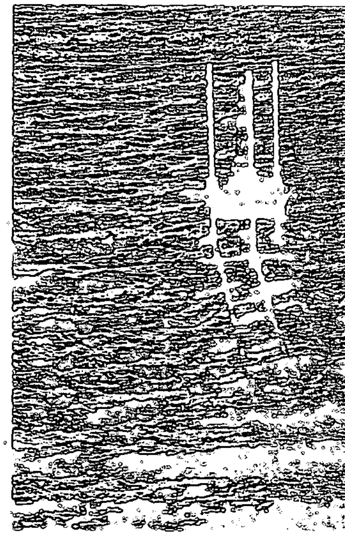
EXHIBIT 5

Diamond Shamrock



Diamond Shamrock's greatest opportunities for growth will come from energy. Our carefully considered investments in energy have made Diamond Shamrock a domestic integrated oil and gas company.

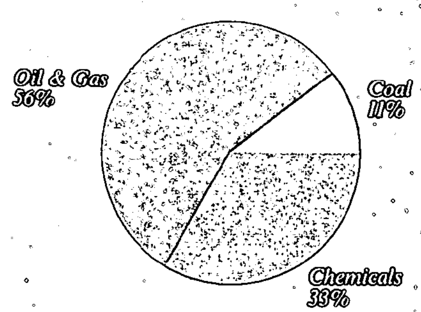
Annual Report 1982

Financial Highlights

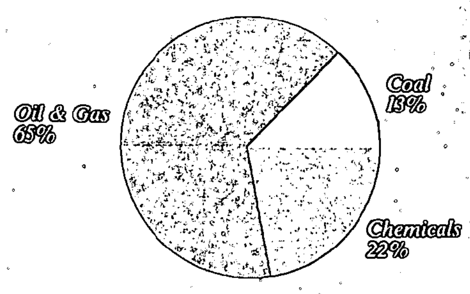
(dollars in thousands, except per share)	1982	1981	1980	1979	1978
Sales and operating revenues	$3,177,379	$3,376,215	$3,145,394	$2,312,635	$1,783,168
Income from continuing operations	149,543	230,156	213,246	160,439	123,487
Net income	185,091	121,265	208,386	181,690	143,041
Depreciation, depletion and amortization	217,787	171,143	149,666	143,582	129,216
Capital expenditures and investments	660,193	590,945	449,882	310,413	381,408
Research and development	47,632	52,679	45,214	37,332	32,353
Stockholders' equity	1,407,231	1,349,735	1,329,162	1,101,446	984,457
Per Common share,					
Income from continuing operations	$ 2.37	$ 3.68	$ 3.48	$ 2.72	$ 2.11
Net income	2.94	1.94	3.40	3.08	2.45
Stockholders' equity	22.14	21.48	21.29	18.55	16.75
Dividends paid	1.76	1.70	1.62	1.51	1.42
Market price range	25¾-16½	39⅝-23¾	38⅞-23⅛	31½-19	29¾-19
Average Common shares outstanding	62,900,574	62,612,062	61,215,673	59,032,147	58,411,711
Number of stockholders	52,078	49,200	48,701	46,841	40,688
Number of employees	10,880	13,545	13,952	13,788	14,327

Contents

1982
Sales & operating revenues*



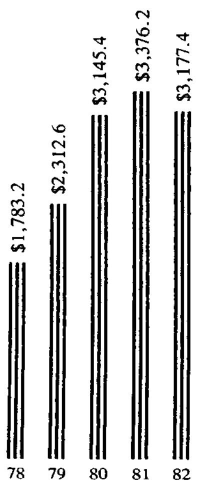
1982
Operating profit*



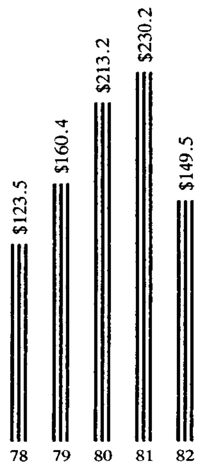
* *from continuing operations*

OCCNJ0006596

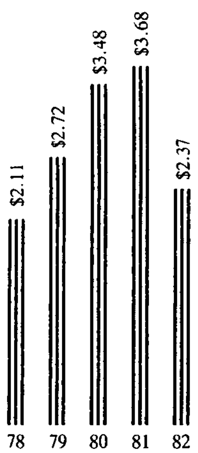
Company Profile



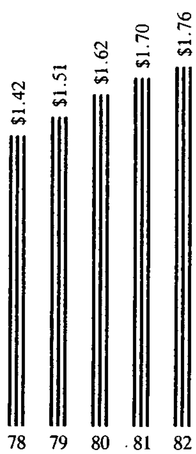
Sales and operating revenues
(in millions)



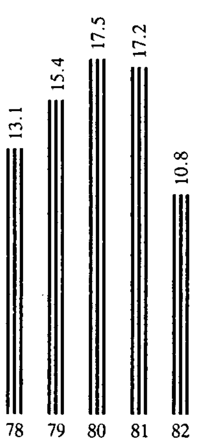
Income
from continuing operations
(in millions)



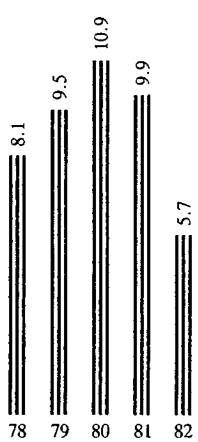
Earnings per Common share
from continuing operations



Dividends per Common share
Indicated annual dividend = $1.76



Return on stockholders' equity
(percent)



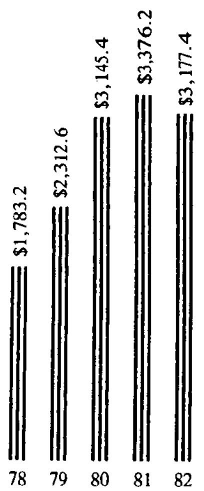
Return on capital employed
(percent)

Diamond Shamrock is a domestic integrated oil and gas company. We produce crude oil, natural gas, and coal; refine and market petroleum products; and manufacture chemicals for broad industrial and commercial use.

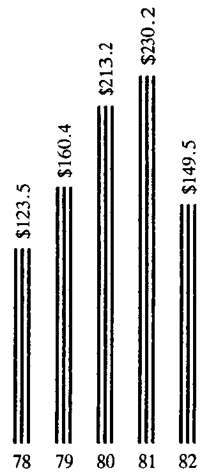
Ongoing objectives:

- To make a sufficient profit to finance the growth of our company, and to provide our stockholders with an above-average return on their investment.
- To provide our customers with high quality products at a competitive price.
- To provide our employees a safe work environment, and offer them opportunities for personal growth.
- To maintain a responsive attitude to the needs of those communities in which we operate.

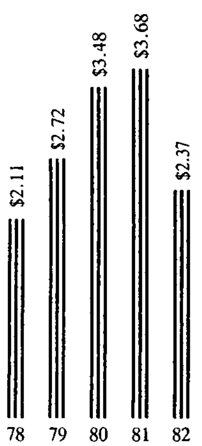
Company Profile



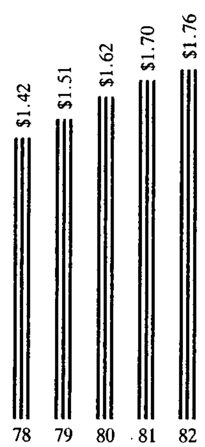
Sales and operating revenues
(in millions)



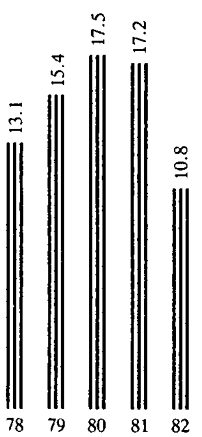
Income from continuing operations
(in millions)



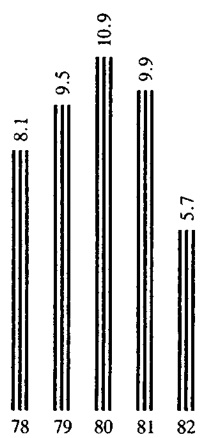
Earnings per Common share from continuing operations



Dividends per Common share
Indicated annual dividend = $1.76



Return on stockholders' equity
(percent)



Return on capital employed
(percent)

Diamond Shamrock is a domestic integrated oil and gas company. We produce crude oil, natural gas, and coal; refine and market petroleum products; and manufacture chemicals for broad industrial and commercial use.

Ongoing objectives:

- To make a sufficient profit to finance the growth of our company, and to provide our stockholders with an above-average return on their investment.
- To provide our customers with high quality products at a competitive price.
- To provide our employees a safe work environment, and offer them opportunities for personal growth.
- To maintain a responsive attitude to the needs of those communities in which we operate.

To Our Stockholders:


William H. Bricker

Recessionary conditions throughout 1982 affected many of our businesses, resulting in lower earnings for the year. For 1982, after-tax income from continuing operations was $149.5 million, down 35% from the results of 1981.

We responded to these difficult conditions, in part, by intensifying our efforts to streamline operations and improve productivity. Our success in operating more efficiently during this period proved to be an important accomplishment. In fact, two of our four major businesses – refining and marketing, and coal – achieved record results.

Cash flow from operations for the year reached over 90% of the record level achieved during 1981. As a result, we were able to fund our businesses, support record capital spending, and maintain our dividend to stockholders, despite lower net income.

Of equal significance were two major accomplishments: our acquisition of Sigmor Corporation in January 1983 and our major investment in Alaska's Beaufort Sea. These two actions manifest our broadening oil and gas strategy for the '80s.

Sigmor, regarded as one of the most successful independent gasoline retailers, provides us with valuable in-house retail marketing expertise, as well as additional cash generating capacity. The combination of Diamond Shamrock's highly efficient refining operations with Sigmor's aggressive retailing organization, concentrated in one of the country's best gasoline markets, offers excellent profit potential.

Our successful bidding for several prime tracts in the Beaufort Sea has resulted in one of the most exciting exploratory prospects in Diamond Shamrock's history. Your company invested $161 million to explore what the U.S. Geological Survey considers to be one of North America's most promising crude oil basins. This investment has the potential to significantly increase Diamond Shamrock's domestic reserves.

These and other strategic actions reflect our belief that worldwide energy demand will continue to grow, particularly as industrialized economies recover. In the United States alone, energy consumption in 1990 is projected to be approximately 15% higher than in 1980. At the same time, domestic oil and gas reserves will continue to be depleted. For the foreseeable future, the bulk of that demand will be supplied by conventional fuels – oil, natural gas and coal.

We are confident that our continuing investment in the energy industry offers our stockholders excellent profit opportunities. In anticipation of those opportunities, we have reduced our involvement in chemicals, while strengthening our oil and gas business. As a result, we have moved Diamond Shamrock into position as a domestic integrated oil and gas company. Today, the driving force behind our company is energy, generating nearly 70% of our revenues.

Capital expenditures for 1982 totaled $660 million, with a major portion of this amount being used to strengthen our exploration and production business. In addition, we completed major capital projects in our commodity chemicals, refining, and coal operations in 1982 to improve operating efficiency and productivity.

During 1982, as crude oil prices fell, we indicated that an opportunity existed to acquire oil and gas reserves at attractive prices. We have evaluated several such opportunities, and expect to pursue the acquisition of energy assets in 1983.

We ended 1982 with a debt to total capitalization ratio of 35%. With the acquisition of Sigmor in January of 1983, this ratio increased to 40%. While reducing our debt level remains an important long-term objective, it may be prudent to accept a higher debt ratio in the near term, given the investment opportunities we now see in the energy area.

Given current recessionary conditions throughout the world, and their impact on the demand for energy products and chemicals, we view 1983 as a very challenging year in which to do business. Although there is evidence that an economic recovery is pending, the timing and intensity of that recovery are at present unpredictable. At this point, we believe that these conditions will cause operating results for the first half of 1983 to be substantially below those of 1982. Assuming a sustained economic recovery begins in the first half of 1983, we are more optimistic about operating results for the second half of the year.

Because our response to changing business and economic conditions has been timely, our businesses are positioned to weather near-term operating conditions. Longer term, they have the potential for exceptional growth.

Exploration and Production: A source of solid growth. Diamond Shamrock's exploration and production business has played a major role in our company's growing energy orientation, and should provide us with solid growth. Our strategy has been to capitalize on our exceptionally strong position in natural gas, which accounts for 80% of our production and reserves. Because we have avoided expensive gas from deep wells, we have low-cost production and good margins, even with the current natural gas oversupply. This position should not be significantly affected by factors such as a price freeze, total decontrol, or a continuation of the Natural Gas Policy Act. In fact, under the most likely scenario – selective decontrol – our gas production should experience continued average price gains.

Longer term, because we expect natural gas to remain plentiful, profitability may decline somewhat, and a few higher cost producers may be forced out of business. However, we expect supply and demand to balance within two years, even without an economic recovery. With over 60 million cubic feet per day of unused natural gas capacity, we have supplies available for immediate production as demand and prices increase.

Our large acreage inventory provides us the flexibility to tailor our drilling program to changing conditions. In 1983, the objective of that program will be to increase our natural gas reserves in order to support future gas production. We also expect to begin drilling in late 1983 in the Beaufort Sea, where we are excited about the potential for a major oil find.

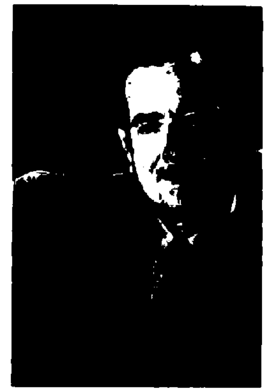
Refining and Marketing: Strength to succeed in a competitive environment. Continued energy conservation efforts and the current world crude oil surplus have brought new challenges to the downstream sector of the petroleum business. At the present time, these factors have sharply eroded profit margins in refining and marketing operations. Diamond Shamrock's carefully developed position as a competitive refiner and strong marketer should enable us to succeed in what has become a fiercely competitive environment.

Several factors account for our strength in refining and marketing. First, we have an efficient refining operation, with over 90% of our refined product volume being higher-value light products – such as gasoline and turbine and diesel fuels.

Second, our segment of the national market is the Southwest – one of the strongest gasoline markets in the country.

Third, we have a growing number of aggressive Diamond Shamrock-branded jobbers to distribute our products, together with over 550 high-volume, convenience-shopping stations as a result of our acquisition of Sigmor.

Finally, we buy almost ten times as much refinery feedstock as we produce. Thus, crude oil price reductions should not adversely affect Diamond Shamrock's refining and marketing business.



Allan J. Tomlinson

Coal: Solid profits over the near- and long-terms. Diamond Shamrock's coal business reported record-breaking income in a very tough year for an increasingly competitive industry. This performance results from having quality reserves to serve the entire eastern United States, and our ability to produce coal at low cost. These factors are the key to our long-term contracts, which assure a reasonable market for our product in times of weak demand.

Assuming little or no economic recovery for the near term, our coal business will continue to provide solid profits and a high return on assets. However, as electricity and steel production increases, earnings should resume the steady growth that has brought operating profits from $16.5 million in 1978 to almost $52 million in 1982.

By the end of the decade, the amount of coal consumed and exported by the United States is expected to increase some 55% over the 1980 level. Because of our high quality reserves, and low-cost mining, we believe we have the ability to compete effectively in the worldwide coal market.

We are actively pursuing new long-term contracts in Europe and the Far East for both steam and metallurgical coal. We can serve these markets now from our existing mines, and also have the ability, if necessary, to accelerate development of our Alaskan reserves to provide low-cost coal to customers in the Far East.

Chemicals: Profitable, efficient operations; divestitures possible. Operating results for our chemical business were off because of the worldwide economic downturn. However, in a year when many of our competitors experienced losses, and survival became an issue for some, Diamond Shamrock's chemical operations remained profitable.

In industrial chemicals, we lowered our break-even point. Our recently completed cogeneration plant has reduced energy costs at our largest chlor-alkali plant. These and other efficiencies have resulted in respectable earnings and solid cash flow from industrial chemicals. Over the next year or so, as building construction and industrial production increase, the profitability of this business should rebound to or surpass historical levels.

J. Avery Rush, Jr.

In accord with our practice of regularly evaluating all of our businesses against our financial and strategic objectives, we are studying the divestiture of our proprietary chemical businesses. Their ability to gain the size necessary to compete effectively and generate a strong return in the future will be an important factor in our evaluation.

Diamond Shamrock: Potential for strong earnings growth. In recent years, Diamond Shamrock has experienced rapid change and growth. Throughout that period, our primary objective has remained constant. Simply stated, we are in business to provide our stockholders with an above-average return on their investment.

Among domestic integrated oil and gas companies, we are distinguished by several vital strengths.

- We have the know-how to operate each of our businesses for maximum efficiency and productivity.
- We have a competitive edge in each of our major businesses.
- We possess excellent growth potential in an economic recovery.
- We have the financial and management flexibility to respond to emerging business opportunities.

It is these strengths which attractively position us for the future. We are excited and confident about that future.

William H. Bricker
Chairman and Chief Executive Officer

Allan J. Tomlinson
President and Chief Operating Officer

J. Avery Rush, Jr.
Vice Chairman

February 17, 1983

Exploration and Production

Earnings down slightly; growth potential enhanced. 1982 was a difficult year for the exploration and production industry. Throughout the industry, as at Diamond Shamrock, reduced demand for natural gas and lower crude oil prices depressed sales and earnings.

For Diamond Shamrock's Exploration and Production Unit, sales were down 1% to $254.5 million. Operating profit fell 6% to $137.6 million.

