

EXECUTIVE SUMMARY

A. Consolidated Company Overview

Diamond Shamrock Chemicals Company ("the Company") is a diversified industrial and specialty chemicals company. The present company evolved from the Diamond Alkali and NOPCO Chemicals companies.

The Company has both domestic and international manufacturing and sales operations. The Company operates twenty-three domestic and eight international manufacturing facilities. Joint venture positions are held in six companies in six foreign countries. Sales are conducted through nine domestic sales offices and at fifteen foreign locations. The Company maintains efficient manufacturing facilities, strong distribution networks, professional sales and marketing programs and enjoys excellent customer relations.

(\$ millions)	<u>1985</u>	<u>1984</u>
Net Sales & Transfers	655.5	736.0
Gross Profit	144.4	168.2

The Company is headquartered in Irving, Texas, and employs 4,232 (3,083 domestic) people. The Company has three primary operating divisions, Chlor-Alkali, Soda Products (silicates and chrome) and Process Chemicals (specialty chemicals). A broad spectrum of industrial and specialty chemicals are produced.

	<u>1985</u>	<u>1984</u>	<u>1983</u>	<u>1982</u>	<u>1981</u>	<u>1980</u>
Production (Thousands of Tons)						
Chlorine	931	955	802	949	825	1,204
Liquid Caustic Soda	943	976	881	767	913	1,030
Liquid Silicates	184	148	165	164	210	202
Sodium Bichromate	81	65	60	59	73	86
Process Chem	95	101	91	86	97	92
Total U.S. Production						

B. Summary of Investment Merits

Market Position and Expertise

- o Market leader: The Company is among the top three manufacturers in most of its major business segments.
- o Extensive, highly trained sales network: A strong, regionally oriented sales force selling to all key business markets.

- o Excellent customer reputation: Strong customer relationships
- o International presence: Serves diverse markets on a world-wide basis.

Manufacturing/Distribution

- o State of the art production: Continued investment and innovation results in up-to-date facilities.
- o Cost competitive: Manufacturing facilities can compete on world-wide cost basis.
- o Strategic locations: Major facilities located to serve high volume markets.
- o Transportation: Maintains one of the industries largest rail and barge fleets.

Management

- o Outstanding reputation: The Company has capable professional management which anticipates market and technology driven changes.
- o Safe operations: The Company performance for lost time injuries is better than the industry average.

C. MISCELLANEOUS

Each division is self supporting in all operating functions but draws support from the Chemicals Company staff groups. These groups include human resources, controllers, tax, legal, information services, engineering, environmental, purchasing, transportation, and sales. The non-allocated expense for these functions were \$7.6 MM for 1985.

In addition, cost of services by corporate level staffs are allocated at a company level. These services in the policy and administrative areas are performed by groups in human resources, treasury, government affairs, risk management, public relations, audit, environmental/safety/health, legal, as well as other areas. The corporate allocation to the Chemicals Company was \$7.8 MM for 1985.

A lease of a Falcon 20 aircraft is included in the transaction.

DIAMOND SHAMROCK CHEMICALS COMPANY OFFICERS

Charles E. Stewart

President. Joined Diamond Alkali Co. in 1957 as a sales trainee. He served in several management positions in the Electro Chemicals and Soda Products divisions, including vice president and general manager of Soda Products and vice president and general manager of the Process Chemicals Division. He has been corporate vice president for planning and development and president of the International Technology Unit. Mr. Stewart, 50, is a graduate of Marquette University.

John W. McConnell

Executive vice president and chief operating officer. Joined Diamond Shamrock in 1967 as a financial trainee. He has held several management positions, including assistant treasurer of the corporation, vice president of administration for Diamond Shamrock Coal Company, and vice president for finance and administration for Diamond Shamrock Chemicals Company. Mr. McConnell, 45, is a graduate of the University of Steubenville (Ohio).

