# EXHIBIT 29

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# SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

# Form 10-K

## ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 31, 1982 | Commission File Number 1-3638-2

# Diamond Shamrock Corporation

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| **Delaware** | **34-0683539** |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| **717 North Harwood Street** **Dallas, Texas** | **75201** |
| (Address of principal executive offices) | (Zip Code) |

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**Registrant's telephone number, including area code (214) 745-2000**

Securities registered pursuant to Section 12(b) of the Act:

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DISCLOSURE INCORPORATED

| Title of each class | Name of each exchange on which registered |
|---|---|
| Common Stock Without Par Value | New York Stock Exchange |
| | Pacific Stock Exchange |
| | Basel Stock Exchange |
| | Frankfurt Stock Exchange |
| | Geneva Stock Exchange |
| | Zurich Stock Exchange |
| 7¾% Sinking Fund Debentures Due August 1, 1994 | New York Stock Exchange |
| 9⅛% Sinking Fund Debentures Due November 15, 2000 | New York Stock Exchange |
| 7.70% Sinking Fund Debentures Due December 15, 2001 | New York Stock Exchange |
| 8½% Sinking Fund Debentures Due April 1, 2008 | New York Stock Exchange |

Securities registered pursuant to Section 12(g) of the Act:

**Title of each class**

9% Sinking Fund Debentures Due April 1, 1999
8¼% Sinking Fund Debentures Due June 1, 1996

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days. YES ✓ NO ___

The aggregate market value of the voting stock held by non-affiliates of the registrant as of February 22, 1983 was approximately $1,588,300,000.

Shares of Common Stock outstanding at February 22, 1983 – 33,534,814.

## DOCUMENTS INCORPORATED BY REFERENCE

Portions of the following documents are incorporated by reference into the indicated part or parts of this report:

(a) 1982 Annual Report to Stockholders of the Company – Parts I and II;

(b) Definitive proxy statement of the Company relating to the 1983 stockholders' meeting, filed with the Commission pursuant to Regulation 14A – Part III;

(c) Annual Report on Form 10-K of Sigmor Corporation for the fiscal year ended June 30, 1982 – Part IV; and

(d) Quarterly Report on Form 10-Q of Sigmor Corporation for the three months ended September 30, 1982 – Part IV.

Exhibit Index on Sequentially Numbered Page 26, 27+28

Total of sequentially numbered pages 241

## PART I

**Items 1 and 2. Business and Properties.**

Diamond Shamrock Corporation (the "Company") was incorporated in Delaware in 1928 as the successor to a corporation founded in 1910. The Company is a domestic integrated oil and gas company with interests in coal and chemicals. Its world headquarters is located at 717 North Harwood Street, Dallas, Texas 75201, and its telephone number is (214) 745-2000 (effective April 1, 1983, the number will be (214) 922-2000). As used herein all references to the "Company" relate to Diamond Shamrock Corporation, its subsidiaries and their predecessors unless the context otherwise indicates.

Operations consist of the following principal business segments: *Oil and Gas*, which includes exploration and production, natural gas processing and refining and marketing; *Coal*, which includes steam and metallurgical coal; *Industrial Chemicals*, which consists of electro chemicals, including caustic soda and chlorine, soda products, which includes chromium chemicals and sodium silicates, and other commodity chemicals; *Specialty Chemicals*, which includes process chemicals, functional polymers, metal coatings, urethane chemicals and polymer additives; *Agricultural Chemicals*, which includes fungicides, herbicides and animal health products; and *Electrolytic Systems*, which includes patented metallic electrodes and electrochemical and electrometallurgical technology.

Information concerning outside sales and operating revenues and operating profit for each of the Company's business segments and its business in general for the three years ended December 31, 1982, together with information concerning business segment and corporate and other identifiable assets as of December 31, 1982, 1981 and 1980, is set forth on pages 37 and 38 of the Company's 1982 Annual Report to Stockholders, which information is incorporated herein by reference.

Overseas, the Company is engaged in the exploration for and production of oil and gas and the manufacture and sale of chemicals and related technology. The Company has manufacturing, administrative and marketing facilities in more than 30 countries. Information concerning outside sales and operating revenues and operating profit for the three years ended December 31, 1982 and assets by geographic region as of December 31, 1982, 1981 and 1980 are presented on page 36 of the Company's 1982 Annual Report to Stockholders, which information is incorporated herein by reference.

The Company's sales or transfers between geographic areas were not significant in each of the three years ended December 31, 1982. Operating revenues from export sales to unaffiliated customers located outside the United States were less than 10% of the Company's consolidated sales and operating revenues in each of the three years ended December 31, 1982.

### Oil and Gas

The Company's Oil and Gas segment is primarily engaged in the exploration for and production of crude oil and natural gas, the processing of natural gas, the refining of crude oil, and the marketing of refined petroleum products in the United States. The Oil and Gas segment consists of three principal product groups: exploration and production, natural gas processing, and refining and marketing, which contributed approximately 8%, 6% and 40%, respectively, of the Company's outside sales and operating revenues in 1982.

#### *Exploration and Production*

The Company's exploration and production activities are centered in the United States. Presently, the Company's only production outside the United States is in the Dutch North Sea. The Company also has exploration prospects in Australia, New Zealand, Indonesia and Ireland.

The Company's net proved reserves of crude oil (including condensate) and natural gas decreased in 1982, as did crude oil and gas production. Information regarding the Company's net interests in estimated quantities of proved developed and undeveloped reserves of crude oil (including condensate) and natural gas at December 31, 1982, 1981 and 1980, together with production data for the three years ended December 31, 1982, are set forth on page 51 of the Company's 1982 Annual Report to Stockholders, which information is incorporated herein by reference.

Information disclosing future net cash flows relating to the Company's proved oil and gas reserves and additional information concerning the Company's oil and gas producing activities are set forth on pages 49 through 53 of the Company's 1982 Annual Report to Stockholders, which information is incorporated herein by reference.

*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. *Proved undeveloped reserves* are proved reserves that are expected to be recovered from new wells on undrilled acreage or from existing wells where a relatively major expenditure is required for recompletion.

