ARCO's downstream businesses are the leaders in their respective activities. During 1994, ARCO's refining

DOWNSTREAM OPERATIONS

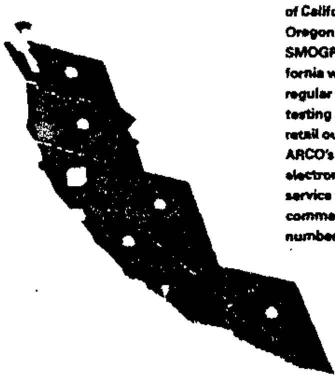
and marketing company completed extensive refinery modifications to meet Clean Air Act regulations for reformulated gasolines in major portions of its market area. A new product mix was introduced, in conjunction with a full slate of reformulated fuels, in Southern California in early 1995.

ARCO Chemical Company, in which ARCO holds an 83.3% interest, enjoyed higher volumes and increased margins. This reflected the improved business climate in certain segments of the U.S. economy, particularly residential and automotive, and efforts to increase markets for derivatives of its core products.

ARCO operates a number of businesses ancillary to its refining and fuels marketing operations. Automobile gasolines produced by ARCO, for example, are sold primarily through am/pm® convenience store and SMOGPROS® sites in addition to traditional ARCO-branded service stations.

Billboards and television commercials emphasized ARCO's premium products and lower prices.

The am/pms® represent more than half of ARCO retail outlets in the five western U.S. states of California, Washington, Oregon, Nevada and Arizona. SMOGPROS® are found in California where the state requires regular vehicular emissions testing and repairs. Most ARCO retail outlets are equipped with ARCO's proprietary PayPoint® electronic payment system, a service the company offers commercially to a growing number of retailers nationwide.



ARCO's transportation company continued to grow in the Lower 48 by focusing on operational integrity and excellence in customer service in pipeline, terminal and marine businesses.

ARCO's aluminum subsidiary, ARCO Aluminum, Inc., reported its 11th consecutive year of increased profits.

AUTOMOBILE GASOLINES REFORMULATED

To meet Environmental Protection Agency (EPA) emission control regulations by January 1995, U.S. refining companies were required to reformulate automotive gasolines sold in nine regions, including two in Southern California. For ARCO, this required major modifications to its Los Angeles refinery. Additional modifications will be required to meet California standards by 1996.

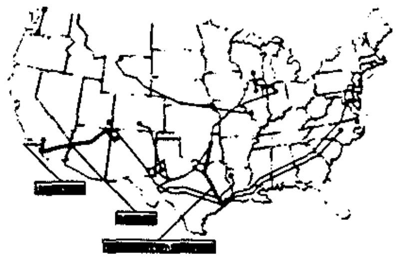
The manufacture of gasolines to meet the new California standards will give ARCO additional capacity for producing jet fuels, a market sector in which ARCO's volumes continued to increase in 1994.

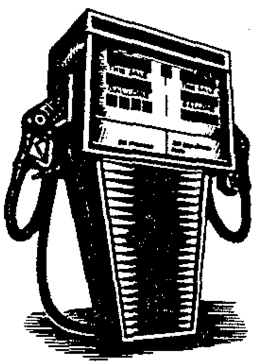
The company produces and markets calcined coke, which is used in the aluminum industry. It also operates a large co-generation unit, which produces steam and electricity for use at the Los Angeles refinery and sells electricity to the local power company.

[illegible] GROW

ARCO Chemical is the world's leading producer of propylene oxide (PO), which is used in a wide range of consumer and industrial applications, particularly by the automotive and housing industries. As a result of derivatives development, polyether polyols now consume about a quarter of the company's internal PO production annually.

An ARCO crude oil pipeline that stretches from the Gulf of Mexico to Oklahoma operated at capacity in 1994, meeting refiners' requirements for offshore and waterborne foreign crude oil. Line 90, moving crude oil out of Southern California, was near capacity and Line 63, an oil pipeline connecting the San Joaquin Valley to the Los Angeles Basin, was in heavy demand due to the closure of a 97-mile portion of Line 1 after the January earthquake in Southern California.





In conjunction with the introduction of EPA gasoline, ARCO debuted a new slate of high-quality unleaded emission-control automobile gasoline products including an 89-octane mid-grade, an 87-octane, and a 92-octane premium. ARCO had offered Southern Californians emission-control premium and regular gasolines prior to the 1995 EPA deadline, which established ARCO as a market leader in the development of cleaner burning gasolines.

ARCO Chemical was responsible for introduction of the first nationally-marketed propylene glycol-based automotive antifreeze and coolant, which is distributed in retail markets under the Sierra® brand name by ARCO Chemical's customer, Safe Brands Corporation.

Polyols are the key component in urethanes and are foamed to make seat cushions and mattresses, formulated into coatings or molded into other products. Another significant ingredient in these products is toluene di-isocyanate (TDI). In January 1995, ARCO Chemical entered into long-term agreements with the French chemical company, Rhone-Poulenc, for a supply of TDI. Under the arrangement, ARCO Chemical will be entitled to the entire TDI output of Rhone-Poulenc's two plants in France.

Propylene glycol-based products have become ARCO Chemical's second largest integrated use for PO. The leading propylene glycol manufacturer in the U.S., ARCO Chemical opened a new propylene glycol ether (PGE) plant in Rotterdam in early 1995.

Two primary co-products are produced with ARCO Chemical's PO technologies – styrene monomer and tertiary butyl alcohol (TBA), which is primarily converted to methyl tertiary butyl ether (MTBE), a key ingredient in reformulated gasolines. The company also has the

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Propylene Oxide markets grow with development of new products

capability to produce ethyl tertiary butyl ether (ETBE).

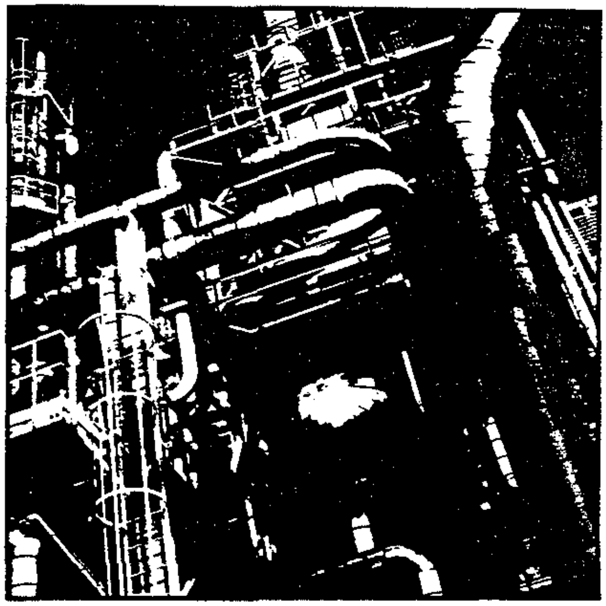
Profits from Lower 48 transportation businesses increased during 1994. With completion of an expansion, the Texas City-Cushing pipeline volumes increased 35%.

Operations at ARCO's West Coast storage facilities and terminals were modified in 1994 to accommodate oxygenate movements and storage requirements associated with the new reformulated gasolines. These facilities, combined with ownership of the two largest U.S. flag product vessels, allow ARCO to transport MTBE from the U.S. Gulf Coast and to serve West Coast product markets.

ARCO acquired the remaining 50% interest in an NGL pipeline which runs from northern Louisiana to Mont Belvieu, Texas, in 1994.

The Trans Alaska Pipeline System (TAPS) carried its 10 billionth barrel of crude oil in early 1994. With a 21.3% interest in TAPS, ARCO was actively involved during 1994 in responding to findings of federal regulators and TAPS owners. ARCO's eight crude oil tankers carried over 190 million barrels of the Alaskan production to ports along the U.S. West Coast and to Panama.

During 1994, ARCO completed the required modifications to make EPA gasolines and worked to meet the California Air Resources Board's (CARB) more stringent standards for automobile gasolines sold in the state by March 1996. When the modifications are complete, 100% of the gasoline produced at the Los Angeles refinery will meet those standards. The company expects to invest about $500 million in total to make the EPA and CARB gasolines. Areas served by ARCO's Cherry Point refinery in Washington state are not impacted by the new fuels standards; therefore, modifications were not required there.



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SELECTED FINANCIAL INFORMATION

Millions, except per share amounts	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sales and other operating revenues — including excise taxes	$16,552	$18,487	$18,[illegible]	$18,191	$18,[illegible]
Income before changes in accounting principles	$ 919	$ [illegible]	$ 1,19[illegible]	$ 709	$ 1,[illegible]
Net income	$ 919	$ [illegible]	$ [illegible]01	$ 709	$ 2,011
Earned per share before changes in accounting principles	$ 5.62	$ 1.[illegible]	$ 7.39	$ 4.39	$ 10.20
Earned per share	$ 5.63	$ 1.86	$ 4.96	$ 4.39	$ 12.15
Cash dividends per common share	$ 5.50	$ 5.50	$ 5.50	$ 5.50	$ 5.00
Total assets	$24,563	$23,[illegible]	$24,256	$24,492	$23,[illegible]
Long-term debt and capital lease obligations	$ 7,198	$ 7,[illegible]	$ 6,227	$ 5,[illegible]	$ 5,997

(1) See Note 2 of Notes to Consolidated Financial Statements regarding unusual items.
(2) Includes after-tax gain of $273 million from issuance of stock by Vastar Resources, Inc.
(3) Includes a net provision of $312 million after tax related to reorganization of Lower 48 oil and gas operations, companywide work force reduction, and the writedown of certain assets.

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

Operating results in 1994 improved compared to 1993 as a result of approximately $250 million after tax in first-year savings from ARCO's cost reduction program, higher earnings from ARCO's chemical interests in

Lyondell Petrochemical Company (Lyondell) and ARCO Chemical Company (ARCO Chemical), and higher natural gas sales volumes. These improvements were partially offset by lower crude oil and natural gas prices and reduced refining and marketing margins.

Earnings from Operations

Millions	1994	1993	1992
Net income	$ [illegible]	$ [illegible]	$ [illegible]
Special items (benefit) charge	([illegible])	[illegible]	([illegible])
Accounting changes	—	—	[illegible]
Operating results	$ [illegible]	$ [illegible]	$[illegible]

Operations in 1993, compared to 1992, benefited from improved margins and higher gasoline sales volumes in ARCO's West Coast refining and marketing operations, higher coal sales volumes and higher natural gas prices. These benefits were more than offset by lower crude oil prices and volumes, lower natural gas volumes, higher exploration and selling, general and administrative (SG&A) expenses and lower after-tax earnings from transportation operations.

Special Items After Tax

Millions	[illegible]	[illegible]	[illegible]
Restructuring charges	[illegible]	[illegible]	[illegible]
Gain on issuance of subsidiary stock	[illegible]	[illegible]	[illegible]
Future environmental remediation	[illegible]	[illegible]	[illegible]
Deferred tax impact of rate change	[illegible]	[illegible]	[illegible]
Settlement of asset nationalization	[illegible]	[illegible]	[illegible]
Deferred gain, Lyondell	[illegible]	[illegible]	[illegible]
Other, net	[illegible]	[illegible]	[illegible]
Total special items benefit (charge)	[illegible]	[illegible]	[illegible]

RESULTS OF CONSOLIDATED OPERATIONS

REVENUES

The sale of ARCO's Brazilian marketing operations in December 1993 resulted in reduced operating revenues in 1994. At the same time, increased crude oil trading and natural gas marketing activity, higher chemical prices and volumes, natural gas volumes and excise taxes were offset by lower crude oil prices and volumes, and lower prices for refined products and natural gas. In 1993, increased natural gas marketing volumes and higher refined and chemical products sales volumes and natural gas prices were more than offset by lower crude oil prices, crude oil and natural gas volumes, decreased crude oil trading volumes and lower refined and chemical products prices.

The increase in income from equity investments in 1994 primarily reflected Lyondell's higher earnings. ARCO has a 49.9% equity interest in Lyondell.

The fluctuations in other revenues primarily reflected the impact of asset sales.

EXPENSES

The sale of ARCO's Brazilian marketing operations resulted in reduced trade purchases in 1994. At the same time, increased crude oil trading and natural gas marketing activity were offset by lower crude oil and natural gas prices. In 1993, lower crude oil trading prices and volumes and lower purchased volumes of finished refined products and chemical feedstocks resulted in reduced trade purchases. This reduction was partially offset by higher natural gas marketing volumes and prices.

As a result of ARCO's cost reduction program, lease and other operating costs in oil and gas operations and refining and marketing operations were lower in 1994. These reductions were partially offset by higher operating costs as a result of increased production volumes for coal operations and ARCO Chemical, and by higher operating costs associated with the response to

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findings of regulatory and owner company reviews of the Trans Alaska Pipeline System (TAPS). Litigation-related accruals, higher compensation and contract personnel costs associated with downstream and coal operations and higher maintenance costs, including turnarounds at three chemical plants, resulted in higher operating costs in 1993. Partially offsetting these increases were lower lease and other operating costs in oil and gas operations.

The decline in exploration expense in 1994 reflected reduced activity as part of ARCO's cost reduction program, particularly in Alaska and the Lower 48. The increase in 1993 reflected higher dry hole costs in Alaska and increased activity overseas, partially offset by decreased activity in the Lower 48.

Selected Expenses

Millions	[illegible]	[illegible]	[illegible]
Operating expenses	[illegible]	[illegible]	[illegible]
SG&A expenses	[illegible]	[illegible]	[illegible]
Exploration expenses	$ [illegible]	$ [illegible]	$ [illegible]

The sale of ARCO's Brazilian marketing operations and lower personnel costs in oil and gas operations resulted in reduced SG&A expenses in 1994. Higher compensation expense and higher delivery and advertising costs increased SG&A expenses in 1993.

