EXHIBIT 63

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the Fiscal Year Ended December 31, 1989

OR

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

Commission File Number 1-8567-2

Maxus Energy Corporation

(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) 953-2000**

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
Rights to Purchase Junior Preferred Stock, Series A, of Maxus Energy Corporation	New York Stock Exchange Pacific Stock Exchange
$4.00 Cumulative Convertible Preferred Stock, $1.00 Par Value	New York Stock Exchange
8½% Sinking Fund Debentures Due April 1, 2008	New York Stock Exchange
Liquid Yield Option Notes Due 2004 (Zero Coupon—Subordinated)	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 February 27, 1990 was approximately $1,160,000,000.

Shares of Common Stock outstanding at February 27, 1990—90,709,700.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the following document are incorporated by reference into the indicated part of this report:

Definitive proxy statement of the Company relating to the 1990 Annual Meeting of Stockholders, filed with the Commission pursuant to Regulation 14A—Part III.

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PART I

Items 1 and 2. Business and Properties.

Maxus Energy Corporation (the "Company") was incorporated in Delaware in 1983 as a holding company to hold the stock of various corporations, the oldest of which was founded in 1910. The Company, together with its subsidiaries, is an independent oil and gas exploration and production company. Its principal executive offices are located at 717 North Harwood Street, Dallas, Texas 75201, and its telephone number is (214) 953-2000. In this report, the term "Company" means Maxus Energy Corporation, its subsidiaries and their predecessors unless the context otherwise indicates.

The Company is engaged in business in the United States and in several foreign countries. Information concerning outside sales and operating profit by geographic area for the three years ended December 31, 1989, and identifiable assets by business segment and identifiable assets by geographic area as of December 31, 1989, 1988 and 1987 is presented on page F-15 of this report.

The Company's sales or transfers between geographic areas were not significant in each of the three years ended December 31, 1989. 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, 1989.

Exploration and Production

North American. Effective January 1, 1989, the Company sold its Canadian subsidiary, constituting all of the Company's Canadian operations, for approximately U.S. $141.6 million. The Company's North American operations currently focus exploration efforts in proven basins in the United States. The major United States basins in which the Company is active include the Anadarko Basin in the Texas Panhandle and western Oklahoma; the Arkoma basin of Arkansas and eastern Oklahoma; the Williston Basin of North Dakota and Montana; the Permian Basin in West Texas and eastern New Mexico; and offshore and onshore in the Texas and Louisiana Gulf Coast areas.

The Company is a general partner of a master limited partnership (the "Partnership") engaged in exploration and production in federal waters offshore Texas and Louisiana. The aggregate ownership interest of the Company in the Partnership, comprised of a 1% general partnership interest and units of limited partnership interest, was approximately 85.8% at December 31, 1989. The Company's ownership interest in the Partnership is reflected in the information regarding the Company's oil and gas operations included in this report.

The Company has substantial investments in natural gas gathering systems in the Texas Panhandle and western Oklahoma. These systems are used to aggregate gas produced and purchased by the Company for processing and resale. Sales of natural gas liquids were 19,209 barrels per day in 1989. These liquids were sold to Diamond Shamrock R&M, Inc., now known as Diamond Shamrock, Inc. ("R&M"), a former wholly owned subsidiary of the Company, and other unaffiliated buyers.

During 1989, the Company sold to various purchasers for an aggregate amount of approximately $70.3 million certain non-strategic United States oil and gas properties.

International. The Company's international activities (outside North America) include substantial exploration, development and production efforts in Indonesia, as well as activities in Ecuador, Chile, Bolivia, Australia, Spain, Colombia, Tunisia and the United Kingdom.

The Company has interests in production sharing contracts with Pertamina, Indonesia's state oil company, for the exploration, development and production of oil and gas in two primary areas in the Java Sea—Southeast Sumatra and Northwest Java. These areas accounted for 81.0% of the Company's total net production of oil during 1989. The Company's working interest in the Southeast Sumatra production sharing contract under which it acts as operator is approximately 55.7%. In October 1989, the Company sold the

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stock of a wholly owned foreign subsidiary which owned a 10% interest in the Northwest Java production sharing contract for approximately $100.0 million, thereby reducing its interest from 34.27% to 24.27%. A third area, Aru, was acquired in 1985. The Company's working interest in the Aru production sharing contract with Pertamina is now 40%. An exploratory well was commenced on the Aru contract area in 1989 and was completed as a dry hole. A second exploratory well was commenced during the first quarter of 1990 and was also completed as a dry hole. A contract covering a fourth area, Fifi-Zaitun in the Java Sea adjoining the Company's Southeast Sumatra contract area, was approved by Pertamina in 1989. When the contract is executed, the Company's interest in this production sharing contract will be approximately 28%.

The Indonesian production sharing contracts allow the Company to recover, subject to available production, intangible costs of exploration and production on a current basis and tangible costs of exploration and production generally over a seven-year period. The current terms of the Southeast Sumatra and Northwest Java production sharing contracts expire in 1998 and 1997, respectively, but a 20-year extension of the Northwest Java contract has been approved by Pertamina and, based on comparable actions of Pertamina, the Company expects to receive approval of a similar extension as to the Southeast Sumatra contract.

In the second quarter of 1988, the Company announced the results of two major oil discoveries located in the Southeast Sumatra contract area of Indonesia—the Intan and Widuri fields. Start-up of a temporary production facility at Intan began ahead of schedule in mid-1989 at an initial production rate of approximately 30,000 gross barrels per day. It is currently expected that when full production from both the Intan and Widuri fields is reached in 1991, total production will be approximately 220,000 gross barrels per day. At this level of production, Maxus would net approximately 60,000 barrels per day.

On January 21, 1990, a fire occurred in the engine room of the "Lan Shui," a floating temporary crude oil processing facility for production from the Intan field. The fire was extinguished with no reported serious injuries, oil spills or loss of crude oil in storage and the facility resumed operation on February 28, 1990. There was no interruption in construction activity underway on a permanent production facility for the area.

As of December 31, 1989, the Company and its partners had drilled a total of eight wells on Ecuador Block 16. Seven of these wells tested significant quantities of oil. A plan for development of the reserves has been submitted and is awaiting governmental approval. The Company's interest in the block is 15%.

The Company's foreign petroleum exploration, development and production activities are subject to political and economic uncertainties, expropriation of property and cancellation or modification of contract rights, foreign exchange restrictions and other risks arising out of foreign governmental sovereignty over the areas in which the Company's operations are conducted.

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Oil and Gas Operations

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, 1989 were as follows:

	Year Ended December 31,		
	1989	1988	1987
United States			
Average Sales Price			
Crude Oil (per barrel)	$ 17.97	$14.80	$17.03
Natural Gas (per Mcf)	$ 1.73	$ 1.67	$ 1.59
Average Production Cost (per barrel)*	$ 2.49	$ 2.37	$ 2.48
Indonesia			
Average Sales Price			
Crude Oil (per barrel)	$ 17.52	$15.51	$17.58
Natural Gas (per Mcf)	$ .20	$ .20	$ .20
Average Production Cost (per barrel)**	$ 6.16	$ 6.51	$ 5.70
Canada***			
Average Sales Price			
Crude Oil (per barrel)		$12.89	$16.09
Natural Gas (per Mcf)		$ 1.17	$ 1.10
Average Production Cost (per barrel)*		$ 3.08	$ 3.71
Other Foreign			
Average Sales Price			
Crude Oil (per barrel)		$11.13	$15.54
Natural Gas (per Mcf)		$ 2.54	$ 2.53
Average Production Cost (per barrel)*		$ 1.84	$ 5.64

*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 have approximately the heating value of one barrel of crude oil.

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

***Effective January 1, 1989, the Company sold its Canadian subsidiary, constituting all of the Company's Canadian operations.

Information regarding the Company's oil and gas producing activities for 1989, 1988 and 1987 is set forth on pages F-31 through F-34 of this report. The Company's estimates of its net interests in proved reserves are based upon records regularly prepared and maintained by its engineers. In 1989, the Company and the Partnership each filed estimates of certain of its proved reserves of crude oil and natural gas in the United States at December 31, 1988 with the United States Department of Energy. The total reserve estimates included therein do not differ by more than 5% from the total reserve estimates for the comparable period for the same reserves included in the Company's filings with the Securities and Exchange Commission.

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. "Productive" wells are either producing wells or wells capable of commercial production although currently shut-in. One or more completions ("multiple completions") in the same bore hole are counted as one well.

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At December 31, 1989, 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	1,672	660.9
Indonesia	766	282.1
Other Foreign	0	0
Total	2,438	943.0
Gas Wells Owned		
United States	1,425	1,060.6
Indonesia	8	2.6
Other Foreign	0	0
Total	1,433	1,063.2
Multiple Completions	341	119.6

At December 31, 1989, total gross and net developed and undeveloped acreage by geographic area was as follows:

	United States	Indonesia	Other Foreign
Gross Acres			
Developed Acres	681,578	133,989	0
Undeveloped Acres	1,797,804	30,672,331	11,325,437
Total	2,479,382	30,806,320	11,325,437
Net Acres			
Developed Acres	499,995	51,005	0
Undeveloped Acres	1,000,532	11,795,502	8,442,553
Total	1,500,527	11,846,507	8,442,553

Drilling activities of the Company for the three years ended December 31, 1989 are summarized by geographic area in the following table:

	Year Ended December 31,		
	1989	1988	1987
United States			
Net Exploratory Wells Drilled			
Productive	5.8	8.9	5.5
Dry	5.4	14.6	15.9
Total	11.2	23.5	21.4
Net Development Wells Drilled			
Productive	11.8	22.8	30.8
Dry	1.2	11.4	21.7
Total	13.0	34.2	52.5

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	Year Ended December 31,		
	1989	1988	1987
Indonesia			
Net Exploratory Wells Drilled			
Productive	0	0	0
Dry	.4	0	0
Total	.4	0	0
Net Development Wells Drilled			
Productive	17.2	10.2	15.6
Dry	11.8	9.1	2.5
Total	29.0	19.3	18.1
Canada*			
Net Exploratory Wells Drilled			
Productive		4.9	9.7
Dry		4.0	9.8
Total		8.9	19.5
Net Development Wells Drilled			
Productive		3.3	7.8
Dry		.3	.5
Total		3.6	8.3
Other Foreign			
Net Exploratory Wells Drilled			
Productive	0	0	0
Dry	.8	.3	.7
Total	.8	.3	.7
Net Development Wells Drilled			
Productive	0	0	0
Dry	0	0	0
Total	0	0	0

*Effective January 1, 1989, the Company sold its Canadian subsidiary, constituting all of the Company's Canadian operations.

At December 31, 1989, the Company was participating in the drilling of 9 gross and 4.8 net wells in the United States and 6 gross and 2.2 net wells in Indonesia.

Competition and Markets

The Company's production represents only a small fraction of the total world markets for oil and natural gas. As a result, the prices the Company receives depend primarily on the relative balance between supply and demand in these markets.

The world crude oil market continues to be volatile. Demand increases have been matched by production increases, both by OPEC and non-OPEC producers. Production capacity worldwide continues to exceed demand, however, and unrestrained production would result in substantially lower prices.

The primary market for the Company's Indonesian production is the Far East, particularly Japan. The increasing environmental consciousness of this rapidly expanding region has resulted in a premium market for low sulfur oils such as that found in the Intan and Widuri fields. The Company has established relationships with key utilities, refiners and trading companies which are expected to facilitate sales in this region.

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In the United States, natural gas continues to gain momentum as a "cleaner" fuel alternative and the potential for continued growth in demand is high. The market price for gas remains extremely volatile, with weather and regional supply and demand imbalances causing large monthly price swings. The Company's natural gas production is concentrated in the Gulf of Mexico, the Texas Panhandle, western Oklahoma and the Texas Gulf Coast. The Company has been able to realize premium gas prices by focusing its marketing efforts and by aggregating supply in order to offer large volumes backed by a diversified supply source.

Other Businesses

The Company is engaged in several other businesses, none of which is material to the Company's results of operations.

The Company has interests in coal reserves in Alaska and Pennsylvania. The Alaska properties have not been developed for mining operations. The Company currently conducts mining operations at the Gateway Mine in Pennsylvania, producing approximately 1.2 million clean tons of metallurgical coal in 1989; however, the Company intends to cease all coal mining operations at Gateway by the end of the first quarter 1990. Extensive evaluations conducted for and by the Company have led to a decision that further mining of the reserves remaining after completion of mining in the current mining area would not be economical.

The Company currently owns a 25% interest in a joint venture that produces steam at The Geysers in northern California, the site of the largest commercial production of electric power from geothermal steam in the United States.

Regulatory Controls—Governmental Controls of Natural Gas Sales

Prices for most natural gas sold by the Company in the United States were subject to controls under the Natural Gas Policy Act of 1978 ("NGPA"); however, at the end of 1984 and again in mid-1987, such controls were terminated for certain categories of gas. Further, in July 1989 the Natural Gas Wellhead Decontrol Act of 1989 ("WDA") became law. The WDA takes the final step in the decontrol of gas prices by removing over time those controls that remained following partial decontrol under the NGPA. All first sales of gas are decontrolled by January 1993; certain first sales are decontrolled prior to 1993. It is estimated that less than one-third of the Company's gas produced in the United States continues to be price-controlled, although a number of ceiling prices are in excess of currently available market prices. Under most gas purchase contracts, when the price of gas is decontrolled, the price is subject to renegotiation by the buyer and seller on a periodic basis or the gas is subject to release from the contract. In light of the present condition of the gas markets, renegotiated prices for such gas have tended to be substantially lower than prior prices or than the controlled ceiling prices provided under the NGPA.

In 1986, the Federal Energy Regulatory Commission ("FERC") issued Order Nos. 451 and 451-A (the "Order") which, while retaining the "old" gas price vintaging structure for existing contracts, added an alternative escalating maximum lawful price, currently in excess of $2.90 per million British thermal units ("MMBtu"), which is applicable to new and renegotiated contracts. Producers having existing contracts covering "old" gas can obtain a price up to the new maximum lawful price through voluntary negotiations or by initiating the mandatory renegotiation procedures set forth under the Order. Once such renegotiation is sought by a producer for any of its "old" gas under a contract, all other gas covered by the contract, including "new" gas at higher prices, as well as all gas under other contracts with that same purchaser which cover some "old" gas, become subject to renegotiation at the request of the pipeline purchaser. Where the parties cannot agree on new prices, the contracts are subject to termination as to the relevant gas. To the extent that the contract is terminated or partially terminated and gas is thereby released from commitment to a pipeline, the FERC has granted the producer blanket authority for sales of gas to another entity. After analysis of the potential benefits and risks to the Company, during 1987 and 1988, the Company invoked the Order's mandatory renegotiation procedures for virtually all of its qualifying contracts, representing approximately 24% of its U.S. proved gas reserves as of December 31, 1987, and approximately 13% of its 1987 U.S. gas production; however, these volumes would currently represent a smaller percentage of the total due to the change in the production mix.

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In September 1989, a divided U.S. Fifth Circuit Court of Appeals held the Order invalid and vacated it in its entirety, ruling that the FERC exceeded its legal authority when it issued the Order. In January 1990, however, the U. S. Supreme Court delayed the effect of the appeals court's ruling until the Court decides whether to hear an appeal in the case. Appeals are being planned by a large group of natural gas production companies and by the FERC. If the U. S. Supreme Court agrees to hear the appeal, the Order will remain in effect until the Court completes its action on the case.

Because of the number of assumptions which would have to be made, it is difficult to estimate what amounts the Company would have received for the gas involved if the Order had not been entered; however, the difference between such amounts and the amounts actually collected could approximate $20 million as of December 31, 1989. Based on advice of its legal counsel, management presently believes that it is not probable that it will be required to make refunds as a result of the litigation.

In 1985, the FERC established through its Order No. 436 a program which, among other things, permits any pipeline to transport gas for others on a non-discriminatory basis. This program more readily permits producers to sell gas directly to distributors and end-users through the facilities of pipelines electing to participate. All major pipelines have elected to participate in this program.

In 1987, a federal appeals court generally upheld the open-access transportation program authorized in Order No. 436, but remanded the matter to the FERC with respect to the impact of the program on take-or-pay contracts between pipelines and producers. In response to the federal court's remand, in August 1987, the FERC issued Order No. 500, an interim rule that established a controversial take-or-pay crediting mechanism. Under Order No. 500 and a related series of orders, gas is generally eligible for open-access transportation only if the producer has submitted an "offer" of take-or-pay credits to the potential interstate pipeline transporters of such gas. Each unit of gas transported under such an offer would result in a credit usable by the pipeline to reduce its take-or-pay liability with that producer. The selection of the contracts against which these credits will apply is at the discretion of the pipeline. The Company now has no significant take-or-pay claims, and to date its gas sales and transportation have not been adversely affected by Order No. 500 and the related series of orders. In October 1989, the U.S. D.C. Circuit Court of Appeals completed its review of challenges to the legality of Order No. 500 and ordered the FERC to issue a final rule within 60 days justifying several portions of the interim rule. Order No. 500-H was issued by the FERC in December 1989 to resolve the Court's objections. The Order retains the FERC rules on nondiscriminatory transportation and sets a deadline for use of the crediting mechanism, but changes the treatment of take-or-pay costs to meet the court's objections. In Order No. 500-I issued in February 1990, the FERC denied rehearing of Order No. 500-H in all respects but one. Numerous petitions for review of Order Nos. 500-H and 500-I are now pending in the U.S.D.C. Circuit Court of Appeals. If such Order ultimately is overturned in court, a significant portion of the Company's gas sales could be temporarily interrupted pending regulatory approval of the existing transportation and sale transactions under the Natural Gas Act of 1938.

Regulatory Controls—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, provide penalties and other liabilities for the violation of such standards and establish in certain circumstances obligations to remediate current and former facilities and off-site locations.

Many of the Company's operations are subject to controls established under the Safe Drinking Water Act, the Clean Water Act, the Clean Air Act and the Occupational Safety and Health Act. The laws require the Company to comply with the terms of the associated regulations and permits and provide for the imposition of penalties.

The federal Comprehensive Environmental Response, Compensation and Liability Act of 1980 ("Superfund") (amended in 1986 by the Superfund Amendments and Reauthorization Act) and certain state "superfund" laws require the cleanup of deposits and spills of hazardous substances and the monitoring and maintaining of closed hazardous waste disposal sites.

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The Company believes that its policies and procedures in the area of pollution control, product safety and occupational health 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 of the Company and, as discussed below, the Company has certain potential liabilities from former operations. 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. Compliance with more stringent laws or regulations, as well as more vigorous enforcement policies of the regulatory agencies, could in the future require material expenditures by the Company for the installation and operation of systems and equipment, for remedial measures and in certain other respects.

