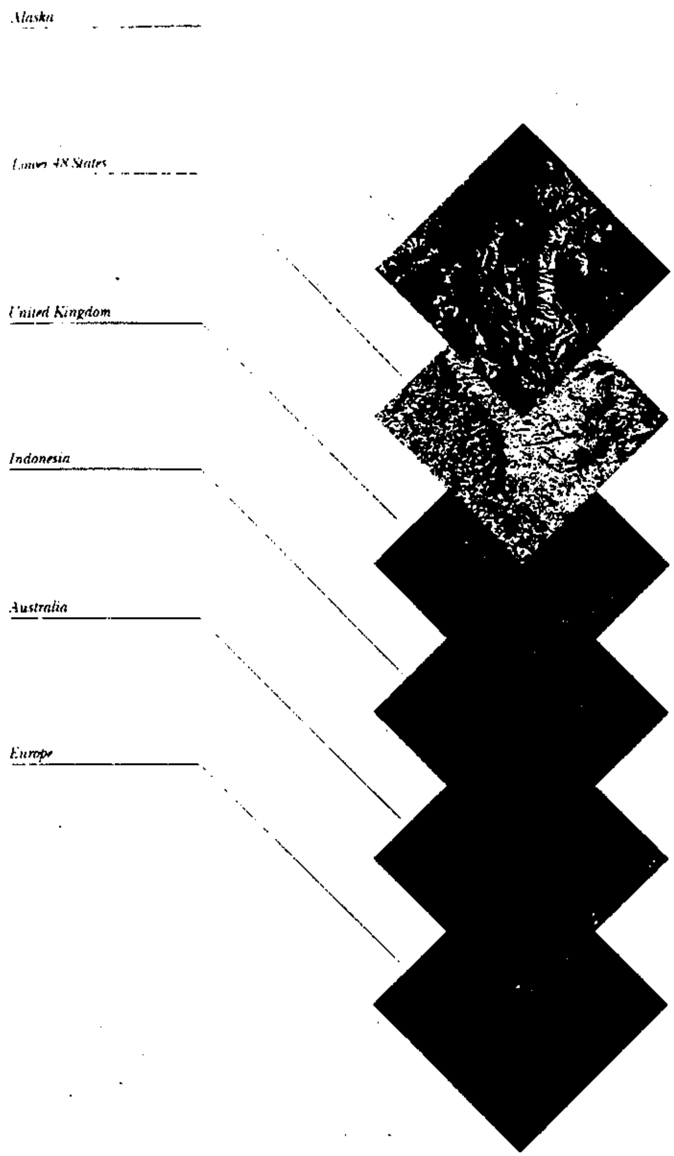
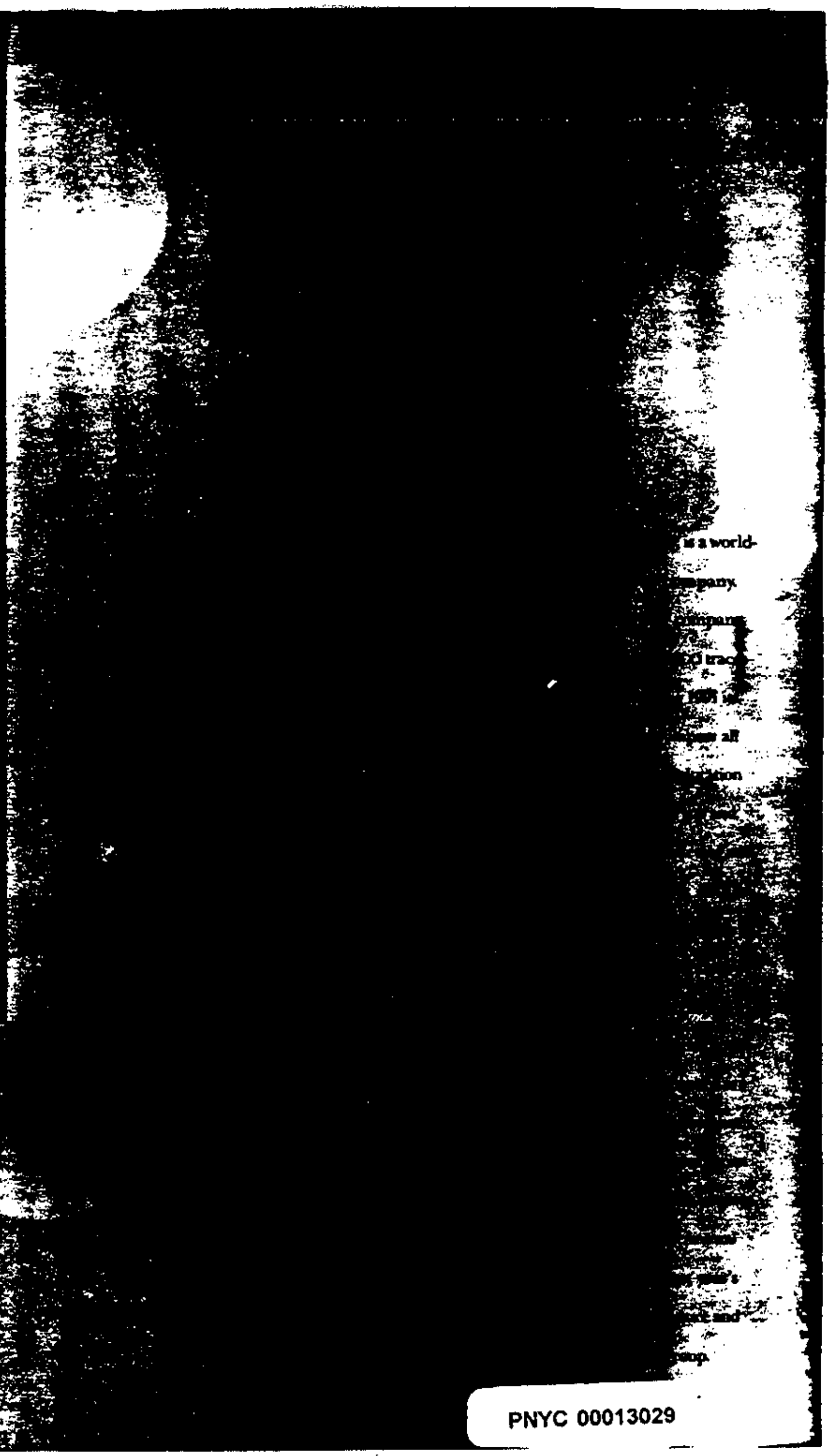


1990 ANNUAL REPORT

Contents



is a world-
pany.

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HIGHLIGHTS

Millions of dollars except per share amounts	*1990*	*1989*	*1988*	*1987*	*1986*
Financial					
Total revenues	**$19,896**	$16,815	$18,868	$17,579	$15,698
Net income	**$ 2,011**	$ 1,953	$ 1,583	$ 1,224	$ 615
Net income per share	**$ 12.15**	$ 11.26	$ 8.78	$ 6.68	$ 3.38
Dividends	**$ 810**	$ 760	$ 704	$ 714	$ 706
Dividends per share of common stock	**$ 5.00**	$ 4.50	$ 4.00	$ 4.00	$ 4.00
Additions to fixed assets	**$ 2,718**	$ 2,105	$ 3,304	$ 1,463	$ 1,822
Total assets	**$23,864**	$22,261	$21,514	$22,890	$21,913
Return on stockholders' equity — percent	**29.3**	30.5	26.1	22.0	11.4
Return on capital employed — percent	**15.6**	15.3	13.0	10.9	7.1
Reserves					
Petroleum liquids — million barrels:					
Domestic	**2,720**	2,765	2,829	2,818	2,728
Foreign	**210**	237	264	223	199
Total	**2,930**	3,002	3,093	3,041	2,927
Natural gas — billion cubic feet:					
Domestic	**6,256**	6,452	6,373	5,854	5,923
Foreign	**1,796**	1,206	1,249	897	972
Total	**8,052**	7,658	7,622	6,751	6,895
Coal — million tons recoverable	**1,265**	1,190	1,183	1,028	1,115
Operating					
Oil and Gas					
Liquids production — net barrels per day:					
Domestic	**638,300**	660,000	674,200	665,000	659,100
Foreign	**67,100**	70,100	63,600	63,200	74,600
Total	**705,400**	730,100	737,800	728,200	733,700
Natural gas production — million cubic feet per day	**1,747**	1,698	1,543	1,436	1,377
Coal shipments — thousand tons	**38,256**	39,447	32,447	26,137	27,149
Refining and Marketing:					
Total refinery runs — barrels per day	**401,100**	401,900	396,900	375,000	377,600
Petroleum product sales (West Coast) — barrels per day	**444,000**	435,500	418,800	406,200	391,100
Chemical sales — millions of pounds					
Propylene oxide and derivatives	**2,563**	2,586	2,812	2,334	1,986

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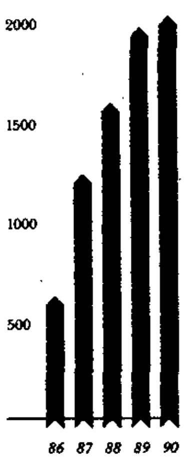
LETTER TO STOCKHOLDERS

Net Income
millions of dollars



ARCO had yet another outstanding year in 1990. As a result of adhering consistently to our basic corporate strategies, ARCO's net income was $2.011 billion, or $12.15 per share, both of which are new records for our Company. The 1990 return on stockholders' equity was 29.3 percent.

We are pleased to share with you our conviction that ARCO continues to be well positioned for the future. We want to review with you our strategies and topics of concern to ARCO and its industry. These include the uncertain economic climate, recent clean air initiatives, and other significant environmental issues.

Many of you are aware that since our restructuring in 1985, ARCO has followed a set of basic business strategies that are well suited for the long term. ARCO is a hydrocarbons-based company, concentrating on oil, gas, coal and petrochemicals. We focus on quality assets and competitive differentiation. We are continuously evaluating the capital markets for opportunities to effectively utilize the markets in our activities. Our dividend policy and stock repurchase program are designed to help maintain appropriate financial leverage.

A healthy return to ARCO stockholders is our ultimate objective and, as you can see, these strategies have served you well. An investment in ARCO stock bought on January 1, 1990, yielded a total return of 14.4 percent through December 31, 1990, assuming all dividends were reinvested. That's 17.3 percentage points better than the total return on the Standard & Poors 500 Index.

The Board of Directors approved an 11.1 percent increase in quarterly common stock dividends in January 1990. Again in January 1991, our Directors raised the quarterly dividend another 10 percent to $1.375 per share. At the new rate, stockholders will receive $5.50 per share annually.

Volatile oil prices have been a major factor in the economic uncertainty within our industry. From a first-quarter level of $21.80 for West Texas Intermediate crude oil (WTI), spot prices dropped to a low of $15.48 a barrel on June 20. Prices began to rise in July, but, after Iraq invaded Kuwait, crude oil prices soared to more than $40 a barrel before returning to the mid-$20s as 1991 began. Overall, the WTI average for 1990 was $24.44 per barrel. By exercising flexibility and following our basic strategies, ARCO has been able to deal with these unprecedented price swings while maintaining our focus on managing for the future.

We feel that you can be extremely proud of how ARCO conducted its businesses in 1990. Our West Coast operations — starting with the production of crude oil in Alaska, continuing with the transportation of crude oil through our system of pipelines and tankers and culminating with the refining and marketing of finished

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product in our five-state marketing area — provide a good example.

From the time the Middle East crisis flared up in August, ARCO was very concerned about what this meant from a global perspective. We recognized the need to meet our ongoing commitments to dealers and other customers, but the issues of national security and consumer confidence also had to be addressed.

ARCO froze gasoline prices for a two-week period following the Iraqi invasion of Kuwait. Our Company was praised for this, and we adjusted prices only after the demand caused us to run out of gasoline at many of our stations. Again on January 16, when the counterattack began, in order to help dampen concerns of motorists about rising prices and supply availability, ARCO said it would not increase its prices to dealers at that time. In fact, as crude oil prices went down over the next several days, ARCO lowered its wholesale gasoline prices. We felt these pricing actions were the right thing to do, especially in light of the President's call for price restraint.

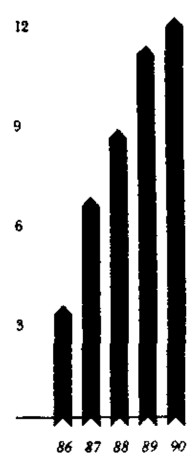
Doing the right thing is central to ARCO's approach to business. As part of this approach, ARCO believes society places a high priority on improving the environment, and we are taking action in this area.

In 1989, ARCO became the first oil company to introduce a reformulated emission-control gasoline, EC-1® Regular. Developed for cars and trucks requiring regular leaded gasolines, it replaced regular leaded gasoline at all of our pumps in Southern California. In 1990, ARCO introduced a new emission-control gasoline, EC-Premium®, which replaced our unleaded premium in Southern California with a higher octane, lower emission product. As 1991 began, we announced that ARCO is testing new gasoline formulas that we believe will burn as cleanly as the alternative methanol fuels now proposed.

ARCO is proud to have set the pace for cleaner air. We have invested money and talent to demonstrate what can be done with cleaner gasolines at competitive prices. Our achievements are unmatched in our industry. During the 1990 smog season (from May 1 through October 31), Southern California had the cleanest air in more than 40 years of record-keeping. We recognize that many factors played a role in this, but ARCO's emission-control gasolines were definitely one of them. As of January 1991, ARCO's emission-control gasolines had prevented more than 100 million pounds of pollutants from entering the air. The enormously important aspect of these gasolines is their instant impact on the cars now on the road. The other fuels of the future target benefits 10 to 15 years from now.

We are committed to environmentally safe operations throughout ARCO. We are proud that programs such as those at our Black Thunder coal mine and our Sheep Mountain CO_2 production field have received recognition for their environmental sensitivity. However, we are not satisfied, and we are doing even more. In the next five years, ARCO will be spending $2 billion of capital on environmental projects. These will include modifications to our production and manufacturing units, reclamation projects and developmental programs to meet the anticipated standards of both the Clean Air Act amendments of 1990 and the California Air

Earnings Per Share
dollars



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Resources Board's regulations.

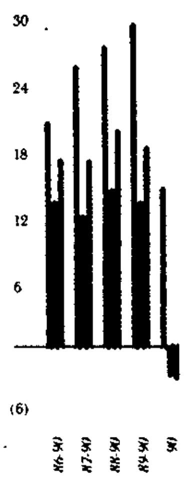
Changes are going to be required in our industry. We feel ARCO is prepared to meet those challenges, and we have the quality assets and people with ingenuity to do it.

ARCO expects to realize some competitive benefits from the new clean air regulations. ARCO Chemical is the world's leading producer of methyl tertiary butyl ether (MTBE), which is used in many of the reformulated gasolines marketed today. The Clean Air Act's requirement that sulfur dioxide emissions be reduced could benefit ARCO's U.S. coal mines, which produce a low sulfur coal. Overall, by anticipating and preparing for new environmental challenges, we intend to maintain our competitive lead in the industry.

In 1990, ARCO spent $2.7 billion to explore, develop and otherwise enhance our worldwide oil, gas, refining, marketing, chemical, coal and transportation assets. In 1991, we expect to devote $3.9 billion to these programs. Cost-effective replacement of the oil and gas reserves that we produce is important to our business in the long term. In 1990, while we produced 376 million barrels of oil equivalent, we replaced nearly 100 percent of our production.

We continue to make focused exploration activity one of our highest priorities. It is critical to the future success of our Company. We feel exploration in the Lower 48 states makes good sense, and we are successful at it. We are also confident there are abundant resources in Alaska to be discovered. Elsewhere throughout the world, ARCO's international group is pursuing major exploration projects in many new venture areas.

Total Return to Stockholders
- ARCO common stock
- S&P 500 Index
- Other Major Oils common stock



While taking care to ensure ARCO's future from a resources standpoint, we are mindful that to be successful ARCO must remain cost effective and efficient. Our production cost per barrel of oil equivalent produced in 1990 was $5.14. Likewise, we are determined to hold our finding or exploration costs to a level which makes economic sense to ARCO.