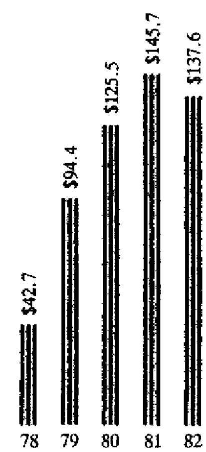
Despite difficult conditions, our exploration and production business continued to enhance its potential for substantial growth. Our steadily increasing size and expertise enabled us to make the largest single investment in petroleum leases in the company's history. In 1982, we invested $161 million to participate in the exploration of a Beaufort Sea geologic basin considered one of the nation's most promising for crude oil production. This investment has the potential to significantly increase our total domestic reserves.

For the near future, we have excellent potential for growth in natural gas volumes and prices. To continue that momentum, our exploration program is concentrating on high potential areas. And we continue to look for opportunities to increase our crude oil volumes and reserves by acquisition.

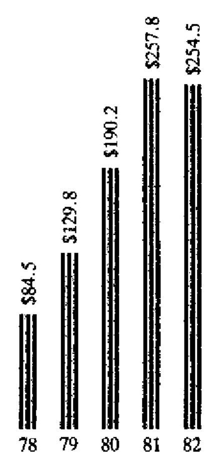
In response to the significantly larger scope of our program, we established an Exploration and Production Unit in Amarillo. C. Barton Groves, previously an executive vice president of our former Oil and Gas Unit, was named president of this new unit and was elected a corporate vice president.

Natural gas offers excellent earnings growth. During 1982, our natural gas sales volumes dropped as customers curtailed purchases due primarily to the recession. Concurrently, this has created a temporary oversupply of natural gas.

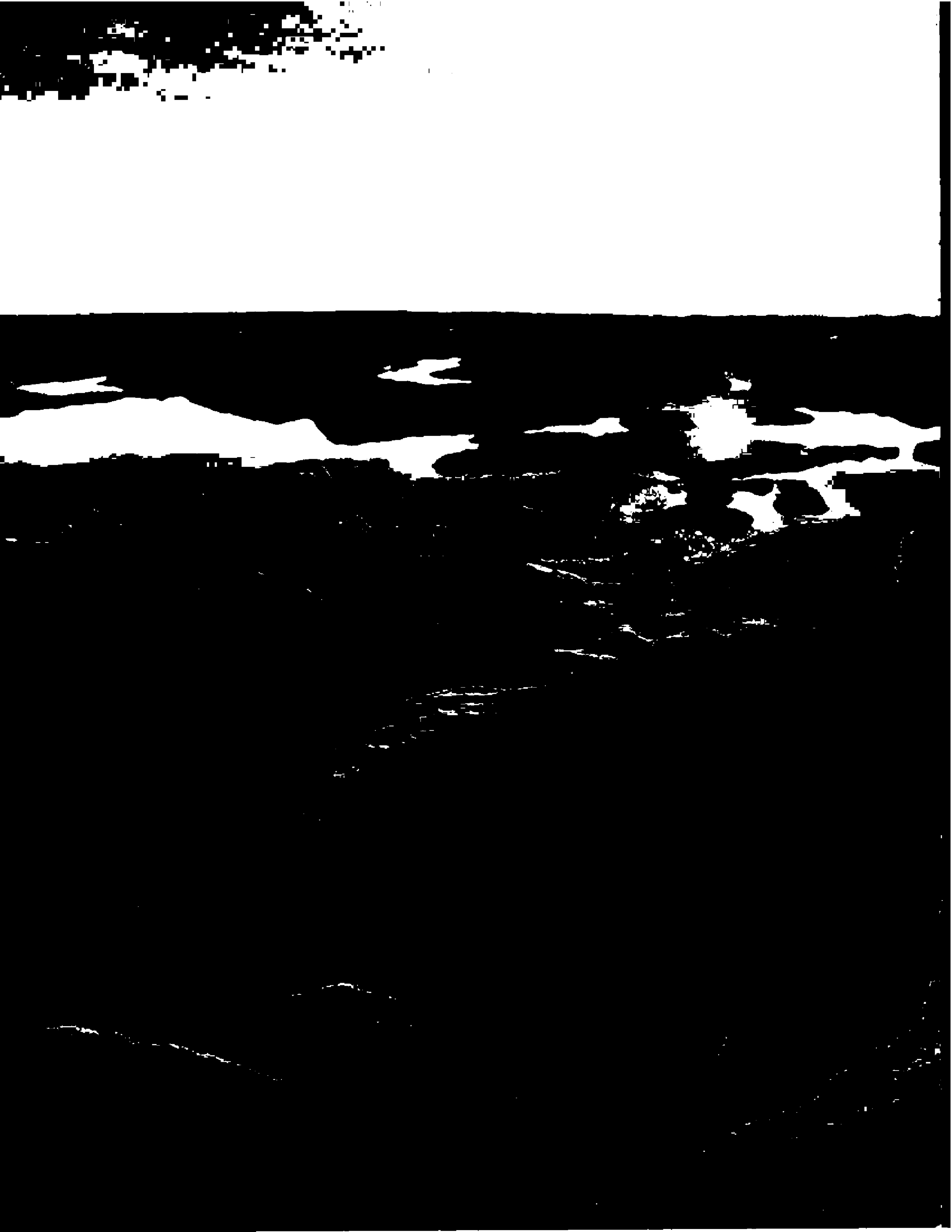
Our near-term natural gas earnings stand to increase as this oversupply dissipates. Considering the pace at which the nation's natural gas reserves are being depleted, even at today's lower consumption rates, it will take only 18 to 24 months for supply to balance with or be exceeded by



Exploration and Production Operating profit
(in millions)

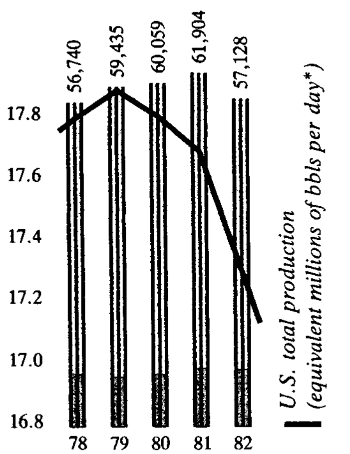


Exploration and Production Sales
(in millions)



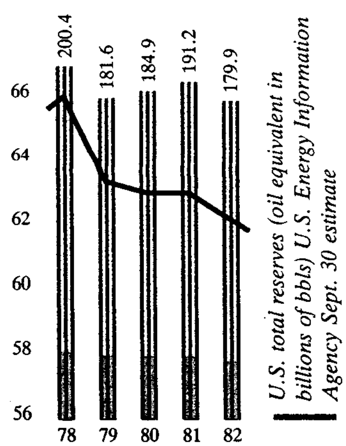
In exploration and production, we have achieved the size and expertise to take a major position in exploring Alaska's Beaufort Sea. This exciting prospect has the potential to significantly increase our domestic reserves.

Beneath Alaska's vast and frozen Beaufort Sea lies an immense geologic structure which could become one of North America's most significant petroleum reserves. Exploring this high-potential area lends balance to our lower risk exploration and development strategies



Diamond Shamrock
Oil equivalent production
(in barrels per day)

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



Diamond Shamrock
Net proved reserves
(millions of barrels)

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

demand. An economic recovery would accelerate this process. Because we are a low-cost producer of natural gas, and because approximately 20% of our deliverable production capacity is presently curtailed, we can profitably supply gas at competitive prices as demand improves.

We believe natural gas, which comprises 80% of our production, will be an excellent growth business for Diamond Shamrock through the end of the decade. There are three major reasons:

- Our sales volumes will increase substantially as the current imbalance in supply and demand ends.
- Our strategy was not based on the assumption that prices would rise steadily; thus, we rejected the lure of expensive deep gas. We have been able to sell our gas at marketable prices while keeping the cost of production low. This allows us to maintain strong profit margins.
- A significant portion of our production could command higher prices in the event gas is deregulated.

Oil production will increase. Prices for our crude oil fell on average about $4 per barrel during 1982, and sales volumes remained almost even with the previous year. Although our oil production in 1982 remained flat compared to 1981 – approximately 10,400 barrels per day – we expect production growth to resume in 1983 due to new drilling and completion of projects already under way. For example, in late 1982, production from 14 wells in the Gulf of Mexico came on stream at the Main Pass 72/74 platform complex in which we own a 21.73% interest. This new production could surpass 3,000 barrels of oil per day net to Diamond Shamrock from a total of 16 wells.

From our position, crude oil production will continue to be a profitable business. Although prices can be expected to decrease significantly from 1982 levels, this business offers the opportunity for solid earnings growth over the long term.

Drilling program targets significant gas prospects. The backbone of our current exploration and production program is a leasehold position of 4.7 million net acres in the United States. In 1983, we are selectively drilling specific targets that offer the prospects both for new oil and natural gas finds and for substantial development drilling around the discovery. At the same time, we will continue to drill in areas of established oil and gas fields with lower cost, lower risk development wells.

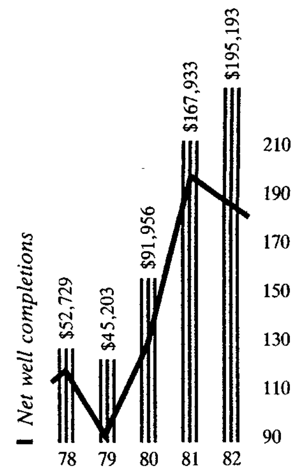
In addition, we are using more farmouts (allowing other companies to drill on our acreage in return for an interest in production) and joint ventures, which will expand our overall drilling program at reduced cash cost. Along the same lines, our large, low-cost leasehold position built over the last decade allows us to sell or trade acreage at a profit and redirect that cash into our best investment opportunities.

Current market conditions have led us to seriously consider opportunities to increase our worldwide reserves and production capacity. Among the means to achieve that objective are new oil and gas discoveries, and the acquisition of substantial interests in additional reserves.

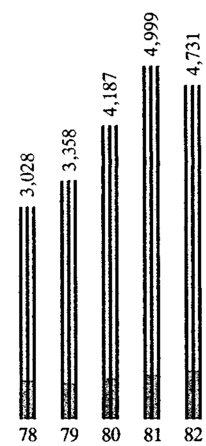
Company takes major position in exploring Beaufort Sea. In 1982, the company invested in a very exciting growth opportunity. Diamond Shamrock was among the handful of companies that acquired major stakes in the future exploration of Alaska's Beaufort Sea. Diamond Shamrock acquired an average 28% interest in four Diapir Field tracts and acquired a 100% interest in a fifth. Each tract encompasses 5,693 total acres.

The U.S. Geological Survey has estimated that the Beaufort Sea area, which is near the Prudhoe Bay Field, could contain between 500 million and 4.7 billion barrels of oil and 1.8 trillion cubic feet of natural gas. Following construction of a drilling island, first exploratory drilling is expected to begin in late 1983. If oil is found in producible quantities, developing the leases and connecting production to cross-country pipelines could take another eight to ten years.

In addition to our planned activity in the Beaufort Sea, we are exploring other areas where a significant find could greatly increase production. We continue to pioneer the exploration of more than 4.8 million net acres we have acquired offshore Australia, New Zealand, Indonesia, and Ireland.

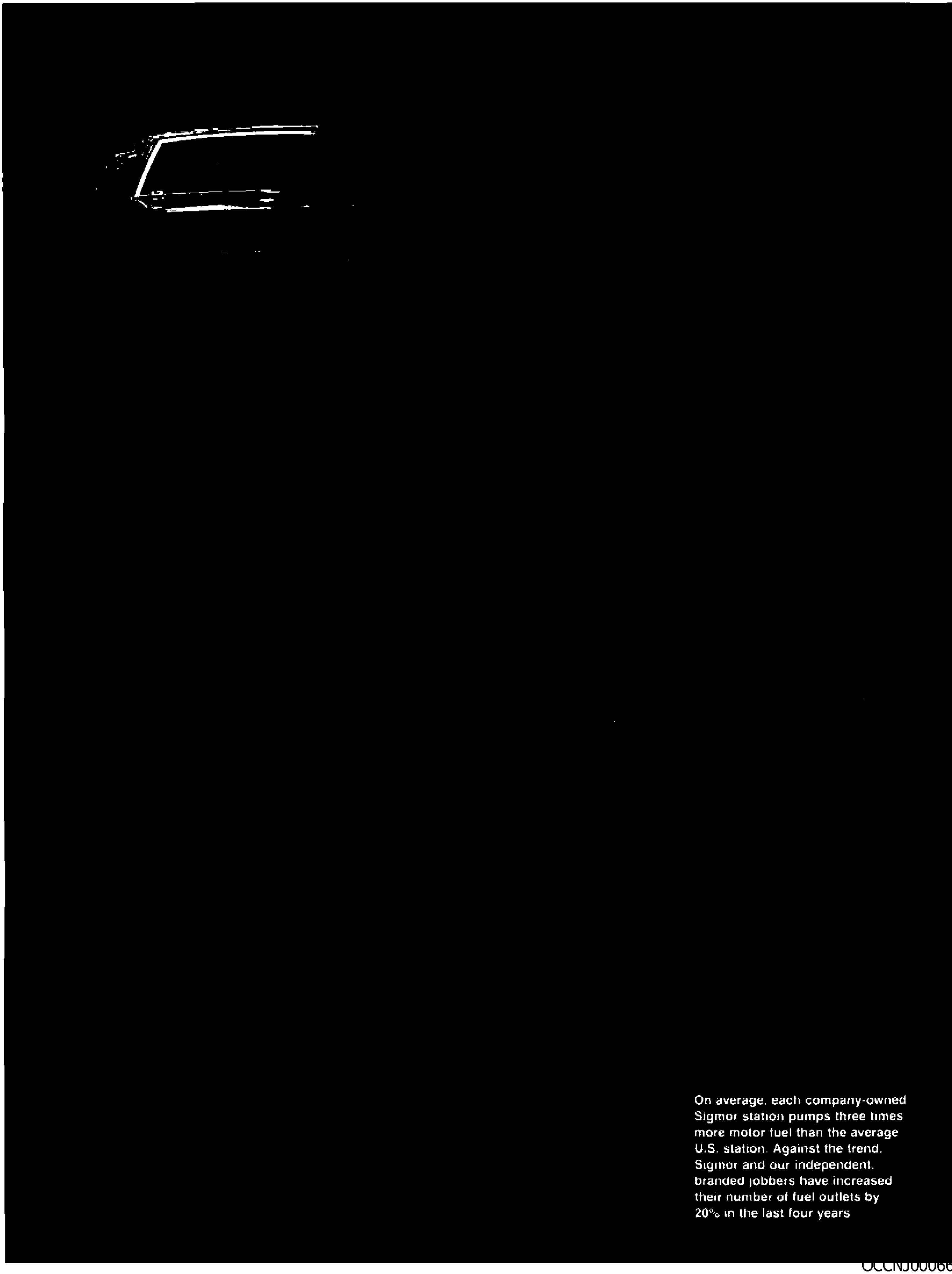


Capital spending for exploration and development
(in thousands; excludes leas[e] acquisition, waterfloods, production equipment)



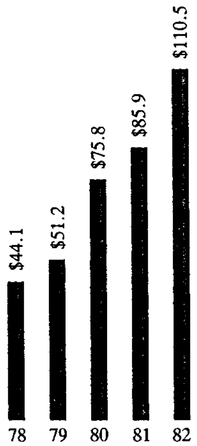
Domestic acreage
(in thousands)

Undeveloped
Developed

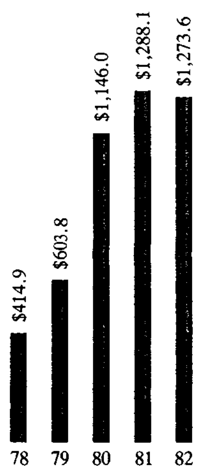


On average, each company-owned Sigmor station pumps three times more motor fuel than the average U.S. station. Against the trend, Sigmor and our independent, branded jobbers have increased their number of fuel outlets by 20% in the last four years

OCCNJ0006610



Refining and Marketing Operating profit
(in millions)



Refining and Marketing Sales
(in millions)

Refining and Marketing

Earnings set record in a tough year. Diamond Shamrock's refining and marketing business has historically been a major contributor to the company's profitability. In 1982, it generated $110.5 million – record operating profit in a tough year for the industry.

Over the next few years, profit margins in the refining and marketing industry will continue to experience competitive pressures. Shutdowns of small and inefficient refineries and poorly located and operated service stations also will continue. These conditions, however, will provide growth opportunities to select companies – those with efficient refining, aggressive marketing, and a geographic advantage. Diamond Shamrock is one of those companies.

Acquisition enhances competitive abilities. To further strengthen this business, we acquired Sigmor Corporation in January 1983. With this acquisition, we established a Refining and Marketing Unit in San Antonio. Riley Epps, previously a group vice president with our former Oil and Gas Unit, has been named president of this new unit, and was elected a corporate vice president.

That unit has the following strengths:

■ **Efficient refining.** While nationwide refinery utilization rates in 1982 were approximately 70%, our McKee refinery operated at a rate in excess of 90%.

Over 90% of our McKee refinery output is in light products such as gasoline and turbine and diesel fuels. This is especially significant since the sale of light products should remain more profitable than the sale of heavier products such as residual fuel oil and asphalt. With the addition of Sigmor's refinery in South Texas, Diamond Shamrock has the capacity to refine over 110,000 barrels of crude oil per day.

Note: Totals from adding the operating results for exploration and production, refining and marketing, and natural gas liquids shown in the graphs and text will vary slightly from full Oil and Gas segment results, which include several small storage and transportation businesses. Full segment results are listed on page 37 of this report.