In connection with the sale of the Company's chemical subsidiary, Diamond Shamrock Chemicals Company ("Chemicals"), to Occidental Petroleum Corporation ("Occidental") in 1986, the Company agreed to indemnify Chemicals and Occidental from and against certain liabilities relating to the business or activities of Chemicals prior to the September 4, 1986 closing date (the "Closing Date"), including certain environmental liabilities relating to certain chemical plants and waste disposal sites used by Chemicals prior to the Closing Date.

In addition, the Company agreed to reimburse Chemicals and Occidental for 50% of certain environmental costs incurred by Chemicals on projects for which notice is given to the Company within 10 years after the Closing Date, including costs of remedial activities relating to chemical plant sites or other property used in the conduct of the business of Chemicals as of the Closing Date and for any period of time following the Closing Date, with the Company's aggregate exposure for this cost sharing being limited to $75 million. The total expended by the Company under this sharing arrangement was about $4.7 million as of December 31, 1989.

In connection with the spin-off of Diamond Shamrock R&M, Inc., now known as Diamond Shamrock, Inc. ("R&M"), in 1987, the Company and R&M agreed to share the costs of losses (other than product liability) relating to businesses discontinued or disposed of prior to the spin-off, including Chemicals. The Company is to bear the first $75 million of such costs; R&M is to bear the next $37.5 million; and such costs thereafter will be borne one-third by R&M and two-thirds by the Company until R&M has borne a total of $85 million, following which such costs will be borne solely by the Company. As of December 31, 1989, such costs amounted to approximately $56.2 million and have been borne, as agreed, by the Company. The Company has established reserves for discontinued operations (including environmental expenditures) covering such costs until R&M becomes obligated to pay the next $37.5 million of such costs.

The Company's total expenditures for environmental compliance (including those on behalf of Chemicals) were approximately $16.6 million in 1989 and are expected to be approximately $18.7 million in 1990 and approximately $23.1 million in 1991. The increased level of such expected expenditures in 1991 as contrasted to prior years is primarily attributable to the expectation that the Newark project and parts of the Kearney project, both discussed below, will be moving from the preliminary engineering to the advanced engineering and construction phase in that year. The Company's environmental compliance expenditures included in 1989, and are expected to include for 1990 and 1991, capital expenses such as installation of environmental control facilities, as well as costs incurred for on-site and off-site environmental remediation and for compliance with applicable environmental laws in respect of both current and discontinued or disposed of operations, including contractual indemnity obligations arising in respect of Chemicals and other disposed of businesses.

The insurance companies which wrote Chemicals' and the Company's primary and excess insurance during the relevant periods have to date refused to provide coverage for Chemicals' or the Company's cost of the personal injury and property damage claims related to the Newark plant and the cleanup of the Newark plant site (both discussed below), and other environmental claims, including remedial activities at chemical plant sites and disposal sites. In two actions filed in New Jersey state courts, the Company is conducting litigation against all of these insurers for declaratory judgments that it is entitled to coverage for these claims.

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In April 1989, the trial judge in one of the New Jersey actions ruled that there is no insurance coverage with respect to the claims related to the Newark plant. The Company has appealed. The other suit, which covers all other disputes with respect to insurance coverage related to environmental matters, is expected to be tried in 1991.

The Company will continue to incur costs for environmental compliance, especially those associated with Chemicals. The Company is unable to estimate the ultimate total amount of such costs. However, in the opinion of the Company, the material probable environmental costs which can reasonably be estimated are adequately covered by reserves or the above-described cost sharing arrangements with R&M.

Newark, New Jersey. The terms of a consent decree on a plan for remedial action at the former Newark, New Jersey plant used by Chemicals for the manufacture of agricultural chemicals, including DDT, 2,4-D and 2,4,5-T, have been agreed upon by the U.S. Environmental Protection Agency (the "EPA"), the New Jersey Department of Environmental Protection (the "DEP") and Occidental, as successor to Chemicals. The federal court is expected to enter the decree in 1990 whereupon engineering and construction may commence. The construction is expected to require approximately four years to complete at an estimated cost of approximately $10 million. The work will be supervised and paid for by the Company pursuant to its above-described indemnification obligation to Occidental and Chemicals.

The cleanup of the neighborhood surrounding the plant pursuant to an earlier consent agreement with the DEP has been substantially completed. Studies have indicated that sediments of the nearby Passaic River are contaminated with hazardous chemicals from many sources. Further studies funded in part by the Company are underway to evaluate the nature and extent of such contamination attributable to the former Newark plant. Until studies are completed and evaluated, it cannot be reasonably forecast what regulatory program, if any, will be proposed for the Passaic River.

Hudson County, New Jersey. In December 1989, the DEP announced a public hearing in January 1990 to discuss a proposed plan for remediation of chromium contamination at 31 residential sites in Hudson County, New Jersey. According to the announcement, the corporate predecessor of Allied-Signal, Inc., the corporate predecessor of PPG Industries, Inc. and Chemicals, as corporate predecessor of Occidental and the Company, processed chromium ore at several Hudson County manufacturing plants until the early 1970s. Until 1972, Chemicals operated a chromium ore processing plant at Kearny, New Jersey, the site of which is now owned by a subsidiary of the Company. The Company is not a corporate successor of Chemicals and, aside from the Company's subsidiary's ownership of the site, the Company's only involvement is as the indemnitor of Occidental and Chemicals. The plants operated by the other two corporations identified in the announcement were located in Jersey City, New Jersey, and all of the residential sites referred to in the announcement are in Jersey City. According to the announcement, chromate wastes from the ore processing operations were used as fill material at construction and demolition sites in Jersey City, Kearny and Secaucus, New Jersey. The DEP's preferred cleanup alternative for the residential sites in Jersey City is excavation and removal of the chromium contaminated materials (with a 75 parts per million total chromium soil cleanup objective) to an out-of-state commercial facility at a cost estimated by the DEP of $30 million. Management believes that none of the wastes from Chemicals' operation was deposited at any of the sites referred to in the DEP announcement, all of which are in Jersey City. The DEP's notice indicates that future action plans with respect to the industrial and commercial sites include performing treatability studies to evaluate the effectiveness of various innovative and other alternative technologies. Reasonable estimates cannot be made of the cost of remediation at the commercial and industrial sites until the individual site investigation and feasibility studies have been completed and the selection of each site's remedial action plan has been completed. The Company is negotiating with the DEP concerning a possible consent order covering studies, remediation or both at certain of these sites.

Pursuant to an order issued by the DEP (to all of the parties labelled by the DEP as successors to plant owners and operators with respect to all sites, residential, commercial and industrial), the Company, in 1989, commenced and is currently continuing interim remedial measures at certain industrial and commercial sites

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in the city of Kearny and at the site in Secaucus (where the Company's chromium residue may have been placed), including applying asphalt cover. It is estimated that the cost to the Company of these interim measures will approximate $6 million. These actions are more than 50% complete and they have been undertaken without admitting that the Company, Chemicals or Occidental have any responsibility for the sites involved.

In May 1989, the DEP issued a directive to all parties labelled by the DEP as successors to plant owners and operators to reimburse the State of New Jersey for about $49,000 spent by the DEP for emergency cleanup of an elementary school in Jersey City. The Company does not believe that waste produced by Chemicals was used at the elementary school and, accordingly, has declined to participate in any such reimbursement. In December 1989, the DEP issued a directive to all parties labelled by the DEP as successors to plant owners and operators to pay about $370,000 to assess the exposure of individuals at and in the vicinity of sites where chromate chemical production waste was used. The Company has requested clarification of this directive but has agreed to participate with the other parties in funding this amount. All directives described above issued by the DEP were issued under the New Jersey Spill Compensation and Control Act ("Spill Act"). The DEP is authorized to seek treble damages for failure to pay costs pursuant to directives issued under the Spill Act.

In addition, in the course of discussions with the DEP, the DEP has asserted that Chemicals violated provisions of the Spill Act by failing to report the location of sites where chromium wastes were used as fill material and that the DEP is contemplating imposing a penalty of $25 million or more. The Company believes that there is no legal or factual basis supporting the DEP's assertion and intends to litigate the matter if any attempt is made to impose any penalty.

The Company submitted to the DEP in November 1989 a work plan for remediation of the Kearny plant site. The preliminary estimate of the cost of remediation is approximately $8 million. The DEP has not yet responded to the submission.

All of the foregoing actions undertaken and expenditures made by the Company have been on behalf of Occidental pursuant to the Company's above-described indemnification obligation to Occidental and Chemicals.

Other Discontinued Plant Sites. Environmental remediation programs are in place at all other significant discontinued plant sites where remediation is required in the opinion of the Company. These discontinued plant sites where remediation has been completed are being maintained and monitored to insure continued compliance with applicable laws and regulatory programs.

Third Party Sites. Chemicals has also been designated as a potentially responsible party with respect to a number of third party sites where wastes from plant operations by Chemicals were allegedly disposed of or have come to be located. Numerous other potentially responsible parties ("PRPs") have been named at substantially all of these sites. At several of these, Chemicals has no known exposure. Although parties responsible for remediation are, by law, jointly and severally liable for the cost thereof, each has the right of contribution from other PRPs and, as a practical matter, cost sharing by PRPs is usually effected by agreement among them. Accordingly, the ultimate cost of remediation at these sites and Chemicals' share of the costs thereof cannot be estimated at this time, but is not expected to be material except possibly as a result of the matters described below.

1. *Fields Brook; Ashtabula, Ohio*. One of the facilities being operated by Chemicals at the time that Chemicals was sold to Occidental is a chemical plant at Ashtabula, Ohio. Occidental has continued to operate the Ashtabula plant. In July 1986, Chemicals was formally notified by the EPA that it was a PRP for remediation of contamination as a result of discharges from the operation of its Ashtabula plant into Fields Brook. The site is defined as Fields Brook, its tributaries and surrounding areas within the Fields Brook watershed. At least 15 other companies are presently considered to be financially responsible PRPs. In 1986, the EPA estimated the cost of remediation at the site would be $48 million. In March 1989, the EPA ordered the PRPs to conduct a portion of the work (predesign and design

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work and a source control study) estimated to cost not more than $7 million. Occidental and several other parties are complying with the order. These same parties have entered into an allocation agreement for sharing all costs with respect to the site. Under the agreement, the costs attributable to Occidental for the Ashtabula plant involvement would be less than 5% of the total assuming all viable PRPs were to participate. The United States on behalf of the EPA has sued the PRPs who have not complied with the order for past costs incurred in regard to Fields Brook and these defendants have filed cross-claims against Occidental and the other complying PRPs seeking contribution.

Although Fields Brook empties into the Ashtabula River which flows into Lake Erie, it is not known to what extent, if any, the EPA will propose remedial action beyond Fields Brook for which the Fields Brook PRPs might be asked to bear some share of the costs. In August 1989, the EPA, Occidental and three other parties entered into an administrative consent order for a study to evaluate sediment contamination in the Ashtabula River at an expected cost of approximately $1 million.

Until all preliminary studies have been completed, it is not possible to estimate what remedial activities will be required with respect to Fields Brook or related areas, the costs thereof, the parties responsible therefor, or their respective shares of shared costs attributable to the alleged polluting activities. It is the Company's position that any of such costs which are attributable to the Ashtabula plant fall under the Company's above-described cost sharing arrangement with Occidental under which the Company bears one-half of certain costs up to $75 million. Occidental, however, is contending that it is entitled to full indemnification from the Company for such costs, and the outcome of this dispute cannot be predicted.

2. *French Limited Disposal Site; Crosby, Texas.* The PRPs, including Chemicals represented by the Company, have entered into a consent decree and a related trust agreement with the EPA in respect of a disposal site in Crosby, Texas. The consent decree has been filed with the federal court and is expected to be entered as a settlement of the EPA's claim for remedial action. The estimated cost of remediation is about $67 million of which Chemicals' share is expected to be about 5%.

3. *Cedartown Municipal Landfill; Cedartown, Georgia.* The Cedartown municipal landfill in Cedartown, Georgia, was added by the EPA to the national priority list of Superfund sites in 1989. Chemicals was a major user of the site during its operation from the 1950s until about 1977. Negotiations are underway among the PRPs, including Chemicals respresented by the Company, and the EPA for an administrative consent order to perform a remedial investigation and feasibility study at an expected cost of about $1 million. Until that study is completed, no estimate can be made of the cost of remedial action, if any is required, but, based on preliminary expert opinion, management presently believes that this site should require no remediation or very limited remediation.

4. *SCP/Carlstadt Site; Carlstadt, New Jersey.* Chemicals' share of remedial costs at the SCP/Carlstadt Superfund site would be about 1.7%, based on relative volume of waste shipped to the site. A partial remedial investigation and feasibility study conducted by the PRPs (including Chemicals represented by the Company), a draft of which was submitted to the EPA in April 1989, recommends a $20 million project to address surface and soils cleanup, but does not address the ground water issues. No estimate can be made at this time of ultimate costs of remediation.

5. *Chemical Control Site; Elizabeth, New Jersey.* The DEP has demanded of PRPs (including Chemicals) reimbursement of the DEP's alleged $26 million in past costs for its partial cleanup of a chemical control site in Elizabeth, New Jersey. The EPA has demanded reimbursement of $6 million of past costs and has estimated additional remediation will cost about $7 million. The PRP group (including Chemicals represented by the Company) is attempting to negotiate a reasonable settlement of these claims. Chemicals' share of the costs of remediation is estimated at this time to be less than 2.3% based on relative volume of waste shipped to the site.

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Employees

As of December 31, 1989, the Company had 1,891 employees.

Item 3. Legal Proceedings.

In a July 1988 letter, the EPA charged Chemicals with violating certain procedural and monitoring requirements of the 1982 EPA Consent Order pertaining to a Painesville, Ohio closed chromium waste site, which is being maintained by the Company. The letter alleged violations amounting to $342,000 under the terms of the Order and requested a meeting to discuss the allegations. The Company has filed a written response on behalf of Chemicals, and has met with the EPA on several occasions, explaining the Company's position that the EPA's allegations are ill-founded and seeking amendatory wording to the 1982 Order to avoid future disputes by correcting or clarifying certain technical wording related to analytical, monitoring and reporting procedures contained in the Order. The agency has not responded to the Company's request. The foregoing disclosure is made pursuant to regulations of the Securities and Exchange Commission requiring disclosure of any environmental legal proceeding which involves monetary sanctions in excess of $100,000.

In 1980, Diamond Gateway Coal Company ("Diamond Gateway"), a wholly owned subsidiary of the Company, and a predecessor of LTV Steel Company, Inc. ("LTV Steel") entered into a 15-year coal supply contract guaranteed by The LTV Corporation ("LTV"), parent of LTV Steel. In 1985, a dispute arose over whether LTV Steel could refuse coal and pay liquidated damages. In 1989, Diamond Gateway filed unliquidated claims in the LTV Steel/LTV bankruptcy proceedings (U.S. Bankruptcy Court of Southern District of New York) based upon LTV Steel's rejection of the coal supply agreement. Damages are claimed in the range of $142 million to $202 million. The claims are pending before the Bankruptcy Court. Mr. Raymond A. Hay, a Director of the Company, is the chairman and chief executive officer of LTV.

See the headings "Regulatory Controls—Governmental Controls of Natural Gas Sales" and "Regulatory Controls—Health, Safety and Environmental Controls" under "Items 1 and 2. Business and Properties." of this report for a description of additional legal proceedings, which description is incorporated herein by reference.

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

Inapplicable.

Executive Officers of the Company

The following table sets forth certain information as of February 1, 1990 concerning the executive officers of the Company.

Name	Position with the Company	Age	Served as an Officer Since
C. L. Blackburn	Chairman, President and Chief Executive Officer	62	1986
D. L. Black	Vice Chairman and Chief Administrative Officer	66	1987
S. G. Crowell	Senior Vice President, North American Exploration and Production	42	1987
D. R. Henderson	Senior Vice President, International	38	1987
D. C. Mielke	Senior Vice President, Chief Financial Officer and Treasurer	47	1976
N. D. Rietman	Senior Vice President, Operations	56	1987
M. A. Schuepbach	Senior Vice President, Exploration	45	1987
W. H. Bagley	Vice President, U.S. Operations	42	1987
G. R. Brown	Vice President, Controller	47	1987

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Name	Position with the Company	Age	Served as an Officer Since
A. K. Gupta	Vice President, International Operations	43	1989
H. R. Klingensmith	Vice President—Exploration, International	37	1987
M. Middlebrook	Vice President, Taxes	54	1984
W. E. Notestine	Vice President and General Counsel	59	1988
G. W. Pasley	Vice President, Human Resources	39	1989
E. J. Ritchie	Vice President—Exploration, North American	45	1989
R. J. Sharples	Vice President, Hydrocarbon Marketing	42	1987
J. A. Snell	Vice President, Administration	57	1987

Officers are elected annually by the Board of Directors and may be removed at any time by the Board. There are no family relationships among the executive officers listed and there are no arrangements or understandings pursuant to which any of them were elected as officers. Each of the officers named above has been employed by the Company during the last five years with responsibilities of the general nature indicated by his title, except as set forth below.

Mr. Blackburn joined the Company in 1986 as an Executive Vice President and a Director of the Company and as president of a wholly owned subsidiary of the Company. Mr. Blackburn was a director and executive vice president responsible for worldwide exploration and production at Shell Oil Company from 1976 to 1986.

Mr. Black joined the Company in 1987 as Senior Vice President, International. He served as vice president of Meridian Oil Inc. from 1985 to 1987 and as vice president of Aminoil Inc. from 1983 to 1985. Mr. Black was elected Vice Chairman and Chief Administrative Officer in September 1989.

Mr. Gupta joined the Company as an engineering supervisor in 1979. Since such time, he has held various positions with the Company including engineering and development manager, U.S. Gulf Coast petroleum engineering, and general manager, international operations. Mr. Gupta was elected Vice President, International Operations, in September 1989.

Mr. Henderson joined the Company in 1987 as Vice President, International Exploration. Prior to that time, he was vice president and chief geophysicist of Coastal Corporation since 1985 and an exploration manager of Aminoil Inc. from 1983 to 1985. Mr. Henderson was elected Senior Vice President, International, in September 1989.

Mr. Pasley joined the Company in 1984 as associate director of investor relations. Since such time he has served as director of communications and assistant to the Chairman. Mr. Pasley was elected Vice President, Human Resources, in December 1989.

Mr. Ritchie joined the Company in May 1986 as district geologist, southern division. Prior to joining the Company he served as vice president, offshore region, of Williams Exploration Company where he was employed for three and one-half years. Mr. Ritchie was elected Vice President—Exploration, North American, of the Company, in September 1989.

