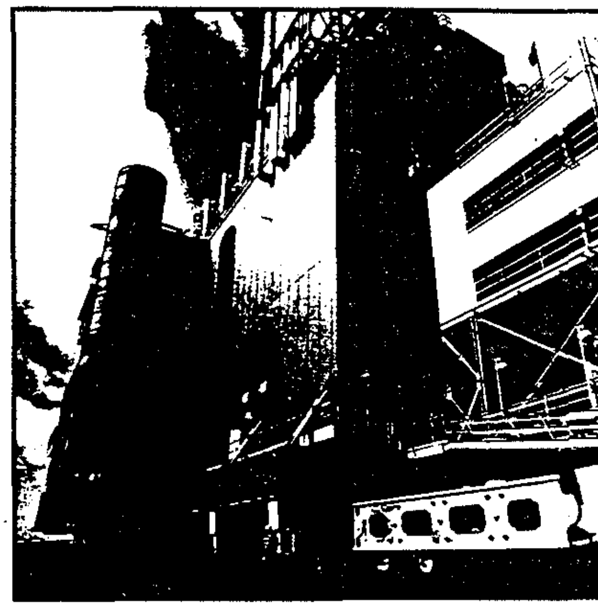
Coal mines set production records, meet growing demands

for low sulfur western U.S. coals. Temporary rail congestion in the Basin during the latter half of the year, resulting from this significant increase in customer demand, inhibited potentially higher shipments for ARCO and other coal producers.

In Colorado, the West Elk mine's underground longwall system was extended to over 900 feet in width in late summer and aided in increasing the mine's annual production 42% over 1993. Despite the volumetric growth, U.S. profitability declined from 1993 as a result of the reopening to market prices of a major Black Thunder contract.

In Australia, ARCO's coal operations were hampered by a difficult business environment characterized by softer export prices and a strengthening Australian dollar. However, the underground Gordonstone mine completed its first full year of production in 1994, with gross production totaling 3.5 million tons. ARCO also operates the Curragh surface mine and has a non-operating interest in the Blair Athol surface mine. ARCO and the operator of Blair Athol acquired a 55% interest in the nearby Clermont project, adding 38 million tons to ARCO's net coal reserves.

Natural gas at Prudhoe Bay (a byproduct of the oil production) is processed and re-injected into the reservoir in order to slow the field's natural decline and enable incremental oil production. With installation of the final GHX-2 facilities in September 1994, Prudhoe Bay's average gas handling capacity was increased to 7.5 billion cubic feet per day. The $1 billion ARCO-managed GHX-2 project should increase total liquids production from the field by 100,000 barrels per day. Total field recovery will increase by an estimated 435 million barrels, of which ARCO's net interest is 23%.



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