■ Aggressive marketing. The Sigmor acquisition adds a network of some 550 company-owned retail outlets to our long-standing and expanding base of Diamond Shamrock branded jobbers. Most of the Sigmor stations are the increasingly popular high volume, self-serve stations with convenience stores. On average, these stations sell approximately three times the amount of gasoline sold by the average U.S. retail outlet.

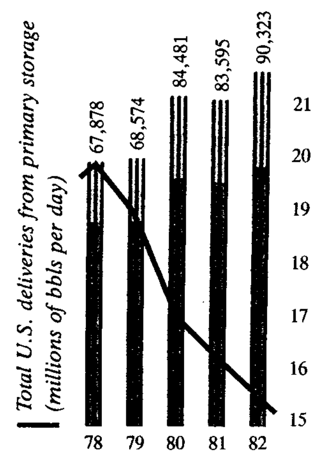
In 1982, Diamond Shamrock's marketing network increased to 151 independent jobbers with 1,739 branded retail outlets. This additional market penetration helped increase gasoline and diesel fuel sales by 6.1% and 15.1% respectively, and demonstrates the growing acceptance customers have for the Diamond Shamrock brand. As major oil companies withdraw from portions of our regional market, we will be presented with opportunities to selectively expand our retail and jobber network even further.

■ Geographic advantage. Our gasoline market is concentrated in one of the country's best gasoline consuming areas. Because the Southwest is leading the country in terms of economic growth, we expect continued growth.

Natural gas processing outlook improves. In natural gas processing, now part of the Refining and Marketing Unit, operating profit for the full year was $18.4 million, a 68.7% decline from the near-record profits posted in the previous year. Improved market conditions for natural gas liquids during the second half of 1982 enabled this business to reverse the profit erosion experienced earlier in the year. This business has excellent potential for increased earnings in the future.

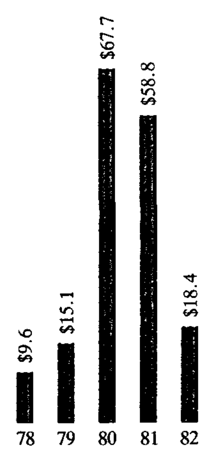
In propane marketing, our recently completed terminal in the Dallas-Fort Worth area improves our ability to move a significantly larger share of this product from the bulk market to the dealer market, thus improving margins.

Near term, despite the recession, the outlook for natural gas liquids is good. With a general economic recovery, this business is expected to return to excellent profitability.

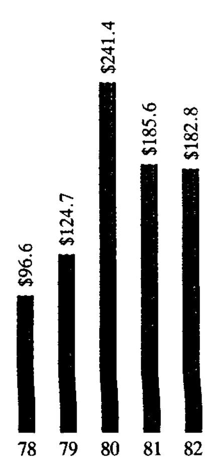


Diamond Shamrock Product sales
(barrels per day)

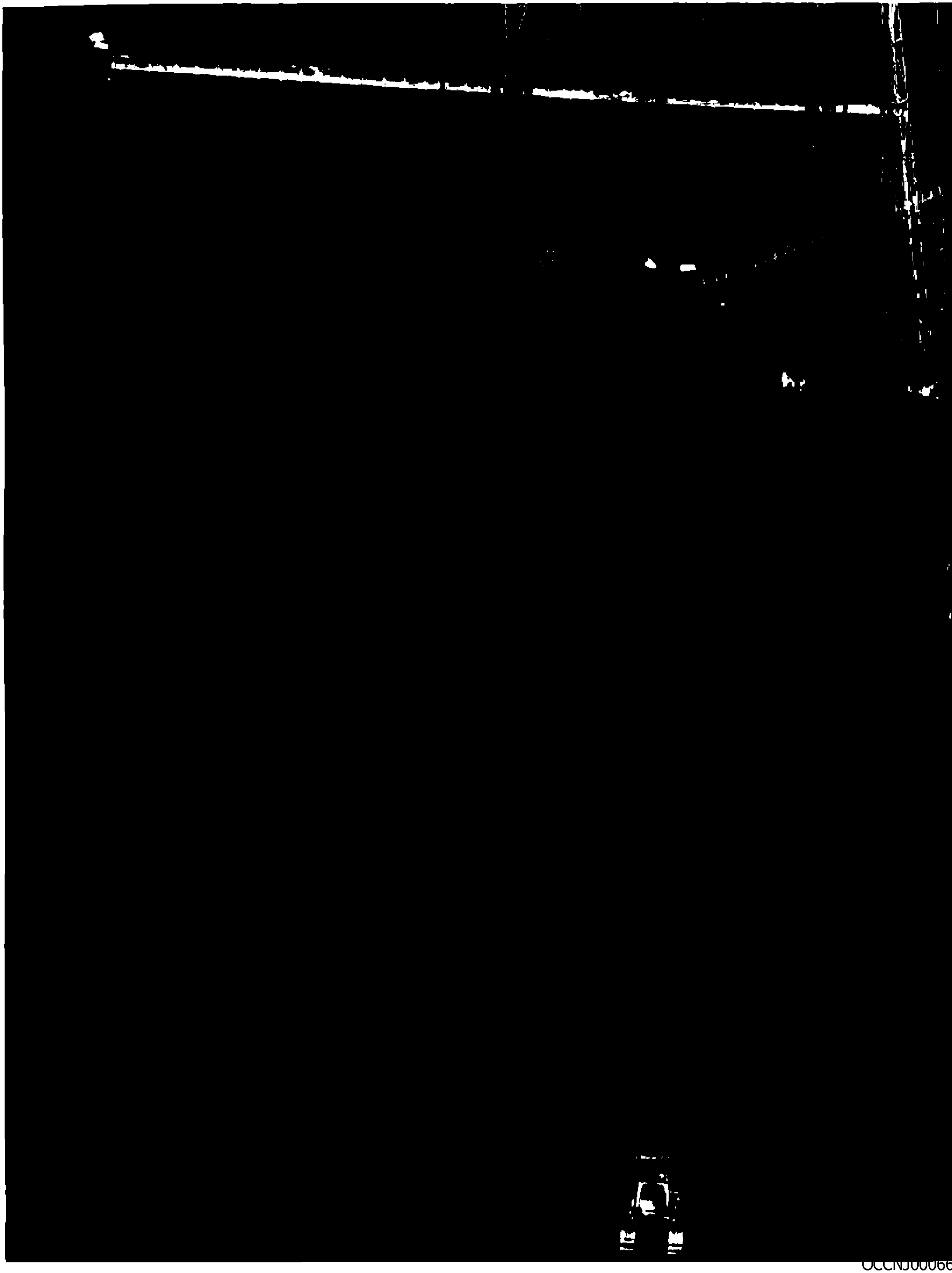
■ Motor Gasoline
▥ Diesel
▥ Other

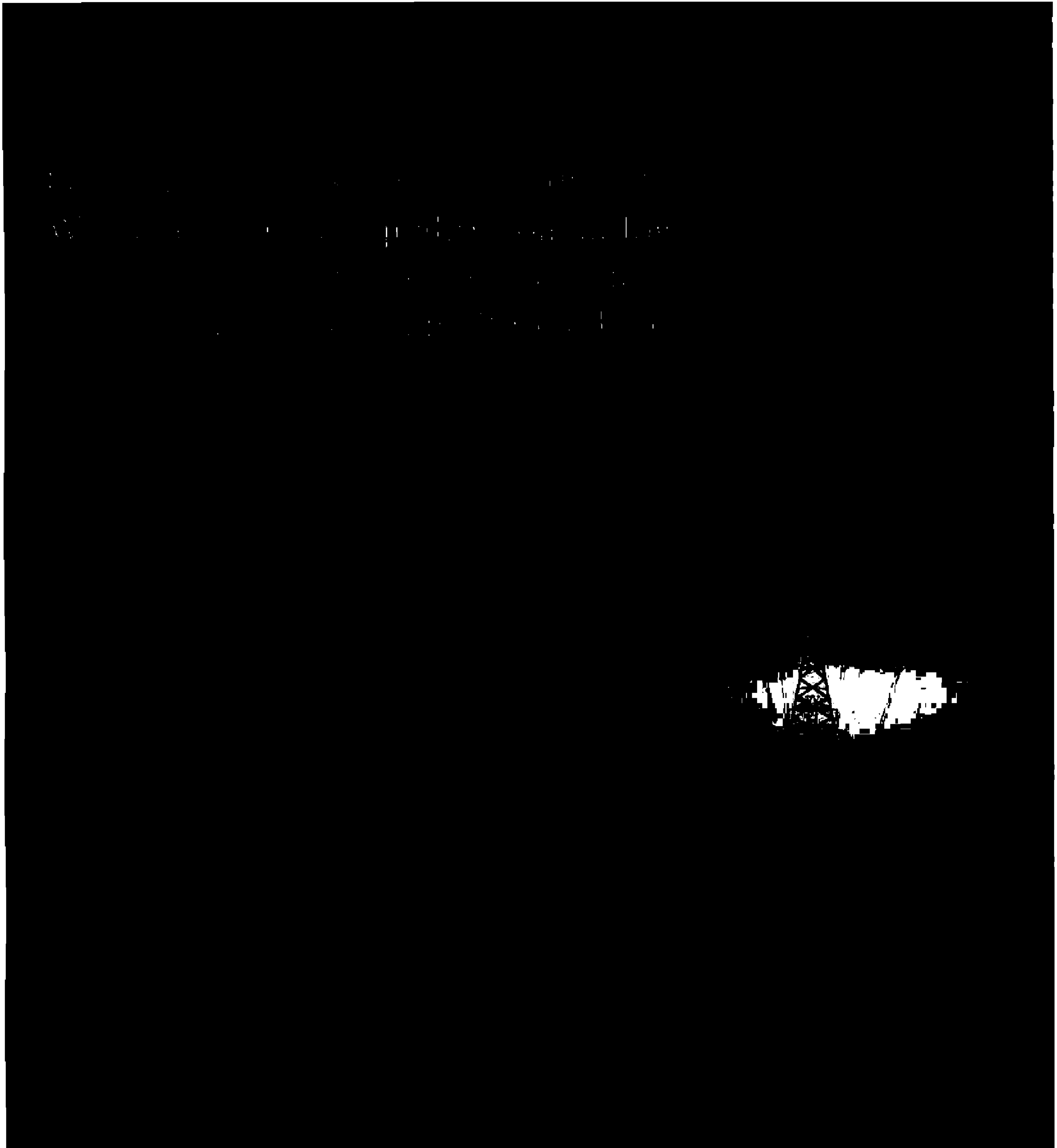


Natural Gas Processing Operating profit
(in millions)

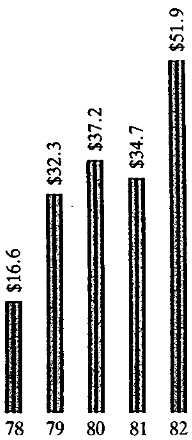


Natural Gas Processing Sales
(in millions)

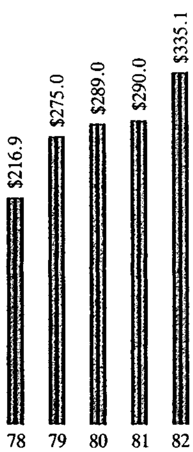




Efficient coal-handling facilities and mining techniques mean we can competitively price our coal while maintaining adequate profit margins. The coal industry's largest consumption gains will come from electric utilities, to which most of our production is sold.



Coal
Operating profit
(in millions)



Coal
Sales
(in millions)

Spending increases capacity to deliver products. In 1982, capital expenditures in refining and marketing totaled approximately $25 million. These funds were used primarily in maintaining natural gas supplies for processing; construction of our Dallas-Fort Worth propane terminal; service station sign identification; and completion of our McKee refinery vacuum unit. The vacuum unit provides us with the flexibility to upgrade lower valued feedstocks such as topped crude purchased from outside suppliers.

In natural gas processing, we completed pipeline and compression additions to our Texas Panhandle natural gas gathering system. This extension enables us to bring gas from distant locations in the Panhandle to our McKee processing plant.

At our Three Rivers Refinery, acquired with Sigmor, construction of a deasphalting unit will begin in 1983. This unit will increase our ability to make higher value light products and minimize production of heavier products.

Coal

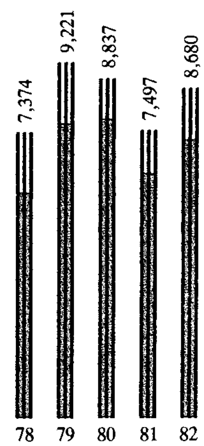
Record earnings demonstrate competitive strengths. During a poor year in the increasingly competitive coal industry, our Coal Unit achieved record sales and earnings, and maintained its standing as an industry leader in mining efficiency.

During 1982, operating profit increased 50% over the previous year to $51.9 million, while sales increased 16% to $335.1 million. (Sales and earnings in 1981 were depressed by an industrywide miners' strike.)

This performance clearly demonstrates our fundamental strengths: premium quality coal, cost-efficient operations, and a stable earnings base of long-term sales contracts.

We regard coal as a source of long-term earnings growth, by increasing export shipments and through the inevitable geographic expansion of domestic markets. Meanwhile, our coal business will continue to provide strong near-term earnings and cash flow.

For 1983, we expect industrywide demand and prices to be at least as depressed as in 1982. But we also expect another year of solid performance from our Coal Unit.



Coal shipments
(tons in thousands)

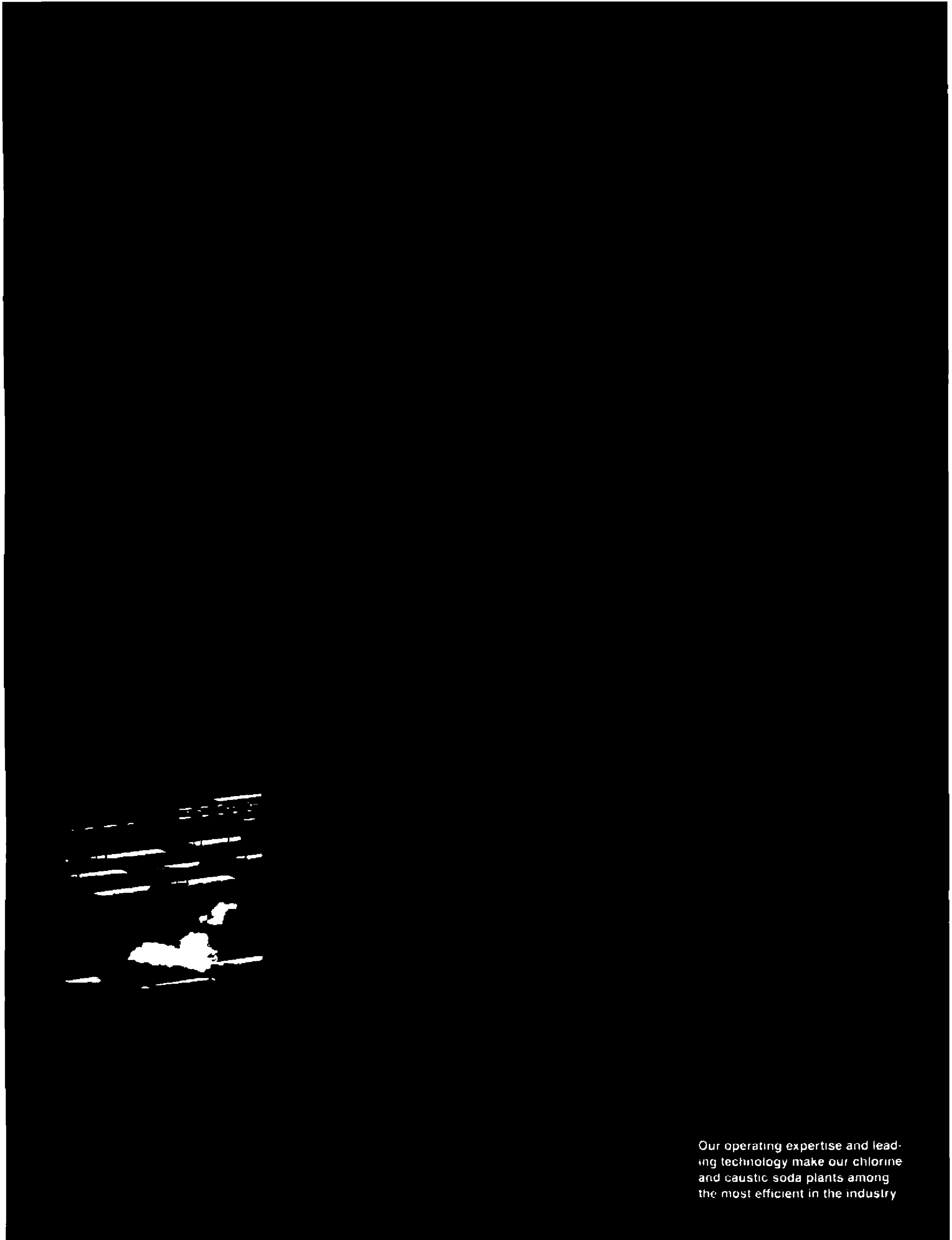
Long-term contracts provide earnings stability. Along with efficient mining, long-term sales contracts continue to play an important role in coal earnings. And obtaining additional long-term contracts will continue to be our primary marketing objective in order to assure our stable earnings base. In 1982, more than 87% of production was sold under long-term contracts, mostly with Eastern Seaboard and Midwestern electric utilities.

Success in competition for long-term contracts has resulted from our consistent leadership as a cost-efficient coal producer. We further improved cost efficiency during 1982, especially by implementing our innovative surface mining techniques at the Amherst properties in West Virginia. In Kentucky, we invested in additional fast-loading railroad facilities and an additional coal washing plant. Another such plant, which allows us to upgrade marginal quality coal, is being planned.