Dr. Schuepbach joined the Company in 1987 as Vice President, Exploration. He served as a geological manager for Standard Oil Production Company from 1985 to 1987 and was chief geologist for Aminoil Inc. from January 1984 to December 1984. Dr. Schuepbach was elected Senior Vice President, Exploration, in January 1989.

Mr. Snell joined the Company in 1986 as vice president and general manager, exploration and production, of a wholly owned subsidiary of the Company. Mr. Snell previously served as vice president and general manager of Stauffer Oil & Gas from 1984 to 1986. Mr. Snell was elected Vice President, Administration, in January 1989.

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PART II

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

The principal United States market on which the Common Stock is traded is the New York Stock Exchange. The Common Stock is also listed and traded on the Pacific Stock Exchange, the Basel Stock Exchange (Switzerland), the Geneva Stock Exchange (Switzerland) and the Zurich Stock Exchange (Switzerland). The high and low sales prices for the Common Stock for each full quarterly period during 1989 and 1988 as reported on the New York Stock Exchange Composite Tape are set forth on page F-30 of this report.

The approximate number of record holders of Common Stock at December 31, 1989 was 44,616.

The Company paid no dividends on its Common Stock during 1989 and 1988. A description of the restrictions on dividends on the Common Stock is set forth on page F-21. Cash flows are currently being dedicated to exploration and development projects rather than to the payment of dividends on Common Stock. The Company intends to continue paying regular quarterly dividends on its $4.00 Cumulative Convertible Preferred Stock and the $9.75 Cumulative Convertible Preferred Stock.

Item 6. Selected Financial Data.

The information required by this item appears on pages F-2, F-12 through F-14, and F-30 of this report.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The information required by this item appears on pages F-3 through F-6 of this report.

Item 8. Financial Statements and Supplementary Data.

The information required by this item appears on pages F-7 through F-34 of this report.

Item 9. Disagreements on Accounting and Financial Disclosure.

Inapplicable.

PART III

Item 10. Directors and Executive Officers of the Registrant.

The information required by this item with respect to the directors of the Company appears under the caption "Election of Directors" in the definitive proxy statement of the Company relating to the Company's 1990 Annual Meeting of Stockholders filed with the Securities and Exchange Commission pursuant to Regulation 14A, which information is incorporated herein by reference. Information concerning the Company's executive officers is set forth under the caption "Executive Officers of the Company" in Part I above.

Item 11. Executive Compensation.

The information required by this item appears under the captions "Director Compensation," "Executive Officer Compensation," "Agreements with Executive Officers" and "Benefit Plans" in the definitive proxy statement of the Company relating to the Company's 1990 Annual Meeting of Stockholders filed with the Securities and Exchange Commission pursuant to Regulation 14A, which information is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management.

The information required by this item appears under the caption "Beneficial Ownership of Securities" in the definitive proxy statement of the Company relating to the Company's 1990 Annual Meeting of Stockholders filed with the Securities and Exchange Commission pursuant to Regulation 14A, which information is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions.

The information required by this item appears under the caption "Certain Transactions and Relationships" in the definitive proxy statement of the Company relating to the Company's 1990 Annual Meeting of Stockholders filed with the Securities and Exchange Commission pursuant to Regulation 14A, which information is incorporated herein by reference.

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PART IV

Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K.

(a) Documents filed as part of this report:

(1) Financial Statements—The following financial statements appear on pages F-7 through F-34 of this report:

Report of Independent Accountants.

Consolidated Statement of Operations for the three years ended December 31, 1989.

Consolidated Balance Sheet at December 31, 1989 and 1988.

Consolidated Statement of Cash Flows for the three years ended December 31, 1989.

Financial Summary.

Supplementary Financial Information (unaudited).

(2) Financial Statement Schedules—The following financial statement schedules appear on pages F-35 and F-36 of this report.

Schedule V—Consolidated Properties and Equipment.

Schedule VI—Consolidated Accumulated Depreciation and Depletion—Properties and Equipment.

All other schedules have been omitted because they are not applicable or the required information is shown in the Financial Statements or the Financial Summary.

Condensed parent company financial information has been omitted, since the amount of restricted net assets of consolidated subsidiaries does not exceed 25% of total consolidated net assets. Also, footnote disclosure regarding restrictions on the ability of both consolidated and unconsolidated subsidiaries to transfer funds to the parent company has been omitted since the amount of such restrictions does not exceed 25% of total consolidated net assets.

The summarized financial information of unconsolidated affiliates and corporate joint ventures accounted for under the equity method appears on page F-19 of this report. Individual financial statements have been omitted since (i) neither the Company's and its subsidiaries' investment in or advances to, nor their proportionate share of the total assets of, each such unconsolidated affiliate and corporate joint venture exceeded 20% of consolidated assets at December 31, 1989, and (ii) the Company's and its other subsidiaries' equity in income before special charge, taxes and cumulative effect of accounting change of each such unconsolidated affiliate and corporate joint venture did not exceed 20% of the average consolidated income for the most recent five years ended December 31, 1989.

(3) Exhibits.

Each document marked by an asterisk is incorporated herein by reference to the designated document previously filed with the Securities and Exchange Commission (the "Commission").

3.1 —Restated Certificate of Incorporation of the Company, in effect as of October 13, 1987 (Exhibit 3.2 to the Company's Report on Form 10-Q for the quarter ended September 30, 1987).*

3.2 —Certificate of Designation, Preferences and Rights of Junior Preferred Stock, Series A, of the Company (Exhibit No. 4.6 to the Company's Form S-3 Registration Statement No. 33-26682).*

3.3 —By-Laws of the Company, as amended through April 30, 1987 (Exhibit 3.2 to the Company's Report on Form 10-Q for the quarter ended March 31, 1987).*

4.1 —Indenture dated as of March 15, 1977 between Natomas Company ("Natomas") and Bank of America relating to Natomas' $50,000,000 8⅞% Sinking Fund Debentures due March 15, 1997 (Exhibit 2(b) to Registration Statement No. 2-58239 of Natomas).*

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4.2 —Indenture dated as of April 1, 1978 between Diamond Shamrock Chemicals Company ("Chemicals") and Mellon Bank, N.A. relating to Chemicals' $150,000,000 8½% Sinking Fund Debentures due April 1, 2008 (Exhibit 2.2 to Chemicals' Form S-7 Registration Statement No. 2-60897).*

4.3 —First Supplemental Indenture dated as of January 26, 1984 among the Company, Chemicals and Mellon Bank, N.A. supplementing the Indenture described in Exhibit 4.2 above (the Company undertakes to furnish a copy of such agreement to the Commission upon request).

4.4 —Indenture dated as of May 1, 1983 between Chemicals and Mellon Bank, N.A. relating to unspecified Debt Securities of Chemicals (Exhibit 4.1 to Chemicals' Form S-3 Registration Statement No. 2-83460).*

4.5 —Resolutions of the Board of Directors of Chemicals supplementing the Indenture described in Exhibit 4.4 above and establishing terms and conditions of Chemicals' $150,000,000 11¼% Sinking Fund Debentures due May 1, 2013 and $100,000,000 10⅝% Notes due May 1, 1993 (Exhibit 4.6 to the Company's Annual Report on Form 10-K for the year ended December 31, 1988).*

4.6 —First Supplemental Indenture dated as of January 26, 1984 among the Company, Chemicals and Mellon Bank, N.A. supplementing the Indenture and the resolutions described in Exhibits 4.4 and 4.5, respectively, above (Exhibit 4.7 to the Company's Annual Report on Form 10-K for the year ended December 31, 1988).*

4.7 —Indenture dated as of November 1, 1985 between the Company and Mellon Bank, N.A. relating to unspecified Debt Securities of the Company (Exhibit 4.9 to the Company's Form S-3 Registration Statement No. 33-1338).*

4.8 —Resolutions of an ad hoc committee of the Board of Directors of the Company supplementing the Indenture described in Exhibit 4.7 above and establishing terms and conditions of the Company's $150,000,000 11½% Sinking Fund Debentures due November 15, 2015 and $100,000,000 10½% Notes due November 15, 1995 (Exhibit 1 to the Company's Current Report on Form 8-K dated November 12, 1985).*

4.9 —Stock Purchase Agreement dated February 1, 1987 between the Company and The Prudential Insurance Company of America (the "Preferred Stock Purchase Agreement") (Exhibit 16A to Amendment No. 2 to the Company's Schedule 14D-9 dated January 15, 1987 (the "Schedule 14D-9")).*

4.10 —Amendment dated February 8, 1987 to the Preferred Stock Purchase Agreement (Exhibit 24 to Amendment No. 5 to the Schedule 14D-9).*

4.11 —Registration Rights Agreement dated as of February 1, 1987 between the Company and The Prudential Insurance Company of America (Exhibit 16B to Amendment No. 2 to the Schedule 14D-9).*

4.12 —Indenture dated as of April 1, 1988 among the Company and Chemical Bank relating to unspecified Debt Securities of the Company (Exhibit 4.1 to Amendment No. 1 to the Company's Form S-3 Registration Statement No. 33-21244).*

4.13 —Officers' Certificate dated June 1, 1988 establishing a series of Debt Securities ($150,000,000 Medium-Term Notes, Series A) to be issued under the Indenture described in Exhibit 4.12 above (Exhibit 4.14 to the Company's Annual Report on Form 10-K for the year ended December 31, 1988).*

4.14 —Indenture dated as of January 1, 1989 between the Company and Continental Bank, National Association, relating to $287,500,000 Liquid Yield Option Notes due 2004 (Zero Coupon-Subordinated) (Exhibit 4.2 to Amendment No. 1 to the Company's Registration Statement on Form S-3 No. 33-26682).*

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4.15 —Resolutions of an ad hoc committee of the Board of Directors of the Company supplementing the Indenture described in Exhibit 4.14 above and establishing terms and conditions of the Notes referred to in said Exhibit (Exhibit 4.16 to the Company's Annual Report on Form 10-K for the year ended December 31, 1988).*

4.16 —Indenture dated as of January 1, 1989 between the Company and Continental Bank, National Association, relating to Extension Notes described therein (Exhibit 4.4 to the Company's Registration Statement on Form S-3 No. 33-26682).*

4.17 —$140,000,000 Amended and Restated Credit Agreement dated January 17, 1989 among the Company, Maxus Exploration Company and certain banks, with Citibank, N.A., as agent (the Company undertakes to furnish a copy of such agreement to the Commission upon request).

10.1 —1986 Long-Term Incentive Plan of the Company (Exhibit 4.1 to the Company's Form S-8 Registration Statement No. 33-6693).*

10.2 —Amendment dated April 29, 1987 to the 1986 Long-Term Incentive Plan of the Company (Exhibit 4.2 to the Post-Effective Amendment No. 1 to the Company's Form S-8 Registration Statement No. 33-6693).*

10.3 —1980 Long-Term Incentive Plan of the Company, as amended August 31, 1983 (Exhibit 4.19 to Post-Effective Amendment on Form S-8, amending the Company's Form S-14 Registration Statement No. 2-85403).*

10.4 —Performance Incentive Plan of the Company, as amended effective January 1, 1986 (Exhibit 10.4 to the Company's Annual Report on Form 10-K for the year ended December 31, 1986).*

10.5 —Specimen copy of Employment Agreement between the Company and two of its executive officers (Exhibit 10.5 to the Company's Annual Report on Form 10-K for the year ended December 31, 1988).*

10.6 —Specimen copy of letter agreement between the Company and its executive officers relating to the Employment Agreements referred to in Exhibit 10.5 (Exhibit 10.6 to the Company's Annual Report on Form 10-K for the year ended December 31, 1988).*

10.7 —Specimen copy of Employment Agreement between the Company and 15 of its executive officers (Exhibit 10.9 to the Company's Annual Report on Form 10-K for the year ended December 31, 1987).*

10.8 —First Amendment to Employment Agreement between the Company and Charles L. Blackburn (Exhibit 10.10 to the Company's Annual Report on Form 10-K for the year ended December 31, 1987).*

10.9 —Letter Agreement dated August 14, 1986 between the Company and Charles L. Blackburn (Exhibit 2 to the Schedule 14D-9).*

10.10 —Letter Agreement dated June 17, 1987 between the Company and Charles L. Blackburn, amending the agreement referred to in Exhibit 10.9 above (Exhibit 10.16 to the Company's Annual Report on Form 10-K for the year ended December 31, 1987).*

10.11 —Employee Shareholding and Investment Supplemental Benefits Plan of the Company, as amended and restated effective February 1, 1987 (Exhibit 10.17 to the Company's Annual Report on Form 10-K for the year ended December 31, 1987).*

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10.12 —Specimen copy of disability benefit arrangement between the Company and its executive officers, filed herewith.

10.13 —Supplemental Executive Retirement Plan of the Company, effective May 1, 1987 (Exhibit 10.14 to the Company's Annual Report on Form 10-K for the year ended December 31, 1987).*

10.14 —Supplemental Executive Retirement Plan of the Company, effective March 1, 1990, filed herewith.

10.15 —Specimen copy of supplemental death benefit arrangement between the Company and its executive officers, filed herewith.

10.16 —Deferred Compensation Plan for Directors of the Company, as amended effective October 16, 1986 (Exhibit 10.17 to the Company's Form 8 amending the Company's Annual Report on Form 10-K for the year ended December 31, 1986).*

10.17 —Trust Agreement dated December 18, 1986 between the Company and AmeriTrust Company National Association (Exhibit 2 to the Schedule 14D-9).*

10.18 —Production Sharing Contract-Northwest Java dated August 18, 1966 between Pertamina and Independent Indonesian American Petroleum Company ("IIAPCO") (a composite including all amendments through February 1, 1985) (Exhibit 10.23 to the Company's Annual Report on Form 10-K for the year ended December 31, 1988).*

10.19 —Crude Oil Offtake Procedure dated December 17, 1971 between Pertamina and Atlantic Richfield Indonesia, Inc. ("ARII") (Exhibit 5(d) to Natomas' Registration Statement No. 2-58240).*

10.20 —Java Agreement dated May 5, 1967 among Natomas International Corporation, Sinclair Exploration Company, IIAPCO, Donald D. Dodge, Jr. and G. W. Douglas Carver, individually and as co-partners doing business under the firm name and style of Carver-Dodge Oil Company and Warrior Oil Company, including the Operating Agreement dated May 5, 1967 among the same parties and the Letter Amendment dated May 27, 1967 (amending both agreements) (Exhibit 13(b) to Natomas' Registration Statement No. 2-29305).*

10.21 —Amendment effective December 1, 1982 to the Java Operating Agreement dated May 5, 1967 (Exhibit 10.26 to the Company's Annual Report on Form 10-K for the year ended December 31, 1988).*

10.22 —Amendment effective as of January 1, 1987 to the Java Operating Agreement dated May 5, 1967 (Exhibit 10.27 to the Company's Annual Report on Form 10-K for the year ended December 31, 1988).*

10.23 —Maritime and Port Procedures Agreement Offshore Northwest Java Contract Area effective as of January 1, 1987 among ARII and other parties to the Production Sharing Contract-Northwest Java (Exhibit 10.28 to the Company's Annual Report on Form 10-K for the year ended December 31, 1988).*

10.24 —Southeast Sumatra Production Sharing Contract dated September 6, 1968 between Pertamina and IIAPCO (a composite including all amendments through February 26, 1979) (Exhibit 10.29 to the Company's Annual Report on Form 10-K for the year ended December 31, 1988).*

10.25 —Crude Oil Offtake Procedure dated December 17, 1971 between Pertamina and IIAPCO (Exhibit 5(i) to Natomas' Registration Statement No. 2-58240).*

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10.26 —Letter Agreement dated August 5, 1976 among IIAPCO, Pertamina and the Government of Indonesia regarding accounting principles (Exhibit 10.31 to the Company's Annual Report on Form 10-K for the year ended December 31, 1988).*

10.27 —Letter Agreement dated as of November 9, 1978 among IIAPCO, Pertamina and the Government of Indonesia regarding Crude Oil Offtake Procedure (Exhibit 10.32 to the Company's Annual Report on Form 10-K for the year ended December 31, 1988).*

10.28 —Operating Agreement for Offshore Southeast Sumatra effective as of September 6, 1968 among IIAPCO, Carver-Dodge International Company and Warrior International Corporation (Exhibit 10.33 to the Company's Annual Report on Form 10-K for the year ended December 31, 1988).*

10.29 —Amendment entered into as of January 1, 1984 to Operating Agreement, Offshore Southeast Sumatra (Exhibit 10.34 to the Company's Annual Report on Form 10-K for the year ended December 31, 1988).*

10.30 —Amendment dated as of January 1, 1986 to Operating Agreement, Offshore Southeast Sumatra (Exhibit 10.27 to the Company's Annual Report on Form 10-K for the year ended December 31, 1986).*

10.31 —Distribution Agreement dated as of April 22, 1987 between the Company and Diamond Shamrock R&M, Inc. (Exhibit 10.39 to the Company's Annual Report on Form 10-K for the year ended December 31, 1987).*

10.32 —Rights Agreement dated as of September 2, 1988 between the Company and AmeriTrust Company National Association (Exhibit 2.1 to the Company's Registration Statement on Form 8-A dated September 2, 1988).*

22.1 —List of Subsidiaries of the Company, filed herewith.

24.1 —Consent of Independent Accountants, filed herewith.

25.1 —Powers of Attorney of directors and officers of the Company, filed herewith.

25.2 —Power of Attorney of the Company, filed herewith.

25.3 —Certified Resolutions of the Board of Directors of the Company, filed herewith.

28.1 —Definitive Proxy Statement of the Company relating to the Company's 1990 Annual Meeting of Stockholders filed with the Commission pursuant to Regulation 14A. (Certain portions of such Proxy Statement are incorporated by reference and are identified by reference to captions thereof in the text of this report on Form 10-K.)

(b) Reports on Form 8-K.

Date of Report	Item Reported
October 5, 1989	Item 5

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MAXUS ENERGY CORPORATION

By *C. L. BLACKBURN
Chairman, President and Chief Executive Officer

March 9, 1990

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

Signature	Title
*C. L. BLACKBURN	Chairman, President and Chief Executive Officer
*D. C. MIELKE	Senior Vice President, Chief Financial Officer and Treasurer
*G. R. BROWN	Vice President, Controller (Principal Accounting Officer)
*J. DAVID BARNES	Director
*DARRELL L. BLACK	Director
*B. CLARK BURCHFIEL	Director
*PHILIP E. COLDWELL	Director
*BRUCE B. DICE	Director
*RAYMOND A. HAY	Director
*ALLEN C. HOLMES	Director
*GEORGE L. JACKSON	Director
*JOHN T. KIMBELL	Director
*RICHARD W. MURPHY	Director
*W. THOMAS YORK	Director

Lynne P. Ciuba, by signing her name hereto, does hereby sign this report on Form 10-K on behalf of the registrant and each of the above-named officers and directors of the registrant pursuant to powers of attorney executed on behalf of the registrant and each of such officers and directors.