In 1982, the Company filed estimates of its proved reserves of crude oil and natural gas in the United States at December 31, 1981 with the Department of Energy. Such estimates include its net interests in domestic proved crude oil and natural gas reserves. The total reserve estimates so included in the filing do not differ by more than 5% from the total reserve estimates included in those shown at December 31, 1981 in the Company's 1982 Annual Report to Stockholders.

Average sales prices (including transfers) and production costs of crude oil and natural gas produced for the three years ended December 31, 1982 are as follows:

| | 1982 | 1981 | 1980 |
|---|---|---|---|
| United States | | | |
| Average Sales Price | | | |
| Crude Oil (per barrel) | $31.72 | $36.08 | $26.72 |
| Natural Gas (per MCF) | $ 2.41 | $ 1.99 | $ 1.61 |
| Average Production Cost (per barrel)* | $ 3.35† | $ 3.51† | $ 2.24† |
| North Sea | | | |
| Average Sales Price | | | |
| Crude Oil (per barrel) | $34.36 | $40.35 | $34.63 |
| Natural Gas (per MCF) | $ 5.43 | $ 4.82 | $ 4.24 |
| Average Production Cost (per barrel)* | $ 6.40 | $ 5.51 | $ 5.12 |

* Production or lifting cost is exclusive of depreciation and depletion of capitalized lease acquisition, exploration and development costs. The gas production is converted to equivalent barrels of crude oil by dividing the MCF volume by six. Six MCF of gas has approximately the heating value of one barrel of crude oil.

† Includes windfall profit tax.

Transfers to the Company's refining and gas processing operations are valued at estimated prices based on the prices of comparable products using posted field prices, when applicable, or amounts estimated to represent prices equivalent to those that could be obtained in a competitive arms-length market environment giving recognition to transportation costs, quality differences and regulation by governments.

The following tables set forth information regarding the Company's wells and leasehold acres. *Gross* wells or acres are the total number of wells or acres in which the Company owns any interest. *Net* wells or acres are the sum of the fractional working interests the Company owns in gross wells or acres.

As of December 31, 1982, the Company owned productive oil and gas wells as follows:

| | Gross | Net |
|---|---|---|
| Oil Wells Owned | | |
| United States | 2,412 | 1,045.1 |
| North Sea | — | — |
| Total | 2,412 | 1,045.1 |
| Gas Wells Owned | | |
| United States | 1,587 | 1,121.1 |
| North Sea | 18 | .7 |
| Total | 1,605 | 1,121.8 |
| Multiple Completion | 179 | 95.3 |

The following table sets forth the Company's developed acreage and undeveloped acreage at December 31, 1982:

| Gross Acres | United States | North Sea | Australia | New Zealand | Canada | Indonesia | Ireland |
|---|---|---|---|---|---|---|---|
| Developed Acres | 737,793 | 8,018 | — | — | — | — | — |
| Undeveloped Acres | 6,035,763 | 760,192 | 10,014,299 | 2,853,756 | 4,144 | 4,394,749 | 150,000 |
| Total | 6,773,556 | 768,210 | 10,014,299 | 2,853,756 | 4,144 | 4,394,749 | 150,000 |
| **Net Acres** | | | | | | | |
| Developed Acres | 554,791 | 316 | — | — | — | — | — |
| Undeveloped Acres | 4,176,622 | 50,781 | 2,453,305 | 1,231,901 | 1,872 | 1,098,687 | 34,740 |
| Total | 4,731,413 | 51,097 | 2,453,305 | 1,231,901 | 1,872 | 1,098,687 | 34,740 |

Drilling activities of the Company for the three years ended December 31, 1982 are summarized below:

| | 1982 | 1981 | 1980 |
|---|---|---|---|
| United States | | | |
| Net Exploratory Wells Drilled | | | |
| Productive | 18.2 | 25.9 | 12.2 |
| Dry | 25.8 | 36.4 | 15.5 |
| Total | 44.0 | 62.3 | 27.7 |
| Net Development Wells Drilled | | | |
| Productive | 102.2 | 117.7 | 80.0 |
| Dry | 39.5 | 21.7 | 22.5 |
| Total | 141.7 | 139.4 | 102.5 |
| Foreign | | | |
| Net Exploratory Wells Drilled | | | |
| Productive | .04 | — | .1 |
| Dry | .10 | .3 | .3 |
| Total | .14 | .3 | .4 |

At December 31, 1982, the Company was participating in the drilling of 36 gross and 14.1 net wells in the United States and 2 gross and 0.1 net wells in the North Sea.

Drilling and production spending was approximately $220,874,000 in 1982. The Company spent approximately $191,000,000 in 1982 to purchase net leasehold acreage in the United States of 386,800 acres. These expenditures included $161,700,000 for leasehold acquisitions in the Beaufort Sea Diapir Field in Alaska which is considered by the U.S. Geological Survey to be one of the nation's most promising sites for crude oil reserves.

*Natural Gas Processing/Refining and Marketing*

Most of the natural gas processed and a small portion of the crude oil refined by the Company are produced from acreage leased by the Company. The major portion of its crude oil requirements is purchased under short-term contracts from outside sources. Such crude oil purchases are at posted prices competitive with the posted prices of other purchasers in the same area. The Company has substantial investments in crude oil and natural gas gathering pipelines used to bring crude oil and natural gas to its McKee refinery and gas processing facilities near Dumas, Texas. In addition, the Company has investments ranging from 30% to 100% in various segments of petroleum product pipelines extending from the McKee refinery to other points in the marketing area for its petroleum products. The Company expects to be able to continue to obtain crude oil and natural gas in sufficient quantities for its reasonably foreseeable requirements.

The McKee refinery and gas processing facilities have a crude oil and natural gas throughput capacity of approximately 71,000 barrels per day and 400,000 MCF per day, respectively. Over 90% of the McKee refinery output is in light products such as gasoline and turbine and diesel fuels. With the addition of Sigmor Corporation's Three Rivers refinery near Corpus Christi, Texas, the Company has the capacity to refine more than 110,000 barrels of crude oil per day. (See "Acquisition of Sigmor Corporation" below.)