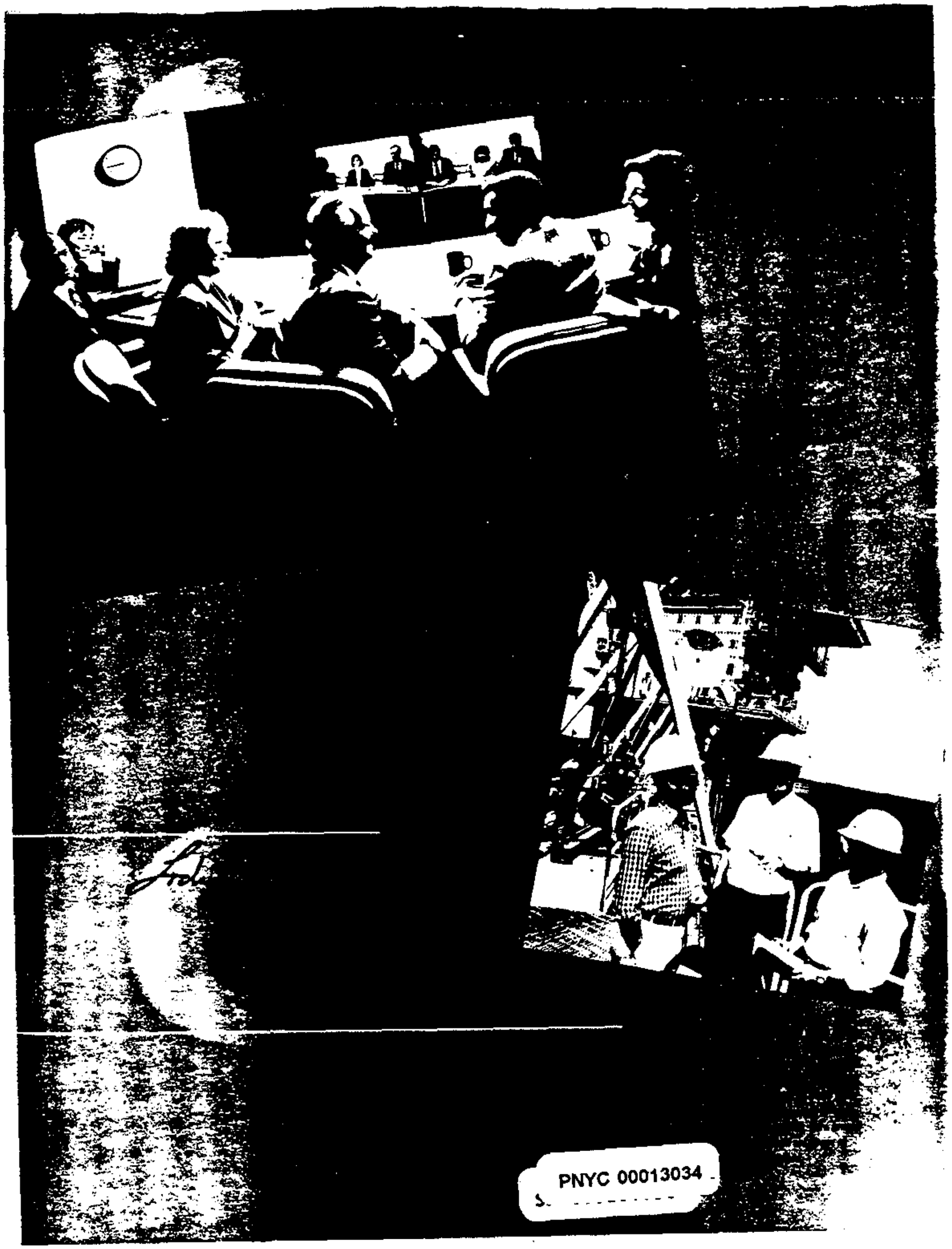
Key to our past and future success are the ARCO people. Throughout all levels of the organization, our people deserve a great deal of credit, not only for improving profitability, but also for being responsible members of the world community. We are dedicated to working together to continue improving our performance.

ARCO and its employees are very excited about the future. Even with the economic and international uncertainties, we have a can-do attitude that will benefit the Company, its stockholders and the communities where we do business.

Lodwrick M. Cook
Chairman of the Board
and Chief Executive Officer

Robert E. Wycoff
President and
Chief Operating Officer

February 25, 1991



"ARCO's West Coast operations provide an industry model of efficient integrated business programs. Each of these companies is a success story in its own right and, by working together, they make an unbeatable combination. As a result, we can maintain a low price policy for the consumer while providing impressive financial returns to the operations and to our stockholders."

James A. Middleton
Executive Vice President

	1990	*1989*	*1988*	*1987*	*1986*
Earnings — millions	**$ 700**	$ 546	$ 382	$ 487	$ 124
Total assets — millions	**$3,724**	$3,850	$3,977	$4,221	$4,615
Additions to fixed assets — millions	**$ 298**	$ 243	$ 214	$ 136	$ 506
Liquids production — thousand barrels/day — net	**433.8**	459.4	487.3	470.4	429.9
Average crude price — per barrel	**$14.84**	$11.71	$ 8.51	$10.95	$ 6.43
State taxes — millions*	**$ 427**	$ 394	$ 474	$ 328	$ 483
Exploration expense — millions	**$ 147**	$ 69	$ 56	$ 45	$ 44
Proved liquids reserves — million barrels	**1,966**	1,985	2,064	2,136	2,046
Proved natural gas reserves — billion cubic feet	**2,367**	2,486	2,484	2,207	1,985

* *Includes production, property and income taxes paid to the State of Alaska, as well as lump sum settlement payments made to the state in 1988 and 1986 for income and production taxes. Does not include the state's approximately 12.5 percent share of production.*

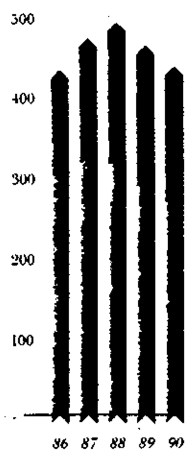
ARCO ALASKA, INC.

Headquartered in Anchorage, ARCO Alaska, Inc. provides all of the crude oil for ARCO's West Coast refining and marketing operations. In fulfilling its mission as the cornerstone of this highly efficient, integrated operation, ARCO Alaska contributed over 60 percent of ARCO's total worldwide petroleum liquids production in 1990 and was responsible for about 13 percent of total U.S. crude oil production as operator of the Kuparuk River field, the Lisburne field and half of the Prudhoe Bay field.

ARCO has been active in Alaska for 35 years. In 1990, ARCO Alaska was the state's largest private employer with over 2,700 employees.

Activities in Alaska during 1990 were focused on improving oil field recovery through a variety of projects, preparing for future new production opportunities and exploring in additional areas. Due to the Middle East crisis, the importance of Alaska's oil resources and ARCO's strong Alaskan position gained increased recognition. In September 1990, ARCO and the State of Alaska reached agreement on a settlement resolving all claims related to royalty issues on ARCO's North Slope crude oil production from 1977 through June 1990. The Company paid the State approximately $290 million as a result of the settlement.

Liquids Production — Alaska
thousand barrels/day-net
- Lisburne/Other
- Kuparuk
- Prudhoe



Prudhoe Bay The largest producing oil field in America, Prudhoe Bay has been in production since 1977. Despite natural field decline and production impacts from extensive facility maintenance and modification projects both at Prudhoe Bay and on the Trans Alaska Pipeline, Prudhoe Bay liquids production was down only 6 percent net to ARCO from 1989.

The largest joint project during 1990 was the sealift and installation of the $465 million Gas Handling Facility Expansion (GHX-1), which was designed to increase the Prudhoe Bay field's average gas handling capacity from 3.8 billion to 5.2 billion cubic feet per day. Natural gas produced along with oil from the Prudhoe Bay field is reinjected into the reservoir to improve oil recovery. The major compressor components of GHX-1 were started up in November 1990 and contributed an additional 125,000 barrels per day to field rate at year's end. Modification of existing compressors will continue into the fourth quarter of 1991. Additionally, a very successful, aggressive well fracture stimulation program was expanded in 1990 and will continue in 1991.

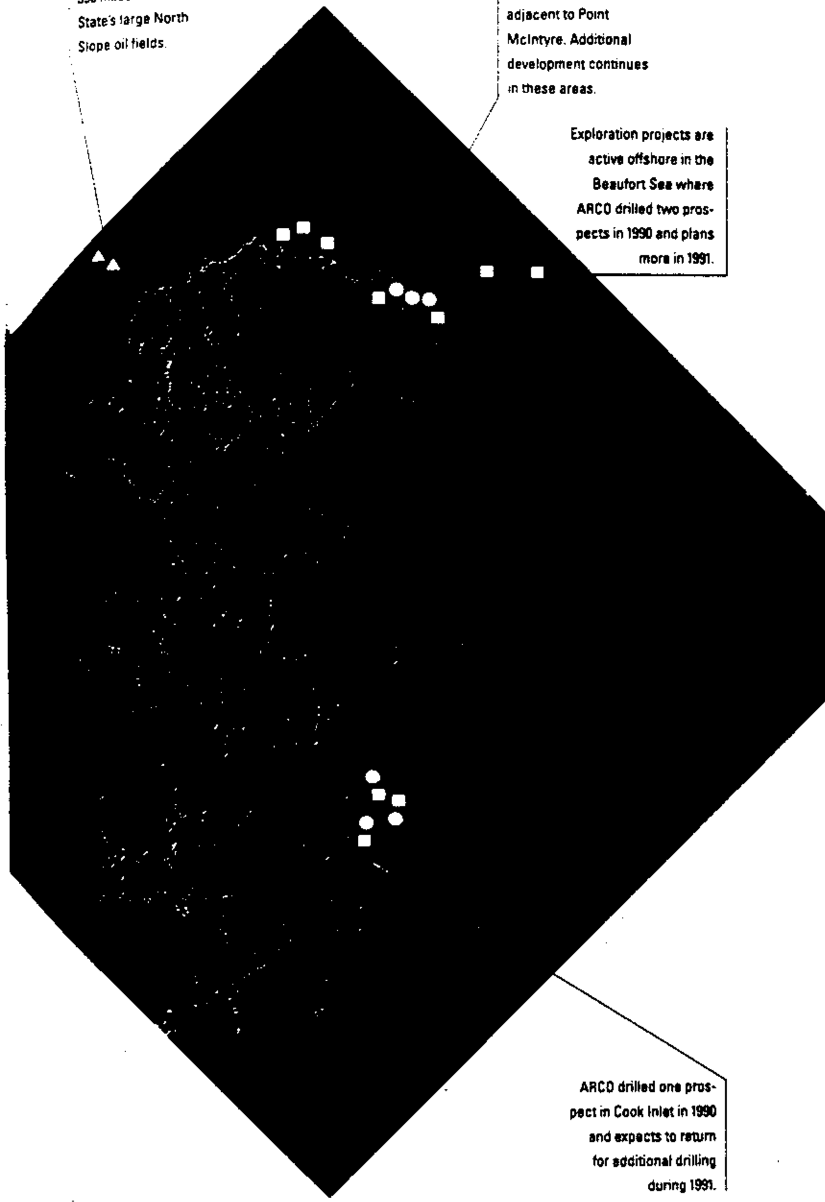
Looking to future opportunities, ARCO and the other principal owners of the Prudhoe Bay field reached a number of agreements during 1990. They have committed to invest $1.3 billion for additional gas handling facilities. The project, called GHX-2, is expected to increase gross oil production by some 100,000 barrels per day by 1995. It will result in the recovery of additional liquids ranging from 330 million to 450 million gross barrels over the life of the field. In an effort to reduce costs and increase efficiency, ARCO and its part-

PNYC 00013037

ARCO is a participant in offshore drilling programs that are continuing in the Chukchi Sea, 350 miles from the State's large North Slope oil fields.

Prudhoe Bay and Kuparuk are situated on Alaska's North Slope. Lisburne underlies Prudhoe Bay and is adjacent to Point McIntyre. Additional development continues in these areas.

Exploration projects are active offshore in the Beaufort Sea where ARCO drilled two prospects in 1990 and plans more in 1991.



ARCO drilled one prospect in Cook Inlet in 1990 and expects to return for additional drilling during 1991.

■ ARCO exploration drilling 1990-1991

▲ Exploration drilling/ ARCO participation 1990-1991

● ARCO operational facilities

H.L. "Skip" Bilhartz
President
ARCO Alaska, Inc.

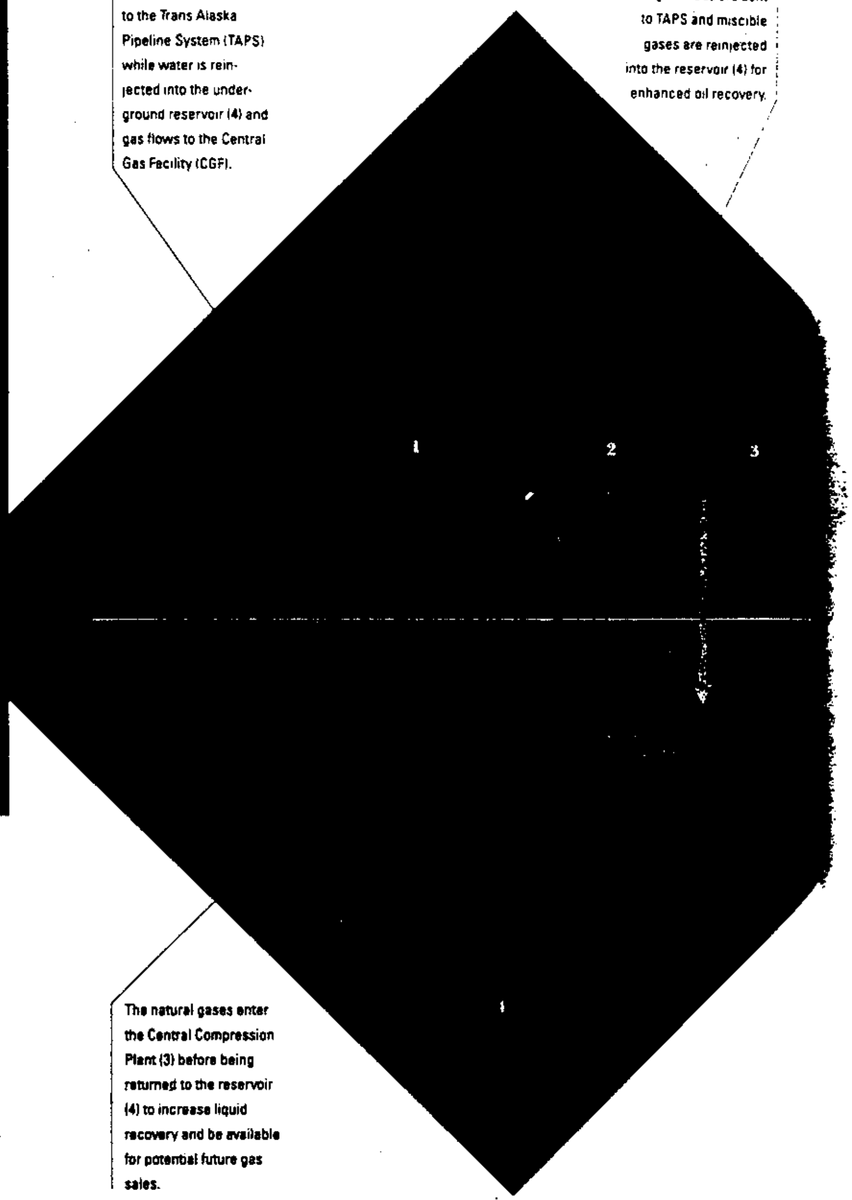
"Alaska is considered to hold significant potential for more large oil discoveries, and ARCO wants to be part of those. We are pursuing a balanced and well reasoned exploration program. We have already improved our competitive position using our exploration information, and we will be seeking new leases as they become available."

PNYC 00013038

"By committing capital expenditures totaling $1.8 billion for GHX 1 and GHX 2, the Prudhoe Bay partners increased production by 125,000 barrels a day at year end 1990 and expect to further increase it by 100,000 barrels a day in 1995, with an expected increase in total recovery from both projects of over 800 million barrels. These projects and other programs reflect ARCO's long term commitment to the State of Alaska."

At Prudhoe Bay's separation facilities (1) crude oil is extracted and sent to the Trans Alaska Pipeline System (TAPS) while water is reinjected into the underground reservoir (4) and gas flows to the Central Gas Facility (CGF).

The Central Gas Facility (2) separates natural gas liquids (NGLs) and miscible gases from natural gas. NGLs are sent to TAPS and miscible gases are reinjected into the reservoir (4) for enhanced oil recovery.



- Crude Oil
- Water
- Gas
- Natural Gas Liquids
- Miscible Gas

The natural gases enter the Central Compression Plant (3) before being returned to the reservoir (4) to increase liquid recovery and be available for potential future gas sales.

		Prudhoe Bay	Kuparuk	Lisburne
1990 liquids production* — thousand barrels/day	Gross	1,333	292	43
	Net	277	138	15
Cumulative liquids production* — millions of barrels	Gross	7,075	722	67
	Net	1,392	355	24
Cumulative field investment — billions	Net	$ 3.4	$ 2.4	$ .5
Producing oil wells — as of 12/31/90	Gross	778	343	67
	Net	169	189	27
Remaining proved liquids reserves — millions of barrels	Net	1,307	519	58

**Includes crude oil, condensate and natural gas liquids.*

ner in operating the field, BP Exploration (Alaska), also are conducting a joint review of operations and have agreed to consolidate and share certain common services.

ARCO Alaska's working interest in Prudhoe Bay includes a 21.8 percent interest in crude oil production and a 42.6 percent interest in condensate production.

Kuparuk River The Kuparuk River field, 30 miles west of Prudhoe Bay, is America's second largest producing field. The field continues to show strong production performance, setting a single-day production record of 340,000 barrels on Dec. 25, 1990. Gross production for 1990 was only 2 percent below that of 1989. Normal decline was nearly offset by ongoing drilling and well stimulation programs and the startup of additional facilities.

ARCO Alaska and the other Kuparuk owners successfully completed a final equity redetermination of ownership interests in mid-1990. As a result, ARCO's revenue interest in the Kuparuk River field changed to 55.17 percent from 56.30 percent. A related 24-month production payback of 9,000 barrels per day began on July 1, 1990. As a result, ARCO is receiving beneficial adjustments to capital and operating costs.

Development activities associated with peripheral and infill drilling have increased with the startup of a second drilling rig in late 1990. Initial engineering work required for expansion of the ongoing enhanced oil recovery project was also approved by the owners in 1990. These programs should enable production to be maintained at current levels through the mid-1990s.