*By LYNNE P. CIUBA
Attorney-in-fact

March 9, 1990

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Financial Statement Schedules:

For the three years ended December 31, 1989—

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Consolidated Accumulated Depreciation and Depletion—Properties and Equipment	F-36

All other schedules have been omitted because they are not applicable or the required information is shown in the Financial Statements or the Financial Summary.

Condensed parent company financial information has been omitted, since the amount of restricted net assets of consolidated subsidiaries does not exceed 25% of total consolidated net assets. Also, footnote disclosure regarding restrictions on the ability of both consolidated and unconsolidated subsidiaries to transfer funds to the parent company has been omitted since the amount of such restrictions does not exceed 25% of total consolidated net assets.

The summarized financial information of unconsolidated affiliates and corporate joint ventures accounted for under the equity method appears on page F-19 herein. Individual financial statements have been omitted since (i) neither the Company's and its subsidiaries' investment in or advances to, nor their proportionate share of total assets of, each such unconsolidated affiliate and corporate joint venture exceeded 20% of consolidated assets at December 31, 1989, and (ii) the Company's and its other subsidiaries' equity in income before special charge, taxes and cumulative effect of accounting change of each such unconsolidated affiliate and corporate joint venture did not exceed 20% of the average consolidated income for the most recent five years ended December 31, 1989.

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MAXUS ENERGY CORPORATION
SELECTED FINANCIAL DATA
(dollars in millions, except per share)

	1989	1988(a)	1987(b)	1986(b)	1985(b)
OPERATIONS					
Sales and operating revenues	$ 603.5	$ 574.9	$ 656.6	$ 640.5	$ 905.9
Loss from continuing operations	(31.0)	(61.6)	(486.9)	(193.1)	(583.2)
Income (loss) from discontinued operations			(52.7)	77.5	(21.5)
Loss before cumulative effect of accounting change	(31.0)	(61.6)	(539.6)	(115.6)	(604.7)
Cumulative effect of accounting change		(70.0)			
Net loss	$ (31.0)	$ (131.6)	$ (539.6)	$ (115.6)	$ (604.7)
FINANCIAL POSITION					
Current assets	$ 324.9	$ 197.6	$ 227.7	$ 545.1	$ 899.5
Current liabilities	276.8	255.7	250.2	468.0	800.6
Properties and equipment, less accumulated depreciation and depletion	1,022.3	1,392.2	1,561.3	2,403.8	3,079.9
Total assets	1,477.8	1,719.8	1,900.5	3,517.4	4,618.0
CAPITAL STRUCTURE					
Notes payable					$ 4.3
Long-term debt and capital lease obligations, including portion payable within one year	$ 747.6	$ 871.0	$ 796.3	$1,145.4	1,479.6
Deferred income taxes	125.6	178.2	231.7	296.8	397.6
Redeemable preferred stock	300.0	300.0	300.0		
Stockholders' equity (deficit)	(56.7)	25.4	197.0	1,395.8	1,733.0
Total	$1,116.5	$1,374.6	$1,525.0	$2,838.0	$3,614.5
OTHER DATA					
Expenditures for properties and equipment—including dry hole costs	$ 165.8	$ 160.3	$ 199.0	$ 394.9	$ 608.3
Total exploration and development expenditures*	184.7	188.0	194.1	271.1	439.3
Dividends paid, including preferred	46.6	46.6	53.8	147.0	261.4
Depreciation, depletion and amortization	234.0	268.7	320.3	374.8	300.7
Operating cash flows provided by continuing operations	161.0	146.8	194.9	175.7	389.0
Cash flows provided by discontinued operations			8.1	173.7	284.1
Cash flows provided by operations before changes in working capital	161.0	146.8	203.0	349.4	673.1
PER COMMON SHARE					
Loss from continuing operations	$ (.86)	$ (1.21)	$ (5.67)	$ (1.83)	$ (4.92)
Income (loss) from discontinued operations			(.56)	.67	(.17)
Loss before cumulative effect of accounting change	(.86)	(1.21)	(6.23)	(1.16)	(5.09)
Cumulative effect of accounting change		(.78)			
Net loss	$ (.86)	$ (1.99)	$ (6.23)	$ (1.16)	$ (5.09)
Dividends paid			$ .10	$ 1.106	$ 1.997

(a) Reflects a change in the method of accounting for income taxes as discussed on F-12 in the Financial Summary.
(b) See "Restructuring Program" on F-13 in the Financial Summary.

*Whether capitalized or expensed.

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MAXUS ENERGY CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Financial Condition

For the year 1989, Maxus strengthened its financial position through the sale of certain non-strategic assets, a significant reduction in debt and further cost reductions, all of which improved the Company's liquidity and its move toward profitability.

Maxus' cash flows provided by operations before changes in working capital and discontinued operations were $161.0 million, $146.8 million and $194.9 million in 1989, 1988 and 1987, respectively. The 10 percent improvement in 1989 from the 1988 level was mainly attributable to stronger prices and increased crude oil volumes in Indonesia. Reduced crude oil prices and volumes contributed to the decline from 1987 to 1988. Net cash provided by operating activities was $153.5 million, $134.3 million and $83.2 million in 1989, 1988 and 1987, respectively.

Working capital (current assets less current liabilities) strengthened substantially in 1989. The $106.2 million increase in working capital to $48.1 million at December 31, 1989 was primarily due to the increase in cash and cash equivalents resulting from the proceeds from asset sales. The current ratio (the relationship between current assets and current liabilities) also reflects the improved liquidity with the December 31, 1989 ratio of 1.2 comparing favorably to the current ratio of .8 at December 31, 1988.

Cash proceeds from the sale of assets amounted to $316.8 million in 1989, representing $141.6 million from the sale of the stock of the Company's Canadian subsidiary and approximately $100.0 million from the sale of the stock of a wholly owned foreign subsidiary which owned a 10% interest in a production sharing contract in the Northwest Java area of Indonesia, with the remaining balance primarily due to sales of non-strategic United States oil and gas properties. The 1989 proceeds from the sale of assets plus the net cash provided by operating activities was more than sufficient to cover the $165.8 million of expenditures for property and equipment, including dry hole costs, and preferred dividend payments of $46.6 million, while allowing for a $129.8 million net cash debt reduction and an increase in the cash and cash equivalents of $83.1 million during 1989.

Cash proceeds from asset sales in 1988, primarily from the sale of oil and gas properties, totaled $74.9 million. The 1988 net cash provided by operating activities and asset sales was primarily used for property and equipment expenditures, including dry hole costs, of $160.3 million and preferred dividend payments of $46.6 million. During 1987, the Company received an aggregate of $555.7 million in proceeds from the sale of its coal subsidiary (a discontinued business), the sale of its United Kingdom properties and the spin-off of its refining and marketing operations. These sources of cash, together with net cash provided by operating activities, more than covered expenditures for properties and equipment, including dry hole costs, of $199.0 million, dividends of $53.8 million and net repayments of long-term debt of $347.1 million.

For the year 1989, expenditures for property and equipment, including dry hole costs, were $165.8 million. The increase of $5.5 million over 1988 spending was the net result of higher Indonesian development spending and reduced spending in North America. The 1987 expenditures for properties and equipment, including dry hole costs, were $199.0 million, which included a higher level of development spending in North America.

The reduction in dividends in 1988 from 1987 was due to the discontinuance of dividends on the Company's Common Stock in June of 1987. In September of 1988, the rights outstanding under the Company's Common Share Purchase Rights Plan were redeemed at a total cost of $5.6 million. A new Preferred Share Purchase Rights Plan was adopted which provided for the issuance of one right for each share of Common Stock and 7.92 rights for each share of $9.75 Cumulative Convertible Preferred Stock outstanding as of the close of business on September 12, 1988. The new rights may be redeemed at $.10 per right under certain circumstances.

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On February 16, 1989, the Company issued subordinated zero-coupon convertible notes having an aggregate principal at maturity of $287.5 million due February 16, 2004. The Company received net proceeds in the amount of $80.0 million which were used to repay certain existing indebtedness. The price to the public represents a yield to maturity of 8.5% per annum. Each $1,000 note is convertible, at the option of the holder, at any time until maturity, unless previously redeemed or otherwise purchased, into 35.639 shares of Common Stock. The zero-coupon convertible notes had an aggregate accreted balance of $88.7 million at December 31, 1989.

At December 31, 1988, the Company had two credit lines totaling $250.0 million of which $50.0 million was outstanding and $40.0 million was supporting commercial paper, bankers acceptances and currently maturing notes. In anticipation of the long-term debt issue, effective January 17, 1989, the Company amended and restated one credit agreement and cancelled the second credit agreement, resulting in a credit line of $140.0 million. At the Company's request, the credit agreement was reduced from $140.0 million to $110.0 million effective July 31, 1989. At December 31, 1989, there were no borrowings outstanding under the credit agreement.

At the end of 1989, the long-term debt to market capitalization ratio (the relationship between debt and the market value of debt plus equity) was 33 percent, down from 45 percent and 43 percent at year-end 1988 and 1987, respectively. For the near term, management plans no significant changes from the current debt ratios, although management will continue to explore possible alternatives to strengthen the Company's capital structure and to take advantage of financing opportunities.

Environmental Matters

Substantially all of the Company's operations are subject to various laws relating to the handling of hazardous substances and requiring the cleanup of deposits and spills of hazardous substances. In addition, the Company has retained responsibility for certain liabilities of its chemicals company ("Chemicals") sold to Occidental Petroleum Corporation in 1986 and certain other businesses which have been disposed of or otherwise discontinued, including certain environmental liabilities.

The Company will be responsible for remedial action at Chemicals' discontinued Newark, New Jersey plant at an estimated cost of $10.0 million and at Chemicals' discontinued Kearny, New Jersey chromate plant at an estimated cost of $8.0 million. In the opinion of the Company, environmental remediation has been substantially completed at all other discontinued plant sites where remediation is required.

The Company will also have responsibility for Chemicals' share of the cost of remediation for a number of third party sites, off of the Company's properties, where wastes from plant operations by Chemicals were allegedly disposed of or have come to be located, including several commercial waste disposal sites and certain sites where wastes from the Kearny plant were used as fill. Even though the Company has participated in the cost of studies and interim actions at most of these sites, the ultimate cost of remediation and Chemicals' share thereof cannot be estimated at this time.

The Company's total expenditures for environmental compliance were approximately $16.6 million in 1989 (compared to $15.3 million in 1988) and are expected to be approximately $18.7 million in 1990 and approximately $23.1 million in 1991. The increased level of such expected expenditures in 1991 as contrasted to prior years is primarily attributable to the expectation that the Newark project and parts of the Kearny project will be moving from the preliminary engineering to the advanced engineering and construction phase in that year. The Company's environmental compliance expenditures included in 1989, and are expected to include for 1990 and 1991, capital expenses such as installation of environmental control facilities, as well as costs incurred for on-site and off-site environmental remediation and for compliance with applicable environmental laws in respect of both current and discontinued or disposed of operations, including contractual indemnity obligations arising in respect of Chemicals and other disposed of businesses.

The Company will continue to incur costs for environmental compliance, especially those associated with Chemicals; however, in the opinion of the Company, the material probable environmental costs which can be reasonably estimated are adequately covered by reserves or cost sharing arrangements with its former

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subsidiary Diamond Shamrock R&M, Inc. (now known as Diamond Shamrock, Inc.) which was spun off to the Company's stockholders in 1987.

See "Commitments and Contingencies" in the Financial Summary accompanying the Consolidated Financial Statements for a description of legal proceedings and other matters.

Results of Operations

For the year, Maxus reported a loss of $31.0 million compared to a loss of $131.6 million in 1988 and a loss of $539.6 million in 1987. The 1988 results included a one-time cumulative adjustment of $70.0 million to reflect a change in the accounting for income taxes as required by Statement of Financial Accounting Standards No. 96, which the Company adopted in 1988. The 1987 loss was largely the result of a special charge of $380.0 million to write down certain geothermal and coal assets to values that could be realized in future operations.

Sales and operating revenues were $603.5 million in 1989, $574.9 million in 1988, and $656.6 million in 1987. The increase in sales from 1988 to 1989 was due to increased production of crude oil from Indonesian operations combined with a $2.38 per barrel increase in worldwide crude price realizations. Improvement in natural gas price realization was another positive factor. These gains were offset in part by the loss of revenue during 1989 due to the sale of the Canadian subsidiary, the sale of the 10% interest in the production sharing contract in Northwest Java and the sales of certain non-strategic United States properties. The decline in 1988 from 1987 was due to lower worldwide realized oil prices and normal production declines in Indonesia. In addition, the 1987 sales included a full year of production from Dutch North Sea properties which were sold in 1988 and production from United Kingdom North Sea properties until they were sold in 1987.

Net worldwide crude oil production, including Indonesian liquified petroleum gas, in 1989 was 57 thousand barrels ("MB") per day, relatively flat from the 1988 level, with both years lower than the 1987 level of 64 MB per day. The 1989 production reflects the mid-year start-up of the Intan field in the Southeast Sumatra area of Indonesia, offset by the loss of production resulting from property sales in North America. The average worldwide realized price received for crude oil, including Indonesian liquified petroleum gas, in 1989 was $17.17 per barrel as compared to $14.79 per barrel in 1988 and $16.88 per barrel in 1987.

The Company's worldwide gas production, predominantly from North American operations, was 272 million cubic feet ("MMCF") per day for the year 1989 as compared to 311 MMCF per day for 1988 and 306 MMCF per day in 1987. The lower 1989 production was the result of North American asset sales and voluntary curtailments. The average worldwide realized natural gas price increased to $1.67 per thousand cubic feet ("MCF") in 1989 as compared to $1.58 per MCF in 1988 and $1.50 per MCF in 1987.

Other revenues, net were $62.9 million, $25.3 million and $59.0 million for the years 1989, 1988 and 1987, respectively. The 1989 other revenues, net included a gain of $27.7 million from the sale of the Canadian subsidiary and a $34.8 million gain from the sale of the stock of the foreign subsidiary which owned a 10% interest in the production sharing contract in the Northwest Java area of Indonesia. In 1988, the Company recorded an $11.3 million gain on the sale of the Dutch North Sea properties, a $12.5 million provision for relocation costs, and a favorable settlement of two disputes involving natural gas sales contracts. The 1987 other revenues, net included a $17.8 million gain from the sale of the Company's United Kingdom North Sea subsidiary, higher interest income from temporary investments and a non-recurring gain from a property tax settlement in the geothermal business.

Purchases and operating expenses of $224.6 million were down from the 1988 level of $239.8 million and from the 1987 level of $248.0 million. The improvement in 1989 reflected a reduction in production, operating and maintenance expenses resulting from the sale of higher cost producing properties and lower gas volumes. Successful overall cost reduction efforts contributed to this favorable three-year trend.

Exploration costs, including exploratory dry holes, were $49.8 million in 1989, down from the 1988 level of $54.0 million reflecting efficiencies gained by the consolidation of North American exploration activities.

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Exploration costs for 1987 were $49.1 million. The dry hole cost over the three-year period remained relatively constant.

Depreciation, depletion and amortization ("DD&A") expense in 1989 of $234.0 million decreased substantially from the 1988 level of $268.7 million and the 1987 level of $320.3 million. The continued reduction over this time frame has been largely due to the impact of recent years' lower relative finding costs, the selling of producing properties and lower lease and well impairments. Further decline in DD&A rates is expected in the future as more of the lower cost reserves are placed into production. For the past four years, Maxus has replaced 152% of its production at an average finding cost of $3.31 per equivalent barrel of oil.

The Company continued the containment of its general and administrative expenses with 1989 expenses of $32.8 million comparing favorably to 1988 expenses of $34.8 million. The 1988 general and administrative expenses represented an $18.9 million decrease from 1987, due primarily to the Company's 1987 reorganization and centralization of functions.

The 1989 interest and debt expenses of $93.8 million remained flat from 1988 as the higher debt level in early 1989 was substantially reduced later in the year through the use of proceeds from asset sales. The full cash benefit of the debt reduction and restructuring will be realized beginning in 1990. At current debt levels, cash interest expense will be reduced by approximately $20.0 million annually. Interest and debt expenses of $93.7 million for 1988 exceeded the 1987 level by $2.5 million due to higher debt levels in 1988.

A loss from discontinued operations of $52.7 million was reported in 1987 representing losses sustained by the Company in the disposition of its coal operations and operating losses from the spun-off refining and marketing operations.

The 1989 provision for income taxes of $45.4 million represented foreign taxes and United States alternative minimum tax, partially offset by tax benefits attributed to prior year operating losses. In 1988 the Company recorded a tax benefit of $44.9 million, largely the result of losses from United States operations. The 1987 provision for income taxes of $39.5 million primarily represented foreign taxes.

Future Outlook

Management is of the opinion that the Company has the financial resources to meet anticipated needs for future operations. Assuming oil and gas prices remain near 1989 levels, cash flows from operations, current cash balances and selective non-strategic asset sales will be adequate to fund the Company's exploration and development program budget for 1990 and several years to come without significant increases in debt.

The Company has planned an exploration and development program budget of $320.0 million for 1990, up from approximately $200.0 million for 1989. The increase is attributable to an aggressive drilling and development program in the Southeast Sumatra area of Indonesia. Total spending in this production sharing contract area next year is anticipated to be $129.0 million. The remainder of the 1990 program will be slightly higher than the 1989 levels, allowing for the pursuit of opportunities in the United States and other international expansion.

The 1990 program planned for Southeast Sumatra includes approximately 50 wells and permanent production facilities for the Intan and Widuri fields to be completed in late 1990 with total production reaching 120,000 gross barrels per day and increasing to 220,000 gross barrels per day in 1991, representing a net to the Company of approximately 60,000 barrels per day in 1991. These additional volumes and current crude prices will cause cash flow from Indonesian operations to improve in 1990 and increase substantially the following year.

With these new operations, current crude prices, ongoing success in natural gas marketing efforts and the continued reduction in depletion and depreciation costs, management believes that Maxus is well positioned to achieve profitability.

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REPORT OF INDEPENDENT ACCOUNTANTS

To the Stockholders and Board of Directors
of Maxus Energy Corporation

In our opinion, the consolidated financial statements listed in the index appearing under Item 14(a)(1) and (2) on page 15 present fairly, in all material respects, the financial position of Maxus Energy Corporation and its subsidiaries at December 31, 1989 and 1988, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1989, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

As discussed in the financial summary, the Company adopted Statement of Financial Accounting Standards No. 96, "Accounting for Income Taxes", in 1988.