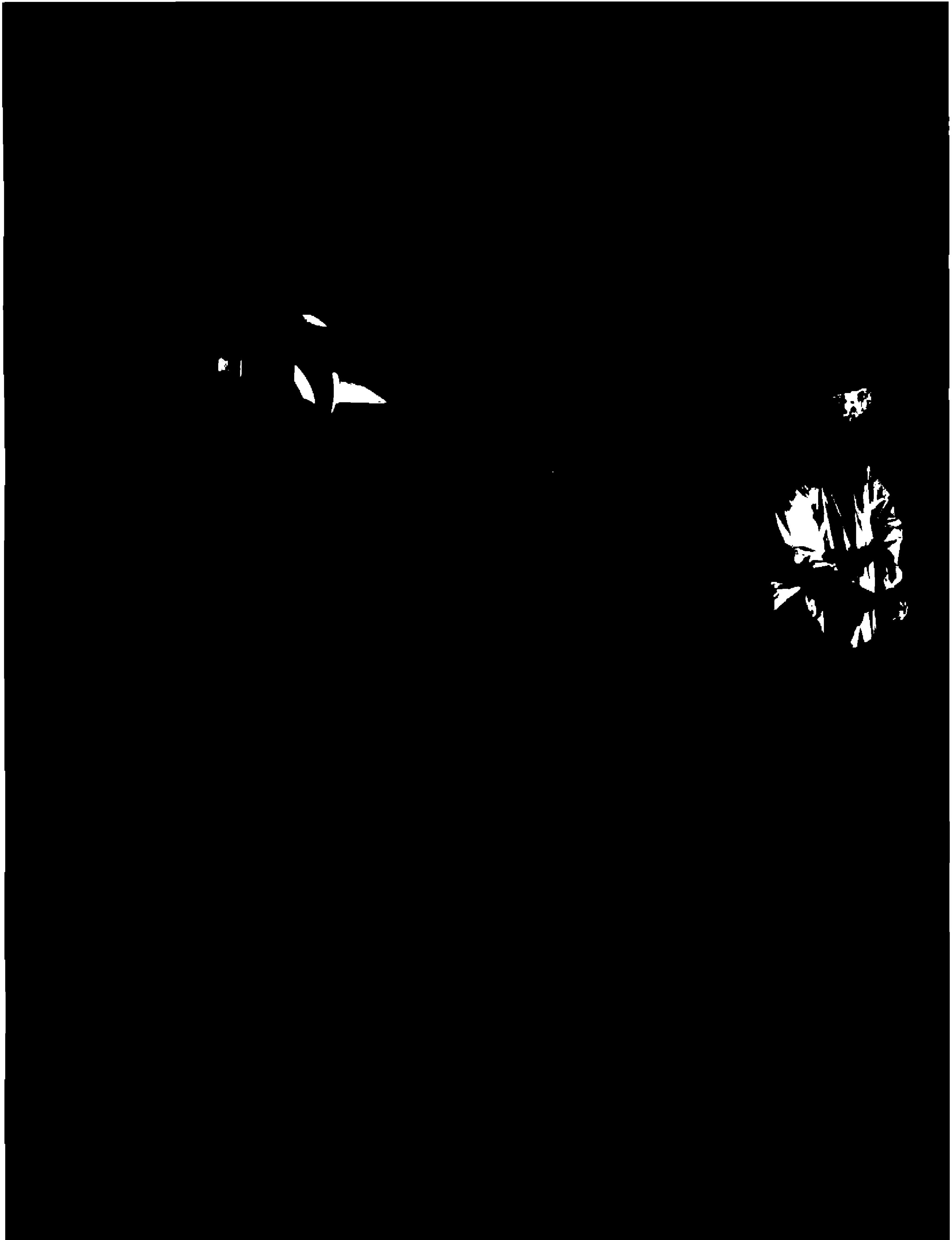
Exports targeted for inceasing near- and long-term sales. We believe exports provide among the greatest opportunities to substantially increase coal sales. With our competitive advantages as a low-cost supplier of low-sulfur, high-BTU coals and our proximity to East Coast ports, we are aggressively pursuing medium- and long-term contracts with foreign customers. For example, in the past, our Amherst Division's high quality metallurgical coals had been marketed in Japan through brokers. In 1982, we further penetrated this market on a direct contract basis with the sale of 300,000 tons for delivery in 1982-83. We believe these initial contracts will be the basis for long-term, profitable trade in this highly competitive market.

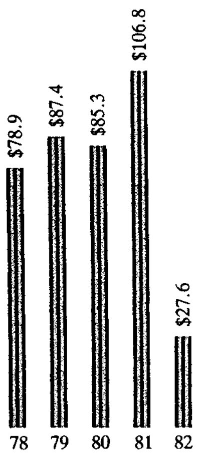
To further increase our competitiveness in the export market, we expect to conclude an agreement this year for use of a coal storage facility at Newport News, Va. Our customers can thereby avoid delays and demurrage caused by port congestion.

In Alaska, where we own a 50% interest in more than 350 million tons of recoverable reserves, mining and marketing feasibility studies are in full swing and indicate that production could begin in the late 1980s. These low-sulfur, sub-bituminous coal reserves are highly regarded as a source of future steam coal exports to rapidly expanding Pacific Rim countries such as Japan, Korea, and Taiwan.

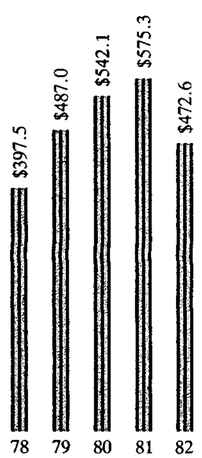


Our operating expertise and leading technology make our chlorine and caustic soda plants among the most efficient in the industry





Commodity Chemicals Operating profit
(in millions)



Commodity Chemicals Sales
(in millions)

U.S. coal consumption to increase. In the United States, coal consumption should continue to increase throughout the '80s, although at slower rates than the previous five-year average. Weak economic conditions worldwide and conservation efforts constrained U.S. coal markets and production in 1982 and will continue to do so in 1983.

Diamond Shamrock and the coal industry in general have experienced intense competition for the business of the electric utilities, particularly as oil, natural gas, and nuclear and hydro energy compete with coal for a greater share of electricity's generating capacity. However, we are confident that the cost effectiveness of coal will enable it to maintain its growing role in electric power generation.

Competitive edges assure earnings strength. Even under current conditions, our Coal Unit has the competitive edges to continue as a strong net generator of cash, while our strengths of cost efficiency, and high quality, will provide strong potential for coal to contribute a growing portion of corporate profits through the decade.

Chemicals

Economic conditions depress earnings. For the chemical industry, 1982 was among the worst years ever. Worldwide, many chemical businesses operated at a loss, and poor business conditions forced some of our competitors to close plants.

Our Chemical Unit was not immune to those conditions. Operating profit fell 44.8% below the previous year to $82.5 million. Sales were down 13% to $995.6 million. However, all of our chemical business segments showed an operating profit and we continued to invest in cost-saving efficiencies.

Operating efficiency: A fundamental competitive edge. Operating efficiency has been and will continue to be the watchword in chemicals. At Diamond Shamrock, it is one of our strongest competitive edges – providing us stamina to withstand tough times, and potential for strong profit increases when the economy improves.

Strategies we have implemented over the past few years have enabled us to substantially lower our break-even point. These strategies include investing in more efficient operations and equipment, streamlining businesses through divestitures and discontinuation of marginally profitable product lines, and adjusting our organizational structure to better address markets on a world basis.

Recession hits hardest in commodities. The recession hit especially hard in commodity chemicals, the bulk of our chemicals business, where operating profit was down 74%. Commodities, of course, depend primarily on building construction and on production of durable goods such as automobiles. However, we maintained profitability in 1982 despite operating rates averaging 58% – the lowest since 1971.

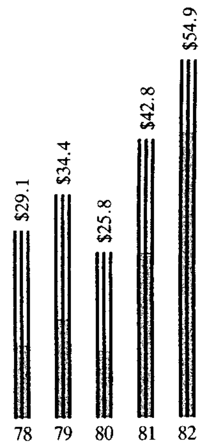
During 1982, our 200-megawatt cogeneration facility near Houston began to supply electricity and steam to our largest chlor-alkali plant. This facility, construction of which began in 1980, has significantly reduced energy costs for producing chlorine and caustic soda.

We maintained our standing as one of the nation's largest merchants of commodity chemicals. In tonnages of chlorine and caustic soda, silicates, and chrome chemicals, we are an industry leader. In chrome chemicals, Diamond Shamrock is also a leading world producer.

Commodities offer dramatic profit potential. Our performance in 1982 clearly demonstrates our ability to generate profits and good cash flow. We have the competitive edges of operating efficiency, market share, and strategically located plants and product terminals. Our lower break-even point and significant capacity hold dramatic profit potential as the economy improves. We believe that throughout the '80s, commodities will be a profitable, strong net cash generator for Diamond Shamrock.

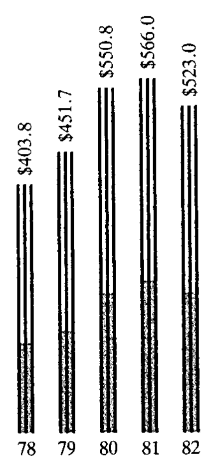
Earnings in proprietaries increase. Our proprietary chemicals, which include products for plants, animals and industry, fared better than commodities. Operating profit in proprietaries as a group increased 28% over the previous year due to record earnings in our agricultural chemicals and animal health businesses.

Our proficiency in outpacing our competition in establishing sound toxicology data has given us a competitive edge in registering existing agricultural products for new uses and for entry into new markets. In 1982, 19 registrations of our agricultural chemicals were granted by domestic and foreign governments. For example, registration in late 1982 of Bravo® Fungicide for application on stone fruits such as peaches and cherries will allow additional uses for existing products.



Proprietary Chemicals
Operating profit
(in millions)

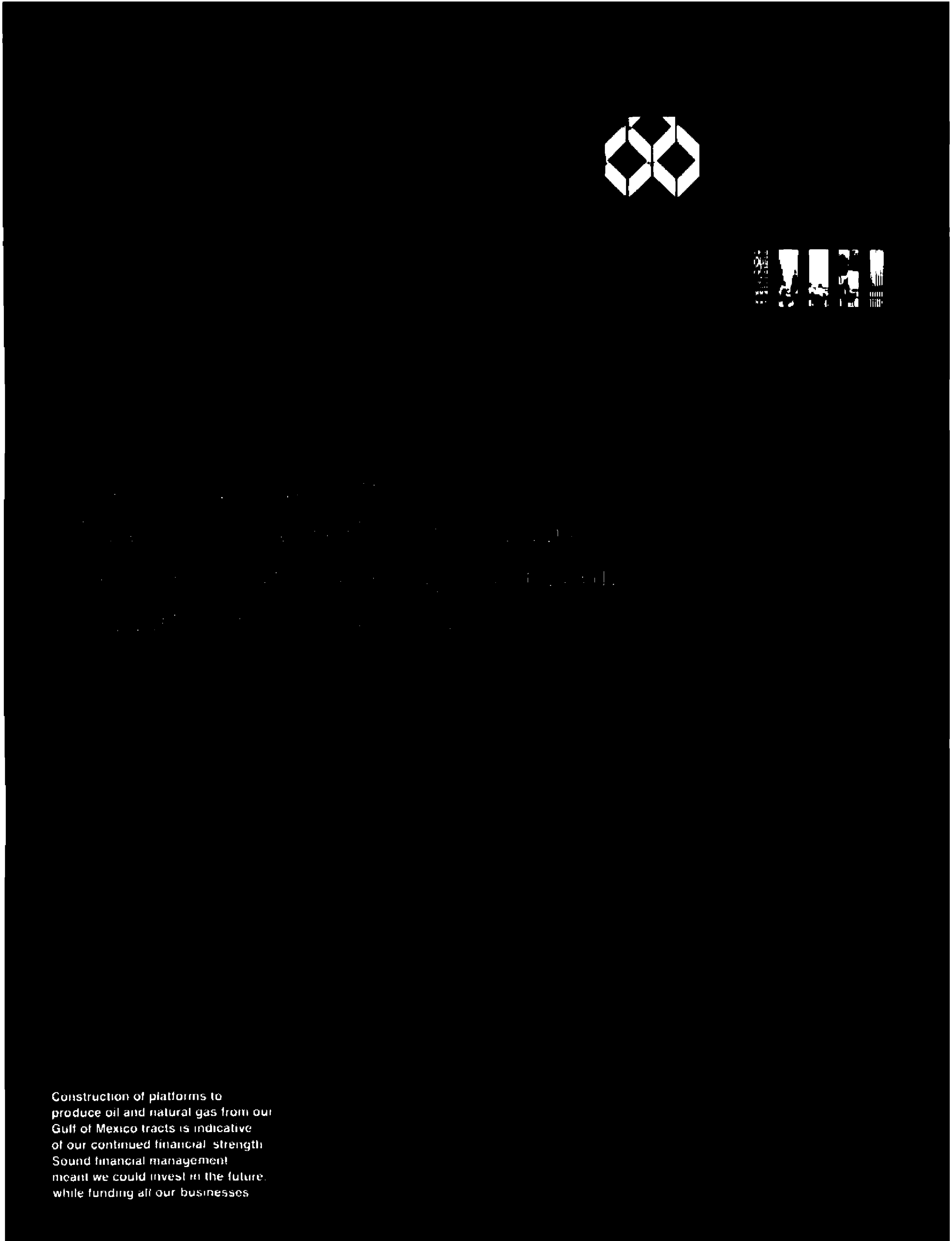
Specialties
Agricultural



Proprietary Chemicals
Sales
(in millions)

Specialties
Agricultural

OCCNJ0006620



Construction of platforms to produce oil and natural gas from our Gulf of Mexico tracts is indicative of our continued financial strength. Sound financial management meant we could invest in the future, while funding all our businesses.

In animal health chemicals, we continued to increase market penetration. In the United States, we licensed a well regarded European cure for swine dysentery. Available in 1983, Denagard® (Tiamulin) will be a profitable complement to our leadership in swine care products.

New markets were also opened in 1982 with the Canadian government's approval to use several of our insecticides and larvicides for livestock and pets. Increased market penetration was achieved in important developing nations. In Brazil, Ectrin® pesticide was approved for use as a livestock premises spray. Mexico approved use of our Dacoverm® cattle antibiotic.

Increasingly vigorous competition in proprietaries will require successful companies to improve efficiency and examine new business arrangements. Diamond Shamrock has already taken many key steps. We eliminated marginally profitable product lines. We also streamlined our workforce and made other productivity improvements.

Divestitures in proprietaries considered. Proprietary chemicals are among the businesses we have previously identified as growth businesses. We believe they continue to offer growth potential for the future. However, because of their inability to date to reach both the size and profitability levels we consider necessary, we are considering divestiture as an option for some or all of these businesses.

Many major corporations have targeted proprietary chemicals as their primary source of growth for the '80s. We are thoroughly investigating the possibility that some of our businesses might best realize their potential in that environment. To do otherwise would leave unexplored an option that may be in the best interests of Diamond Shamrock and the businesses themselves.

Looking toward the future, we believe our chemical operations have the strength to face increased worldwide competition and continued recessionary conditions. As the economy recovers, they stand to contribute substantially to earnings growth.

Report of the Company

To the Stockholders
Diamond Shamrock Corporation

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

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

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

The independent accountants provide an objective, independent review as to the Company's discharge of its responsibilities insofar as they relate to the fairness of reported operating results and financial position. The Company has an active operations auditing program which monitors the functioning of the Company's accounting and control systems and provides assurance that the Company's operations are conducted in a manner which is consistent with applicable laws and which deals fairly with customers and suppliers.

R M Ahlstrom

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

R W Arp

Richard W. Arp, Controller
Principal Accounting Officer

February 17, 1983

Financial Section Contents

Management's Discussion and Analysis of Financial Position and Operations

Financial Position

During 1982, total funds provided by operations were $446.5 million, compared to $462.9 million in 1981, and $423.9 million in 1980. After covering dividends, operations provided $336.2 million for capital spending and investment, compared with $360 million in 1981, and $332 million in 1980.

Maintenance of cash flow despite reduced earnings from continuing operations was due in large part to depreciation, depletion and amortization, which increased to $217.8 million in 1982, compared with $171.1 million and $149.7 million in 1981 and 1980, respectively, reflecting high levels of capital investments in prior years, and an increasing amount of exploratory drilling for oil and gas.

The Company continued its substantial investment program in 1982, with capital spending and investment reaching $660.2 million, compared to $590.9 million in 1981 and $449.9 million in 1980. The Company also purchased $72.1 million of Diamond Shamrock Common Stock during the year as part of a stock repurchase program.

Capital spending included $161.7 million to secure exploration rights on five Federal leases in the Beaufort Sea, off the north slope of Alaska. Although development of oil and gas properties in Arctic waters requires substantial investment, such investment would not occur on these leases unless commercial hydrocarbon deposits were first identified through exploratory drilling. Such drilling is planned for 1983 and 1984. Should exploration be successful, development costs would occur primarily during the latter half of this decade.

Additional funds were provided by an increase in total debt of $67.3 million during the year. Total debt was 34.9% of total capitalization (including deferred taxes) at December 31, 1982, compared to 34.7% at year-end 1981, and 35.4% at year-end 1980. In January of 1983, the Company acquired Sigmor Corporation for Preferred Stock and $71.5 million in cash, and assumed its debt, raising consolidated debt to 40% of total capitalization.

Lower sales, sale of receivables, and greater emphasis on inventory control programs contributed to a reduction in working capital during the year to $313.3 million at year-end 1982, compared to $472 million at year-end 1981 and $535.2 million at year-end 1980. Primarily as a result of these factors, $175.1 million of cash was generated during the year.