The crude oil throughput at the McKee refinery and the volume of natural gas processed and natural gas liquids recovered at the gas processing facilities during the three years ended December 31, 1982 were as follows:

| | 1982 | 1981 | 1980 |
|---|---|---|---|
| Refinery Crude Oil Throughput (thousands of barrels) | 24,080 | 21,708 | 20,857 |
| Natural Gas Processed (millions of cubic feet) | 104,565 | 111,301 | 106,154 |
| Natural Gas Liquids Recovered (thousands of barrels) | 8,398 | 8,652 | 8,534 |

Most of the Company's refined products are distributed through petroleum product pipelines to eight different terminals located in its marketing area. Such products are sold primarily through jobbers and dealers with most of its motor gasoline and diesel fuel being sold in eleven Rocky Mountain and Southwestern states under its own brand name through approximately 150 jobbers with 1,739 service station outlets.

In 1960, Sigmor Corporation ("Sigmor") became a jobber for gasoline supplied by the Company. Since that time, the business relationship between the Company and Sigmor evolved so that the Company annually supplied Sigmor with approximately 60% of all of the gasoline sold by Sigmor and, correspondingly, Sigmor purchased from the Company approximately 50% of all gasoline sold annually by the Company. During 1982, Sigmor marketed motor gasoline under the Company's brand name in Texas, Louisiana and Oklahoma through approximately 440 of the Company's 1,739 branded service station outlets. Sales to Sigmor during 1982 amounted to $419,140,000, approximately 13% of the Company's consolidated sales and operating revenues for the year. On July 7, 1982, the Company and Sigmor announced the proposed acquisition of Sigmor by the Company. (See "Acquisition of Sigmor Corporation" below.)

Most of the ethane/propane mixture recovered by the Company in its natural gas liquids processing facilities is converted into ethylene and propylene for sale principally to industrial customers. Most of the other natural gas liquids are sold principally to dealers and wholesalers for resale to end-users and distributors. The residue gas is sold principally to interstate pipeline companies under long-term contracts for resale to end-users and distributors. The ammonia produced is sold to a firm specializing in agricultural marketing of ammonia.

The Company's Oil and Gas segment experiences intense competition in all areas of its business. During 1982, there was considerable marketing competition in the petroleum products industry, leading to a reduction in motor gasoline prices which outpaced any corresponding reduction in the price of crude oil. As a result, margins in the Company's refining and marketing business have been under severe pressure, and the Company expects this condition to continue over the near future. The Company is a relatively modest factor industry-wide in the exploration for and the sale of oil and gas. Its competitors include the major energy companies, which are fully integrated petroleum producers, and independent oil and gas concerns.

*Acquisition of Sigmor Corporation*

On January 14, 1983, Sigmor was merged into a wholly owned subsidiary of the Company. Under the terms of the merger the holders of 4,086,186 shares of Sigmor common stock elected to receive $17.50 per share (resulting in the payment by the Company of a total of $71,508,000) while other Sigmor shareholders, principally Mr. and Mrs. Tom E. Turner, elected to receive 0.44 of a share of the Company's $2.07 Cumulative Convertible Preferred Stock, without par value, for each share of Sigmor common stock owned (resulting in the issuance by the Company of a total of 4,184,749 preferred shares). The Company had owned 21% of Sigmor's common stock since 1978. The acquisition was accounted for as a purchase, and accordingly, the Company 1983 consolidated financial statements will include the results of Sigmor's operations from the date of acquisition.

Subsequent to its acquisition of Sigmor and as contemplated in the merger agreement, the Company sold to Tetco, Inc., a company wholly owned by the Turner family, the former majority owners of Sigmor, certain of the acquired Sigmor assets at approximately their book value. The sales proceeds ($43,201,000) were used to reduce outstanding borrowings previously incurred by Sigmor under its bank credit agreement.

Sigmor markets gasoline, automotive products and "convenience store" type merchandise through retail service stations. At June 30, 1982, Sigmor operated a total of 555 retail outlets, including 357 stations which included convenience store facilities, 125 high volume stations, 71 self-service stations and 2 outlets operated in connection with convenience stores owned by others. Of such outlets, 424 were located in Texas, 22 in Louisiana, 38 in California, 11 in Colorado, 14 in Virginia, 12 in Washington and the remainder in 13 other states.

The total gallons of gasoline sold by retail outlets operated by Sigmor during the fiscal year ended June 30, 1982 was 770,355,769, an average of 115,669 gallons sold per month per retail outlet.

Pro forma combined data (unaudited) of the Company for 1982 and at December 31, 1982 (as though the Sigmor acquisition and the related sale of certain assets had taken place on January 1, 1982) is set forth on page 35 of the Company's 1982 Annual Report to Stockholders, which information is incorporated herein by reference.

On January 28, 1983, the Company filed a report on Form 8-K with the Securities and Exchange Commission with respect to the acquistion of Sigmor by the Company.

## Coal

*Properties and Reserves*

The principal coal properties of the Company are primarily leased by various subsidiaries of the Company or by partnerships or joint ventures in which the Company has interests. The Company's properties in eastern Kentucky include reserves in Breathitt, Perry, Leslie and Knott Counties ("Falcon" properties) and interests in properties in Pike and Floyd Counties ("Hawkeye" properties). Through recent acquisitions, the Company holds coal properties in West Virginia in Logan and Mingo Counties ("Diamond Phoenix" properties) and in Clay, Kanawha, Logan, Nichols, Putnam and Wyoming Counties ("Amherst" properties), in Pennsylvania in Greene County ("Gateway" properties), in Montana in Rosebud and Big Horn Counties ("Montco" properties), in Illinois in Lawrence and Richland Counties ("LaSalle" properties) and in the Beluga coal fields near Anchorage ("Diamond Alaska" properties).

