp and paper, and other manufactured goods markets.

Increasing sales volumes is the key to earnings growth in chemicals. Prices will remain under pressure but should trend modestly upward as improving demand causes the industry to activate more of its idle production capacity.

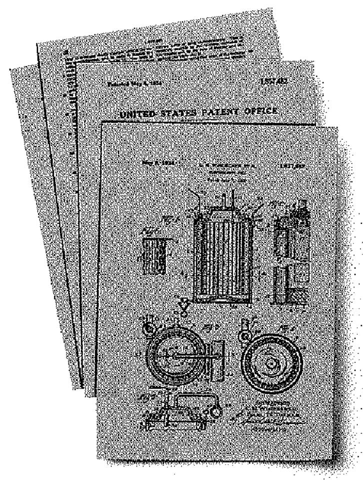
Growth rates in commodity chemicals should rise slowly but steadily through the end of the decade due to declining growth of U.S. heavy industries and to rising competition from new foreign chemical industries, which are often government subsidized. Specialty chemicals, which enhance performance in a wide variety of industries, should see the fastest growth rates.

STRATEGIES EMPHASIZE EFFICIENCY, MARKETING, PRODUCT DEVELOPMENT.
To reach our goal of increased earnings, cash flow, and return on investment from chemicals, we will continue to emphasize volume growth, cost-efficiency – such as our major investment in another cogeneration plant – and new applications, technologies, and product lines that will provide new sources of earnings. We have budgeted $77 million in 1985 capital expenditures – a 58% increase over prior-year spending – to pursue our strategies.

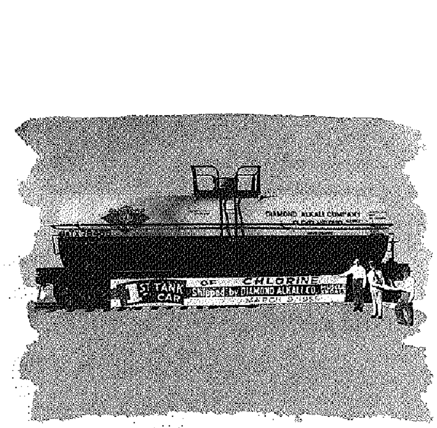
We are giving new emphasis to the basics by intensifying marketing and customer service efforts, perhaps



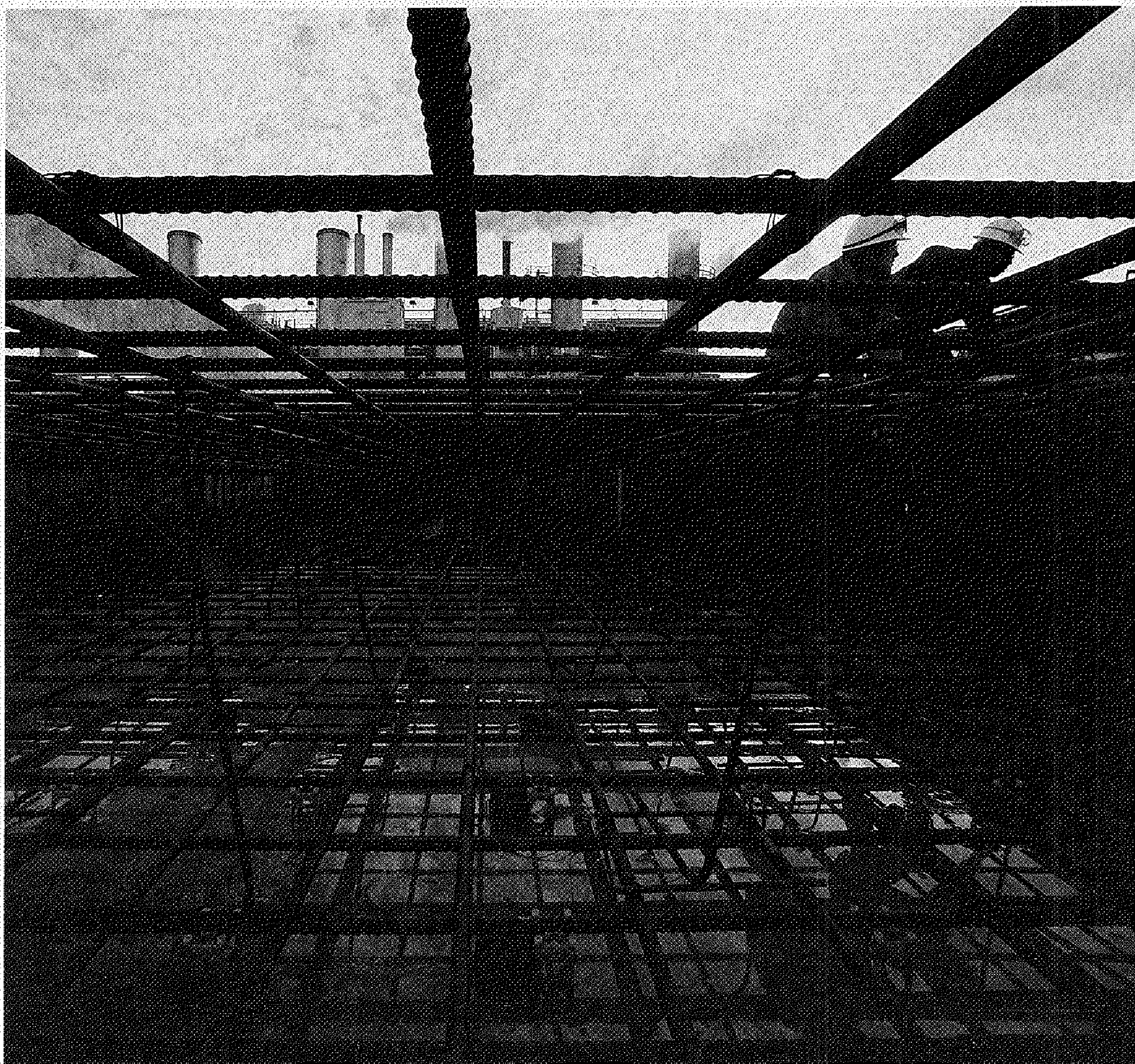
1942 A World War II-era ad portrays our chemicals' role as building blocks for thousands of goods.



1934 An early leader in developing electro chemical technology, we are a highly efficient chemicals producer today.



1955 With plants and customers nationwide, we developed one of the largest U.S. chemical transport fleets – a competitive edge we have today.



As in our other businesses, efficiency is fundamental to competitiveness for our Chemicals Company. Our investment in building a 100-megawatt cogeneration facility at our largest chemicals plant will further enhance cost-control and earnings potential in chemicals – where operating profit rose dramatically in 1984.

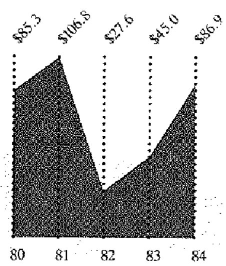
A 200-megawatt facility completed several years ago at our largest chlor-alkali plant has paid attractive dividends in the form of stable power costs and a 10-year contract to sell $1.3 billion of electricity.

the most cost-effective means of improving sales volumes. During 1984, we installed toll-free telephone lines to all our regional sales offices, making it more inviting for our customers to tell us their needs as well as for us to listen. We extended our rapport with customers deeper into their organizations by increasing the frequency and level of contact between the customers' management and Diamond Shamrock officials. We developed new training programs for our customer service representatives, and we streamlined our computerized product order system.

We are pushing decision-making as far down in our organization as practical, giving our people freedom to act more quickly and decisively, enhancing our flexibility to accommodate customer needs.

We are finding new avenues of volume growth and stability by broadening our customer base and shifting our end-market mix in chlorine and caustic soda to better insulate earnings from economic downturns. And we are seeking development of new markets for these mature product lines, as we also search for opportunities to enhance our leadership as a low-cost, long-term supplier of silicate chemicals nationwide and chrome chemicals worldwide.

Commodity Chemicals Operating Profit*
(in millions)



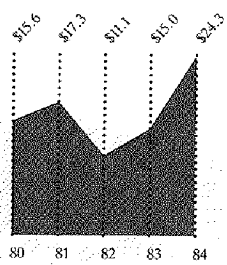
Excludes 1983 write-offs and adjustments.

Since transportation fees contribute significantly to the cost of chemicals sold by the ton, we're taking further strides to improve our transportation efficiency. We've established more than 60 commodity chemicals distribution sites nationwide and are significantly enlarging our chlor-alkali tank car fleet. Already we have one of the largest such fleets among U.S. chemical companies.

As we aim to derive a larger portion of chemicals earnings over the next three years from specialty chemicals, we are looking worldwide for new product lines and technologies, new markets for existing products, and opportunities to license our own processes and technologies. And we are expanding our research through increased research and development spending.

We are also finding creative means of enhancing asset value. For example, in 1984 we joint-ventured our profitable metal coatings business, a leading supplier of corrosion-resistant coatings and technology to the auto industry. This business teamed up with Nippon Oil & Fats, Ltd. of Japan, giving it better opportunities to grow in rapidly expanding Pacific Rim markets. Also, we sold our functional polymers business, a leader in its industry but very small among our businesses.

Specialty Chemicals Operating Profit
(in millions)



Our 50% interest in SDS Biotech Corp., the international joint venture formed in 1983 between our former agricultural chemical and animal health divisions and Showa Denko, K.K., a large Japanese chemicals company, contributed $6 million in equity earnings to the corporation.

Our Large Chemicals Business Is More Competitive, More Profitable. The consolidation of our chemicals businesses and our investments in efficiency are paying attractive dividends. On its own, Diamond Shamrock Chemicals Company would rank among the "Fortune 500," as one of the nation's largest producers of chlorine, caustic soda, potassium chemicals, silicates, chrome chemicals, and performance chemicals.

We have enduring, competitive operations that can move quickly to seize opportunities. In fact, Diamond Shamrock is the only major producer not to have closed a chlor-alkali chemicals plant during the past seven years. Our plants and our people are oriented to flexibility in their operating abilities, and our sales force and management are attuned to our customers and their needs.

Through our strengths and strategies, we expect volume growth in chemicals will provide increasing returns in the years ahead, as well as rising cash flow for the growth of Diamond Shamrock.

Financial Results And Information

Report Of The Company

To The Stockholders
Diamond Shamrock Corporation

The 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. The Company is responsible for all information and representations contained in the Consolidated Financial Statements and other portions of this Annual Report. In the preparation of this information, it has been necessary to make estimates and judgments based on data provided by the Company's accounting and control systems.

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 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.

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.

R M Ahlstrom

R. M. Ahlstrom
Senior Vice President
Chief Financial Officer

R W Arp

R. W. Arp
Vice President and Controller
Principal Accounting Officer

Dallas, Texas
February 21, 1985

FINANCIAL POSITION

For the full year 1984, total funds provided by operations were $790.3 million compared with $476.9 million in 1983 and $446.5 million in 1982. The 66% increase between 1983 and 1984 reflected both significant new cash flows from Natomas Company operations acquired in August 1983 and increased business activity among the Company's other operations.

After covering dividends, operations provided $550.1 million for internal use in 1984, compared with $329.3 million in 1983 and $336.2 million in 1982. These funds from operations, combined with proceeds from the sale of investments and facilities of $552.0 million and reductions of working capital of $176.9 million, provided internal sources of funds which significantly exceeded the Company's capital spending investment requirements in 1984. Investment and facility sales during 1984 were primarily a 25% interest in The Geysers geothermal operations, Canadian and West Coast refined products outlets, holdings in an electrochemical technology joint venture and an ion exchange resin business.

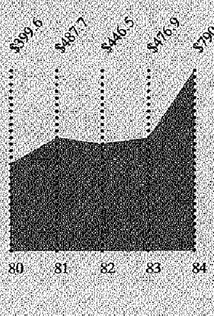
Accordingly, the Company's continuing investment in The Geysers is now reflected in the investments account of the Consolidated Balance Sheet included in this Annual Report, rather than as previously reported in properties and equipment.

