EXHIBIT 53

D536000

ORIGINAL
K 40-6C6

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SECURITIES AND EXCHANGE COMMISSION FEE RECEIVED MAR 29 1985 OFFICE OF APPLICATIONS AND REPORT SERVICES

APR - 1 1985 CLOSURE

Form 10-K

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

For the Fiscal Year Ended December 31, 1984 **Commission File Number 1-8567-2**

Diamond Shamrock Corporation

289

(Exact name of registrant as specified in its charter)

Delaware	**75-1891531**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
717 North Harwood Street Dallas, Texas	75201
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code (214) 922-2000

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

Title of each class	Name of each exchange on which registered
Common Stock, $1.00 Par Value	New York Stock Exchange Pacific Stock Exchange Basel Stock Exchange Geneva Stock Exchange Zurich Stock Exchange
$4.00 Cumulative Convertible Preferred Stock, $1.00 Par Value	New York Stock Exchange
9⅛% Sinking Fund Debentures Due November 15, 2000	New York Stock Exchange
7.70% Sinking Fund Debentures Due December 15, 2001	New York Stock Exchange
8½% Sinking Fund Debentures Due April 1, 2008	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

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

The aggregate market value of the voting stock held by non-affiliates of the registrant as of March 20, 1985 was approximately $2,241,069,876.00.

Shares of Common Stock outstanding at March 20, 1985 – 124,822,833.

DOCUMENTS INCORPORATED BY REFERENCE

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

(a) 1984 Annual Report to Stockholders of the Company – Parts I and II;

(b) Definitive proxy statement of the Company relating to the 1985 stockholders' meeting, to be filed with the Commission pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this Form 10-K – Part III.

Total of sequentially numbered pages 282

Exhibit index on sequentially numbered page 30

OCC 0023867

PART I

Items 1 and 2. Business and Properties.

Diamond Shamrock Corporation (the "Company") was incorporated in Delaware in 1983 as the successor to various corporations, the oldest of which was founded in 1910. The Company, together with its subsidiaries, is an integrated oil and gas company with interests in coal, geothermal energy and chemicals. Its world headquarters is located at 717 North Harwood Street, Dallas, Texas 75201, and its telephone number is (214) 922-2000. In this report the term "Company" means Diamond Shamrock Corporation, its subsidiaries and their predecessors unless the context otherwise indicates.

The Company's operations consist of the following principal business segments: exploration and production, which includes the exploration for and production and sale of crude oil and natural gas; refining and marketing, which includes crude oil refining, the wholesale and retail marketing of refined products and the processing of natural gas and sale of natural gas liquids; coal, which includes the mining and sale of coal for steam generation and metallurgical applications; chemicals, which includes the manufacture and sale of commodity chemicals (primarily chlor-alkali chemicals, soda products and other commodity chemicals) and specialty chemicals (primarily process chemicals); and geothermal, which includes the exploration for and development of geothermal reserves and the sale of geothermal steam to produce electricity.

Information concerning outside sales and operating revenues and operating profit for each of the Company's business segments and its business in general for the three years ended December 31, 1984, together with information concerning business segment and corporate identifiable assets as of December 31, 1984, 1983 and 1982, is set forth on pages 38 and 39 of the Company's 1984 Annual Report to Stockholders, which information is incorporated herein by reference.

Overseas, the Company is engaged in the exploration for and production of oil and gas and the manufacture or sale of chemicals and related technology in more than 34 countries. Information concerning outside sales and operating revenues and operating profit by geographic area for the three years ended December 31, 1984 and identifiable assets by geographic area as of December 31, 1984, 1983 and 1982 is presented on page 39 of the Company's 1984 Annual Report to Stockholders, which information is incorporated herein by reference.

The Company's sales or transfers between geographic areas were not significant in each of the three years ended December 31, 1984. Operating revenues from export sales to unaffiliated customers located outside the United States were less than 10% of the Company's consolidated sales and operating revenues in each of the three years ended December 31, 1984.

Exploration and Production

The Company's exploration and production activities are centered in the United States and Indonesia. The Company also has production outside the United States in Canada and in the British and Dutch sectors of the North Sea and has exploration prospects in the South China Sea, offshore Tunisia, Australia, New Zealand, Papua New Guinea and Ireland and onshore Colombia. The Company's net proved reserves of crude oil (including condensate) and natural gas increased significantly in 1983, as did crude oil production, due to domestic exploration efforts and the acquisition, effective August 31, 1983, of Natomas Company ("Natomas"), a corporation then principally engaged in oil and gas exploration and production, primarily offshore Indonesia. With certain minor exceptions, the oil and gas producing and nonproducing properties within the United States, excluding federal offshore leases, of Natomas North America, a subsidiary of Natomas, were sold by the Company to Apache Petroleum Company in March 1984.

Information regarding the Company's oil and gas producing activities for 1984, 1983 and 1982 are set forth on pages 52 through 55 of the Company's 1984 Annual Report to Stockholders, which information is incorporated herein by reference.

OCCNJ0023868

The Company's estimates of net interests in proved reserves are based upon records regularly prepared and maintained by its engineers. "Proved reserves" are the estimated quantities of crude oil and natural gas which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. "Proved developed reserves" are proved reserves that can be expected to be recovered through existing wells with existing equipment and operating methods. "Proved undeveloped reserves" are proved reserves that are expected to be recovered from new wells on undrilled acreage or from existing wells where a relatively major expenditure is required for recompletion.

In 1984, the Company filed estimates of its proved reserves of crude oil and natural gas in the United States at December 31, 1983 with the Department of Energy. Such estimates include its net interests in domestic proved crude oil and natural gas reserves. The total reserve estimates included therein do not differ by more than 5% from the total reserve estimates for the comparable period included in the Company's filings with the Securities and Exchange Commission.