The following table reflects estimates of quantities (in thousands of tons) of the Company's recoverable coal reserves (excluding 315 million tons of lignite reserves in Texas and Mississippi) at December 31, 1982:

| | Assigned Reserves | | | Unassigned Reserves | | | Total Reserves |
|---|---|---|---|---|---|---|---|
| **Surface** | Proven | Probable | Total | Proven | Probable | Total | |
| Falcon | 21,930 | 7,704 | 29,634 | 18,583 | 10,715 | 29,298 | 58,932 |
| Amherst | 49,204 | 9,931 | 59,135 | — | — | — | 59,135 |
| Diamond Alaska | — | — | — | 235,485 | — | 235,485 | 235,485 |
| Hawkeye | 802 | — | 802 | 1,574 | 677 | 2,251 | 3,053 |
| Diamond Phoenix | -- | — | — | 45,024 | 16,976 | 62,000 | 62,000 |
| Montco | — | — | — | 137,566 | — | 137,566 | 137,566 |
| Total — surface | 71,936 | 17,635 | 89,571 | 438,232 | 28,368 | 466,600 | 556,171 |
| **Underground** | | | | | | | |
| Falcon | 990 | 76 | 1,066 | 45,480 | 56,983 | 102,463 | 103,529 |
| Amherst | 103,115 | 21,403 | 124,518 | 29,674 | 9,942 | 39,616 | 164,134 |
| Gateway | 3,419 | — | 3,419 | 9,000 | — | 9,000 | 12,419 |
| LaSalle | — | — | — | 175,281 | 31,198 | 206,479 | 206,479 |
| Hawkeye | — | — | — | 717 | 678 | 1,395 | 1,395 |
| Total — underground | 107,524 | 21,479 | 129,003 | 260,152 | 98,801 | 358,953 | 487,956 |
| Total reserves | 179,460 | 39,114 | 218,574 | 698,384 | 127,169 | 825,553 | 1,044,127 |

Data supporting the foregoing reserve estimates were obtained by prospecting, drilling, sampling and mapping and from previous mining operations. The extent to which reserves will eventually be mined depends upon future economic conditions affecting coal mining which cannot now be foreseen.

*Assigned Reserves* are those reserves which can be mined and marketed using the Company's current mining practices and techniques and which are considered to be economically recoverable under current conditions. *Unassigned Reserves* are those reserves requiring significant additional facilities and/or equipment and which are generally considered to be economically recoverable under current conditions, although detailed studies of the economics of their recoverability have not been undertaken. In order to expand the mining operations of the Company into the areas of unassigned reserves, it will be necessary for the Company to incur additional capital expenditures for mining equipment and facilities.

*Proven 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. The computed tonnage is judged to be within 20% of the true tonnage. Proven reserves are not generally considered to extend beyond one quarter of a mile from a point of measurement. *Probable Reserves* are based on more preliminary or limited information. Probable reserves are generally considered to extend beyond proven reserves to not more than three-quarters of a mile from a point of measurement.

At the present time the Company is carrying on mining operations at its Falcon, Amherst and Gateway mines to fulfill long-term contracts described under "Production and Sales" below. In 1982, approximately 90% of the Company's production consisted of steam coal, with the remainder consisting of metallurgical coal. No mining operations are being carried on at the Company's LaSalle and Diamond Phoenix properties, and the Hawkeye mine has been idle since January 1, 1983. The Montco and Diamond Alaska properties have not been developed for mining operations; however, the Company is preparing engineering and other studies for these properties.

*Production and Sales*

Coal production at present is shipped as both washed and unwashed product. Current production is attributable to both deep mining and surface mining operations. Surface mining involves removing surface materials covering a coal seam or seams, followed by the recovery of the exposed coal, generally through the use of trucks and loading machines.

The table below sets forth the sales of coal (in thousands of tons) for each of the three years ended December 31, 1982. Coal production and sales (including coal brokered by Amherst) during 1981 was lower due to a 2½-month strike by the United Mine Workers of America and the Falcon Coal Company Employees' Association.

| | Sales |
|---|---|
| 1982 | 8,932 |
| 1981 | 7,497 |
| 1980 | 8,837 |

The Company depends upon long-term coal supply agreements for a substantial portion of its sales. In 1982, nearly 90% of its coal production was sold under long-term agreements.

The Company's principal coal customer is the Tennessee Valley Authority ("TVA"). The largest of the TVA contracts provides for the delivery of 70,000 tons of coal per week from the Falcon properties until approximately 20,500,000 more tons have been delivered. In accordance with the terms of the contract, TVA is taking delivery at a rate 10% below the contract base quantity. Another TVA contract, with Amherst Coal, requires the delivery of 300,000 tons of coal per year through December 1988.

A third TVA contract, with Falcon, provides for the delivery of 12,600 tons of coal per week and expires in March 1983. In 1979, TVA terminated another contract with Falcon requiring the delivery of 14,000 tons of coal per week through M. :h 1983, pursuant to a contract provision allowing termination if adjustments resulting from cost increases due to compliance with new legislation caused more than a 10% increase in the contract base price of coal. The Company believes that this provision was inapplicable and that TVA's cancellation was improper. Accordingly, the Company has instituted litigation against TVA.

The Company's other long-term contracts are with Detroit Edison Company, a Michigan utility, requiring yearly shipments of 1,150,000 tons of coal through 1994; Jones & Laughlin Steel Corporation, providing for the sale of 450,000 raw tons of coal per year through 1995; and Dayton Power and Light Company, an Ohio utility, requiring the delivery of 500,000 tons of coal per year through 1982. Shipments under the Dayton Power and Light contract will increase to a rate of 750,000 tons per year from 1983 until approximately 8,000,000 more tons are supplied. This shipment rate may be increased to 1,000,000 tons per year beginning in 1986 upon mutual agreement of the parties.

During 1982, the Company exported 858,000 tons of coal mined from its Hawkeye and Amherst properties to foreign customers.

The Company's contracts contain provisions for adjustments to the base price of coal as the consequence of changes in specified production costs. The Company believes that the adjustments for production costs have allowed it to recover substantially all of its increased costs of production in recent years. All of the Company's contracts contain minimum quality specifications relating to moisture, ash and sulfur content and heating value. The purchasers may suspend deliveries of coal should quality not conform closely to these minimum quality requirements, pending resolution of coal quality problems.

The sale of coal is highly competitive. The Company must compete with many other coal producers in negotiating coal sales contracts and spot sales. The primary factors in competition for sales contracts are price, quantity and quality of coal reserves, production rate and transportation availability. The primary factors in competition for spot sales are price, quality and adequate production and delivery facilities. In addition, the level of economic activity, energy conservation and the cost of complying with various environmental regulations directly affect the demand for coal. These and other factors constrained United States and export coal markets in 1982 and are expected to continue to impact such markets in 1983.