At $601.1 million, 1984 capital spending and investment were 29% above 1983 levels and 9% below 1982 levels. The increase from 1983 to 1984 reflected substantially increased exploration and production activity due to both newly acquired operations and more aggressive drilling on previously owned properties. Management presently anticipates capital spending and investment in 1985 to meet or somewhat exceed 1984 levels. Exploration and production spending, which accounts for approximately 70% of the Company's capital budget, will be continuously evaluated through the year in order to reflect any significant changes in the outlook for long-term oil prices, which are especially uncertain at this time.

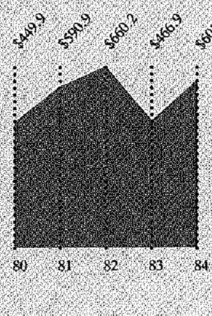
In addition to expenditures in its capital spending and investment accounts, the Company was party to several other investment-oriented transactions in 1984 and 1983. During 1984, the Company acquired $31.7 million of Diamond Shamrock Common Stock on the open market for cash. In January 1983, the Company acquired Sigmor Corporation for cash and newly issued Preferred Stock, increasing net long-term assets by $92.2 million. In July 1983, the Company contributed current and long-term assets and liabilities of its agricultural chemical and animal health businesses to form SDS Biotech Corporation with a Japanese company, reducing total debt of the Company by $149.8 million in the process. The August 1983 Natomas acquisition involved the issuance of new Common and Preferred Stock, and increased net long-term assets $1.368 billion.

During 1984, current assets declined $289.9 million, reflecting completion of the sale to Apache Petroleum Company of various oil and gas assets which were held as current assets at December 31, 1983, tighter controls on inventories and receivables, and a reduction in the Company's cash and temporary cash investments account. Similarly, all current liability accounts declined, reducing total current liabilities by $113.0 million for the full year.

CASH FLOW FROM OPERATIONS
(in millions)



CAPITAL EXPENDITURES
(in millions)



Of particular significance was the reduction of current debt accounts by $35.6 million, which, combined with reduction of long-term debt, reduced total debt for the Company by $612.6 million from year end 1983 to year end 1984. This compares with an increase of $938.2 million in the prior year, due to previously outstanding debt which had been brought to the Company with the Sigmor and Natomas acquisitions.

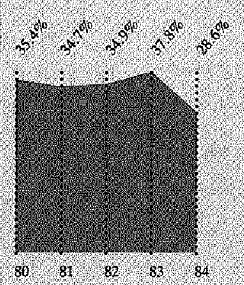
As a result, by year end total debt dropped to 28.6% of total capitalization, the Company's lowest debt ratio in nearly four decades and one that compares favorably with 37.8% at December 31, 1983, and 34.9% at December 31, 1982.

At December 31, 1984, the Company's relationship of current assets to current liabilities (Current Ratio) was 1.2 compared to 1.4 at year end 1983 and 1.7 at year end 1982. The relationship of cash and receivables to current liabilities (Quick Ratio) was 0.7, the same as year end 1983 and slightly below 0.9 at year end 1982. Management believes present measures of liquidity compare favorably to those typical of large U.S. integrated oil and gas companies.

The Company had unused lines of credit totalling $2.050 billion, of which $160.3 million was supporting commercial paper, bankers acceptances, money market borrowings and currently maturing notes at December 31, 1984. If current energy price weaknesses continue, it is expected that net cash flow in 1985 will be below the level of last year. However, with a low debt ratio, available lines of credit and cash flow from operations, management is of the opinion the Company has the financial resources required to meet anticipated needs.

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

Debt As A Percent Of Total Capital



OPERATING RESULTS

For the full year 1984, sales and operating revenues were 11% above 1983 levels and 41% above 1982 levels, the result of the Sigmor and Natomas acquisitions as well as volume growth in the Company's historic oil, gas and chemicals businesses. 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 in the "Financial Summary" section of this Annual Report. The Company's higher effective income tax rate in 1984 is due to incurring a full year of the higher tax rates associated with Natomas's Indonesian oil and gas operations.

Although several businesses joint ventured in 1983 and 1984 no longer contribute sales and operating revenues to the Company's financial statements, they continued to contribute income through equity earnings during 1984, resulting in profitability in the equity earnings account in 1984 versus losses in 1983 and 1982.

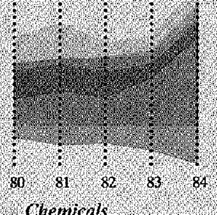
In 1984, the same factors which increased revenues – newly acquired operations combined with growth in many other businesses – brought full-year net income to $242.2 million (including a $12.2 million LIFO benefit).

1984 earnings represent a 113% increase from after-tax 1983 earnings of $113.6 million (including a $15.9 million LIFO benefit) prior to write-offs and year-end adjustments. After reflecting a $111.7 million after-tax write-off of investments in the Mukluk No. 1 exploratory well and associated Alaskan offshore leases, as well as $62.1 million in other after-tax charges primarily associated with chemical operations, 1983 after-tax results from operations were a loss of $60.2 million. Net results for the full year 1983 were a loss of $56.2 million, reflecting an extraordinary gain of $4.0 million from early retirement of Natomas debt and exchange of stock for debentures during the year.

Income before extraordinary item was $149.5 million in 1982 (including $30.1 million in pre-tax gains from lease sales and the contribution of a royalty interest to the Company's pension plans). Net income of $185.1 million for full-year 1982 included a $35.6 million extraordinary gain from a stock for debentures exchange.

The Company's exploration and production segment posted 1984 operating profits of $438.5 million compared with $33.0 million in 1983 and $135.2 million in 1982. 1983 operating profits included a pre-tax write-off of $194.3 million for the Mukluk No. 1 well and associated leases, while 1982 operating profits included $30.1 million in gains from lease sales and a royalty interest contribution to the Company's pension plans. Within the exploration and production segment, in 1984 the Company's Indonesian operations contributed $277.1 million in operating profits compared with $106.8 million in 1983. Since they were acquired with Natomas, these operations did not contribute to segment results prior to August 1983. In 1984, average daily net liquids volumes exceeded 1983 averages by 9% in Indonesia. Average prices dropped modestly for the year, as production was greatest during the year's first half, prior to significant reductions in world market prices for oil.

Operating Profit By Line Of Business



Chemicals
Geothermal
Coal
Refining and Marketing
Exploration and Production
Corporate Expense and Other (1983 excludes write-offs and adjustments.)

The segment's other foreign exploration and production operations generated operating profits of $4.5 million in 1984 compared with $4.9 million in 1983 and $10.6 million in 1982. Costs associated with increased frontier exploration have held operating profits below 1982 levels for the past two years despite growing production volumes in these areas.

1985 foreign net production volumes are expected to be approximately level with 1984. An increase in overall volumes is expected in late 1986 when the large Bima discovery in Indonesia begins production. However, lower world oil prices are expected to reduce 1985 international exploration and production operating profits from 1984's results.

The segment's domestic exploration and production operations generated 1984 operating profits of $156.9 million compared with an operating loss of $78.7 million in 1983 (reflecting the Mukluk well and associated leases) and 1982 operating profits of $124.6 million (including lease sales and royalty contributions noted above).

Although oil prices declined moderately and natural gas prices virtually held level year-to-year, a 21% gain in U.S. oil production and a 12.5% gain in domestic natural gas production more than offset these factors. Crude oil price pressures intensified in late 1984 and early 1985. In the United States, both oil and gas volumes are expected to rise again in 1985. However, price declines for both crude oil and natural gas are expected to reduce domestic operating profits during the coming year.

The refining and marketing segment posted 1984 operating profits of $81.0 million (including $9.6 million in gains from the sale of peripheral refined product outlets) compared with $66.2 million in 1983 (including $8.9 million in pre-tax charges primarily reflecting the write-down of a pipeline investment) and $122.3 million in 1982.

Beginning in 1983, intensive competition sharply eroded profit margins for refining and marketing, generating losses for a significant portion of the industry. Through aggressive marketing, refined product sales volumes increased throughout this period. As a result, this segment's refineries were able to run at capacity utilizations well above industry averages, nearing 100% utilization in 1984, and unit costs were kept low, minimizing profit erosion at the wholesale level. These same efforts substantially increased retail profits. Natural gas processing results were level, year-to-year, while growth in industrial demand reduced losses in the segment's feedstocks business.

Competition is expected to remain intense through 1985, and this segment will continue to implement its program of volume growth coupled with cost controls as refined product supply and demand slowly come back into balance.

In the coal segment, 1984 operating profits were $43.2 million compared with $41.2 million in 1983 (including a pre-tax charge of $3.7 million associated with a past contract dispute) and $51.8 million in 1982. The 1983 decline reflected extreme softness in spot coal markets, which continued through 1984 and is expected to continue through 1985. This segment's earnings are essentially tied to its long-term contracts. In 1985 reduced demand from electrical utilities and steel companies and potential production decreases will more than offset cost reductions, keeping earnings at or below 1984 levels.

Full-year chemicals segment operating profits of $116.3 million for 1984 included $5.2 million in gains from the sale of holdings in an electrochemical technology joint venture. For 1983, the segment's operating profits were $12.0 million, reflecting $58.6 million in pre-tax write-offs and other adjustments primarily relating to businesses associated with the Company's divestiture program. Chemicals segment operating profits were $71.3 million in 1982.

Strong recovery in industrial demand during the past year increased operating rates and firmed prices for all of this segment's major businesses. These factors are expected to result in a modest boost to chemicals segment operating profits in the coming year.

The Company's geothermal segment, which was acquired with Natomas, contributed $67.3 million in operating profits during 1984 compared with $16.0 million for the last four months of 1983. Past-year performance reflected gains in both prices and production volumes at The Geysers, the segment's only income-generating business. Since the Company sold half of its interest in The Geysers as of the close of business December 31, 1984, reducing its investment there to 25%, the earnings of this business will be accounted for as an equity holding in subsequent financial reports.

Consolidated Statements Of Income And Retained Earnings

(dollars in millions, except per share)

	1984	1983	1982
Revenues			
Sales and operating revenues	**$4,483.2**	$4,026.1	$3,177.4
Equity earnings (losses)	**5.4**	(15.4)	(11.7)
Other revenues, net	**43.8**	24.6	58.3
	4,532.4	4,035.3	3,224.0
Costs And Expenses			
Cost of products sold and operating expenses	**3,000.4**	3,057.0	2,272.5
Exploration costs, including dry holes	**82.4**	73.1	72.5
Depreciation, depletion and amortization	**456.9**	482.7	217.8
Selling and administrative	**190.8**	216.5	213.7
Research and development	**6.2**	23.7	46.5
Taxes other than income taxes	**127.2**	112.0	96.7
Interest	**154.5**	100.7	72.9
	4,018.4	4,065.7	2,992.6
Income (Loss) Before Tax Provision	**514.0**	(30.4)	231.4
Provision For Income Taxes			
Current	**158.6**	8.1	10.5
Deferred	**113.2**	21.7	71.4
	271.8	29.8	81.9
Income (Loss) Before Extraordinary Item	**242.2**	(60.2)	149.5
Extraordinary Item	**—**	4.0	35.6
Net Income (Loss)	**242.2**	(56.2)	185.1
Dividend requirement on Preferred Stock	**(18.7)**	(4.7)	—
Available For Common Shares	**$ 223.5**	$ (60.9)	$ 185.1
Per Common Share			
Before extraordinary item	**$ 1.78**	$ (.76)	$ 2.37
Extraordinary item	**—**	.05	.57
Net income (loss)	**$ 1.78**	$ (.71)	$ 2.94
Dividends paid	**$ 1.76**	$ 1.76	$ 1.76
Average Common Shares Outstanding	**125,911,204**	85,998,124	62,900,574
Retained Earnings			
January 1,	**$ 854.3**	$1,058.1	$ 994.6
Net income (loss)	**242.2**	(56.2)	185.1
Dividends on Common Stock	**(221.5)**	(143.7)	(110.3)
Dividends on Preferred Stock	**(18.7)**	(3.9)	—
Sale of Common Treasury Stock	**—**	—	(11.3)
December 31,	**$ 856.3**	$ 854.3	$1,058.1