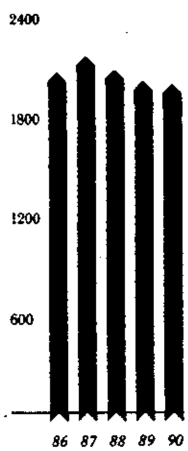
Lisburne/Point McIntyre In production since 1986, Lisburne is a carbonate reservoir underlying part of the Prudhoe Bay field. ARCO Alaska holds a 40 percent working interest in Lisburne. This field's performance in 1990 surpassed expectations due to improved drilling results, new stimulation techniques and production optimization.

The Point McIntyre field discovery was confirmed in 1989 with a potential of 300 million gross barrels of recoverable crude oil. During 1990, additional delineation wells were drilled to confirm reservoir extent. ARCO Alaska and its partners reached an agreement with the U.S. Army Corps of Engineers to facilitate the issuance of the required permit to begin construction activities. Point McIntyre startup is planned for late 1992. In a move to optimize the use of existing facilities, ARCO Alaska and its partners are negotiating to process Point McIntyre production through the Lisburne facilities. A modest expansion of the Lisburne facility is being planned to accommodate the new production.

Exploration ARCO Alaska had an active year of exploration drilling in 1990 and participated in nearly every major exploration project in Alaska, including prospects in the Beaufort Sea, Cook Inlet and Chukchi Sea areas.

Reserves In 1990, ARCO Alaska added proved liquid reserves of 139 million barrels. Reserve additions came primarily from Prudhoe Bay as a result of the recent agreements with the other principal owners.

Liquids Reserves — Alaska
millions of barrels
- Other Alaska
- Lisburne
- Kuparuk
- Prudhoe



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	1990	1989	1988	1987	1986
Earnings — millions	**$ 439**	$ 291	$ 368	$ 150	$ 353
Total assets — millions	**$2,503**	$2,175	$1,975	$1,850	$1,628
Additions to fixed assets — millions	**$ 370**	$ 314	$ 251	$ 318	$ 246
Refinery runs — thousand barrels/day	**401.1**	401.9	396.9	375.0	377.6
Petroleum product sales (U.S.) — thousand barrels/day	**444.0**	435.5	418.8	406.2	398.8
Branded retail outlets (U.S.)	**1,547**	1,700	1,700	1,750	1,700

ARCO PRODUCTS COMPANY

ARCO Products Company, headquartered in Los Angeles, reaffirmed its status as the nation's premier refining and marketing operation in 1990 through programs that reflected both customer and environmental sensitivities. At the same time, the Company launched programs that will prepare its manufacturing units for future environmental regulations.

Industry Leader In reaction to President Bush's request that oil companies use restraint in pricing following Iraq's invasion of Kuwait, ARCO Products froze gasoline prices for two weeks in August 1990. The move was positively received by customers as well as the public at large. The Company raised prices only after demand outstripped supply at many stations. Even at that point, the Company assured the public it would only raise the wholesale price of gasoline in proportion to increases in its actual crude oil costs.

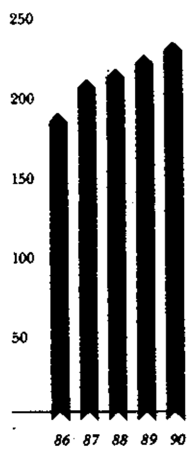
Clean Air Role Model In September 1990, ARCO Products introduced its second emission-control gasoline, EC-Premium®, to replace its super unleaded gasoline in Southern California markets. The nation's first reformulated gasoline, EC-1® Regular, was introduced by ARCO in Southern California markets in September 1989.

With 92-octane EC-Premium, ARCO formulated a gasoline which emits less benzene, carbon monoxide and smog-forming compounds than conventional premiums, while meeting the needs of current high performance engines. Like EC-1, the new EC-Premium uses the oxygenate MTBE (methyl tertiary butyl ether) to increase the octane rating and produce a cleaner burning fuel.

On the basis of independent testing, the use of ARCO's emission-control products had reduced vehicular air pollutants in Southern California by 100 million pounds as of January 1991. The development of emission-control gasolines contributed to making 1990 the South Coast Basin's best air quality year in more than 40 years.

ARCO Products' contributions to improving Southern California's air quality were widely recognized during 1990. Then-Governor George Deukmejian presented ARCO with the state of California's top award for a new product for its EC-1 gasoline in the annual competition conducted by the California Society of Professional Engineers. The South Coast Air Quality Management District presented ARCO with its highest award for advancement in air pollution technology, and for its development of cleaner burning fuels. ARCO was commended by the California Assembly and Los Angeles Mayor Tom Bradley.

Gasoline Sales — West Coast
thousand barrels/day



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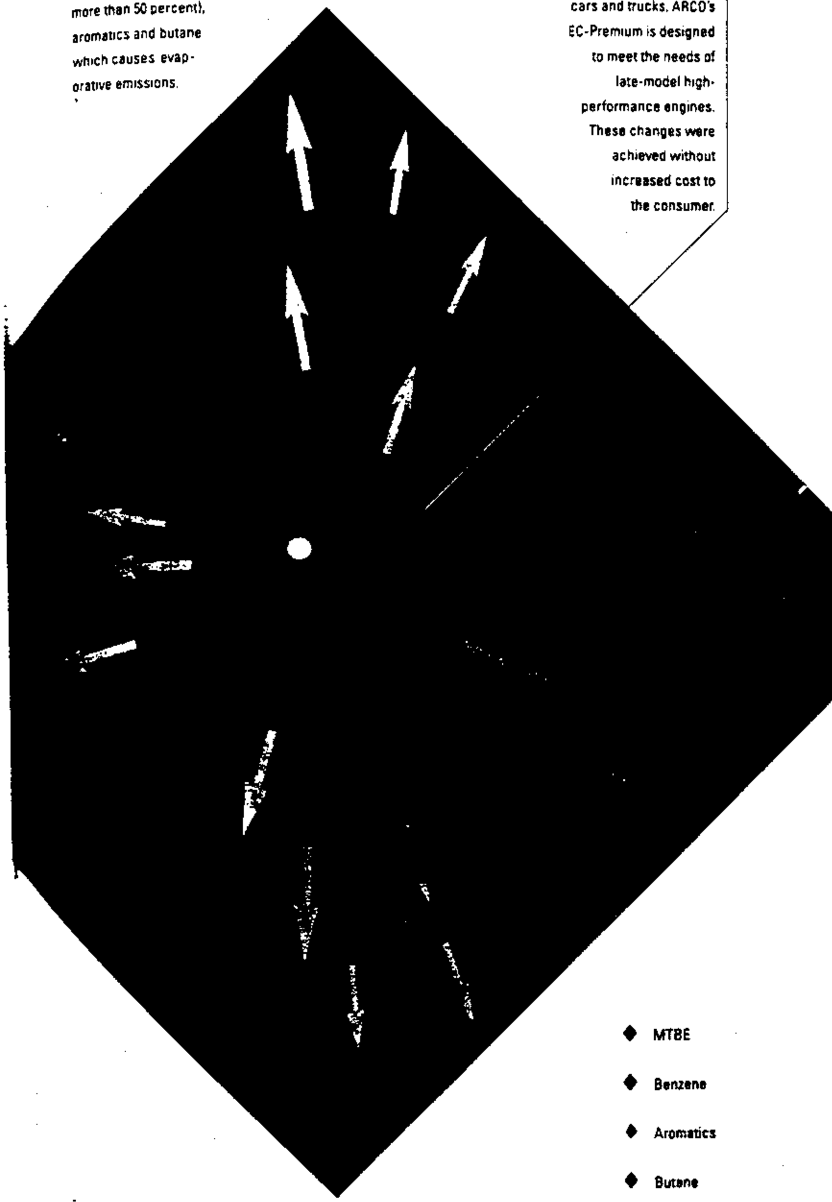
ARCO's reformulation of gasolines adds the oxygenate methyl tertiary butyl ether (MTBE) while reducing the content of benzene (by more than 50 percent), aromatics and butane which causes evaporative emissions.

While EC-1 replaced leaded fuel for older cars and trucks, ARCO's EC-Premium is designed to meet the needs of late-model high-performance engines. These changes were achieved without increased cost to the consumer.

George H. Babikian
President
ARCO Products Co.

"ARCO is committed to finding realistic clean air solutions. Our mission is to put clean burning gasolines in all cars that are on the road today. There are 185 million registered vehicles on U.S. roads today that cannot run on most of the alternative fuels being discussed. We believe that reformulated gasoline is the best option for reducing vehicular emissions."



- MTBE
- Benzene
- Aromatics
- Butane

PNYC 00013042

"We have continued to see demand growth for gasoline in our five-state marketing area, but economic conditions and improved public transportation could moderate this growth. Our formula is to maintain low price leadership while increasing marketing opportunities with am/pm mini markets and our new SMOGPROS service centers which have proved to be highly popular."

Washington has 209 branded outlets of which 100 are am/pm mini markets. Oregon has 89 outlets of which 29 are am/pm sites.

In Nevada, 50 of 76 branded outlets are am/pm sites, while in Arizona, ARCO has 75 outlets of which 63 are am/pm locations.

California has 1,098 branded outlets of which 510 are am/pm's and 112 are SMOGPROS. Six of the California am/pm's are mini markets only with no gasoline sales.

■ Refinery

● Distribution Terminal

PNYC 00013043

Refining ARCO Products operates the Los Angeles Refinery at Carson and the Cherry Point Refinery near Ferndale, Washington. The facilities have been continually upgraded to process Alaskan North Slope crude oil, making them two of the most efficient refineries on the West Coast. In 1990, the refineries ran at 102 percent of capacity, compared to an 87 percent average for the industry. Light product yield was 89 percent, compared to 82 percent for the industry. ARCO Products' gasoline production from its two refineries is supplemented in Northern California with products from the Tosco Corporation refinery under a long-term supply agreement.

In order to meet new environmental requirements for cleaner fuels, ARCO Products undertook projects at both refineries to reduce the sulfur content of diesel fuel. The Los Angeles Refinery brought on stream an MTBE production unit in early 1990 that makes it possible for ARCO Products to supply a portion of its own requirements for this increasingly important gasoline component. Other major projects completed in 1990 included a sulfur recovery facility at Los Angeles and coker improvements at Cherry Point.

Calcined coke and the cogeneration of electricity are two profitable businesses ancillary to ARCO's refining operations. ARCO continues to be the nation's leading exporter of calcined coke for the aluminum industry. Calciner facilities are located at Cherry Point and in Wilmington, near the Los Angeles Refinery.

Watson Cogeneration Company, a joint venture with a subsidiary of Southern California Edison, provides steam and electricity for the Los Angeles Refinery and electricity for Edison customers. In 1990, this facility produced enough power to supply a city the size of St. Louis, Missouri.

Marketing The established low-price leader and the No. 1 gasoline marketer in the five Western states, the Products Company has also earned a reputation for quality gasolines and, with the development of EC-1 and EC-Premium, for an environmentally superior product. Recognition for ARCO's gasoline came from the automobile manufacturer, BMW, which included ARCO gasolines in its recommended list to customers.

Lessee dealers of ARCO had an average throughput of 226,000 gallons of gasoline per month in 1990, compared to 213,000 gallons per month in 1989. The 1990 level was more than twice the nationwide average throughput for the service stations of ARCO's closest competitors. As part of a program to upgrade and standardize its retail outlets in 1990, ARCO de-branded approximately 200 outlets, most of which were small, low-volume stations. Approximately 50 new outlets were opened during the year.

The Products Company's total gasoline sales grew by 4 percent in 1990, while overall industry gasoline sales in the five-state marketing area were up 1 percent. ARCO's sales of jet fuels to airlines and the military grew by 4.4 percent in 1990.

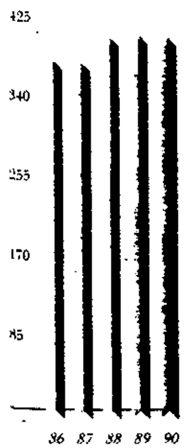
ARCO am/pm® mini markets, which make up about half of the Company's 1,547 branded retail outlets, increased their food sales by 10 percent in 1990. The am/pm program continues to grow and recently has been introduced internationally through joint venture and/or licensing agreements.

ARCO Products also markets motor fuels and lubricants in Brazil through a chain of more than 2,700 service stations, most of which are owned by individual operators.

In 1990, ARCO introduced its new SMOGPROS® Service Centers in California by converting 112 MP&C Tune-Up sites to the new program. SMOGPROS offer state-required smog checks and repair services featuring ARCO's "Pass or Don't Pay" guarantee.

Future Growth ARCO Products continues to lead the industry in cleaner fuel development while retaining its position as the West Coast's No. 1 gasoline marketer. These strengths and the Company's innovative marketing programs position ARCO for future growth in an increasingly competitive market.

Crude Runs
thousand barrels/day



PNYC 00013044

	1990	1989	1988	1987	1986
Earnings — millions	**$ 274**	$ 266	$ 308	$ 340	$ 352
Total assets — millions	**$2,162**	$2,170	$2,326	$2,319	$2,610
Additions to fixed assets — millions	**$ 103**	$ 43	$ 53	$ 26	$ 31
TAPS tariff — dollars/barrel	**$ 3.83**	$ 3.11	$ 3.11	$ 3.93	$ 4.50
TAPS throughput — thousand barrels/day	**1,789**	1,880	2,034	1,959	1,819
Kuparuk pipeline throughput — thousand barrels/day	**310**	310	302	283	273

ARCO TRANSPORTATION COMPANY

Headquartered in Long Beach, California, ARCO Transportation Company continues to provide the vital link between ARCO's Alaska crude oil production and its refining and marketing operations. More than just a service operation to ARCO, the Transportation Company has been expanding its commercial businesses in recent years, and it expects this segment to make a growing contribution to the Company's overall success.

Integrated Operations In 1990, 80 percent of ARCO Transportation's earnings came from ARCO's integrated West Coast operations. These businesses include a 21.3 percent interest in the Trans Alaska Pipeline System (TAPS); a 57 percent interest in Kuparuk Transportation Company, which moves crude oil via pipeline from the Kuparuk River field to TAPS; a fleet of eight ocean-going tankers; and crude oil and products terminals and pipelines serving the Los Angeles Refinery.

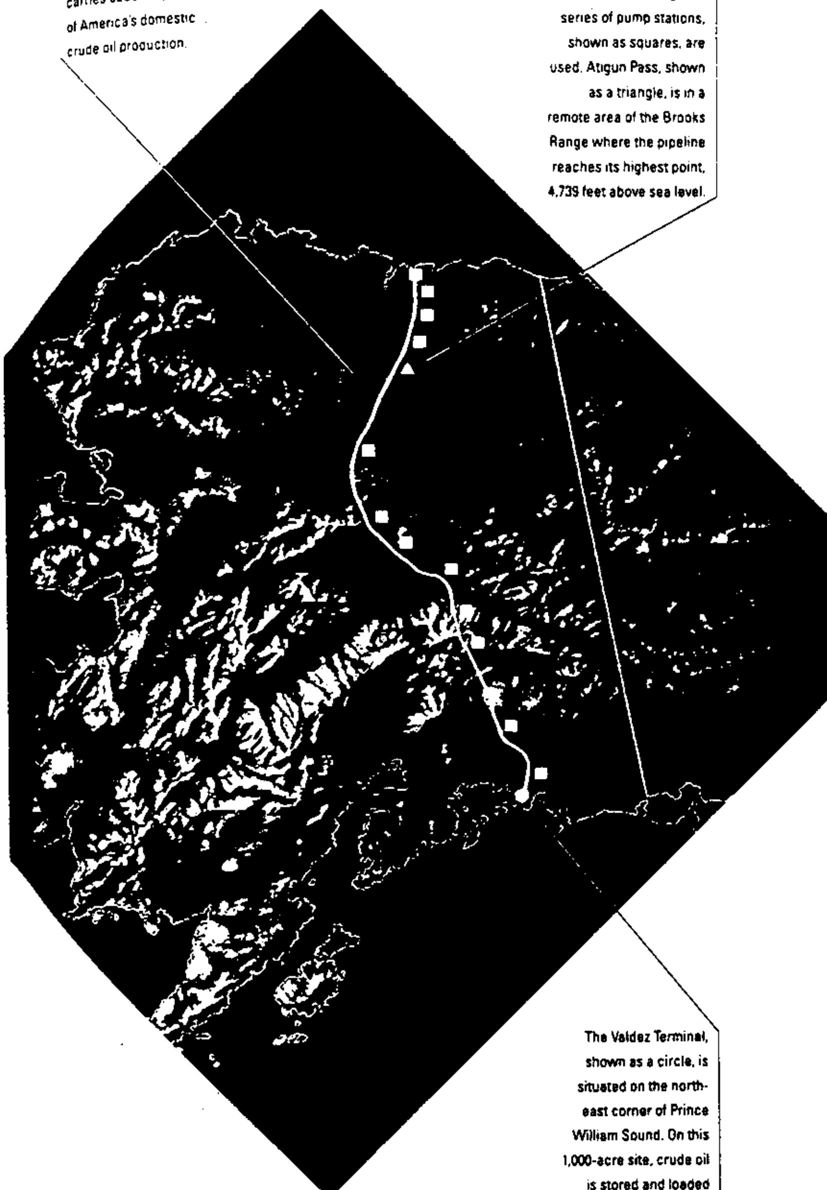
TAPS 1990 earnings improved 16 percent even though pipeline throughput decreased versus 1989 due to declining production on the Alaska North Slope. This income growth was attributable to a higher TAPS tariff which reflected a make-up for volume losses and higher expenses associated with the EXXON Valdez spill in 1989. These costs were not reflected in the 1989 tariff.