PRICE WATERHOUSE

Dallas, Texas
February 27, 1990

OCCNJ0013514

MAXUS ENERGY CORPORATION
CONSOLIDATED STATEMENT OF OPERATIONS
(dollars in millions, except per share)

	Year Ended December 31,		
	1989	1988	1987
REVENUES			
Sales and operating revenues	$603.5	$ 574.9	$ 656.6
Other revenues, net	62.9	25.3	59.0
	666.4	600.2	715.6
COSTS AND EXPENSES			
Purchases and operating expenses	224.6	239.8	248.0
Exploration, including exploratory dry holes	49.8	54.0	49.1
Depreciation, depletion and amortization	234.0	268.7	320.3
General and administrative expenses	32.8	34.8	53.7
Taxes other than income taxes	17.0	15.7	20.7
Interest and debt expenses	93.8	93.7	91.2
Special charge			380.0
	652.0	706.7	1,163.0
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	14.4	(106.5)	(447.4)
INCOME TAXES (BENEFIT)	45.4	(44.9)	39.5
LOSS FROM CONTINUING OPERATIONS	(31.0)	(61.6)	(486.9)
DISCONTINUED OPERATIONS			(52.7)
LOSS BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE	(31.0)	(61.6)	(539.6)
CUMULATIVE EFFECT OF ACCOUNTING CHANGE		(70.0)	
NET LOSS	(31.0)	(131.6)	(539.6)
Dividend requirement on Preferred Stock	(46.6)	(46.6)	(42.9)
LOSS APPLICABLE TO COMMON SHARES	$(77.6)	$(178.2)	$(582.5)
PER COMMON SHARE			
Loss from continuing operations	$ (.86)	$ (1.21)	$ (5.67)
Discontinued operations			(.56)
Loss before cumulative effect of accounting change	(.86)	(1.21)	(6.23)
Cumulative effect of accounting change		(.78)	
Net loss	$ (.86)	$ (1.99)	$ (6.23)
Dividends paid			$ .10
AVERAGE COMMON SHARES OUTSTANDING	90,292,104	89,697,448	93,508,102

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

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MAXUS ENERGY CORPORATION
CONSOLIDATED BALANCE SHEET
(dollars in millions)

	December 31, 1989	December 31, 1988*
ASSETS		
Current Assets		
Cash and cash equivalents	$ 101.9	$ 18.8
Short-term investments	19.5	23.6
Receivables, less doubtful receivables	163.9	125.3
Inventories	23.9	22.3
Prepaids and other current assets	15.7	7.6
Total Current Assets	324.9	197.6
Properties and Equipment, less accumulated depreciation and depletion	1,022.3	1,392.2
Investments and Long-Term Receivables	64.5	61.4
Intangible Assets, less accumulated amortization	42.4	44.0
Deferred Charges	23.7	24.6
	$1,477.8	$1,719.8
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current Liabilities		
Long-term debt payable within one year	$ .3	$ 1.0
Accounts payable	133.7	98.3
Accrued liabilities	70.0	76.5
Taxes payable	39.4	39.2
Deferred income taxes	33.4	40.7
Total Current Liabilities	276.8	255.7
Long-Term Debt	747.3	870.0
Deferred Income Taxes	125.6	178.2
Other Liabilities and Deferred Credits	84.8	90.5
Redeemable Preferred Stock, $1.00 par value		
Authorized and issued shares—3,000,000	300.0	300.0
Stockholders' Equity (Deficit)		
Preferred Stock, $1.00 par value		
Authorized shares—100,000,000		
Issued shares—4,334,858	4.3	4.3
Common Stock, $1.00 par value		
Authorized shares—300,000,000		
Issued shares—90,987,229 and 90,708,592	91.0	90.7
Paid-in capital	867.6	919.0
Accumulated deficit	(1,014.6)	(983.6)
Cumulative translation adjustment		9.1
Common Treasury Stock, at cost—308,699 and 873,079 shares	(5.0)	(14.1)
Total Stockholders' Equity (Deficit)	(56.7)	25.4
	$1,477.8	$1,719.8

See "Commitments and Contingencies".

*Reclassified to conform with the 1989 presentation.

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.

OCCNJ0013516

MAXUS ENERGY CORPORATION
CONSOLIDATED STATEMENT OF CASH FLOWS
(dollars in millions)

	Year Ended December 31,		
	1989	1988*	1987*
CASH FLOWS FROM OPERATING ACTIVITIES:			
Loss from continuing operations	$ (31.0)	$ (61.6)	$ (486.9)
Adjustments to reconcile loss from continuing operations to net cash provided by operating activities:			
Depreciation, depletion and amortization	234.0	268.7	320.3
Dry hole costs	16.0	14.9	14.4
Income taxes	(7.5)	(71.0)	(16.1)
Interest expense on zero-coupon convertible notes	6.2		
Equity losses, net of dividends received	6.0	6.1	3.1
Special charge			380.0
Net gain on sales of assets	(76.9)	(10.3)	(19.9)
Other, net	14.2		
Operating cash flows provided by continuing operations	161.0	146.8	194.9
Cash flows provided by discontinued operations			8.1
Cash flows provided by operations before changes in working capital	161.0	146.8	203.0
Changes in components of working capital:			
Receivables	(42.8)	32.2	(69.1)
Inventories	1.9	(2.2)	(8.4)
Prepaids and other current assets	(6.6)	5.1	3.2
Accounts payable	41.5	(7.1)	(16.3)
Accrued liabilities	(12.6)	(29.0)	(28.7)
Taxes payable	11.1	(11.5)	(.5)
	(7.5)	(12.5)	(119.8)
Net cash provided by operating activities	153.5	134.3	83.2
CASH FLOWS FROM INVESTING ACTIVITIES:			
Expenditures for properties and equipment—including dry hole costs	(165.8)	(160.3)	(199.0)
Expenditures for investments and intangibles	(28.6)	(22.8)	(23.9)
Proceeds from sales or spin-off of assets or business segments	316.8	74.9	555.7
Proceeds from sale/maturity of short-term investments	66.8	55.3	62.1
Purchases of short-term investments	(62.7)	(49.1)	(53.7)
Other, net	(20.5)	(44.3)	(11.5)
Net cash provided by (used in) investing activities	106.0	(146.3)	329.7
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of long-term debt	189.1	360.6	1,289.9
Repayment of long-term debt	(318.9)	(285.2)	(1,637.0)
Redemption of Common Share Rights		(5.6)	
Proceeds from issuance of Redeemable Preferred Stock			300.0
Dividends paid	(46.6)	(46.6)	(53.8)
Purchases of Common Stock and Preferred Stock			(356.8)
Net cash provided by (used in) financing activities	(176.4)	23.2	(457.7)
Net increase (decrease) in cash and cash equivalents	83.1	11.2	(44.8)
Cash and cash equivalents at beginning of year	18.8	7.6	52.4
Cash and cash equivalents at end of year	$ 101.9	$ 18.8	$ 7.6

*Reclassified to conform with the 1989 presentation.

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

OCCNJ0013517

FINANCIAL SUMMARY

Data is as of December 31 of each year or for the year then ended and dollar amounts in tables are in millions, except per share, unless otherwise indicated. Certain data for 1988 and 1987 have been reclassified to conform with the 1989 presentation.

SIGNIFICANT ACCOUNTING POLICIES

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

Consolidation and Equity Accounting.

The Consolidated Financial Statements include the accounts of Maxus Energy Corporation and all domestic and foreign subsidiaries (the "Company"). The Company uses the equity method to account for its less than 50% owned investments in affiliates and joint ventures ("Associated Companies"), and the proportionate consolidation method to account for its investments in Diamond Shamrock Offshore Partners Limited Partnership and other noncorporate joint ventures in oil and gas exploration and production. 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.

Translation of Foreign Currencies.

The financial statements of the Company's foreign subsidiaries and Associated Companies not having the United States dollar as their functional currency are translated into United States dollars as follows: asset and liability accounts at the prevailing year-end exchange rates; income and expense items at the average monthly exchange rates in effect during the year. Translation gains and losses are included as a component of stockholders' equity (deficit). At December 31, 1989, all foreign subsidiaries had the United States dollar as their functional currency. Gains and losses from foreign currency transactions are included in earnings.

Statement of Cash Flows.

Investments with maturities of three months or less at the time of acquisition are considered cash equivalents for purposes of the accompanying Consolidated Statement of Cash Flows. The cash and cash equivalents balances at December 31, 1989 and 1988 include cash equivalents of $97.4 million and $11.1 million, respectively. Short-term investments are stated at cost which approximates market value.

Net cash provided by operating activities reflects cash payments for interest and income taxes as follows:

	1989	1988	1987
Interest, net of amounts capitalized	$88.9	$87.5	$103.5
Income taxes	43.2	37.1	45.2

Excluded from the Consolidated Statement of Cash Flows for 1987 were the effects of certain non-cash investing and financing activities related to the spin-off of Diamond Shamrock R&M, Inc. (now known as Diamond Shamrock, Inc.) to the Company's common stockholders (see "Restructuring Program"). The effect of the distribution for 1987 was to decrease net assets by $251.4 million.

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Inventory Valuation.

Inventories, consisting primarily of oil and gas tubular goods and supplies, are valued at the lower of cost or market, cost being determined primarily by the weighted average cost method.

Properties and Equipment.

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

The Company uses the successful efforts method to account for costs incurred in the acquisition, exploration, development and production of oil and gas reserves. Under this method, all geological and geophysical costs are expensed; all development costs, whether or not successful, are capitalized as costs of proved properties; exploratory drilling costs are initially capitalized, but if the effort is determined to be unsuccessful, the costs are then charged against earnings; depletion is computed based on an aggregation of properties with common geologic 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.

Depreciation and depletion related to the costs of all development drilling, successful exploratory drilling and related production equipment are provided by the unit of production method based upon estimated proved recoverable reserves. Other properties and equipment are depreciated generally on the straight-line method over their estimated useful lives. Intangible assets are amortized on the straight-line method over their legal or estimated useful lives, not to exceed 40 years.

Pensions.

The Company has a number of trusteed noncontributory pension plans covering substantially all full-time employees. The Company also has a noncontributory supplemental retirement plan for executive officers. Pension costs and gains and losses on settlement and curtailment of defined benefit plans and for termination benefits are determined in accordance with Statements of Financial Accounting Standards No. 87 and No. 88.

Income Taxes.

Income taxes are provided during the year in which transactions affect the financial statements, regardless of when they are recognized for tax purposes.

In 1988, the Company prospectively adopted Statement of Financial Accounting Standards No. 96 ("SFAS 96"), "Accounting for Income Taxes" (see "Taxes"). Under the liability method specified by SFAS 96, the deferred tax liability is determined based on the difference between the financial reporting and tax bases of assets and liabilities as measured by the enacted tax rates which will be in effect when these differences reverse. Deferred tax expense is the result of changes in the liability for deferred taxes. Investment tax credits are accounted for using the flow-through method.

Previously, income taxes were provided using the deferred method. The tax effects of timing differences were recognized using rates in effect in the year in which the timing difference occurred.

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Earnings Per Share.

Primary earnings per share are based on the weighted average number of shares of common stock and common stock equivalents outstanding.

Fully diluted earnings per share are based on the weighted average number of shares of common stock, common stock equivalents and other potentially dilutive securities. Currently, such potentially dilutive securities are convertible preferred stock, redeemable preferred stock, zero-coupon convertible notes and stock options.

RESTRUCTURING PROGRAM

On February 1, 1987, the Company's Board of Directors approved a restructuring program (the "Restructuring"). The principal financial elements of the Restructuring were:

(i) the spin-off on April 30, 1987 of Diamond Shamrock, Inc., a newly formed holding company for the Company's refining and marketing businesses, to the Company's common stockholders as a new publicly owned company;

(ii) a tender offer by the Company for 20,000,000 shares of the Company's Common Stock, $1.00 par value (the "Common Stock"), at $17.00 per share which was completed on March 9, 1987; and

(iii) the sale, on February 2, 1987, to an insurance company of 3,000,000 shares of $9.75 Cumulative Convertible Preferred Stock, $1.00 par value, for $300.0 million.

Additionally, Diamond Shamrock, Inc. repaid intercompany debt of $349.1 million.

Prior to the spin-off of Diamond Shamrock, Inc., the Company called and/or repurchased its 7.7% Sinking Fund Debentures due December 15, 2001, 9% Sinking Fund Debentures due April 1, 1999 and 9⅛% Sinking Fund Debentures due November 15, 2000 at an aggregate redemption price of $241.1 million. The Company recorded a loss of $9.0 million on the early extinguishment of this debt, which is included in the loss from discontinued operations.

Sales and operating revenues and purchases and operating expenses include intersegment sales of crude oil and natural gas from the exploration and production segment to the refining and marketing segment of $24.6 million prior to the spin-off effective April 30, 1987.

The relationship between the Company and Diamond Shamrock, Inc. after the spin-off includes provisions for the sharing by the Company and Diamond Shamrock, Inc. of the costs of losses (other than product liability) relating to certain businesses discontinued or disposed of prior to April 30, 1987 (see "Commitments and Contingencies"). In addition, the Company has entered into certain gas processing and gas sales agreements with Diamond Shamrock, Inc.

DISCONTINUED OPERATIONS

On April 17, 1987, the Company sold its coal subsidiary, Diamond Shamrock Coal Company ("Coal"), for $135.0 million, recognizing a loss of $46.6 million with no tax benefit. Coal represented substantially all of the business and assets of the coal segment.

On April 30, 1987, the Company spun off Diamond Shamrock, Inc. as part of the Restructuring (see "Restructuring Program"). Diamond Shamrock, Inc. represented all of the business and assets of the refining and marketing segment.

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The results of the discontinued operations for 1987 are presented below:

Loss from discontinued operations, with no applicable income tax	$ (6.1)
Loss on disposal of Coal	(46.6)
Discontinued Operations	$(52.7)

Sales and operating revenues for the discontinued segments were $585.3 million in the period prior to the dispositions in 1987.

SPECIAL CHARGE

In the second quarter of 1987, the Company wrote down the book value of certain of its non-oil and gas assets, resulting in a charge against earnings of $380.0 million. Of the write-down, $335.0 million related to the Company's geothermal operations, including unamortized goodwill of $22.6 million; and $45.0 million related to an Alaskan coal project and related technology. The reduction in the book value of the Alaskan coal properties is reflective of delays in marketing opportunities for these reserves. The decision to write down the geothermal assets was based on lower expectations of prices and steam production rates. These write-downs were necessary to reflect more appropriately asset values that can be realized in future operations.

MASTER LIMITED PARTNERSHIP

Diamond Shamrock Offshore Partners Limited Partnership ("Offshore Partners") is a master limited partnership which explores for and produces natural gas and crude oil on federal offshore leases in the Gulf of Mexico off Texas and Louisiana. Maxus Offshore Exploration Company, a wholly owned subsidiary of the Company, and the Company have a combined 1% general partner's interest in Offshore Partners and are the managing general partner and special general partner, respectively. The Company uses the proportionate consolidation method to account for its investments in Offshore Partners.

The Company had an aggregate interest in Offshore Partners of approximately 85.8% at December 31, 1989. Consistent with the previously announced policy, the Company ceased quarterly investments in Offshore Partners as of year-end 1989.

SALE OF ASSETS

Effective January 1, 1989, the Company sold the stock of its Canadian subsidiary which represented all of the Company's Canadian operations for $141.6 million, realizing a gain on the sale of $27.7 million.

In October 1989, the Company sold the stock of a wholly owned foreign subsidiary which owned a 10% interest in a production sharing contract in the Northwest Java area of Indonesia for approximately $100.0 million, realizing a gain on the sale of $34.8 million. As a result of the sale, the Company's interest in this production sharing contract decreased from 34.27% to 24.27%.

During 1989, the Company sold other assets, consisting primarily of non-strategic oil and gas properties, for approximately $75.2 million. The Company recorded a net gain on such sales of $14.4 million which included losses recognized on assets held for sale.

Effective April 1988, the Company sold for $21.9 million its Dutch North Sea properties, realizing a gain on the sale of $11.3 million.

In August 1987, the Company sold for $47.3 million a United Kingdom subsidiary which held an interest in various offshore oil and gas properties, realizing a gain on the sale of $17.8 million.

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BUSINESS SEGMENT AND GEOGRAPHIC DATA

The Company is engaged primarily in the exploration for and the production and sale of crude oil and natural gas (see "Restructuring Program" and "Discontinued Operations").

The reconciliation of the identifiable assets of the exploration and production business segment to total assets is as follows:

	1989	1988	1987
Exploration and Production	$1,093.4	$1,445.1	$1,608.9
Corporate	336.9	232.6	260.3
Investments in Associated Companies	47.5	42.1	31.3
	$1,477.8	$1,719.8	$1,900.5

Identifiable assets are those assets that are utilized by the exploration and production business segment. Corporate assets are principally cash, investments (other than investments in Associated Companies) and other assets that cannot be directly associated with the operations or activities of the exploration and production business segment.

Sales to three customers in 1989, 1988 and 1987 each represented 10% or more of consolidated sales. Specifically, sales to Diamond Shamrock, Inc. subsequent to its spin-off (see "Restructuring Program") amounted to $76.4 million, $100.0 million and $84.4 million in 1989, 1988 and 1987, respectively; sales to Mitsubishi Corporation amounted to $69.1 million and $61.9 million in 1989 and 1988, respectively. Sales to the Indonesian Government amounted to $124.2 million in 1989, $118.7 million in 1988 and $142.4 million in 1987.

Sales, operating profit (loss) and identifiable assets by geographic area were as follows:

	Sales and Operating Revenues		
	1989	1988	1987
United States*	$316.2	$322.2	$333.0
Indonesia	287.3	230.9	291.0
Canada		20.8	19.4
Other Foreign		1.0	13.2
	$603.5	$574.9	$656.6

	Operating Profit (Loss)		
	1989	1988	1987
United States*	$(77.4)	$(109.1)	$(512.0)
Indonesia	108.6	13.6	63.2
Canada		(1.5)	1.1
Other Foreign	(16.8)	(9.5)	.3
	$ 14.4	$(106.5)	$(447.4)

	Identifiable Assets		
	1989	1988	1987
United States*	$ 926.3	$ 918.8	$1,010.4
Indonesia	493.8	604.2	689.0
Canada		143.1	131.0
Other Foreign	57.7	53.7	70.1
	$1,477.8	$1,719.8	$1,900.5

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

Net foreign assets were $321.4 million at December 31, 1989, $472.4 million at December 31, 1988 and $566.9 million at December 31, 1987.