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

Consolidated Balance Sheet
(dollars in millions)

	December 31, 1984	1983	1982
Assets			
Current Assets			
Cash and temporary cash investments	**$ 78.3**	$ 153.5	$ 82.6
Receivables, less doubtful receivables	**399.5**	439.2	325.2
Inventories	**344.6**	369.4	348.6
Prepaids and other current assets	**55.2**	205.4	32.2
Total Current Assets	**877.6**	1,167.5	788.6
Properties and Equipment, less depreciation and depletion	**3,814.0**	4,448.8	2,114.4
Investments and Long-Term Receivables	**533.0**	248.0	193.3
Intangible Assets, less amortization	**104.1**	132.6	70.8
Deferred Charges	**67.7**	27.5	26.9
	$5,396.4	$6,024.4	$3,194.0
Liabilities and Stockholders' Equity			
Current Liabilities			
Notes payable	**$ 10.9**	$ 21.6	$ 10.5
Long-term debt and capital lease obligations payable within one year	**16.1**	41.0	11.9
Accounts payable	**385.7**	414.7	301.0
Taxes payable	**51.2**	74.9	68.5
Accrued liabilities	**269.2**	293.9	83.4
Total Current Liabilities	**733.1**	846.1	475.3
Long-Term Debt and Capital Lease Obligations	**1,246.1**	1,823.1	925.1
Deferred Income Taxes	**473.5**	364.6	364.1
Other Liabilities and Deferred Credits	**234.9**	247.2	22.3
Stockholders' Equity			
Preferred Stock, $1.00 par value			
Authorized shares – 100,000,000			
Issued shares – 6,682,107 and 6,682,333	**6.7**	6.7	–
Common Stock, $1.00 par value			
Authorized shares – 300,000,000			
Issued shares – 126,962,962; 126,961,585 and 63,565,110	**127.0**	127.0	380.5
Paid-in capital	**1,803.2**	1,803.2	–
Retained earnings	**856.3**	854.3	1,058.1
Cumulative translation adjustment	**(43.7)**	(38.8)	(31.4)
Common Treasury Stock, at cost – 2,133,829; 400,000 and 1,000 shares	**(40.7)**	(9.0)	–
Total Stockholders' Equity	**2,708.8**	2,743.4	1,407.2
	$5,396.4	$6,024.4	$3,194.0

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 Changes In Financial Position
(dollars in millions)

	1984	1983	1982
Cash Provided			
Operations			
Income (loss)	**$ 242.2**	$ (60.2)	$ 149.5
Add – Income charges (credits) not requiring (providing) cash			
Depreciation, depletion and amortization	**456.9**	482.7	217.8
Deferred income taxes	**113.2**	21.7	71.4
Equity (earnings) losses, net of dividends received	**(4.2)**	16.8	14.4
Other, net	**(17.8)**	15.9	(6.6)
Operations	**790.3**	476.9	446.5
Working capital			
Decrease (increase) in receivables	**39.7**	(114.0)	147.6
Decrease (increase) in inventories	**24.8**	(20.8)	13.9
Decrease (increase) in prepaids and other current assets	**150.2**	(173.2)	29.6
Increase (decrease) in notes payable	**(10.7)**	11.1	(2.6)
Increase (decrease) in long-term debt and capital lease obligations payable within one year	**(24.9)**	29.1	(.2)
Increase (decrease) in accounts payable	**(29.0)**	113.7	1.9
Increase (decrease) in taxes payable	**(23.7)**	6.4	5.7
Increase (decrease) in accrued liabilities	**(24.7)**	210.5	(20.8)
Working Capital	**101.7**	62.8	175.1
Financing and other sources			
Increase in long-term debt and capital lease obligations	**749.2**	1,049.2	736.1
Sale/issuance of Common Stock	—	1,383.8	75.4
Issuance of Preferred Stock	—	175.6	—
Proceeds from sales of investments and facilities	**552.0**	108.5	69.0
Other, net	**(69.2)**	43.3	(13.0)
Financing And Other Sources	**1,232.0**	2,760.4	867.5
Total Cash Provided	**2,124.0**	3,300.1	1,489.1
Cash Used			
Acquisition of Natomas Company			
Properties and equipment	—	2,245.6	—
Goodwill	—	75.0	—
Long-term debt	—	(770.9)	—
Other long-term liabilities, net	—	(182.1)	—
Acquisition of Sigmor Corporation			
Properties and equipment	—	292.4	—
Long-term debt	—	(224.8)	—
Other long-term assets, net	—	24.6	—
Expenditures for properties and equipment	**553.1**	412.8	612.7
Investments	**48.0**	54.1	47.5
Dividends	**240.2**	147.6	110.3
Purchase of Common Stock	**31.7**	12.1	72.1
Reduction of long-term debt and capital lease obligations	**1,326.2**	1,142.8	630.2
Total Cash Used	**2,199.2**	3,229.2	1,472.8
Increase (decrease) in cash and temporary cash investments	**$ (75.2)**	$ 70.9	$ 16.3

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

The 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 and gas 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 financial statements of the Company's foreign subsidiaries 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.

Gains and losses resulting from the remeasurement of the financial statements of the Company's foreign subsidiaries and associated companies having the United States dollar as their functional currency and gains and losses from foreign currency transactions are included in earnings.

Futures Contracts.
The Company uses futures contracts to hedge its exposure to price fluctuations for its third party crude oil trading transactions. The cost of the contracts, as well as changes in their market value, are not included in earnings until the transaction being hedged is completed and the contract closed.

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 to account for 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.

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 and other raw material resources are depleted on a 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 ($13.4 million at December 31, 1984) 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 10 years. Pension cost is accrued based upon actuarial valuations and funded at an amount in excess of the minimum required by the Employee Retirement Income Security Act.

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.

HOLDING COMPANY FORMED

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

ACQUISITIONS

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 was 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 billion.

Effective January 14, 1983, Sigmor Corporation, which was principally engaged in the refining of crude oil and the retail marketing of gasoline, 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 $161.9 million. The Company had owned 21 percent of Sigmor's common stock since 1978.

The acquisitions of Natomas and Sigmor were accounted for as purchases and their results of operations are included in the Consolidated Statements of Income and Retained Earnings from the respective dates of acquisition. The acquired assets and liabilities were recorded at their estimated fair values, with the excess of cost over the fair values of the Natomas net assets acquired ($75.0 million) being amortized over 40 years.

Pro forma combined results of operations (unaudited) for 1983 and 1982 (as though the acquisitions had taken place on January 1, 1982) would have been as follows:

	1983	1982
Sales and operating revenues	$4,624.7	$5,325.3
Income (loss) before extraordinary item	(74.3)	99.7
Net income (loss)	(69.4)	135.2
Per Common share		
Before extraordinary item	$ (.69)	$ .74
Net income (loss)	(.65)	1.03

SALE OF GEOTHERMAL INTEREST

Under the terms of a sales agreement entered into in October 1984, and effective at the close of business on December 31, 1984, the Company sold half of its 50% interest in the Union-Thermal-Magma Partnership, a geothermal joint venture, to its joint venture partner. The Company received $285.0 million in cash, substantially equivalent to the book value of the interest sold. Both the sale and the change to the equity method to account for the Company's remaining investment in the joint venture are reflected as of December 31, 1984 in the Consolidated Balance Sheet.

OTHER ASSET SALES

In May 1984, the Company completed the divestiture of its ion exchange resin business at book value. Also in April, the Company sold its electrochemical technology business, realizing a gain of $5.2 million. (See "Investments and Long-Term Receivables".)

In December 1984, the Company sold its Canadian refining and marketing assets, which included 107 retail gasoline stations, two marine fuel terminals and a home heating oil business, realizing a gain on the sale of $5.0 million. Also during 1984, the Company sold 26 of its retail gasoline stations in Washington and California, realizing a gain on the sales of $4.6 million.

In August and December 1984, as a part of public stock offerings by SDS Biotech K.K., a Japanese associated company, the Company sold a 9% interest in that company, realizing a gain on the sales of $5.3 million. (See "Investments and Long-Term Receivables".)

EXTRAORDINARY ITEM — EARLY EXTINGUISHMENT OF DEBT

During 1983, the Company retired $35.3 million of long-term debt for cash and 1,057,622 shares of Common Stock, resulting in an extraordinary gain of $4.0 million, net of $.7 million of income taxes. In 1982, $97.1 million of long-term debt was retired for 3,035,000 shares of Common Stock resulting in a non-taxable extraordinary gain of $35.6 million.

BUSINESS SEGMENT REVENUES AND OPERATING PROFIT

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

	Sales and Operating Revenues		
	1984	1983	1982
Exploration and Production	**$1,002.8**	$ 474.6	$ 254.5
Refining and Marketing	**2,270.1**	2,249.5	1,530.5
Coal	**259.9**	278.0	335.1
Chemicals	**820.1**	942.1	1,035.4
Geothermal	**112.5**	31.2	–
Corporate	**17.8**	50.7	21.9
	$4,483.2	$4,026.1	$3,177.4

	Operating Profit (Loss)		
	1984	1983	1982
Exploration and Production	**$438.5**	$ 33.0	$135.2
Refining and Marketing	**81.0**	66.2	122.3
Coal	**43.2**	41.2	51.8
Chemicals	**116.3**	12.0	71.3
Geothermal	**67.3**	16.0	–
Corporate	**(237.7)**	(183.4)	(137.5)
	$508.6	$(15.0)	$243.1

Intersegment sales and operating revenues are generally derived from transactions made at prevailing market rates or arms-length negotiated prices. Sales of crude oil and natural gas from the Exploration and Production segment to the Refining and Marketing segment amounted to $74.9 million in 1984, $143.7 million in 1983 and $123.6 million in 1982. All other intersegment sales were not significant.

Business segment operating profit is sales and operating revenues less applicable segment operating expenses. In determining the operating profit of the five business segments none of the following is included: equity earnings, interest and other corporate expenses.

Sales to Sigmor, an associated company prior to January 14, 1983, amounted to $419.1 million in 1982, 13% of consolidated sales and operating revenues. (See "Acquisitions".)

BUSINESS SEGMENT ASSETS

	Identifiable Assets		
	1984	1983	1982
Exploration and Production	**$2,828.5**	$2,939.0	$1,161.8
Refining and Marketing	**806.6**	822.7	387.3
Coal	**243.2**	230.8	201.8
Chemicals	**763.8**	944.9	1,020.7
Geothermal	**35.4**	749.9	–
Corporate	**258.9**	143.2	249.0
Investments in associated companies	**460.0**	193.9	173.4
	$5,396.4	$6,024.4	$3,194.0

Identifiable assets relate to those assets that are utilized by the respective business segment. Corporate assets are principally cash, investments (other than investments in associated companies) and other assets that cannot be directly associated with the operations or activities of a business segment. (See "Sale of Geothermal Interest".)