Average sales prices (including transfers) and production costs of crude oil and natural gas produced by geographic area for the three years ended December 31, 1984 are as follows:

	Year Ended December 31,		
	1984	1983	1982
United States			
Average Sales Price			
Crude Oil (per barrel)	$28.73	$29.67	$31.72
Natural Gas (per Mcf)	$ 2.92	$ 2.92	$ 2.41
Average Production Cost (per barrel)*	$ 3.76†	$ 3.87†	$ 3.35†
Indonesia			
Average Sales Price			
Crude Oil (per barrel)	$28.52	$28.63**	
Natural Gas (per Mcf)	$ .20	$ .20**	
Average Production Cost (per barrel)††	$ 6.26	$ 5.83**	
Other Foreign			
Average Sales Price			
Crude Oil (per barrel)	$27.42	$27.77**	$34.36
Natural Gas (per Mcf)	$ 3.54	$ 4.45**	$ 5.43
Average Production Cost (per barrel)*	$ 5.52	$ 6.45**	$ 6.40

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

† Includes windfall profit tax.

** Includes data subsequent to August 31, 1983, the date of the Natomas acquisition.

†† Per equivalent unit of production; equivalent units are based on relative sales value.

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

OCCNJ0[illegible]3869

At December 31, 1984, total gross and net productive oil and gas wells, including multiple completions, by geographic area, were as follows:

	Gross	Net
Oil Wells Owned		
United States	2,336	923.7
Indonesia	541	234.2
Other Foreign	681	112.5
Total	3,558	1,270.4
Gas Wells Owned		
United States	1,709	1,159.3
Other Foreign	216	28.8
Total	1,925	1,188.1
Multiple Completions	411	166.6

At December 31, 1984, total gross and net developed and undeveloped acreage by geographic area was as follows:

	United States	Indonesia	Other Foreign
Gross Acres			
Developed Acres	695,708	112,158	313,779
Undeveloped Acres	4,677,319	14,840,343	16,572,881
Total	5,373,027	14,952,501	16,886,660
Net Acres			
Developed Acres	543,620	45,564	80,957
Undeveloped Acres	3,270,784	5,115,015	6,405,220
Total	3,814,404	5,160,579	6,486,177

Drilling activities of the Company for the three years ended December 31, 1984 are summarized by geographic area in the following table:

	Year Ended December 31,		
	1984	1983	1982
United States			
Net Exploratory Wells Drilled			
Productive	12.4	9.0	18.2
Dry	85.4	15.5	25.8
Total	97.8	24.5	44.0
Net Development Wells Drilled			
Productive	91.7	64.5	102.2
Dry	38.6	11.4	39.5
Total	130.3	75.9	141.7
Indonesia			
Net Exploratory Wells Drilled			
Productive	0	0*	
Dry	.2	0*	
Total	.2	0*	

* Includes data subsequent to August 31, 1983, the date of the Natomas acquisition.

4
OCCNJ00[illegible]870

	Year Ended December 31,		
	1984	1983	1982
Net Development Wells Drilled			
Productive	36.67	11.0*	
Dry	17.49	9.0*	
Total	54.16	20.0*	
Other Foreign			
Net Exploratory Wells Drilled			
Productive	2.30	0*	.04
Dry	8.44	.68*	.10
Total	10.74	.68*	.14
Net Development Wells Drilled			
Productive	5.58	1.86*	
Dry	0	0*	
Total	5.58	1.86*	

* Includes data subsequent to August 31, 1983, the date of the Natomas acquisition.

At December 31, 1984, the Company was participating in the drilling of 58 gross and 33.5 net wells in the United States, 4 gross and 1.55 net wells in Indonesia and 4 gross and 1.08 net wells in other foreign countries.

Indonesia

As a result of the acquisition of Natomas in August of 1983, the Company acquired interests in two production sharing contracts with Pertamina, Indonesia's state oil company, for the exploration, development and production of oil and gas in two areas in the Java Sea: Southeast Sumatra and Northwest Java.

Under both production sharing contracts, Indonesia retains ownership of the oil and gas in place, and Pertamina owns the exploration and production facilities and equipment which the contractors are entitled to use without charge. Although Pertamina has overall management responsibility for operations, in practice it has delegated operational management to the contractors, retaining the right to control certain matters.

The contractors are entitled to recover certain costs out of production from the contract area in barrels of oil at the official Indonesian price set from time to time by Pertamina. Indonesia is entitled to take up to 25% of the gross production of crude oil for its domestic market at $.20 per barrel, except that the price for oil produced during the first five years of production from new fields is the official Indonesian price. As an investment incentive, the contractors are then allowed to recover out of production an additional amount equal to 20% of certain capital costs incurred in developing new fields. The remaining oil is then allocated on the basis of 34.1% to the contractors and 65.9% to Pertamina.

The contractors' Indonesian corporate and dividend tax liabilities, at a combined rate of 56%, are paid in cash by the contractors on revenues from oil supplied by the contractors for the Indonesian domestic market, investment incentive oil and oil allocated to the contractors. Except with respect to that portion of the oil for the Indonesian domestic market that is sold to Pertamina at a price of $.20 per barrel, the contractors' corporate and dividend tax liabilities are determined on the basis of the current official Indonesian price per barrel.

As a result of the cost recovery provisions in the production sharing contracts, the contractors are entitled to recover most of the costs of exploration and production out of production early in the

OCCNJ00_871

life of the reserves. Accordingly, in periods of high exploration and development expenditures, the Company is allocated a higher proportionate share of annual production. Since January 1978, liftings in excess of or less than the Company's annual allocation have been settled by cash payments among the contractors and Pertamina in April of the following year. The amount payable to the Company at December 31, 1984 for underliftings during the year was estimated to be approximately $26,961,000.

In September 1984, the Company agreed to purchase a portion of the oil allocated to Pertamina under the Southeast Sumatra contract, provided that payment of the purchase price therefor would be deferred until March 1985. At December 31, 1984, the Company's obligation for such deferred payments was estimated to be approximately $41,585,000.

During the years 1971 to 1977, Pertamina from time to time chose to lift less than its proportionate share of the crude oil that could have been produced from the Southeast Sumatra contract area. To minimize resulting cutbacks, the Company took a portion of its ultimate entitlement ahead of time by lifting and selling more than its proportionate share of production. Each year, Pertamina is contractually entitled to take up to an additional 5% of such year's crude oil production to balance out Pertamina's pre-1978 underliftings. As of December 31, 1984, the aggregate remaining pre-1978 underliftings were estimated to be approximately 722,851 barrels.