The sale of ARCO's Brazilian marketing operations also resulted in reduced taxes other than excise and income taxes in 1994. The decrease in 1993, compared to 1992, primarily resulted from lower production taxes related to lower crude oil prices and volumes.

Excise taxes increased in 1994 as a result of the full-year effect in 1994 of the fourth quarter 1993 increase in federal excise taxes and a mandatory assumption of the collection responsibility for excise taxes on diesel fuel. The increase in 1993 primarily resulted from the fourth quarter 1993 federal excise tax increase, the full-year effect in 1993 of increased state excise taxes in 1992 and higher refined products sales volumes.

Depreciation, depletion and amortization (DD&A) decreased in 1994 reflecting the absence of a $73 million accrual for plugging and abandonment of onshore wells recorded in 1993. This was partially offset by increased depreciation associated with the first full year of operation of the Gordonstone mine. The decrease in DD&A in 1993 resulted from the sale of Lower 48 oil and gas properties, partially offset by the $73 million plug and abandonment accrual.

Personnel reductions associated with ARCO's cost reduction program were reported as unusual items in 1994. The fourth quarter 1993 reorganization of ARCO's Lower 48 oil and gas operations is reflected in unusual items expense and included $554 million before tax for writedowns for sale or other disposition of oil and gas properties and excess office space, in addition to charges for work force reductions. The 1992 unusual items comprised a settlement on assets nationalized by Iran and recognition of a previously deferred portion of the gain from the 1989 sale of a majority interest in Lyondell, partially offset by a charge related to the withdrawal by ARCO Chemical from a Korean joint venture.

GAIN ON ISSUANCE OF STOCK BY VASTAR RESOURCES, INC

On July 5, 1994, Vastar Resources, Inc. (Vastar) consummated the sale of

17,250,000 shares of its common stock to the public at an initial offering price of $28 per share. Prior to the offering, Vastar was a wholly owned subsidiary of ARCO. At December 31, 1994, ARCO owned 80,000,001 shares of Vastar's common stock, which represented 82.3% of Vastar's outstanding common stock. ARCO realized an after-tax gain of $273 million as a result of the initial public offering by Vastar. Vastar's results are included in ARCO's Lower 48 results in the oil and gas segment.

INCOME TAXES

ARCO's effective tax rate was 28.3% in 1994, compared to 51.6% in 1993 and 35.6% in 1992. The lower effective tax rate in 1994 reflected recognition of a foreign deferred tax asset, increased net foreign tax credits, a refund of paid foreign taxes and an increase in other tax credits. The higher effective tax rate in 1993 reflected increased taxes on foreign income and the effect of the 1993 federal tax rate increase on deferred taxes.

ACCOUNTING CHANGES

The 1992 results included a net after-tax charge of $392 million, or $2.43 per share, for the cumulative effect of the adoption of two new accounting standards related to non-pension post-retirement benefits and income taxes.

RESULTS OF SEGMENT OPERATIONS

OIL AND GAS

[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]

Lower exploration and operating expenses and higher natural gas volumes were partially offset by lower crude oil prices and volumes and lower natural gas prices in 1994.

In 1993, the effect of lower crude oil prices and volumes, natural gas volumes and higher dry hole expense was partially offset by higher natural gas prices and lower depletion and lease operating costs.

Oil and Gas Special Items After Tax

[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	$ [illegible]	[illegible]	$ [illegible]
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	$ [illegible]	[illegible]	$ [illegible]

PETROLEUM LIQUIDS PRODUCTION

Worldwide petroleum liquids volumes decreased in 1994 and 1993 as a result of Lower 48 property divestitures and natural field declines. In 1994,

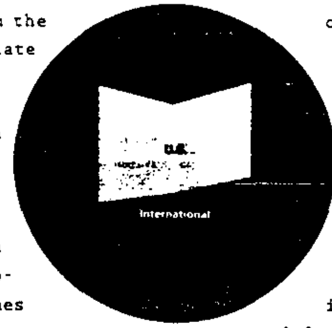
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]

increased volumes resulting from the expanded gas handling system (GHX-2) at Prudhoe Bay and new volumes from the Point McIntyre field, which began production in October 1993, were partially offset by natural field decline in Alaska from the Prudhoe Bay and Kuparuk River fields.

NATURAL GAS PRODUCTION

ARCO's international natural gas production grew in 1994 as a result of the new Pagerungan and Offshore Northwest Java Sea fields in Indonesia and a full year of production from the Orwell and Murdoch fields in the United Kingdom North Sea. International natural gas operations in 1993 were favorably impacted by a full year of production from the Pickerill field in the U.K. North Sea, new production from the Orwell and Murdoch fields in the U.K. North Sea, which began in late 1993, and the Java Sea field in Indonesia.

U.S. natural gas production growth in 1994 came primarily from Vastar's Mustang Island 805 field in the Gulf of Mexico and fields in the San Juan Basin. The sale of Lower 48 properties and natural field declines reduced domestic natural gas production in 1993.



COAL

Millions	[illegible]	[illegible]	[illegible]
Net income	[illegible]	[illegible]	[illegible]
Worldwide shipments (tons)	[illegible]	[illegible]	[illegible]

Revenues from record volumes in 1994 were more than offset by lower international coal prices, the reopening to current market prices of a major sales contract in the U.S. and unfavorable foreign exchange rate movements. Improved earnings in 1993 reflected higher sales volumes as a result of strong electric utility demand and reduced East Coast supply as a result of a mine workers strike. The 1993 results included a benefit of approximately $10 million after tax associated with a change in the accrued estimated loss on the sale of the Coal Resources of Queensland mine, which was completed in January 1993.

REFINING AND MARKETING

Millions	[illegible]	[illegible]	[illegible]
Net income	[illegible]	[illegible]	[illegible]
Special items	[illegible]	[illegible]	[illegible]
Operating results	[illegible]	[illegible]	[illegible]

The 1994 results were negatively impacted by reduced U.S. West Coast margins and the absence of earnings from Brazil, partially offset by reduced operating costs. The 1994 special items included after-tax charges related to personnel reductions and future environmental remediation costs. The 1993 special items comprised primarily litigation-related accruals, a loss associated with the sale of the Brazilian marketing subsidiaries and the effect of the increase in the federal tax rate on deferred taxes. The 1992 special items included a charge of approximately $40 million after tax primarily for environmental costs related to previously divested operations.

ARCO's U.S. West Coast sales volumes were relatively unchanged for the three years ended December 31, 1994.

TRANSPORTATION

[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]

The 1994 results included charges of approximately $20 million after tax related to personnel reductions, a loss on the sale of midcontinent product pipelines, and costs associated with the Southern California earthquake, partially offset by a tax credit. The 1993 earnings declined as a result of lower TAPS earnings and the effect of the federal tax rate increase, partially offset by higher commercial pipeline earnings.

INTERMEDIATE CHEMICALS AND SPECIALTY PRODUCTS

After-tax earnings for ARCO's intermediate chemicals and specialty products segment were $265 million in 1994, $239 million in 1993 and $210 million

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in 1992. The segment consists of ARCO Chemical, an 83.3% owned subsidiary. ARCO Chemical reported that its 1994 results included an after-tax charge of $19 million for corporate restructuring and a $12 million benefit from insurance proceeds. ARCO Chemical's reported net income in 1993 included a $10 million after-tax loss on early debt retirement and net benefits of $20 million from lower income taxes. The 1992 results included $56 million before tax for a charge resulting from ARCO Chemical's withdrawal from a joint venture in Korea.

ARCO Chemical Sales Volumes

(millions)	[illegible]
PO and derivatives (pounds)	[illegible]
SM and derivatives (pounds)	[illegible]
TBA and derivatives (gallons)	[illegible]

ARCO Chemical's reported net income was higher in 1994, compared to 1993, primarily as a result of higher sales volumes in ARCO Chemical's core products, propylene oxide (PO) and derivatives and styrene monomer (SM), and higher SM margins, partially offset by the effects of a weaker methyl tertiary butyl ether (MTBE) market. In 1993, increased sales volumes in ARCO Chemical's core products worldwide were offset by higher fixed costs associated with a new plant, lower MTBE margins, primarily in Europe, and lower overall PO and derivatives margins as a result of lower U.S. PO derivatives prices and continued weakness in the European economy.

LYONDELL PETROCHEMICAL COMPANY

ARCO's 49.9% equity share of Lyondell's net income was $111 million for 1994, $13 million for 1993 and $8 million for 1992. Lyondell's results in 1994 reflected improved olefins and methanol margins and increased olefins sales volumes. This more than offset lower earnings from Lyondell's approximate 90% participation interest in LYONDELL-CITGO Refining Company Ltd. (LCR), which was affected by poor industry conditions as well as downtime for major maintenance turnarounds in the fourth quarter. LCR took over Lyondell's operation of the Houston, Texas, refinery in July 1993. Lyondell's results in 1993 improved as a result of higher margins attained through the processing of greater volumes of Venezuelan crude oil.

UNALLOCATED EXPENSES AND OTHER

Unallocated expenses and other was a net after-tax expense of $57 million in 1994 and $140 million in 1993 compared to a net after-tax benefit of $25 million in 1992. Reductions in corporate staff expense, increased foreign tax credits and a tax refund resulted in lower unallocated expenses in 1994. In addition, increased interest income on short-term investments was more than offset by reimbursement of money market losses in certain employee benefit plans and charges for personnel reductions at ARCO's corporate headquarters. The increase in unallocated expenses in 1993 reflected the absence of a $111 million after-tax gain recognized in 1992 and discussed below, increased compensation, higher charges for future environmental remediation, and lower net investment income. In 1992, unallocated expenses and other included the recognition of a $111 million after-tax gain representing a previously deferred portion of the gain from the 1989 sale of a majority interest in Lyondell, partially offset by increased corporate expenses and charges for future environmental remediation.

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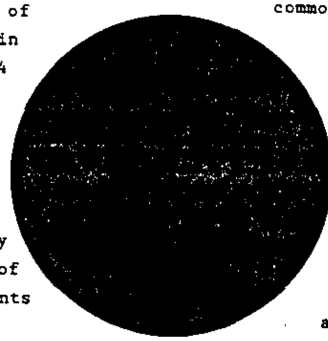
FINANCIAL POSITION AND LIQUIDITY

Millions	1994	1993	1992
Cash flow provided (used) by:			
Operations	$ 2,[illegible]	$ 1,762	$ 1,879
Investing activities	$(2,[illegible])	$(2,237)	$(2,118)
Financing activities	$ [illegible]	$ (428)	$ (718)

The net cash used in investing activities in 1994 included expenditures for additions to fixed assets (including dry hole costs) of $1,658 million and a net increase in short-term investments of $768 million, partially offset by proceeds from asset sales of $167 million. The net cash used in financing activities in 1994 included proceeds of $1,275 million from the issuance of long-term debt, primarily 9% Exchangeable Notes and $453 million from issuance of common stock by Vastar, offset by repayments of long-term debt of $796 million and dividend payments of $885 million.



Cash and cash equivalents and short-term investments totaled $4.4 billion at year-end 1994 and short-term borrowings were $1.5 billion. Working capital was $429 million higher at the end of 1994, primarily reflecting an increase in short-term investments, partially offset by an increase in long-term debt due within one year. At December 31, 1994, ARCO had unused bank credit facilities totaling $3.2 billion and ARCO Chemical had an unused bank credit facility totaling $300 million, while Vastar had fully utilized its $1.05 billion revolving credit facility with an interest rate of 6.15%. Vastar's revolving line of credit is available until November 30, 1996.

On August 8, 1994, ARCO issued 39.9 million 9% Exchangeable Notes (the Notes) due September 15, 1997, at a price of $24.75 per Note. ARCO realized proceeds of approximately $958 million. At maturity, holders will receive shares of Lyondell common stock, or at ARCO's option, cash with an equal value in exchange for the principal amount of the Notes. The number of shares or the amount of such cash will be determined using a formula based on the price of Lyondell common stock at the maturity of the Notes.

ARCO's 1995 capital spending program includes $1.9 billion for additions to fixed assets. Future capital expenditures remain subject to business conditions affecting the industry, particularly changes in price and demand for crude oil, natural gas and petroleum products. Changes in the tax laws, the imposition of and changes in federal and state clean air and clean fuel requirements, and other changes in environmental rules and regulations may also affect future capital expenditures.

It is expected that future cash requirements for capital expenditures, dividends and debt repayments will come from cash generated from operating activities, existing cash balances, and future financings.

ENVIRONMENTAL MATTERS

ARCO is subject to federal, state and local environmental laws and regulations which require the Company to remove or mitigate the effect on the environment of the disposal or release of certain chemical, mineral and petroleum substances at various sites.

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Environmental Reserve

Millions	[illegible]	[illegible]	[illegible]
Beginning balance	[illegible]	[illegible]	[illegible]
Charges	[illegible]	[illegible]	[illegible]
Payments	[illegible]	[illegible]	[illegible]
Ending balance	[illegible]	[illegible]	[illegible]

The amount reserved represents the estimated undiscounted costs which ARCO will incur to complete the remediation of sites with known contamination. In view of the uncertainties associated with estimating these costs, such as differences of opinion between ARCO and various regulatory agencies with respect to the appropriate method for remediating contaminated sites, uncertainty as to the extent of contamination at various sites, and uncertainty regarding ARCO's ultimate share of costs at various sites, it is possible that actual costs could exceed the amount reserved by as much as $1 billion. See Note 12 to Consolidated Financial Statements regarding environmental matters.

In addition to the provision for environmental remediation costs, $848 million has been accrued for the estimated cost, net of salvage value, of dismantling facilities as required by contract, regulation or law, and the estimated costs of restoration and reclamation of land associated with such facilities.