**Industrial Chemicals**

The Company's Industrial Chemicals segment is a leading domestic producer of electro chemicals, including chlorine, caustic soda, potassium chemicals and chlorinated paraffins, and soda products, including sodium silicate and chromium chemicals. It also produces other commodity chemicals. These products are sold to a wide range of industries, including chemical, pulp and paper, water treatment, textile, soap, aluminum, pigments, adhesives, glass and metal and numerous other industries. The Company uses chlorine it produces to manufacture chlorinated solvents, chlorinated paraffins and agricultural chemicals.

The Company markets its Industrial Chemicals products through divisions, subsidiaries and joint venture operations both domestically and internationally. The location of the Company's manufacturing sites and terminals provide access to all major domestic markets as well as export sales opportunities.

The Company believes that it is a leading world and domestic producer of chromium chemicals and a leading domestic producer of silicate products and chlorine and caustic soda. There are numerous competitors in each of these businesses, and a number of these companies possess greater assets and financial resources than does the Company. The Company believes that the pricing of chlorine and caustic soda are principally affected by demand for these products in the automotive and housing industries, and that such demand has a greater impact on its competitive position than any other single factor. Plant location, capacity, quality of product, price and servicing of customers are essential to the Company's competitive position. Key strengths for the Industrial Chemicals segment include world leadership in electrochemical technology, efficient low-cost plants, a well-trained, highly professional sales force, a large and efficient distribution system and a broad customer base.

The principal raw materials used by the Industrial Chemicals segment include salt, potassium chloride, chrome ore, silica sand and paraffin. The Company has extensive salt reserves in close proximity to its chlorine facilities in Texas from which it obtains the majority of its salt requirements. At present operating rates, the Company estimates its salt reserves will last approximately 100 years

The Company purchases most of its other raw materials from various domestic suppliers. However, its chrome ore is obtained from foreign sources. At year end there was on hand approximately two years' inventory of chrome ore. The Company has generally been able to obtain adequate supplies of raw materials at competitive prices, and it expects to continue to be able to do so in the reasonably foreseeable future from the same or alternate sources.

The price and availability of energy, while important to the operations of all of the Company's segments, are of particular significance to the operations of the Industrial Chemicals segment. Electricity is a basic element in the manufacture of chlorine and caustic soda. Rapidly escalating energy costs have put pressure on production costs of certain of the Company's products, principally chlorine and caustic soda. In 1982 the Company completed a 200-megawatt gas turbine combined cycle co-generation plant which is capable of supplying all the electricity and process steam required to operate the Company's 1,400-ton per day chlorine plant in LaPorte, Texas. This plant produces approximately 40% of the Company's chlorine. To date there have not been any material disruptions of production at the Company's plants or other facilities because of energy shortages. However, there is no assurance that energy shortages in the future will not have an adverse effect on the Company's operations directly or indirectly by reason of their effect on customers, suppliers or prices.

Manufacturing facilities and other important physical properties with respect to the Company's Industrial Chemicals segment are located at the sites listed below. All sites are owned in fee except those preceded by an asterisk, which denotes facilities leased entirely or principally.

| | | |
|---|---|---|
| *Mobile, AL | Franklin Park, IL | Dallas, TX |
| Muscle Shoals, AL | Baltimore, MD | Deer Park, TX |
| Oxnard, CA | Jersey City, NJ | La Porte, TX |
| *Delaware City, DE | Lockport, NY | Belle, WV |
| Chicago, IL | Castle Hayne, NC | Talcahuano, Chile |
| | Cincinnati, OH | |

**Specialty Chemicals**

Principal products of the Company's Specialty Chemicals segment include process chemicals, functional polymers and various other chemical products and metal coatings. Process chemical products consist of specialty and performance chemicals used primarily in textile, paper, plastics, paint, oil, concrete and nuclear industries. These chemicals are generally proprietary in nature and used to upgrade industrial processes or end products. Functional polymers includes ion exchange resins used in home and industry to remove, replace or exchange materials from liquids in such uses as water softeners or demineralization, sugar processing and chemical processing. The Company also produces urethane chemicals, which are produced for rigid and flexible urethane foams and are used in a wide variety of industries, including automotive and sporting goods; polymer additives, which are utilized to enhance various properties of certain plastics and find application in numerous plastic products; and proprietary chrome and zinc-based coatings for the protection of steel and aluminum against corrosion which are used primarily by the automotive industry.

International sales, including both export sales and sales of chemicals manufactured abroad, are a significant aspect of the operations of the Specialty Chemicals segment, which has manufacturing facilities throughout the world.

For the most part, the Company sells its Specialty Chemicals products directly to users through subsidiaries and affiliated businesses around the world. The basic market for such products is oriented toward products specifically developed to solve a customer's technical and process problems and to upgrade a customer's products. In this regard, servicing of customers and quality of products are of prime importance. Pricing of such products is based on cost benefits to the customer.

Competition is significant in most areas of the Specialty Chemicals segment's operations. Many small, low overhead operations, particularly in the paper and textile business, result in intense competition in many of the Company's markets. The maintenance and growth of competitive position require research and development, acquiring new technology and developing new products and applications with in-house technology as well as technology from other specialty operations.

The principal production plants and other important physical properties with respect to the Company's Specialty Chemicals segment are located at the sites listed below. All sites are owned in fee except those preceded by an asterisk, which denotes facilities leased entirely or principally.

| | | |
|---|---|---|
| Redwood City, CA | *Chardon, OH | Pontyclun, Llantrisant, England |
| *Cedartown, GA | Melbourne, Australia | Chauny, France |
| Frankfort, IL | Drogenbos, Belgium | Courtenay, France |
| Carlstadt, NJ | Tremembe, Brazil | Drammen, Norway |
| Harrison, NJ | Hamilton, Ontario, Canada | Barcelona, Spain |
| Charlotte, NC | Eccles, England | Taipei, Taiwan |
| Ashtabula, OH | Leeds, England | |

In February 1983, the Company announced that it is studying the divestiture of its specialty chemicals businesses. (See "Possible Divestiture of Certain Businesses" below.)