WORLDWIDE OPERATIONS

	Sales and Operating Revenues		
	1984	1983	1982
United States*	**$3,601.7**	$3,521.4	$2,898.0
Indonesia	**527.7**	179.8	–
Other Foreign	**353.8**	324.9	279.4
	$4,483.2	$4,026.1	$3,177.4

	Operating Profit (Loss)		
	1984	1983	1982
United States*	**$195.0**	$(141.6)	$222.3
Indonesia	**277.1**	106.8	–
Other Foreign	**36.5**	19.8	20.8
	$508.6	$ (15.0)	$243.1

	Identifiable Assets		
	1984	1983	1982
United States*	**$3,559.9**	$4,192.7	$2,909.0
Indonesia	**1,439.5**	1,389.0	–
Other Foreign	**397.0**	442.7	285.0
	$5,396.4	$6,024.4	$3,194.0

**Includes corporate assets, revenues and expenses (including interest).*

Net foreign assets, including the Company's investments in associated companies accounted for by the equity method were $1.158 billion at December 31, 1984, $1.184 billion at December 31, 1983 and $221.7 million at December 31, 1982.

Results of foreign operations, after applicable local taxes, which includes earnings of subsidiaries and associated companies included in net income amounted to earnings of $101.4 million in 1984, $39.4 million in 1983 and a loss of $4.5 million in 1982. Foreign currency transaction and remeasurement gains and losses reflected in current earnings amounted to losses of $17.8 million, $4.1 million and $2.0 million in 1984, 1983 and 1982, respectively.

An analysis of the cumulative translation adjustment account included in the stockholders' equity section of the Consolidated Balance Sheet is as follows:

	1984	1983	1982
January 1,	**$(38.8)**	$(31.4)	$(10.9)
Translation adjustments	**(14.1)**	(7.4)	(20.5)
Dispositions	**9.2**	–	–
December 31,	**$(43.7)**	$(38.8)	$(31.4)

TAXES

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

	1984	1983	1982
United States	**$229.5**	$(152.5)	$214.5
Foreign	**284.5**	122.1	16.9
	$514.0	$ (30.4)	$231.4

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

	1984	1983	1982
Current			
Federal	**$ 11.4**	$(42.0)	$(9.5)
State and local	**6.1**	.8	4.0
Foreign	**141.1**	49.3	16.0
	158.6	8.1	10.5
Deferred			
Federal	**42.8**	(15.2)	68.0
State and local	**–**	1.8	3.4
Foreign	**70.4**	35.1	–
	113.2	21.7	71.4
	$271.8	$ 29.8	$81.9

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

	1984	1983	1982
Tax provision (credit) at statutory Federal rate (46%)	**$236.4**	$ (14.0)	$106.5
Increase (reduction) resulting from			
Excess foreign income taxes	**70.6**	56.9	10.7
Investment tax credits	**(13.7)**	(9.6)	(20.6)
Excess statutory percentage depletion	**(14.1)**	(13.4)	(9.9)
Equity (earnings) losses	**(2.4)**	7.1	5.4
Federal minimum tax	**–**	3.9	–
Capital gains	**(6.2)**	–	(4.4)
Other, net	**1.2**	(1.1)	(5.8)
	$271.8	$ 29.8	$ 81.9

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

	1984	1983	1982
Intangible drilling costs	**$ 89.3**	$ 29.6	$ 28.6
Accelerated depreciation	**20.5**	29.1	29.6
Capitalized interest	**14.6**	14.7	15.1
Development wells and related items	**.6**	1.2	7.5
Coal minimum royalties	**6.4**	4.8	6.4
Asset write-offs	**(1.5)**	(36.0)	–
Foreign income taxes	**–**	(16.1)	–
Other, net	**(16.7)**	(5.6)	(15.8)
	$113.2	$ 21.7	$ 71.4

At December 31, 1984, the Company had $38.6 million of unused investment tax credits for Federal income tax purposes which expire between 1995 and 1999 and in addition had $52.6 million and $54.8 million of unused foreign tax credits for Federal income tax and financial statement purposes, respectively, that expire in 1989.

At December 31, 1984, there were accumulated undistributed earnings after applicable local taxes of foreign subsidiaries and associated companies of $80.5 million 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 consumer excise taxes (which are excluded from both revenues and costs) and income taxes were comprised of the following:

	1984	1983	1982
Windfall profit	**$ 20.2**	$ 17.6	$18.2
Gross production	**26.4**	30.3	26.9
Real and personal property	**33.9**	25.1	18.8
Payroll	**23.3**	23.0	19.2
Other	**23.4**	16.0	13.6
	$127.2	$112.0	$96.7

PENSIONS AND OTHER POSTRETIREMENT BENEFITS

The charge against earnings for pension cost, including officers' supplemental pensions, but excluding contributions to coal miners' benefit plans, was $8.2 million in 1984, $23.9 million in 1983 and $22.5 million in 1982 of which approximately 84% related to United States employees.

In 1984, for its United States Retirement Income Plans, the Company changed its actuarial cost method from "Projected Unit Credit" to "Salary Prorated Projected Unit Credit" and changed the investment return assumption from 8% to 9½%. The effect of these changes was to reduce 1984 pension cost by $10.4 million and increase net income by $5.6 million ($.04 per share).

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 $18.0 million as determined by a firm of independent petroleum engineers. The effect of the contribution was to increase the Company's 1982 income before tax provision by $18.0 million (included in other revenues) and to reduce the Company's accrued pension liability by the same amount.

A comparison of accumulated plan benefits and plan net assets as of the latest valuation date (December 31, 1984) for the Company's United States pension plans was as follows:

Assumed rate of return	9.5%
Actuarial present value of accumulated plan benefits	
Vested	$138.8
Nonvested	3.8
	$142.6
Net assets available for benefits	$155.4

The Company's foreign pension plans are not required to report to United States governmental agencies pursuant to the Employee Retirement Income Security Act and do not otherwise determine the actuarial present value of accumulated plan benefits. For foreign plans, the actuarially computed value of vested benefits was substantially fully funded.

The Company's collective bargaining agreements with its coal miners require contributions to miners' benefit plans, certain of which plans cover multiple employers. Company pension contributions, including past service costs were $5.2 million in 1984, $4.5 million in 1983 and $4.6 million in 1982. The Employee Retirement Income Security Act holds an employer liable upon complete or partial withdrawal from or termination of a multiemployer plan for the continued funding of its proportionate share of that plan's unfunded vested benefits liability. The actuaries for the multiemployer plans to which the Company contributes have estimated that the

Company's share of such unfunded vested benefits liability approximated $19.4 million at December 31, 1984. The Company has not withdrawn nor does it presently intend to withdraw from any multiemployer plan nor is it aware of the intention to terminate any such plan.

In addition to providing pension benefits, the Company provides certain medical and life insurance benefits to eligible retired employees. The Company recognizes the cost of providing these benefits by charging against earnings the retirees' medical benefit claims and life insurance premiums paid, which amounted to $2.5 million in 1984.

PERFORMANCE INCENTIVE PLAN

In 1984, the Company's Board of Directors approved a new Performance Incentive Plan, administered by the Compensation Committee of the Board of Directors, which provides for incentive payments to officers and key employees based upon an annually approved formula related to the achievement of Company and individual performance objectives.

Incentive awards of $6.4 million, $2.4 million and $3.2 million were made in 1984, 1983 and 1982, respectively.

EMPLOYEE SHAREHOLDING AND INVESTMENT PLAN

Effective April 1, 1984, the Employee Shareholding and Investment Plan, previously called the Employee Savings Plan, was amended to allow eligible participating employees to contribute up to 6% of their salaries to a trust for investment on an after-tax basis ("Regular Savings" option), before-tax basis ("Premier Savings" option) or a combination of both.

Employees electing the Regular Savings option can invest in either a Company stock fund (Common Stock of the Company), government securities fund or a combination of both. The Company contributes an amount equal to 50% of the participant's monthly contribution; the Company's contribution is invested in the Company stock fund.

Employees electing the Premier Savings option can invest in four different funds, including a Company stock fund. The Company contributes an amount equal to 100% of the participant's monthly contribution; the Company's contribution is invested in the Company stock fund.

Participants are at all times fully vested in their contributions; the Company contributions become fully vested to the participant after three years of continued employment. The Plan Trustee may purchase from the Company shares of its Common Stock for the Company stock fund at a price equal to the closing market price on the New York Stock Exchange on the date of purchase. The Company's contributions to the Plan and predecessor plans amounted to $5.7 million in 1984, $3.6 million in 1983 and $3.6 million in 1982.

At December 31, 1984, 1,925,323 Common shares were reserved for issuance under the Plan.

RECEIVABLES

	1984	1983	1982
Notes and accounts receivable	**$404.5**	$442.8	$328.3
Less – Allowance for doubtful receivables	**5.0**	3.6	3.1
	$399.5	$439.2	$325.2

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

	1984	1983	1982
January 1,	**$3.6**	$3.1	$4.0
Additions charged against earnings	**4.1**	3.3	2.5
Write-offs, net of recoveries	**(2.7)**	(2.8)	(3.4)
December 31,	**$5.0**	$3.6	$3.1

INVENTORIES

	1984	1983	1982
Finished and in-process materials	**$209.6**	$201.5	$215.3
Raw materials	**63.8**	85.7	62.6
Supplies	**71.2**	82.2	70.7
	$344.6	$369.4	$348.6

The current cost of inventories valued under the LIFO cost method (approximately 57%, 58% and 64% of total inventories at December 31, 1984, 1983 and 1982, respectively) exceeded their LIFO carrying values by $50.8 million, $69.2 million and $118.5 million at December 31, 1984, 1983 and 1982, respectively.

During 1984, 1983 and 1982, the Company reduced certain of its inventory quantities. The reductions resulted in the liquidation of LIFO inventory quantities carried at the lower costs that prevailed in prior years. The effect of the inventory reductions was to increase 1984 net income, to decrease the 1983 loss before extraordinary item and to increase 1982 income before extraordinary item by $12.2 million ($.10 per share), $15.9 million ($.18 per share) and $.9 million ($.01 per share), respectively.

ASSETS HELD FOR SALE

At December 31, 1983, other current assets included assets held for sale of $160.0 million which comprised all of the United States oil and gas producing and non-producing properties, excluding Federal offshore leases, of a subsidiary of the Company. Such assets were valued at their estimated realizable value, based upon an agreement in principle for their sale. The sale was completed in March 1984.

PROPERTIES AND EQUIPMENT

Properties And Equipment	1984	1983	1982
Exploration and Production	**$3,345.2**	$3,241.1	$1,528.3
Refining and Marketing	**779.2**	770.9	339.5
Coal	**260.8**	229.9	182.1
Chemicals	**891.3**	899.3	1,031.2
Geothermal	**49.9**	717.9	–
Corporate	**92.6**	82.1	100.5
	5,419.0	5,941.2	3,181.6
Less – Accumulated depreciation and depletion	**1,605.0**	1,492.4	1,067.2
	$3,814.0	$4,448.8	$2,114.4

Expenditures For Properties And Equipment	1984	1983	1982
Exploration and Production	**$357.7**	$276.9	$439.2
Refining and Marketing	**55.1**	37.8	24.4
Coal	**37.0**	20.4	30.4
Chemicals	**44.9**	33.4	103.0
Geothermal	**48.9**	14.8	–
Corporate	**9.5**	29.5	15.7
	$553.1	$412.8	$612.7

Depreciation And Depletion	1984	1983	1982
Exploration and Production	**$324.9**	$360.0	$122.3
Refining and Marketing	**36.1**	33.2	11.7
Coal	**13.1**	14.0	14.3
Chemicals	**48.7**	54.7	55.6
Geothermal	**22.7**	7.5	–
Corporate	**6.9**	7.0	6.7
	$452.4	$476.4	$210.6

Authorized expenditures under approved appropriations for additions to properties and equipment over the next several years were $362.7 million at December 31, 1984, after deducting expenditures through that date.

The provision for depreciation and depletion of $476.4 million in 1983 included $179.9 million for the impairment of five leases in the Beaufort Sea associated with the Mukluk No. 1 exploratory well.

The charge against earnings for maintenance and repairs was $116.0 million in 1984, $112.1 million in 1983 and $110.7 million in 1982.