Results of foreign operations, after applicable local taxes but before the cumulative effect of adopting SFAS 96 in 1988, amounted to income of $61.6 million in 1989, $11.7 million in 1988 and $24.1 million in 1987. Such amounts include earnings of subsidiaries and Associated Companies included in net loss. Foreign currency transaction gains and losses reflected in current operations amounted to a loss of $.1 million, a loss of $.3 million and a gain of $1.0 million in 1989, 1988 and 1987, respectively.

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

	1989	1988	1987
January 1	$9.1	$(1.2)	$(7.1)
Translation adjustments		10.3	5.9
Sale of Canadian subsidiary	(9.1)		
December 31	—	$ 9.1	$(1.2)

TAXES

The Company adopted SFAS 96 prospectively as of January 1, 1988. The effect of adopting SFAS 96 was to increase the 1988 tax benefit by $7.7 million ($.09 per share). Also, the Company recorded a $70.0 million expense ($.78 per share) for the cumulative effect of the change in accounting principle related to years prior to 1988.

The principal types of differences between assets and liabilities for financial statement and tax return purposes are depreciation, depletion and amortization methods, contingencies and differences in the recorded amounts and tax bases of assets and liabilities acquired in business combinations.

Income (loss) from continuing operations before tax provision was comprised of income (loss) from:

	1989	1988	1987
United States	$(14.9)	$(113.7)	$(493.3)
Foreign	29.3	7.2	45.9
	$ 14.4	$(106.5)	$(447.4)

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

	1989	1988	1987
Current			
Federal	$ (3.4)	$(20.0)	
Foreign	51.0	26.1	$55.6
	47.6	6.1	55.6
Deferred			
Federal	6.0	(29.0)	(7.5)
Foreign	(8.2)	(22.0)	(8.6)
	(2.2)	(51.0)	(16.1)
	$45.4	$(44.9)	$39.5

The principal reasons for the difference between the statutory federal income tax rate and the Company's provision (benefit) for income taxes were:

	1989	1988	1987
Tax expense (benefit) at statutory federal rate	$ 4.9	$(36.2)	$(179.0)
(Increase) reduction resulting from:			
Asset write-downs having no tax benefits			137.8
Release of deferred tax credits			35.8
Taxes on foreign income	49.5	(1.8)	20.8
Investment tax credits			11.1
Excess statutory depletion	(1.1)	(1.3)	(2.6)
Capital gains		(3.8)	
Alternative minimum tax	9.0		
Utilization of operating loss carryforward	(17.1)		
Items not related to current year earnings	.7	(3.7)	
Other, net	(.5)	1.9	15.6
	$45.4	$(44.9)	$ 39.5

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For years prior to 1988, deferred income taxes were provided on timing differences. Since the adoption of SFAS 96, deferred income taxes are provided on temporary differences. The term "temporary difference" is more inclusive and, thus, includes items on which deferred taxes had not previously been provided.

The provision (benefit) for deferred income taxes was comprised of the following:

	1989	1988	1987
Intangible drilling costs	$ 1.4	$ (.3)	$ 5.8
Accelerated depreciation	(4.9)	(75.9)	(21.7)
Capitalized interest and overhead		.6	.2
Development wells and related items	.4		.6
Contingencies and asset write-offs	.8	24.6	(1.4)
Other, net	.1		.4
	$(2.2)	$(51.0)	$(16.1)

At December 31, 1989, the Company had $21.2 million and $19.2 million of unused investment tax credits for federal income tax and financial statement purposes, respectively, that expire between 1995 and 2004, had $202.5 million of net operating loss carryforwards for tax purposes that expire in 2000, 2002 and 2003 and had $1.7 million of unused minimum tax credit for federal income tax and financial statement purposes that can be carried forward indefinitely.

At December 31, 1989, there were accumulated undistributed earnings after applicable local taxes of foreign subsidiaries of $10.2 million for which no provision was necessary for foreign withholding or other income taxes because that amount had been reinvested in properties and equipment and working capital.

Taxes other than income taxes were comprised of the following:

	1989	1988	1987
Gross production	$ 8.9	$ 9.6	$10.7
Real and personal property	6.9	5.2	5.0
Other	1.2	.9	5.0
	$17.0	$15.7	$20.7

POSTRETIREMENT BENEFITS

In 1987 the Company adopted Statements of Financial Accounting Standards No. 87 ("SFAS 87") and No. 88 ("SFAS 88"), "Employers' Accounting for Pensions" and "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and Termination Benefits", respectively. The charge against earnings for pension costs in 1989 was $1.6 million. There was no charge against earnings for pension costs in 1988. The credit to earnings for pension costs, including settlement gains and losses, was $3.2 million in 1987. The pension plan is funded at an amount required by the Employee Retirement Income Security Act.

The net periodic pension cost (credit) includes the following components:

	1989	1988	1987
Service cost for benefits earned during the year	$ 1.7	$ 2.0	$ 2.7
Interest cost on projected benefit obligation	9.0	9.0	11.9
Actual (gain) loss on plan assets	(20.7)	3.8	(16.7)
Net amortization and deferrals	11.6	(14.8)	(1.1)
	$ 1.6	—	$(3.2)

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The principal assumptions used to develop the net periodic pension cost for 1989, 1988 and 1987 and the funded status of the plans on the measurement date, October 1, were as follows:

Discount rate	9.5%
Expected long-term rate of return on assets	9.5%
Rate of increase in compensation levels	5.0%

	Assets Exceed Accumulated Benefits		
	1989	1988	1987
Actuarial present value of benefit obligations:			
Vested benefit obligation	$ 90.0	$ 87.0	$ 83.5
Accumulated benefit obligation	$ 90.9	$ 90.7	$ 89.3
Projected benefit obligation	$ 96.7	$ 92.2	$ 96.3
Plan assets at fair value	112.4	102.4	122.1
Plan assets in excess of projected benefit obligation	15.7	10.2	25.8
Less unrecognized net gain (loss)	(.1)	(8.1)	1.2
Less unrecognized net asset existing at date of adoption of SFAS 87	7.8	8.7	10.9
Prepaid pension cost recognized as of October 1.	$ 8.0	$ 9.6	$ 13.7

The plan assets at fair value at December 31, 1989 were approximately $111.1 million.

On January 31, 1987, salaried employees ceased to accrue benefits under certain of the Company's existing pension plans. A new plan was adopted effective February 1, 1987 and all participants in certain of the existing plans at January 1, 1987 became fully vested in their benefits regardless of their years of service. The Company recorded a loss of $4.7 million related to the termination and subsequent settlement of these plans through the purchase of an annuity contract guaranteeing the payment of future benefits. The new plan is a noncontributory plan providing for benefits on a career average benefit formula. Substantially all employees are covered by the plan with plan assets primarily invested in short-term investments, stocks and bonds. Additionally, in conjunction with the Restructuring, the Company transferred the assets of another pension plan to Diamond Shamrock, Inc. with the excess net assets reverting to the Company. The settlement resulted in the Company recognizing a gain of $5.0 million.

The Company has a supplemental retirement plan for which no funding was made during 1989, 1988 or 1987.

In addition to providing pension benefits, the Company provides certain medical and life insurance benefits to eligible retired employees. The Company recognized the cost of providing these benefits by charging against earnings the retirees' medical benefit claims and life insurance premiums paid, which amounted to $3.7 million in 1989, $3.3 million in 1988 and $2.7 million in 1987.

RECEIVABLES

	1989	1988
Notes and accounts receivable	$165.5	$127.5
Less—Allowance for doubtful receivables	1.6	2.2
	$163.9	$125.3

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

	1989	1988	1987
January 1	$2.2	$5.2	$4.3
Additions charged against earnings		.5	4.0
Write-offs, net of recoveries	(.6)	(3.5)	(3.1)
December 31	$1.6	$2.2	$5.2

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PROPERTIES AND EQUIPMENT

	1989	1988
Exploration and Production	$2,436.1	$2,876.7
Corporate	179.8	179.4
	2,615.9	3,056.1
Less—Accumulated depreciation and depletion	1,593.6	1,663.9
	$1,022.3	$1,392.2

The charge against earnings for depreciation and depletion was $232.4 million in 1989, $267.1 million in 1988 and $317.2 million in 1987.

	Expenditures for Properties and Equipment		
	1989	1988	1987
Exploration and Production	$156.0	$157.3	$172.1
Refining and Marketing			10.9
Coal			6.4
Corporate	9.8	3.0	9.6
	$165.8	$160.3	$199.0

The Company's commitments under approved appropriations for the next several years were $227.3 million at December 31, 1989.

The charge against earnings for maintenance and repairs was $16.2 million in 1989, $15.9 million in 1988 and $13.2 million in 1987.

INVESTMENTS AND LONG-TERM RECEIVABLES

	1989	1988
Investments and advances, at equity		
Union-Thermal-Magma Partnership (25%)	$47.5	$42.1
Investments, at cost, and long-term receivables	17.0	19.3
	$64.5	$61.4

The Company has indemnified its partners in the Union-Thermal-Magma Partnership relative to a note payable of the Partnership. The note payable, which has an outstanding principal balance at December 31, 1989 of $85.0 million, is a nonrecourse loan secured by the Company's interest in The Geysers, the site of production of electric power from geothermal steam in northern California.

The following schedule presents certain summarized financial information of the Union-Thermal-Magma Partnership (see "Special Charge") for those years for which such information is required:

	1989	1987
Summarized Balance Sheet:		
Current Assets	$ 12.1	$ 14.2
Non-Current Assets	480.8	491.9
Current Liabilities	18.5	17.7
Non-Current Liabilities	72.5	95.0
Summarized Statement of Operations:		
Sales	$ 86.7	$112.2
Gross Profit	39.8	(200.2)
Net Income	39.8	(200.2)

Equity earnings, excluding the Special Charge, are principally from Geothermal operations and were $2.2 million in 1989, $4.2 million in 1988 and $10.9 million in 1987.

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INTANGIBLE ASSETS

At both December 31, 1989 and 1988, intangibles, primarily the excess of cost over fair value of net assets acquired, were $51.9 million. Accumulated amortization at December 31, 1989 and 1988 was $9.5 million and $7.9 million, respectively.

Certain patents, trademarks, formulae, processes, etc. were disposed of during 1987 in connection with the sale of Coal and the spin-off of the refining and marketing segment.

The charge against earnings for amortization of intangible assets was $1.6 million in 1989, $1.6 million in 1988 and $3.1 million in 1987.

ACCRUED LIABILITIES

The components of accrued liabilities were as follows:

	1989	1988
Accrued interest payable	$16.2	$20.9
Accrued compensation, benefits and withholdings	15.7	14.3
Other (each less than 5% of total current liabilities)	38.1	41.3
	$70.0	$76.5

LONG-TERM DEBT AND CREDIT ARRANGEMENTS

	1989	1988
Senior Indebtedness		
Sinking Fund Debentures		
15½% due 1989		$ 37.1
8⅞% due 1994-1997	$ 10.5	11.1
11¼% due 1994-2013	134.6	145.4
11½% due 1998-2015	108.8	134.8
8½% due 1997-2008	97.7	99.8
Notes		
10⅝% due 1993	85.5	99.9
10½% due 1995	95.8	99.7
Bank term loan/credit agreement		50.0
Medium-term notes	123.5	150.0
Borrowings supported by unused revolving credit agreement		
Commercial paper/money market		15.0
Bankers acceptances		25.0
Bank and other loans	2.5	3.2
Total Senior Indebtedness	658.9	871.0
Subordinated Indebtedness		
Zero-coupon convertible notes	88.7	
	747.6	871.0
Less—Due within one year	.3	1.0
	$747.3	$870.0

The aggregate maturities of long-term debt outstanding at December 31, 1989 for the next five years will be as follows: 1990—$.3 million; 1991—$31.2 million; 1992—$5.4 million; 1993—$150.2 million; 1994—$4.8 million.

Effective January 17, 1989, the Company entered into a $140.0 million revolving credit agreement which amended and restated the Company's prior $150.0 million revolving credit agreement. A second revolving credit facility in the amount of $100.0 million was cancelled by the Company at that time. The lending

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commitment under the new bank credit agreement was reduced from $140.0 million to $110.0 million effective July 13, 1989 at the Company's request and expires on December 31, 1991. The new bank credit agreement as amended contains provisions which, among other things, allow for the issuance of up to $40.0 million of letters of credit, prohibit the payment of dividends on Common Stock, require an annual commitment fee of 0.50% on any unused portion of the commitment and permit determination of the interest rate on borrowings, at the Company's option, based on the prime rate, Eurodollar rate or certificate of deposit rate. The new agreement also continues prior restrictions on the incurrence of additional debt and liens, sales of property, payment of quarterly preferred stock dividends, credit extensions and investments and limitations on mergers and issuances of securities. At December 31, 1989, there were no borrowings and $15.3 million of letters of credit outstanding under the revolving credit agreement.

On February 16, 1989, the Company issued zero-coupon convertible notes due February 16, 2004 having an aggregate principal at maturity of $287.5 million. The Company received net proceeds of $80.0 million which were used to repay certain existing indebtedness. The price to the public represents a yield to maturity of 8.5% per annum. Each $1,000 note is convertible at the option of the holder, at any time until maturity unless previously redeemed or otherwise purchased, into 35.639 shares of Common Stock.

At December 31, 1989, the Company had $123.5 million in medium-term notes outstanding with maturities ranging from three to ten years and annual interest rates ranging from 9.75% to 11.09%.

Total interest and debt expenses incurred from continuing operations were as follows:

	1989	1988	1987
Interest and debt expenses	$93.8	$93.7	$91.2
Capitalized interest	.1	1.1	3.8
	$93.9	$94.8	$95.0

REDEEMABLE PREFERRED STOCK

On February 2, 1987 in conjunction with the Restructuring (see "Restructuring Program"), the Company sold 3,000,000 shares of $9.75 Cumulative Convertible Preferred Stock for $300.0 million. The $9.75 Preferred Stock has a liquidation value of $106.5001 per share for the 12-month period commencing February 1, 1990 ($319.5 million in the aggregate), reducing progressively as of February 1 of each year to $100 per share at February 1, 1996, in each case plus accrued dividends. Each outstanding share of the $9.75 Preferred Stock is initially convertible beginning in 1990 into 8.23 shares of the Company's Common Stock, is redeemable at the Company's option after August 1, 1995 and is subject to mandatory redemption at the rate of 25% per year beginning February 1, 1994. In addition, the holder of the $9.75 Preferred Stock is entitled to elect up to three individuals to the Company's Board of Directors and vote as a class on any transaction between the Company and any holder of 5% or more of the outstanding Common Stock that requires stockholder approval. In connection with the issuance of the $9.75 Preferred Stock, the Company agreed to certain financial covenants relating to the issuance of debt, capital expenditures, the payment of dividends, the repurchase of stock and the disposition of certain assets.

PREFERRED STOCK

The rights and preferences of shares of authorized but unissued Preferred Stock are to be established by the Company's Board of Directors at the time of issuance.

Each outstanding share of $4.00 Cumulative Convertible Preferred Stock (the "$4.00 Preferred Stock") (4,565,017 shares authorized) is entitled to one vote, is convertible at any time into shares of the Company's Common Stock (2.29751 shares at December 31, 1989), shall receive annual cash dividends of $4.00 per share, is callable at $50.40 per share ($218.5 million in the aggregate at December 31, 1989) and has a liquidation value of $50.00 per share ($216.7 million in the aggregate at December 31, 1989) plus accrued but unpaid dividends, if any.

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Changes in the $4.00 Preferred Stock were as follows:

	Shares	Amount
January 1, 1987	2,271,900	$2.3
Conversion to Common Stock	(2,050)	
Exchange of $2.07 Preferred Stock for $4.00 Preferred Stock	2,065,008	2.0
January 1, 1988 and 1989 and December 31, 1989	4,334,858	$4.3

In July 1987, the Company completed an exchange transaction in which an additional 2,065,008 shares of $4.00 Preferred Stock were issued in exchange for the Company's 4,181,660 outstanding shares of $2.07 Cumulative Convertible Preferred Stock (the "$2.07 Preferred Stock"). The shares were exchanged at a rate of one share of $4.00 Preferred Stock for each 2.025 shares of $2.07 Preferred Stock.

Changes in the $2.07 Preferred Stock were as follows:

	Shares	Amount
January 1, 1987	4,181,704	$4.2
Conversion to Common Stock	(44)	
Exchange of $2.07 Preferred Stock for $4.00 Preferred Stock	(4,181,660)	(4.2)
December 31, 1987	—	—

COMMON STOCK

	Shares	Amount
January 1, 1987	126,963,445	$127.0
Conversion of Preferred Stock	3,890	
Fractional shares exchanged for cash	(37)	
January 1, 1988	126,967,298	127.0
Retirement of Common Treasury Stock	(36,258,697)	(36.3)
Fractional shares exchanged for cash	(9)	
January 1, 1989	90,708,592	90.7
Employee Benefit Plan purchases	100,850	.1
Exercise of Stock Options	177,801	.2
Fractional shares exchanged for cash	(14)	
December 31, 1989	90,987,229	$ 91.0

At December 31, 1989, there were 49.7 million shares of Common Stock reserved for issuance upon conversion of Preferred Stock and zero-coupon convertible notes, exercises of stock options or issuance under certain employee benefit plans.

The Company has an Employee Shareholding and Investment Plan which allows eligible participating employees to contribute a certain percentage of their salaries (1%-10%) to a trust for investment in any of four funds, one of which consists of the Company's Common Stock.

In July 1988, the Company retired 36,258,697 shares of Common Treasury Stock which had an associated cost of $584.6 million (see "Common Treasury Stock").

In September 1988, the Company redeemed the rights previously outstanding under the Common Share Purchase Rights Plan, in accordance with their terms, for $.05 per right. The total cost of $5.6 million was charged to paid-in capital. In addition, the Company adopted a new Preferred Share Purchase Rights Plan.

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The new plan issued one right for each share of Common Stock and 7.92 rights for each share of $9.75 Cumulative Convertible Preferred Stock outstanding as of the close of business on September 12, 1988. The new rights, which entitle the holder to purchase from the Company one one-hundredth of a share of a new series of junior preferred stock at $23.00 per share, become exercisable if a person becomes the beneficial owner of 20% or more of the Company's Common Stock or of an amount that the Board of Directors determines is intended to cause the Company to take certain actions not in the best long-term interests of the Company and its stockholders. The rights also become exercisable if a person makes a tender offer or exchange offer for 30% or more of the Company's outstanding Common Stock. The new rights may be redeemed at $.10 per right under certain circumstances.

PAID-IN CAPITAL AND ACCUMULATED DEFICIT

The Company paid no dividends on Common Stock in 1989 or 1988 and paid cash dividends of $.10 per share on Common Stock in March of 1987.

In July 1988, the Company retired 36,258,697 shares of Common Treasury Stock which had an associated cost of $584.6 million (see "Common Treasury Stock").