In March 1982, the Company retired $97.1 million principal amount of various sinking fund debentures in exchange for 3,035,000 shares of the Company's Common Stock, resulting in an extraordinary gain of $35.5 million after related expenses. In addition, the sale of various investments and facilities provided $69 million in 1982.

The Company's relationship of current assets to current liabilities (Current Ratio) was 1.7 at December 31, 1982, compared with 2.0 and 2.2 at December 31, 1981 and 1980, respectively. The relationship of cash and receivables to current liabilities (Quick Ratio) was 0.9 compared with 1.1 and 1.3 at year-end 1981 and 1980, respectively. The negative impact on these ratios at December 31, 1982, resulted principally from the reduced level of receivables and inventories at year-end.

In April 1982, the Company established a $750 million revolving credit term loan agreement with a group of 32 banks throughout the world, replacing existing credit agreements and lines of credit which totalled $300 million. At December 31, 1982, there were no borrowings under the revolving credit agreement.

The Company expects income from operations to continue to be adversely affected by present economic conditions. However, the Company's financial strength and ability to borrow will provide the Company with the capability to meet its financial needs during 1983.

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

Operating Results

During 1982, a deepening recession severely depressed industrial and construction activity worldwide. As a result, volumes and profit margins declined for many of the Company's products. Particularly affected were the Company's Industrial Chemicals segment, and the natural gas liquids business of its Oil and Gas segment.

Corporate sales and operating revenues declined 6% for the year, compared with a 7% increase in 1981 and a 36% increase in 1980. Income from continuing operations declined 35% in 1982, versus an 8% increase in 1981, and a 33% increase in 1980.

Industrial Chemicals segment contributions to total segment operating profit fell to 7% during 1982 from 21% in 1981, and 19% in 1980, reflecting a drop in year-to-year operating profits of $79.1 million. Extremely weak demand for the segment's chlorine, caustic soda, and silicates products adversely affected both operating rates and prices.

In the Oil and Gas segment, although natural gas liquids volumes were essentially level year-to-year, weakening demand significantly eroded prices while the cost of raw natural gas feedstocks increased. The resulting profit margin squeeze in natural gas liquids accounted for 92% of the $43.9 million decline in Oil and Gas segment operating profit during 1982. Similarly, crude oil production volumes were flat, year-to-year, while prices declined, reflecting an overabundance of product on world markets.

Excess natural gas capacity in U.S. markets caused contract customers to reduce their purchases from the Company during the year. However, rising gas prices essentially offset lower gas volumes. Refined product volumes and margins posted increases in 1982, resulting in earnings gains for the Company's refining and marketing business. Pre-tax earnings were also positively affected by a gain of $12 million from the sale of leases, and the contribution by the Company of an $18 million oil and gas royalty interest to its pension plans in lieu of a cash contribution to the plans during 1982. Overall, the Oil and Gas segment contributed 65% of total segment operating profit during 1982, compared with 59% in 1981, and 62% in 1980.

In 1981 compared with 1980, prices and volumes increased for natural gas and crude oil, while higher prices and operating efficiencies more than offset a slight volume decline for refined products. Increased earnings due to higher demand for gas liquids storage offset earnings declines due to deteriorating prices for natural gas liquids.

The Company's Coal segment represented 13% of total segment operating profit in 1982, compared with 7% in 1981, and 8% in 1980, reflecting an operating profit increase of $17.2 million from the prior year. In 1981, an industrywide miners' strike reduced production and shipments from the Company's mines. In 1982, production and shipment volumes essentially returned to 1980 levels. With volumes at more normal levels, the segment generated record earnings, primarily due to increased prices and improvements in mining efficiency.

Among the Company's proprietary products, the Specialty Chemicals segment contributed 3% of total segment operating profit during 1982, down from 4% in both 1981 and 1980. The decline reflected a $6.2 million decrease in operating profit which resulted from decreased demand among the segment's industrial customers. The Company's decision to adopt the Financial Accounting Standards Board's Standard No. 52 for 1981, which permits many of the effects of foreign currency translation to be directly applied to stockholders' equity instead of being reflected in operating profit, had its greatest impact (a gain of $8.6 million) on Specialty Chemicals segment operating profit, which showed a modest gain from 1980. 1982 results were accounted for in accordance with FASB No. 52.

The Agricultural Chemicals segment, however, increased its contribution to total segment operating profit to 11% from 5% in 1981 and 2% in 1980. Overall product volumes for the segment declined as an explosion in 1981 at one of the Company's plants eliminated sales of a major herbicide product for most of 1982, although business interruption insurance mitigated the accident's effect on earnings. In addition, improved penetration of both domestic and international markets by many of the segment's other agricultural and animal health products generated a year-to-year increase of $18.3 million in segment operating profit.

Equity earnings from the Company's investment in other companies declined in 1982 by $18.9 million primarily due to depressed results in the Company's Brazilian chemical joint ventures and losses sustained by Sigmor Corporation in which the Company had a 21% equity interest prior to its acquisition in 1983. In 1981, equity earnings declined $5 million from 1980, primarily due to depressed results at the Company's Brazilian chemical joint ventures.

The future of crude oil prices is uncertain. However, over the near term, prices can be expected to decrease significantly from 1982 levels. Since the Company buys significantly more crude oil for its refining and marketing operation than it produces, a price decrease, while unfavorable for exploration and production, would reduce the cost of feedstock to refining and marketing. Therefore, the impact on the Company would not necessarily be adverse.

On the basis of its operating results to date in 1983, the Company expects that its income from continuing operations for the first quarter of 1983 will be at approximately a break-even level, and that income from continuing operations for the first half of 1983 will be substantially below the level recorded in 1982. However, should a significant economic turnaround begin, volume growth for natural gas should accelerate, and increasing demand for industrial chemicals, natural gas liquids, coal, and motor fuel should favorably affect both volumes and margins for these products.

Consolidated Statement of Income

(dollars in thousands, except per share)	Year Ended December 31, 1982	1981	1980
Revenues			
Sales and operating revenues	$3,177,379	$3,376,215	$3,145,394
Equity earnings	(11,684)	7,192	12,197
Other revenues, net	58,290	22,509	31,944
	3,223,985	3,405,916	3,189,535
Cost and Expenses			
Cost of products sold	2,644,649	2,671,104	2,519,193
Selling and administrative	227,388	230,436	215,109
Research and development	47,632	52,679	45,214
Interest	72,873	75,441	64,260
	2,992,542	3,029,660	2,843,776
Income Before Tax Provision	231,443	376,256	345,759
Provision For Income Taxes			
Current	10,469	56,596	81,673
Deferred	71,431	89,504	50,840
	81,900	146,100	132,513
Income From Continuing Operations	149,543	230,156	213,246
Loss From Discontinued Operations	—	108,891	4,860
Extraordinary Item	35,548	—	—
Net Income	$ 185,091	$ 121,265	$ 208,386
Per Common Share			
Income from continuing operations	$ 2.37	$ 3.68	$ 3.48
Loss from discontinued operations	—	1.74	.08
Extraordinary item	.57	—	—
Net income	$ 2.94	$ 1.94	$ 3.40

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

Consolidated Balance Sheet

(dollars in thousands)	December 31, 1982	1981*	1980*
Assets			
Current Assets			
Cash and temporary cash investments	$ 82,565	$ 66,176	$ 64,696
Receivables, less doubtful receivables	325,227	472,873	507,229
Inventories	348,573	362,447	388,381
Prepaids and other current assets	32,212	61,837	12,881
Total Current Assets	788,577	963,333	973,187
Properties and Equipment, less depreciation and depletion	2,114,436	1,765,651	1,634,988
Investments	193,306	182,521	182,769
Intangible Assets, less amortization	70,822	82,835	85,764
Deferred Charges	26,872	22,045	18,749
	$3,194,013	$3,016,385	$2,895,457
Liabilities and Stockholders' Equity			
Current Liabilities			
Notes payable	$ 10,527	$ 13,188	$ 13,464
Long-term debt payable within one year	8,600	8,964	7,464
Accounts payable	301,015	299,128	269,060
Taxes payable	68,524	62,805	52,678
Accrued liabilities	86,623	107,241	95,318
Total Current Liabilities	475,289	491,326	437,984
Long-Term Debt	894,170	822,317	809,847
Long-Term Capital Lease Obligations	30,927	32,412	35,128
Deferred Income Taxes	364,094	305,993	259,614
Other Liabilities and Deferred Credits	22,302	14,602	23,722
Stockholders' Equity			
Preferred Stock			
Authorized shares, 15,000,000			
Issued shares – none	—	—	—
Common Stock, without par value			
Authorized shares – 150,000,000			
Issued shares – 63,565,110; 62,878,401; and 62,434,575	380,501	366,556	352,944
Retained earnings	1,058,122	994,636	976,286
Cumulative translation adjustment	(31,369)	(10,847)	—
Common Treasury Stock – 1,000; 24,345; and 5,063 shares	(23)	(610)	(68)
Total Stockholders' Equity	1,407,231	1,349,735	1,329,162
	$3,194,013	$3,016,385	$2,895,457

See "Commitments and Contingencies"

**Certain amounts for 1981 and 1980 have been reclassified to conform to the presentation adopted in 1982.*

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

Consolidated Statement of Stockholders' Equity

(dollars in thousands)	Common Stock Shares	Common Stock Stated Value	Retained Earnings	Cumulative Translation Adjustment	Common Treasury Stock Shares	Common Treasury Stock Amount
January 1, 1980	59,398,745	$241,716	$ 859,810		(5,981)	$ (80)
Net income			208,386			
Cash dividends			(91,910)			
Acquisition of business	2,443,370	93,997				
Employee benefit plans' purchases	351,095	11,082				
Exercise of stock options	241,365	6,149				
Deferred incentive awards					918	12
December 31, 1980	62,434,575	$352,944	$ 976,286		(5,063)	$ (68)
Net income			121,265			
Cash dividends			(102,915)			
Purchase of Common Stock					(22,500)	(618)
Employee benefit plans' purchases	390,277	12,258			2,255	63
Exercise of stock options	53,549	1,354				
Deferred incentive awards					963	13
Translation adjustments						
Beginning of year				$ 3,791		
Current year				(14,638)		
December 31, 1981	62,878,401	$366,556	$ 994,636	$(10,847)	(24,345)	$ (610)
Net income			185,091			
Cash dividends			(110,298)			
Purchase of Common Stock					(3,041,900)	(72,139)
Employee benefit plans' purchases	673,875	13,832			29,344	697
Exercise of stock options	12,834	113				
Deferred incentive awards					901	23
Sale of Common Stock			(11,307)		3,035,000	72,006
Translation adjustments				(20,522)		
December 31, 1982	63,565,110	$380,501	$1,058,122	$(31,369)	(1,000)	$ (23)

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

Consolidated Statement of Changes in Financial Position

(dollars in thousands)	Year Ended December 31, 1982	1981*	1980*
Funds Provided			
Continuing operations			
Income	$ 149,543	$230,156	$213,246
Add — Income charges (credits) not requiring (providing) current resources:			
Depreciation, depletion and amortization	217,787	171,143	149,666
Deferred income taxes	71,431	89,504	50,840
Equity (earnings) losses, net of dividends received	14,416	(2,887)	(9,617)
Other, net	(6,650)	(222)	(4,518)
Continuing operations	446,527	487,694	399,617
Discontinued operations	—	(24,795)	24,309
Operations	446,527	462,899	423,926
Financing and other sources			
Increase in long-term debt and capital lease obligations	736,076	181,827	142,062
Sale of Common Stock	75,364	13,688	111,240
Proceeds from sale of investments and facilities	69,059	138,271	24,555
Other, net	(12,955)	4,713	(6,513)
Financing and Other Sources	867,544	338,499	271,344
Working capital			
Decrease (increase) in receivables	147,646	34,356	(43,310)
Decrease (increase) in inventories	13,874	25,934	(67,942)
Decrease (increase) in prepaids and other current assets	29,625	(48,956)	(3,559)
Increase (decrease) in notes payable	(2,661)	(276)	(14,728)
Increase (decrease) in long-term debt payable within one year	(364)	1,500	(31)
Increase (decrease) in accounts payable	1,887	30,068	29,826
Increase (decrease) in taxes payable	5,719	10,127	(23,755)
Increase (decrease) in accrued liabilities	(20,618)	11,923	18,515
Working Capital	175,108	64,676	(104,984)
Total Funds Provided	1,489,179	866,074	590,286
Funds Utilized			
Expenditures for properties and equipment	612,698	549,746	394,748
Investments and acquisitions of businesses	47,495	41,199	55,134
Dividends	110,298	102,915	91,910
Purchase of Common Stock	72,139	618	—
Reduction of long-term debt and capital lease obligations	630,160	170,116	48,003
Total Funds Utilized	1,472,790	864,594	589,795
Increase in cash and temporary cash investments	$ 16,389	$ 1,480	$ 491

**Certain amounts for 1981 and 1980 have been reclassified to conform to the presentation adopted in 1982.*

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

Financial Summary

(dollar amounts in tables are in thousands, except per share)

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

Significant Accounting Policies

Consolidation and Equity Accounting. The Consolidated Financial Statements include the accounts of Diamond Shamrock Corporation and all wholly-owned domestic and foreign subsidiaries ("the Company"). The Company uses the equity method to account for its investments in less than wholly-owned foreign subsidiaries, affiliates and corporate joint ventures ("associated companies"). 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 wholly-owned subsidiaries and associated companies are included principally on the basis of fiscal years ending November 30.

Translation of Foreign Currencies. In 1982 and 1981, the foreign currency accounts of the Company and associated companies, not having the United States dollar as their functional currency, are translated into United States dollars as follows: asset and liability accounts at the prevailing year-end exchange rates; income and expense items at the average monthly exchange rates in effect during the year. In 1980, the foreign currency accounts of the Company and associated companies were translated into United States dollars at the prevailing year-end exchange rates, except for inventories, properties and equipment and deferred income taxes which were translated at historic exchange rates; income and expense items were translated at the average monthly exchange rates in effect during the year except for costs related to assets or liabilities translated at historic exchange rates. Translation gains and losses incurred prior to January 1, 1981 were reflected in earnings; those incurred subsequent to January 1, 1981 are included as a component of stockholders' equity. (See "Accounting Change".)

Inventory Valuation. Inventories are valued at the lower of cost or market. Cost for substantially all inventories is determined by the last-in, first-out ("LIFO") method, except for coal and foreign inventories which are valued at average cost.

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

The Company uses the successful efforts method of accounting for the costs incurred in the acquisition, exploration, development and production of oil and gas reserves. Under this method, all geological and geophysical costs are expensed; all development costs, whether or not successful, are capitalized as costs of proved properties; exploratory drilling costs are initially capitalized, but if the effort is determined to be unsuccessful, the costs are then charged against earnings; depletion is computed based on an aggregation of properties with common geological structural features or stratigraphic 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. Processing, transportation, marketing and general facilities are depreciated generally on the straight-line basis over their estimated useful lives. Coal, oil, gas and other raw material resources are depleted on the unit-of-production basis generally over estimated aggregate recoverable reserves. Intangible assets are amortized on a straight-line basis over their legal or estimated useful lives, not to exceed 40 years. Goodwill amounts which resulted from acquisitions prior to 1970 ($17,436,000 at December 31, 1982) 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. Pension cost is comprised of current service cost and amortization of past service cost over periods ranging from 10 to 40 years. Accrued pension cost is funded on a current basis.

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

Acquisition of Sigmor Corporation

Effective January 14, 1983, Sigmor Corporation, one of the United States' largest independent gasoline retailers, was merged into a wholly-owned subsidiary of the Company. Under the terms of the merger agreement, holders of 4,086,186 shares of Sigmor common stock elected to receive $17.50 per share (a total of $71,508,000) while other Sigmor shareholders elected to receive 0.44 of a share of the Company's $2.07 Cumulative Convertible Preferred Stock for each share of Sigmor common stock owned (a total of 4,184,749 Preferred shares). The Company had owned 21 percent of Sigmor's common stock since 1978. The acquisition was accounted for as a purchase and, accordingly, the Company's 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 agreements, 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. The sales proceeds ($43,201,000) were used to reduce the then outstanding borrowings under Sigmor's bank credit agreement. (See "Long-Term Debt and Credit Arrangements".)

Pro forma combined data (unaudited) for 1982 and at December 31, 1982 (as though the acquisition had taken place on January 1, 1982) would have been as follows:

Sales and operating revenues	$4,324,821
Income from continuing operations	119,918
Net income	155,466
Per Common share	
Income from continuing operations	$ 1.79
Net income	2.32

	December 31, 1982
Working capital	$ 406,078
Total assets	3,665,494
Long-term debt and capital lease obligations	1,222,185
Stockholders' equity	1,487,212

Acquisition of Amherst Coal Company

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

Acquisition of Fallek Chemical Corporation

Effective May 20, 1980, the Company acquired, in exchange for approximately 2,443,000 shares of its Common Stock, all of the outstanding common stock of Fallek, and subsidiary companies, a domestic-based international chemical trading and manufacturing firm. The acquisition was accounted for as a purchase and, accordingly, the accompanying Consolidated Financial Statements include the results of Fallek's operations from the date of acquisition. The majority of the Fallek assets were cash and cash equivalents.