In 1981, Natomas was advised by the Indonesian government that in its view, Natomas was obligated to pay additional amounts relating to its pre-1978 crude oil liftings in excess of its annual allocation. In 1983, Natomas reached a settlement with the Indonesian government that requires it to make a series of payments estimated as follows: $59,729,000 in 1988; $31,942,000 in 1989; $24,508,000 in 1990; and $24,394,000 in 1991. Pursuant to the terms of the settlement, the Company has the right to prepay such payments.

The Company currently sells the bulk of its Indonesian crude oil on a "spot" basis and under various short-term arrangements, such as year-to-year contracts that are subject to quarterly price revisions. The Company's proved developed reserves of residual gas in the Northwest Java contract area are committed for sale to Pertamina at a price of $.20 per Mcf of gas. Natural gas liquids not blended with crude oil are sold at market prices.

Indonesia is a member of the Organization of Petroleum Exporting Countries ("OPEC"). In recent years, OPEC has established prices and production quotas on oil produced by its members. Continuing depressed demand for crude oil, competition from non-OPEC producing countries and the consequent worldwide oil surplus placed pressure on OPEC during 1984 as during the previous year.

OPEC ministers met on three occasions during 1984 to seek a unified approach to oil pricing. Limits on individual production by countries were dropped as some OPEC members refused to participate. In January 1985, price cuts averaging $.60 per barrel were agreed to by some producers, but rejected by others, and the use of Saudi light crude as a "benchmark" was dropped. Effective February 1, 1985, the government of Indonesia reduced its official selling price an average of $1.25 per barrel to reflect the latest OPEC developments with the result that the gap between the official selling price and the actual market price for Indonesian oil was narrowed. To the extent that the official selling price exceeds the actual market price for Indonesian oil, the Company's Indonesian tax rate is adversely affected.

During 1984, the Company expanded its exploratory program to prospects off the island of Irian Jaya, in Australia, Colombia and the South China Sea, where a dry hole was drilled in each area, and offshore Papua New Guinea and Tunisia. The Company's foreign petroleum exploration, development and production activities, offshore Indonesia and elsewhere, are subject to such risks as political and economic uncertainties, expropriation of property and cancellation or modification of contract rights, foreign exchange restrictions, operating restrictions and other risks arising out of foreign governmental sovereignty over the areas in which the Company's operations are conducted.

OCCNJ0023872

The Company experiences intense competition in all areas of its oil and gas business. The Company is a relatively modest factor industry-wide in the exploration for and the sale of crude oil and natural gas. Its competitors include the major energy companies, which are also fully integrated petroleum producers, and independent oil and gas concerns. The prices the Company receives for crude oil are dependent on the world supply and demand. In 1984, the price of crude oil and the corresponding supply/demand situation followed a general downward trend marked by continued uncertainty and instability. In addition, the Company faces actual and potential competition from alternate energy sources.

Refining and Marketing

The Company's refining and marketing business consists primarily of three activities: crude oil refining and wholesale marketing of refined petroleum products, retail marketing of refined petroleum products and other merchandise, and natural gas processing and sale of natural gas liquids, which contributed approximately 25.8%, 19.5% and 3.6%, respectively, of the Company's outside sales and operating revenues in 1984; 26.7%, 21.1% and 6.2% in 1983; and 39.9%, .1% and 6.3% in 1982.

Over half of the natural gas processed and a small portion of the crude oil refined by the Company are produced from acreage leased by the Company. The major portion of its crude oil requirements is purchased under short-term contracts from outside sources. Such crude oil purchases are at posted prices competitive with the posted prices of other purchasers in the same area. The Company expects to be able to continue to obtain crude oil and natural gas in sufficient quantities for its reasonably foreseeable requirements.

On January 14, 1983 Sigmor Corporation ("Sigmor"), a jobber for gasoline supplied by the Company, was merged into a wholly owned subsidiary of the Company. At the time of the acquisition Sigmor operated a total of 555 domestic retail outlets, primarily in Texas. The Company had owned 21% of Sigmor's common stock since 1978.

The Company has substantial investments in crude oil and natural gas gathering pipelines used to bring crude oil and natural gas to its McKee refinery and gas processing facilities near Dumas, Texas and to its Three Rivers refinery near Corpus Christi, Texas. In addition, the Company has investments ranging from 33% to 100% in various petroleum product pipelines extending from the Three Rivers and McKee refineries to its major marketing areas.

The McKee refinery has a crude oil capacity of approximately 75,000 barrels per day. Over 90% of the McKee refinery output is in light products such as gasoline and turbine and diesel fuels. The Three Rivers refinery has the capacity to refine approximately 45,000 barrels of crude oil per day, giving the Company a total capacity of more than 120,000 barrels of crude oil per day.

The McKee natural gas processing facility has a throughput capacity of 400,000 Mcf per day. Most of the ethane/propane mixture recovered by the Company in its natural gas liquids processing facilities is converted into ethylene and propylene for sale principally to industrial customers. Most of the other natural gas liquids are sold principally to dealers and wholesalers. The residue gas is sold principally to interstate pipeline companies under long-term contracts.

The crude oil throughput at the McKee and Three Rivers refineries (the latter since the date of the Sigmor acquisition) and the volume of natural gas processed and natural gas liquids recovered at the gas processing facilities during the three years ended December 31, 1984 were as follows:

	December 31,		
	1984	1983	1982
Refinery Crude Oil Throughput (thousands of barrels)	42,796	37,957	24,348
Natural Gas Processed (millions of cubic feet)	90,379	91,966	104,565
Natural Gas Liquids Recovered (thousands of barrels)	7,585	7,560	8,398

Most of the Company's refined products are distributed through petroleum product pipelines to 13 terminals located in its marketing area primarily in southwestern and Rocky Mountain states.

OCCNJ002[illegible]873

At December 31, 1984, the Company marketed refined products at 1,994 Company-branded retail outlets, 1,537 of which were operated by jobbers or dealers and 457 of which were operated by the Company. At that date the Company operated 65 retail outlets in 15 states that did not market under the Company brand. As of December 31, 1983, the Company marketed refined products at 1,895 Company-branded outlets.

During 1984, the Company sold to a Canadian corporation the assets of a petroleum products wholesale and retail marketing business in Canada that it had acquired in the Natomas acquisition. The Company also sold 26 outlets in the states of Washington and California during 1984.