Changes in paid-in capital and accumulated deficit were as follows:

	Paid-in Capital	Accumulated Deficit
January 1, 1987	$1,644.4	$ (122.0)
Net loss		(539.6)
Dividends on Preferred Stock	(42.9)	
Dividends on Common Stock	(10.9)	
Exchange of $2.07 Preferred Stock for $4.00 Preferred Stock	2.1	
Employee Benefit Plan purchases	(3.3)	
Diamond Shamrock, Inc. spin-off	(258.1)	
January 1, 1988	1,331.3	(661.6)
Net loss		(131.6)
Dividends on Preferred Stock	(46.6)	
Retirement of Common Treasury Stock	(357.9)	(190.4)
Common Stock Rights Redemption	(5.6)	
Employee Benefit Plan purchases	(2.2)	
January 1, 1989	919.0	(983.6)
Net loss		(31.0)
Dividends on Preferred Stock	(46.6)	
Employee Benefit Plan purchases	(.2)	
Exercise of Stock Options	1.6	
Restricted Stock grant	(6.2)	
December 31, 1989	$ 867.6	$(1,014.6)

COMMON TREASURY STOCK

In February 1987, the Company's Board of Directors approved a tender offer for 20,000,000 shares of the Company's outstanding Common Stock at $17.00 per share (see "Restructuring Program"). Prior to the tender offer, the Company had repurchased 606,937 shares of Common Stock in 1987.

In July 1988, the Company retired 36,258,697 shares of Common Treasury Stock which had an associated cost of $584.6 million. Cost was determined on an average basis. The $548.3 million of excess cost

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over par value of the stock was charged to paid-in capital to the extent of the original issuance proceeds ($357.9 million); the remainder was charged to accumulated deficit ($190.4 million).

	Shares	Amount
January 1, 1987	(17,214,041)	$(253.0)
Purchase of Common Treasury Stock	(20,606,937)	(356.8)
Exercise of Stock Options	296,280	4.8
Employee Benefit Plan purchases	132,624	2.1
Deferred compensation	4,430	.1
January 1, 1988	(37,387,644)	(602.8)
Retirement of Common Treasury Stock	36,258,697	584.6
Employee Benefit Plan purchases	255,868	4.1
January 1, 1989	(873,079)	(14.1)
Employee Benefit Plan purchases	107,680	1.7
Restricted Stock grant	457,900	7.4
Exercise of Stock Options	(1,200)	
December 31, 1989	(308,699)	$ (5.0)

STOCK OPTIONS

The Company's 1986 Long-Term Incentive Plan (the "Plan"), administered by the Compensation Committee of the Board of Directors, permits the grant to officers and certain key employees of stock options, stock appreciation rights ("SARs"), performance units and awards of Common Stock or other securities of the Company on terms and conditions determined by the Compensation Committee of the Board of Directors. There are also options and SARs outstanding pursuant to other incentive plans of the Company under which the Company does not intend to make any additional grants.

The grant or exercise of an option does not result in a charge against the Company's earnings because all options have been granted at exercise prices approximating the market value of the stock at the date of grant. However, any excess of Common Stock market price over the option price of options which include SARs does result in a charge against the Company's earnings; a subsequent decline in market price results in a credit to earnings, but only to a maximum of the earnings charges incurred in prior years on unexercised SARs. In 1989, there was a charge of $1.6 million for SARs. There was no charge against or credit to earnings for SARs in 1988 or 1987.

After the Restructuring, certain outstanding stock options were amended to reflect the spin-off of the refining and marketing business, resulting in options being outstanding for an additional 680,497 shares.

Stock option activity was as follows:

	1989	1988	1987
Outstanding at January 1	2,326,910	2,068,796	2,557,978
Granted	4,000	758,350	698,200
Exercised	(177,797)		(296,280)
Cancelled	(121,492)	(500,236)	(1,571,599)
Restructuring conversion			680,497
Outstanding at December 31	2,031,621	2,326,910	2,068,796

Stock options were exercised in 1989 and 1987 at prices ranging from $6.625 to $9.786 per share and $7.957 to $12.75 per share, respectively. Exercise prices of stock options outstanding at December 31, 1989 ranged from $6.25 to $23.689 per share.

Under the Plan, the Company granted Restricted Stock resulting in a charge against earnings for the amount of the grant price, amortized over the vesting period of the grant. The charge against earnings was $1.2 million in 1989, $.3 million in 1988 and $.2 million in 1987.

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At December 31, 1989 and 1988, there were 1,106,054 and 1,491,040 shares of Common Stock, respectively, reserved for future grants under the Plan. At December 31, 1989, stock options representing 2,031,621 shares of Common Stock were exercisable and 526,200 shares of Restricted Stock were held for vesting purposes under all incentive plans of the Company.

LEASES

The Company leases certain machinery and equipment, facilities and office space under cancellable and noncancellable operating leases, most of which expire within 20 years and may be renewed.

Minimum annual rentals for operating leases at December 31, 1989 were as follows:

1990	$ 14.5
1991	12.5
1992	11.3
1993	8.9
1994	7.8
1995 and thereafter	62.7
	$117.7

Minimum annual rentals have not been reduced by minimum sublease rentals of $62.7 million due in the future under noncancellable subleases.

Rental expense for operating leases was as follows:

	1989	1988	1987
Total rentals	$27.6	$30.1	$34.8
Less—Sublease rental income	5.5	6.4	6.5
Rental expense	$22.1	$23.7	$28.3

COMMITMENTS AND CONTINGENCIES

Environmental Matters

In connection with the sale of the Company's chemical subsidiary, Diamond Shamrock Chemicals Company ("Chemicals"), to Occidental Petroleum Corporation ("Occidental") in 1986, the Company agreed to indemnify Chemicals and Occidental from and against certain liabilities relating to the business or activities of Chemicals prior to the September 4, 1986 closing date (the "Closing Date"), including certain environmental liabilities relating to certain chemical plants and waste disposal sites used by Chemicals prior to the Closing Date.

In addition, the Company agreed to reimburse Chemicals and Occidental for 50% of certain environmental costs incurred by Chemicals on projects for which notice is given to the Company within 10 years after the Closing Date, including costs of remedial activities relating to chemical plant sites or other property used in the conduct of the business of Chemicals as of the Closing Date and for any period of time following the Closing Date, with the Company's aggregate exposure for this cost sharing being limited to $75.0 million. The total expended by the Company under this sharing arrangement was about $4.7 million as of December 31, 1989.

In connection with the spin-off of Diamond Shamrock, Inc. ("R&M") in 1987 (see "Restructuring Program"), the Company and R&M agreed to share the costs of losses (other than product liability) relating to businesses discontinued or disposed of prior to the spin-off, including Chemicals. The Company is to bear the first $75.0 million of such costs; R&M is to bear the next $37.5 million; and such costs thereafter will be borne one-third by R&M and two-thirds by the Company until R&M has borne a total of $85.0 million, following which such costs will be borne solely by the Company. As of December 31, 1989, such costs amounted to approximately $56.2 million and have been borne, as agreed, by the Company. The Company has established reserves for discontinued operations (including environmental expenditures) covering such costs until R&M becomes obligated to pay the next $37.5 million of such costs. In the opinion of the Company, the material probable environmental costs which can be reasonably estimated are adequately covered by reserves or the above-described cost sharing arrangement with R&M.

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The insurance companies which wrote Chemicals' and the Company's primary and excess insurance during the relevant periods have to date refused to provide coverage for Chemicals' or the Company's cost of the personal injury and property damage claims related to the Newark plant, the cleanup of the Newark plant site, and other environmental claims, including remedial activities at chemical plant sites and disposal sites. In two actions filed in New Jersey state courts, the Company is conducting litigation against all of these insurers for declaratory judgments that it is entitled to coverage for these claims. In April 1989, the trial judge in one of the New Jersey actions ruled that there is no insurance coverage with respect to the claims related to the Newark plant. The Company has appealed. The other suit, which covers all other disputes with respect to insurance coverage related to environmental matters, is expected to be tried in 1991.

Newark, New Jersey. The terms of a consent decree on a plan for remedial action at the former Newark, New Jersey plant used by Chemicals for the manufacture of agricultural chemicals, including DDT, 2,4-D and 2,4,5-T, have been agreed upon by the U.S. Environmental Protection Agency (the "EPA"), the New Jersey Department of Environmental Protection (the "DEP") and Occidental, as successor to Chemicals. The federal court is expected to enter the decree in 1990 whereupon engineering and construction may commence. The construction is expected to require approximately four years to complete at an estimated cost of approximately $10.0 million. The work will be supervised and paid for by the Company pursuant to its above-described indemnification obligation to Occidental and Chemicals.

The cleanup of the neighborhood surrounding the plant pursuant to an earlier consent agreement with the DEP has been substantially completed. Studies have indicated that sediments of the nearby Passaic River are contaminated with hazardous chemicals from many sources. Further studies funded in part by the Company are underway to evaluate the nature and extent of such contamination attributable to the former Newark plant. Until studies are completed and evaluated, it cannot be reasonably forecast what regulatory program, if any, will be proposed for the Passaic River.

One major action remains of the several lawsuits filed in New Jersey state courts relating to the former Newark plant. In this suit, residents and businesses in the Newark area and former employees at the Newark plant are making claims for personal injury and property loss. The Company has prevailed before the trial court on several motions to dispose of various claims by the plaintiffs. The plaintiffs have appealed these decisions. The Company does not presently expect any material liability from this remaining action.

Hudson County, New Jersey. In December 1989, the DEP announced a public hearing in January 1990 to discuss a proposed plan for remediation of chromium contamination at 31 residential sites in Hudson County, New Jersey. According to the announcement, the corporate predecessor of Allied-Signal, Inc., the corporate predecessor of PPG Industries, Inc. and Chemicals, as corporate predecessor of Occidental and the Company, processed chromium ore at several Hudson County manufacturing plants until the early 1970's. Until 1972, Chemicals operated a chromium ore processing plant at Kearny, New Jersey, the site of which is now owned by a subsidiary of the Company. The Company is not a corporate successor of Chemicals and, aside from the Company's subsidiary's ownership of the site, the Company's only involvement is as the indemnitor of Occidental and Chemicals. The plants operated by the other two corporations identified in the announcement were located in Jersey City, New Jersey, and all of the residential sites referred to in the announcement are in Jersey City. According to the announcement, chromate wastes from the ore processing operations were used as fill material at construction and demolition sites in Jersey City, Kearny and Secaucus, New Jersey. The DEP's preferred cleanup alternative for the residential sites in Jersey City is excavation and removal of the chromium contaminated materials (with a 75 parts per million total chromium soil cleanup objective) to an out of state commercial facility at a cost estimated by the DEP of $30.0 million. Management believes that none of the wastes from Chemicals' operation was deposited at any of the sites referred to in the DEP announcement, all of which are in Jersey City. The DEP's notice indicates that future action plans with respect to the industrial and commercial sites include performing treatability studies to evaluate the effectiveness of various innovative and other alternative technologies. Reasonable estimates cannot be made of the cost of remediation at the commercial and industrial sites until the individual site investigation and

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feasibility studies have been completed and the selection of each site's remedial action plan has been completed. The Company is negotiating with the DEP concerning a possible consent order covering studies, remediation or both at certain of these sites.

Pursuant to an order issued by the DEP (to all of the parties labelled by the DEP as successors to plant owners and operators with respect to all sites, residential, commercial and industrial), the Company, in 1989, commenced and is currently continuing interim remedial measures at certain industrial and commercial sites in the city of Kearny and at the site in Secaucus (where the Company's chromium residue may have been placed), including applying asphalt cover. It is estimated that the cost to the Company of these interim measures will approximate $6.0 million. These actions are more than 50% complete and they have been undertaken without admitting that the Company, Chemicals or Occidental have any responsibility for the sites involved.

In May 1989, the DEP issued a directive to all parties labelled by the DEP as successors to plant owners and operators to reimburse the State of New Jersey for about $49,000 spent by the DEP for emergency cleanup of an elementary school in Jersey City. The Company does not believe that waste produced by Chemicals was used at the elementary school and, accordingly, has declined to participate in any such reimbursement. In December 1989, the DEP issued a directive to all parties labelled by the DEP as successors to plant owners and operators to pay about $370,000 to assess the exposure of individuals at and in the vicinity of sites where chromate chemical production waste was used. The Company has requested clarification of this directive but has agreed to participate with the other parties in funding this amount. All directives described above issued by the DEP were issued under the New Jersey Spill Compensation and Control Act ("Spill Act"). The DEP is authorized to seek treble damages for failure to pay costs pursuant to directives issued under the Spill Act.

In addition, in the course of discussions with the DEP, the DEP has asserted that Chemicals violated provisions of the Spill Act by failing to report the location of sites where chromium wastes were used as fill material and that the DEP is contemplating imposing a penalty of $25.0 million or more. The Company believes that there is no legal or factual basis supporting the DEP's assertion and intends to litigate the matter if any attempt is made to impose any penalty.

The Company submitted to the DEP in November 1989 a work plan for remediation of the Kearny plant site. The preliminary estimate of the cost of closure is approximately $8.0 million. The DEP has not yet responded to the submission.

All of the foregoing actions undertaken and expenditures made by the Company have been on behalf of Occidental pursuant to the Company's above-described indemnification obligation to Occidental and Chemicals.

Other discontinued plant sites. Environmental remediation programs are in place at all other significant discontinued plant sites where remediation is required in the opinion of the Company. These discontinued plant sites where remediation has been completed are being maintained and monitored to insure continued compliance with applicable laws and regulatory programs.

Third party sites. Chemicals has also been designated as a potentially responsible party with respect to a number of third party sites where wastes from plant operations by Chemicals were allegedly disposed of or have come to be located. Numerous other potentially responsible parties ("PRPs") have been named at substantially all of these sites. At several of these, Chemicals has no known exposure. Although parties responsible for remediation are, by law, jointly and severally liable for the cost thereof, each has the right of contribution from other PRPs and, as a practical matter, cost sharing by PRPs is usually effected by agreement among them. Accordingly, the ultimate cost of remediation at these sites and Chemicals' share of

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the costs thereof cannot be estimated at this time, but is not expected to be material except possibly as a result of the matters described below.

1. *Fields Brook; Ashtabula, Ohio.* One of the facilities being operated by Chemicals at the time that Chemicals was sold to Occidental is a chemical plant at Ashtabula, Ohio. Occidental has continued to operate the Ashtabula plant. In July 1986, Chemicals was formally notified by the EPA that it was a PRP for remediation of contamination as a result of discharges from the operation of its Ashtabula plant into Fields Brook. The site is defined as Fields Brook, its tributaries and surrounding areas within the Fields Brook watershed. At least 15 other companies are presently considered to be financially responsible PRPs. In 1986, the EPA estimated the cost of remediation at the site would be $48.0 million. In March 1989, the EPA ordered the PRPs to conduct a portion of the work (predesign and design work and a source control study) estimated to cost not more than $7.0 million. Occidental and several other parties are complying with the order. These same parties have entered into an allocation agreement for sharing all costs with respect to the site. Under the agreement, the costs attributable to Occidental for the Ashtabula plant involvement would be less than 5% of the total assuming all viable PRPs were to participate. The United States on behalf of the EPA has sued the PRPs who have not complied with the order for past costs incurred in regard to Fields Brook and these defendants have filed cross-claims against Occidental and the other complying PRPs seeking contribution.

Although Fields Brook empties into the Ashtabula River which flows into Lake Erie, it is not known to what extent, if any, the EPA will propose remedial action beyond Fields Brook for which the Fields Brook PRPs might be asked to bear some share of the costs. In August 1989, the EPA, Occidental and three other parties entered into an administrative consent order for a study to evaluate sediment contamination in the Ashtabula River at an expected cost of approximately $1.0 million.

Until all preliminary studies have been completed, it is not possible to estimate what remedial activities will be required with respect to Fields Brook or related areas, the costs thereof, the parties responsible therefor, or their respective portion of shared costs attributable to the alleged polluting activities. It is the Company's position that any of such costs which are attributable to the Ashtabula plant fall under the Company's above-described cost sharing arrangement with Occidental under which the Company bears one-half of certain costs up to $75.0 million. Occidental, however, is contending that it is entitled to full indemnification from the Company for such costs, and the outcome of this dispute cannot be predicted.

2. *French Limited Disposal Site; Crosby, Texas.* The PRPs, including Chemicals represented by the Company, have entered into a consent decree and a related trust agreement with the EPA in respect of a disposal site in Crosby, Texas. The consent decree has been filed with the federal court and is expected to be entered as a settlement of the EPA's claim for remedial action. The estimated cost of remediation is about $67.0 million of which Chemicals' share is expected to be about 5%.

3. *Cedartown Municipal Landfill; Cedartown, Georgia.* The Cedartown municipal landfill in Cedartown, Georgia was added by the EPA to the national priority list of Superfund sites in 1989. Chemicals was a major user of the site during its operation from the 1950's until about 1977. Negotiations are underway among the PRPs, including Chemicals represented by the Company, and the EPA for an administrative consent order to perform a remedial investigation and feasibility study at an expected cost of about $1.0 million. Until that study is completed, no estimate can be made of the cost of remedial action, if any is required, but, based on preliminary expert opinion, management presently believes that this site should require no remediation or very limited remediation.

4. *SCP/Carlstadt Site; Carlstadt, New Jersey.* Chemicals' share of remedial costs at the SCP/Carlstadt Superfund site would be about 1.7%, based on relative volume of waste shipped to the site. A partial remedial investigation and feasibility study conducted by the PRPs (including Chemicals represented by the Company), a draft of which was submitted to the EPA in April 1989, recommends a $20.0 million project to address surface and soils cleanup, but does not address the ground water issues. No estimate can be made at this time of ultimate costs of remediation.

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5. Chemical Control Site; Elizabeth, New Jersey. The DEP has demanded of PRPs (including Chemicals) reimbursement of the DEP's alleged $26.0 million in past costs for its partial cleanup of a chemical control site in Elizabeth, New Jersey. The EPA has demanded reimbursement of $6.0 million of past costs and has estimated additional remediation will cost about $7.0 million. The PRP group (including Chemicals represented by the Company) is attempting to negotiate a reasonable settlement of these claims. Chemicals' share of the costs of remediation is estimated at this time to be 2.3% based on relative volume of waste shipped to the site.