INVESTMENTS AND LONG-TERM RECEIVABLES

In September 1984, the Company and Nippon Oil & Fats Co., a Japanese company, formed Metal Coatings International Inc., a 50/50 joint venture, to conduct a corrosion-resistant metal coatings business. The Company either sold or contributed various assets to the joint venture including the stock of associated companies, facilities, patents and technology and licensing agreements. Upon formation of the joint venture the Company realized $11.4 million in cash.

In April 1984, the Company sold its 49% interest in Eltech Systems Corporation, an associated company, as well as its other electrochemical technology interests to the Chemnor Group, its partner in the joint venture. The Company received $42.8 million of notes receivable of which $22.6 million were subsequently sold. (See "Commitments and Contingencies".) The joint venture had been formed in 1982 by the Company and the Switzerland-based Chemnor Group. The Company realized $65.0 million in cash upon formation of the joint venture to which the Company either sold or contributed various assets. The joint venture also assumed various liabilities.

In July 1983, the Company and Showa Denko, K.K., a Japanese company, formed SDS Biotech Corporation, a 50/50 joint venture, to conduct 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 $149.8 million and other liabilities arising out of these businesses.

	1984	1983	1982
Investments and advances to associated companies, at equity			
Unincorporated			
Union-Thermal-Magma Partnership (¼)	**$272.1**	$ –	$ –
Diamond Shamrock Chuitna Coal Joint Venture (½)	**34.9**	24.5	14.6
Montco Coal Partnership (⅔)	**25.7**	20.2	14.9
Tenneco Entex Falcon Joint Venture (¼)	**14.5**	12.4	10.3
Incorporated			
SDS Biotech Corporation (50%)	**42.8**	37.5	–
SDS Biotech K.K. (41%)	**6.4**	7.5	6.2
Sigmor Corporation (21%)	**–**	–	40.6
Carbocloro S.A. Industrias Quimicas (50%)	**32.2**	33.4	37.3
Eltech Systems Corporation (49%)	**–**	21.6	10.4
Other	**31.4**	36.8	39.1
	460.0	193.9	173.4
Investments, at cost, and long-term receivables			
The 1600 Corporation	**30.1**	30.1	–
Chemnor Group	**17.6**	–	–
Other	**25.3**	24.0	19.9
	$533.0	$248.0	$193.3

Effective at the close of business on December 31, 1984, the Company sold half of its 50% interest in the Union-Thermal-Magma Partnership. (See "Sale of Geothermal Interest".)

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

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

Presented below are the investments in associated companies and equity earnings (losses) as they would be included, if permitted, in the Company's business segments. (See "Business Segment Revenues and Operating Profit" and "Business Segment Assets".)

	Investments In Associated Companies		
	1984	1983	1982
Refining and Marketing	**$ –**	$ 1.0	$ 44.4
Coal	**85.6**	66.5	50.6
Chemicals	**101.5**	125.6	76.9
Geothermal	**272.1**	–	–
Corporate	**.8**	.8	1.5
	$460.0	$193.9	$173.4

	Equity Earnings (Losses)		
	1984	1983	1982
Refining and Marketing	**$(.3)**	$ (5.0)	$ (7.7)
Coal	**.3**	(.9)	(.4)
Chemicals	**5.5**	(9.5)	(3.0)
Corporate	**(.1)**	–	(.6)
	$5.4	$(15.4)	$(11.7)

INTANGIBLE ASSETS

	Intangibles Resulting From Acquisitions — Excess Of Cost Over Fair Value Of Net Assets Acquired		
	1984	1983	1982
Exploration and Production	**$75.0**	$ 75.0	$ –
Chemicals	**18.9**	30.6	31.5
	93.9	105.6	31.5
Less – Accumulated amortization	**5.7**	5.7	5.3
	$88.2	$ 99.9	$26.2

	Patents, Trademarks, Formulae, Processes Etc. Purchased		
	1984	1983	1982
Coal	**$ 5.0**	$ 5.0	$ 5.0
Chemicals	**5.7**	61.9	71.6
Corporate	**10.0**	–	–
	20.7	66.9	76.6
Less – Accumulated amortization	**4.8**	34.2	32.0
	$15.9	$32.7	$44.6

	Amortization		
	1984	1983	1982
Exploration and Production	**$1.9**	$–	$–
Coal	**.3**	.3	.3
Chemicals	**1.6**	6.0	6.9
Corporate	**.7**	–	–
	$4.5	$6.3	$7.2

LONG-TERM DEBT AND CREDIT ARRANGEMENTS

	1984	1983	1982
Sinking Fund Debentures			
9% due 1986-1999	**$ 67.5**	$ 70.2	$ 70.2
9⅛% due 1986-2000	**95.0**	100.0	100.0
15½% due 1989	**58.6**	84.6	–
7.7% due 1991-2001	**88.7**	88.7	88.7
8⅞% due 1993-1997	**10.9**	17.3	–
8½% due 1997-2008	**99.7**	99.7	99.7
11¼% due 1994-2013	**149.6**	149.6	–
Other	**–**	–	74.8
Notes			
15¾% due 1986	**50.6**	53.4	–
10⅝% due 1993	**99.8**	99.8	–
Other	**–**	55.7	12.4
Bonds			
7½% due 1990 (Sfr 75,000,000)	**35.6**	36.1	–
Other	**–**	9.7	–
Pollution control/Industrial revenue financings	**47.2**	47.3	53.7
Bank term loan/credit agreement	**150.0**	150.0	200.0
Institutional loans	**98.0**	161.1	–
Borrowings supported by unused revolving credit agreement			
Commercial paper/ money market	**13.2**	323.8	177.2
Bankers acceptances	**100.0**	200.0	–
15% Notes due 1985	**47.1**	51.7	–
Bank and other loans	**24.3**	37.5	26.1
Capital lease obligations	**26.4**	27.9	34.2
	1,262.2	1,864.1	937.0
Less – Due within one year			
Long-term debt	**13.1**	38.4	8.6
Capital lease obligations	**3.0**	2.6	3.3
	$1,246.1	$1,823.1	$925.1

The loan agreements and indentures covering Notes and Debentures contain conventional restrictions on declaration and payment of dividends and acquisition of the Company's Common Stock. The most restrictive of these provisions relates to the 9⅛% Sinking Fund Debentures due November 15, 2000; under such provisions the amount of the Company's consolidated retained earnings free of such restrictions was $729.0 million at December 31, 1984. Included in consolidated retained earnings at December 31, 1984, were undistributed equity earnings of associated companies of $14.3 million.

The aggregate maturities of long-term debt outstanding at December 31, 1984 for the next five years were as follows: 1985 – $13.1 million; 1986 – $118.3 million; 1987 – $18.6 million; 1988 – $78.2 million; 1989 – $101.6 million.

In June 1981, the Company entered into a Bank Term Loan/Credit Agreement. The term loan provides for the borrowing of up to $200.0 million. 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 $50.0 million. 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 $150.0 million at December 31, 1984 and 1983 and $200.0 million at December 31, 1982.

In May 1983, the Company sold $150.0 million of 11¼% Sinking Fund Debentures due May 1, 2013 at 99.735% and $100.0 million 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.

The Company's 1984 Reducing Revolving Credit Agreement, as amended, provides for revolving credit loans not to exceed at any one time $1.050 billion through February 14, 1989 and declining in twelve consecutive equal quarterly installments commencing February 15, 1989; with all remaining revolving credit loans to mature on November 15, 1991. The agreement requires a commitment fee of ¼% per annum on the unused portion of the commitment.

The Company's 1983 Reducing Revolving Credit Agreement, as amended, provides for revolving credit loans not to exceed at any one time $1.000 billion through February 14, 1989 and declining in twelve consecutive equal quarterly installments commencing February 15, 1989; with all remaining revolving credit loans to mature on November 15, 1991. The agreement requires a commitment fee of ⅜% per annum on the first $350.0 million of unused commitment, declining proportionally as the maximum aggregate principal amount declines, and ¼% per annum on the remainder.

Interest on borrowings under both the 1984 and 1983 Agreements is based upon, at the Company's option, the applicable prime rate, certificate of deposit rate or Eurodollar rate. At December 31, 1984, there were no borrowings outstanding under either Agreement.

Notes payable at December 31, 1984, 1983 and 1982 consisted of debt obligations of foreign subsidiaries at an average interest rate of 6.0%, 12.2% and 18.5%, respectively. The maximum amount of notes payable outstanding was $21.5 million during 1984, $21.6 million during 1983 and $77.0 million, principally the Company's commercial paper and short-term bank debt, during 1982. The average amount of notes payable outstanding was $12.8 million during 1984, $13.1 million during 1983 and $13.6 million during 1982 at an average interest rate of 9.5%, 13.4% and 12.2%, respectively.

Total interest costs incurred were as follows:

	1984	1983	1982
Interest expense	**$154.5**	$100.7	$ 72.9
Capitalized interest	**37.8**	42.9	32.8
	$192.3	$143.6	$105.7

PREFERRED STOCK

At December 31, 1984, 100,000,000 shares of Preferred Stock with $1.00 par value were authorized. 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 $4.00 Cumulative Convertible Preferred Stock series with a maximum of 2,500,000 shares. Each outstanding share is entitled to one vote, 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 ($1.00 per share in 1983), is callable at $52.40 per share ($131.0 million in the aggregate) and has a liquidation value of $50.00 per share ($125.0 million in the aggregate) plus accrued but unpaid dividends, if any. (See "Acquisitions".)

	Shares 1984	Amount 1984	Shares 1983	Amount 1983
January 1,	**2,499,800**	**$2.5**	–	$ –
Acquisition of Natomas	–	–	2,500,000	2.5
Conversion to Common Stock	–	–	(200)	–
December 31,	**2,499,800**	**$2.5**	2,499,800	$ 2.5

In conjunction with the acquisition of Sigmor, the Company's Board of Directors authorized the creation of a $2.07 Cumulative Convertible Preferred Stock series with a maximum of 5,982,680 shares, subsequently reduced to 4,183,374 shares. Each outstanding share is entitled to one vote, is convertible at any time into one share of the Company's Common Stock, 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 ($133.1 million in the aggregate) plus accrued but unpaid dividends, if any. (See "Acquisitions".)

	Shares 1984	Amount 1984	Shares 1983	Amount 1983
January 1,	**4,182,533**	**$4.2**	–	$ –
Acquisition of Sigmor	–	–	4,184,749	80.0
Conversion to $1.00 par value	–	–	–	(75.8)
Conversion to Common Stock	**(226)**	–	(2,216)	–
December 31,	**4,182,307**	**$4.2**	4,182,533	$ 4.2

COMMON STOCK

At December 31, 1984, 300,000,000 shares of Common Stock with $1.00 par value were authorized.

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 $27.5 million of long-term debt. (See "Extraordinary Item – Early Extinguishment of Debt".)

	SHARES	AMOUNT
January 1, 1982	62,878,401	$366.6
Employee benefit plans purchases	673,875	13.8
Exercise of stock options	12,834	.1
December 31, 1982	63,565,110	380.5
Employee benefit plans purchases	159,685	3.8
Exercise of stock options	125,727	1.0
Newly issued	4,500,000	99.8
Conversion to $1.00 par value	–	(416.3)
Acquisition of Natomas	58,625,700	58.6
Conversion of Preferred Stock	2,461	–
Cancellation of Common Treasury Stock	(17,098)	(.4)
December 31, 1983	126,961,585	127.0
Exercise of stock options	**1,322**	–
Conversion of Preferred Stock	**226**	–
Fractional shares exchanged for cash	**(171)**	–
December 31, 1984	**126,962,962**	**$127.0**

PAID-IN CAPITAL

In conjunction with the 1983 holding company formation (See "Holding Company Formed".), the Company's Common Stock and $2.07 Preferred Stock were converted to $1.00 par value, generating paid-in capital of $416.3 million and $75.8 million, respectively. Paid-in capital from the issuance of stock to acquire Natomas and the exercise of stock options in 1983 was $1.310 billion and $1.5 million, respectively.