Discontinued Operations

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

The loss from discontinued operations was as follows:

	1981	1980
Loss from operations, before tax benefit	$ 30,445	$ 7,285
Income tax benefit	(13,060)	(2,425)
Loss from operations	$ 17,385	$ 4,860
Estimated loss from disposal, before tax benefit	$134,775	
Income tax benefit	(43,269)	
Estimated loss from disposal	$ 91,506	
Loss from discontinued operations	$108,891	$ 4,860

Accounting Change

In December 1981, retroactive to January 1, 1981, the Company adopted the Financial Accounting Standards Board's Standard No. 52, which replaces Standard No. 8. In accordance with Standard No. 52, the foreign currency accounts of the Company and associated companies, not having the United States dollar as their functional currency, are translated into United States dollars as follows: asset and liability accounts at the prevailing year-end exchange rates; income and expense items at the average monthly exchange rates in effect during the year. Translation adjustments under Standard No. 52 are no longer included as an element of earnings but rather are accumulated as a separate component of stockholders' equity. The change increased net income for 1981 by $10,102,000 ($.16 per share). As permitted by Standard No. 52, the Company has chosen not to restate its Consolidated Financial Statements for years prior to 1981.

Extraordinary Item — Early Extinguishment of Debt

On March 30, 1982, the Company entered into an Exchange Agreement and Plan of Reorganization with an underwriter to issue 3,035,000 shares of Common Treasury Stock in exchange for $97,081,000 principal amount of various sinking fund debentures owned by the underwriter, which were subsequently retired. The exchange resulted in an extraordinary gain of $35,548,000, after deducting related expenses. The transaction was nontaxable for Federal income tax purposes.

Earnings

Income from continuing operations was $149,543,000 in 1982, $230,156,000 in 1981 and $213,246,000 in 1980. Earnings per Common share from continuing operations were $2.37 in 1982, $3.68 in 1981 and $3.48 in 1980.

Net income was $185,091,000 in 1982, $121,265,000 in 1981 and $208,386,000 in 1980. Earnings per Common share were $2.94 in 1982, $1.94 in 1981 and $3.40 in 1980.

Earnings per Common share were based on income from continuing operations or net income divided by the weighted average number of shares of Common Stock outstanding in each year (62,900,574 shares in 1982, 62,612,062 shares in 1981 and 61,215,673 shares in 1980).

Dividends

Dividends have been paid on the Company's Common Stock for fifty consecutive years. The current indicated annual dividend rate is $1.76 per Common share. The Company paid dividends of $1.76 per Common share in 1982, $1.70 per Common share in 1981 and $1.62 per Common share in 1980. Total dividends paid were $110,298,000 in 1982, $102,915,000 in 1981 and $91,910,000 in 1980, including dividends paid by Amherst of $1,673,000 in 1981 and $2,230,000 in 1980.

Business and Geographic Segments

The Company's revenues are principally derived from six business segments: Oil and Gas, Coal, Industrial Chemicals, Specialty Chemicals, Agricultural Chemicals and Electrolytic Systems. Oil and Gas is engaged primarily in the exploration for and production, refining or processing of crude oil and natural gas and the sale of refined petroleum products and natural gas. Coal is engaged in the mining and sale of coal for steam generation and metallurgical applications. Industrial Chemicals is engaged in the manufacture and sale of a variety of commodity chemicals including chlorine, caustic soda, chlorinated solvents, chlorinated paraffin, sodium silicates, and chromates. Specialty Chemicals is engaged in the manufacture and sale of specialty chemicals, ion exchange resins, and the Company's proprietary protective metal coatings. Agricultural Chemicals is engaged in the manufacture and sale of fungicides and herbicides for the farm and turf markets and insecticides, antibiotics and larvicides for the animal health industry. Electrolytic Systems is engaged in the manufacture and marketing of the Company's patented electrochemical and electrometallurgical products and technology.

Geographic Segments

	United States	Foreign	Consolidated Financial Statements
1982			
Sales and operating revenues	$2,898,022	$279,357	$3,177,379
Operating profit	222,315	20,812	243,127
Assets	2,909,018	284,995	3,194,013
1981			
Sales and operating revenues	$3,073,969	$302,246	$3,376,215
Operating profit	335,749	33,315	369,064
Assets	2,639,032	377,353	3,016,385
1980			
Sales and operating revenues	$2,827,921	$317,473	$3,145,394
Operating profit	295,291	38,271	333,562
Assets	2,542,545	352,912	2,895,457

Business Segments

	Oil and Gas	Coal	Industrial Chemicals	Specialty Chemicals	Agricultural Chemicals	Electrolytic Systems	Corporate and Other	Consolidated Financial Statements
1982								
Sales and operating revenues	$1,785,063	$335,058	$472,565	$298,873	$224,147	$ 39,525	$ 22,148	$3,177,379
Operating profit	257,490	51,860	27,644	11,062	43,800	5,501	(154,230)	243,127
Equity earnings	(7,705)	(431)	(2,543)	419	623	(1,479)	(568)	(11,684)
Assets	1,593,459	252,311	579,098	194,874	250,289	36,084	287,898	3,194,013
Expenditures for properties and equipment	463,652	30,405	61,953	12,039	26,961	1,993	15,695	612,698
Depreciation, depletion and amortization	133,936	14,617	33,750	9,585	12,776	3,746	9,377	217,787
1981								
Sales and operating revenues	$1,855,634	$290,018	$575,311	$325,038	$240,998	$ 63,801	$ 25,415	$3,376,215
Operating profit	301,423	34,656	106,768	17,300	25,479	23,871	(140,433)	369,064
Equity earnings	6,939	276	(4,644)	978	2,699	279	665	7,192
Assets	1,313,626	221,292	608,200	221,109	245,823	113,925	292,410	3,016,385
Expenditures for properties and equipment	358,214	25,948	119,988	8,461	8,764	3,238	25,133	549,746
Depreciation, depletion and amortization	95,320	8,743	29,710	10,235	12,121	7,597	7,417	171,143
1980								
Sales and operating revenues	$1,674,794	$288,981	$542,105	$328,666	$222,123	$ 58,143	$ 30,582	$3,145,394
Operating profit	275,475	37,216	85,287	15,608	10,184	21,347	(111,555)	333,562
Equity earnings	5,295	100	1,758	926	4,193	150	(225)	12,197
Assets	1,037,909	180,714	506,383	237,771	266,423	114,881	551,376	2,895,457
Expenditures for properties and equipment	225,305	15,580	76,345	13,595	22,716	10,930	30,277	394,748
Depreciation, depletion and amortization	74,905	15,641	25,688	9,103	11,747	6,040	6,542	149,666

Sales and operating revenues by segment are sales to and operating revenues from unaffiliated customers. Intersegment sales and operating revenues were not significant.

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

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

Sales to Sigmor Corporation, an associated company, amounted to $419,140,000 in 1982, $501,649,000 in 1981 and $432,062,000 in 1980, 13%, 15% and 14% of consolidated sales and operating revenues, respectively. (See "Acquisition of Sigmor Corporation".)

Net foreign assets, including the Company's investment in associated companies accounted for by the equity method were $221,674,000 at December 31, 1982, $271,770,000 at December 31, 1981 and $255,691,000 at December 31, 1980.

Earnings from foreign operations, after applicable local taxes, which include earnings of wholly-owned subsidiaries and associated companies, included in income from continuing operations amounted to a loss of $4,496,000 in 1982 and earnings of $2,488,000 in 1981 and $19,458,000 in 1980. Foreign currency transaction and/or translation gains and losses, resulting from fluctuations in exchange rates, reflected in current earnings amounted to a loss of $2,030,000 in 1982, and gains of $367,000 in 1981 and $433,000 in 1980.

Taxes

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

	1982	1981	1980
United States	$214,513	$355,619	$309,993
Foreign	16,930	20,637	35,766
	$231,443	$376,256	$345,759

The provision for income taxes was comprised of the following:

	1982	1981	1980
Current			
Federal	$(9,561)	$ 35,971	$ 65,268
State and local	3,983	4,090	3,170
Foreign	16,047	16,535	13,235
	$10,469	$ 56,596	$ 81,673
Deferred			
Federal	$67,964	$ 87,002	$ 47,479
State and local	3,417	4,842	4,552
Foreign	50	(2,340)	(1,191)
	$71,431	$ 89,504	$ 50,840
	$81,900	$146,100	$132,513
Per Common share	$ 1.30	$ 2.33	$ 2.16

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

	1982		1981		1980	
	Amount	% of Pretax Income	Amount	% of Pretax Income	Amount	% of Pretax Income
Tax provision at statutory Federal rate	$106,463	46.0	$173,078	46.0	$159,049	46.0
Reductions resulting from						
Investment tax credits	20,601	8.9	28,418	7.6	12,762	3.7
Excess statutory percentage depletion	9,907	4.2	6,948	1.8	8,810	2.5
Capital gains	4,367	1.9	2,349	.6	1,118	.3
Other, net	(10,312)	(4.5)	(10,737)	(3.0)	3,846	1.0
	$ 81,900	35.5	$146,100	39.0	$132,513	38.5

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

	1982	1981	1980
Intangible drilling costs	$28,630	$52,263	$28,634
Accelerated depreciation	29,581	20,337	13,009
Capitalized interest	15,109	10,879	5,523
Development wells and related items	7,460	(1,036)	695
Coal minimum royalties	6,405	3,197	1,744
Other, net	(15,754)	3,864	1,235
	$71,431	$89,504	$50,840

At December 31, 1982, there were accumulated undistributed earnings after applicable local taxes of wholly-owned foreign subsidiaries, associated companies and the Company's domestic international sales corporations of $76,380,000 for which no provision was necessary for foreign withholding or other income taxes because that amount had been reinvested in properties and equipment and working capital.

Taxes other than income taxes were comprised of the following:

	1982	1981	1980
Windfall profit	$18,159	$ 32,583	$12,883
Gross production	26,904	22,941	20,957
Real and personal property	18,836	20,621	17,583
Payroll	19,165	18,640	17,698
Other	13,641	10,540	9,914
	$96,705	$105,325	$79,035

Pensions

The charge against earnings for pension cost was $27,126,000 in 1982, $23,694,000 in 1981 and $24,632,000 in 1980 of which approximately 90% related to United States employees.

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

In 1981, for its United States Retirement Income Pension Plan, the Company changed its actuarial cost method from "Entry Age Normal" to "Projected Unit Credit". The effect of the change was to reduce 1981 pension cost by $3,444,000 and increase net income by approximately $1,860,000 ($.03 per share).

In 1980, for all United States pension plans, the Company changed the investment return assumption from 6% to 8% and pay increase assumption from 4% to 6%. The effect of the changes was to reduce 1980 pension cost by $2,316,000 and increase net income by approximately $1,251,000 ($.02 per share).

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

	December 31, 1982
Actuarial present value of accumulated plan benefits, at an 8% assumed rate of return	
Vested	$129,752,000
Nonvested	6,595,000
	$136,347,000
Net assets available for benefits	$129,283,000

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.

Performance Incentive Plan

The Company's Performance Incentive Plan, administered by a committee of the Board of Directors, provides for incentive payments to officers and key employees based upon an annually approved formula related to return on stockholders' equity, with no incentive fund being available in any year in which such return is less than 10%.

In 1982, of the $3,542,000 available for incentive payments, $3,211,000 in awards were granted; in 1981, of the $7,183,000 available for incentive payments, $6,135,000 in awards were granted; in 1980, of the $6,326,000 available for incentive payments, $5,858,000 in awards were granted.

Employee Savings Plan

Under the Company's Employee Savings Plan, eligible participating employees may elect to contribute up to 6% of their salaries to a trust for investment in either a corporate stock fund (Common Stock of the Company) or a government securities fund. The Company contributes an amount equal to 50% of the participant's monthly contribution, which is invested in the corporate stock fund. The Company contributions are fully vested to the participant after three years of continued employment. The Company's contributions to the Plan amounted to $3,565,000 in 1982, $3,121,000 in 1981 and $3,025,000 in 1980.

The Plan Trustee may purchase shares of the Company's Common Stock for the corporate stock fund from the Company at a price equal to the closing market price on the New York Stock Exchange on the date of purchase. At December 31, 1982, 972,512 Common shares were reserved for issuance under the Plan.

Receivables

In December 1982, the Company entered into an agreement with a financial institution whereby the Company has the right to sell undivided fractional interests in designated receivables on an ongoing basis, without recourse, as evidenced by receivable certificates (not to exceed $100,000,000 at any time). During the period December 8 through December 31, 1982, proceeds totalling $195,508,000 were received ($100,000,000 from the original sale and $95,508,000 from subsequent reinvestment of collected receivables by the financial institution). Losses totalling $1,741,000 were recognized on these sales.

	December 31, 1982	1981	1980
Notes and accounts receivable	$328,333	$476,899	$511,881
Less — Allowance for doubtful receivables	3,106	4,026	4,652
	$325,227	$472,873	$507,229

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

	1982	1981	1980
January 1,	$4,026	$4,652	$5,774
Additions charged against earnings	2,497	1,562	2,338
Write-offs, net of recoveries	(3,417)	(2,188)	(3,460)
December 31,	$3,106	$4,026	$4,652

Inventories

	December 31, 1982	1981	1980
Finished and in-process materials	$215,319	$185,079	$235,626
Supplies	70,725	65,803	58,006
Raw materials	62,529	111,565	94,749
	$348,573	$362,447	$388,381

The current cost of inventories valued under the LIFO cost method (approximately 64%, 60% and 57% of total inventories at December 31, 1982, 1981 and 1980, respectively) exceeded their LIFO carrying values by $118,510,000, $111,675,000 and $97,323,000 at December 31, 1982, 1981 and 1980, respectively.

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

Properties and Equipment

	December 31, 1982	1981	1980
Coal, oil, gas and other raw material resources	$1,466,323	$1,062,569	$ 788,094
Processing facilities	1,255,656	1,104,720	1,324,750
Transportation, marketing and general facilities	336,847	315,994	258,491
Construction in progress	122,747	237,376	178,167
	$3,181,573	$2,720,659	$2,549,502
Less — Accumulated depreciation and depletion	1,067,137	955,008	914,514
	$2,114,436	$1,765,651	$1,634,988

Substantial expenditures were made for lease acquisition and renewal and production equipment for continued oil and gas development, including $161,700,000 to acquire oil and gas leasehold interests in five tracts in the Beaufort Sea, off the north slope of Alaska. Significant projects under construction or completed in 1982 were a combined cycle power plant at the Company's chemical complex near Houston, Texas; a sodium bichromate expansion at Castle Hayne, North Carolina; a Dacthal® herbicide plant at Greens Bayou, Texas; and a coal preparation plant in Knott County, Kentucky.

Authorized expenditures under approved appropriations for additions to properties and equipment over the next several years were $71,448,000 at December 31, 1982, after deducting expenditures through that date.

The provision for depreciation and depletion was $210,531,000 in 1982, $163,785,000 in 1981 and $142,818,000 in 1980. The charge against earnings for maintenance and repairs was $110,729,000 in 1982, $119,096,000 in 1981 and $118,517,000 in 1980.

Investments

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

	December 31, 1982	1981	1980
Investments and advances to associated companies, at equity			
Unincorporated			
Montco Coal Partnership (⅔)	$ 14,913	$ 10,000	$ 4,582
Diamond Shamrock Chuitna Coal Joint Venture (½)	14,627	5,361	—
Tenneco Entex Falcon Joint Venture (¼)	10,333	8,282	6,482
Incorporated			
Sigmor Corporation (21%)	40,645	48,983	42,785
Carbocloro S.A. Industrias Quimicas (50%)	37,276	37,244	37,071
Eltech Systems Corporation (49%)	10,408	—	—
Showa Diamond Chemical K.K. (50%)	6,171	6,455	5,315
Hawkeye Coal Company (50%)	5,179	5,567	—
Diamond Shamrock Alberta Gas Ltd. (50%)	—	—	16,116
Other	30,255	35,712	19,182
	$169,807	$157,604	$131,533
Investments, at cost, and long-term receivables	23,499	24,917	51,236
	$193,306	$182,521	$182,769

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

Investments accounted for by the equity method, other than Sigmor, Eltech and coal joint ventures, are predominantly foreign and relate principally to the Company's industrial chemicals, specialty chemicals and agricultural chemicals businesses.

Intangible Assets

	December 31, 1982	1981	1980
Intangibles resulting from acquisitions — excess of cost over fair value of net tangible assets acquired	$ 31,481	$ 38,643	$ 39,080
Patents, trademarks, formulae, processes, etc., purchased	76,615	85,063	80,331
	$108,096	$123,706	$119,411
Less — Amortization	37,274	40,871	33,647
	$ 70,822	$ 82,835	$ 85,764

The provision for amortization was $7,256,000 in 1982, $7,358,000 in 1981 and $6,848,000 in 1980.

Long-Term Debt and Credit Arrangements

	December 31, 1982	1981	1980
Sinking Fund Debentures			
5% due 1986-1987	$ 5,231	$ 5,231	$ 5,231
7¾% due 1983-1994	28,904	31,489	33,184
8¼% due 1985-1996	40,753	47,053	50,820
9% due 1985-1999	70,195	75,000	75,000
9⅛% due 1985-2000	100,000	100,000	100,000
7.70% due 1991-2001	88,687	125,000	125,000
8½% due 1997-2008	99,663	148,964	148,937
Notes			
4.65% due 1983-1989	10,500	12,000	13,500
4⅞% due 1983-1987	1,875	2,250	2,625
Pollution control/ Industrial revenue financings	53,736	45,314	52,531
Bank term loan/credit agreement	200,000	200,000	—
Commercial paper supported by unused portions of revolving credit agreements	177,150	9,961	129,856
Revolving credit agreements	—	—	25,000
Other loans	26,076	29,019	55,627
	$902,770	$831,281	$817,311
Less — Due within one year	8,600	8,964	7,464
	$894,170	$822,317	$809,847

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 relate to the 9⅛% Sinking Fund Debentures due November 15, 2000; under such provisions the amount of consolidated retained earnings free of such restrictions was approximately $919,849,000 at December 31, 1982. Included in the Company's consolidated retained earnings at December 31, 1982, were undistributed equity earnings of associated companies of $34,267,000.