**Agricultural Chemicals**

The businesses of the Company's Agricultural Chemicals segment are technology-oriented and serve life science related markets. Principal products of this segment include chlorothalonil, the active ingredient in its proprietary fungicides DACONIL 2787® and BRAVO®, which are used primarily for turf, and on peanuts and vegetables, respectively; DACTHAL®, a preemergence herbicide used primarily for turf, ornamental shrubs and vegetables; postemergence herbicides, consisting of arsonates used primarily for cotton and phenoxies used primarily for small grain crops; and an insecticide marketed abroad. Animal health products include ATGARD® anthelmintics, RABON® larvicides, ECTRIN ectoparasiticides and antibiotics. Animal health products are used for poultry, swine, cattle, horses and pets.

The Agricultural Chemicals segment accounts for a significant portion of the Company's overseas sales, and foreign markets are believed to be an important growth area for these products. Penetration into growing international markets depends on strong marketing operations and investment in strategically located plants and distribution centers. In this regard, research efforts are presently aimed at developing products to address world markets.

The Agricultural Chemicals segment has generally b[illegible] able to obtain adequate supplies of raw materials at competitive prices, although it has experienced substantial price increases for some raw materials and energy.

The products of the Agricultural Chemicals segment are sold in competition with the products of many other companies, a number of which are major corporations. While price, plant location, capacity and quality of product are all essential to the segment's competitive position in these businesses, the long-term maintenance and improvement of competitive position depend upon the continued development, licensing and acquisition of proprietary products.

Manufacturing facilities and other important physical properties with respect to the Company's Agricultural Chemicals segment are located at the following sites:

| | | |
|---|---|---|
| Tuscaloosa, AL | Belvedere, England | Xalostoc, Mexico |
| Princeton, NJ | Shah Alam, Malaysia | Singapore, Singapore |
| Greens Bayou, TX | Torreon, Mexico | |

The Company is presently studying the divestiture of its Agricultural Chemicals segment. (See "Possible Divestiture of Certain Businesses" below.)

**Electrolytic Systems**

In June 1982, the Company established a joint venture with a Swiss corporation to create a single worldwide research and marketing organization for electrochemical technology. The principal activities of the new company are the manufacturing, licensing and marketing of patented metallic catalytically-activated electrodes to customers worldwide. These dimensionally stable electrodes substantially reduce the consumption of electrical power in the production of chlorine. The joint venture also licenses and sells chlorine and caustic soda diaphragm and membrane cells and proprietary systems for the treatment and disinfecting of water and sewage. The Company, through a wholly owned subsidiary, continues to hold many patents and licenses relating to various fields of industrial electrochemistry and electrometallurgy which it licenses to the joint venture and others worldwide.

Possible Divestiture of Certain Businesses

In February 1983, the Company announced that it is studying the divestiture of certain of its chemical businesses, including those businesses which constitute the Specialty Chemicals and Agricultural Chemicals segments. These businesses contributed $55,000,000 to the Company's pretax operating profit in 1982. The Company's Industrial Chemicals operations are not being considered for divestiture.

**Patents**

The Company owns or is licensed under many patents which have been secured over a period of years and which expire at various times. While the Company believes that, in the aggregate, these patents and licenses constitute valuable assets, particularly as they relate to the fields of industrial electrochemistry and electrometallurgy, it does not believe that any one of such patents or licenses is of material significance to its total business.

**Research and Development**

In recent years, the Company's research and development activities have been primarily devoted to electrochemistry, agricultural chemicals and areas related to animal health. Total expenditures for research and development (excluding technical services to customers) were $47,632,000 in 1982, $52,679,000 in 1981 and $45,214,000 in 1980. The Company's principal research center is located in Concord Township, Ohio, and serves as the headquarters for most of the Company's research and process development activities. Additional research facilities are located at Morristown, New Jersey and Manchester and Eccles, England.

**Regulatory Controls**

*Governmental Controls of Petroleum Activities*

The Crude Oil Windfall Profit Tax Act of 1980 imposes a tax on producers of crude oil. The tax, although characterized as a tax on "windfall profits", is an excise tax of a certain percent of the per barrel price of crude oil in excess of a changing base price. The percent of the tax and the base price vary according to the classification of the oil under the tax scheme. A provision of the Economic Recovery Tax Act of 1981 reduces the tax rate on newly discovered oil each year during the period 1982 through 1986. The Company's windfall profit tax for 1982 was $18,159,000. Although the impact of the tax varies from producer to producer, the Company does not believe it is at a competitive disadvantage compared with the petroleum industry generally.

Effective January 28, 1981, a Presidential Executive Order exempted all crude oil and refined petroleum products from price and allocation controls imposed under the Emergency Petroleum Allocation Act, the Federal Energy Administration Act, the Energy Policy and Conservation Act of 1975 and the Energy Conservation and Production Act of 1976 (together the "Acts"). Except for actions and adjustments with respect to periods prior to January 28, 1981, which have not yet been resolved, this Executive Order also terminated regulations under the Acts which had imposed an "entitlements" program to equalize the cost of crude oil among United States refiners.

The prices received for most natural gas are regulated under the Natural Gas Policy Act of 1978. Most of the Company's contracts for the sale of natural gas contain provisions permitting the collection of the highest just and reasonable ceiling price established by regulatory authority.

*Health, Safety and Environmental Controls*

Federal, state and local laws and regulations relating to health and environmental quality affect nearly all of the operations of the Company. These laws and regulations set various standards regulating certain aspects of health and environmental quality and provide penalties for the violation of such standards.

Many of the Company's operations are subject to controls established under the Federal Clean Water Act and the Federal Clean Air Act. The Clean Water Act requires the Company to obtain and comply with the terms of discharge permits and provides for the imposition of penalties, regardless of fault, for certain discharges of effluents. As a result of controls established under the Clean Air Act, the Company has incurred and will incur expenses in reducing or eliminating air emissions and could be limited in its ability to construct and operate new facilities in certain locations.

The Toxic Substances Control Act authorizes the Environmental Protection Agency ("EPA") to ban or restrict the manufacture, processing, distribution, commercial use or disposal of any chemical substance or mixture that presents an unreasonable risk of injury to health or the environment. Companies are required to notify the EPA before manufacturing any new chemical substance. The EPA may require testing of such chemical substance as well as substantial recordkeeping and reporting. Compliance with this Act by the Company has increased the expense and extended the time required to develop and bring new products to market.