John B. Talpas

Vice president, Process Chemicals and Soda Products divisions. Joined Diamond Alkali Co. in 1965 as an engineering trainee. He has held a number of management positions, including operations manager for the Electro Chemicals Division, director of corporate planning, vice president of corporate human resources, and general manager for the Soda Products Division. Mr. Talpas, 43, is a graduate of Carnegie-Mellon University.

Girard E. Pfeil

Vice president, Chlor-Alkali Division. Joined Diamond Alkali Co. in 1957 as a sales trainee. He has held a number of management positions, including director of sales and vice president of the Soda Products Division. Mr. Pfeil, 55, is a graduate of Bowling Green State University (Ohio).

Charles L. Mears

Vice president, sales and marketing. Joined Diamond Alkali Co. in 1965 as a sales trainee. He has held a number of management positions, including assistant general manager of the Electrolytic Systems Division. Mr. Mears, 47, is a graduate of Stephen F. Austin State College.

Jack R. Clinton

Vice president, international. Joined Diamond Alkali Co. in 1962 as an engineering trainee. He has held a number of management positions, including manager of international for the Industrial Chemicals Group. Mr. Clinton, 48, is a graduate of the University of Texas at Austin.

William L. Abele

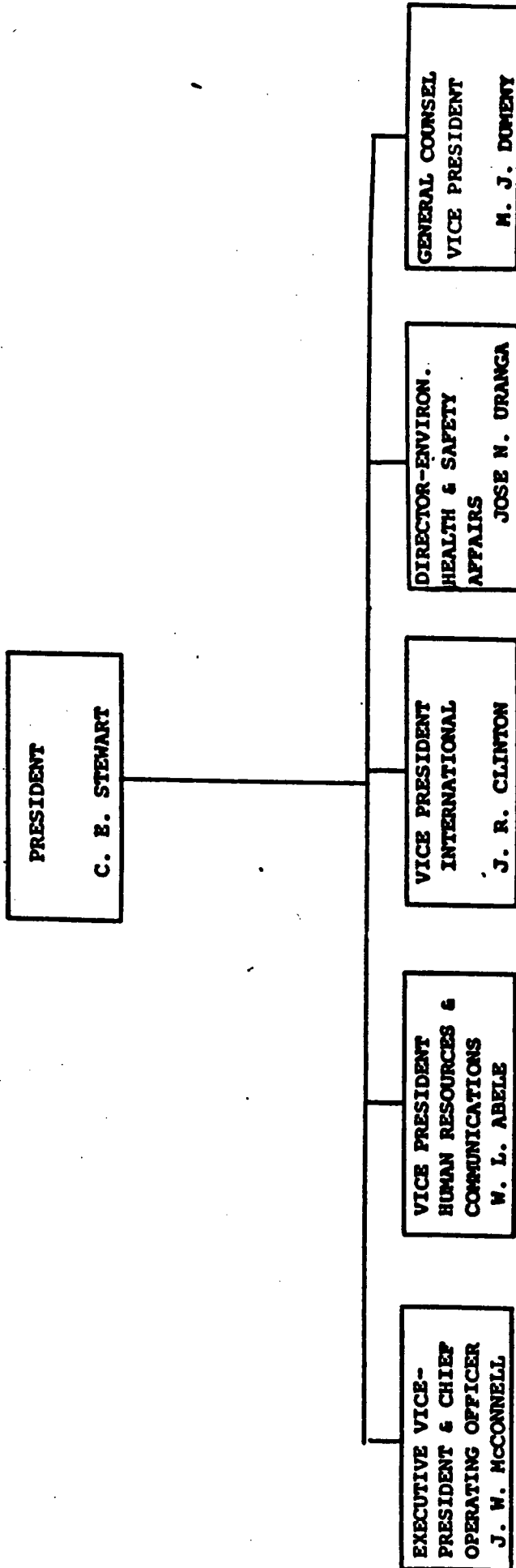
Vice president, human resources and communications. Joined Diamond Alkali Co. in 1956 as a personnel assistant. He has held a number of management positions, including director of corporate human resources. Mr. Abele, 56, is a graduate of Case-Western Reserve University.