COMMON TREASURY STOCK

In February 1982, the Company purchased 1,977,500 shares of its Common Stock in open market transactions at an average cost of $25.02 per share to complete the purchase of 2,000,000 shares as authorized by the Board of Directors in 1981. In March 1982, the Board of Directors authorized the purchase of up to 2,000,000 additional shares of the Company's Common Stock. During the remainder of 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.

During the first six months of 1984, the Company purchased 310,800 shares of its Common Stock in open market transactions at an average cost of $18.59 per share. At its meeting in August 1984, the Board of Directors authorized the purchase of an additional 1,500,000 shares of the Company's Common Stock. During the remainder of 1984, the Company purchased 1,425,300 shares of its Common Stock in open market transactions at an average cost of $18.19 per share.

	SHARES	AMOUNT
January 1, 1982	(24,345)	$ (.6)
Purchase of Common Treasury Stock	(3,041,900)	(72.1)
Employee benefit plans purchases	29,344	.7
Deferred compensation	901	–
Sale of Common Treasury Stock	3,035,000	72.0
December 31, 1982	(1,000)	–
Purchase of Common Treasury Stock	(530,931)	(12.1)
Employee benefit plans purchases	114,578	2.7
Deferred compensation	255	–
Cancelled	17,098	.4
December 31, 1983	(400,000)	(9.0)
Purchase of Common Treasury Stock	**(1,736,100)**	**(31.7)**
Employee benefit plans purchases	**1,235**	–
Exercise of stock options	**557**	–
Deferred compensation	**479**	–
December 31, 1984	**(2,133,829)**	**$(40.7)**

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, 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. There was no charge against or credit to earnings for SARS in 1984. The charge against earnings for SARS was $.1 million in 1983 and the credit to earnings for SARS was $.3 million in 1982. There was no charge against earnings for Performance Units, as the Units earned no value in the 1984, 1983 or 1982 award periods.

At December 31, 1984, 577,743 Common shares were reserved for future grants under the 1980 Plan, and options representing 1,252,190 Common shares were exercisable. Detail of options outstanding follows:

	1984	1983	1982
January 1,	**1,654,136**	1,680,622	1,375,562
Granted	**402,150**	392,900	419,750
Natomas options assumed	**–**	232,815	–
Exercised	**(1,879)**	(138,729)	(12,834)
Cancelled	**(135,884)**	(513,472)	(101,856)
December 31,	**1,918,523**	1,654,136	1,680,622

Exercise prices of options outstanding at December 31, 1984 ranged from $9.05 to $38.69 per share.

LEASE COMMITMENTS

The Company leases certain machinery and equipment, transportation and marketing facilities, and office space under cancellable and non-cancellable leases, most of which expire within 20 years and may be renewed. The Company's properties and equipment under capital lease by business segment were as follows:

	1984	1983	1982
Exploration and Production	**$ .1**	$ .1	$ .3
Refining and Marketing	**13.8**	13.8	13.8
Chemicals	**26.3**	27.1	37.7
Corporate	**1.0**	1.0	1.1
	41.2	42.0	52.9
Less – Accumulated depreciation	**22.4**	22.0	27.8
	$18.8	$20.0	$25.1

Included in the provision for depreciation and depletion was depreciation applicable to assets under capital lease of $1.4 million in 1984, $2.3 million in 1983 and $2.5 million in 1982.

Minimum annual rentals at December 31, 1984 were as follows:

	Capital Leases	Operating Leases
1985	$ 4.9	$ 86.6
1986	4.8	77.3
1987	4.8	52.4
1988	3.4	43.5
1989	3.3	37.8
1990 and thereafter	16.0	164.9
	37.2	$462.5
Less –		
Executory costs	.1	
Interest equivalents	10.7	
Present value	26.4	
Less – Current portion	3.0	
Long-term capital lease obligations	**$23.4**	

Rental expense for operating leases was as follows:

	1984	1983	1982
Total rentals	**$101.5**	$92.6	$82.4
Less – Sublease rental income	**5.7**	7.1	3.9
Rental expense	**$ 95.8**	$85.5	$78.5

COMMITMENTS AND CONTINGENCIES

The Company 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 completed an expansion, doubling its capacity for the production of those products. Carbocloro arranged financing for the expansion in the amount of $100.0 million ($66.7 million remained unpaid at December 31, 1984) with a group of international banks. The loan agreement requires Carbocloro to meet specific production and financial criteria which had not been achieved at December 31, 1984. The Company and its venture partner have committed to the lenders that the specified production and financial criteria will be achieved as contemplated in the loan agreement.

At December 31, 1984, 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 $19.7 million 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: $59.7 million in 1988; $31.9 million in 1989; $24.5 million in 1990; and $24.4 million in 1991.

The Company, together with several other major chemical companies, is a defendant in a large number of lawsuits in which the plaintiffs allege personal injury from exposure to "Agent Orange" and other herbicides. Those herbicides (hereinafter "Agent Orange") were sold to the United States Government for use by the United States during military operations in Vietnam. The suits, which seek substantial damages, have been transferred to the U.S. District Court for the Eastern District of New York ("District Court") for coordinated or consolidated pre-trial proceedings.

In December 1983, the District Court certified a class action in which the plaintiff class consists of those persons who were in the United States, New Zealand or Australian Armed Forces 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 such servicepersons born before January 1, 1984, directly or derivatively injured as a result of the exposure. On May 7, 1984, representatives of the plaintiff class and the defendants entered into a Settlement Agreement which was approved by the District Court on January 7, 1985. Under the settlement, defendants collectively agreed to pay $180.0 million ("Settlement Amount"), plus interest from May 7, 1984 to the date of payment, into a fund established by the District Court. The amount of the Company's share of the Settlement Amount is set forth in a sealed agreement delivered to the District Court on May 7, 1984.

Defendants' payment of the Settlement Amount is in full and final settlement of all claims by class members for compensatory damages against defendants, and their parents, subsidiaries, affiliates and insurers, as well as any of their stockholders, directors, officers, employees and agents, arising out of matters alleged in the class action. The Agreement confirms that the class includes persons who have not yet manifested injury. Under the Agreement, both the plaintiff class and defendants expressly reserve all claims which they have against the United States Government. The District Court had previously ruled that none of the class members was entitled to punitive damages.

Approximately 2,600 persons have requested exclusion from the class. These opt-outs are not subject to or bound by the terms of the settlement. Individual actions brought by some of these opt-outs are pending. Actions brought by civilians who are not included in the class and hence are not covered by the settlement, are also pending.

Appeals challenging the class certification order and the fairness, adequacy and reasonableness of the settlement have been or are expected to be filed with the United States Court of Appeals for the Second Circuit. The Company intends to defend vigorously any issues remaining in the Agent Orange litigation.

The Company has brought suit against its primary and excess insurers to determine the portion of the Company's share to be borne by each of the insurers. The Company expects that any amount which is not recovered from its insurers will not be material.

Several lawsuits are now pending against the Company arising out of its former Newark, New Jersey plant which was used for the manufacture of Agent Orange. One of these is a class action brought on behalf of persons who may have worked at the plant and residents and businesses in the area surrounding the plant. Damages are sought for personal injuries and property damage as a result of the presence of dioxin on the plant site and in the vicinity. Another suit was brought by an unincorporated association of individuals and by residents and businesses in the area. The suit seeks cleanup of the area, damages for personal injury and property loss, health exams and various other actions. In addition, two other lawsuits seeking damages for personal injury, and five claims for property damage, have been filed against the Company. The Company intends to defend these actions vigorously.

Early in 1984, the Company, working with the New Jersey Department of Environmental Affairs, signed an order to clean up its former Newark plant. A feasibility study is now being conducted to develop a detailed engineering plan. This cleanup, including the costs of settling claims by adjoining property owners and purchasing certain adjoining property needed to carry out the cleanup, is expected to cost approximately $12.0 million. In December 1984, a second order was signed covering the neighborhood around the plant. The cost of this cleanup, including settling claims of adjoining property owners, is expected to be approximately $10.0 million.

The suit brought by the Company against its insurers, which is discussed above, also seeks a declaratory judgment of the rights and duties of all parties thereto in respect of the Company's claims for the cleanup of the Newark plant site and adjoining areas in the neighborhood thereof and of all claims against the Company for bodily injury and property damage allegedly related to the Newark plant site.

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. A trial on the merits of this matter before an Administrative Law Judge was concluded in February 1985 and a decision is expected within the next few months.

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.

At December 31, 1984, loan guarantees associated with the indebtedness of associated companies and other entities amounted to $.4 million and the Company was contingently liable in the amount of $18.0 million for Chemnor Group notes receivable sold with recourse. In addition, the Company has guaranteed $9.0 million of debt and is contingently liable for $47.1 million of notes receivable sold with recourse of The 1600 Corporation, the successor to the pipe business of Sigmor. Although The 1600 Corporation is current in payment of both the principal and interest on such debt and notes, it did not operate at a profit in 1984 and there can be no assurance that it will operate at a profit in 1985.

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 and retained earnings and changes in financial position present fairly the financial position of Diamond Shamrock Corporation and its subsidiaries at December 31, 1984, 1983 and 1982, 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 21, 1985

SUPPLEMENTARY FINANCIAL INFORMATION *(unaudited)*

(Data is as of December 31 of each year or for the year then ended and dollar amounts in tables are in millions, except per share, unless otherwise indicated.)

QUARTERLY DATA

	March 31,	June 30,	September 30,	December 31,	For The Year 1984
Sales and operating revenues	**$1,142.1**	**$1,130.0**	**$1,130.8**	**$1,080.3**	**$4,483.2**
Operating profit	**124.2**	**128.7**	**130.9**	**124.8**	**508.6**
Net income	**59.5**	**64.3**	**61.6**	**56.8**	**242.2**
Per Common share					
Net income	**$ .43**	**$ .48**	**$ .45**	**$ .42**	**$ 1.78**
Dividends	**.44**	**.44**	**.44**	**.44**	**1.76**
Market price per share					
Common					
High	**20⅝**	**22⅝**	**20⅞**	**20¼**	**22⅝**
Low	**18**	**18¼**	**16¾**	**17¼**	**16¾**
$4.00 Preferred					
High	**38¾**	**38⅞**	**37¼**	**38**	**38⅞**
Low	**36**	**35**	**35⅛**	**34¾**	**34¾**

	March 31,	June 30,	September 30,	December 31,	For The Year 1983
Sales and operating revenues	$855.4	$978.4	$1,014.5	$1,177.8	$4,026.1
Operating profit (loss)	12.1	45.8	86.0	(158.9)	(15.0)
Income (loss) before extraordinary item	4.6	26.3	38.9	(130.0)	(60.2)
Extraordinary item	–	3.2	.8	–	4.0
Net income (loss)	4.6	29.5	39.7	(130.0)	(56.2)
Per Common share					
Before extraordinary item	$ .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 per share					
Common					
High	26⅜	25¾	26⅝	25¾	26⅝
Low	20⅝	20⅝	21¼	18⅝	18⅝
$4.00 Preferred					
High	–	–	40⅜	41⅛	41⅛
Low	–	–	35⅛	36⅝	35⅛

	March 31,	June 30,	September 30,	December 31,	For The Year 1982
Sales and operating revenues	$791.1	$857.7	$773.2	$755.4	$3,177.4
Operating profit	42.3	49.2	75.6	76.0	243.1
Income before extraordinary item	29.1	31.9	42.3	46.2	149.5
Extraordinary item	35.6	–	–	–	35.6
Net income	64.7	31.9	42.3	46.2	185.1
Per Common share					
Before extraordinary item	$ .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 per share					
Common					
High	25¾	22⅝	20⅞	24¾	25¾
Low	19⅛	17¼	16½	18⅝	16½

Due to the August 31, 1983 acquisition of Natomas, the weighted average number of Common shares outstanding used in calculating 1983's 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

The following are disclosures about the oil and gas producing activities of the Company as required by Statement of Financial Accounting Standards No. 69.