As TAPS ages, its owners anticipate larger expenditures for operations and maintenance. In 1990, expenditures for the pipeline were up significantly over the previous year. The most important repairs made in 1990 and scheduled for 1991 are related to areas of corrosion discovered by new ultrasonic testing methods. Most of the corrosion identified has occurred between Pump Stations 4 and 5, in the Atigun Pass, Chandalar and Wilbur Creek areas. While the pipeline has not experienced any major spills or shutdowns as a result of corrosion, the ongoing detection efforts and repair programs are dedicated to preventing potential problems in the future. Currently, the largest single project involves the replacement of approximately nine miles of pipe in the Atigun Pass, a remote area of harsh climatic conditions. This replacement is expected to be completed in the third quarter of 1991 without major disruption to the pipeline's throughput.

The ARCO marine fleet includes eight tankers dedicated to the West Coast operations, as well as two that are chartered to another company. In 1990, the eight tankers delivered 170 million barrels of North Slope crude oil. The chartered tankers carried 40 million barrels of crude oil for a nonaffiliated customer. State and federal laws related to tanker operations, which were passed in 1989 and 1990, will impact the marine

Forty-eight inches in diameter and 800 miles long, the Trans Alaska Pipeline System (TAPS) carries about 25 percent of America's domestic crude oil production.

To move crude oil through rugged terrain including three mountain ranges, a series of pump stations, shown as squares, are used. Atigun Pass, shown as a triangle, is in a remote area of the Brooks Range where the pipeline reaches its highest point, 4,739 feet above sea level.



The Valdez Terminal, shown as a circle, is situated on the north-east corner of Prince William Sound. On this 1,000-acre site, crude oil is stored and loaded aboard tankers.

William C. Rusnack
President, ARCO Transportation Co.

"In its 13 years of operation, TAPS has safely carried more than 8 billion barrels of oil from the Alaska North Slope to Valdez Terminal. ARCO Transportation is a 21.7 percent owner in Alyeska Pipeline Company which operates TAPS and is actively involved in seeing that it continues to function effectively for future Alaskan oil production. We believe the detection and repair work ongoing now will insure that."

■ Pump Station

▲ Atigun Pass

● Valdez Terminal

industry. *Of particular interest to ARCO Transportation is the federal Oil Pollution Act of 1990 which* requires all tankers to be replaced or retrofitted with double hulls starting in 1995. ARCO Transportation anticipates that the first of its vessels will be subject to this requirement in 1997 and the last by 2008.

ARCO Western Gas Pipeline Company, an ARCO subsidiary, constructed and operates the Ferndale natural gas pipeline system on behalf of its owners, ARCO and Intalco Aluminum Company. This 37-mile pipeline, linking natural gas sources in western Canada to ARCO's Cherry Point Refinery and Intalco's aluminum plant, started operation in late 1990 and has a capacity to move 105 million standard cubic feet per day.

Commercial Businesses ARCO Transportation is directing efforts to increase returns from its commercial pipelines and terminals. Historically, these terminals and pipelines were dedicated to moving crude oil, petroleum products, petrochemicals and gas products for ARCO affiliates. These assets now primarily serve nonaffiliated customers and a large portion of their revenue is attributable to this market segment. In 1990, these businesses contributed 20 percent of ARCO Transportation's earnings.

The largest of these businesses is ARCO Pipe Line Company, headquartered in Independence, Kansas. Its pipeline network services the Midcontinent, Midwest and south central United States.

In 1990, ARCO Pipe Line Company began a project to link its Houston-to-Cushing pipeline to its Texas City marine terminal. The project is expected to increase the pipeline's capacity to move waterborne crude oil to midcontinent refineries from its current 55,000 barrels per day to approximately 110,000 barrels per day. Shipments through the pipeline averaged 37,500 barrels per day in 1990, despite a dramatic decline following the start of the Middle East crisis. Formerly the Witchita Falls-to-Houston crude system, this line was reversed in 1988 to participate in the projected growth in demand for foreign crude oil by refineries in the Midcontinent and Midwest.

Other ARCO Transportation commercial operations are Four Corners Pipe Line Company and ARCO Terminal Services Corporation, which operate pipelines, storage facilities and terminals in the southwestern United States. Growth in these operations came from increased common carrier volumes and tariffs, as well as a strong demand for storage and terminal services in the Los Angeles Basin.

With the prospect of a declining West Coast crude oil surplus, Four Corners Pipe Line is considering alternatives such as reversing and converting one of its pipelines, Line 90. In 1990, Line 90 carried 53,000 barrels per day of crude oil from Southern California to the Four Corners area.

Four Corners Pipe Line also has a 13.4 percent interest in Point Arguello Pipeline Company, a project to transport wet crude oil from the Point Arguello fields in federal waters to a shore facility for separating the oil and water and delivering dry oil to a marine terminal facility at Gaviota, California. The pipeline is expected to become active by mid-1991 with an initial throughput of 20,000 barrels per day.

[illegible] Oil and Gas Compa[illegible]

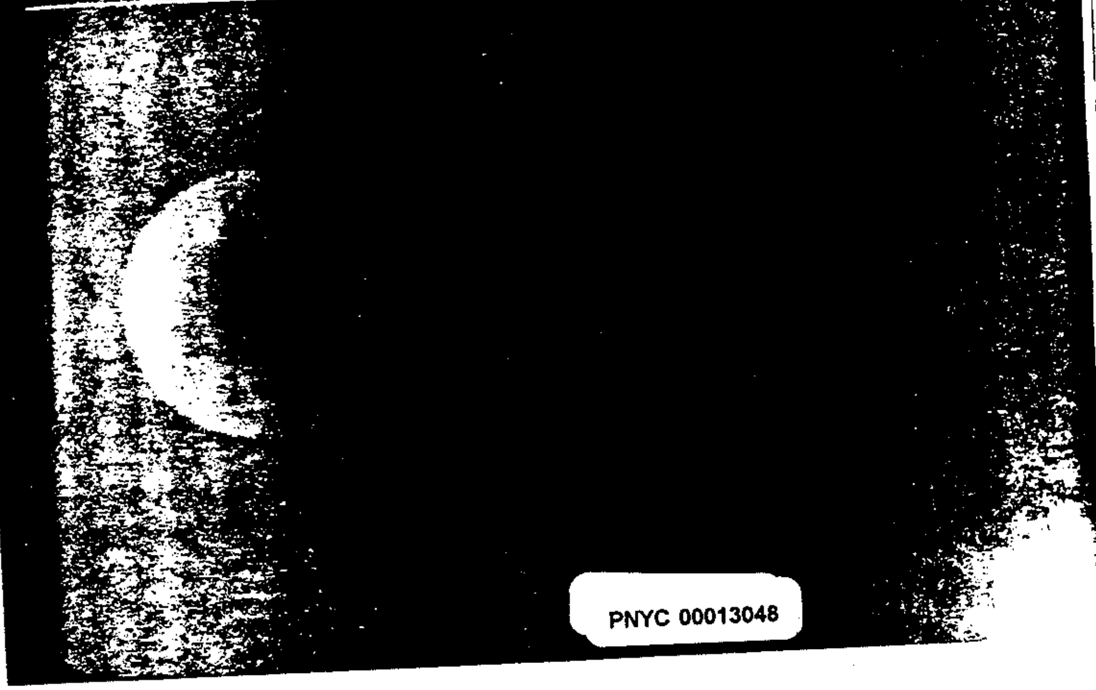
[illegible] International Oil [illegible]

ARCO Coal Company

"[illegible] have contin-ued to [illegible] by developing new pro[illegible] through explo-ration [illegible] while divesting properties that [illegible] longer economic. We believe [illegible] focus on low-cost, high-quality [illegible]. This has allowed ARCO to achieve higher [illegible] than our competitors in many [illegible] of these businesses."

Ronald J. [illegible]

Executive Vice President



PNYC 00013048

	1990	1989	1988	1987	1986
Earnings — millions	$ 588	$ 349	$ 231	$ 335	$ 405
Total assets — millions	$5,217	$5,068	$5,174	$4,717	$5,384
Additions to fixed assets — millions	$ 808	$ 703	$1,285	$ 420	$ 464
Liquids production — thousand barrels/day — net	204.5	200.6	186.9	194.6	229.2
Natural gas production — million cubic feet/day — net	1,515	1,497	1,359	1,244	1,209
Average crude price — per barrel	$20.85	$16.92	$14.20	$17.23	$14.06
Average natural gas price — per MCF	$ 1.67	$ 1.68	$ 1.69	$ 1.64	$ 1.96
Exploration expense — millions	$ 334	$ 312	$ 297	$ 232	$ 376
Proved liquids reserves — million barrels	754	780	765	682	692
Proved natural gas reserves — billion cubic feet	3,889	3,966	3,889	3,647	3,938

ARCO OIL AND GAS COMPANY

Headquartered in Dallas, Texas, ARCO Oil and Gas Company is responsible for ARCO's exploration, production and marketing of crude oil, natural gas and natural gas liquids in the Lower 48 states.

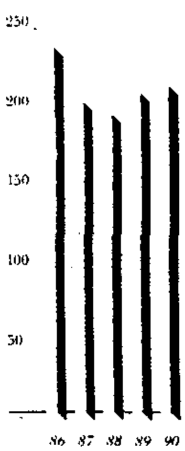
In 1990, ARCO Oil and Gas Company achieved record earnings and enhanced its Lower 48 reserve base through a key acquisition and a continued successful exploration program.

ARCO Oil and Gas Company acquired oil and gas properties in the Arkoma Basin of southeastern Oklahoma from TXO Production Corp., a subsidiary of USX Corp., in May 1990. These properties, which are near ARCO's Wilburton field, added approximately 46 billion cubic feet of proved natural gas reserves to the asset base and strengthened ARCO's exploration position in the Arkoma Basin.

On January 31, 1991, ARCO Oil and Gas Company completed the purchase of Oryx Energy Company's properties in the Midway-Sunset field of Kern County, California. The Midway-Sunset field is the largest producing oil field in the Lower 48 states, generating 162,000 barrels gross per day of crude oil, and the third largest field in North America, surpassed only by the Prudhoe Bay and Kuparuk River fields on the Alaska North Slope.

This purchase gave ARCO an additional 1,270 oil wells which are currently producing more than 29,000 gross barrels per day (23,000 net to ARCO). These new assets fit very well with ARCO's existing properties in the Midway-Sunset field and will add approximately 125 million barrels of crude oil equivalent to proved reserves in 1991. The acquisition also included a 49 percent interest in a cogeneration facility.

Liquids Production — Lower 48
thousand barrels/day-net
■ NGL's
■ Crude Oil and Condensate



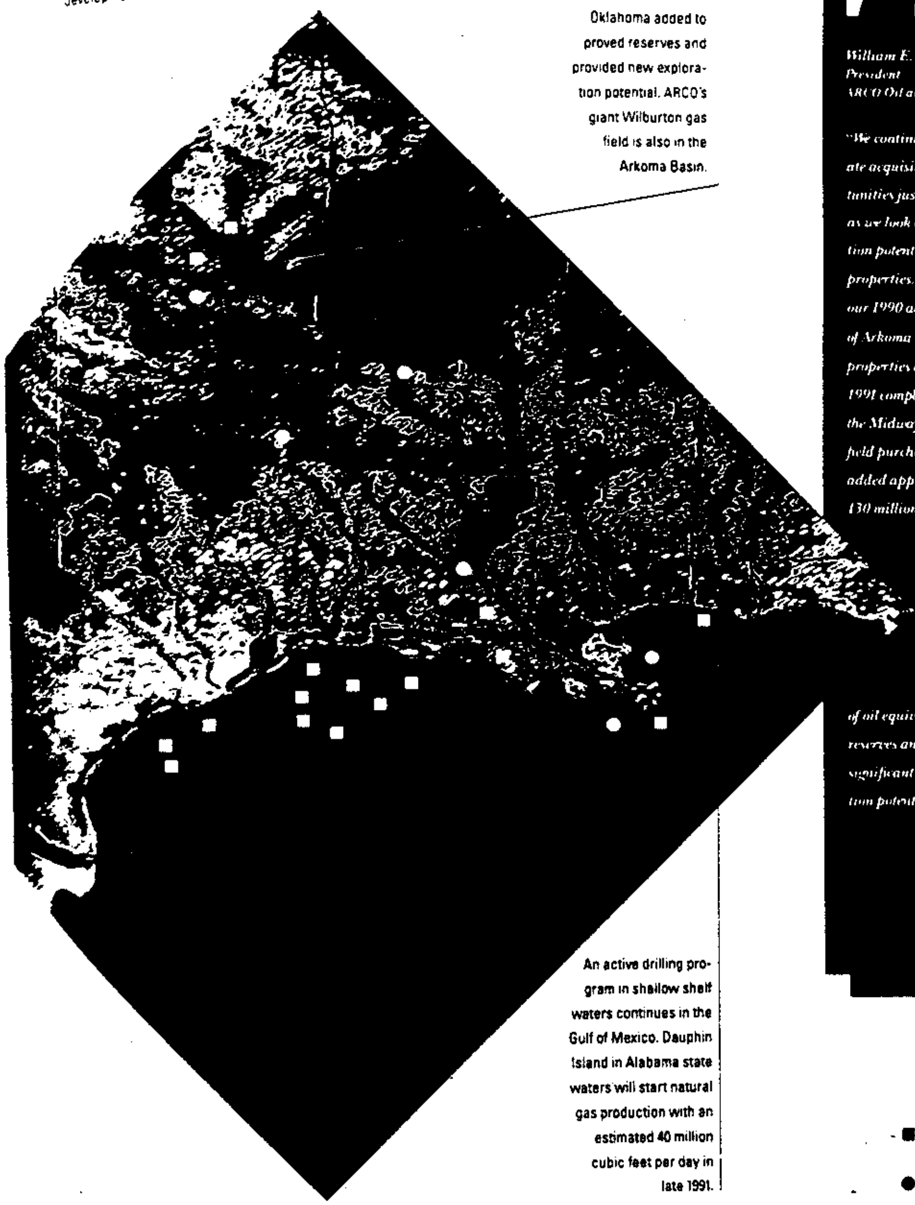
Liquids Production Forty-four percent of the Company's liquids production came from fields located in Texas. California fields, including those in the San Joaquin Valley and ARCO's 60 percent interest in the THUMS Long Beach Company, accounted for 25 percent of the total liquids production. The Company also produced 16 percent of its liquids volumes from the Gulf of Mexico, and this will increase in early 1991 when the repair of a South Pass 60 production platform is complete. Most of the remaining liquids are produced in Oklahoma, Wyoming and New Mexico.

ARCO Oil and Gas Company's 1990 liquids production level was slightly higher than in 1989 as a result of the Company's acquisition of 60 percent interest in THUMS in December 1989 and new production from fields in the Gulf of Mexico and midcontinent areas which partially offset natural field declines in older fields. Natural gas liquids volumes were up slightly as a result of new production from the East Cameron 60 block in the Gulf of Mexico.

PNYC 00013049

Onshore in the Austin Chalk area of south Texas, ARCO is active in both exploration and development.

The 1990 purchase of properties in the Arkoma Basin of southeastern Oklahoma added to proved reserves and provided new exploration potential. ARCO's giant Wilburton gas field is also in the Arkoma Basin.



An active drilling program in shallow shelf waters continues in the Gulf of Mexico. Dauphin Island in Alabama state waters will start natural gas production with an estimated 40 million cubic feet per day in late 1991.

■ Gas

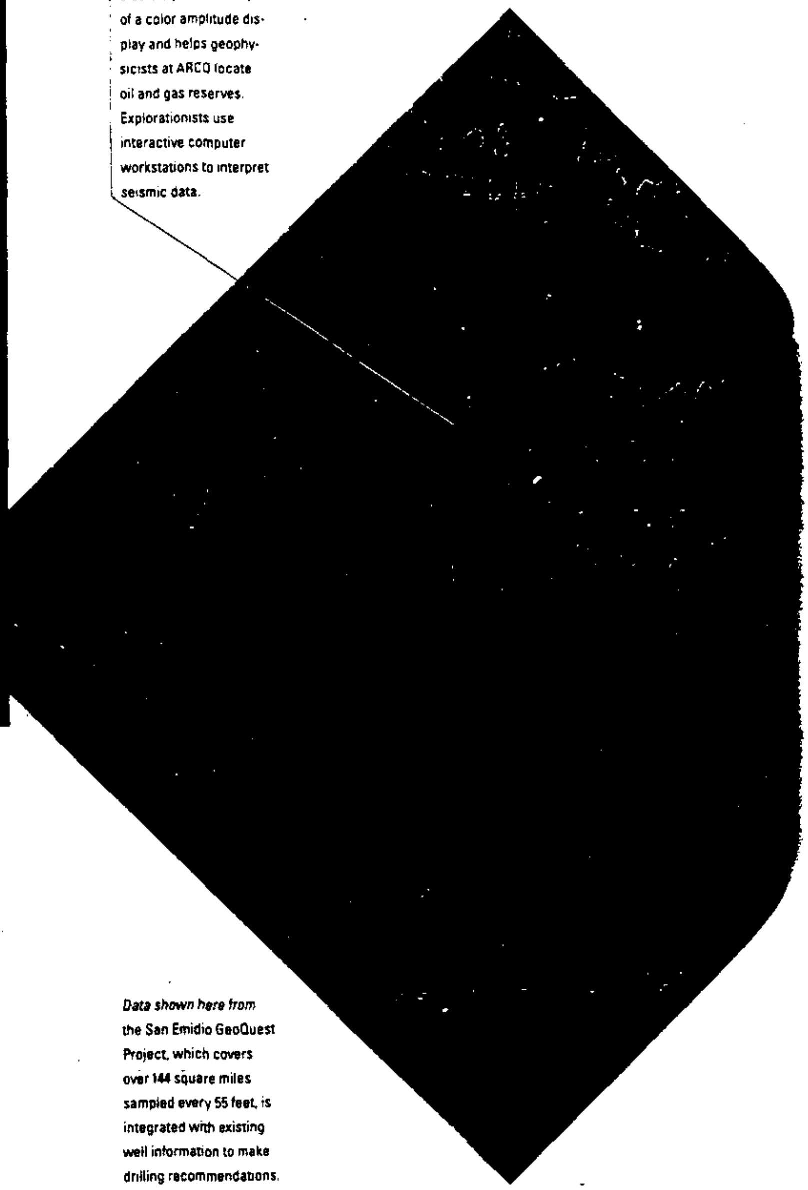
● Oil

William E. Wade, Jr
President
ARCO Oil and Gas Co.