Marcel J. Dumeny

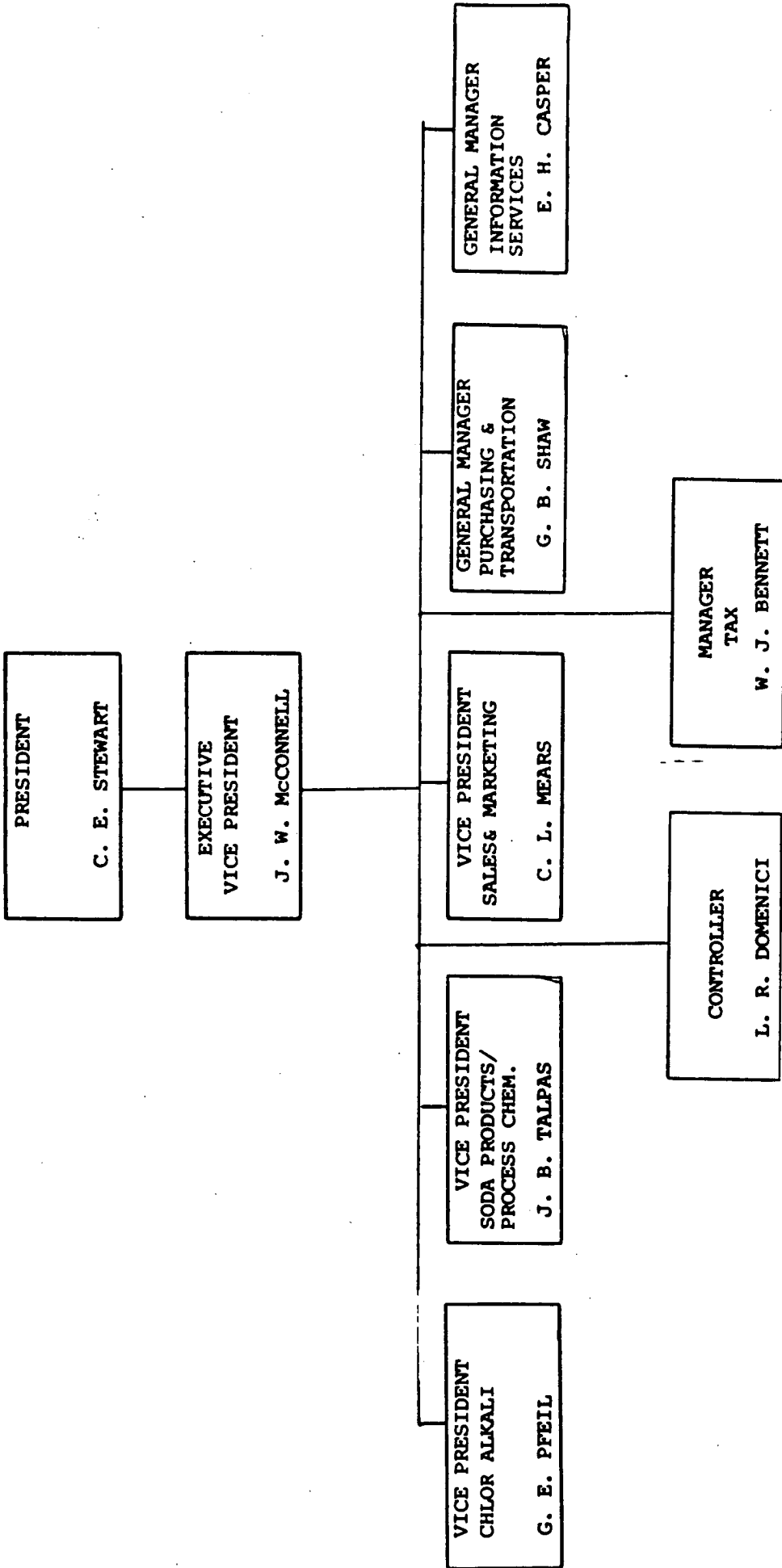
Vice president and general counsel. Joined Diamond Shamrock in 1975 as counsel. He has held a number of positions within the company, including senior counsel and general counsel. Mr. Dumeny, 36, is a graduate of the University of Pennsylvania.