RISK MANAGEMENT

ARCO utilizes derivative instruments for risk management purposes. The Company uses simple, non-leveraged derivative instruments denominated in major currencies with highly liquid secondary markets. The derivative instruments are placed with major international financial institutions whose creditworthiness is continually monitored. Hedging strategies are reviewed and approved by senior management before being implemented. Policy controls limit the maximum dollar amount of positions that can be taken at any given time.

To minimize the effects of interest rate and foreign currency fluctuations, the Company enters into the following transactions using derivatives: 1) foreign currency forward and swap contracts; 2) interest rate swaps; and 3) financial futures contracts and OTC Treasury options which are limited to investment portfolio hedging, alteration of portfolio duration and changing asset mix.

The Company and its subsidiaries engage in hedging strategies involving forward and futures contracts, swaps and options to hedge part of their crude oil and natural gas production to minimize the effects of commodity price fluctuations. In 1994, Vastar entered into a series of commodity swaps covering approximately 50% of its natural gas production for March through December. Vastar realized a $42 million pre-tax gain as a result of these swaps.

EFFECTS OF INFLATION

While the annual rate of inflation remained moderate during the three-year period ended December 31, 1994, ARCO continued to experience certain inflationary effects. ARCO will benefit by using current, inflated dollars to satisfy its debt obligations and other monetary liabilities.

In addition, it is estimated that the replacement cost of ARCO's property, plant, equipment and inventory is greater than the historical cost reflected in the financial statements.

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Consolidated Statement of Income and Retained Earnings

Millions, except per share amounts	For the year ended December 31, 1994	1993	1992
REVENUES			
Sales and other operating revenues (including excise taxes)	$16,552	$18,487	$18,668
Income from equity investments	141	40	22
Interest	201	164	182
Other revenues	305	492	376
	17,199	19,183	19,248
EXPENSES			
Trade purchases	5,834	7,224	7,263
Operating expenses	3,222	3,293	3,174
Selling, general and administrative expenses	1,705	1,828	1,724
Depreciation, depletion and amortization	1,671	1,718	1,754
Exploration expenses (including undeveloped lease amortization)	455	667	567
Excise taxes	1,517	1,298	1,165
Taxes other than excise and income taxes	780	1,147	1,203
Interest	759	715	762
Unusual items	347	659	(271)
	16,290	18,549	17,341
Income before gain on issuance of stock by subsidiary	909	634	1,907
Gain on issuance of stock by subsidiary	459	-	-
Income before income taxes, minority interest and cumulative effect of changes in accounting principles	1,368	634	1,907
Provision for taxes on income	387	327	678
Minority interest in earnings of subsidiaries	62	38	36
Income before cumulative effect of changes in accounting principles	919	269	1,193
Cumulative effect of changes in accounting principles	-	-	(392)
Net income	$ 919	$ 269	$ 801
EARNED PER SHARE			
Before cumulative effect of changes in accounting principles	$ 5.63	$ 1.66	$ 7.39
Cumulative effect of changes in accounting principles	-	-	(2.43)
Net income per share	$ 5.63	$ 1.66	$ 4.96
RETAINED EARNINGS			
Balance, January 1	$ 5,308	$ 5,918	$ 5,990
Net income	919	269	801
Cash dividends:			
Preference stocks	(3)	(3)	(3)
Common stock	(882)	(876)	(870)
Balance, December 31	$ 5,342	$ 5,308	$ 5,918

See Notes on pages 29 through 46.

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CONSOLIDATED BALANCE SHEET

Millions	December 31, 1994	1993
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,394	$ 1,458
Short-term investments	2,991	2,289
Accounts receivable	1,446	1,333
Inventories	797	914
Prepaid expenses and other current assets	185	237
Total current assets	6,813	6,231
Investments and long-term receivables:		
Investments accounted for on the equity method	348	266
Other investments and long-term receivables	297	221
	645	487
Fixed assets:		
Property, plant and equipment	32,248	31,494
Less accumulated depreciation, depletion and amortization	16,526	15,628
	15,722	15,866
Deferred charges and other assets	1,383	1,310
Total assets	$24,563	$23,894
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable	$ 1,478	$ 1,510
Accounts payable	986	1,091
Long-term debt due within one year	630	165
Taxes payable, including excise taxes	253	272
Accrued interest	183	190
Other	958	1,107
Total current liabilities	4,488	4,335
Long-term debt	7,198	7,089
Deferred income taxes	2,721	2,779
Other deferred liabilities and credits	3,471	3,177
Minority interest	407	387
Stockholders' equity:		
Preference stocks	1	1
Common stock, $2.50 par value; shares issued 160,800,137 (1994), 160,746,125 (1993); shares outstanding 160,753,966 (1994), 159,963,980 (1993)	402	402
Capital in excess of par value of stock	647	661
Retained earnings	5,342	5,308
Foreign currency translation	(51)	(133)
Pension liability adjustment	(20)	(29)
Treasury stock, at cost	(5)	(83)
Net unrealized loss on investments	(38)	-
Total stockholders' equity	6,278	6,127
Total liabilities and stockholders' equity	$24,563	$23,894

The Company follows the successful efforts method of accounting for oil and gas producing activities.

See Notes on pages 22 through 40.

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Consolidated Statement of Cash Flows

Millions	For the year ended December 31, 1994	1993	1992
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 919	$ 269	$ 801
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation, depletion and amortization	1,671	1,718	1,754
Dry hole expense and undeveloped leasehold amortization	251	419	331
Net gain on asset sales	(3)	(204)	(182)
Gain on issuance of stock by subsidiary	(459)	-	-
Income from equity investments	(141)	(40)	(22)
Dividends from equity investments	71	97	111
Transition obligation for postretirement benefits	-	-	697
Noncash provisions greater (less) than cash payments	88[a]	513[a]	(207)
Deferred income taxes	118	(157)	2
Changes in accounts receivable, inventories and accounts payable	(169)	56	109
Changes in other working capital accounts	(287)	53	(103)
Other	38	39	(232)[a]
Net cash provided by operating activities	2,097	2,762	3,079
CASH FLOWS FROM INVESTING ACTIVITIES:			
Additions to fixed assets, including dry hole costs	(1,658)	(2,070)	(2,278)
Net cash used by short-term investments	(768)	(789)	(180)
Proceeds from asset sales	187	582	553
Investments and long-term receivables	(79)	(6)	(93)
Other	189	46	(117)
Net cash used by investing activities	(2,189)	(2,237)	(2,115)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Repayments of long-term debt	(798)	(886)	(834)
Proceeds from issuance of long-term debt	1,275	1,255	1,112
Proceeds from issuance of stock by subsidiary	453	-	-
Net cash provided (used) by notes payable	(69)	30	(199)
Dividends paid	(885)	(879)	(873)
Treasury stock contributed to benefit plans	56	81	110
Other	(36)	(27)	(32)
Net cash used by financing activities	(2)	(426)	(716)
Effect of exchange rate changes on cash	10	(55)	(62)
Net increase (decrease) in cash and cash equivalents	(64)	44	186
Cash and cash equivalents at beginning of year	1,458	1,414	1,228
Cash and cash equivalents at end of year	$ 1,394	$ 1,458	$ 1,414

(a) Includes noncash unusual items of $347, $669 and ($149) in 1994, 1993 and 1992, respectively.

See Notes on pages 29 through 48.

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NOTE 1 Accounting Policies

ARCO's accounting policies conform to generally accepted accounting principles, including the "successful efforts" method of accounting for oil and gas producing activities.

Principles of Consolidation

The consolidated financial statements include the accounts of all subsidiaries, ventures and partnerships in which a controlling interest is held, including at December 31, 1994, ARCO Chemical Company (ACC), of which ARCO owned 83.3% of the outstanding shares, and Vastar Resources, Inc. (Vastar), of which ARCO owned 82.3% of the outstanding shares. ARCO also consolidates its interests in undivided interest pipeline companies and in oil and gas and coal mining joint ventures. ARCO uses the equity method of accounting for companies where its ownership is between 20% and 50% and for other ventures and partnerships in which less than a controlling interest is held.

Cash Equivalents

Cash equivalents consist of highly liquid investments, such as time deposits, certificates of deposit and marketable securities other than equity securities, maturing within three months of purchase. Cash equivalents are stated at cost, which approximates market value.

Oil and Gas Unproved Property Costs

Unproved property costs are capitalized and amortized on a composite basis, considering past success experience and average property life. In general, costs of properties surrendered or otherwise disposed of are charged to accumulated amortization. Costs of successful properties are transferred to developed properties.

Fixed Assets

Fixed assets are recorded at cost and are written off on either the unit-of-production or straight-line method based on the expected lives of individual assets or groups of assets.

Upon disposal of assets depreciated on an individual basis, residual cost less salvage is included in current income. Upon disposal of assets depreciated on a group basis, unless unusual in nature or amount, residual cost less salvage is charged against accumulated depreciation.

Dismantlement, Restoration and Reclamation Costs

The estimated costs, net of salvage value, of dismantling facilities or projects with limited lives or facilities that are required to be dismantled by contract, regulation or law, and the estimated costs of restoration and reclamation associated with oil and gas and mining operations are accrued during production and classified as a long-term liability. Such costs are taken into account in determining the cost of production in all operations, except oil and gas production, in which case such costs are considered in determining depreciation, depletion and amortization.

Environmental Remediation

Environmental remediation costs are accrued as operating expenses based on the estimated timing and extent of remedial actions required by applicable governmental authorities and the amount of ARCO's liability in consideration of the proportional liability and financial wherewithal of other responsible parties. Estimated liabilities are not discounted to present value.

Reclassifications

Certain previously reported amounts have been restated to conform to classifications adopted in 1994.

NOTE 2 Unusual Items

During 1994, ARCO announced a restructuring program under which approximately 2,400 positions were eliminated. The program covered all operating units, excluding Lower 48 oil and gas operations, along with the corporate headquarters. ARCO provided as unusual items $347 million before tax, consisting primarily of personnel costs (pension enhancements, severance and other ancillary costs) associated with the terminations.

Approximately $155 million of the accrual related to severance and other ancillary costs that will be paid from Company funds over the next two years. Approximately $110 million related to enhanced pension benefits which will be paid from the assets of qualified pension plans, not from Company funds. An additional $60 million related to enhanced non-qualified pension benefits and postretirement benefits other than pensions which are currently unfunded. These benefits will be paid after retirement and over the remaining lives of the recipients; as such, it will not be practical to track the actual payments of these benefits.

In 1993, ARCO announced a reorganization of its Lower 48 oil and gas operations. ARCO provided as unusual items a pretax charge of $659 million, of which $554 million related to the writedown for sale or other disposition of oil and gas

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properties and excess office space. In addition, amounts of $65 million, $35 million, and $5 million, respectively, were accrued for severance and ancillary costs, enhanced qualified pension benefits, and enhanced non-qualified pension benefits related to the elimination of approximately 1,300 positions.

Through December 31, 1994, approximately 1,400 and 1,300 employees have been terminated under the 1994 and 1993 programs, respectively. Approximately $41 million and $47 million, respectively, of severance and ancillary benefits have been paid and charged against the 1994 and 1993 accruals. Payments do not necessarily correlate with the number of terminations due to the ability of employees to defer receipt of certain payments.

In 1992, ARCO recognized a pretax benefit of $149 million from the settlement with Iran related to Company assets that had been nationalized in the late 1970s. ARCO also recognized a pretax benefit of $178 million related to a portion of the gain from the 1989 sale of a majority interest in Lyondell Petrochemical Company (Lyondell) which was previously deferred as the amount equal to ARCO's guarantee of certain Lyondell notes. When Lyondell repaid the notes in 1992, ARCO was released from its guarantee and accordingly recognized the gain. ARCO also recognized a pretax charge of $56 million resulting from ACC's withdrawal from the YUKONG ARCO Chemical Ltd. joint venture in Korea. The net benefit related to 1992 unusual items was $211 million after tax.

NOTE 3 Accounting Changes

Effective January 1, 1994, ARCO adopted Statement of Financial Accounting Standards (SFAS) No. 115, "Accounting for Certain Investments in Debt and Equity Securities," which requires investments to be carried at fair value, unless they are considered held-to-maturity securities. The effect of adopting SFAS No. 115 had no impact on 1994 net income.

Effective January 1, 1992, ARCO adopted SFAS Nos. 106, 109 and 112. The cumulative effect of adopting SFAS No. 106 resulted in a charge of $435 million, or $2.70 per share, to 1992 earnings, net of income tax effects of approximately $262 million. The cumulative effect of adopting SFAS No. 109 resulted in a benefit of $43 million, or $0.27 per share. There was no cumulative effect of adopting SFAS No. 112. Excluding the cumulative effects, the effect of adopting SFAS Nos. 106, 109 and 112 was not material to 1992 net income.

NOTE 4 Segment Information

ARCO operates primarily in the Resources (upstream) and Products (downstream) segments. The Resources segment includes oil and gas operations, which comprise the exploration, development and production of petroleum, including petroleum liquids (crude oil, condensate and natural gas liquids) and natural gas; the purchase and sale of petroleum liquids and natural gas; and the mining and sale of coal. The Products segment includes the refining and transportation of petroleum and petroleum products; the marketing of petroleum products; and the manufacture and sale of intermediate chemicals and specialty products, including propylene oxide and derivatives, styrene monomer, tertiary butyl alcohol, and methyl tertiary butyl ether.