"We continue to evaluate acquisition opportunities just as closely as we look at exploration potential on other properties. Together, our 1990 acquisition of Arkoma Basin properties and the 1991 completion of the Midway Sunset field purchase have added approximately 130 million barrels of oil equivalent to reserves and provide significant exploration potential."

"Exploration in the Lower 48 continues to be a good investment, as we see it, and ARCO Oil and Gas is active in exploration projects in California and the Gulf Coast area. New technologies and techniques developed by our research center are continually improving our exploration and drilling capability."

Wiggle-trace seismic data, shown here in black, is plotted on top of a color amplitude display and helps geophysicists at ARCO locate oil and gas reserves. Explorationists use interactive computer workstations to interpret seismic data.



Data shown here from the San Emidio GeoQuest Project, which covers over 144 square miles sampled every 55 feet, is integrated with existing well information to make drilling recommendations.

PNYC 00013051

Natural Gas Increased natural gas production volumes in the Wilburton field, Bayou Sale field and in the San Juan Basin of northern New Mexico contributed to ARCO Oil and Gas Company's highest production rate since 1976.

The Wilburton field in eastern Oklahoma accounted for 163 million net cubic feet of gas per day in 1990, a 17 percent increase compared with 1989. In the Bayou Sale field of southern Louisiana, exploratory success and development drilling resulted in incremental volumes of 29 million cubic feet per day, an increase of 160 percent over 1989.

The Gulf of Mexico fields continue to be a primary producer of natural gas for ARCO Oil and Gas Company. In 1990, the Company's Gulf production accounted for 40 percent of its total production.

Production of natural gas from coal bed methane fields continued to grow in 1990. Additional development drilling and facility installations over the Fruitland Coal Formation located in the San Juan Basin increased production to 39 million net cubic feet per day to ARCO Oil and Gas Company.

Exploration At a time when much of the industry had curtailed exploratory drilling in the Lower 48 states, ARCO Oil and Gas Company has maintained a belief that domestic exploration can be good business. In 1990, the Company participated in 89 decisioned wells, resulting in seven oil discoveries and 33 natural gas discoveries.

In California, where a substantial lease position was acquired in late 1988, ARCO Oil and Gas Company decisioned 12 wells gross, resulting in four gas discoveries and two oil discoveries.

An already active drilling program in the shallow water shelf area of the Gulf of Mexico was expanded in 1990 with 39 wells gross decisioned and 17 discoveries. The Company aggressively participated in areawide lease sales in the Gulf in 1990, acquiring leases containing 44 new prospects on 260,000 shelf acres.

Exploratory drilling has continued in the Arkoma Basin of eastern Oklahoma where the Wilburton field and the newly acquired TXO properties are located. A gross total of eight wells were decisioned in 1990, with five discoveries, and additional drilling is scheduled for 1991 and beyond.

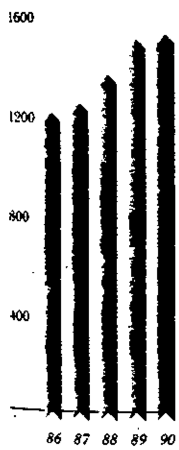
Reserves The discoveries made in 1990, along with development additions, net acquisitions and other revisions, replaced 77 percent of ARCO Oil and Gas Company's 1990 production. This includes reserve additions of 49 million barrels of oil and natural gas liquids and 486 billion cubic feet of gas. The Oryx acquisition is not included in these reserve figures.

Environment and Technology Like each of ARCO's operating companies, ARCO Oil and Gas Company focuses both human and financial resources on the environmental sensitivity of its projects.

ARCO Oil and Gas Company was one of six companies nationwide to receive the 1990 Bureau of Land Management's "Partners in the Public Spirit" award. This award recognized ARCO's accomplishments in balancing CO_2 production and development with protection of sensitive environmental resources at the Company's Sheep Mountain production facility in southern Colorado.

The Company manages ARCO's Research and Technical Services Center, which received two prestigious awards in 1990 from R&D Magazine for new product developments. The "R&D 100" awards were given for the jointly developed Advanced Drillstring Analysis and Measurement System and for a new Vapor Pressure Analyzer, which is key to some important industry enviromental projects. Additionally, an environmentally compatible drilling mud is being developed. If testing proves successful, the potassium-sulfate based mud could be spread on land to enrich soil, much like common fertilizer.

Gas Production —
Lower 48
million cubic feet/day
■ Offshore
■ Onshore



PNYC 00013052

	1990	1989	1988	1987	1986
Earnings (Losses) — millions	**$ 76**	$ (8)	$ (71)	$ 13	$ 14
Total assets — millions	**$2,205**	$1,902	$1,895	$1,089	$ 993
Additions to fixed assets — millions	**$ 454**	$ 363	$1,056	$ 165	$ 352
Liquids production — thousand barrels/day — net	**67.1**	70.1	63.6	63.2	74.6
Natural gas sales — million cubic feet/day — net	**193.5**	169.2	154.1	164.4	132.6
Average crude price — per barrel	**$20.15**	$16.25	$14.20	$16.44	$13.77
Average natural gas price — per MCF	**$ 3.08**	$ 2.71	$ 2.64	$ 2.36	$ 1.51
Exploration expense — millions	**$ 170**	$ 98	$ 132	$ 105	$ 59
Proved liquids reserves — million barrels	**210**	237	264	223	199
Proved natural gas reserves — billion cubic feet	**1,796**	1,206	1,249	897	972

ARCO INTERNATIONAL OIL AND GAS COMPANY

ARCO is committed to an increased participation in the international oil and gas business. This commitment was evidenced by an increase in international exploration activities and the startup of significant new production in 1990.

ARCO International Oil and Gas Company, headquartered in Plano, Texas, is responsible for ARCO's exploration and production activities outside the United States. These activities include production operations in the United Kingdom, the Netherlands, Indonesia, Dubai and Turkey, plus exploration plays in 10 countries, giving it a land position totaling 34 million gross acres at year-end 1990.

Europe Both natural gas and crude oil production in the United Kingdom grew in 1990 as three new gas fields — Welland, Ravenspurn North and Amethyst — commenced production, and the production capacity at the Wytch Farm oil field was substantially expanded. ARCO holds a 17.5 percent interest in the Wytch Farm development, which is the largest onshore oil field in western Europe. ARCO's net share of total production from the field for 1990 was 1.8 million barrels.

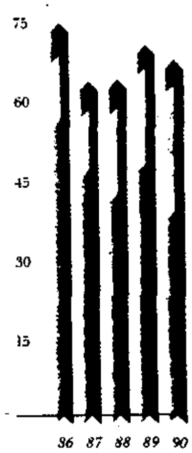
Net gas sales from the U.K. North Sea averaged 155 million cubic feet per day in 1990, a 32 percent increase compared with 1989. The three new gas fields, which started production in the third quarter of 1990, are expected to add 93 million cubic feet per day to ARCO's net production in 1991.

The Thames-area gas fields, which have been producing since 1986, averaged 60 million cubic feet per day net to ARCO, which holds a 43 percent interest.

Operated remotely from the Thames production facilities, the new ARCO-operated Welland gas field introduced for the first time to the U.K. North Sea a combination of subsea well control and automation technology. It is also the first gas field to sell production to multiple purchasers in the U.K.'s developing competitive gas market. ARCO has a 25 percent interest in Welland, which has net proved reserves of 56 billion cubic feet. The other new gas fields are Ravenspurn North, in which ARCO holds a 20 percent interest, and Amethyst, in which ARCO's interest is 13 percent. ARCO's net proved reserves are 230 billion cubic feet for Ravenspurn North, and 104 billion cubic feet for Amethyst.

ARCO's development plans for the Pickerill gas field, also in the U.K. North Sea, were approved by the British government in 1990. This approval made possible the first sale of a North Sea gas field's entire output to PowerGen, a power generation company formed under the government's privatization program to succeed the state-owned Central Electricity Generating Board. ARCO has a 31 percent interest in the Pickerill field and will be the field operator. The net gas reserves for Pickerill are 246 billion cubic feet. Production is scheduled to begin in 1992.

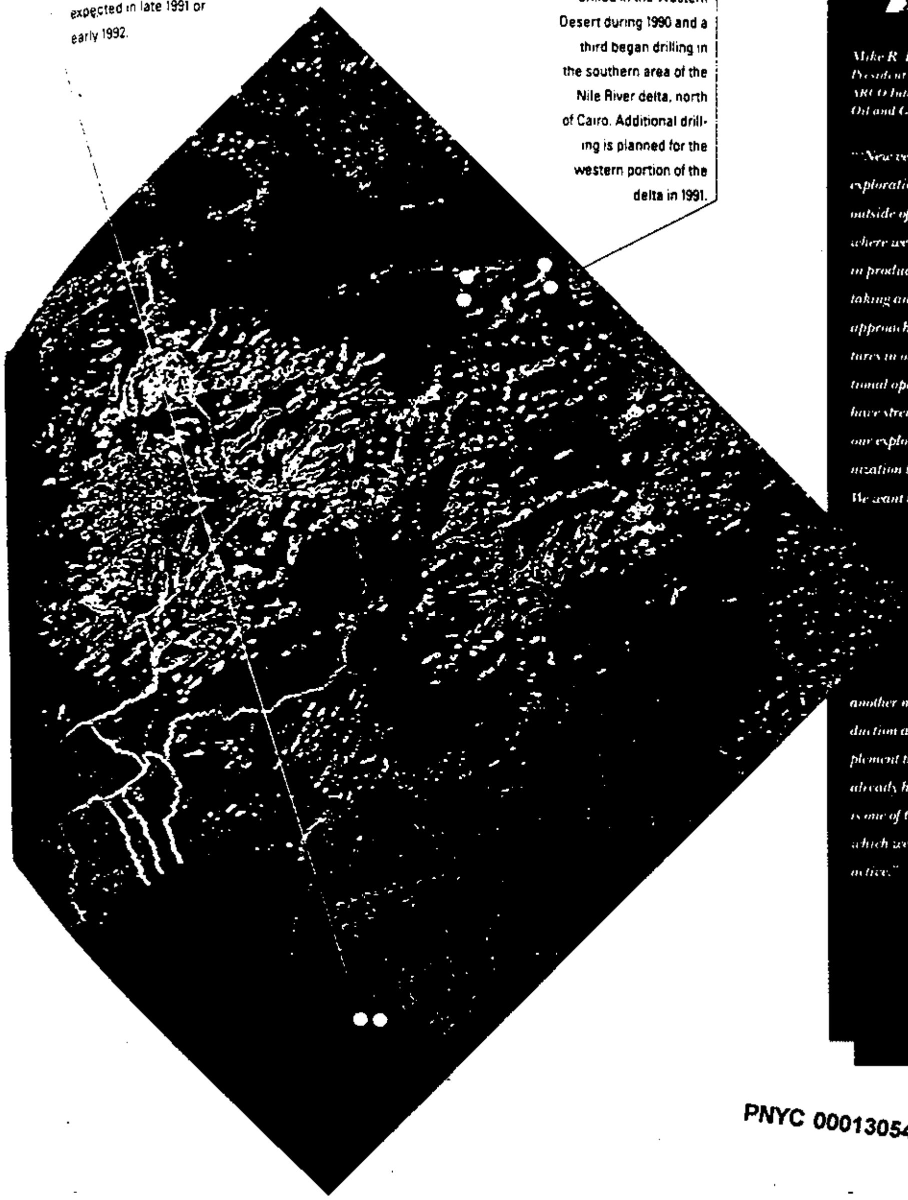
Liquids Production — International
thousand barrels/day-net
■ NGL's
■ Other
■ Indonesia



PNYC 00013053

Drilling programs are under way offshore Gabon and a major seismic program is being completed offshore Congo, where drilling is expected in late 1991 or early 1992.

ARCO has active drilling programs in Egypt, where two wells were drilled in the Western Desert during 1990 and a third began drilling in the southern area of the Nile River delta, north of Cairo. Additional drilling is planned for the western portion of the delta in 1991.



Mike R. Bowlin
President
ARCO International Oil and Gas Co.

"'New ventures' are exploration programs outside of those areas where we already are in production. We are taking an aggressive approach to new ventures in our international operations and have strengthened our exploration organization to do this. We want to find another major production area to complement those we already have. Africa is one of the areas in which we are very active."

PNYC 00013054

"We continue to see a promising future in Indonesia where we have been active for nearly 25 years. We have already discovered more than 1 billion barrels of oil and condensate in the Java Sea and are still bringing on stream discoveries, like the BZZ field that was discovered in 1988. Our large Pagerungan gas field, in the Kangean block offshore Bali, is moving toward production."

A 3-D seismic survey of the BZZ field offshore in ARCO's contract area of the Northwest Java Sea of Indonesia allowed detailed mapping of the reservoir from which production will begin in 1991. Hydrocarbons in this field are trapped within carbonate and clastic reservoirs of Oligocene to Eocene ages.

This diagram shows an anticline bounded by a major fault and syncline.

The main accumulation of hydrocarbon reserves is trapped in the separate closure, within the anticline, seen in the center of the diagram.

PNYC 00013055

Indonesia ARCO International and the Indonesian government extended for a period of 20 years (from 1997) the Production Sharing Contract covering ARCO's extensive operations in the Northwest Java Sea.

In the Java Sea, ARCO is responsible for operating approximately 150 platforms plus processing and export facilities. This area accounted for gross production of 125,000 barrels per day of crude oil and natural gas liquids (35,000 net to ARCO) during 1990.

The Malacca Strait is ARCO's other current production area. ARCO holds an interest in the Malacca Strait fields which had 1990 gross production of 46,000 barrels per day (6,600 net to ARCO).

The Pagerungan gas field, located in the ARCO-operated Kangean contract area offshore Bali, has been granted government approval for development, and a gas supply agreement was executed in 1990 with Pertamina, the Indonesian national oil company. The Pagerungan field, with proved reserves of 1.5 trillion cubic feet of natural gas (680 billion net to ARCO) was discovered in 1985. When fully developed, Pagerungan is expected to have gross production of approximately 300 million cubic feet per day. Production is expected to start in late 1992.

Dubai ARCO International acquired an additional 33 percent interest to become the 100 percent owner of the Margham condensate field in Dubai, United Arab Emirates, effective January 1, 1990. The field, which has been in production since 1984, has net proved reserves of 33 million barrels of petroleum liquids. Despite tensions in the Middle East, operations continued without interruption during 1990 and early 1991 and produced 14,000 barrels per day.

Turkey Production from the newly discovered Cendere field started in early 1990 and averaged 1,450 barrels per day (590 barrels net to ARCO). Additional delineation and exploration work is under way in this area.

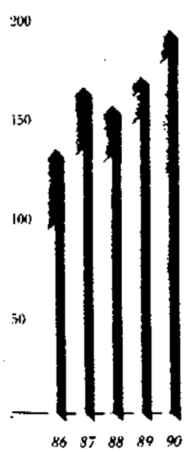
Exploration ARCO International continued its exploration program in 1990 by drilling 12 prospects in six new venture areas, including Egypt, Gabon and New Zealand, and 35 exploratory wells in areas of current production. As a result of the drilling program, ARCO International recorded eight gross discoveries, six oil and two gas, along with four confirmations of previous oil discoveries.

In late 1990, ARCO completed a successful exploration well, since named the Blenheim oil field, in which ARCO holds a 44 percent interest, offshore from Aberdeen, Scotland. Stabilized test production rates exceeded 4,000 barrels of oil per day. Additional offshore wells are planned for 1991.

In the German sector of the North Sea, ARCO was awarded two major new exploration licenses with a total area of over two million acres. These awards position ARCO as a significant license holder offshore Germany. ARCO plans to conduct a major seismic survey and to drill its first well here during 1991.

Reserves ARCO International's net proved reserves at year end totaled 210 million barrels of liquids and 1.8 trillion cubic feet of gas, compared with 237 million barrels of liquids and 1.2 trillion cubic feet of gas at the beginning of the year. On an oil equivalent basis, net proved reserves increased 16 percent, due primarily to the addition of Pagerungan reserves, offset by the sale of ARCO's interests in Norway and Colombia, which had a total of 56 million barrels of oil and 1 million barrels of oil equivalent, respectively.