**DIAMOND SHAMROCK CHEMICALS COMPANY
EXECUTIVE OFFICE**

JANUARY, 1986



CHEMICALS COMPANY
FINANCE & ADMINISTRATION
JANUARY, 1986



YEAR-TO-DATE 1985
CONSOLIDATED
PROFIT & LOSS STATEMENT

	CHLOR- ALKALI	SODA PRODUCTS	PROCESS CHEMICALS	OTHER	TOTAL CHEMICALS COMPANY
NET SALES & TRANSFERS	\$394,510	\$132,104	\$162,140	(\$33,274)	\$655,480
COST OF GOODS SOLD	\$329,151	\$93,351	\$114,261	(\$25,748)	\$511,015
GROSS PROFIT	\$65,359	\$38,753	\$47,879	(\$7,526)	\$144,465
SELLING & MERCHANDISING ADMINISTRATIVE	\$10,626	\$8,537	\$14,386	\$1,635	\$35,184
RESEARCH	\$9,701	\$4,676	\$10,981	\$8,662	\$34,020
ENGINEERING	\$1,115	\$524	\$2,567	\$147	\$4,206
TECHNICAL SERVICE	\$1,228	\$636	\$4,785	(\$1)	\$1,384
BELOW-THE-LINE EXPENSE	\$23,341	\$14,939	\$32,719	\$10,443	\$81,442
PROVISION FOR ABANDONMENT IDLE PLANT	\$2,425	\$666	\$369	\$723	\$4,203
	\$543	\$51		\$1	\$595
TOTAL OTHER EXPENSE	\$2,968	\$717	\$369	\$724	\$4,798
EQUITY IN AFFILIATES				\$2,866	\$2,866
OTHER INCOME	\$34,354	\$130	\$552	\$29,050	\$64,086
TOTAL OTHER INCOME	\$34,354	\$130	\$552	\$31,916	\$66,952
O.P. BEFORE PRIOR PERIOD ADJ	\$73,404	\$23,227	\$15,323	\$13,223	\$125,177
PRIOR PERIOD ADJUSTMENTS	\$2,910	\$551	\$365	(\$3,826)	\$0
O. P. AFTER PRIOR PERIOD ADJ	\$76,314	\$23,778	\$15,688	\$9,397	\$125,177

YEAR-TO-DATE 1984
CONSOLIDATED
PROFIT & LOSS STATEMENT

	CHLOR- ALKALI	SODA PRODUCTS	PROCESS CHEMICALS	OTHER	TOTAL CHEMICALS COMPANY
NET SALES & TRANSFERS	\$423,425	\$131,329	\$183,989	(\$2,766)	\$735,977
COST OF GOODS SOLD	\$346,576	\$95,885	\$134,215	(\$8,907)	\$567,769
GROSS PROFIT	\$76,849	\$35,444	\$49,774	\$6,141	\$168,208
SELLING & MERCHANDISING					
ADMINISTRATIVE	\$10,104	\$7,829	\$15,036	\$3,663	\$36,632
RESEARCH	\$7,290	\$3,188	\$9,150	\$15,532	\$35,160
ENGINEERING	\$1,371	\$559	\$2,215	\$1,018	\$5,163
TECHNICAL SERVICE	\$1,831	\$538	\$676	\$676	\$3,045
	\$1,394	\$676	\$5,445	\$422	\$7,937
BELOW-THE-LINE EXPENSE	\$21,990	\$12,790	\$31,846	\$21,311	\$87,937
PROVISION FOR ABANDONMENT IDLE PLANT	\$598	\$227	(\$65)	\$307	\$1,067
	\$547	\$198		\$12	\$757
TOTAL OTHER EXPENSE	\$1,145	\$425	(\$65)	\$319	\$1,824
EQUITY IN AFFILIATES OTHER INCOME	\$18,368	\$225	\$1,446	\$5,312	\$5,312
	\$18,368	\$225	\$1,446	\$14,309	\$34,348
TOTAL OTHER INCOME	\$18,368	\$225	\$1,446	\$19,621	\$39,660
O.P. BEFORE PRIOR PERIOD ADJ	\$72,082	\$22,454	\$19,439	\$4,132	\$118,107
PRIOR PERIOD ADJUSTMENTS	\$1,765	\$500		(\$2,265)	\$0
O. P. AFTER PRIOR PERIOD ADJ	\$73,847	\$22,954	\$19,439	\$1,867	\$118,107