The Company continues to experience intense competition in all areas of its refining and marketing business from both major energy companies and independent oil and gas concerns. During 1984, wholesale motor fuel prices came under intense downward pressure due to an oversupply of refined products. This pressure was especially evident during the last half of the year.

Coal

The principal coal properties of the Company are primarily leased by various subsidiaries of the Company or by partnerships or joint ventures in which the Company has interests. The Company holds coal reserves in Kentucky, West Virginia, Pennsylvania, Montana, Illinois, Alaska, Utah, Indiana, Mississippi and Texas. The properties in Utah and Indiana, along with additional properties in western Kentucky, were acquired with Natomas.

The following table reflects estimates of quantities (in thousands of tons) of the Company's recoverable coal reserves (excluding 315,000,000 tons of lignite reserves in Texas and Mississippi) at December 31, 1984:

	Assigned Reserves			Unassigned Reserves			Total
Surface	Proved	Probable	Total	Proved	Probable	Total	Reserves
Alaska	—	—	—	235,485	—	235,485	235,485
Kentucky	19,969	7,124	27,093	19,103	11,392	30,495	57,588
Montana	—	—	—	137,566	—	137,566	137,566
West Virginia	52,410	9,931	62,341	45,024	16,976	62,000	124,341
Total Surface	72,379	17,055	89,434	437,173	28,368	465,546	554,980
	Assigned Reserves			**Unassigned Reserves**			**Total**
Underground	Proved	Probable	Total	Proved	Probable	Total	Reserves
Illinois	—	—	—	175,281	31,198	206,479	206,479
Indiana	—	—	—	38,600	32,631	71,231	71,231
Kentucky	26,944	7,976	34,920	46,481	57,661	104,142	139,062
Pennsylvania	2,834	—	2,834	9,000	—	9,000	11,834
Utah	8,050	—	8,050	—	—	—	8,050
West Virginia	101,405	21,403	122,808	29,674	9,942	39,616	162,424
Total Underground	139,233	29,379	168,612	299,036	131,432	430,468	599,080
Total Reserves	211,612	46,434	258,046	736,214	159,800	896,014	1,154,060

Information regarding the Company's estimated quantities of recoverable proved and probable coal reserves at December 31, 1984, 1983, 1982, 1981 and 1980 and changes in such estimated quantities and average realized price in 1984, 1983, 1982, 1981 and 1980 is set forth on page 56 of the Company's 1984 Annual Report to Stockholders. Data supporting reserve estimates were obtained by prospecting, drilling, sampling and mapping and from previous mining operations. The extent to which reserves will eventually be mined depends upon future economic conditions affecting coal mining and consumption which cannot now be foreseen.

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

"Proved Reserves" are recoverable and merchantable reserves substantiated by adequate information, including that derived from drilling, current and previous mining, outcrop data and knowledge of mining conditions. The computed tonnage is judged to be within 20% of the true tonnage. Proved reserves are not generally considered to extend beyond one quarter of a mile from a point of measurement. "Probable Reserves" are generally considered to extend beyond proved reserves to not more than three-quarters of a mile from a point of measurement and are based on more preliminary or limited information.

At the present time the Company is carrying on mining operations at its mines in Kentucky, Pennsylvania and West Virginia to fulfill long-term contracts described under "Production and Sales" below. In 1984, approximately 96% of the Company's production consisted of steam coal, with the remainder consisting of metallurgical coal. No mining operations are presently being carried on at some of the Company's properties in West Virginia, Utah and Kentucky as a result of reduced demand for the Company's coal production. The Mississippi, Texas, Illinois, Indiana, Montana and Alaska properties have not been developed for mining operations; however, the Company is actively seeking markets for these reserves and is preparing engineering and other studies for their development.

Production and Sales

The Company depends upon long-term coal supply agreements for a substantial portion of its sales. In 1984, more than 90% of its coal production was sold under long-term agreements. Its principal coal customer is the Tennessee Valley Authority ("TVA"). The largest of the TVA contracts provides for the delivery of 70,000 tons of coal per week from properties in Kentucky until approximately 13,516,000 more tons have been delivered. In accordance with the terms of the contract, TVA is taking delivery at a rate 10% below the contract base quantity. Another TVA contract requires the delivery of 300,000 tons of coal per year through December 1988.

The Company's other long-term contracts, mostly with electric utilities and steel makers, require the delivery of approximately 2,017,000 tons of coal in 1985. Such contracts have expiration dates ranging from 1991 through 1995, and require a remaining aggregate delivery in excess of 23,000,000 tons over their lives.

The Company's long-term contracts contain provisions for adjustments to the base price of coal as the consequence of changes in specified production costs, variations in quality and changes in economic indices. All of the Company's contracts contain minimum quality specifications relating to moisture, ash, sulfur content and heating value. The purchasers may suspend deliveries of coal should quality not conform closely to these minimum specifications, pending resolution of such quality problems.

Approximately 1,100 hourly-paid production workers in the Company's coal segment are affiliated with the United Mine Workers of America with which the Company has a labor contract extending to January 31, 1988. In addition, approximately 561 of such workers are members of the Falcon Coal Company Employees' Association, which is not affiliated with any national labor union, and with which the Company has a labor contract extending to March 31, 1985. Negotiations on this contract are in process.

The sale of coal is highly competitive. The Company must compete with other coal producers in negotiating coal sales contracts and spot sales. The primary factors in competition for sales contracts are price, quantity and quality of coal reserves, production rate and transportation availability. The

9
OCCNJ00[illegible]875

primary factors in competition for spot sales are price, quality and adequate production and delivery facilities. In addition, the level of economic activity, energy conservation and the cost of complying with various environmental regulations directly affect the demand for coal. These and other factors constrained United States and export coal markets in 1984 and are expected to continue to have a negative impact on such markets in 1985.

Geothermal

The Company, through subsidiaries it acquired in the Natomas acquisition, is active in geothermal energy projects at The Geysers in northern California and at Puna, Hawaii. Geothermal energy in the form of superheated steam is produced naturally by underground reservoirs and can be used to generate electric power.

The largest commercial production of electric power from geothermal steam in the United States is located at The Geysers. The Company currently owns a 25% interest, and Union Oil Company of California ("Union Oil") owns a 75% interest, in a joint venture that produces steam at The Geysers. The Company sold a 25% interest in the joint venture to Union Oil, effective as of the close of business December 31, 1984, for approximately $285,000,000.