Natural Gas Sales — International
million cubic feet/day
• Other
• Indonesia
• North Sea



PNYC 00013056

	1990	1989	1988	1987	1986
Earnings — millions	**$ 91**	$ 92	$ 79	$ 67	$ 76
Total assets — millions	**$ 929**	$ 857	$ 725	$ 540	$ 567
Additions to fixed assets — millions	**$ 109**	$ 148	$ 107	$ 12	$ 15
Average market price — per ton	**$14.81**	$13.95	$13.71	$13.14	$13.09
Coal shipments — millions of tons	**38.3**	39.4	32.4	26.1	27.1
Coal reserves — million tons recoverable	**1,265**	1,190	1,183	1,028	1,115

ARCO COAL COMPANY

ARCO Coal Company, headquartered in Denver, Colorado, continues to strengthen its position as a major coal producer in both the United States and Australia where it owns and operates some of the world's largest and most efficient mines.

United States Operations Already one of the nation's largest producers of low-sulfur coal, ARCO Coal's outlook for market expansion brightened even more with passage of the 1990 Clean Air Amendments. The Company's U.S. coals, being low in sulfur and other pollutants, offer an attractive, cost-effective option to electric utilities as they develop plans to comply with new emission requirements. Traditionally limited to markets in the central and southwestern states because of geographical proximity, the Coal Company's markets now are expanding to include utilities in the Southeast and upper Midwest.

ARCO Coal has the distinction of operating the largest surface mine in the Americas. Its Black Thunder Mine in Wyoming's Powder River Basin shipped 28 million tons of coal in 1990, down due to mild weather from the record 30 million tons in 1989.

In just 14 years of operation, Black Thunder has yielded 230 million tons of coal. With a second dragline startup planned for 1991, Black Thunder is expected to continue at current levels of production well into the next century. The Company also operates a surface mine at nearby Coal Creek.

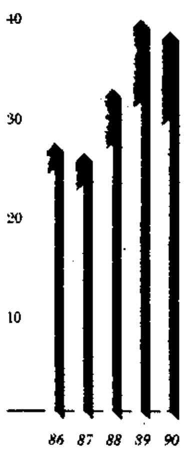
ARCO Coal operates underground mines in Colorado and Utah. Coal from these mines, having low-sulfur content and high heating (BTU) values, has helped secure a new, long-term contract with a major midwestern utility. These mines shipped 1.4 million tons in 1990 and included, for the first time, a shipment of high-quality coal to Japan.

ARCO Coal added materially to both reserves and expected mining life at its Trail Mountain mine in Utah by successfully bidding on an adjacent federal lease in 1990. At the West Elk mine in western Colorado, the opening of a second seam will increase production in 1991.

Australian Operations ARCO Coal Australia Inc., a subsidiary, operates two Australian coal mines, is developing a third and holds an interest in a fourth major producing operation — all in the state of Queensland. Altogether, the Company's net share of these Australian mines' shipments totaled 8.8 million tons in 1990.

The ARCO-operated Curragh mine works three surface coal seams and, utilizing its modern production plant, provides customers with a wide range of coking and steaming coals. Curragh's flexible production capacity allows a variety of specialized blends of coal products to fit exacting customer needs, providing

Coal Shipments
million tons
■ Foreign
■ Domestic



PNYC 00013057

ARCO Coal Australia has interests in four mines in the State of Queensland (from left to right) Blair Athol, Gordonstone, Curragh, and Coal Resources of Queensland (CRQ). The mines are all located in the Bowen Basin within 100 miles of one another.

Coal from ARCO's Australian mines moves through the ports of Gladstone and Mackay to Asia and as far as Europe and South America. ARCO Coal Australia's headquarters are in Brisbane.

Anthony G. Fernandes
President
ARCO Coal Co.

"ARCO Coal has been producing coal in Australia for just seven years and already ARCO Coal Australia is one of the country's largest coal companies. Our investments are increasing. The development of Gordonstone will give us the largest underground coal mine in the country, with production expected to begin in 1992. Capacity expansion is also in process at Curragh."

PNYC 00013058

unique marketing advantages. In 1990, ARCO's 87 percent ownership in Curragh netted shipments of 3.3 million tons of coal for export and another 1.8 million tons of coal for the Queensland Electricity Commission.

Coal Resources of Queensland (CRQ) is ARCO Coal's second operating mine in Australia. CRQ produces both high-quality metallurgical and steam coals for export from its underground operations. CRQ coal is exported to Japan, Korea, India, Malaysia and Europe. ARCO has 100 percent ownership of CRQ, which shipped 1.1 million tons in 1990.

The Blair Athol mine, in which ARCO holds a 31.4 percent ownership interest, shipped 2.6 million net tons of steam coal in 1990. Most of this coal is exported to Japanese electrical utilities under long-term contract.

The new Gordonstone mine is under development and scheduled for production startup in 1992. Gordonstone is expected to be the highest volume underground coal mine in Australia by 1994. It will utilize state-of-the-art technology and is expected to give ARCO a substantial competitive edge in mining techniques for the 21st century. With recoverable reserves estimated in excess of 100 million gross tons, this new production is destined primarily for shipments to Japan and Europe. Adjacent acreage, believed to have significant additional reserve potential, is currently being evaluated. The company's ownership in Gordonstone increased from 65.5 percent to 95 percent in early 1991 with the purchase of an Australian co-venturer's interest.

Venezuela ARCO Coal Company holds a 24 percent interest in a joint venture that operates a 1.7 million ton per year surface coal mine in the Guasare region of Venezuela. The Company has reached a tentative agreement to sell its interest in this project to one of its partners, subject to the approval of appropriate governmental agencies.

Environmental Sensitivity As operator of both surface and underground mines, ARCO Coal Company has distinguished itself for the environmental sensitivity of its reclamation programs and for its health and safety programs. During 1990, the Black Thunder Mine was awarded its third consecutive "Excellence in Surface Mining" award from Wyoming's Department of Environmental Quality. It also received the "Outstanding Conservation Award" from the National Institute for Urban Wildlife. These awards were in recognition of Black Thunder's successful post-mining land use programs, which involve permanently reclaiming and managing the lands for livestock grazing and wildlife habitat.

ARCO Coal's U.S. mines have outperformed the domestic coal industry in recent years in terms of tons-per-man-hour-worked and in fewest lost workdays. An early assessment of 1990 performance, using an internal safety index, indicates a 19 percent improvement compared to 1989 results. As an example of this commitment to safety, during 1990, the West Elk mine received the award for the safest underground coal mine in Colorado for the third consecutive year. Safety and training programs at all ARCO Coal mines emphasize the interdependence of safety and productivity, a combination that has a direct positive impact on the Company's employees and overall bottom-line performance.

PNYC 00013059

CO Chemical Comp[illegible]

[illegible]odell Petrochemical Comp[illegible]

[illegible]ncial Review

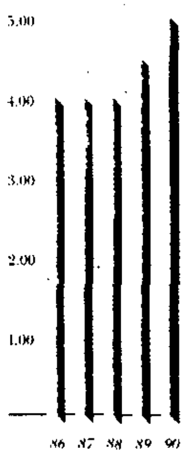
"ARCO approaches planning, finance and other administrative responsibilities with a determination to obtain maximum bottom-line benefits and return for stockholders over the long term. Corporate managers work in partnership with operating segment management to achieve these goals. At the same time, we devote great effort to developing employees who have an understanding of the financial, technical and societal implications of our decisions."

James S. [illegible]
Executive Vice President
and Chief [illegible] Officer

PNYC 00013060

STOCKHOLDER RETURN

Cash Dividends
Per Common Share
dollars



Maximizing stockholder return is a primary consideration behind virtually every action ARCO undertakes. ARCO's attention to financial implications and capital markets plays a vital role in its strategic planning and execution. Success is measured in terms of rate of return, and for the past six years, ARCO common stock has achieved a 25.3 percent average annual growth, compared to the S&P 500 Index average of 16.1 percent.

ARCO's stock repurchase programs, the first of which was started in July 1984, are designed to maintain an optimal capital structure which has increased stockholder value. Between June 30, 1984, and December 31, 1990, the Company repurchased 101 million shares of ARCO common stock for $6.6 billion, at an average price of $65.78 per share. In 1990, ARCO repurchased 5.7 million shares of stock for $683 million, at an average price of $120 per share.

The Company has successfully integrated operating goals with the capital markets. During the last five years, ARCO was involved in two large public offerings of stock in wholly owned subsidiaries. In 1987, the Company sold just under 20 percent of the stock of ARCO Chemical Company for total proceeds of nearly $600 million. In 1989, ARCO sold over 50 percent of the stock of Lyondell Petrochemical Company for total proceeds of $1.2 billion. While maintaining active interests in both companies, ARCO and its stockholders were able to realize value that had not been reflected in ARCO's stock price when the companies were operated as divisions of ARCO. Through this publicly held subsidiary structure, ARCO and its stockholders will continue to participate along with other stockholders in these companies' growing future.

The value that ARCO's financial group brings to bear on the bottom line can also be illustrated in the investments arena. Unlike most companies, ARCO manages most of its pension funds internally through a unit of the Company, ARCO Investment Management Company (AIMCO). Over the past five years, AIMCO has consistently been a top performer, based on external surveys of major pension funds. These results have contributed to a fund which is in excess of expected liabilities and virtually have eliminated the need to fund the pension plans in recent years.

As is evident, by following its basic strategies consistently at all levels of its operations, ARCO has been able to continue to offer an outstanding return to its stockholders over the long term.

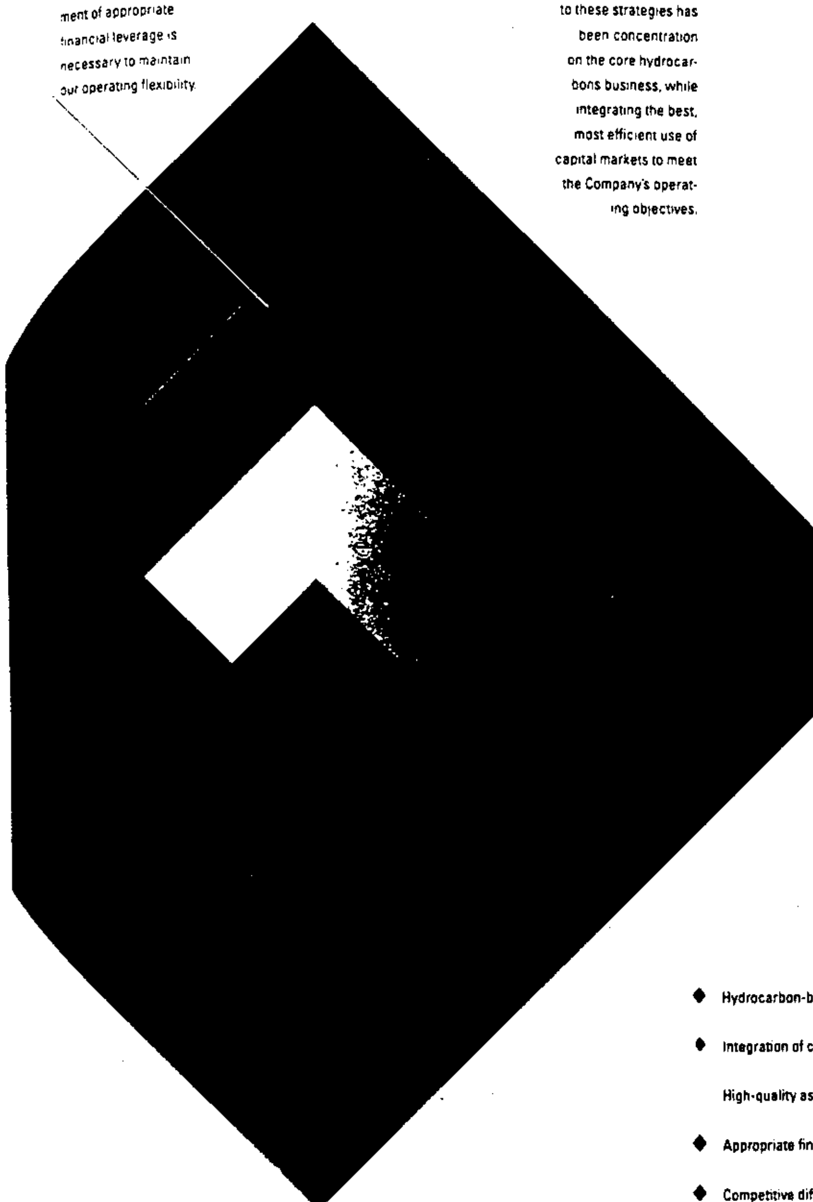
PNYC 00013061

High-quality assets and low-cost operations have been central to ARCO's competitive differentiation. Achievement of appropriate financial leverage is necessary to maintain our operating flexibility.

Each of ARCO's corporate strategies work in unison to build stockholder return. Paramount to these strategies has been concentration on the core hydrocarbons business, while integrating the best, most efficient use of capital markets to meet the Company's operating objectives.

Camron Cooper
Senior Vice President and Treasurer

"ARCO strives to be as competitive in the financial marketplace as it is in consumer markets. We intend to provide a quality 'product' which, in this instance, means that an investment in ARCO will provide a superior return over time. Our strategies have now been in place for five years. They are focused on enhancing the returns from every aspect of our activities."



- Hydrocarbon-based
- Integration of capital markets
- High-quality assets, low costs
- Appropriate financial leverage
- Competitive differentiation

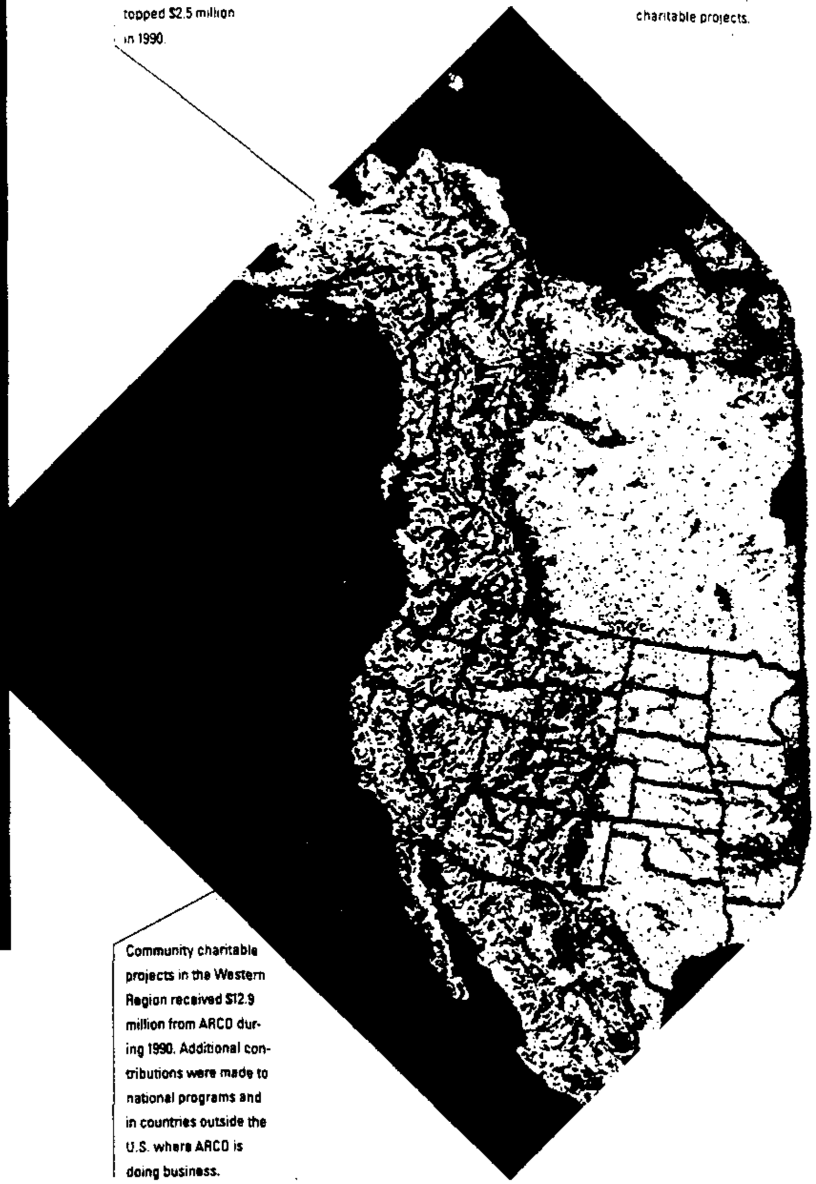
PNYC 00013062

Kenneth R. Dickerson
Senior Vice President
Government Affairs

"Community involvement at ARCO is best expressed in terms of people. It's become tradition that ARCO people are involved wherever they work and live. The Company's growing presence overseas means that this tradition is spreading, with ARCO employees giving their time and money to help build a better world. Based on informal surveys, we estimate many employees average 17 hours a month in volunteer efforts. ARCO supports these meritorious efforts.

ARCO's investments in charitable community programs in Alaska topped $2.5 million in 1990.

In the Rocky Mountain and Southwest regions, ARCO devoted $5.1 million to community charitable projects.



Community charitable projects in the Western Region received $12.9 million from ARCO during 1990. Additional contributions were made to national programs and in countries outside the U.S. where ARCO is doing business.

PNYC 00013063

ARCO manages its community participation in much the same way it approaches the hydrocarbons business. To be the very best, ARCO works to maximize the value of its contributions.

ARCO's people, both active and retired, provide the quality element in community involvement. These employee groups are actively involved whenever ARCO's name appears as a sponsor and frequently when it is not listed. ARCO also serves as a catalyst, increasing participation by others, to multiply its own direct contributions manyfold.