Federal Energy Regulatory Commission Order No. 451

In 1986, the Federal Energy Regulatory Commission (the "FERC") issued Order Nos. 451 and 451-A (the "Order") which, while retaining the "old" gas price vintaging structure for existing contracts, added an alternative escalating maximum lawful price, currently in excess of $2.90 per million British thermal units ("MMBtu"), which is applicable to new and renegotiated contracts. Producers having existing contracts covering "old" gas can obtain a price up to the new maximum lawful price through voluntary negotiations or by initiating the mandatory renegotiation procedures set forth under the Order. Once such renegotiation is sought by a producer for any of its "old" gas under a contract, all other gas covered by the contract, including "new" gas at higher prices, as well as all gas under other contracts with that same purchaser which cover some "old" gas, become subject to renegotiation at the request of the pipeline purchaser. Where the parties cannot agree on new prices, the contracts are subject to termination as to the relevant gas. To the extent that the contract is terminated or partially terminated and gas is thereby released from commitment to a pipeline, the FERC has granted the producer blanket authority for sales of gas to another entity. After analysis of the potential benefits and risks to the Company, during 1987 and 1988 the Company invoked the Order's mandatory renegotiation procedures for virtually all of its qualifying contracts, representing approximately 24% of its U.S. proved gas reserves as of December 31, 1987, and approximately 13% of its 1987 U.S. gas production; however, these volumes would currently represent a smaller percentage of the total due to the change in the production mix.

In September 1989, a divided U.S. Fifth Circuit Court of Appeals held the Order invalid and vacated it in its entirety, ruling that the FERC exceeded its legal authority when it issued the Order. In January 1990, however, the U. S. Supreme Court delayed the effect of the appeals court's ruling until the Court decides whether to hear an appeal in the case. Appeals are being planned by a large group of natural gas production companies and by the FERC. If the U.S. Supreme Court agrees to hear the appeal, the Order will remain in effect until the Court completes its action on the case.

Because of the number of assumptions which would have to be made, it is difficult to estimate what amounts the Company would have received for the gas involved if the Order had not been entered; however; the difference between such amounts and the amounts actually collected could approximate $20.0 million as of December 31, 1989. Based on advice of its legal counsel, management presently believes it is not probable that it will be required to make refunds as a result of the litigation.

Kidder, Peabody Litigation

In November 1987, a wholly owned subsidiary of the Company filed a lawsuit in Texas state district court against Kidder, Peabody & Co. Incorporated ("Kidder, Peabody"), Martin A. Siegel and Ivan F. Boesky seeking damages of at least $300.0 million arising from alleged leaks by Siegel to Boesky of confidential information about the 1983 acquisition of Natomas Company by a predecessor of the Company. At the time, Siegel was an officer and director of Kidder, Peabody, which acted as investment advisor for the Company and its predecessor in the Natomas acquisition. Subsequently, Kidder, Peabody filed declaratory judgment actions in Delaware state court and a federal district court in New York City against the Company seeking declarations that it had no liability for the activities of Siegel and Boesky. The Delaware state court action was dismissed by the Delaware Chancellor in January 1989. In the New York action, motions to dismiss filed by the Company and its subsidiary recently added as a party and Kidder, Peabody's motion for summary judgment are pending. Discovery is proceeding in the Texas action and that case is set for trial in July 1990. The Company believes that it is entitled to recover material amounts of damages from the defendants but there can be no assurance that the Company will actually obtain any significant recovery.

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

QUARTERLY DATA

	1989				
	March 31, (a)	June 30,	September 30,	December 31,	For the Year
Sales and operating revenues	$145.8	$149.9	$147.1	$160.7	$603.5
Gross profit (c)	38.1	34.4	36.8	35.6	144.9
Net income (loss)	(10.6)	3.6	(20.0)	(4.0)	(31.0)
Net loss per common share	$ (.25)	$ (.09)	$ (.35)	$ (.17)	$ (.86)
Market price per share					
Common					
High	7⅞	8⅞	9⅝	11⅛	11⅛
Low	6¾	6⅝	8¼	8⅞	6⅝
$4.00 Preferred					
High	36	39⅜	40⅞	40¾	40⅞
Low	34⅛	33¾	38	38½	33¾

	1988				
	March 31, (b)	June 30, (b)	September 30, (b)	December 31,	For the Year
Sales and operating revenues	$162.7	$151.6	$131.2	$129.4	$574.9
Gross profit (c)	32.2	28.7	14.2	(8.7)	66.4
Loss before cumulative effect of accounting change	(10.3)	(9.6)	(27.1)	(14.6)	(61.6)
Cumulative effect of accounting change	(70.0)				(70.0)
Net loss	(80.3)	(9.6)	(27.1)	(14.6)	(131.6)
Per Common Share					
Loss before cumulative effect of accounting change	$ (.25)	$ (.24)	$ (.43)	$ (.29)	$(1.21)
Cumulative effect of accounting change	(.78)				(.78)
Net loss	(1.03)	(.24)	(.43)	(.29)	(1.99)
Market price per share					
Common					
High	8½	9	8⅞	7⅛	9
Low	6¼	6	6	6⅜	6
$4.00 Preferred					
High	37⅞	37¾	38	36⅞	38
Low	33⅝	33½	35¾	33⅞	33½

(a) Restated to reflect the sale of the Company's Canadian subsidiary effective January 1, 1989.
(b) Restated to reflect adoption of SFAS 96 in the fourth quarter of 1988 effective January 1, 1988.
(c) Gross profit is sales and operating revenues less purchases and operating expenses and depreciation, depletion and amortization.

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 made in accordance with generally accepted auditing standards and accordingly, Price Waterhouse express no opinion thereon.

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OIL AND GAS PRODUCING ACTIVITIES

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

RESULTS OF OPERATIONS

Results of operations from oil and gas producing activities were as follows:

	United States			Indonesia			Canada	
	1989	1988	1987	1989	1988	1987	1988	1987
Sales	$236.4	$237.7	$237.6	$287.3	$230.9	$291.0	$20.8	$19.4
Production costs								
Gross production tax	8.9	9.6	10.7					
Other	40.7	41.6	42.2	100.7	96.5	94.0	6.5	6.0
Exploration costs	29.0	29.4	27.3	7.8	6.0	5.3	6.0	8.2
Depreciation and depletion	118.8	128.0	161.8	102.5	113.3	126.9	12.5	6.4
(Gain) loss on sale of assets (a)	(41.5)	3.3	.3	(33.5)			(.3)	
Other	(.5)	(18.2)	2.1		.2	.3	(2.4)	(2.3)
	155.4	193.7	244.4	177.5	216.0	226.5	22.3	18.3
Income (loss) before tax provision	81.0	44.0	(6.8)	109.8	14.9	64.5	(1.5)	1.1
Provision (benefit) for income taxes	12.0	11.2	(1.4)	51.8	7.7	41.2	(3.9)	.1
Results of operations	$ 69.0	$ 32.8	$ (5.4)	$ 58.0	$ 7.2	$ 23.3	$ 2.4	$ 1.0

	Other Foreign			Worldwide		
	1989	1988	1987	1989	1988	1987
Sales		$ 1.0	$ 13.2	$523.7	$490.4	$561.2
Production costs						
Gross production tax				8.9	9.6	10.7
Other		.1	4.6	141.4	144.7	146.8
Exploration costs	$ 13.0	12.6	8.3	49.8	54.0	49.1
Depreciation and depletion	.1	.8	7.5	221.4	254.6	302.6
(Gain) loss on sale of assets		(11.3)	(17.8)	(75.0)	(8.3)	(17.5)
Other	.8	(.2)	(1.0)	.3	(20.6)	(.9)
	13.9	2.0	1.6	346.8	434.0	490.8
Income (loss) before tax provision	(13.9)	(1.0)	11.6	176.9	56.4	70.4
Provision (benefit) for income taxes	(2.0)	.9		61.8	15.9	39.9
Results of operations	$ (11.9)	$ (1.9)	$ 11.6	$115.1	$ 40.5	$ 30.5

(a) The 1989 United States gain on sale of assets includes the $27.7 million gain realized on the sale of the Company's Canadian subsidiary.

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CAPITALIZED COSTS

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

	United States			Indonesia			Canada	
	1989	1988	1987	1989	1988	1987	1988	1987
Proved properties	$1,242.3	$1,318.5	$1,352.9	$966.2	$1,156.6	$1,102.4	$156.1	$131.6
Unproved properties	89.6	92.2	118.7	2.0	4.0	13.0	16.9	15.8
	1,331.9	1,410.7	1,471.6	968.2	1,160.6	1,115.4	173.0	147.4
Less—Accumulated depreciation and depletion	880.1	869.5	841.4	590.6	638.6	525.3	36.8	24.8
	$ 451.8	$ 541.2	$ 630.2	$377.6	$ 522.0	$ 590.1	$136.2	$122.6

	Other Foreign			Worldwide		
	1989	1988	1987	1989	1988	1987
Proved properties	$ 7.6	$5.2	$16.2	$2,216.1	$2,636.4	$2,603.1
Unproved properties	3.4	3.5	6.4	95.0	116.6	153.9
	11.0	8.7	22.6	2,311.1	2,753.0	2,757.0
Less—Accumulated depreciation and depletion	.8	.7	13.2	1,471.5	1,545.6	1,404.7
	$10.2	$8.0	$ 9.4	$ 839.6	$1,207.4	$1,352.3

COSTS INCURRED

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

	United States			Indonesia			Canada	
	1989	1988	1987	1989	1988	1987	1988	1987
Property acquisition costs	$22.9	$11.1	$ 15.0			$ 3.5	$ 8.3	$ 2.8
Exploration costs	41.3	42.4	37.1	$30.5	$ 6.0	5.3	7.9	14.3
Development costs	33.9	46.4	60.9	40.8	45.1	36.7	.8	6.8
	$98.1	$99.9	$113.0	$71.3	$51.1	$45.5	$17.0	$23.9

	Other Foreign			Worldwide		
	1989	1988	1987	1989	1988	1987
Property acquisition costs		$ 2.4		$ 22.9	$ 21.8	$ 21.3
Exploration costs	$15.3	12.6	$11.0	87.1	68.9	67.7
Development costs		5.0	.7	74.7	97.3	105.1
	$15.3	$20.0	$11.7	$184.7	$188.0	$194.1

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OIL AND GAS RESERVES

Proved reserves are the estimated quantities of crude oil and natural gas which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. Proved developed reserves are proved reserves that can be expected to be recovered through existing wells with existing equipment and operating methods. Proved undeveloped reserves are proved reserves that are expected to be recovered from new wells on undrilled acreage or from existing wells where a significant expenditure is required for recompletion.

The Company's net interests in estimated quantities of proved reserves of crude oil, including condensate (in thousands of barrels), and natural gas (in millions of cubic feet) at December 31, 1989, 1988 and 1987, and changes in such estimated quantities in 1989, 1988 and 1987 were as follows:

	United States		Indonesia		Canada		Other Foreign		Worldwide	
	Oil	Gas	Oil	Gas	Oil	Gas	Oil	Gas	Oil	Gas
Proved Reserves										
January 1, 1987	40,951	749,623	84,506	29,145	10,090	95,992	4,356	15,272	139,903	890,032
Purchase of reserves in place	209	7,680	1,453						1,662	7,680
Revisions of previous reserves	(575)	30,136	2,087	(2,785)	(6)	(3,110)	(1)	1,953	1,505	26,194
Extensions, discoveries and other additions	2,406	56,844	13,575	2,863	988	10,226			16,969	69,933
Enhanced recovery	146				1,154				1,300	
Production	(4,587)	(99,729)	(17,162)	(6,323)	(920)	(4,171)	(569)	(1,402)	(23,238)	(111,625)
Sale of reserves in place	(103)	(306)					(3,773)		(3,876)	(306)
December 31, 1987	38,447	744,248	84,459	22,900	11,306	98,937	13	15,823	134,225	881,908
Purchase of reserves in place	89	2,529			1,916	4,394			2,005	6,923
Revisions of previous reserves	(2,983)	10,135	5,171	707	(2,088)	(29,522)			100	(18,680)
Extensions, discoveries and other additions	2,589	68,675	67,808	5,929	590	8,454	15,973		86,960	83,058
Enhanced recovery	900								900	
Production	(4,565)	(101,990)	(15,419)	(4,751)	(1,011)	(6,628)	(1)	(396)	(20,996)	(113,765)
Sale of reserves in place	(2,722)	(34,231)			(24)	(281)	(12)	(15,427)	(2,758)	(49,939)
December 31, 1988	31,755	689,366	142,019	24,785	10,689	75,354	15,973		200,436	789,505
Purchase of reserves in place	366	15,151							366	15,151
Revisions of previous reserves	(1,783)	24,398	(3,299)	1,453			(3,238)		(8,320)	25,851
Extensions, discoveries and other additions	797	36,382	43,953	3,500			7,848		52,598	39,882
Production	(3,960)	(95,702)	(16,874)	(3,592)					(20,834)	(99,294)
Sale of reserves in place	(4,905)	(36,852)	(15,961)	(7,232)	(10,689)	(75,354)			(31,555)	(119,438)
December 31, 1989	22,270	632,743	149,838	18,914	—	—	20,583	—	192,691	651,657
Proved Developed Reserves										
January 1, 1987	31,724	713,194	76,324	26,867	9,797	83,952	4,356	8,649	122,201	832,662
December 31, 1987	30,743	711,194	70,744	20,067	11,013	86,954	13	7,173	112,513	825,388
December 31, 1988	24,141	654,222	57,114	17,346	9,885	71,000			91,140	742,568
December 31, 1989	19,771	605,583	57,537	13,586					77,308	619,169

OCCNJ0013540

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 SFAS 69, the standardized measure has been prepared assuming year-end selling prices adjusted for future fixed and determinable contractual price changes, year-end development and production costs, year-end statutory tax rates adjusted for future tax rates already legislated and a 10% annual discount rate.

	United States			Indonesia			Canada	
	1989	1988	1987	1989	1988	1987	1988	1987
Future revenues	$1,753.4	$1,683.9	$1,825.1	$2,619.5	$2,174.2	$1,412.4	$243.3	$302.9
Future production and development costs	(433.9)	(481.7)	(539.9)	(1,373.5)	(1,095.9)	(932.0)	(81.6)	(91.5)
Future income taxes	(366.4)	(317.6)	(381.9)	(658.7)	(556.3)	(170.4)	(28.2)	(74.6)
Future net cash flow	953.1	884.6	903.3	587.3	522.0	310.0	133.5	136.8
Annual discount at 10% rate	(170.8)	(187.8)	(339.1)	(176.4)	(151.6)	(72.3)	(55.1)	(63.6)
Standardized measure	$ 782.3	$ 696.8	$ 564.2	$ 410.9	$ 370.4	$ 237.7	$ 78.4	$ 73.2

	Other Foreign			Worldwide		
	1989	1988	1987	1989	1988	1987
Future revenues	$ 347.2	$ 184.5	$ 45.9	$4,720.1	$4,285.9	$3,586.3
Future production and development costs	(211.1)	(119.4)	(14.3)	(2,018.5)	(1,778.6)	(1,577.7)
Future income taxes	(50.6)	(11.5)	(17.4)	(1,075.7)	(913.6)	(644.3)
Future net cash flow	85.5	53.6	14.2	1,625.9	1,593.7	1,364.3
Annual discount at 10% rate	(68.5)	(42.8)	(5.1)	(415.7)	(437.3)	(480.1)
Standardized measure	$ 17.0	$ 10.8	$ 9.1	$1,210.2	$1,156.4	$ 884.2

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

	1989	1988	1987
January 1	$1,156.4	$ 884.2	$905.7
Sales and transfers of oil and gas produced, net of production costs	(380.6)	(344.0)	(406.0)
Net changes in prices and production costs	302.0	33.4	51.2
Extensions, discoveries and improved recovery, less related costs	194.0	571.4	135.0
Previously estimated development costs	(14.3)	63.4	(109.9)
Revisions of previous quantity estimates	(19.8)	(128.6)	189.6
Sale of reserves in place	(205.9)		
Net change in income taxes	(73.4)	(94.4)	(6.5)
Accretion of discount	157.1	129.5	129.0
Other	94.7	41.5	(3.9)
December 31	$1,210.2	$1,156.4	$884.2

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SCHEDULE V

MAXUS ENERGY CORPORATION
CONSOLIDATED PROPERTIES AND EQUIPMENT

Three Years Ended December 31, 1989
(dollars in millions)

	Exploration & Production	Refining & Marketing	Coal	Corporate	Total
Balance January 1, 1987	$2,883.2	$788.4	$323.4	$151.7	$4,146.7
Additions, at cost	172.1	10.9	6.4	9.6	199.0
Disposals and transfers	(188.3)	(799.3)	(329.8)	51.6	(1,265.8)
Balance December 31, 1987	2,867.0			212.9	3,079.9
Additions, at cost	157.3			3.0	160.3
Disposals and transfers	(147.6)			(36.5)	(184.1)
Balance December 31, 1988	2,876.7			179.4	3,056.1
Additions, at cost	156.0			9.8	165.8
Disposals and transfers	(596.6)			(9.4)	(606.0)
Balance December 31, 1989	$2,436.1	—	—	$179.8	$2,615.9

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SCHEDULE VI

MAXUS ENERGY CORPORATION
CONSOLIDATED ACCUMULATED DEPRECIATION AND DEPLETION
PROPERTIES AND EQUIPMENT

Three Years Ended December 31, 1989
(dollars in millions)

	Exploration & Production	Refining & Marketing	Coal	Corporate	Total
Balance January 1, 1987	$1,295.1	$266.3	$135.9	$45.6	$1,742.9
Additions charged against income	306.9	11.3	4.3	10.3	332.8
Disposals and transfers	(146.4)	(277.6)	(140.2)	7.1	(557.1)
Balance December 31, 1987	1,455.6			63.0	1,518.6
Additions charged against income	260.1			7.0	267.1
Disposals and transfers	(108.1)			(13.7)	(121.8)
Balance December 31, 1988	1,607.6			56.3	1,663.9
Additions charged against income	228.2			4.2	232.4
Disposals and transfers	(296.7)			(6.0)	(302.7)
Balance December 31, 1989	$1,539.1	—	—	$54.5	$1,593.6

OCCNJ0013543

February 27, 1990
Report of the Company

To the Stockholders
Maxus Energy Corporation

The Consolidated Financial Statements have been prepared in conformity with generally accepted accounting principles and have been audited by Price Waterhouse, independent accountants, whose report thereon is included herein. The Company is responsible for all information and representations contained in the Consolidated Financial Statements. In the preparation of this information, it has been necessary to make estimates and judgments based on data provided by the Company's accounting and control systems.

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

The independent accountants provide an objective review as to the Company's reported operating results and financial position. The Company also has an active operations auditing program which monitors the functioning of the Company's accounting and control systems and provides additional assurance that the Company's operations are conducted in a manner which is consistent with applicable laws.

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

D. C. Mielke, *Senior Vice President*
Chief Financial Officer and Treasurer

G. R. Brown, *Vice President and Controller*
Principal Accounting Officer

Dallas, Texas

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