RESULTS OF OPERATIONS.
Results of operations from oil and gas producing activities were as follows:

	United States			Indonesia		Other Foreign			Worldwide		
	1984	1983	1982	**1984**	1983	**1984**	1983	1982	**1984**	1983	1982
Sales	**$403.3**	$259.8	$235.2	**$527.7**	$179.8	**$71.8**	$35.0	$19.3	**$1,002.8**	$474.6	$254.5
Transfers	**64.1**	143.7	129.9	**10.8**	–	**–**	–	–	**74.9**	143.7	129.9
	467.4	403.5	365.1	**538.5**	179.8	**71.8**	35.0	19.3	**1,077.7**	618.3	384.4
Production costs											
Windfall profit tax	**20.2**	17.6	18.2	**–**	–	**–**	–	–	**20.2**	17.6	18.2
Gross production tax	**14.1**	24.8	19.4	**–**	–	**5.6**	4.1	3.0	**19.7**	28.9	22.4
Other	**55.3**	37.3	32.9	**108.6**	36.9	**10.3**	4.3	.8	**174.2**	78.5	33.7
Exploration costs	**51.4**	57.3	68.4	**7.1**	2.2	**23.9**	13.6	4.1	**82.4**	73.1	72.5
Depreciation and depletion	**161.6**	325.8	121.0	**141.3**	26.4	**20.4**	6.9	.7	**323.3**	359.1	121.7
Gain on sale of leases	**(11.5)**	(.8)	(30.1)	**–**	–	**–**	–	–	**(11.5)**	(.8)	(30.1)
Other	**–**	–	–	**.7**	–	**5.4**	–	–	**6.1**	–	–
	291.1	462.0	229.8	**257.7**	65.5	**65.6**	28.9	8.6	**614.4**	556.4	238.4
Income (loss) before tax provision	**176.3**	(58.5)	135.3	**280.8**	114.3	**6.2**	6.1	10.7	**463.3**	61.9	146.0
Provision (credit) for income taxes	**74.7**	(30.4)	49.9	**189.0**	64.0	**12.4**	10.4	7.3	**276.1**	44.0	57.2
Results of operations	**$101.6**	$(28.1)	$ 85.4	**$ 91.8**	$ 50.3	**$(6.2)**	$(4.3)	$ 3.4	**$ 187.2**	$ 17.9	$ 88.8

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:

	United States			Indonesia		Other Foreign			Worldwide		
	1984	1983*	1982	1984	1983	1984	1983	1982	1984	1983	1982
Proved properties	**$1,279.5**	$1,196.6	$1,028.7	**$ 855.1**	$ 545.7	**$148.1**	$135.8	$12.0	**$2,282.7**	$1,878.1	$1,040.7
Unproved properties	**291.6**	450.0	413.2	**682.9**	810.4	**42.2**	27.9	6.0	**1,016.7**	1,288.3	419.2
	1,571.1	1,646.6	1,441.9	**1,538.0**	1,356.1	**190.3**	163.7	18.0	**3,299.4**	3,166.4	1,459.9
Less – Accumulated depreciation and depletion	**623.3**	686.8	438.8	**171.0**	29.7	**30.2**	11.0	4.6	**824.5**	727.5	443.4
	$ 947.8	$ 959.8	$1,003.1	**$1,367.0**	$1,326.4	**$160.1**	$152.7	$13.4	**$2,474.9**	$2,438.9	$1,016.5

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

COSTS INCURRED.
Costs incurred by the Company in its oil and gas producing activities (whether capitalized or charged against earnings) were as follows:

	United States			Indonesia		Other Foreign			Worldwide		
	1984	1983*	1982	1984	1983	1984	1983	1982	1984	1983	1982
Property acquisition costs	**$ 34.7**	$158.1	$190.9	**$ 3.5**	$1,223.3	**$18.4**	$143.0	$ –	**$ 56.6**	$1,524.4	$190.9
Exploration costs	**80.1**	68.6	113.9	**7.1**	35.6	**29.0**	15.7	8.7	**116.2**	119.9	122.6
Development costs	**72.6**	87.0	165.6	**178.4**	68.7	**11.9**	2.7	3.2	**262.9**	158.4	168.8
	$187.4	$313.7	$470.4	**$189.0**	$1,327.6	**$59.3**	$161.4	$11.9	**$435.7**	$1,802.7	$482.3

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

OIL AND GAS RESERVES.
Proved reserves are the estimated quantities of crude oil and natural gas which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. Proved developed reserves are proved reserves that can be expected to be recovered through existing wells with existing equipment and operating methods.

The Company's net interests in estimated quantities of proved reserves of crude oil, including condensate (in thousands of barrels), and natural gas (in millions of cubic feet) at December 31, 1984, 1983 and 1982, and changes in such estimated quantities in 1984, 1983 and 1982 were as follows:

	United States		Indonesia		Other Foreign		Worldwide	
	Oil	Gas	Oil	Gas	Oil	Gas	Oil	Gas
Proved Reserves								
January 1, 1982	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	46,840	10,500	60,198	93,366	140,133
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)	(2,720)	(520)	(4,665)	(11,396)	(92,288)
Sale of reserves in place	(67)	(3,076)	–	–	–	–	(67)	(3,076)
December 31, 1983*	35,824	821,904	73,940	44,120	10,408	88,844	120,172	954,868
Purchase of reserves in place	**1,028**	**1,220**	**–**	**–**	**1,488**	**–**	**2,516**	**1,220**
Revisions of previous estimates	**386**	**10,776**	**16,311**	**9,869**	**237**	**(8,000)**	**16,934**	**12,645**
Extensions, discoveries and other additions	**4,032**	**74,882**	**24,533**	**1,097**	**962**	**13,934**	**29,527**	**89,913**
Enhanced recovery	**2,017**	**625**	**–**	**–**	**–**	**–**	**2,017**	**625**
Production	**(5,369)**	**(103,117)**	**(19,714)**	**(9,685)**	**(1,758)**	**(6,664)**	**(26,841)**	**(119,466)**
Sale of reserves in place	**(204)**	**(6,666)**	**–**	**–**	**–**	**–**	**(204)**	**(6,666)**
December 31, 1984	**37,714**	**799,624**	**95,070**	**45,401**	**11,337**	**88,114**	**144,121**	**933,139**
Proved Developed Reserves								
January 1, 1982	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	44,120	10,297	79,694	101,317	914,913
December 31, 1984	**31,561**	**778,658**	**78,933**	**45,401**	**11,137**	**82,309**	**121,631**	**906,368**

**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.

	United States			Indonesia		Other Foreign			Worldwide		
	1984	1983	1982	**1984**	1983	**1984**	1983	1982	**1984**	1983	1982
Future revenues	**$3,325.4**	$3,395.2	$3,245.0	**$2,569.6**	$2,096.0	**$530.9**	$605.4	$179.7	**$6,425.9**	$6,096.6	$3,424.7
Future production and development costs	**(773.0)**	(854.5)	(924.9)	**(1,478.5)**	(876.3)	**(157.5)**	(173.9)	(50.9)	**(2,409.0)**	(1,904.7)	(975.8)
Future income taxes	**(1,071.7)**	(1,096.3)	(989.5)	**(467.0)**	(519.1)	**(161.4)**	(191.1)	(56.9)	**(1,700.1)**	(1,806.5)	(1,046.4)
Future net cash flow	**1,480.7**	1,444.4	1,330.6	**624.1**	700.6	**212.0**	240.4	71.9	**2,316.8**	2,385.4	1,402.5
Annual discount at 10% rate	**(494.8)**	(517.9)	(508.5)	**(166.8)**	(161.3)	**(77.3)**	(95.9)	(23.7)	**(738.9)**	(775.1)	(532.2)
Standardized measure	**$ 985.9**	$ 926.5	$ 822.1	**$ 457.3**	$ 539.3	**$134.7**	$144.5	$ 48.2	**$1,577.9**	$1,610.3	$ 870.3

The following are the principal sources of change in the standardized measure:

	1984	1983	1982
January 1,	**$1,610.3**	$ 870.3	$805.5
Purchase of reserves in place	**21.6**	896.8	–
Sales and transfers of oil and gas produced, net of production costs	**(862.0)**	(473.4)	(310.3)
Net changes in prices and production costs	**(178.3)**	139.2	159.5
Extensions, discoveries and improved recovery, less related costs	**378.6**	140.0	166.0
Previously estimated development costs	**204.0**	139.7	50.8
Revisions of previous quantity estimates	**109.3**	13.7	(45.7)
Accretion of discount	**267.1**	159.6	137.2
Net change in income taxes	**(80.4)**	(166.6)	(57.5)
Opelika field	**–**	–	(18.0)
Other	**107.7**	(109.0)	(17.2)
December 31,	**$1,577.9**	$1,610.3	$870.3

GEOTHERMAL RESERVES

Proved reserves are the geothermal energy in megawatt hours remaining to be produced from the dedicated leaseholds for generating plants now operating or under construction. Probable reserves are the geothermal energy in megawatt hours to be produced from dedicated leaseholds where power plant construction is under application, but not yet approved.

The Company's estimated quantities (in thousands of megawatt hours of electricity) of proved and probable geothermal reserves at December 31, 1984 and 1983 and changes in such estimated quantities and average realized price in 1984 and 1983, were as follows:

Associated Company	**1984**	1983
January 1,	**88,312**	–
Purchase of reserves in place	**–**	89,143
Production	**(2,796)**	(831)
Sale of reserves in place	**(42,758)**	–
December 31,	**42,758**	88,312
Average realized price (per megawatt hour)	**$39.60**	$37.04

COAL RESERVES

Proved reserves are recoverable and merchantable reserves substantiated by adequate information, including that derived from drilling, current and previous mining, outcrop data and knowledge of mining conditions. Probable reserves are generally considered to extend beyond proved reserves and are based on more preliminary or limited information.

The Company's estimated quantities (in thousands of tons) of recoverable proved and probable coal reserves (excluding lignite) at December 31, 1984, 1983, 1982, 1981 and 1980 and changes in such estimated quantities and average realized price in those five years were as follows:

	1984	1983	1982	1981	1980
THE COMPANY					
January 1,	**758,838**	654,209	630,623	475,204	418,637
Purchase of reserves in place	**5,716**	111,756	31,907	190,008	64,145
Revisions of previous estimates	**7,712**	–	–	(3,434)	–
Production	**(7,464)**	(6,913)	(7,134)	(6,123)	(7,578)
Sale of reserves in place	**–**	(214)	(1,187)	(25,032)	–
December 31,	**764,802**	758,838	654,209	630,623	475,204
ASSOCIATED COMPANIES					
January 1,	**389,648**	389,918	382,418	202,955	–
Purchase of reserves in place	**–**	–	–	179,701	203,000
Revisions of previous estimates	**(74)**	(40)	8,041	–	–
Production	**(316)**	(230)	(541)	(238)	(45)
December 31,	**389,258**	389,648	389,918	382,418	202,955
Average realized price (per ton)	**$36.52**	$36.92	$36.70	$34.77	$30.31

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

CURRENT COST ADJUSTED DATA

Changing prices have significant effects on the operating capability and financial performance of business enterprises and tend to reduce the usefulness and comparability of the historical dollar financial statements that companies have traditionally prepared. 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.

Statement of Financial Accounting Standards No. 33, as amended, requires the presentation of specific historical financial data adjusted to a current cost basis, to help users of financial statements better understand the effects of changing prices on a business enterprise. Since current cost is 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.

