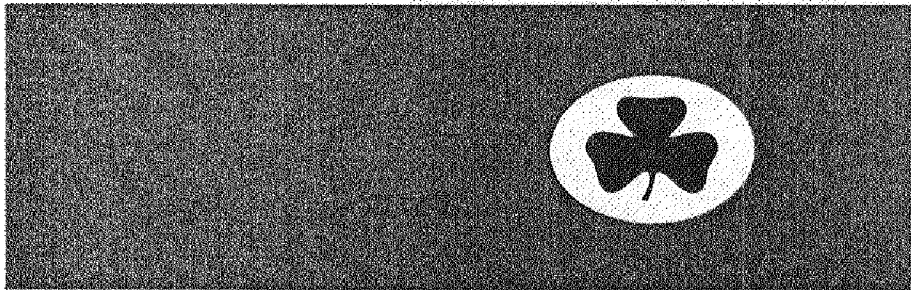
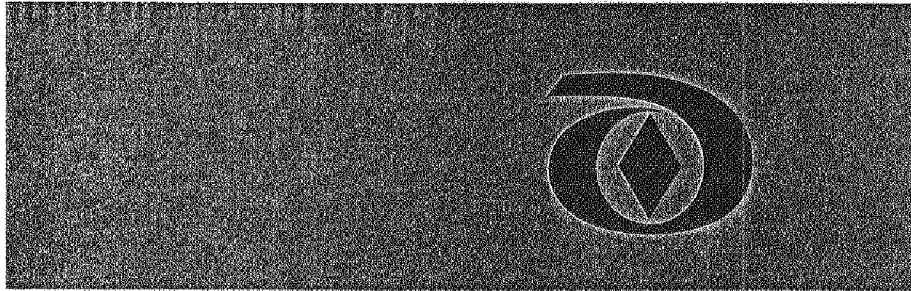


EXHIBIT 3

Diamond Shamrock Corporation

Annual Report 1968



To Our Stockholders

For the year 1968, net sales restated to include Pickands Mather & Co., set a new record high at \$514,832,000, compared with \$489,987,000 in 1967, an increase of approximately 5%. However, 1968 net income from operations decreased to \$34,197,000 from \$41,239,000 in 1967, a decline of 17%. Net income per share was \$1.83 in 1968, compared with \$2.36 in 1967.

Severe price weakness in certain commodity chemicals, ammonia and liquified petroleum gas, together with non-recurrent costs related to the starting up of new plants constructed in one of the largest capital programs in our history, more than accounted for this earnings decrease. In addition, the 10% surtax reduced earnings about 11¢ per share.

Partially offsetting this decline was the outstanding performance of our growing line of specialty chemicals, a record year in petroleum refining and marketing sales and profits, substantially improved results in certain areas of our plastics operation, and new capacities added during the year by our capital program. These same positive factors should be present for the full year 1969. In addition, we believe that some of the price weaknesses which held earnings down in 1968 have in fact begun to moderate during 1969.

Several other developments favor our future. During the year, we introduced what we believe to be the most significant advance in electrolytic technology in many years. This new development — a dimensionally stable electrode which because of its composition and structure does not change its shape with use — is now being marketed to other chlorine producers and installed in our own plants. The savings made possible by the new anode offer a growing profit potential to Diamond Shamrock in the years ahead. More information on this development appears in a later section of this report.

We will continue to develop and bring to market new specialty and proprietary chemical products. We will continue our broadened program of oil and gas exploration and development and our expansion into new markets with increased volumes of refined products, natural gas and natural gas liquids.

Based upon these and other favorable factors referred to in the remainder of this report, we look forward to improved results in 1969.

On January 3, 1969, we completed the merger transaction whereby Pickands Mather & Co. became a wholly-owned subsidiary of Diamond Shamrock. Pickands Mather, a recognized leader in iron ore mining construction and operations, also provides us diversification into the business of exploring for, developing and managing mineral properties, vessel operations, certain specialty metals and related chemicals, and other operations more fully described later in this report.

This merger also brings us an improved financial base, a gain in earnings per share, and an outstanding management group with a demonstrated record of successful performance. Pickands Mather's zirconium operations together with its expanding world-wide mineral exploration program offer interesting profit opportunities for the future.

Diamond Shamrock now consists of three major operating units. The Chemical Company, a highly diversified producer of chemicals and chemical specialties, accounts for 63% of our sales. The Oil and Gas Company, exploring for, producing, refining and marketing oil, gas and their products, accounts for 20% of sales and Pickands Mather accounts for 17%.

Keith S. Benson, who will continue as president of Pickands Mather, has been elected an executive vice president of Diamond Shamrock and a member of the board of directors. J. Richardson Dilworth and John Sherwin, former directors of Pickands Mather, have joined the Diamond Shamrock board, as has Robert E. Williams, president of The Youngstown Sheet and Tube Company.

Top decision-making authority has been consolidated in a newly created Executive Office composed of the chairman of the board and the president. The presidents of the three major operating units report to the Executive Office as do four corporate staff vice presidents. The executive staff of the Chemical Company has been expanded and strengthened to enable it to operate more autonomously and effectively.

We welcome 2,063 new employees who joined us through Pickands Mather. At year end a total of 11,082 were on our payroll, not including the 6,544 men and women who, as employees of Pickands Mather managed operations, become an important part of our total effort.

We also welcome 2,500 new stockholders who joined us through Pickands Mather.

The stockholders and employees who have invested their funds and their careers in Diamond Shamrock can look forward to the future with confidence. We have never been in a stronger position to move ahead.

Cleveland, Ohio
February 17, 1969

Raymond F. Evans
Chairman of the Board

James A. Hughes
President