The steam produced by this joint venture is sold to Pacific Gas and Electric Company ("PG&E") for the generation of electricity at a price that is revised each year to reflect changes in certain factors, principally the average cost of fossil fuels and any nuclear fuel used by PG&E in the preceding calendar year. The price per kilowatt-hour (including an allowance for effluent disposal) during 1984 was 39.60 mills. PG&E began full power testing of its Diablo Canyon nuclear plant during the fourth quarter of 1984 and expects to begin commercial operation early in 1985. Although PG&E has used some nuclear fuel during testing of the plant in 1984, the impact on the Company's geothermal steam price for 1985 should not be significant. In general, the effect of the commercial operation of Diablo Canyon will be to lower the steam price.

The rated capacity of the PG&E electric generating plants that utilize steam supplied by the joint venture is 984,000 kilowatts. An additional 119,000 kilowatt plant is expected to begin operation in late 1985. During 1984, the capacity utilization of the plants that are supplied with steam from the Company's share of the venture averaged 74.0% as compared to 60.3% in 1983. This increase in capacity utilization is primarily attributable to improved operating efficiency and plant maintenance. Lower levels of precipitation in northern California also contributed to the increase in capacity utilization, since PG&E curtailed geothermal energy production in favor of cheaper hydroelectric power less than it did during 1983, a year of record rainfall.

The Company also is involved in a joint venture with Dillingham Geothermal, Inc. and Amfac Energy, Inc. to explore for and develop geothermal resources at Puna, Hawaii. The Company has a 50% interest in the joint venture and is the operator. To date, two wells have been drilled confirming sufficient reserves for a 25,000 kilowatt generating plant. Plans for drilling a third well, together with project development and marketing activities, are being pursued.

The Company's net geothermal acreage under lease as of December 31, 1984, subsequent to the sale of its 25% interest in The Geysers joint venture to Union Oil, was 11,413 acres, of which 5,230 acres were at The Geysers, 956 acres were at Bear Canyon in the southeastern portion of The Geysers, and 5,227 acres were in Hawaii. The Company has negotiated to sell the Bear Canyon acreage to a third party. At December 31, 1984, essentially all of the Company's proved geothermal reserves were at The Geysers, where the Company estimates that its share of geothermal reserves, net of royalties, was a quantity of steam that, when processed through the electrical generating plants to which the joint venture's proved reserves are committed, would generate 37,285,000 megawatt-hours of electricity.

The Company's geothermal business experiences competition from other energy sources, including hydroelectric power and power purchased from cogeneration and small power production facilities, which receive favorable treatment under federal and state regulations. The securing of new geothermal leases is also highly competitive.

OCCNJ0023876

Chemicals

The Company's chemicals business is comprised of two major product lines: commodity chemicals and specialty chemicals, each of which contributed 12% and 7%, respectively, of the Company's outside sales and operating revenues in 1984, 12% and 7% in 1983 and 15% and 9% in 1982. The Company is a leading domestic producer of commodity chemical products, particularly chlor-alkali chemicals, including chlorine, caustic soda, potassium chemicals and chlorinated solvents and paraffins, and soda products, including sodium silicate and chromium chemicals. These products are sold to the chemical, pulp and paper, water treatment, textile, soap, aluminum, pigments, adhesives, glass, metal and numerous other industries. The Company uses chlorine it produces to manufacture chlorinated solvents and chlorinated paraffins.

The Company markets its commodity chemicals through subsidiaries and joint venture operations both domestically and internationally. The locations of the Company's manufacturing sites and terminals provide access to most major domestic markets as well as export sales opportunities.

The Company believes that it is a leading world domestic producer of chromium chemicals and a leading domestic producer of silicate products and chlorine and caustic soda. However, there are numerous significant competitors in each of these businesses. The Company believes that the principal impact on the pricing of chlorine is the demand for this product from time to time in the chemicals and plastics industries. For caustic soda, pricing is principally affected by demand in the chemicals, alumina and pulp and paper industries. Plant location, capacity, quality of product, price and servicing of customers are essential to the Company's competitive position. Key strengths for the Company's commodity chemicals product group include world leadership in efficient low-cost plants, a well-trained, highly professional sales force, a large and efficient distribution system and a broad customer base.

The principal raw materials used in the manufacture of commodity chemicals include salt, potassium chloride, chrome ore, silica sand and paraffin. The Company has extensive salt reserves in close proximity to its chlorine facilities in Texas from which it obtains the majority of its salt requirements. At present operating rates, the Company estimates its salt reserves will last approximately 100 years. The Company purchases most of its other raw materials from various domestic suppliers. However, its chrome ore is obtained from foreign sources. At December 31, 1984, the Company had over one and one-half years' inventory of chrome ore. The Company has generally been able to obtain adequate supplies of raw materials at competitive prices, and it expects to continue to be able to do so in the reasonably foreseeable future from the same or alternate sources.

The price and availability of energy, while important to all of the Company's operations, are of particular significance in the manufacture of commodity chemicals. Electricity is a basic element in the manufacture of chlorine and caustic soda. The Company operates gas fired turbines to generate steam and electricity at its LaPorte, Texas and Deer Park, Texas facilities. In 1984, the Company signed a ten-year contract having a value of approximately $1,300,000,000 for the sale of 225 megawatts of cogenerated electricity per year to Houston Lighting & Power Company. Also in 1984, the Company began construction of an additional 75 megawatts of gas fired cogeneration capacity at its Deer Park, Texas facility. While the foregoing and other measures taken by the Company enhance its electrical supply flexibility, and while to date there have been no material disruptions of production at any of the Company's plants or other facilities because of energy shortages, there is no assurance that energy shortages in the future will not have an adverse effect on the Company's operations directly or indirectly by reason of their effect on customers, suppliers or prices.

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

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

The principal products of the Company's specialty chemicals product group are process chemicals. These include numerous proprietary specialty and performance chemicals used to upgrade industrial processes or end products, primarily in the textile, paper, plastics, paint, oil and concrete industries.

For the most part, the Company sells its specialty chemicals directly to users in the United States and through subsidiaries and affiliated businesses around the world. International sales, including both export sales and sales of chemicals manufactured abroad, are a significant aspect of the specialty chemicals business.