The aggregate maturities of long-term debt outstanding at December 31, 1982 for the next five years were as follows: 1983 - $8,600,000; 1984 - $7,939,000; 1985 - $19,282,000; 1986 - $24,998,000; and 1987 - $20,416,000.

In April 1982, the Company entered into a Revolving Credit and Term Loan Agreement, replacing a domestic Bank Credit Agreement which was to expire July 2, 1984 and a Eurodollar Credit Agreement that was to expire June 30, 1982. The April 1982 Agreement provides for the borrowing of up to $750,000,000 on a revolving credit basis and matures April 14, 1987. Borrowings outstanding at the maturity date are convertible, at the option of the Company, into a three-year term loan. Interest on borrowings is based upon, at the Company's option, the prime rate, Eurodollar rate or certificate of deposit rate. The 1982 Revolving Credit and Term Loan Agreement also provides for a commitment fee of ⅜% for the first $250,000,000 of unused commitment and ¼% for the remainder. At December 31, 1982, there were no borrowings outstanding under this Agreement.

In November 1982, in anticipation of its acquisition of Sigmor, the Company entered into a second Revolving Credit and Term Loan Agreement with a group of financial institutions that were parties to a similar credit agreement with Sigmor. The November 1982 Agreement which became effective at the time of the Sigmor acquisition, provides for the borrowing of up to $200,000,000 on a revolving credit basis and matures December 31, 1987. Borrowings outstanding at the maturity date are convertible, at the option of the Company, into a three-year term loan. Interest on borrowings is based upon, at the

Company's option, the prime rate, Eurodollar rate or certificate of deposit rate. The Agreement also provides for a commitment fee of ⅜% for the first $70,000,000 of unused commitment and ¼% for the remainder. On January 14, 1983, concurrent with its acquisition of Sigmor, the Company borrowed $151,157,000 under the Agreement to refund the then outstanding balance of Sigmor's credit agreement with those same financial institutions.

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

Notes payable at December 31, 1982, 1981 and 1980 consisted of debt obligations of wholly-owned foreign subsidiaries at an average interest rate of 18.5%, 14.1% and 17.5%, respectively. The maximum amount of notes payable outstanding, principally short-term bank debt in 1982 and the Company's commercial paper in 1981 and 1980, was $77,040,000 during 1982, $143,943,000 during 1981 and $103,824,000 during 1980. The average amount of notes payable outstanding was $13,634,000 during 1982, $56,112,000 during 1981 and $47,633,000 during 1980 at an average interest rate of 12.2%, 16.5% and 14.3%, respectively.

Total interest costs incurred were as follows:

	1982	1981	1980
Interest expense	$ 72,873	$75,441	$64,260
Capitalized interest	32,846	23,650	12,007
	$105,719	$99,091	$76,267

Preferred Stock

At the Annual Meeting of Stockholders held on April 15, 1982, stockholders approved an amendment to the Company's Restated Certificate of Incorporation, increasing the Company's authorized Preferred Stock to 15,000,000 shares. At December 31, 1982, 1981 and 1980, there were no shares of Preferred Stock outstanding. The rights and preferences of such Preferred Stock are to be established by the Company's Board of Directors at the time of issuance.

In conjunction with its acquisition of Sigmor, the Company's Board of Directors authorized the creation of a series of Preferred Stock to consist of a maximum of 5,982,680 shares, without par value, being designated the $2.07 Cumulative Convertible Preferred Stock. Each of the 4,184,749 shares issued to complete the Sigmor acquisition is entitled to one vote, is convertible at any time into Common Stock on a one-for-one basis, shall receive a cash dividend of $.34 per share during the first year such shares are outstanding and $2.07 per share thereafter and has a liquidation value of $31.82 per share. (See "Acquisition of Sigmor Corporation".)

Common Stock

At the Annual Meeting of Stockholders held on April 15, 1982, stockholders approved an amendment to the Company's Restated Certificate of Incorporation, increasing the Company's authorized Common Stock to 150,000,000 shares, without par value. At December 31, 1982, 1981 and 1980, 63,565,110, 62,878,401 and 62,434,575 shares, respectively, were issued.

Common Treasury Stock

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

Stock Options

The Company's 1980 Long-Term Incentive Plan, administered by a 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, stock options are granted at prices equal to the market price of the Company's Common Stock at the dates of grant, and become exercisable in varying installments and expire 10 years from date of grant. Options and SARs may no longer be granted under the superseded 1971 Stock Option Plan; however, any options or SARs outstanding thereunder remain in effect.

The holder of an option which includes any 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 stock 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 exceeding 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. The credit to earnings for SARs was $308,000 in 1982, $1,049,000 in 1981, and the charge against earnings for SARs was $1,159,000 in 1980. There was no charge against earnings for Performance Units, as the Units earned no value in the 1982 award period.

At December 31, 1982, 983,360 Common shares were reserved for future grants under the 1980 Plan, and options representing 1,036,715 Common shares were exercisable. Detail of options outstanding follows:

	Shares		
	1982	1981	1980
January 1,	1,375,562	1,160,386	1,102,597
Granted	419,750	303,430	340,030
Exercised	(12,834)	(53,549)	(241,365)
Cancelled	(101,856)	(34,705)	(40,876)
December 31,	1,680,622	1,375,562	1,160,386

Exercise prices of options outstanding at December 31, 1982 ranged from $16.88 to $38.69 per share.

Lease Commitments

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

The Company's properties and equipment under capital lease were as follows:

	December 31,		
	1982	1981	1980
Processing facilities	$26,326	$26,788	$30,201
Transportation, marketing and general facilities	26,529	26,010	27,189
	$52,855	$52,798	$57,390
Less — Accumulated depreciation	27,775	26,061	29,344
	$25,080	$26,737	$28,046

Included in the provision for depreciation and depletion of properties and equipment was depreciation applicable to assets under capital lease of $2,481,000 in 1982, $2,749,000 in 1981, and $2,737,000 in 1980.

Minimum annual rentals at December 31, 1982 were as follows:

	Capital Leases	Operating Leases
1983	$ 5,761	$ 78,362
1984	4,897	73,773
1985	5,018	68,965
1986	4,888	56,901
1987	4,902	40,966
1988 and thereafter	28,659	288,948
	$54,125	$607,915
Less —		
Executory costs	104	
Interest equivalents	19,777	
Present value	$34,244	
Less — Currrent portion	3,317	
Long-term capital lease obligations	$30,927	

Rental expense for operating leases was as follows:

	1982	1981	1980
Total rentals	$82,437	$62,680	$50,232
Less — Sublease rental income	3,957	1,847	1,183
Rental expense	$78,480	$60,833	$49,049

Commitments and Contingencies

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

The Company also owns a 50% interest in Carbocloro S.A. Industrias Quimicas, an associated company in Brazil which is engaged in the production and sale of chlorine and caustic soda. Carbocloro has completed an expansion to double its capacity for the production of those products. Carbocloro has arranged financing for the expansion in the amount of $100,000,000 with a group of international banks. Upon completion of the project, which includes specific production and financial criteria which at December 31, 1982, had not been achieved, the loan will be secured by a mortgage of the assets acquired for the expansion. In connection with the expansion, the Company and its venture partner have committed to the lenders that the expansion will be completed and that the specified production and financial criteria will be achieved as contemplated in the loan agreement.

At December 31, 1982, 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 $12,800,000 annually. Such minimum royalty payments may be offset against future production royalties.

The Company, together with several other companies, is a defendant in a number of lawsuits alleging liability as a result of the manufacture and sale to the United States Government of a defoliant known as "Agent Orange" 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 late 1979, that court ruled that certain issues, particularly those of applicable statutes of limitations, 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 hear an appeal. As a result, the applicable law governing these issues will be the state law appropriate in each particular case. The District Court has ruled that the defendants are entitled to a separate trial on their defense that as government contractors they are entitled to share in the immunity of the United States Government from suit. This trial is scheduled to commence in June of 1983. The District Court is currently reconsidering its tentative decision to grant class certification and a final decision is expected shortly. In view of the numerous unresolved issues, it is not possible to make any 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.

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

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

Loan guarantees associated with indebtedness of associated companies and other entities amounted to $2,387,000 at December 31, 1982.

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 sale commitments.

Report of Independent Accountants

To the Stockholders and Board of Directors
Diamond Shamrock Corporation

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of income, stockholders' equity and changes in financial position present fairly the financial position of Diamond Shamrock Corporation and its subsidiaries at December 31, 1982, 1981 and 1980, 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 during the period except for the change, with which we concur, in the method of accounting for translation of foreign currencies as described in the Financial Summary. 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 17, 1983

Supplementary Information *(unaudited)*

(dollar amounts in tables are in thousands, except per share)

Quarterly Data

1982	March 31,	June 30,	September 30,	December 31,	For the Year
Sales and operating revenues	$791,135	$857,709	$773,196	$755,339	$3,177,379
Gross profit	111,595	141,259	130,910	148,966	532,730
Income from continuing operations	29,149	31,926	42,272	46,196	149,543
Extraordinary item	35,548	—	—	—	35,548
Net income	64,697	31,926	42,272	46,196	185,091
Per Common share					
Continuing operations	$ .47	$ .51	$ .66	$ .73	$ 2.37
Extraordinary item	.57	—	—	—	.57
Net income	1.04	.51	.66	.73	2.94
Dividends	.44	.44	.44	.44	1.76
Market price					
High	25¾	22⅝	20⅞	24¾	25¾
Low	19⅛	17¼	16½	18⅝	16½

1981	March 31,	June 30,	September 30,	December 31,	For the Year
Sales and operating revenues	$872,650	$810,448	$820,569	$872,548	$3,376,215
Gross profit	174,593	169,487	167,897	193,134	705,111
Income from continuing operations	60,774	55,248	54,401	59,733	230,156
(Loss) from discontinued operations	(9,656)	(99,235)	—	—	(108,891)
Net income (loss)	51,118	(43,987)	54,401	59,733	121,265
Per Common share					
Continuing operations	$ .97	$ .88	$ .87	$ .96	$ 3.68
Discontinued operations	(.15)	(1.59)	—	—	(1.74)
Net income	.82	(.71)	.87	.96	1.94
Dividends	.42	.42	.42	.44	1.70
Market price					
High	36¾	39⅝	38⅞	29¾	39⅝
Low	30	27¾	23¾	25¼	23¾

1980	March 31,	June 30,	September 30,	December 31,	For the Year
Sales and operating revenues	$749,059	$773,676	$773,955	$848,704	$3,145,394
Gross profit	148,519	155,583	157,904	164,195	626,201
Income from continuing operations	54,092	54,951	49,626	54,577	213,246
Income (loss) from discontinued operations	4,735	3,072	(5,325)	(7,342)	(4,860)
Net income	58,827	58,023	44,301	47,235	208,386
Per Common share					
Continuing operations	$ .91	$ .90	$ .80	$ .87	$ 3.48
Discontinued operations	.08	.05	(.09)	(.12)	(.08)
Net income	.99	.95	.71	.75	3.40
Dividends	.40	.40	.40	.42	1.62
Market price					
High	36¾	32¼	34¼	38⅞	38⅞
Low	23⅛	25⅞	27⅞	31¼	23⅛

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

Oil and Gas Producing Activities

In November 1982, the Financial Accounting Standards Board (FASB) issued Standard No. 69, "Disclosures about Oil and Gas Producing Activities". This Standard continues the previous disclosure requirements of the FASB and the Securities and Exchange Commission (SEC) concerning proved oil and gas reserve quantities, capitalized costs, costs incurred and the method of accounting used, and requires new disclosures about the results of operations from oil and gas producing activities and a standardized measure of discounted future net cash flows relating to proved oil and gas reserves. The SEC no longer considers Reserve Recognition Accounting ("RRA") as a potential method of accounting for oil and gas activities, but continues to require RRA for any years in which disclosures are not made in accordance with Standard No. 69. The Company has chosen to adopt Standard No. 69 and to restate prior years.

Results of Operations. Results of operations from oil and gas producing activities are as follows:

	1982		
	United States	Foreign	Worldwide
Sales	$235,184	$19,347	$254,531
Transfers	128,680	—	128,680
	363,864	19,347	383,211
Production costs			
Windfall profit tax	18,159	—	18,159
Gross production tax	19,429	3,046	22,475
Other	31,658	750	32,408
Exploration costs	76,783	4,194	80,977
Depreciation and depletion	120,975	714	121,689
Gain on sale of leases			
Opelika field	(18,000)	—	(18,000)
Other	(12,101)	—	(12,101)
	236,903	8,704	245,607
Income before tax provision	126,961	10,643	137,604
Provision for income taxes	46,076	7,266	53,342
Results of operations	$ 80,885	$ 3,377	$ 84,262

	1981		
	United States	Foreign	Worldwide
Sales	$239,558	$18,256	$257,814
Transfers	114,544	—	114,544
	354,102	18,256	372,358
Production costs			
Windfall profit tax	32,583	—	32,583
Gross production tax	18,880	2,865	21,745
Other	26,024	586	26,610
Exploration costs	58,765	5,273	64,038
Depreciation and depletion	84,198	636	84,834
Gain on sale of leases	(3,116)	—	(3,116)
	217,334	9,360	226,694
Income before tax provision	136,768	8,896	145,664
Provision for income taxes	58,955	6,083	65,038
Results of operations	$ 77,813	$ 2,813	$ 80,626

	1980		
	United States	Foreign	Worldwide
Sales	$173,243	$17,001	$190,244
Transfers	92,760	—	92,760
	266,003	17,001	283,004
Production costs			
Windfall profit tax	12,883	—	12,883
Gross production tax	15,100	2,583	17,683
Other	20,026	811	20,837
Exploration costs	41,178	1,139	42,317
Depreciation and depletion	62,727	1,081	63,808
Gain on sale of leases	(53)	—	(53)
	151,861	5,614	157,475
Income before tax provision	114,142	11,387	125,529
Provision for income taxes	48,454	5,577	54,031
Results of operations	$ 65,688	$ 5,810	$ 71,498

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

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

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

December 31, 1980	United States	Foreign	Worldwide
Proved properties	$ 607,605	$ 8,893	$ 616,498
Unproved properties	182,128	—	182,128
	$ 789,733	$ 8,893	$ 798,626
Less — Accumulated depreciation and depletion	269,108	3,309	272,417
	$ 520,625	$ 5,584	$ 526,209

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

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

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

1980	United States	Foreign	Worldwide
Property acquisition costs	$ 67,171	$ —	$ 67,171
Exploration costs	62,041	911	62,952
Development costs	86,706	359	87,065
	$215,918	$ 1,270	$217,188

Oil and Gas Reserves. The Company's net interests in estimated quantities of proved developed and undeveloped reserves of crude oil, including condensate (in thousands of barrels), and natural gas (in millions of cubic feet) at December 31, 1982, 1981 and 1980, and changes in such estimated quantities in 1982, 1981 and 1980 were as follows:

	United States		Foreign		Worldwide	
	Oil	Gas	Oil	Gas	Oil	Gas
Proved developed and undeveloped reserves						
January 1, 1980	37,209	846,894	60	18,994	37,269	865,888
Revisions of previous estimates	(889)	45,118	34	10,382	(855)	55,500
Extensions, discoveries and other additions	3,055	76,600	13	6,446	3,068	83,046
Production	(3,499)	(106,918)	(14)	(3,896)	(3,513)	(110,814)
Sale of reserves in place	(8)	(127)	—	—	(8)	(127)
December 31, 1980	35,868	861,567	93	31,926	35,961	893,493
Revisions of previous estimates	(746)	(17,609)	4	1,293	(742)	(16,316)
Extensions, discoveries and other additions	4,599	151,885	30	14,921	4,629	166,806
Production	(3,806)	(108,975)	(12)	(3,684)	(3,818)	(112,659)
December 31, 1981	35,915	886,868	115	44,456	36,030	931,324
Revisions of previous estimates	(6,287)	(8,990)	(18)	(8,502)	(6,305)	(17,492)
Extensions, discoveries and other additions	7,354	70,181	7	1,020	7,361	71,201
Production	(3,793)	(98,791)	(11)	(3,489)	(3,804)	(102,280)
Sale of reserves in place	(17)	(3,252)	—	—	(17)	(3,252)
December 31, 1982	33,172	846,016	93	33,485	33,265	879,501
Proved developed reserves						
January 1, 1980	22,300	749,157	60	18,994	22,360	768,151
December 31, 1980	25,948	785,175	80	25,480	26,028	810,655
December 31, 1981	30,963	820,605	86	30,025	31,049	850,630
December 31, 1982	26,403	807,160	82	30,882	26,485	838,042

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

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

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

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

	December 31, 1980		
	United States	Foreign	Worldwide
Future revenues	$2,468,874	$102,293	$2,571,167
Future production and development costs	(654,084)	(12,815)	(666,899)
Future income taxes	(766,954)	(41,922)	(808,876)
Future net cash flow	1,047,836	47,556	1,095,392
Annual discount at 10% rate	(398,900)	(17,519)	(416,419)
Standardized measure of discounted future net cash flow	$ 648,936	$ 30,037	$ 678,973

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

	1982	1981	1980
January 1,	$ 805,509	$ 678,973	$ 549,608
Sales and transfers of oil and gas produced, net of production costs	(310,284)	(291,599)	(231,786)
Net changes in prices and production costs	159,502	154,711	437,132
Extensions, discoveries, and improved recovery, less related costs	165,982	276,210	159,088
Previously estimated development costs	50,790	46,682	35,792
Revisions of previous quantity estimates	(45,680)	(59,700)	6,200
Accretion of discount	137,244	116,672	94,380
Net change in income taxes	(57,565)	(79,184)	(93,551)
Windfall profit tax	—	732	(284,086)
Opelika field	(18,000)	—	—
Other	(17,222)	(37,988)	6,196
December 31,	$ 870,276	$ 805,509	$ 678,973

Coal Reserves

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

	The Company			Associated Companies		
	1982	1981	1980	1982	1981	1980
January 1,	630,623	475,204	418,637	382,418	202,955	—
Revisions of previous estimates	—	(3,434)	—	8,041	—	—
Purchase of reserves in place	31,907	190,008	64,145	—	179,701	203,000
Production	(7,134)	(6,123)	(7,578)	(541)	(238)	(45)
Sale of reserves in place	(1,187)	(25,032)	—	—	—	—
December 31,	654,209	630,623	475,204	389,918	382,418	202,955
Average realized price (per ton)	$36.25	$33.85	$30.13	$42.42	$57.29	$47.38

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

Inflation Adjusted Financial Data

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

The constant dollar basis adjusts historical cost into dollars having the same general purchasing power. The constant dollar data presented was arrived at by restating the Company's historical cost inventories, properties and equipment, cost of products sold and depreciation and depletion to average 1982 dollars by applying the "Consumer Price Index for All Urban Consumers".