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 depreciated and depleted based on current year costs. 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 dollar financial statements. The current cost of property and equipment, net of accumulated depreciation and depletion, was $4.491 billion at December 31, 1984. LIFO inventories were adjusted to current cost by using gross inventories, before deduction of the LIFO reserve; all other inventories are valued at average cost which approximates current cost. The current cost of inventories was $395.4 million at December 31, 1984.

Net income for 1984 adjusted for changes in specific prices follows:

	Consolidated Financial Statements (Historical Dollar)	Adjusted For Changes In Specific Prices (Current Cost)
Sales and operating revenues	$4,483.2	$4,483.2
Other revenues	49.2	49.2
	4,532.4	4,532.4
Less –		
Cost of products sold and operating expenses	3,000.4	3,023.0
Exploration costs, including dry holes	82.4	82.4
Depreciation, depletion and amortization	456.9	517.4
Selling and administrative	190.8	190.8
Research and development	6.2	6.2
Taxes other than income taxes	127.2	127.2
Interest	154.5	154.5
Provision for income taxes	271.8	271.8
Net income	242.2	159.1
Gain from decline in purchasing power of net amounts owed	–	88.7
Increase (decrease) in excess of specific prices over general inflation		
Inventories	–	5.2
Properties and equipment	–	(377.0)
Net change in stockholders' equity	$ 242.2	$ (124.0)
Per Common share	$ 1.78	$ (1.13)

The drilling cost index used to determine the current cost of producing properties remained stable during the year while the Consumer Price Index continued to rise. This was a major cause of the decrease in the excess of specific prices over general inflation of $377.0 million for properties and equipment as shown above.

Net income for 1984 was decreased by $83.1 million on a current cost basis. The reduction was mainly attributable to the increased depreciation and depletion charges against earnings from the upward revaluation of properties and equipment from their historical dollar cost to a current cost basis. 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 and current cost basis. 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 $88.7 million in 1984 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 offset the reduction in earnings on a current cost basis.

The change in stockholders' equity on the current cost basis results from the revaluation of inventories and properties and equipment.

Selected Historical Financial Data Adjusted For The Effects Of Changes In Specific Prices (Current Cost).

	1984	1983	1982	1981	1980
Income (loss)	**$ 159.1**	$ (263.9)	$ 26.9	$ 130.8	$ 110.0
Per Common share	**1.12**	(3.12)	.43	2.09	1.80
Stockholders' equity at December 31,	**3,436.1**	4,108.0	3,033.0	3,210.5	3,093.6
Per Common share	**26.02**	30.70	47.69	51.04	49.58
Excess of current cost over constant dollar cost					
Inventories	**(1.0)**	(6.2)	30.1	40.0	29.0
Properties and equipment, net	**(66.0)**	311.0	646.5	771.3	455.3
Other Data					
Gain from decline in purchasing power of net amounts owed	**88.7**	65.6	51.8	103.6	130.0
Market price per Common share at December 31,	**17.75**	19.88	20.88	25.38	35.38
Average consumer price index (1967 equals 100)	**311.1**	298.4	289.2	272.4	246.8

SELECTED HISTORICAL FINANCIAL INFORMATION

	1984	1983	1982	1981	1980
OPERATIONS					
Sales and operating revenues	**$4,483.2**	$4,026.1	$3,177.4	$3,376.2	$3,145.4
Income (loss)	**242.2**	(60.2)	149.5	230.2	213.2
FINANCIAL POSITION					
Current assets	**$ 877.6**	$1,167.5	$ 788.6	$ 963.3	$ 973.2
Current liabilities	**733.1**	846.1	475.3	491.3	438.0
Properties and equipment, less depreciation and depletion	**3,814.0**	4,448.8	2,114.4	1,765.7	1,635.0
Total assets	**5,396.4**	6,024.4	3,194.0	3,016.4	2,895.5
CAPITAL STRUCTURE					
Notes payable	**$ 10.9**	$ 21.6	$ 10.5	$ 13.2	$ 13.5
Long-term debt and capital lease obligations, including portion due within one year	**1,262.2**	1,864.1	937.0	866.8	856.8
Deferred income taxes	**473.5**	364.6	364.1	306.0	259.6
Stockholders' equity	**2,708.8**	2,743.4	1,407.2	1,349.7	1,329.2
Total	**$4,455.4**	$4,993.7	$2,718.8	$2,535.7	$2,459.1
OTHER DATA					
Capital expenditures	**$ 601.1**	$ 466.9	$ 660.2	$ 590.9	$ 449.9
Dividends	**240.2**	147.6	110.3	102.9	91.9
Depreciation, depletion and amortization	**456.9**	482.7	217.8	171.1	149.7
Cash flow provided by operations	**790.3**	476.9	446.5	487.7	399.6
PER COMMON SHARE					
Earnings (loss)	**$ 1.78**	$ (.76)	$ 2.37	$ 3.68	$ 3.48
Dividends	**1.76**	1.76	1.76	1.70	1.62
Book value	**20.51**	20.50	22.14	21.48	21.29
FINANCIAL RATIOS					
Current ratio	**1.2**	1.4	1.7	2.0	2.2
Earnings as a percent of sales and operating revenues	**5.4** %	(1.5)%	4.7 %	6.8 %	6.8 %
Total debt as a percent of total capital	**28.6**	37.8	34.9	34.7	35.4
Common dividends per share as a percent of earnings per share	**98.9**	–	74.3	46.2	46.6
Common dividends per share as a percent of cash flow from operations per share	**28.0**	31.7	24.8	21.8	24.8
Percent return on average capital employed	**4.9**	(1.6)	5.7	9.9	10.9
Percent return on average stockholders' equity	**8.9**	(3.1)	10.8	17.2	17.5
Effective tax rate	**52.9**	–	35.5	39.0	38.5

Corporate Officers*

William H. Bricker
Chairman of the Board 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, 53, 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, 53, 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, 62, has B.A. and LL.B. degrees from The University of Texas.

Richard M. Ahlstrom
Corporate Senior Vice President, Finance, joined Diamond Alkali Co. in 1960 as a trainee. Mr. Ahlstrom 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, vice president and treasurer, and corporate vice president, finance. Mr. Ahlstrom, 50, received an A.B. from Harvard University.

Richard W. Arp
Corporate Vice President and 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, assistant division manager of plastics and corporate controller. Mr. Arp, 48, has a B.S. degree from Kent State University and an M.B.A. from Case Western Reserve University.

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, 49, is a graduate of Ohio University.

Timothy J. Fretthold
Corporate 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, 35, has a B.A. degree from Yale University and a J.D. from Case Western Reserve University.

Robert E. Garbesi
Corporate Vice President and President of Diamond Shamrock Coal Co., came to Diamond Shamrock as executive vice president of the Coal Unit upon the merger with Falcon Seaboard in 1979. He was formerly senior vice president of Consolidation Coal Co. Mr. Garbesi, 59, 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, 47, holds a B.S. degree from Texas Tech University.

Roger R. Hemminghaus
Corporate Vice President and President of Diamond Shamrock Refining and Marketing Co., joined Diamond Shamrock in 1984 as a corporate vice president, planning and development. 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, 48, has a B.S. degree from Auburn University.

Paul A. Hesse
Corporate Vice President, Communications, joined Diamond Shamrock in May 1975 as manager of financial public relations. He had previously served in marketing and public relations for Eaton Corp. and Alcan Aluminum Corp. He was named manager of corporate communications in 1978, director of communications for the corporation in 1980, and staff vice president in 1983. Mr. Hesse, 43, received a B.A. degree from Ohio Wesleyan University and a J.D. from Cleveland Marshall Law School.

James F. Kelley
Corporate Vice President and General Counsel, joined Diamond Shamrock in March 1981. He was previously deputy general counsel of United Technologies Corp., 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, 43, also has a J.D. from the University of Chicago.

C. D. McDoulett, Jr.
Corporate Vice President and President of Diamond Shamrock International Petroleum Company, 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, 40, holds B.B.A. and J.D. degrees from the University of Oklahoma.

McCarter Middlebrook
Corporate Vice President, Taxes, came to Diamond Shamrock in 1984 from Getty Oil Co. In previous positions at Getty and at Gulf Oil Corp., Mr. Middlebrook served in a variety of managerial positions involving tax administration, planning, and legislation. Age 49, Mr. Middlebrook has a J.D. from the University of Houston.

Donald C. Mielke
Corporate Vice President and 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 Corporate Treasury Department, assistant treasurer, and treasurer. Mr. Mielke, 42, is a graduate of Penn State University.

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, 49, is a graduate of Marquette University.

*February 1985

B. CHARLES AMES
Chairman and Chief Executive Officer of Acme-Cleveland Corporation, machine tools manufacturer, Cleveland, Ohio; director since 1979; age 59. (3, 4)

J. DAVID BARNES
President and Chief Executive Officer of Mellon National Corporation and Chairman and Chief Executive Officer of Mellon Bank, Pittsburgh, Pennsylvania; director since 1971; age 55. (3, 4)

WILLIAM H. BRICKER
Chairman and Chief Executive Officer of Diamond Shamrock Corporation, Dallas, Texas; director since 1974; age 53. (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 48. (1*, 2)

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 62. (2, 5)

GENE EDWARDS
Chairman and Chief Executive Officer of The First National Bank of Amarillo, Amarillo, Texas; director since 1979, age 60. (3, 4)

RAYMOND A. HAY
Chairman and Chief Executive Officer of The LTV Corporation, engaged in steel, aerospace and defense, and energy businesses, Dallas, Texas; director since 1979; age 56. (3, 4, 5)

ALLEN C. HOLMES
Partner and former National Managing Partner of Jones, Day, Reavis & Pogue law firm, Cleveland, Ohio; director since 1977; age 64.

J. L. JACKSON
President and Chief Operating Officer, Diamond Shamrock Corporation, Dallas, Texas; director since 1983; age 53. (1, 4, 5)

JOHN T. KIMBELL
Independent business consultant; former Vice Chairman of Baxter Laboratories, Inc., manufacturer of medical care products, Deerfield, Illinois; director since 1974; age 59. (2*, 4)

WALLACE MACGREGOR
Independent metals and minerals consultant, San Francisco, California; former director of Natomas Company; director since 1983; age 67. (2, 5)

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 67. (1, 2)

J. AVERY RUSH
Vice Chairman of Diamond Shamrock Corporation, Dallas, Texas; director since 1982; age 62. (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 51. (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

General Information

Stockholder Information.
Stockholders needing information or requiring an action involving stockholder accounts, such as address change, transfer of stock, reinvestment or payment of dividends, should write directly to our record-keeping and transfer agent at the address listed below.

If we can help you better understand stockholder programs and stock transactions or explain the responsibilities borne by you, the transfer agent, and the company, you may call toll-free 800/527-7822 (outside Texas) or 800/442-7289 (in Texas). Ask for Stockholder Services. For information about the company's operating or financial performance, ask for Investor Relations.

Stock Transfer, Dividend Disbursing, and Dividend Reinvestment Agent.
AmeriTrust Company National Association
Corporate Trust Division
P.O. Box 6477
Cleveland, Ohio 44101
Phone 216/687-5745

Annual Meeting.
Diamond Shamrock stockholders are encouraged to attend the company's Annual Meeting in the Alamo Ballroom of the Marriott/Riverwalk Hotel, 711 East Riverwalk, San Antonio, Texas, at noon San Antonio time, Thursday, May 16, 1985. Proxy statements and proxy forms for the meeting will be mailed to stockholders separately from this Annual Report.

Form 10-K.
The company's 1984 Annual Report to the Securities and Exchange Commission on Form 10-K is available 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
Basel Stock Exchange (Switzerland)
Geneva Stock Exchange (Switzerland)
Zurich Stock Exchange (Switzerland)

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.

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Phone 606/231-5300

Diamond Shamrock Exploration Company
2001 Ross Avenue
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Phone 214/979-5000

Diamond Shamrock International Petroleum Company
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Diamond Shamrock

The Resourceful Company