Past and present industrial waste disposal practices are receiving increased government attention. The Resource Conservation and Recovery Act empowers the EPA to regulate the treatment and disposal of industrial wastes. The EPA has established standards and permit requirements for facilities engaged in the treatment, storage and disposal of hazardous wastes and has set standards for generators and transporters thereof. The EPA has also issued regulations for the identification of hazardous wastes and for tracing the generation, transport and disposal of these wastes. The Company has incurred and will continue to incur expenses related to reports, recordkeeping, facility operations and waste disposal under this Act.

The Comprehensive Environmental Response, Compensation and Liability Act ("Superfund") establishes a fund to clean up deposits and spills of hazardous substances. The fund is created through the imposition of taxes on crude oil and on 42 designated chemicals, including a number of chemicals produced or purchased by the Company. The law also imposes a tax on hazardous wastes to fund the cost of monitoring and maintaining closed hazardous waste disposal sites. The Company has been identified as a potentially responsible party in connection with several hazardous waste disposal sites listed by the EPA for immediate remedial action. The Company has paid to the government its proportionate share of clean-up costs at three of those sites, which costs have not been material to the Company's business or financial condition, and is awaiting further data on two other sites before it can determine what, if any, claims the government may assert. The Company does not believe that it was a substantial contributor to the hazardous waste contamination at any of these sites. The Company continues to incur the expense of the tax imposed by Superfund on crude oil delivered to its refineries and on the designated chemicals which it produces.

The Occupational Safety and Health Administration of the United States Department of Labor has issued regulations which, among other things, set standards on work place exposure to a variety of substances. The Company has an ongoing program to assure that its affected facilities are operated in a manner which complies with such exposure standards.

The Company's Coal segment is subject to federal legislation and regulations prescribing mining health and safety standards. The Federal Coal Mine Health and Safety Act ("Safety Act") authorizes the Mine Safety and Health Administration to impose strict health and safety requirements, principally related to underground mining operations. The Company believes that it is and can remain in substantial compliance with the Safety Act. While the Company has paid fines for violations under the Act, the Company has not received notification of any violation which has not been corrected or is not in the process of being corrected.

The Federal Surface Mining Control and Reclamation Act ("Surface Mining Act") regulates and limits surface mining operations, including the surface effects of underground mining. In addition, the Surface Mining Act provides for the taxation of surface and underground mine production. Certain provisions of the Surface Mining Act and regulations promulgated thereunder relate to the handling and placement of overburden, which is the material removed from the ground to reach the coal seams. As a result of its efforts to comply with these provisions, the Company has experienced declines in productivity and increases in mining costs. Compliance with the regulations has had a material effect on the Coal segment as a result of increased needs for capital equipment and required modifications of operations, and on cash flow due to the timing of collection of claims for cost reimbursements from its customers. While the Company is unable to project the ongoing cost of compliance with these provisions of the Surface Mining Act, it believes that the cost will increase at least through the mid-1980's.

The Surface Mining Act permits the states to assume primary responsibility for regulation of surface mining operations if such states implement and enforce laws which are consistent with the Surface Mining Act. All states where the Company has active coal mining operations have assumed primary enforcement responsibility; however, this assumption of responsibility by the states in which the Company operates has not had a significant effect on the Coal segment's operations.

In addition to prescribing civil fines and criminal penalties, the United States government may under the provisions of both the Safety Act and the Surface Mining Act suspend operations of a mine or a portion thereof (i) if a condition creating an imminent danger to the health and safety of humans or the protection of the environment is deemed to exist or (ii) if a mine operator does not correct a condition contrary to such Acts, but which is not creating an imminent danger, within a reasonable time period. The Coal segment has never incurred criminal penalties and has not been significantly affected by civil penalties or closure orders.

Under both federal and state law, the Company is required to obtain permits prior to beginning active mining operations. In order to obtain a permit, it must show that its mining operations will meet certain reclamation and environmental standards. The Company has permits for all of its active mining operations and believes the Coal segment is in substantial compliance with the laws and regulations under which the permits were issued. The Company believes it will be able to obtain permits for mining substantially all of its existing reserves.

The Company cannot predict what environmental legislation or regulations will be enacted in the future or how existing or future laws or regulations will be administered or enforced with respect to products or activities to which they have not previously been applied. Compliance with more stringent laws, regulations or enforcement policies could have an adverse effect on the operations of the Company and could require substantial expenditures by the Company for the installation and operation of pollution control systems and equipment. The Company's environmental control capital expenditures were approximately $13,000,000 in 1982, and are expected to approximate $14,000,000 in 1983. In addition to capital expenditures, the Company has incurred significant operating costs in complying with environmental control laws and regulations.

### Employees

As of December 31, 1982, the Company had 10,880 employees, 8,530 of whom were located in the United States. Upon the acquisition of Sigmor in January 1983, approximately 3,800 of Sigmor's employees, all of whom were located in the United States, became employees of the Company.

### Executive Officers of the Company

The following table sets forth certain information as of March 1, 1983 concerning the executive officers of the Company:

| Name | Position with the Company | Age | Served as an Officer Since |
|---|---|---|---|
| W. H. Bricker | Chairman of the Board and Chief Executive Officer | 51 | 1972 |
| J. A. Rush, Jr. | Vice Chairman of the Board | 60 | 1967 |
| A. J. Tomlinson | President and Chief Operating Officer | 50 | 1975 |
| J. L. Jackson | Executive Vice President and Coal Unit President | 51 | 1979 |
| C. E. Stewart | Executive Vice President and Chemical Unit President | 47 | 1978 |

| Name | Position with the Company | Age | Served as an Officer Since |
|---|---|---|---|
| R. M. Ahlstrom | Vice President, Finance | 48 | 1971 |
| G. G. Carlton | Vice President | 47 | 1978 |
| R. M. Epps | Vice President and Refining and Marketing Unit President | 53 | 1982 |
| C. B. Groves | Vice President and Exploration and Production Unit President | 45 | 1982 |
| J. F. Kelley | Vice President and General Counsel | 41 | 1981 |
| C. D. McDoulett, Jr. | Vice President, Development | 38 | 1979 |
| E. M. Olivier | Vice President, Technology and Planning | 45 | 1980 |
| R. W. Arp | Controller | 46 | 1981 |
| T. J. Fretthold | Secretary | 33 | 1982 |
| D. C. Mielke | Treasurer | 40 | 1976 |

Officers are elected annually by the Board of Directors and may be removed at any time by the Board. There are no family relationships among the executive officers listed, and there are no arrangements or understandings pursuant to which any of them were elected as officers.