The current cost basis adjusts historical costs to reflect changes in specific prices of the assets consumed by the Company's operations, as if all products sold were produced in the current year and as if all properties and equipment were completely revalued and depreciation and depletion calculated on those current year prices.

The current cost of properties and equipment, excluding mineral resources, was calculated by using engineering estimates and external industry price indexes. For mineral resources, external industry price indexes were used as well as engineering estimates and the current price of similar leaseholds. Depreciation and depletion was computed by the same method as was used in preparing the historical Consolidated Financial Statements. Inventories were adjusted to current prices by using gross inventories, before deduction of the LIFO reserve. Income from continuing operations adjusted for changing prices follows:

	1982		
	Consolidated Financial Statements	Adjusted for General Inflation	Adjusted for Changes in Specific prices
	(Historical Cost)	*(Constant Dollar)*	*(Current Cost)*
Sales and operating revenues	$3,177,379	$3,177,379	$3,177,379
Other revenues	46,606	46,606	46,606
	3,223,985	3,223,985	3,223,985
Less —			
Cost of products sold	2,644,649	2,725,036	2,769,209
Selling and administrative	227,388	227,388	227,388
Research and development	47,632	47,632	47,632
Interest	72,873	72,873	72,873
Provision for income taxes	81,900	81,900	81,900
	3,074,442	3,154,829	3,199,002
Income from continuing operations	149,543	69,156	24,983
Gain from decline in purchasing power of net amounts owed		48,185	48,185
Decrease in excess of specific prices over general inflation			
Inventories			(9,177)
Properties and equipment			(116,018)
Net change in stockholders' equity from the above	$ 149,543	$ 117,341	$ (52,027)
Per Common share	$ 2.37	$ 1.87	$ (.83)

An oversupply in the oil field tubular goods market resulted in a significant decline in prices during 1982 and consequently a decrease in the price index used in the current cost valuation. The current cost value of pipe inventory, pipelines, and gas gathering systems was lower, therefore, at December 31, 1982 than the prior year end. This is the primary cause of the decrease in the excess of specific prices over general inflation of $9,177,000 for inventories and $116,018,000 for properties and equipment as shown above.

Income from continuing operations for 1982 was reduced by $80,387,000 or 54% on a constant dollar basis, and by $124,560,000 or 83% on a current cost basis. The reductions were attributable to the increased depreciation and depletion charged against earnings from the upwards revaluation of properties and equipment from historical dollars to dollars as measured on the constant dollar and current cost bases. The Company's use of the LIFO method of valuing inventories charges current costs against earnings, and mitigates the differences between earnings reported on the historical, constant dollar and current cost bases. Also, since the current Federal income tax regulations do not allow for the deduction of depreciation on an inflation adjusted basis, the Company's effective income tax rate increased to 54% on a constant dollar basis and 77% on a current cost basis, both in excess of the statutory Federal income tax rate of 46%.

The gain of $48,185,000 in 1982 from the decline in the purchasing power of net amounts owed is a measure of the impact of inflation on monetary items that will be converted into fixed amounts of dollars regardless of price changes. As the Company was in a net monetary liability position, a gain was reported since its obligations will be repaid with dollars having less purchasing power. This gain partially offsets the reduction in earnings on a constant dollar basis and on a current cost basis.

Selected supplementary financial data (in historical dollars unless otherwise indicated) follows:

	1982	1981	1980	1979	1978
Sales and operating revenues	$3,177,379	$3,376,215	$3,145,394	$2,312,635	$1,783,168
Constant dollar	3,177,379	3,584,527	3,685,773	3,076,498	2,639,089
Depreciation and depletion	210,531	163,785	142,818	136,854	122,994
Constant dollar	290,918	255,844	272,920	273,293	
Current cost	335,091	296,575	314,983	303,789	
Income from continuing operations	149,543	230,156	213,246	160,439	123,487
Constant dollar	69,156	162,403	144,315	122,196	
Current cost	24,983	121,672	102,252	91,700	
Income from continuing operations, per Common share	2.37	3.68	3.48	2.72	2.11
Constant dollar	1.10	2.59	2.36	2.07	
Current cost	.40	1.94	1.67	1.55	
Dividends per Common share	1.76	1.70	1.62	1.51	1.42
Constant dollar	1.76	1.81	1.90	2.01	2.10
Inventories	348,573	362,447	388,381	320,439	243,507
Constant dollar	439,088	457,154	539,635	487,725	
Current cost	467,083	494,326	566,560	508,104	
Properties and equipment, net	2,114,436	1,765,651	1,634,988	1,410,697	1,344,120
Constant dollar	2,732,962	2,496,771	2,531,414	2,350,305	
Current cost	3,333,977	3,213,804	2,954,619	2,749,586	
Excess of current cost over constant dollar cost					
Inventories	27,995	37,172	26,925	20,379	
Properties and equipment, net	601,015	717,033	423,205	399,281	
Long-term debt and capital lease obligations at December 31,	925,097	854,729	844,975	750,916	713,411
Gain from decline in purchasing power of net amounts owed	48,185	96,364	120,898	134,634	
Total assets at December 31,	3,194,013	3,016,385	2,895,457	2,514,541	2,214,575
Stockholders' equity at December 31,	1,407,231	1,349,735	1,329,162	1,101,446	984,457
Per Common share	22.14	21.48	21.29	18.55	16.75
Constant dollar	2,116,272	2,175,562	2,376,842	2,208,340	
Per Common share	33.30	34.62	38.08	37.20	
Current cost	2,745,282	2,929,767	2,826,972	2,628,000	
Per Common share	43.20	46.63	45.30	44.27	
Market price per Common share at December 31,	20.88	25.38	35.38	31.50	19.25
Constant dollar	20.88	26.06	39.59	39.63	27.43
Average consumer price index (1967 equals 100)	289.2	272.4	246.8	217.4	195.4

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

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

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

Historical Information — Continuing Operations

(dollars in thousands, except per share)

	1982	1981	1980
Operations			
Sales and operating revenues	$3,177,379	$3,376,215	$3,145,394
Earnings	149,543	230,156	213,246
Financial Position			
Current assets	$ 788,577	$ 963,333	$ 973,187
Current liabilities	475,289	491,326	437,984
Properties and equipment, less depreciation and depletion	2,114,436	1,765,651	1,634,988
Total assets	3,194,013	3,016,385	2,895,457
Capital Structure			
Long-term debt	$ 894,170	$ 822,317	$ 809,847
Long-term capital lease obligations	30,927	32,412	35,128
Deferred income taxes	364,094	305,993	259,614
Stockholders' equity	1,407,231	1,349,735	1,329,162
Total	$2,696,422	$2,510,457	$2,433,751
Other Data			
Capital expenditures and investments	$ 660,193	$ 590,945	$ 499,882
Dividends	110,298	102,915	91,910
Depreciation, depletion and amortization	217,787	171,143	149,666
Funds provided by operations	446,527	487,694	399,617
Per Common Share			
Earnings	$ 2.37	$ 3.68	$ 3.48
Dividends	1.76	1.70	1.62
Book value	22.14	21.48	21.29
Financial Ratios			
Current ratio	1.7	2.0	2.2
Earnings as a percent of sales and operating revenues	4.7%	6.8%	6.8%
Total debt as a percent of total capital	34.9	34.7	35.4
Dividends per share as a percent of earnings per share	74.3	46.2	46.6
Percent return on average capital employed	5.7	9.9	10.9
Percent return on average stockholders' equity	10.8	17.2	17.5
Effective tax rate	35.5	39.0	38.5

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

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, executive vice president, chief operating officer, and president and chief executive officer. Mr. Bricker, 51, earned B.S. and M.S. degrees from Michigan State University.

Allan J. Tomlinson
President and Chief Operating Officer, joined Diamond Shamrock in 1968 as manager of corporate planning. He became director of corporate planning, corporate vice president for planning and development, and corporate executive vice president and president of the International and Diversified Technology Unit. Mr. Tomlinson, 50, is a graduate of Texas Tech University and has an M.B.A. from Harvard.

J. Avery Rush, Jr.
Vice Chairman of the Board, 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, Diamond Shamrock, and subsequently president of the Oil and Gas Unit and corporate executive vice president. He was elected vice chairman of the Board in August 1982. Mr. Rush, 60, has B.A. and LL.B. degrees from The University of Texas.

J. L. Jackson
Corporate Executive Vice President and President of the Coal Unit, assumed his position upon the merger with Falcon Seaboard, Inc., in 1979. At Falcon Seaboard he served as corporate vice president, president of the Falcon Coal Co. subsidiary, director of the parent company, and corporate executive vice president. Mr. Jackson, 51, has a B.S. from The University of Texas.

Charles E. Stewart
Corporate Executive Vice President and President of the Chemical Unit, 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, 47, is a graduate of Marquette University.

Richard M. Ahlstrom
Vice President, Finance, joined Diamond Alkali Co. in 1960 as a trainee. He has served in several financial and planning positions, as chief financial officer and treasurer of a South American subsidiary, manager of administration in the Specialty Chemicals Division, assistant treasurer of the corporation, treasurer, and vice president and treasurer. Mr. Ahlstrom, 48, received an A.B. from Harvard.

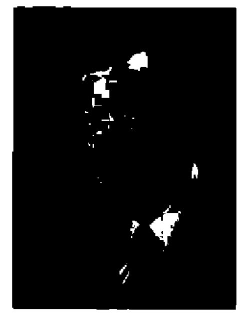
Gerald G. Carlton
Vice President, joined Diamond Alkali Co. in 1961 as an accountant. He subsequently held several employee relations positions within the company's chemical operations before being named a group employee relations manager, then corporate director of employee relations. Mr. Carlton, 47, is a graduate of Ohio University.

Riley M. Epps
Corporate Vice President and President of the Refining and Marketing Unit, joined Shamrock Oil and Gas Corp. in 1959 as assistant to the vice president in charge of sales. He became general manager of marketing, vice president in charge of sales, and in 1974 was named group vice president - sales and raw materials. He was named president of the newly formed Refining and Marketing Unit in August 1982. Mr. Epps, 54, holds a B.S. degree from Texas A & M University.

C. Barton Groves
Corporate Vice President and President of the Exploration and Production Unit, joined Diamond Shamrock in 1973 as a geophysicist. He became division exploration manager, vice president exploration, and executive vice president of the Oil and Gas Unit. He was named president of the newly formed Exploration and Production Unit in August 1982. Mr. Groves, 45, holds a B.S. degree from Texas Tech University.

James F. Kelley
Vice President and General Counsel, joined Diamond Shamrock in 1981. He was previously deputy general counsel of United Technologies Corporation, having served that corporation as vice president and general counsel of its United Technologies International subsidiary and as chief administrative officer of that subsidiary. A graduate of Yale University, Mr. Kelley, 41, has a J.D. from the University of Chicago.


William H. Bricker


Allan J. Tomlinson


J. Avery Rush, Jr.

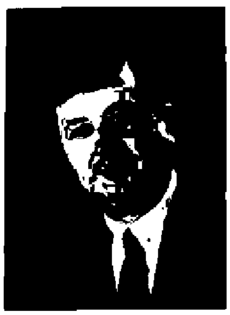
C. Dale McDoulett, Jr.
Vice President, Development, came to Diamond Shamrock in 1979 as vice president, administration of the Coal Unit upon the merger of Falcon Seaboard into Diamond Shamrock. He became vice president, marketing and development for the unit, director, corporate development; and was elected vice president, development for the

J. L. Jackson

Gerald G. Carlton

James F. Kelley

Richard W. Arp



Charles E. Stewart

Riley M. Epps

C. Dale McDoulett, Jr.

Timothy J. Fretthold

Richard M. Ahlstrom

C. Barton Groves

Edmund M. Olivier

Donald C. Mielke

corporation in August 1982. Mr. McDoulett, 38, holds B.B.A. and J.D. degrees from the University of Oklahoma.

Edmund M. Olivier
Vice President, Technology and Planning, joined Diamond Shamrock in 1980. Previously, Mr. Olivier was vice president and general manager of the Science Products Division and director, corporate planning at Corning Glass Works. He has been managing director and director of marketing, Conoco Chemicals Europe. Mr. Olivier, 45, has B.S. degrees from Rice University and an M.B.A. from Harvard.

Richard W. Arp
Controller, joined Diamond Alkali Co. in 1961 as a tax accountant and served in similar capacities for TRW, Inc., and DeSoto, Inc., from 1965 to 1969. Named assistant tax manager for Diamond Shamrock in 1969, Mr. Arp became manager of tax administration, corporate tax manager, corporate director of taxes, assistant controller, and assistant division manager of plastics. Mr. Arp, 46, has a B.S. degree from Kent State University and an M.B.A. from Western Reserve University.

Timothy J. Fretthold
Secretary, joined the company in 1977 following service as an attorney and adviser for the Securities and Exchange Commission. He has served as a corporate attorney and assistant secretary. Mr. Fretthold, 33, has a B.A. from Yale University and a J.D. from Case Western Reserve University.

Donald C. Mielke
Treasurer, joined the company in 1963 as a trainee. He has served as an accountant in the Industrial Chemicals Division, financial analyst for the Electro Chemicals Division, manager of administration of the Electrode Corporation subsidiary, staff assistant in the Treasury Department, and assistant treasurer. Mr. Mielke, 40, is a graduate of Penn State University.

Board of Directors

B. Charles Ames
President and Chief Executive Officer of Acme-Cleveland Corporation, machine tools manufacturer, Cleveland, Ohio; director since 1979; age 57. (1*, 2)

J. David Barnes
Chairman and Chief Executive Officer of Mellon National Corporation and Mellon Bank, Pittsburgh, Pennsylvania; director since 1971; age 53. (3, 4)

William H. Bricker
Chairman and Chief Executive Officer of Diamond Shamrock Corporation, Dallas, Texas; director since 1974; age 51. (1, 4*, 5*)

W. L. Lyons Brown, Jr.
President and Chief Executive Officer and Director of Brown-Forman Distillers Corporation, distiller, importer, and marketer of wines and spirits, Louisville, Kentucky; director since 1977; age 46. (3*, 4)

Philip E. Coldwell
Financial consultant to banks and other financial organizations, Washington, D. C.; former member of the Board of Governors, Federal Reserve System; director since 1980; age 60. (1, 2)

Gene Edwards
Chairman and Chief Executive Officer of The First National Bank of Amarillo, Amarillo, Texas; director since 1979, age 58. (1, 2*)

Raymond A. Hay
Chairman and Chief Executive Officer of The LTV Corporation, engaged in the steel, aerospace, and energy businesses, Dallas, Texas; director since 1979; age 54. (2, 4, 5)

Allen C. Holmes
National Managing Partner of Jones, Day, Reavis & Pogue, law firm, Cleveland, Ohio; director since 1977; age 62. (3, 5)

John T. Kimbell
Independent business consultant; former Vice Chairman and Director of Baxter Laboratories, manufacturer of medical care products, Lake Forest, Illinois; director since 1974; age 57. (2, 4)

J. Avery Rush, Jr.
Vice Chairman of the Board of Diamond Shamrock Corporation, Dallas, Texas; director since 1982; age 60. (4)

Allan J. Tomlinson
President and Chief Operating Officer of Diamond Shamrock Corporation, Dallas, Texas; director since 1980; age 50. (1, 4, 5)

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

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

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

Annual Meeting. Diamond Shamrock stockholders are encouraged to attend the company's Annual Meeting in the Plaza Ballroom, Plaza of the Americas Hotel, 703 North Pearl Boulevard, Dallas, Texas, at noon Dallas time, Thursday, April 21, 1983. Proxy statements and proxy forms for the meeting have been mailed to stockholders with this annual report.

Annual Report Supplement and Form 10-K. Additional operating statistics and information, together with the company's 1982 Annual Report to the Securities and Exchange Commission on Form 10-K, are available in a Supplement to this Annual Report. Stockholders may obtain free of charge a copy of the Supplement and Form 10-K by writing to: Director, Investor Relations, Diamond Shamrock Corporation, World Headquarters, 717 North Harwood Street, Dallas, Texas 75201.

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

Transfer agent and registrar.
AmeriTrust Company
900 Euclid Avenue
Cleveland, Ohio 44101

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, or handicap or veteran status.

General offices.
Diamond Shamrock Corporation
World Headquarters
Diamond Shamrock Tower
717 North Harwood Street
Dallas, Texas 75201
Telephone 214/922-2000 (effective April 1);
214/745-2000 (before April 1)

Independent accountants.
Price Waterhouse
Dallas, Texas

Diamond Shamrock
The Resourceful Company

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