Segment information for the years ended December 31, 1994, 1993 and 1992 was as follows:

Millions	1994	1993	1992
SALES AND OTHER OPERATING REVENUES			
Resources:			
Oil and gas	$ 7,969	$ 8,367	$ 8,994
Coal	663	648	585
Products:			
Refining and marketing	6,529	8,803	8,461
Transportation	897	878	900
Intermediate chemicals and specialty products	3,423	3,192	3,100
Other	30	28	24
Elimination of intersegment amounts	(2,959)	(3,219)	(3,396)
Total	$16,552	$18,487	$18,068

Intersegment sales were made at prices approximating current market values. Intersegment sales included in sales and other operating revenues were as follows:

Millions	1994	1993	1992
Resources:			
Oil and gas	$2,338	$2,592	$2,833
Products:			
Refining and marketing	21	19	16
Transportation	416	385	419
Intermediate chemicals and specialty products	154	195	104
Other	30	28	24
Total	$2,959	$3,219	$3,396

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Millions	1994	1993	1992
PRETAX SEGMENT EARNINGS			
Resources:			
Oil and gas	$ 608	$ 114	$ 1,183
Coal	95	180	107
Products:			
Refining and marketing	303	568	547
Transportation	239	327	378
Intermediate chemicals and specialty products	502	412	396
Equity in earnings from Lyondell	111	13	8
Gain on issuance of stock by subsidiary	459	–	–
Unallocated expenses and other	(190)	(248)	50
Interest	(759)	(718)	(762)
Income taxes	(387)	(327)	(678)
Minority interest	(62)	(38)	(38)
Changes in accounting principles	–	–	(382)
Net income	$ 919	$ 269	$ 801

Millions	1994	1993	1992
AFTER-TAX SEGMENT EARNINGS			
Resources:			
Oil and gas[a]	$ 405	$ 45	$ 818
Coal	70	107	83
Products:			
Refining and marketing	195	307	348
Transportation	172	188	239
Intermediate chemicals and specialty products[a]	286	238	210
Equity in earnings from Lyondell	111	13	8
Gain on issuance of stock by subsidiary	273	–	–
Unallocated expenses and other	(57)	(148)	25
Interest	(615)	(481)	(534)
Changes in accounting principles	–	–	(382)
Net income	$ 919	$ 269	$ 801

(a) Net of minority interest.

Millions	1994	1993	1992
TOTAL ASSETS			
Resources:			
Oil and gas	$ 9,182	$ 9,340	$10,382
Coal	1,381	1,329	1,411
Products:			
Refining and marketing	2,841	2,789	2,830
Transportation	2,048	2,146	2,191
Intermediate chemicals and specialty products	3,737	3,502	3,580
Other	5,388	4,798	3,863
Total	$24,583	$23,894	$24,256
ADDITIONS TO FIXED ASSETS			
Resources:			
Oil and gas	$ 989	$ 1,383	$ 1,248
Coal	57	94	308
Products:			
Refining and marketing	376	346	316
Transportation	48	58	94
Intermediate chemicals and specialty products	186	181	295
Other	2	8	17
Total	$ 1,658	$ 2,070	$ 2,278

Millions	1994	1993	1992
DEPRECIATION, DEPLETION AND AMORTIZATION			
Resources:			
Oil and gas[a]	$1,043	$1,092	$1,176
Coal	76	59	53
Products:			
Refining and marketing	191	200	178
Transportation	104	104	98
Intermediate chemicals and specialty products	235	223	199
Other	22	40	50
Total	$1,671	$1,718	$1,754

(a) Excludes undeveloped leasehold amortization of $97, $89, and $110, respectively, included in exploration expense.

International operations are conducted principally in the following geographic regions: Oil and gas – United Kingdom, Asia Pacific and Dubai; Coal – Australia; Intermediate chemicals and specialty products – Europe and Asia Pacific; Refining and marketing – Brazil (marketing only). The Brazilian operations were sold in December 1993.

Millions	1994	1993	1992
INTERNATIONAL OPERATIONS			
Sales and other operating revenues:			
Oil and gas	$1,027	$ 998	$ 952
Coal	336	304	282
Refining and marketing	2	1,920	1,794
Intermediate chemicals and specialty products	1,210	1,122	1,255
Other	30	29	23
Total	$2,605	$4,373	$4,306
Net income (loss):			
Oil and gas	$ 26	$ (17)	$ 171[b]
Coal	29	58	41
Refining and marketing	2	2	28
Intermediate chemicals and specialty products[a]	70	59	37
Other	(23)	(25)	(26)
Total	$ 104	$ 77	$ 251
Total assets:			
Oil and gas	$2,782	$2,681	$2,415
Coal	892	821	901
Refining and marketing	–	–	301
Intermediate chemicals and specialty products	1,580	1,424	1,567
Other	299	230	233
Total	$5,563	$5,156	$5,417

(a) Includes income (losses) of equity affiliates, principally Asian joint ventures, of $2, $(2), and $(18), in 1994, 1993 and 1992, respectively.
(b) Includes gain from settlement on assets nationalized by Iran (Note 3).

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NOTE 5 Taxes

Taxes other than excise and income taxes for the years ended December 31, 1994, 1993 and 1992 comprised the following:

Millions	1994	1993	1992
Property	$189	$ 198	$ 206
Production/severance	306	331	389
Value added	-	349	330
Other	285	269	279
Total	$780	$1,147	$1,203

The components of the provision for taxes on income for the years ended December 31, 1994, 1993 and 1992 were as follows:

Millions	1994	1993	1992
Federal:			
Current	$176	$382	$292
Deferred	128	(159)	198
	304	223	490
Foreign:			
Current	62	69	80
Deferred	(19)	13	17
	43	82	97
State:			
Current	31	33	42
Deferred	9	(11)	49
	40	22	91
Total provision for taxes on income	$387	$327	$678
Total income taxes paid in cash	$447	$519	$675

The deferred tax benefit in 1993 primarily resulted from book accruals associated with the Lower 48 reorganization and work force reductions. The major components of the net deferred tax liability as of December 31, 1994 and 1993 were as follows:

Millions	1994	1993
Depreciation, depletion and amortization	$(3,648)	$(3,630)
Other	(356)	(329)
Total deferred tax liabilities	(4,004)	(3,959)
Dismantlement and environmental	522	482
Postretirement benefits	325	302
Foreign excess tax basis/loss carryforwards	208	197
Other	332	316
Total deferred tax assets	1,387	1,307
Valuation allowance	(104)	(127)
Net deferred income tax liability	$(2,721)	$(2,779)

ARCO has foreign loss carryforwards of $290 million which begin expiring in 1995. The valuation allowance was $102 million at December 31, 1992.

The domestic and foreign components of income before income taxes, minority interest and cumulative effect of changes in accounting principles, and a reconciliation of income tax expense with tax at the effective federal statutory rate for the years ended December 31, 1994, 1993 and 1992 were as follows:

Millions	Amount	Percent of Pretax Income
1994		
Income before income taxes:		
Domestic	$1,147	83.8
Foreign	221	16.2
Total	$1,368	100.0
Tax at 35%	$ 479	35.0
Increase (reduction) in taxes resulting from:		
Dividend exclusion	(31)	(2.3)
Taxes on foreign income in excess of statutory rate	46	3.4
Foreign deferred tax asset recognition	(30)	(2.2)
State income taxes (net of federal effect)	26	1.9
Tax credits	(84)	(6.1)
Other	(19)	(1.4)
Provision for taxes on income	$ 387	28.3
1993		
Income before income taxes:		
Domestic	$ 342	53.9
Foreign	292	46.1
Total	$ 634	100.0
Tax at 35%	$ 222	35.0
Increase (reduction) in taxes resulting from:		
Dividend exclusion	7	1.1
Impact of federal rate increase on deferred tax liability	65	10.3
Taxes on foreign income in excess of statutory rate	74	11.7
Sale of foreign subsidiary	37	5.8
Foreign deferred tax asset recognition	(26)	(4.1)
State income taxes (net of federal effect)	14	2.2
Tax credits	(49)	(7.7)
Other	(17)	(2.7)
Provision for taxes on income	$ 327	51.6
1992		
Income before income taxes:		
Domestic	$1,449	76.0
Foreign	458	24.0
Total	$1,907	100.0
Tax at 34%	$ 648	34.0
Increase (reduction) in taxes resulting from:		
Dividend exclusion	12	.6
Taxes on foreign income in excess of statutory rate	25	1.3
State income taxes (net of federal effect)	60	3.2
Tax credits	(43)	(2.2)
Other	(24)	(1.3)
Provision for taxes on income	$ 678	35.6

NOTE 6 Inventories

Inventories are recorded when purchased, produced or manufactured and are stated at the lower of cost or market. In 1994, approximately 86% of inventories, excluding

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materials and supplies, were determined by the last-in, first-out (LIFO) method. Materials and supplies and other non-LIFO inventories are determined predominantly on an average cost basis.

Total inventories at December 31, 1994 and 1993 comprised the following categories:

Millions	1994	1993
Crude oil and petroleum products	$172	$266
Chemical products	351	373
Other products	46	32
Materials and supplies	228	243
Total	$797	$914

The excess of the current cost of inventories over book value was approximately $253 million and $228 million at December 31, 1994 and 1993, respectively.

NOTE 7 Long-term Debt

Long-term debt at December 31, 1994 and 1993 comprised the following:

Millions	1994	1993
5⅞%, due in 1997	$ 14	$ 18
5.90%, due in 2007	-	285
6⅝%, due in 1996	102	102
8⅜%, due in 2022	250	250
8½%, due in 2012	194	250
8¾%, due in 2032	203	250
9% exchangeable notes, due in 1997	988	-
9%, due in 2021	296	300
9%, due in 2031	138	150
9⅛%, due in 2011	300	300
9⅜%, due in 2031	350	350
9⅞%, due in 2016	450	450
10⅜%, due in 2000	250	250
10⅞%, due in 1995	500	500
10⅞%, due in 2005	500	500
Third Series Medium-Term Notes	75	137
Medium-Term Notes – A Series	198	200
Medium-Term Notes – B Series	250	250
ARCO Treasop Notes	311	311
Variable rate[a], due in 2031	285	-
ARCO Chemical Company:		
9.375%, due in 2005	100	100
9.8%, due in 2020	224	224
9.9%, due in 2000	200	200
10.25%, due in 2010	100	100
French bank loans	84	94
ACNL bank loans	172	155
Vastar bank loan	1,050	1,250
Capitalized lease obligations	26	28
Other	261	287
Total, including debt due within one year	7,839	7,289
Less:		
Debt due within one year	630	185
Bonds held in sinking fund	11	15
Long-term debt	$7,198	$7,089

(a) Weighted average 4.8% at December 31, 1994.

Maturities and sinking fund obligations for the five years subsequent to December 31, 1994 are as follows (millions of dollars): 1995 – $630; 1996 – $1,234; 1997 – $1,275; 1998 – $177; 1999 – $139. No material amounts of long-term debt are collateralized by Company assets.

In 1993, Vastar borrowed $1.25 billion principal amount under a $1.25 billion unsecured, variable rate (6.15% at December 31, 1994), revolving-term credit agreement available until 1996. During 1994, the maximum principal amount under the credit agreement was reduced to $1.05 billion. The agreement contains restrictions which, among other things, require Vastar to maintain certain financial ratios and restrict encumbrance of assets.

In August 1994, ARCO issued 39.9 million 9% Exchangeable Notes (Notes) due September 15, 1997 at a price of $24.75 per note. At maturity, holders will receive, in exchange for the principal amount of the Notes, shares of Lyondell stock, or at ARCO's option, cash with an equal value. The number of shares or the amount of such cash will be determined using a formula based on the price of Lyondell common stock at the maturity of the Notes.

At December 31, 1994 and 1993, approximately $360 million and $355 million, respectively, of long-term debt was denominated in foreign currencies. To reduce the exposure to foreign currency fluctuations, ARCO entered into a swap agreement on an 18 billion yen debt issue due in 1996 which fixes the principal balance at $102 million with an effective interest rate of 8.14%.

ARCO periodically enters into interest rate swap agreements with the objective of managing interest rate risk by converting the interest rate on variable rate debt to a fixed rate. The fixed rate is accrued and charged to interest expense through the term of the interest rate swap agreement. At December 31, 1994, ARCO had outstanding interest rate swaps on two loans totalling 300 million Dutch guilders (approximately $172 million) due in 1997. Both swaps mature in 1997 when the related debt becomes due. The swaps effectively changed both loans' floating interest rates to fixed rates of 5.7% and 6.71%. ARCO intends to hold the swaps until maturity.

NOTE 8 Short-term Borrowings and Bank Credit Facilities

Notes payable consist primarily of commercial paper issued to a variety of financial investors and institutions and any amounts outstanding under ARCO or ACC credit facilities. The weighted average interest rate on notes payable outstanding at December 31, 1994 and 1993 was 6.1% and 4.3%, respectively.

In 1994, ARCO and certain wholly owned subsidiaries had committed bank credit facilities of approximately $3.3 billion. At December 31, 1994, $115 million was borrowed under these committed facilities.

ACC maintains its own credit facility, not guaranteed by ARCO, under which it may borrow up to $300 million. At December 31, 1994, there were no borrowings against the ACC credit facility.

At December 31, 1994, ARCO had letters of credit outstanding totalling approximately $330 million.

NOTE 9 Interest Expense

Interest expense for the years ended December 31, 1994, 1993 and 1992 comprised the following:

Millions	1994	1993	1992
Long-term debt	$634	$573	$624
Short-term debt	82	92	105
Other	80	106	148
	796	771	877
Capitalized interest	(37)	(56)	(115)
Total interest expense	$759	$715	$762
Total interest paid in cash	$766	$749	$752

NOTE 10 Foreign Currency Transactions

Foreign exchange transactions resulted in a net loss of $12 million in 1994 and net gains of $22 million and $1 million in 1993 and 1992, respectively.

NOTE 11 Fixed Assets

Property, plant and equipment, and related accumulated depreciation, depletion and amortization at December 31, 1994 and 1993 were as follows:

Millions	1994	1993
Resources:		
Oil and gas	$19,355	$19,100
Coal	1,418	1,296
Products:		
Refining and marketing	4,000	3,847
Transportation	3,568	3,589
Intermediate chemicals and specialty products	3,524	3,257
Other	383	405
	32,248	31,494
Accumulated depreciation, depletion and amortization	16,526	15,628
Total	$15,722	$15,866

Expenses for maintenance and repairs for 1994, 1993 and 1992 were $525 million, $509 million and $513 million, respectively.