The basic market for specialty chemicals is oriented toward products specifically developed to solve a customer's technical and process problems and to upgrade a customer's products. In this regard, servicing of customers and quality of products are of prime importance. Pricing of such products is based on cost benefits to the customer. Competition is significant in most areas of the Company's specialty chemicals business. Many small operations, particularly in the paper and textile business, generate intense competition in many of the Company's process chemicals and various other proprietary chemicals markets. The maintenance and growth of competitive position require the acquisition of new technologies and developing new products and applications with in-house technology as well as technology from other specialty operations.

The principal production plants with respect to the Company's specialty chemicals product group are located at the sites listed below. All sites are owned in fee.

Richmond, CA
Cedartown, GA
Frankfort, IL
Carlstadt, NJ
Harrison, NJ
Charlotte, NC
Ashtabula, OH
Melbourne, Australia
Hamilton, Ontario, Canada
Leeds, England
Courtenay, France
Drammen, Norway
Barcelona, Spain
Taipei, Taiwan

In April 1984, the Company sold its 49% interest in Eltech Systems Corporation, a joint venture with a Swiss corporation established in June 1982 to create a single worldwide research and marketing organization for electrochemical technology. The sale, which included the Company's other electrochemical technology interests, was made to the Swiss corporation.

In May 1984, the Company sold its ion exchange resin business in France and its United States plant in Redwood City, California to subsidiaries of Rohm and Haas Company. In December 1984, the Company sold its Pontyclun, Wales plant, which formerly produced ion exchange products, to an English company.

In September 1984, the Company and Nippon Oil & Fats Co., Ltd., a Japanese company, formed Metal Coatings International Inc., a 50/50 joint venture to carry on a worldwide metal coatings business. The operations of the joint venture consist of the Company's former metal coatings business, involving primarily the licensing of proprietary chrome and zinc-based coatings used principally in the automotive industry for the protection of steel and aluminum against corrosion. The joint venture also acquired the Company's leasehold interest in a Chardon, Ohio facility.

Also in 1984, the Company entered into an agreement with a trust representing employees of its Lankro Chemicals Limited ("Lankro") subsidiary to sell the trust up to 25% of the stock of Lankro for a nominal purchase price by options exercisable through April 1987. The trust exercised an option in 1984 to acquire 5% of the stock in Lankro and in January 1985 exercised a further option

to acquire an additional 10%. Lankro is an English company whose major activities include the production of urethane chemicals, which are produced for rigid and flexible urethane foams and are used in a variety of industries, including automotive and sporting goods; and polymer additives, which are utilized to enhance various properties of certain plastics. Lankro's major facilities include plants located at Eccles, England and Drogenbos, Belgium.

In February 1985, the Company sold its interest in a Brazilian subsidiary engaged in the process chemicals business. Included in the sale was the Company's former Tremembe, Brazil plant.

In March 1985, the Company sold to Showa Denko K.K., a Japanese company, all of its shares in a Japanese joint venture company formerly owned by the Company and Showa Denko. Showa Denko in turn sold all of its shares in SDS Biotech Corporation, an Ohio-based joint venture formed by Showa Denko and the Company in 1983, to a purchaser who intends to resell such shares to another purchaser. In the event such shares have not been resold by December 31, 1985, the Company has agreed to acquire the shares. Both joint ventures were formed to develop, manufacture and market agricultural chemical and animal health products.

Research and Development

Following the sale of the Company's electrochemical technology business and the joint venture of the Company's agricultural chemicals and animal health businesses, the Company's research and development activities have been significantly reduced from the levels of the early 1980's. The primary research and development projects relate to the Company's process chemicals business, with laboratories located near Morristown, New Jersey, and new product development at Concord, Ohio. In addition, the Company's Lankro subsidiary conducts research and development in Eccles, England.

Total expenditures for research and development (excluding technical services to customers) were $6,242,000 for 1984, $23,764,000 in 1983 and $46,453,000 in 1982.

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

Regulatory Controls

Governmental Controls of Petroleum Activities

The Crude Oil Windfall Profit Tax Act of 1980 imposes a tax on producers of crude oil. The tax is an excise tax of a certain percent of the per barrel price of crude oil in excess of a changing base price. The percent of the tax and the base price vary according to the classification of the oil under such Act. The Company's windfall profit tax for 1984 was $20,148,000. Although the impact of the tax varies from producer to producer, the Company does not believe it is at a competitive disadvantage compared with the petroleum industry participants generally.

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

During 1984, the prices received for most natural gas sold by the Company in the United States were regulated under the Natural Gas Policy Act of 1978; however, at the end of 1984 such regulations were terminated for certain categories of such gas. Approximately 50% of the Company's gas produced in the United States continues to be regulated. Natural gas produced in other countries is also affected by regulations of national and local governments.

Health, Safety and Environmental Controls

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

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

The Toxic Substances Control Act ("TSCA") authorizes the Environmental Protection Agency ("EPA") to ban or restrict the manufacture, processing, distribution, commercial use or disposal of any chemical substance or mixture that presents an unreasonable risk of injury to health or the environment. Compliance with TSCA by the Company has increased the expense and extended the time required to develop and bring new products to market. TSCA also regulates the storage and labeling of many chemical compounds and provides for substantial civil penalties for the violation of such provisions. The Company has incurred liability under TSCA in the past, but it is unlikely that the penalties imposed for these violations will be material to the Company. See "Item 3. Legal Proceedings."

The Resource Conservation and Recovery Act empowers the EPA to regulate the treatment and disposal of industrial wastes. The EPA has also issued regulations for the identification of hazardous wastes and for tracing the generation, transportation and disposal of these wastes. The Company has incurred and will continue to incur expenses related to reports, recordkeeping, facility operations and waste disposal under this Act.

The Comprehensive Environmental Response, Compensation and Liability Act ("Superfund") establishes funds by the imposition of taxes on crude oil, certain chemicals and hazardous wastes for the purpose of cleaning up deposits and spills of hazardous substances and monitoring and maintaining closed hazardous waste disposal sites. The Company has been identified as a potentially responsible party in connection with several hazardous waste disposal sites listed by the EPA for immediate remedial action. The Company has paid to the government its proportionate share of clean-up costs at some of those sites, which costs have not been material to the Company's business or financial condition, and is awaiting further data on other sites before it can determine what, if any, claims the government may assert. The Company continues to incur the expense of the taxes imposed by Superfund on crude oil and the designated chemicals which it produces. Several bills have been introduced in Congress which would substantially increase such taxes and apply them to other products of the Company. It is not possible at this time to predict whether such legislation will be enacted into law, or its impact on the Company and its operations.