DECEMBER 31, 1985
 CONSOLIDATED
 BALANCE SHEET

	CHLOR- ALKALI	SODA PRODUCTS	PROCESS CHEMICALS	OTHER	TOTAL CHEMICALS COMPANY
CASH	\$83		\$3,100	(\$4,311)	(\$1,128)
MARKETABLE SECURITIES	\$3,091			\$131	\$3,222
RECEIVABLES	\$76,263	\$16,094	\$22,454	(\$47,868)	\$66,943
INVENTORIES	\$49,727	\$31,430	\$19,643	\$2,492	\$103,292
PREPAIDS	\$1,045		\$224	\$3,424	\$4,693
INVESTMENTS	\$1,611	\$1,489	\$4,489	\$26,850	\$32,950
PROPERTY, PLANT & EQUIPMENT	\$384,802	\$68,211	\$33,209	\$24,417	\$510,639
DEFERRED CHARGES	\$485	\$398	(\$104)	\$1,267	\$2,046
INTANGIBLES	\$1,900		\$12,349	\$2,999	\$17,248
INTER-COMPANIES				\$163,731	\$163,731
TOTAL ASSETS	\$517,396	\$117,744	\$95,364	\$173,132	\$903,636
W/P & SHORT TERM DEBT	\$2,518	\$200	\$689	\$5,692	\$9,099
ACCOUNTS PAYABLE	\$37,363	\$5,087	\$9,474	\$1,844	\$53,768
INTER-COMPANIES					\$0
ACCRUED LIABILITIES	\$9,851	\$1,017	\$2,218	\$31,341	\$44,427
LONG-TERM DEBT & LEASES	\$2,500		\$4,964	\$39,190	\$46,654
BONDS PAYABLE	\$63,627				\$63,627
LONG-TERM RESERVES	\$15,000				\$20,797
RESERVE FOR FUTURE TAXES	\$79,510	\$12,376	\$5,851	\$1,437	\$99,174
RESERVE FOR CURRENT TAXES	\$1,540	\$600			\$2,140
TOTAL LIABILITIES	\$211,909	\$18,680	\$23,796	\$85,301	\$339,686
COMMON STOCK				\$0	\$0
PAID-IN-CAPITAL				\$564,504	\$564,504
CUMULATIVE TRANSLATION ADJ.	(\$246)		(\$4,689)	\$819	(\$4,116)
RETAINED EARNINGS				\$3,562	(\$3,562)
TOTAL STOCKHOLDERS EQUITY	(\$246)	\$0	(\$4,689)	\$568,885	\$563,950
TOTAL LIAB. & S/H EQUITY	\$211,663	\$18,680	\$19,107	\$654,186	\$903,636
NET WORTH	\$305,733	\$99,064	\$76,257	(\$481,054)	\$0

CURRENT ASSETS - 175
 PPE - 544

CURRENT LIAB. - 75.0
 120.0

750.0
 120.0
 630.0
 100.0
 530.0

w/c

750.0
 100.0
 850.0
 ?