NOTE 12 Other Commitments and Contingencies

ARCO has commitments, including those related to the acquisition, construction and development of facilities, all made in the normal course of business.

At December 31, 1994 and 1993, there were contingent liabilities primarily with respect to guarantees of securities of other issuers of approximately $75 million and $111 million, respectively, of which approximately $41 million was indemnified at December 31, 1993.

Following the March 1989 EXXON VALDEZ oil spill, Alyeska Pipeline Service Company (Alyeska) and Alyeska's owner companies were the subject of numerous lawsuits by the State of Alaska, the United States and private plaintiffs. ARCO Transportation Alaska, Inc. (ATA) owns approximately 21% of Alyeska. Alyeska and its owner companies have settled the federal and state claims and all but a handful of the lawsuits by private plaintiffs. Certain issues relating to the liability for the spill remain unresolved between the Exxon companies and Alyeska and its owner companies.

ARCO and former producers of lead pigments have been named as defendants in cases filed by a municipal housing authority, a purported class and several individuals seeking damages and injunctive relief as a consequence of the presence of lead-based paint in certain housing units. ARCO is also the subject or party to a number of other pending or threatened legal actions.

In January 1995, the State of Montana presented to ARCO a revised demand for damages of $635 million based on alleged injuries to natural resources resulting from ARCO's mining and mineral processing businesses formerly operated by Anaconda, ARCO's predecessor, in Montana. ARCO is contesting the amount of this demand.

ARCO is subject to other loss contingencies pursuant to federal, state and local environmental laws and regulations. These include possible obligations to remove or mitigate the effects on the environment of the disposal or release of certain chemical, mineral and petroleum substances at various sites, including the restoration of natural resources located at these sites and damages for loss of use and non-use values. ARCO is currently participating in environmental assessments and cleanups under these laws at federal Superfund and state-managed sites, as well as other clean-up sites, including service stations, refineries, terminals, chemical facilities, third-party landfills, former nuclear processing facilities, sites associated with discontinued operations and sites formerly owned by ARCO. ARCO may in the future be involved in additional environmental

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assessments and cleanups, including the restoration of natural resources and damages for loss of use and non-use values. The amount of such future costs will depend on such factors as the unknown nature and extent of contamination at many sites, the unknown timing, extent and method of the remedial actions which may be required and the determination of ARCO's liability in proportion to other responsible parties. In addition, environmental loss contingencies include claims for personal injuries allegedly caused by exposure to toxic materials manufactured or used by ARCO.

ARCO continues to estimate the amount of these costs in periodically establishing reserves based on progress made in determining the magnitude of remediation costs, experience gained from sites on which remediation has been completed, the timing and extent of remedial actions required by the applicable governmental authorities and an evaluation of the amount of ARCO's liability considered in light of the liability and financial wherewithal of the other responsible parties. At December 31, 1994, the environmental remediation accrual was $670 million. As the scope of ARCO's obligations becomes more clearly defined, there may be changes in these estimated costs, which might result in future charges against ARCO's earnings.

ARCO's environmental remediation accrual covers federal Superfund and state-managed sites as well as other cleanup sites, including service stations, refineries, terminals, chemical facilities, third-party landfills, former nuclear processing facilities, sites associated with discontinued operations and sites formerly owned by ARCO. ARCO has been named a potentially responsible party (PRP) for 126 sites. The number of PRP sites in and of itself does not represent a relevant measure of liability, because the nature and extent of environmental concerns varies from site to site and ARCO's share of responsibility varies from sole responsibility to very little responsibility. ARCO reviews all of the PRP sites, along with other sites as to which no claims have been asserted, in estimating the amount of the accrual. ARCO's future costs at these sites could exceed the amount accrued by as much as $1 billion.

Approximately half of the accrual related to sites associated with ARCO's discontinued operations, primarily mining activities in the states of Montana, Utah and New Mexico. Another significant component related to currently and formerly owned chemical, nuclear processing, and refining and marketing facilities, and other sites which received wastes from these facilities. The remainder related to other sites with reserves ranging from $1 million to $10 million per site. No one site represents more than 15 percent of the total accrual. Substantially all amounts accrued are expected to be paid out over the next five to six years.

Claims for recovery of remediation costs already incurred and to be incurred in the future have been filed against various insurance companies and other third parties. These claims have not been resolved. Due to the uncertainty as to ultimate recovery from these parties, ARCO has neither recorded any asset nor reduced any liability in anticipation of such recovery.

Although any ultimate liability arising from any of the matters described herein could result in significant expenses or judgments that, if aggregated and assumed to occur within a single fiscal year, would be material to ARCO's results of operations, the likelihood of such occurrence is considered remote. On the basis of management's best assessment of the ultimate amount and timing of these events, such expenses or judgments are not expected to have a material adverse effect on ARCO's consolidated financial statements.

The operations and consolidated financial position of ARCO continue to be affected from time to time in varying degrees by domestic and foreign political developments as well as legislation, regulations and litigation pertaining to restrictions on production, imports and exports, tax increases, environmental regulations, cancellation of contract rights and expropriation of property. Both the likelihood of such occurrences and their overall effect on ARCO vary greatly and are not predictable.

These uncertainties are part of a number of items that ARCO has taken and will continue to take into account in periodically establishing reserves.

NOTE 13 Retirement Plans

ARCO and its subsidiaries have defined benefit pension plans to provide pension benefits to substantially all employees. The benefits are based on years of service and the employee's compensation, primarily during the last three years of service. ARCO's funding policy is to make annual contributions as required by applicable regulations. ARCO accrues pension costs based on an actuarial valuation for each plan and funds the plans through contributions to trust funds that are kept apart from Company funds.

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The following table sets forth the plans' funded status and amounts recognized in the balance sheet at December 31, 1994 and 1993:

Millions	Assets Exceed Accumulated Benefits	Accumulated Benefits Exceed Assets
1994		
Actuarial present value of benefit obligations:		
Vested benefit obligation	$1,692	$ 152
Accumulated benefit obligation	$1,799	$ 171
Projected benefit obligation	$2,105	$ 230
Plan assets at fair value, primarily stocks and bonds	2,377	-
Projected benefit obligation (in excess of) or less than plan assets	272	(230)
Unrecognized net loss	121	82
Prior service cost not yet recognized in net periodic pension cost	149	25
Remaining unrecognized (asset) obligation from January 1, 1986	(319)	13
Adjustment required to recognize minimum liability	-	(63)
Prepaid pension cost (liability) recognized in the balance sheet	$ 223	$ (173)
1993		
Actuarial present value of benefit obligations:		
Vested benefit obligation	$2,007	$ 158
Accumulated benefit obligation	$2,064	$ 161
Projected benefit obligation	$2,429	$ 214
Plan assets at fair value, primarily stocks and bonds	2,729	-
Projected benefit obligation (in excess of) or less than plan assets	300	(214)
Unrecognized net loss	134	100
Prior service cost not yet recognized in net periodic pension cost	148	27
Remaining unrecognized (asset) obligation from January 1, 1986	(348)	9
Adjustment required to recognize minimum liability	-	(83)
Prepaid pension cost (liability) recognized in the balance sheet	$ 234	$ (161)

Pension costs related to ARCO-sponsored plans, on a pre-tax basis, including amortization of unfunded projected benefit obligations for the years ended December 31, 1994, 1993 and 1992 were as follows:

Millions	1994	1993	1992
Service cost-benefits earned during the period	$ 81	$ 59	$ 51
Interest cost on projected benefit obligation	183	173	133
Actual loss (return) on plan assets	65	(483)	(91)
Net amortization and deferral	(344)	220	(127)
Net periodic pension benefit	$ (15)	$ (31)	$ (34)

In addition to this pension benefit, in 1994 and 1993 ARCO recorded $143 million and $61 million, respectively, before tax as additional pension cost in connection with the work force reductions in those years.

ARCO's assumptions used as of December 31, 1994, 1993 and 1992 in determining the pension cost and pension liability were as follows:

Percent	1994	1993	1992
Discount rate	8.25	7.25	8.5
Rate of salary progression	5.0	5.0	5.0
Long-term rate of return on assets	10.5	10.5	10.5

NOTE 14 Other Postretirement Benefits

ARCO and its subsidiaries sponsor defined postretirement benefit plans to provide other postretirement benefits to substantially all employees who retire with ARCO having rendered the required years of service, along with their spouses and eligible dependents. Health care benefits are provided primarily through comprehensive indemnity plans. Currently, ARCO pays approximately 80% of the cost of such plans, but has the right to modify the cost-sharing provisions at any time. Life insurance benefits are based primarily on the employee's final compensation and are also partially paid for by retiree contributions, which vary based upon coverage chosen by the retiree.

ARCO's current policy is to fund the cost of postretirement health care and life insurance plans on a pay-as-you-go basis.

The following table sets forth the plans' combined postretirement benefit liability as of December 31, 1994 and 1993:

Millions	Health Care	Life Insurance	Total
1994			
Accumulated postretirement benefit obligation:			
Retirees	$512	$153	$665
Employees fully eligible	25	7	32
Other active participants	156	34	190
Total	693	194	887
Unrecognized gain (loss)	(53)	9	(44)
Accrued postretirement benefit cost recognized in the balance sheet	$640	$203	$843
1993			
Accumulated postretirement benefit obligation:			
Retirees	$461	$158	$619
Employees fully eligible	35	12	47
Other active participants	211	47	258
Total	707	217	924
Unrecognized loss	(125)	(18)	(143)
Accrued postretirement benefit cost recognized in the balance sheet	$582	$199	$781

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ARCO charges postretirement benefit costs as accrued, based on actuarial calculations for each plan. Net annual postretirement benefit costs for the years ended December 31, 1994, 1993 and 1992 included the following components:

Millions	Health Care	Life Insurance	Total
1994			
Service cost-benefits earned during the period	$17	$ 4	$21
Interest cost on accumulated postretirement benefit obligation	54	15	69
Net amortization	3	-	3
Net postretirement benefit cost	$74	$19	$93
1993			
Service cost-benefits earned during the period	$15	$ 3	$18
Interest cost on accumulated postretirement benefit obligation	47	15	62
Net postretirement benefit cost	$62	$18	$80
1992			
Service cost-benefits earned during the period	$12	$ 3	$15
Interest cost on accumulated postretirement benefit obligation	46	15	61
Net postretirement benefit cost	$58	$18	$76

In addition to the cost above, in 1994 and 1993, ARCO recorded $24 million and $9 million, respectively, before tax as additional postretirement benefit expense in connection with workforce reductions.

The significant assumptions used in determining postretirement benefit cost and the accumulated postretirement benefit obligation were as follows:

Percent	1994	1993	1992
Discount rate	8.25	7.25	8.5
Rate of salary progression	5.0	5.0	5.0

The weighted average annual assumed rate of increase in the per capita cost of covered benefits (i.e., health care trend rate) for the health plans is 10% for 1992 to 1996, 8% for 1997 to 2001, and 6% thereafter. The effect of a one-percentage-point increase in the assumed health care cost trend rate would increase the accumulated postretirement benefit obligation as of December 31, 1994, by approximately 12%, and the aggregate of the service and interest cost components of net annual postretirement benefit cost by approximately 14%.

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NOTE 15 Stockholders' Equity

Detail of ARCO's capital stock as of December 31, 1994 and 1993 was as follows:

	1994	1993
$3.00 Cumulative convertible preference stock, par $1:		
Shares authorized	78,089	94,316
Shares issued and outstanding	73,721	81,309
Aggregate value in liquidation – (thousands)	$5,898	$6,505
$2.80 Cumulative convertible preference stock, par $1:		
Shares authorized	833,776	942,018
Shares issued and outstanding	794,796	854,063
Aggregate value in liquidation – (thousands)	$55,636	$59,784
Common stock, par $2.50:		
Shares authorized	600,000,000	600,000,000
Shares issued	160,800,137	160,746,125
Shares outstanding	160,753,966	159,953,980
Shares held in treasury	46,171	792,145

Changes in preference stocks outstanding in 1994, 1993 and 1992 were due to conversions. The $3.00 cumulative convertible preference stock is convertible into 6.8 shares of common stock. The $2.80 cumulative convertible preference stock is convertible into 2.4 shares of common stock. Common stock is subordinate to the preference stocks for dividends and assets. The $3.00 and $2.80 preference stocks may be redeemed at the option of ARCO for $82 and $70 per share, respectively.

ARCO has authorized 75,000,000 shares of preferred stock, $.01 par, of which none were issued or outstanding at December 31, 1994.

The balance in ARCO's common stock at December 31, 1994, 1993 and 1992 was $402 million.

Detail of changes in treasury stock in 1994, 1993 and 1992 was as follows:

Millions	
Balance, January 1, 1992	$ 325
Treasury stock contributed to benefit plans	(110)
Conversions	(24)
Balance, December 31, 1992	191
Treasury stock contributed to benefit plans	(81)
Conversions	(27)
Balance, December 31, 1993	83
Treasury stock contributed to benefit plans	(56)
Conversions	(22)
Balance, December 31, 1994	$ 5

The net decrease in capital in excess of par value of stock in 1994, 1993 and 1992 of $14 million, $15 million and $12 million, respectively, was due primarily to the conversion of preference stock to common stock.

At December 31, 1994, shares of ARCO's authorized and unissued common stock were reserved as follows:

Conversions:	
$3.00 Preference stock	501,303
$2.80 Preference stock	1,907,510
Stock option plans	6,353,465
Employee benefit plans	9,974,482
Total	18,736,760

Under ARCO's incentive compensation plans, awards of ARCO's common stock may be made to officers, outside directors and key employees.