The Company's coal business is subject to federal legislation and regulations prescribing mining health and safety standards. While the Company has paid fines for noncompliance with such standards, the Company has not received notification of any legal violation which has not been corrected or is not in the process of being corrected.

The Federal Surface Mining Control and Reclamation Act regulates and limits surface mining operations, including the surface effects of underground mining. Compliance with the regulations has had a material effect on the coal business as a result of increased needs for capital equipment and required modifications of operations, and on cash flow due to the timing of collection of claims for cost reimbursements from its customers. While the Company is unable to project the ongoing costs of compliance with these provisions of this Act, it believes that the cost will increase at least through the mid-1980's.

OCCNI0003880

The Company believes that its policies, practices and procedures in the areas of pollution control, product safety and occupational health, and the production, handling, storage, use, transportation and disposal of chemicals, compounds and other substances, are adequate to prevent unreasonable risk of environmental and other damage, and of resulting financial liability, in connection with its business. Some risk of environmental and other damage is, however, inherent in particular operations and products of the Company, as it is with other companies engaged in similar businesses. The Company cannot predict what environmental legislation or regulations will be enacted in the future or how existing or future laws or regulations will be administered or enforced with respect to products or activities to which they have not previously been applied. Compliance with more stringent laws, regulations or enforcement policies could have an adverse effect on the operations of the Company and could require substantial additional expenditures by the Company for the installation and operation of pollution control systems and equipment. The Company's environmental control capital expenditures were approximately $5,520,000 in 1984, and are expected to approximate $11,900,000 in 1985. In addition to capital expenditures, the Company has incurred significant operating costs in complying with environmental control laws and regulations.

Employees

As of December 31, 1984, the Company had 12,738 employees, 10,251 of whom were located in the United States.

Item 3. Legal Proceedings.

Agent Orange Litigation

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

In December 1983, the District Court certified a class action in which the plaintiff class consists of those persons who were in the United States, New Zealand or Australian Armed Forces at any time from 1961 to 1972 who were injured while in or near Vietnam by exposure to Agent Orange. The class also includes spouses, parents and children of such servicepersons born before January 1, 1984, directly or derivatively injured as a result of the exposure. On May 7, 1984, representatives of the plaintiff class and the defendants entered into a settlement agreement which was approved by the District Court on January 7, 1985. Under the settlement, defendants collectively agreed to pay $180,000,000 (the "Settlement Amount"), plus interest from May 7, 1984 to the date of payment, into a fund established by the District Court. The amount of the Company's share of the Settlement Amount is set forth in a sealed agreement delivered to the District Court on May 7, 1984.

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

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

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

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

Newark Litigation

Several lawsuits are now pending against the Company as a result of the manufacture of Agent Orange at the Company's former Newark, New Jersey plant. One of the lawsuits is a class action brought in June 1983 in the Law Division of the Superior Court of New Jersey, Essex County, on behalf of persons who may have worked at the plant and residents and businesses in the area surrounding the plant. Damages are sought for personal injuries and property damage as a result of the presence of dioxin on the plant site and in the vicinity. Another suit, brought in August 1983 in the Chancery Division of the same court by an unincorporated association of individuals and by residents and businesses in the area, has been amended recently to include as plaintiffs certain former employees and their families. The latter suit seeks cleanup of the area, damages for personal injury and property loss, health exams and various other actions. In addition, five claims for property damage, all in connection with the Company's former Newark plant, have been filed against the Company. The Company intends to defend these actions vigorously.

Early in 1984, the Company, working with the New Jersey Department of Environmental Affairs, signed an order to clean up its former Newark plant. A feasibility study is now being conducted to develop a detailed engineering plan. This cleanup, including the costs of settling claims by adjoining property owners and purchasing certain adjoining property needed to carry out the cleanup, is expected to cost approximately $12,000,000. In December 1984, a second order was signed covering the neighborhood around the plant. The cost of this cleanup, including settling claims of adjoining property owners, is expected to be approximately $10,000,000.

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

Federal Trade Commission Proceeding

The Company and The B. F. Goodrich Company are parties to a Federal Trade Commission administrative complaint issued in January 1982 that alleges that the acquisition by Goodrich of the Company's plastics subsidiary would illegally reduce competition in the domestic production of vinyl chloride monomer and polyvinyl chloride resins. The Company and Goodrich believe the sale was entirely lawful and they are contesting the complaint vigorously. The Company has agreed, however, that if a final judgment of a Federal appeals court requires Goodrich to divest itself of the acquired assets and they are not sold to a third party, the Company will reacquire them. A trial on the merits of this matter before an administrative law judge was concluded in February of 1985 and a decision is expected within the next few months.

Other

In September 1984, the EPA filed a complaint against the Company under the Toxic Substance Control Act ("TSCA") alleging certain violations of TSCA at a plant owned by a 50%-owned subsidiary of the Company at Green's Bayou, Texas. The alleged violations pertain to the labeling, storage and disposal of drums containing PCB wastes, the decontamination of certain equipment used to handle such drums and the preparation and maintenance of certain documents

and records required by TSCA. The complaint seeks civil penalties of approximately $2,368,000. The Company orally has agreed to settle the complaint by paying penalties of $800,000, constructing new storage facilities and instituting new waste disposal practices.

In May 1984, in the course of the sale of the Company's ion exchange resin business to subsidiaries of Rohm and Haas Company, the Company discovered several possible cases of noncompliance with TSCA involving the failure to file premanufacturing notifications with the EPA prior to importing, manufacturing and using various chemicals subject to TSCA. The Company notified the EPA of the matter, and in March 1985, the EPA issued an administrative complaint against the Company proposing civil penalties of $1,782,000. The Company intends to negotiate promptly a settlement of the complaint.

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

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

Inapplicable.