In 1990, ARCO donated more than $26.2 million to nonprofit organizations through the ARCO Foundation's direct grants, employee matching programs and other company participation programs.

A spirit of involvement is inherent at ARCO. All employees, from the newest workers to the chairman of the board, are involved. Employees and retirees give freely of their own time. Employees also may be participants in programs where their time is donated during working hours. Their volunteer efforts take them from inner-city schools and homeless shelters to city commissions, councils and volunteer fire departments. Volunteer coordinators are active in ARCO's major locations, working to make all employees aware of involvement opportunities. Through these programs in 1990, an estimated 185,000 hours were devoted by 4,290 employee volunteers.

In 1990, the ARCO Foundation contributed nearly $6 million to organizations in which employees or retirees were contributing either their personal time or money. The Volunteer Grants program, which sent $226,400 to 340 charities, requires employees to certify that they have worked for the charity a minimum of 12 hours a month for at least six months on their own time. Additionally, employees' cash contributions of $25 or more to qualified organizations are matched by the Company. In response to this program, the Foundation made 13,015 matching gifts totaling $2.7 million in 1990. The remaining funds went to United Way programs in 200 communities under which employee and retiree contributions are matched.

For the past several years, ARCO has devoted special attention in its community involvement to education projects starting at the preschool levels up to institutions of higher learning. The Company has been active in Junior Achievement programs in every area that it does business and ARCO Chairman Lod Cook has served as the organization's national chairperson.

As part of its community involvement programs, ARCO also helps address urgent issues facing communities. In 1990, for example, the Company paid the first installment of a five-year $500,000 grant to the California Institute of Technology to support Caltech's pioneering research on air pollution. The funds will go to the Caltech Center for Air Quality Analysis to investigate the characteristics of emission sources, the chemistry of air pollutants, and the economic and technological feasibility of various emission controls.

To further the interests of all businesses in the communities where it operates, ARCO spent over $200 million of its total purchasing budget with minority- and women-owned vendors and contractors in 1990.

	1990	*1989*	*1988*	*1987*	*1986*
Earnings — millions	**$ 351**	$ 405	$ 494	$ 257	$ 143
Total assets — millions	**$3,739**	$2,655	$2,548	$2,534	$1,450
Additions to fixed assets — millions	**$ 539**	$ 262	$ 245	$ 295	$ 167
Total revenues — millions	**$2,950**	$2,663	$2,700	$1,952	$1,541
Propylene oxide and derivatives — million pounds	**2,563**	2,586	2,812	2,334	1,986
TBA and derivatives — million gallons	**955**	912	917	794	680
Styrene monomer and derivatives — million pounds	**1,098**	1,478	1,665	1,290	1,258

This table represents stand-alone financial and statistical information of ARCO Chemical Company and does not include statistics related to chemical assets retained by ARCO and other adjustments included in ARCO's intermediate chemicals and specialty products segment, such as corporate-allocated interest expense and minority interest.

ARCO CHEMICAL COMPANY

ARCO holds an 83.4 percent interest in ARCO Chemical Company (NYSE: RCM), a leading international manufacturer and marketer of intermediate chemicals and specialty products used in a broad range of consumer goods. The Company is the world's leading producer of propylene oxide, tertiary butyl alcohol (TBA) and methyl tertiary butyl ether (MTBE) and a leading merchant marketer of styrene monomer.

ARCO Chemical Company, headquartered in Newtown Square, Pennsylvania, had a challenging year in 1990. On July 5, a tragic explosion and fire at its manufacturing facility in Channelview, Texas, took 17 lives. The entire plant was shut down, and individual units at the plant were then restarted from mid-September through late January 1991. The reconstruction included many safety enhancements and equipment upgrades.

Clean Air Advantage The Clean Air Act Amendments of 1990 created a fast-growing market for reformulated gasolines, many of which rely on MTBE to make a cleaner-burning fuel. ARCO Chemical, which has 34 percent of world MTBE capacity, has seen demand rise dramatically over the past 10 years due to MTBE's performance and environmental benefits.

Worldwide Growth ARCO Chemical operates around the world. Today, 52 percent of its operating assets are outside the United States. In the Company's Americas region, several accomplishments in 1990 are noteworthy. The Company closed a major acquisition of a worldwide urethane polyols business, which moves ARCO Chemical further into propylene oxide derivatives and builds its portfolio of value-added products. Under terms of a consent agreement with the Federal Government, the business is being maintained as a separate venture until the Company completes certain divestiture obligations. In Channelview, construction began on a propylene oxide/styrene plant, which should be completed by early 1992.

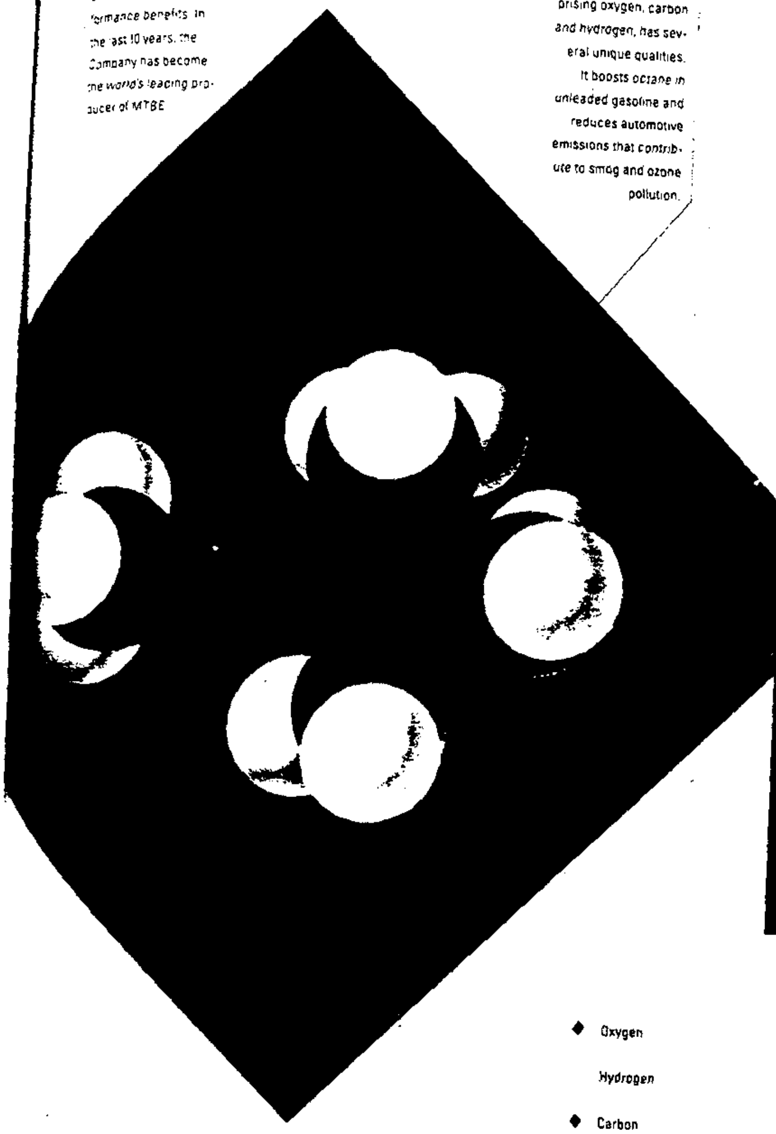
In Europe, a new urethane polyols plant at Fos-sur-Mer, France, is nearing completion. This plant will also make polymer polyols, which enhance the combustion resistance of foams and allow the replacement of chlorofluorocarbons (CFCs) with environmentally friendly blowing agents. In Eastern Europe, the Company is evaluating business opportunities that could include joint ventures. The Company has established sales representation in Moscow, U.S.S.R., and will open a sales office in Vienna, Austria, in April.

In the Asia Pacific region, the Company's joint-venture plant in South Korea began operations at the end of 1990. Capacity expansions were completed at the Company's joint-venture plant in Japan, which already was the largest propylene oxide plant in Asia. Additionally, ARCO Chemical is building a technical center in Singapore and has established sales representation in Shanghai, China.

For more information, a copy of ARCO Chemical's annual report can be requested from Investor Relations, ARCO Chemical Company, 3801 West Chester Pike, Newtown Square, PA 19073-2837.

ARCO Chemical has more than 20 years experience with oxygenated fuels that have environmental and performance benefits. In the last 10 years, the Company has become the world's leading producer of MTBE.

MTBE, a simple molecular compound comprising oxygen, carbon and hydrogen, has several unique qualities. It boosts octane in unleaded gasoline and reduces automotive emissions that contribute to smog and ozone pollution.



◆ Oxygen

Hydrogen

◆ Carbon

Alan R. Hirsig
President and Chief Executive Officer
ARCO Chemical Co.

"ARCO Chemical anticipates that demand for MTBE will grow substantially worldwide as the result of the U.S. Clean Air Act Amendments, which have created a fast growing market for reformulated gasolines, and the growth of unleaded fuels in Europe. We currently have production capability for MTBE in the U.S., the Netherlands and France, and we expect to expand capacity where we have a technological or cost advantage."

PNYC 00013066

	1990	1989	1988	1987	1986
Earnings — millions	**$ 356**	$ 374	$ 543	$ 123	$ 129
Total assets — millions	**$1,372**	$1,267	$ 913	$ 750	$ 597
Additions to fixed assets — millions	**$ 145**	$ 176	$ 63	$ 29	$ 18
Sales and other operating revenues — millions	**$6,495**	$5,358	$4,696	$3,931	$3,010
Refinery crude runs — thousand barrels/day	**257.7**	236.4	247.3	240.4	277.7
Petroleum product sales — thousand barrels/day	**305.7**	302.0	267.5	290.8	287.8
Ethylene, propylene and polymers sales — million pounds	**6,373**	5,048	5,294	4,830	3,993

This table represents stand-alone financial and statistical information of Lyondell Petrochemical Company.

LYONDELL PETROCHEMICAL COMPANY

ARCO holds a 49.9 percent interest in Lyondell Petrochemical Company (NYSE: LYO). Headquartered in Houston, Texas, Lyondell is one of the largest producers of ethylene and propylene in the United States and is also one of the nation's largest independent refiners.

Despite uncertainties and rising costs in the last five months of the year as a result of the Middle East crisis, Lyondell's 1990 earnings were only slightly below 1989 levels. The year started strongly after a late 1989 freeze shut down many plants on the Gulf Coast, resulting in tight supply/demand conditions for many of the Company's products. Lyondell was able to keep its units running without serious interruption and this created significant profit opportunities during the first half of 1990.

Prices for crude oil and related raw materials were lower in the second quarter, but conditions changed dramatically with the Middle East crisis. Along with its competitors, Lyondell was faced with rapidly escalating and volatile raw materials costs.

Lyondell's feedstock and product flexibility, which is one of the Company's strengths, made it possible to switch feedstocks as supply and market conditions changed. At the same time, the Company increased its emphasis on low-cost production and reduced expenses.

Additional capacity for several major products contributed to Lyondell's performance in 1990. Demand for ethylene and propylene increased sales volumes to record levels. During 1990, the Company completed capacity expansions for butadiene, paraxylene, methanol and MTBE. In early 1990, Lyondell acquired a polyethylene and a polypropylene facility, thereby entering the downstream polymers markets.

For additional information, a copy of Lyondell's 1990 Annual Report can be obtained by writing to Investor Relations, Lyondell Petrochemical Company, 1221 McKinney, Houston, TX 77010.

PNYC 00013067

Francis X. McCormack
Senior Vice President
General Counsel

"In an era of heightened environmental sensitivity, we are facing an ever-increasing legal challenge as local, state and federal governments institute new regulations related to our operations. ARCO's approach is to evaluate potential legal liabilities along with the financial implications and other benefits of projects. This helps us to stay ahead of problems."

E. Kent Damon, Jr.
Senior Vice President
Planning and Control

"ARCO's Financial Review summarizes financial and operating results for use both within the Company and the investment community. Through the combined efforts of planning, evaluation and controller functions in our operating companies and corporate, we provide timely information to enable us to make sound business decisions. We then provide the investment community with the scorecard to evaluate the results of those decisions."

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Millions of dollars except per share amounts	1990[1]	1989[2]	1988	1987	1986
Sales and other operating revenues — including excise taxes	**$18,808**	$16,021	$18,324	$16,977	$15,109
Net income	**$ 2,011**	$ 1,953	$ 1,583	$ 1,224	$ 615
Earned per share	**$ 12.15**	$ 11.26	$ 8.78	$ 6.68	$ 3.38
Cash dividends per common share	**$ 5.00**	$ 4.50	$ 4.00	$ 4.00	$ 4.00
Total assets	**$23,864**	$22,261	$21,514	$22,890	$21,913
Long-term debt and capital lease obligations	**$ 5,997**	$ 5,313	$ 5,665	$ 6,314	$ 6,068

(1) The 1990 impact on net income from the cumulative effect of the change in accounting for income taxes was $323 million or $1.[illegible]
(2) See Notes 2 and 19 of Notes to Consolidated Financial Statements.

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

Results of Consolidated Operations The upward trend in crude oil prices had a strong influence on the Company's favorable results over the past two years. The Company believes that the operating strategy followed by management also contributed to the Company's favorable performance. This strategy was put into place as part of the positive steps management undertook in the mid-1980s to restructure the Company's operations by selling underperforming and nonstrategic assets and reducing annual operating costs. The main elements of this strategy have been to focus on markets where the Company has established a competitive advantage, to maintain and enhance the quality of the Company's assets in each of its business segments and to effectively utilize the capital markets.

Indicators of the Company's performance have been its return on stockholders' equity and the increase in its common stock value. The Company's return on stockholders' equity was 29.3 percent in 1990 compared to 30.5 percent in the prior year and 26.1 percent in 1988. The closing price on the New York Stock Exchange for ARCO's common stock on December 31, 1990, 1989 and 1988 was $123¾, $111[illegible] and $80[illegible], respectively.

Overview of 1990 Results In 1990, ARCO recorded the highest net income in the history of the Company. Net income was $2,011 million, or $12.15 per share. In 1990, the effect of higher crude oil prices, particularly in the third and fourth quarters, was partially offset by higher exploration expenses and operating costs. Additionally, higher refined product margins, especially in the first half of the year, contributed to the earnings improvement. However, the earnings from ARCO's ownership interest in ARCO Chemical Company ("ARCO Chemical") were lower as a result of reduced domestic volumes and increased costs associated with a plant explosion and fire in the second half of the year, partially offset by margin improvements for propylene oxide and methyl tertiary butyl ether.

The 1990 results included a $323 million gain as a result of the Company's adoption of Statement of Financial Accounting Standards No. 96, "Accounting for Income Taxes." The cumulative effect of this accounting change on 1990 net income per share was $1.95.

In addition, the 1990 results included approximately $185 million in after-tax gains resulting from a settlement with SONAT related to an offshore accident and the sale of ARCO's Norwegian oil and gas assets. These gains were offset by the Company recording after-tax charges of $130 million for future environmental clean-up costs and $267 million for tax and royalty issues.

Overview of 1989 Results In 1989, the Company's net income was $1,953 million, or $11.26 per share. The 1989 results included a $634 million after-tax gain from ARCO's sale of a majority interest in Lyondell Petrochemical Company ("Lyondell") in January 1989. Partially offsetting this gain were $[illegible] million in first quarter after-tax charges for future environmental clean-up costs, provisions for the anticipated loss associated with the sale of ARCO Solar, Inc., which was completed in 1990, the writedown of abatable preferred stock, and some tax-related provisions. In 1989, higher crude oil prices and increased sales volumes for natural gas, refined products and coal were offset by higher refining and marketing operating costs, lower ARCO Chemical sales volumes, lower margins for styrene and the effect of ARCO's reduced ownership interest in Lyondell. Results in 1989 included $43 million of after-tax gains resulting from settlements of natural gas contract disputes, increased interest income resulting from the investment of the proceeds from the sale of Lyondell's common stock, and reduced interest expense resulting from lower average debt outstanding during the year.

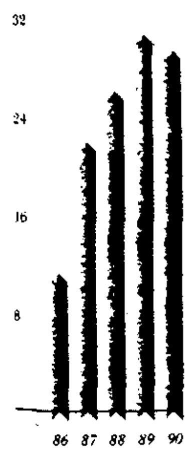
Overview of 1988 Results The Company's net income was $1,583 million, or $8.78 per share in 1988. Net income in 1988 included a $110 million net after-tax gain as a result of the sale of ARCO's shares of Britoil plc, $30 million of after-tax gains from property sales and $22 million of after-tax gains from the settlement of natural gas contract disputes. However, these gains were largely offset by charges relating to the writedown of abatable preferred stock, the early redemption of a debt issue, the move of ARCO International Oil and Gas Company's headquarters from Los Angeles to Plano, Texas, and future environmental clean-up costs.

Results of Consolidated Operations - Revenues Sales and other operating revenues were $18.8 billion in 1990, $16.0 billion in 1989 and $18.3 billion in 1988. The $2.8 billion increase in 1990 compared to 1989 primarily resulted from higher crude oil and refined product prices. The decline in sales between 1989 and 1988 resulted from the exclusion of Lyondell from ARCO's consolidated financial statements beginning in 1989. Excluding the impact of Lyondell on 1988 sales, ARCO's sales and revenues increased $1,660 million in 1989 from 1988 as a result of higher crude oil and refined product prices and higher sales volumes for coal and refined products. In addition, sales to Lyondell were included in ARCO's 1989 sales since Lyondell became an equity investment in January 1989.