NOTE 16 Earned per Share

Earned per share is based on the average number of common shares outstanding during each period including common stock equivalents that consist of certain outstanding options and all outstanding convertible securities. The average shares used in the calculation of earned per share for the years ended December 31, 1994, 1993 and 1992 were 163.2 million, 162.4 million and 161.5 million, respectively.

NOTE 17 Stock Options

Options to purchase shares of ARCO's common stock have been granted to executives, outside directors and key employees. These options become exercisable in varying installments and expire ten years after the date of grant. Transactions during 1994, 1993 and 1992 were as follows:

Balance, January 1, 1992	2,008,091
Granted	679,457
Exercised (average option price per share: $77.08)	(51,385)
Balance, December 31, 1992	2,636,163
Granted	574,728
Exercised (average option price per share: $81.74)	(48,707)
Balance, December 31, 1993	3,162,182
Granted	573,865
Exercised (average option price per share: $75.17)	(75,019)
Cancelled	(87,286)
Balance, December 31, 1994	3,573,742
At December 31, 1994:	
Shares exercisable	2,737,756
Shares available for option	2,779,723
(1,986,570 at December 31, 1993)	
Average option price per share:	
Shares under option	$104.26
Shares exercisable	$103.57

NOTE 18 Supplemental Cash Flow Information

The following is supplemental cash flow information for the years ended December 31, 1994, 1993 and 1992:

Millions	1994	1993	1992
Short-term investments:			
Gross maturities	$5,952	$5,428	$4,796
Gross purchases	(6,720)	(6,217)	(4,976)
Net cash used	$ (768)	$ (789)	$ (180)
Notes payable:			
Gross proceeds	$9,516	$8,568	$7,380
Gross repayments	(9,585)	(8,538)	(7,579)
Net cash provided (used)	$ (69)	$ 30	$ (199)
Gross noncash provisions charged to income	$ 888	$1,148	$ 553
Cash payments of previously accrued items	(800)	(635)	(760)
Noncash provisions greater (less) than cash payments	$ 88	$ 513	$ (207)

NOTE 19 Lease Commitments

Capital lease obligations are recorded at the present value of future rental payments. The related assets are amortized on a straight-line basis.

At December 31, 1994, future minimum rental payments due under leases were as follows:

Millions	Capital Leases	Operating Leases
1995	$ 3	$ 162
1996	3	129
1997	3	106
1998	3	87
1999	3	59
Later years	73	307
Total minimum lease payments	88	$ 850
Imputed interest (rates ranging from 9.75% to 12.00%)	62	
Present value of minimum lease payments included in long-term debt	$ 26	

Minimum future rental income under noncancellable subleases at December 31, 1994 amounted to $108 million.

Operating lease net rental expense for the years ended December 31, 1994, 1993 and 1992 was as follows:

Millions	1994	1993	1992
Minimum rentals	$218	$220	$206
Contingent rentals	2	1	1
Sublease rental income	(12)	(15)	(18)
Net rental expense	$208	$206	$189

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No restrictions on dividends or on additional debt or lease financing exist under ARCO's lease commitments. Under certain conditions, options and obligations exist to purchase certain leased properties.

NOTE 20 **Lyondell Petrochemical Company**

Lyondell is engaged in the manufacture and marketing of basic commodity chemicals, including ethylene, propylene, methanol and aromatics, and, through its approximately 90% interest in LYONDELL-CITGO Refining Company, the refining and marketing of petroleum products.

At December 31, 1994, ARCO owned 49.9% of Lyondell common stock outstanding; ARCO accounts for this investment on the equity method. The market value of ARCO's shares of Lyondell common stock, based on the closing quoted market price at December 31, 1994, was $1,033 million.

Summarized financial information for Lyondell was as follows:

Millions	1994	1993	1992
Year ended December 31:			
Revenues[a]	$3,857	$3,850	$4,809
Operating income	$ 424	$ 33	$ 104
Income before income taxes and cumulative effect of accounting changes	$ 349	$ 16	$ 36
Cumulative effect of changes in accounting principles	$ -	$ 22	$ (10)
Net income	$ 223	$ 26	$ 16
ARCO's equity in net income of Lyondell	$ 111	$ 13	$ 8
Cash dividends received from Lyondell	$ 36	$ 54	$ 72
At December 31:			
Current assets	$ 987	$ 522	$ 569
Noncurrent assets	$ 966	$ 708	$ 647
Current liabilities	$ 433	$ 299	$ 346
Long-term debt	$ 707	$ 717	$ 725
Other liabilities	$ 182	$ 179	$ 181
Minority interest	$ 288	$ 124	$ -
Stockholders' equity (deficit)[b]	$ 63	$ (86)	$ (6)

(a) Includes $214, $276 and $329 of sales to ARCO in 1994, 1993 and 1992, respectively, which approximated 8%, 4% and 9% of ARCO's purchases in those years.
(b) ARCO's investment in Lyondell comprises 49.9% of Lyondell's stockholders' equity (deficit) plus $72 of dividends received in excess of basis of investment.

NOTE 21 **Public Offering of Vastar Common Stock**

In September 1993, ARCO established Vastar, a wholly owned subsidiary of ARCO. Effective October 1, 1993, ARCO conveyed to Vastar beneficial title to certain producing properties together with certain developed and undeveloped acreage. Vastar is primarily engaged in the exploration for and the development and production of natural gas.

In July 1994, Vastar completed an initial public offering of 17,250,000 shares of its common stock at $28 per share. ARCO recognized an after-tax gain of $273 million from this transaction. At December 31, 1994 ARCO's 80,000,001 shares represent 82.3% of the outstanding common stock.

NOTE 22 **Investments**

At December 31, 1994, investments were composed principally of U.S. Treasury securities, corporate debt instruments, and municipal securities and were included in cash equivalents or short-term investments depending on their maturities, which generally ranged from one day to one year. At December 31, 1994, investments in debt securities classified as held-to-maturity were recorded at amortized cost while investments in debt securities classified as available-for-sale are reported at fair value, with unrealized holding gains and losses, net of tax, reported in a separate component of stockholders' equity. At December 31, 1993, all investments in debt securities were stated at cost, which approximated fair value.

The following summarizes investments in debt securities at December 31, 1994:

Millions	Available-for-Sale	Held-to-Maturity
Aggregate fair value	$1,879	$ 1,239
Gross unrealized holding losses	$ 62	$ -
Amortized cost	$1,941	$ 1,239
Gross realized losses on sales	$ 23	$ -
Gross purchases	$6,300	$40,500
Gross sales	$4,700	$ -
Gross maturities	$ 50	$40,800

For purposes of determining gross realized losses, the cost of available-for-sale securities sold is based upon the specific identification method.

NOTE 23 **Financial Instruments and Fair Value**

ARCO does not hold or issue financial instruments for trading purposes.

ARCO enters into various types of foreign currency forward and swap contracts to hedge foreign currency transactions. Foreign currency forward contracts are used predominantly to hedge U.S. dollar denominated debt issued by a foreign subsidiary. A foreign currency swap contract is used to hedge debt denominated in Japanese yen. In addition, ARCO uses a combination of foreign currency forwards and swaps to hedge anticipated future cash flows from overseas operations. These foreign currency contracts generally do not have maturities exceeding one year. Gains and losses on foreign exchange contracts gen-

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erally offset gains and losses on assets, liabilities, and transactions being hedged.

At December 31, 1994 and 1993, the total notional amounts of foreign currency contracts (principally European currencies, Australian dollars and Japanese yen) were approximately $760 million and $700 million, respectively.

ARCO also uses various hedging arrangements to reduce exposure to price risk for future crude oil and natural gas transactions. Gains and losses are netted and deferred until realized in sales and other operating revenues as the physical production required by the contracts is delivered. At December 31, 1994 and 1993, the notional amounts of open contracts were not significant.

Explicitly deferred gains and losses arising from hedging activities of anticipated transactions are generally included in the balance sheet as either other current assets or other current liabilities.

At December 31, 1994 and 1993, the carrying and fair values of interest rate swaps were not significant. At December 31, 1994 and 1993, the carrying value and estimated fair value of ARCO's other financial instruments were as follows:

Millions	1994 Carrying Value	1994 Fair Value	1993 Carrying Value	1993 Fair Value
Non-Derivatives:				
Short-term investments	$2,991	$2,991	$2,2[illegible]	$2,2[illegible]
Long-term investments	$ 348	$1,279	$ 2[illegible]	$1,087
Other investments and long-term receivables	$ 297	$ 297	$ 221	$ 221
Notes payable	$1,478	$1,478	$1,510	$1,510
Long-term debt, including current maturities	$7,828	$7,991	$7,264	$8,307
Derivatives:				
Foreign currency forward contracts	$ (16)	$ (16)	$ (12)	$ (12)
Foreign currency swaps	$ 83	$ 83	$ [illegible]	$ [illegible]
Oil & gas price swaps	$ 5	$ 5	$ (1)	$ (1)

Short-term investments and notes payable were valued at their carrying amounts, which were reasonable estimates of fair value due to the relatively short period to maturity. Investments and long-term receivables were valued at quoted market prices if available. For unquoted investment securities, which were predominantly equity interests in associated entities, the reported fair value was estimated on the basis of financial and other information. The fair value of ARCO's long-term debt was estimated based on the quoted market prices for the same or similar issues or on the current rates offered to ARCO for debt of the same remaining maturities. The fair value of foreign currency contracts and interest rate swaps represented the amount to be exchanged if the existing contracts had been settled at year end and were estimated by obtaining quotes from brokers.

ARCO is exposed to credit risk related to its financial instruments in the event of non-performance by the counterparties. ARCO does not generally require collateral or other security to support these financial instruments. The counterparties to these instruments are major institutions deemed creditworthy by the Company; ARCO does not anticipate nonperformance by the counterparties.

NOTE 24 Unaudited Quarterly Results

Millions, except per share amounts	1994	1993
Sales and other operating revenues (including excise taxes)		
Quarter ended:		
March 31	$ 3,800	$ 4,507
June 30	4,174	4,670
September 30	4,271	4,553
December 31	4,307	4,757
Total	$16,552	$18,487
Income (loss) before gain on issuance of stock by subsidiary, income taxes and minority interest		
Quarter ended:		
March 31	$ 255	$ 442
June 30	20(a)	461
September 30	277	233
December 31	357	(502)(a)
Total	$ 909	$ 634
Net income (loss)		
Quarter ended:		
March 31	$ 149	$ 260
June 30	24(a)	271
September 30	435	68
December 31	311	(330)(a)
Total	$ 919	$ 269
Earned (loss) per share		
Quarter ended:		
March 31	$ 0.92	$ 1.60
June 30	$ 0.14(a)	$ 1.67
September 30	$ 2.67	$ 0.42
December 31	$ 1.90	$ (2.06)(a)

(a) See Note 2.

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Independent Accountants' Report

To the Stockholders and Board of Directors of Atlantic Richfield Company

We have audited the accompanying consolidated balance sheets of Atlantic Richfield Company as of December 31, 1994 and 1993, and the related consolidated statements of income and retained earnings and cash flows for each of the three years in the period ended December 31, 1994. 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 in accordance with generally accepted auditing standards. Those standards 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Atlantic Richfield Company as of December 31, 1994 and 1993, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1994, in conformity with generally accepted accounting principles.

As discussed in Note 3 to the consolidated financial statements, the Company changed its method of accounting for income taxes, postretirement benefits other than pensions and postemployment benefits in 1992.

Coopers & Lybrand L.L.P.

Coopers & Lybrand L.L.P.
Los Angeles, California
February 10, 1995

Responsibility for Financial Statements

To the Stockholders of Atlantic Richfield Company

The Company's management assumes responsibility for the integrity and objectivity of the financial information contained in this Annual Report, including the statements covered by the independent accountants' report. The Company maintains an accounting system and related controls to provide reasonable assurance of the integrity and objectivity of accounting information and for the safeguarding of assets. The fair presentation of the Company's financial position and results of operations, in conformity with generally accepted accounting principles, is reported on by the independent accountants.

In addition to the accounting and control systems and the use of independent accountants, the Company maintains a staff of internal auditors who conduct internal control audits as well as special audits, coordinating their activities with the independent accountants.

The Company has had an Audit Committee of the Board of Directors for more than 25 years. The Committee currently consists exclusively of directors who are not employees of the Company, and meets as required, but at a minimum of three times a year. The Committee has been established for the general purpose of satisfying itself as to the integrity of the Company's accounting and financial reporting, maintaining communications between the Board of Directors and external and internal auditors, continuously emphasizing the need for internal financial controls, and initiating special investigations as deemed necessary. The independent accountants and the internal auditors have full and free access to the Audit Committee and meet with it, with and without management being present, to discuss all appropriate matters.

Mike R. Bowlin

Mike R. Bowlin
President, Chief Executive Officer
and Chief Operating Officer

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Oil and Gas Producing Activities

The Securities and Exchange Commission (SEC) defines proved oil and gas reserves as those estimated quantities of crude oil, natural gas, and natural gas liquids that 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 oil and gas reserves are reserves that can be expected to be recovered through existing wells with existing equipment and operating methods.

ARCO reports reserve estimates to various federal government agencies and commissions. These estimates may cover various regions of crude oil and natural gas classifications within the United States and may be subject to mandated definitions. There have been no reports of total ARCO reserve estimates furnished to federal government agencies or commissions which vary from those reported to the SEC since the beginning of the last fiscal year.

Estimated quantities of ARCO's proved oil and gas reserves were as follows:

	Petroleum Liquids (million barrels)		Natural Gas (billion cubic feet)	
	U.S.	International	U.S.	International
January 1, 1992:				
Proved reserves	2,642	189	5,798	2,406
Proved developed reserves	2,094	131	5,069	534
December 31, 1992:				
Proved reserves	2,517	211	5,186	3,117
Proved developed reserves	1,915	122	4,562	880
December 31, 1993:				
Proved reserves	2,259	206	4,725	3,280
Proved developed reserves	1,804	127	4,190	1,129
December 31, 1994:				
Proved reserves	2,246	222	4,615	3,493
Proved developed reserves	1,916	87	4,301	1,142

Included in ARCO's reserves are 100% of the reserves of Vastar, a consolidated subsidiary of which ARCO owned 82.3% at December 31, 1994. Vastar's reserves comprised 4% and 43% of U.S. petroleum liquids and natural gas, respectively, at December 31, 1994.