YEAR-TO-DATE 1985
CONSOLIDATED
OPERATING CASH FLOW

	CHLOR- ALKALI	SODA PRODUCTS	PROCESS CHEMICALS	OTHER	TOTAL CHEMICALS COMPANY
OPERATING PROFIT	\$76,314	\$23,778	\$15,688	\$9,397	\$125,177
ADD:					
DEPRECIATION & AMORTIZATION	\$32,504	\$6,349	\$5,788	\$5,127	\$49,768
EQUITY (INC) LOSS	(\$7,770)	(\$7,396)	\$936	(\$2,736)	(\$2,736)
CHANGE IN WORKING CAPITAL	\$101,048	\$22,731	\$22,412	\$60,041	\$34,023
CASH FROM OPERATIONS	\$104,191	\$22,924	\$25,747	\$95,265	\$206,232
ADD:					
N.B.V. OF ASSETS SOLD	\$3,143	\$193	\$3,335	\$8,802	\$15,473
OTHER				\$26,422	\$26,422
TOTAL CASH PROVIDED	\$104,191	\$22,924	\$25,747	\$95,265	\$248,127
SUBTRACT:					
CAPITAL EXPENDITURES	\$47,274	\$7,036	\$7,300	\$2,792	\$64,402
DIVIDENDS	\$47,274	\$7,036	\$7,300	\$2,792	\$64,402
TOTAL USE OF FUNDS	\$56,917	\$15,888	\$18,447	\$92,473	\$183,725
INCREASE (DECREASE) IN CASH					

DIAMOND SHAMROCK CHEMICALS COMPANY
Direct Expenses
(\$ in Thousands)

	Selling		Admin.*		Admin.*		Engineering		Tech.*		Research*		Research		Total
	Allocated	Direct	Allocated	Direct	Direct	Direct	Engineering	Tech.*	Direct	Allocated	Other	Other	Total		
1984															
Chlor-Alkali	7,575	2,529	5,735	2,080	1,306	1,394	1,371								21,990
Soda Products	3,281	4,548	1,863	1,325	538	675	558								12,788
Process Chemicals	1,012	14,024	1,133	8,017		5,445	2,215								31,846
Unit Retained Businesses Sold and Other							11,077								11,077
TOTAL	11,868	21,101	8,731	11,422	1,844	7,514	4,144	22,589	33,666	22,589	100,290				
1985															
Chlor-Alkali	7,648	2,978	6,930	2,024	671	1,228	1,115								22,594
Soda Products	3,443	5,094	2,728	1,396	566	635	525								14,387
Process Chemicals	955	13,431	1,805	9,176		4,785	2,315								32,719
Unit Retained Businesses Sold and Other															7,564
TOTAL	12,046	21,503	11,463	12,596	1,237	6,648	3,955	16,158	23,722	16,158	93,422				
1986															
Chlor-Alkali	7,059	3,301	8,318	1,956	623	1,250	1,279								23,786
Soda Products	3,032	5,586	3,323	1,065	580	609	587								14,782
Process Chemicals	880	14,120	2,003	9,366		5,422	2,692								34,715
Unit Retained Businesses Sold and Other															5,841
TOTAL	10,971	23,007	13,644	12,387	1,203	7,281	4,558	17,499	23,340	17,499	96,623				

*Domestic and International

¹ Includes business not part of this prospectus.

INTERNATIONAL

(\$ in Thousands)

	<u>Selling</u>	<u>Admin.</u>	<u>Tech.</u>	<u>Research</u>	<u>Total</u>
<u>1984</u>					
Chlor-Alkali	1,437	1,071			2,508
Soda Products	652	343			995
Process Chemicals	5,044	4,138	1,963	85	11,230
Businesses Sold and Other ¹					<u>9,953</u>
TOTAL					<u>24,686</u>
<u>1985</u>					
Chlor-Alkali	1,831	878			2,709
Soda Products	696	488			1,184
Process Chemicals	3,988	5,246	1,455		10,689
Businesses Sold and Other ¹					<u>8,847</u>
TOTAL					<u>23,429</u>
<u>1986</u>					
Chlor-Alkali	2,060	740			2,800
Soda Products	578	343			921
Process Chemicals	4,086	5,219	1,737		11,042
Businesses Sold and Other ¹					<u>9,086</u>
TOTAL					<u>23,849</u>

¹Includes business not part of this prospectus.