Executive Officers of the Company

The following table sets forth certain information as of March 15, 1985 concerning the executive officers of the Company:

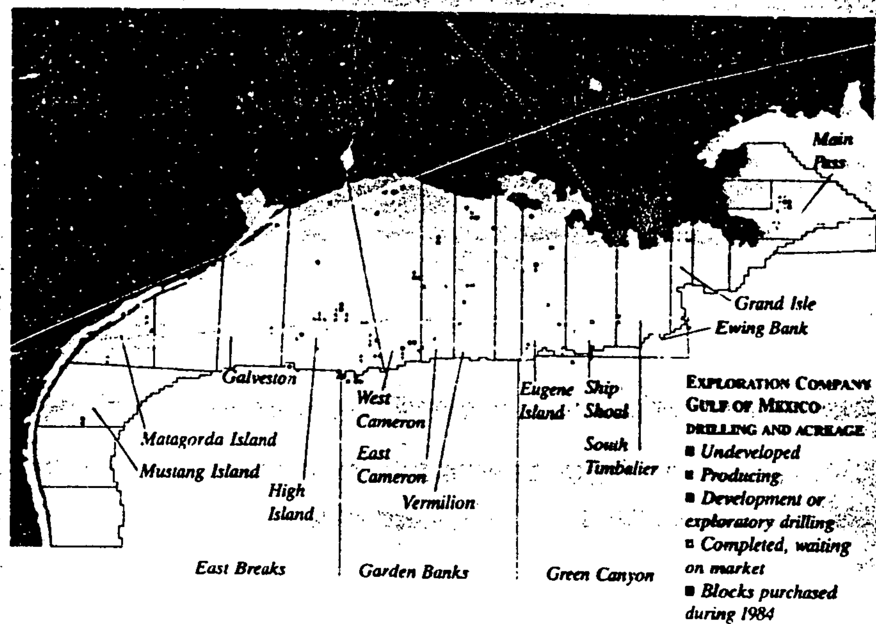
Name	Position with the Company	Age	Served as an Officer Since
W. H. Bricker	Chairman of the Board and Chief Executive Officer	53	1972
J. L. Jackson	President and Chief Operating Officer	53	1979
J. A. Rush, Jr.	Vice Chairman of the Board	63	1967
C. E. Stewart	Executive Vice President; President of Diamond Shamrock Chemicals Company	49	1978
R. M. Ahlstrom	Senior Vice President and Chief Financial Officer	50	1971
R. W. Arp	Vice President and Controller	48	1981
G. G. Carlton	Vice President, Administration	48	1978
R. E. Garbesi	Vice President; President of Diamond Shamrock Coal Company	60	1983
C. B. Groves	Vice President; President of Diamond Shamrock Exploration Company	47	1982
R. R. Hemminghaus	Vice President; President of Diamond Shamrock Refining and Marketing Company	48	1984
P. A. Hesse	Vice President, Communications	43	1984
J. F. Kelley	Vice President and General Counsel	43	1981

OCCNJ0023883

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

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

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



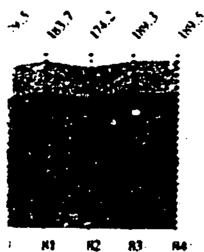
EXPLORATORY DRILLING TARGETS NEW HIGH-POTENTIAL PROSPECTS.
Among our exploratory prospects, the Alaskan Beaufort Sea continues to be one of the most promising unexplored regions within U.S. borders, potentially offering some of the world's largest oil reserves. We acquired interests in nine federal offshore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

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

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

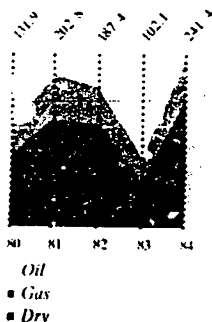
GROWING EMPHASIS IN GULF OF MEXICO YIELDS GREATER PRODUCTION, OPPORTUNITIES FOR DISCOVERIES.
Over the last decade, our most significant North American production

EXPLORATION COMPANY NET PROVED RESERVES *(millions of barrels)*



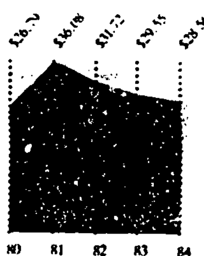
Oil and condensate
Canada
U.S.
*Natural gas (oil equivalent)**
Canada
U.S.
**6,000 cubic feet gas = 1 bbl. oil.*

EXPLORATION COMPANY NET WELLS DRILLED



Oil
Gas
Dry

EXPLORATION COMPANY AVERAGE OIL PRICE *(per barrel)*



OCCN 23884

EXHIBIT 22.1

OCCNJ0023885

EXHIBIT 22

DIAMOND SHAMROCK CORPORATION
PRINCIPAL SUBSIDIARIES

Name of Subsidiary	Jurisdiction of Incorporation	Percent Ownership
Diamond Shamrock Chemicals Company	Delaware	100%
Diamond Shamrock Coal Company	Delaware	100%
Amherst Coal Company	West Virginia	100%
Diamond Alaska Coal Company	Delaware	100%
Falcon Seaboard Inc.	Delaware	100%
Falcon Coal Company Inc.	Delaware	100%
Diamond Shamrock Corporate Company	Delaware	100%
Lone Creek Coal Company	Delaware	100%
Diamond Shamrock International Energy Company	Delaware	100%
Diamond Shamrock Exploration Company	Delaware	100%
Natomas North America, Inc.	California	100%
Diamond Shamrock Exploration of Canada, Ltd.	Canada	100%
Diamond Shamrock Refining and Marketing Company	Delaware	100%
Sigmor Corporation	Delaware	100%
Sigmor Pipeline Company	Texas	100%
Diamond Shamrock Canada Ltd.	Canada	100%
Diamond Shamrock International Petroleum Company	Delaware	100%
Natomas Company	California	100%
Natomas Energy Company	California	100%
IIAPCO, Inc.	Delaware	100%
Thermal Power Company	California	100%
Transworld Petroleum Corporation	Delaware	100%
Transworld Petroleum (U.K.) Limited	United Kingdom	100%

The names of certain other subsidiaries have been omitted since such subsidiaries, considered in the aggregate, do not constitute a significant subsidiary. For the policy followed by the Company in accounting for subsidiaries and associated companies, see "Significant Accounting Policies — Consolidation and Equity Accounting" contained on page 36 of the Company's 1984 Annual Report to Stockholders, which information has been incorporated herein by reference.

3886