ARCO has no long-term supply contracts to purchase from foreign governments or any interest in equity affiliates involved in oil and gas producing activities.

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The changes in proved reserves for the years ended December 31, 1992, 1993 and 1994 were as follows:

	Petroleum Liquids (million barrels)		Natural Gas (billion cubic feet)	
	U.S.	International	U.S.	International
Reserves at January 1, 1992	2,642	189	5,798	2,406
Revisions of estimates	40	22	22	44
Improved recovery	39	-	48	-
Purchases of minerals-in-place	35	-	37	-
Extensions and discoveries	100	29	146	761
Production	(242)	(28)	(440)	(88)
Consumed in production	-	-	(72)	(5)
Sales of minerals-in-place	(97)	(1)	(353)	-
Reserves at December 31, 1992	2,517	211	5,186	3,117
Revisions of estimates	(20)	15	(12)	(54)
Improved recovery	17	-	28	-
Purchases of minerals-in-place	3	-	30	-
Extensions and discoveries	10	11	186	350
Production	(221)	(29)	(332)	(117)
Consumed in production	-	-	(75)	(9)
Sales of minerals-in-place	(47)	(2)	(286)	(7)
Reserves at December 31, 1993	2,259	206	4,725	3,280
Revisions of estimates	85	(19)	94	31
Improved recovery	90	-	13	-
Purchases of minerals-in-place	11	-	13	82
Extensions and discoveries	21	75	232	291
Production	(216)	(26)	(350)	(187)
Consumed in production	-	-	(78)	(4)
Sales of minerals-in-place	(4)	(14)	(34)	-
Reserves at December 31, 1994	2,246	222	4,615	3,493

Significant changes to proved oil and gas reserves during 1994 were due to the addition of reserves from an enhanced oil recovery project at Kuparuk, from the Villano field in Ecuador, and the Trent and Tyne gas fields in the North Sea.

Estimates of petroleum reserves have been made by ARCO engineers. These estimates include reserves in which ARCO holds an economic interest under production-sharing and other types of operating agreements with foreign governments. These estimates do not include probable or possible reserves. Natural gas liquids comprise 12% of petroleum liquid proved reserves.

The sale of natural gas from the North Slope of Alaska, which is not used in providing fuel in North Slope operations or sold to others on the North Slope, is dependent upon construction of a natural gas transportation system or another marketing alternative. Such gas is not included in ARCO's reserves. There are currently several projects under consideration, including the Alaska Natural Gas Transportation System and the Trans Alaska Gas System. However, there are a number of regulatory, financial, legal and marketing questions regarding the projects that remain unresolved.

ARCO continues to study various options for marketing North Slope gas. However, ARCO Alaska believes that market conditions are not likely to permit implementation of any large gas sales projects within the foreseeable future.

The aggregate amounts of capitalized costs relating to oil and gas producing activities and the related accumulated depreciation, depletion and amortization as of December 31, 1994, 1993 and 1992 were as follows:

	Proved Properties		Unproved Properties	
Millions	U.S.	International	U.S.	International
1994				
Gross	$14,353	$3,998	$510	$231
Accumulated depreciation, depletion and amortization	8,963	2,100	328	8
Net	$ 5,390	$1,898	$182	$223
1993				
Gross	$14,521	$3,694	$593	$235
Accumulated depreciation, depletion and amortization	8,772	1,925	315	4
Net	$ 5,749	$1,769	$278	$231
1992				
Gross	$15,212	$3,369	$877	$196
Accumulated depreciation, depletion and amortization	8,821	1,718	77	1
Net	$ 6,391	$1,651	$800	$195

Costs, both capitalized and expensed, incurred in oil and gas producing activities during the three years ended December 31, 1994, 1993 and 1992 were as follows:

Millions	U.S.	International	Total
1994			
Property acquisition costs:			
Proved properties	$ -	$ 1	$ 1
Unproved properties	$ 38	$ 23	$ 61
Exploration costs	$180	$237	$417
Development costs	$363	$290	$653
1993			
Property acquisition costs:			
Proved properties	$ -	$ 3	$ 3
Unproved properties	$ 59	$ 2	$ 61
Exploration costs	$351	$274	$625
Development costs	$435	$441	$876
1992			
Property acquisition costs:			
Proved properties	$ 13	$ 5	$ 18
Unproved properties	$ 41	$ 2	$ 43
Exploration costs	$362	$220	$582
Development costs	$393	$388	$781

Results of operations from oil and gas producing activities (including operating overhead) for the three years ended December 31, 1994, 1993 and 1992 were as follows:

Millions	U.S.	International	Total
1994			
Revenues:			
Sales	$1,421	$ 859	$2,280
Transfers	1,456	-	1,456
Other	74	41	115
	2,951	900	3,851
Production costs	1,166	199	1,365
Exploration expenses	277	178	455
Depreciation, depletion and amortization	731	275	1,006
Other operating expenses	251	171	422
	526	77	603
Income tax expense	(143)	(43)	(186)
Results of operations from production activities	$ 383	$ 34	$ 417
1993			
Revenues:			
Sales	$1,639	$ 807	$2,446
Transfers	1,818	-	1,818
Other	48	31	79
	3,303	838	4,141
Production costs	1,313	194	1,507
Exploration expenses	457	210	667
Depreciation, depletion and amortization	719	260	979
Other operating expenses	209	148	357
	605	26	631
Income tax expense	(206)	(49)	(255)
Results of operations from production activities	$ 399	$ (23)	$ 376
1992			
Revenues:			
Sales	$2,157	$ 800	$2,957
Transfers	1,842	-	1,842
Other	77	41	118
	4,076	841	4,917
Production costs	1,481	227	1,708
Exploration expenses	382	185	567
Depreciation, depletion and amortization	914	235	1,149
Other operating expenses	239	139	378
	1,060	55	1,115
Income tax expense	(346)	(21)	(367)
Results of operations from production activities	$ 714	$ 34	$ 748

The difference between the above results of operations and the amounts reported for after-tax oil and gas segment earnings in Note 4 of Notes to Consolidated Financial Statements is primarily marketing-related activities, the exclusions of gains on property sales and unusual items related to the oil and gas operations.

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The standardized measure of discounted estimated future net cash flows related to proved oil and gas reserves at December 31, 1994, 1993 and 1992 was as follows:

Billions	U.S.	International	Total
1994			
Future cash inflows	$30.6	$11.3	$41.9
Future development and production costs	13.9	3.9	17.8
Future income tax expense	5.4	2.7	8.1
Future net cash flows	11.3	4.7	16.0
10% annual discount	4.9	2.2	7.1
Standardized measure of discounted future net cash flows	$ 6.4	$ 2.5	$ 8.9
1993			
Future cash inflows	$24.4	$10.2	$34.6
Future development and production costs	16.5	3.6	20.1
Future income tax expense	2.2	2.2	4.4
Future net cash flows	5.7	4.4	10.1
10% annual discount	2.4	2.1	4.5
Standardized measure of discounted future net cash flows	$ 3.3	$ 2.3	$ 5.6
1992			
Future cash inflows	$37.3	$10.9	$48.2
Future development and production costs	20.9	4.4	25.3
Future income tax expense	5.2	2.2	7.4
Future net cash flows	11.2	4.3	15.5
10% annual discount	4.9	2.2	7.1
Standardized measure of discounted future net cash flows	$ 6.3	$ 2.1	$ 8.4

Primary changes in the standardized measure of discounted estimated future net cash flows for the years ended December 31, 1994, 1993 and 1992 were as follows:

Billions	1994	1993	1992
Sales and transfers of oil and gas, net of production costs	$(2.3)	$(2.5)	$(2.9)
Extensions, discoveries and improved recovery, less related costs	1.0	.4	1.0
Revisions of estimates of reserves proved in prior years:			
Quantity estimates	.2	–	.3
Net changes in price and production costs	4.9	(4.2)	2.1
Purchases/Sales	.1	(.3)	(.4)
Other	(.2)	.1	.5
Accretion of discount	.8	1.2	1.0
Development costs incurred during the period	.7	.9	.8
Net change in income taxes	(1.9)	1.6	(1.0)
Net change	$ 3.3	$(2.8)	$ 1.4

Estimated future cash inflows are computed by applying year-end prices of oil and gas to year-end quantities of proved reserves. Future price changes are considered only to the extent provided by contractual arrangements. Estimated future development and production costs are determined by estimating the expenditures to be incurred in developing and producing the proved oil and gas reserves at the end of the year, based on year-end costs and assuming continuation of existing economic conditions. Estimated future income tax expense is calculated by applying year-end statutory tax rates (adjusted for permanent differences and tax credits) to estimated future pretax net cash flows related to proved oil and gas reserves, less the tax basis of the properties involved.

These estimates are furnished and calculated in accordance with requirements of the Financial Accounting Standards Board and the SEC. Estimates of future net cash flows presented do not represent management's assessment of future profitability or future cash flows to ARCO. Management's investment and operating decisions are based on reserve estimates that include proved reserves prescribed by the SEC as well as probable reserves, and on different price and cost assumptions from those used here.

It should be recognized that applying current costs and prices and a 10% standard discount rate does not convey absolute value. The discounted amounts arrived at are only one measure of the value of proved reserves.

Coal Operations

Supplemental operating statistics for the coal operations of ARCO for the three years ended December 31, 1994, 1993 and 1992 were as follows:

	1994	1993	1992
Coal shipments – thousand tons:			
U.S.	38,322	37,497	30,634
International	11,235	10,248	9,158
Total	49,557	47,745	39,792
Coal reserves – million tons recoverable:			
U.S.	1,279	1,296	1,236
International	227	214	232
Total	1,506	1,510	1,468
Average market price per ton of coal:			
U.S.	$ 8.52	$ 9.12	$ 9.79
International	$29.90	$28.48	$30.84
Composite price	$13.37	$13.53	$14.84

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CONSOLIDATED FINANCIAL DATA

Millions, except per share amounts	1994	1993	1992	1991	1990
SALES AND OTHER OPERATING REVENUES					
Resources:					
Oil and gas	$ 7,969	$ 8,357	$ 8,994	$ 8,869	$ 9,425
Coal	663	648	586	597	589
Products:					
Refining and marketing	6,529	8,603	8,461	7,989	8,649
Transportation	897	878	900	849	946
Intermediate chemicals and specialty products	3,423	3,192	3,100	2,990	2,950
Other	30	28	24	30	33
Elimination of intersegment amounts	(2,959)	(3,219)	(3,398)	(3,123)	(3,738)
Total	$16,552	$18,487	$18,668	$18,191	$18,836
NET INCOME					
Resources:					
Oil and gas	$ 405	$ 46	$ 818	$ 549	$ 1,364
Coal	70	107	83	33	91
Products:					
Refining and marketing	195	307	348	268	439
Transportation	172	189	239	212	274
Intermediate chemicals and specialty products	265	239	210	192	271
Equity earnings from Lyondell	111	13	8	111	223
Gain on issuance of stock by subsidiary	273	–	–	–	–
Unallocated expenses and other	(57)	(140)	25	(80)	(410)
Interest	(515)	(491)	(534)	(594)	(584)
Cumulative effect of changes in accounting principles	–	–	(392)	–	323
Net income	$ 919	$ 269	$ 801	$ 709	$ 2,011
Earned per share[a]	$ 5.63	$ 1.66	$ 4.96	$ 4.39	$ 12.15
Retained earnings	$ 5,342	$ 5,308	$ 5,918	$ 5,990	$ 6,837
ADDITIONS TO FIXED ASSETS					
Resources:					
Oil and gas, including dry hole costs:					
Alaska	$ 152	$ 418	$ 294	$ 343	$ 298
Vastar	327	231	267	290	409
Other Lower 48	64	103	137	793	399
International	446	633	551	464	454
	989	1,383	1,249	1,890	1,560
Coal	57	94	308	306	108
Products:					
Refining and marketing	376	346	315	448	370
Transportation	48	58	94	124	103
Intermediate chemicals and specialty products	186	181	296	436	539
Other	2	8	17	37	37
Total	$ 1,658	$ 2,070	$ 2,279	$ 3,239	$ 2,718

(a) The cumulative effect of adopting SFAS 106 and SFAS 109 reduced earnings per share by $2.43 in 1992. The cumulative effect of adopting SFAS 96 increased earnings per share by $1.96 in 1990.