Each of the officers named above has been an employee or an officer of the Company during the last five years, other than J. L. Jackson, J. F. Kelley, C. D. McDoulett, Jr. and E. M. Olivier. Mr. Jackson assumed his present position in February 1979 upon completion of the acquisition of Falcon Seaboard Inc. by the Company. Mr. Jackson had previously been an officer of Falcon Seaboard Inc. for more than five years. Mr. Kelley joined United Technologies International, a subsidiary of United Technologies Corporation, as vice president and general counsel in 1975 and served as deputy general counsel of United Technologies Corporation from 1977 until 1981. Mr. McDoulett joined Falcon Seaboard Inc. in 1976 as a vice president. Following the acquisition of Falcon Seaboard Inc. by the Company, Mr. McDoulett became a vice president of the Company's Coal unit. In 1981, Mr. McDoulett was appointed director, corporate development for the Company and in 1982 was appointed to his present position. Mr. Olivier served as director of corporate planning of Corning Glass Works from 1972 until 1975 and as vice president and general manager of that company's Science Products Division from 1975 until 1980.

**Item 3. Legal Proceedings.**

The Company, together with several other corporations, is a defendant in lawsuits alleging liability as a result of the manufacture and sale to the United States government of a defoliant known as "Agent Orange", which was used by the United States in Vietnam. The plaintiffs are veterans who served in Vietnam, and in some instances members of their families, who allege that personal injuries resulted from exposure to Agent Orange. The suits, some of which contain class action allegations, have been consolidated for certain pre-trial discovery and trial of certain issues in the United States District Court for the Eastern District of New York. (*In re Agent Orange Product Liability Litigation*, MDL No. 381.)

In late 1979, that Court ruled that certain issues, particularly those of applicable statutes of limitation, liability and causation, would be decided under principles of federal common law. In late 1980, the United States Court of Appeals for the Second Circuit reversed the latter ruling, holding that federal common law was not applicable to these claims. The United States Supreme Court determined not to review the decision of the Court of Appeals. As a result, the applicable law governing these issues will be the state law appropriate in each particular case.

In 1980, several defendants, including the Company, filed third-party complaints against the United States government. Also in 1980, the defendants moved for summary judgment based on a government contract defense, asserting the position that, since the circumstances surrounding the manufacture and use of Agent Orange were dictated and controlled by the government, the defendants should be entitled to share in the government's immunity, if any, from suit.

In December of 1980, the District Court dismissed the third-party complaints against the government, basing its ruling on sovereign immunity. In the same order, the District Court denied the defendants' motion for summary judgment on the grounds that issues of fact precluded summary judgment, but found that the government contract defense may be applicable and ordered a separate trial on that defense. This trial is scheduled to commence in June of 1983. At the same time, the District Court conditionally granted the plaintiffs' motions for class action certifications.

Certain defendants, including the Company, have filed a motion for relief that would permit them to appeal the dismissal of the third-party complaints and the class action certification to the Circuit Court.

In view of the numerous unresolved issues in these lawsuits, the Company is not able at this time to make an informed judgment as to the outcome or to quantify the potential liability, if any, of the Company. The Company intends to defend the litigation vigorously because it believes strongly in the merits of its case which have not yet been fully addressed.

In January of 1982, the Federal Trade Commission issued an administrative complaint against The B. F. Goodrich Company ("BFG") and the Company challenging the acquisition by BFG of a substantial part of the Company's plastics business. The Company believes that the transaction was lawful and BFG has agreed that it will vigorously defend the action and any appeals resulting therefrom on behalf of both parties. If BFG is required by a final order of a United States Court of Appeals to divest such plastics business, the Company has agreed, under certain circumstances, to repurchase such business at a price to be computed pursuant to a formula that is intended to value such business on a depreciated book value basis at the time of such reacquisition. Unless the agreement to repurchase terminates earlier pursuant to specified conditions, it will continue in effect until December 31, 1989.

The Company is involved in numerous other lawsuits incidental to its business, none of which, individually or in the aggregate, has or is expected to have a material impact upon the Company's business, financial position or results of operations.

**Item 4. Submission of Matters to a Vote of Security Holders.**

Inapplicable.

## PART II

**Item 5. Market for Registrant's Common Equity and Related Stockholder Matters.**

The information required by this item appears on pages 43 and 48 and on the inside front and back covers of the Company's 1982 Annual Report to Stockholders, which information is incorporated herein by reference.

**Item 6. Selected Financial Data.**

The information required by this item appears on page 55 of the Company's 1982 Annual Report to Stockholders, which information is incorporated herein by reference.

EXHIBIT 22.1

EXHIBIT 22.1

# DIAMOND SHAMROCK CORPORATION

## PRINCIPAL SUBSIDIARIES

The Company is publicly held and has no parent corporation. Principal subsidiaries or corporate joint ventures of the Company as of December 31, 1982 were as follows:

| Name of Subsidiary/Associated Company | Jurisdiction of Incorporation of Organization | Percent Ownership |
|---|---|---|
| Amherst Coal Company | West Virginia | 100% |
| Amherst Industries, Inc. | West Virginia | 100% |
| Diamond Shamrock International Holdings Limited | Delaware | 100% |
| Diamond Shamrock Europe Limited | England | 100% |
| Falcon Seaboard Inc. | Delaware | 100% |
| Falcon Coal Company Inc. | Delaware | 100% |
| Sigmor Corporation | Texas | 21% |

The names of certain other subsidiaries have been omitted since such subsidiaries, considered in the aggregate, do not constitute a significant subsidiary. For the policy followed by the Company in accounting for subsidiaries and associated companies, see "Significant Accounting Policies – Consolidation and Equity Accounting" contained on page 34 of the Company's 1982 Annual Report to Stockholders and incorporated herein by reference. On January 14, 1983, Sigmor Corporation was merged into a wholly owned subsidiary of the Company.