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OIL AND GAS	1994	1993	1992	1991	1990
After-tax oil and gas earnings (millions):					
Alaska	$142	$225	$453	$413	$ 700
Vastar	149	117	32	21	243
Other Lower 48	88	(280)	160	36	345
International	26	(17)	171	79	76
Total	$405	$ 46	$816	$549	$1,364
Crude oil, condensate and NGL production (thousand barrels/day – net):					
U.S.:					
Prudhoe Bay	214.8	229.2	249.0	262.9	263.1
Kuparuk	147.2	151.5	150.8	140.3	138.4
Greater Point McIntyre	36.0	15.1	11.9	12.8	13.9
Other Alaska	–	–	4.0	4.3	3.4
NGLs	23.2	22.9	23.2	20.3	15.0
Total Alaska	421.2	418.7	438.9	440.6	433.8
Vastar – Crude oil	32.7	35.7	38.5	38.6	32.5
– NGLs	10.8	9.0	12.9	11.1	9.2
Other Lower 48 – Crude oil	108.4	120.5	145.1	149.8	135.7
– NGLs	18.2	20.8	25.1	28.4	27.1
Total U.S.	591.3	604.7	660.5	668.5	638.3
International:					
Indonesia	40.7	50.4	44.8	42.5	38.4
United Kingdom	15.3	13.8	16.5	15.2	10.7
Dubai	8.5	8.6	9.7	11.6	12.9
Other	1.2	1.7	2.2	1.2	.6
NGLs	7.1	5.2	4.5	5.2	4.5
Total International	72.8	79.7	77.7	75.7	67.1
Total	664.1	684.4	738.2	744.2	705.4
Natural gas production (million cubic feet/day – net):					
U.S.:					
Vastar	782.0	694.8	720.1	791.4	891.7
Other U.S.	177.5	216.1	481.8	607.4	661.9
Total U.S.	959.5	910.9	1,201.9	1,398.8	1,553.6
International:					
United Kingdom	285.7	278.0	203.4	221.1	155.5
Indonesia	206.4	24.6	13.1	15.3	13.6
Netherlands	18.8	18.0	23.2	24.8	24.4
Total International	510.9	320.6	239.7	261.2	193.5
Total	1,470.4	1,231.5	1,441.6	1,660.0	1,747.1

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OIL AND GAS (continued)	1994	1993	1992	1991	1990
Average sales prices:					
Crude oil and condensate (dollars/barrel):					
Alaska	$ 9.36	$10.33	$11.41	$11.23	$14.84
Lower 48, including Vastar	$13.50	$15.07	$16.34	$16.72	$20.85
Composite average	$10.44	$11.67	$12.92	$12.93	$16.56
International	$15.16	$16.41	$18.17	$18.67	$20.15
NGLs, lease and plant (dollars/barrel):					
U.S., including Vastar	$10.32	$11.64	$12.44	$12.86	$14.40
International	$ 9.02	$10.84	$12.23	$11.51	$10.89
Natural gas (dollars/thousand cubic feet):					
U.S., including Vastar	$ 1.76	$ 1.93	$ 1.86	$ 1.54	$ 1.66
International	$ 2.51	$ 2.88	$ 2.96	$ 3.16	$ 3.08
Average oil and gas production costs (dollars/equivalent barrel of oil):					
Alaska	$ 3.56	$ 3.84	$ 3.80	$ 4.51	$ 4.63
Vastar	$ 2.70	$ 3.42	$ 3.24	$ 3.38	$ 2.93
Other Lower 48	$ 6.99	$ 8.35	$ 7.46	$ 4.33	$ 4.18
International	$ 3.52	$ 3.99	$ 5.27	$ 5.27	$ 4.68
Proved oil and gas reserves – net					
Crude oil and NGLs (million barrels):					
Alaska:					
Prudhoe Bay	1,003	1,014	1,107	1,206	1,307
Kuparuk	513	465	518	486	519
Greater Point McIntyre	108	141	48	52	58
Other Alaska	3	3	96	80	82
	1,627	1,623	1,769	1,822	1,966
Vastar	95	92	99	91	93
Other Lower 48	524	544	649	729	661
International	222	206	211	189	210
Total	2,468	2,465	2,728	2,831	2,930
Natural gas (billion cubic feet):					
Alaska	2,127	2,191	2,284	2,368	2,367
Vastar	1,982	1,986	2,100	2,294	2,312
Other Lower 48	506	548	801	1,136	1,577
International	3,493	3,280	3,117	2,405	1,796
Total	8,108	8,006	8,302	8,203	8,052

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	1994	1993	1992	1991	1990
OIL AND GAS (continued)					
Pretax exploration expense (millions):					
Alaska:					
Dry hole costs	$ 76	$164	$ 56	$ 28	$ 91
Undeveloped leasehold amortization	19	15	15	16	17
Geological and geophysical	14	37	17	10	20
Other	28	25	24	22	19
Total Alaska	137	241	112	76	147
Lower 48, including Vastar:					
Dry hole costs	62	83	96	118	108
Undeveloped leasehold amortization	38	75	88	89	90
Geological and geophysical	12	17	23	44	44
Other	28	41	63	88	92
Total Lower 48	140	216	270	339	334
Total U.S.	277	457	382	415	481
International:					
Dry hole costs	46	74	69	71	100
Undeveloped leasehold amortization	10	8	7	8	6
Geological and geophysical	44	45	37	21	19
Other	78	83	72	78	45
Total International[a]	178	210	185	178	170
Total	$455	$667	$567	$593	$651
Net wells completed, including Vastar:					
U.S.:					
Exploratory – oil	1	7	8	8	5
gas	11	8	7	18	22
dry	29	65	70	42	48
Development – oil	164	184	124	266	225
gas	81	64	40	168	137
dry	27	21	19	173[b]	44
International:					
Exploratory – oil	1	4	8	4	4
gas	2	4	3	2	2
dry	5	13	15	19	18
Development – oil	6	17	18	24	21
gas	5	14	6	5	3
dry	1	2	1	–	1
Net producing wells, including Vastar:					
oil	5,633	6,778	7,604	8,372	7,582
gas	1,391	1,427	1,827	1,704	2,009
Net acreage, including Vastar (thousand acres):					
U.S.:					
Developed	1,622	1,786	2,128	2,333	2,379
Undeveloped	4,342	5,248	6,331	6,302	6,144
International:					
Developed	96	91	81	78	75
Undeveloped	31,506	22,803	28,250	29,251	17,319

(a) Includes $30 million, $40 million, $41 million, $41 million, and $25 million of costs recovered in 1994, 1993, 1992, 1991, and 1990, respectively, under provisions of production-sharing agreements.

(b) Includes 132 dry development wells associated with a shallow coal bed methane gas project at a total cost of $9.5 million.

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SEGMENT OPERATING DATA

	1994	1993	1992	1991	1990
COAL					
Coal shipments (thousand tons):					
U.S.	38,322	37,499	30,634	32,598	29,437
International	11,235	10,246	9,158	8,961	8,819
Total	49,557	47,745	39,792	41,559	38,256
Coal reserves (million tons recoverable):					
U.S.	1,279	1,296	1,236	878	854
International	227	214	232	242	411
Total	1,506	1,510	1,468	1,118	1,265
Average market price (dollars/ton):					
U.S.	$ 8.52	$ 9.12	$ 9.79	$ 9.20	$ 9.45
International	$29.90	$29.69	$30.84	$32.70	$32.70
REFINING AND MARKETING					
Refinery runs (thousand barrels/day):					
Blended crude oil:					
Los Angeles, California	225.6	236.9	236.6	230.4	231.4
Cherry Point, Washington	182.7	188.9	188.5	174.5	167.2
Total	408.3	425.8	425.1	404.9	398.6
Petroleum product sales volumes, including intersegment sales (thousand barrels/day):					
U.S.:					
Gasoline	253.8	252.5	240.8	234.5	231.2
Jet fuels	97.6	97.1	104.9	95.8	88.0
Distillate fuels	73.5	78.7	81.8	84.8	78.3
Other	53.0	53.2	52.0	51.7	46.5
Total U.S.	477.9	481.5	479.5	466.4	444.0
Brazil	–	94.4	92.8	97.0	92.0
Total	477.9	575.9	572.3	563.4	536.0
U.S. branded retail outlets	1,554	1,811	1,841	1,632	1,547
TRANSPORTATION					
TAPS throughput (thousand barrels/day)	1,587	1,620	1,747	1,822	1,789
Crude transported (million barrel miles)	140,800	129,800	140,900	143,300	144,100
Product transported (million barrel miles)	5,700	6,700	7,200	6,100	8,500
Tankers owned or under long-term charter	10	10	10	10	10
Tonnage (thousand tons)	1,500	1,500	1,500	1,500	1,500
INTERMEDIATE CHEMICALS AND SPECIALTY PRODUCTS					
Chemical product sales volumes, including intersegment sales (millions):					
Propylene oxide and derivatives (pounds)	3,699	3,356	3,066	2,729	2,563
Styrene monomer and derivatives (pounds)	2,496	2,084	1,434	1,278	1,096
TBA and derivatives (gallons)	1,004	1,184	1,092	996	955

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SEGMENT OPERATING DATA

Millions, except per share amounts	1994	1993	1992	1991	1990
OTHER DATA					
Dividends:					
Common stock – total	$ 882	$ 876	$ 870	$ 869	$ 807
– per share	$ 5.50	$ 5.50	$ 5.50	$ 5.50	$ 5.00
Total dividends declared	$ 885	$ 879	$ 873	$ 872	$ 810
Common stock:					
Average shares outstanding, including equivalents (millions of shares)	163.2	162.4	161.5	161.7	165.5
Earned per share	$ 5.63	$ 1.88	$ 4.96	$ 4.39	$ 12.15
Book value per share	$ 39.60	$ 38.51	$ 42.68	$ 42.95	$ 44.82
Market price per share – high	112%	127%	121%	135%	142%
– low	92%	100%	98%	99%	105%
– close	101%	105%	114%	106%	123%
Stockholders (thousands)	100	105	110	116	120
Employees, full-time equivalent (thousands):					
Resources:					
Oil and gas	7.0	7.8	8.3	10.0	10.7
Coal	1.6	1.7	1.7	1.8	1.7
Products:					
Refining and marketing	7.4	7.8	8.7	8.4	8.1
Transportation	1.4	1.6	1.8	1.7	1.8
Intermediate chemicals and specialty products	4.4	4.3	4.1	4.2	4.0
Other operations	1.4	2.2	2.4	1.8	1.5
Total	23.2	25.1	26.8	27.7	27.8
Payroll expense	$ 1,460	$ 1,497	$ 1,478	$ 1,449	$ 1,367
FINANCIAL DATA					
Total assets	$24,563	$23,894	$24,256	$24,492	$23,864
Working capital	$ 2,325	$ 1,896	$ 825	$ 125	$ 1,788
Current ratio	1.52	1.44	1.17	1.02	1.42
Long-term debt	$ 7,198	$ 7,089	$ 6,227	$ 5,989	$ 5,997
Stockholders' equity	$ 6,278	$ 6,127	$ 6,721	$ 6,832	$ 7,149
Return on stockholders' equity [a]	14.8%	4.2%	17.6%	10.1%	24.6%
Return on capital employed [b]	9.4%	5.1%	11.4%	8.7%	18.2%
RESEARCH AND DEVELOPMENT EXPENSE	$ 109	$ 109	$ 89	$ 119	$ 120

(a) Net income before accounting changes/average stockholders' equity
(b) (Net income before accounting changes + after-tax interest expense)/average capital employed (short-term debt + long-term debt due in 1 year + long-term debt + stockholders' equity)

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BOARD OF DIRECTORS

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ANTHONY G. FERNANDES[a]
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WILLIAM E. WADE, JR.[a]
Executive Vice President

FRANK D. BOREN[b,c]
President,
Sustainable Conservation

RICHARD H. DEIHL[a,b,d]
Former Chairman of the Board,
H.F. Ahmanson & Company

THE HONORABLE JOHN GAVIN[d,e]
Chairman, Gamma Services International
Former U.S. Ambassador to Mexico

HANNA H. GRAY[b,d]
President Emeritus and Professor of History,
University of Chicago

PHILIP M. HAWLEY[a,b,d,e]
Former Chairman of the Board and Chief Executive Officer,
Carter Hawley Hale Stores, Inc.

KENT KRESA[b,c]
Chairman, President and Chief Executive Officer,
Northrop Grumman Corporation

DAVID T. McLAUGHLIN[b,d]
Chairman and Chief Executive Officer,
The Aspen Institute

JOHN B. SLAUGHTER[b,c]
President,
Occidental College

HICKS B. WALDRON[b,c,e]
Former Chairman of the Board,
Avon Products, Inc.

HENRY WENDT[b,c]
Former Chairman of the Board,
SmithKline Beecham

Board Committees
[a] Executive
[b] Compensation
[c] Environment, Health and Safety
[d] Audit
[e] Nominating

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Chairman of the Board

MIKE R. BOWLIN
President, Chief Executive Officer and Chief Operating Officer

RONALD J. ARNAULT
Executive Vice President and Chief Financial Officer

ANTHONY G. FERNANDES
Executive Vice President

WILLIAM E. WADE, JR.
Executive Vice President

H. L. BILHARTZ
Senior Vice President
President, ARCO Exploration and Production Technology

E. KENT DAMON, JR.
Senior Vice President
President, ARCO Asia Pacific, Ltd.

KENNETH R. DICKERSON
Senior Vice President, External Affairs

MARLAN W. DOWNEY
Senior Vice President
President, ARCO International Oil and Gas Company

MARIE L. KNOWLES
Senior Vice President
President, ARCO Transportation Company

STEPHEN R. MUT
Senior Vice President
President, ARCO Coal Company

WILLIAM C. RUSNACK
Senior Vice President
President, ARCO Products Company

J. KENNETH THOMPSON
Senior Vice President
President, ARCO Alaska, Inc.

THOMAS W. VELLECA
Senior Vice President, Exploration

BRUCE G. WHITMORE
Senior Vice President, General Counsel and Corporate Secretary

ALLAN L. COMSTOCK
Vice President and Controller

TERRY G. DALLAS
Vice President and Treasurer

STEPHEN J. GIOVANISCI
Vice President, Public Affairs

BEVERLY L. HAMILTON
Vice President and Investment Officer
President, ARCO Investment Management Company

LINDA G. HAVARD
Vice President, Corporate Planning

ALLEN C. HOLMES
Vice President and General Tax Officer

JOHN H. KELLY
Vice President, Human Resources

ROBERT J. TRUNEK
Vice President, Environment, Health and Safety

Common Stock									
Market Price Per Share	High	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
	Low	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Cash Dividends Per Share		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
$3.00 Convertible Preference Stock									
Market Price Per Share	High	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
	Low	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Cash Dividends Per Share		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
$2.80 Convertible Preference Stock									
Market Price Per Share	High	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
	Low	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Cash Dividends Per Share		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

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