Income from equity investments was $277 million in 1990, $240 million in 1989 and $48 million in 1988. The higher income in 1990 and 1989 resulted from the inclusion of ARCO's interest in the net income of Lyondell, which has been accounted for as an equity investment since ARCO's sale of a majority interest in January 1989. The 1990 amount also includes $45 million after tax related to ARCO's recognition of income from dividends received in excess of its equity investment in Lyondell.

Other revenues were $443 million in 1990 compared to $199 million in 1989 and $206 million in 1988. The increase in 1990 primarily resulted from the settlement with SONAT and the gain from the sale of ARCO's Norwegian oil and gas assets.

Return on Stockholders' Equity
percent



Results of Consolidated Operations - Expenses *Costs and other operating expenses were* $10.8 billion in 1990, $9.0 billion in 1989 and $10.7 billion in 1988. The increase in operating expenses in 1990 compared to 1989 primarily resulted from higher crude oil and refined product costs and higher operating and exploration expenses.

The decline in 1989 operating expenses from 1988 resulted from the exclusion of Lyondell from ARCO's consolidated financial statements in 1989. Excluding the impact of Lyondell on 1988 operating expenses, ARCO's operating expenses increased $1,616 million in 1989 from 1988 as a result of increased crude oil trading costs, increased refining and marketing operating costs, charges for future environmental clean-up costs and provisions for the anticipated loss associated with the sale of ARCO Solar, Inc., which was completed in 1990. In addition, purchases from Lyondell were included in ARCO's 1989 expenses since Lyondell became an equity investment in January 1989.

Selling, general and administrative expenses were $1,652 million in 1990, $1,476 million in 1989 and $1,408 million in 1988. The increase in 1990 selling and administrative expenses compared to 1989 resulted from higher retail marketing costs associated with ARCO Products Company's additional am/pm stores and Brazilian operations, higher advertising costs associated with ARCO's new emission-control gasolines, EC-1® and EC-Premium®, and higher delivery charges associated with ARCO Coal Company's operations. In addition, ARCO Chemical incurred higher administrative costs, including costs associated with personnel additions and additional support facilities, related to its continued program of worldwide growth. Excluding the impact of Lyondell on 1988 selling, general and administrative expenses, ARCO's expenses increased $156 million in 1989 from 1988. The increase in 1989 resulted from many factors. ARCO Products Company's selling expenses were higher as a result of retail marketing costs associated with its service stations, additional am/pm sites and Brazilian operations. ARCO Chemical's selling expenses increased due to

PNYC 00013070

continued expansion. ARCO Coal Company's selling expenses were higher due to expansion of its Australian operations. ARCO Oil and Gas Company's selling expenses increased due to higher natural gas sales volumes.

Taxes other than excise and income taxes were $1,303 million in 1990, $943 million in 1989 and $665 million in 1988. The increase in 1990 taxes primarily resulted from an increase in Brazilian value-added taxes and Alaskan production taxes associated with higher crude oil prices in 1990. The increase in 1989 taxes resulted from a Brazilian value-added tax which replaced a similar tax which in prior years was included in the petroleum product purchase price, an increase in production taxes associated with higher crude oil prices in 1989, and an increase in the rate for Alaskan production taxes due to the revision of the Economic Limit Factor.

Excise taxes were $800 million in 1990, $670 million in 1989 and $698 million in 1988. The higher amount in 1990 primarily resulted from increases in federal and state excise taxes during the year. The decrease in 1989 excise taxes from 1988 occurred because the sales of jet fuel to the Department of Defense became tax exempt in 1989. This decrease was partially offset by higher gasoline sales volumes.

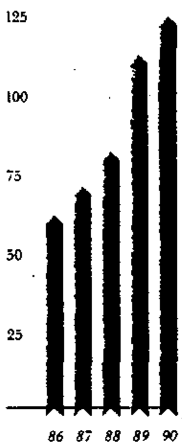
Results of Segment Operations

Oil and Gas ARCO's oil and gas exploration and production operations earned $1,364 million after tax in 1990, which was an increase of 54 percent from the $887 million after tax in 1989. The effect of higher crude oil prices, partially offset by higher operating costs, increased exploration expenses and lower production volumes, was responsible for the improved performance. The 1990 earnings also included after-tax gains of approximately $185 million as a result of the SONAT settlement and the sale of ARCO's Norwegian assets.

ARCO's oil and gas after-tax earnings in 1989 increased 64 percent from the $542 million after tax earned in 1988. Higher crude oil prices and natural gas sales volumes, partially offset by higher operating costs and taxes, including Alaskan production taxes, were the primary reasons for the increased earnings in 1989. The 1989 results also included $43 million of after-tax gains as a result of settlements of natural gas contract disputes.

The earnings in 1988 included $30 million of after-tax gains from property sales and $22 million of after-tax gains from settlements of natural gas contract disputes, partially offset by an $18 million after-tax charge in connection with the move of ARCO International Oil and Gas Company's headquarters from Los Angeles to Plano, Texas.

Closing Stock Price
On December 31
dollars



As previously discussed, fluctuating crude oil prices have had a significant impact on earnings over the past two years. The Company's domestic composite average price for crude oil was $16.56 per barrel in 1990, $13.13 per barrel in 1989 and $9.90 per barrel in 1988. Average domestic natural gas prices were $1.66 per thousand cubic feet in 1990, $1.67 per thousand cubic feet in 1989 and $1.68 per thousand cubic feet in 1988.

The Company's worldwide petroleum liquids production averaged 705,400 barrels per day in 1990, 730,100 barrels per day in 1989 and 737,800 barrels per day in 1988. ARCO's share of production from its largest Alaskan field, Prudhoe Bay, was 276,800 barrels of petroleum liquids per day in 1990, compared to 294,300 barrels per day in 1989 and 320,600 barrels per day in 1988. The decrease in worldwide production in 1990 primarily resulted from the following factors: reduced Alaskan production as a result of scheduled field downtime for installation of a gas handling facility (GHX-1) which is designed to increase production at Prudhoe Bay, pipeline maintenance, a Kuparuk River field production payback of 9,000 barrels per day which commenced on July 1, 1990, and natural field decline. The decrease in 1989 worldwide production was the result of a decline in Prudhoe Bay production primarily resulting from production curtailments related to the EXXON VALDEZ oil spill, natural field decline and facility downtime for maintenance.

The Company's share of petroleum liquids production from the Kuparuk River field decreased to 138,400 barrels per day in 1990 from 147,100 barrels per day in 1989 and 146,600 barrels per day in 1988. The decrease in 1990 primarily resulted from the six-month effect of the above-mentioned payback of 9,000 barrels per day. The 24-month payback is the result of a final equity redetermination in 1990 among ARCO Alaska and the other working interest owners of the field.

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Lower 48 petroleum liquids production was 204,500 barrels per day in 1990, 200,600 barrels per day in 1989 and 186,900 barrels per day in 1988. The 1989 production represented a 15,000 barrel per day increase in Lower 48 production as a result of ARCO's acquiring West Coast oil and gas properties from Tenneco in late 1988 that were fully integrated into ARCO Oil and Gas Company during 1989.

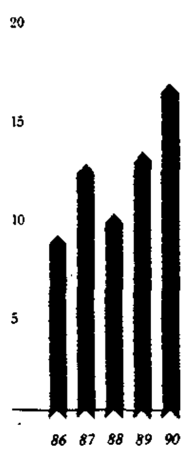
Foreign petroleum liquids production averaged 67,100 barrels per day in 1990, 70,100 barrels per day in 1989 and 63,600 barrels per day in 1988. The decrease in 1990 was in Indonesian production. This was the result of natural field decline and a reduction in the number of barrels required to provide for cost recovery under the Indonesian production sharing agreement. The increase in 1989 was due to a higher Indonesian production as a result of the 1989 startup of the Kurau field and higher production from the United Kingdom as a result of properties acquired from Tricentrol PLC.

Domestic natural gas production totaled 1.554 billion cubic feet per day in 1990, 1.529 billion cubic feet per day in 1989 and 1.389 billion cubic feet per day in 1988. The 1989 increase was the result of a full year of production from the Wilburton gas field in southeastern Oklahoma and production from new wells in the Gulf of Mexico.

Coal After-tax earnings from the Company's coal operations were $91 million in 1990, $92 million in 1989 and $79 million in 1988. Total coal shipments in 1990 were 38.3 million tons compared to 39.4 million tons in 1989 and 32.4 million tons in 1988. The reduction in 1990 shipments was due to mild weather and softer market conditions in the United States. The higher earnings in 1989 compared to 1988 resulted from the full-year impact of ARCO's increased ownership in two Australian mines and increased domestic sales from the Company's Black Thunder mine in Wyoming.

Refining and Marketing After-tax earnings for refining and marketing operations were $439 million in 1990, $291 million in 1989 and $368 million in 1988. The increased earnings in 1990 resulted from higher refined product margins, primarily in the first half of 1990, partially offset by the effects of higher crude oil prices and ARCO's two-week price freeze on gasoline prices in August following President Bush's call for price restraint. The lower earnings in 1989 compared to 1988 resulted primarily from increased operating costs and a $60 million after-tax charge for future environmental clean-up costs, partially offset by higher refined product prices and sales volumes. West Coast petroleum products sales totaled 444,000 barrels per day in 1990, 435,500 barrels per day in 1989 and 418,800 barrels per day in 1988. The progressive increase in sales from 1988 resulted from higher demand for refined products that the Company was able to meet by achieving refinery utilization rates in excess of 100 percent of average operable capacity at its two West Coast refineries and by making purchases and resales of products not manufactured by the Company.

Average Domestic Sales Price For Crude Oil
dollars per barrel



Transportation After-tax earnings for the transportation operations were $274 million in 1990, $266 million in 1989 and $308 million in 1988. The increase in 1990 compared to 1989 was the result of a higher Trans Alaska Pipeline System ("TAPS") tariff rate partially offset by lower TAPS volumes associated with declining production from Prudhoe Bay and higher pipeline maintenance expenses. The 1990 tariff included a makeup for costs resulting from volume losses and higher costs in 1989 associated with the EXXON VALDEZ spill. The operational impact of the EXXON VALDEZ incident largely contributed to the decline in earnings from 1988 to 1989.

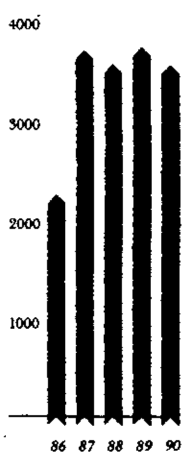
Intermediate Chemicals and Specialty Products After-tax earnings for the Company's intermediate chemicals and specialty products segment were $271 million in 1990, $336 million in 1989 and $400 million in 1988. The segment primarily consists of ARCO Chemical, an 83.4 percent owned subsidiary of the Company. ARCO Chemical's earnings in 1990 included a pre-tax accrual totaling $120 million for business interruption insurance related to the July 5 explosion and shutdown of ARCO Chemical's Channelview facility. In 1990, an increase in propylene oxide and methyl tertiary butyl ether margins was more than offset by a decrease in styrene margins and volumes and higher administrative and interest expenses. The 1990 ARCO Chemical results also reflect pre-tax charges of approximately $90 million for costs related to the Channelview accident. ARCO Chemical's earnings decreased in 1989 versus 1988 as a result of lower sales and processing volumes for major products and significantly lower styrene margins.

Lyondell Petrochemical Company ARCO's 49.9 percent equity share of Lyondell's net income was $223 million for 1990 and $214 million for 1989. The 1990 results include $45 million after tax relating to ARCO's recognition of income from dividends received in excess of its equity investment in Lyondell. In 1990, higher refining profits were more than offset by lower olefins margins resulting from higher raw material costs. In 1988, Lyondell was 100 percent owned by ARCO and earned $529 million.

Unallocated Expenses and Other Operations Unallocated expenses and other operations after tax totaled $410 million in 1990, $250 million in 1989 and $104 million in 1988. The 1990 results included approximately $250 million after tax for provisions for taxes and royalties, a $110 million after-tax charge for future environmental clean-up costs primarily associated with operations previously discontinued and a $30 million after-tax charge for the early redemption of two debt issues. In addition, 1990 results included lower net investment income. The 1989 results included a $120 million after-tax charge for future environmental clean-up costs and a $25 million after-tax charge for the final year of abatable preferred stock associated with the prior sale of aluminum assets to Alcan. In addition, 1989 results included higher net investment income and lower insurance expenses, partially offset by provisions for the anticipated loss associated with the sale of ARCO Solar, Inc., which was completed in 1990. The 1988 results included the $110 million after-tax gain on the sale of Britoil plc stock, a $75 million after-tax charge relating to the write-down of abatable preferred stock and a $16 million after-tax charge associated with the early redemption of a debt issue.

Financial Position and Liquidity Cash flows from operating activities were $3,509 million in 1990, $3,729 million in 1989 and $3,551 million in 1988. The cash flows from operating activities in 1990 included settlement payments totaling approximately $1,090 million to the Internal Revenue Service ("IRS") and the State of Alaska. The payment to the IRS resulted from an agreement which settled all IRS claims for additional windfall profit tax liabilities. The payment to the State of Alaska resulted from an agreement which settled all major claims relating to royalty issues. The net cash used in investing activities was $2,560 million and primarily included expenditures for additions to fixed assets (including dry-hole costs) of $2,718 million, proceeds from asset sales of $338 million, and a net increase in short-term investments of $93 million. The proceeds from asset sales in 1990 resulted primarily from the sale of a number of oil and gas properties, including ARCO's Norwegian properties.

Cash Provided
By Operations
millions of dollars



The net cash used in financing activities was $1,018 million in 1990 and primarily included repayments of long-term debt of $810 million, proceeds of $1,062 million from the issuance of long-term debt, dividend payments of $810 million and treasury stock purchases by ARCO of $704 million.

Cash and cash equivalents and short-term investments totaled $3,031 million at year-end 1990. Short-term borrowings were $932 million at year-end 1990.

The Company has a capital spending program that includes $3.9 billion for additions to fixed assets in 1991. 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 and any changes in the tax laws.

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

In January 1989, the Company's Board of Directors authorized a new common stock buy-back program. Under the program, the Company repurchased for its treasury approximately 5.7 million shares for $685 million in 1990. At their January 1991 meeting, the Company's Board of Directors approved a 12½ cent increase in the quarterly dividend payable to holders of common stock, raising the quarterly dividend from $1.25 to $1.375 per share.

The Company called for early redemption in 1990 an aggregate of $500 million of debentures. Proceeds

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from the Lyondell stock offering as well as from certain other asset sales were used for the redemption. The Company anticipates an annual reduction in after-tax interest expense resulting from the early redemption of these debentures to be approximately $35 million in 1991 and beyond. At December 31, 1990, the Company's long-term debt was $5.997 million.

On January 30, 1990, ARCO Chemical issued $225 million of 9.80 percent debentures due 2020. In November and December 1990, ARCO Chemical issued an aggregate of $400 million of debentures with interest rates ranging from 9.375 to 10.25 percent and maturing between November 1, 2000, and November 1, 2010.

Environmental Matters The Company 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 and petroleum substances at various sites, including Superfund sites, oil fields, service stations, terminals and other operating and closed facilities. The Company is currently participating in environmental assessments and cleanups at numerous sites under these laws, and may in the future be involved in additional environmental assessments and cleanups. The Company continues to estimate the amount of these costs in periodically establishing reserves based on progress made in determining the magnitude of clean-up costs, the timing and extent of remedial actions required by the applicable governmental authorities, the amount of the Company's liability in proportion to the other responsible parties and the extent, if any, to which such costs are recoverable from insurance. As the scope of the Company's obligations becomes more clearly defined, there may be changes in these estimated costs, which might result in future charges against the Company's earnings. During 1990, the Company added $220 million to its reserves relating to future environmental clean-up costs. At December 31, 1990, such reserves totaled $737 million.

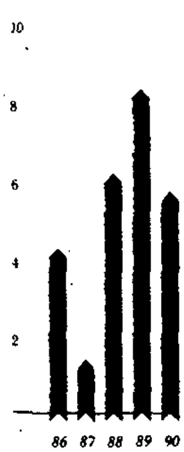
Statements of Financial Accounting Standards Not Yet Adopted In December 1990, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." SFAS No. 106 requires the Company to adopt its provisions for fiscal years beginning after December 15, 1992. The provisions will require the Company to begin accruing its estimated postretirement benefit obligation for current as well as retired employees. The Company currently recognizes an expense when an obligation is paid. Once the Company determines its transition obligation, it has two options for recognizing that obligation. The Company can choose to immediately recognize the transition obligation as the effect of an accounting change, subject to certain limitations. Alternatively, the Company can amortize on a straight-line basis the transition obligation over the average remaining service period of active plan participants. If that period is less than 20 years, the Company may elect to use a 20-year period. If the Company uses the delayed basis for recognition of the transition obligation, then the unrecognized amount must be disclosed. The Company has not yet had sufficient time to evaluate the provisions of SFAS No. 106.

Effects of Inflation While the annual rate of inflation remained moderate during the three-year period ended December 31, 1990, the Company continued to experience certain inflationary effects. The Company will achieve some benefits by using current, inflated dollars to satisfy its debt obligations and other monetary liabilities, because the Company's monetary assets are less than its monetary liabilities at December 31, 1990.

Based on the age of the Company's property, plant and equipment, it is estimated that the replacement cost of those assets is greater than the historical cost reflected in the Company's financial statements. Accordingly, the Company's depreciation, depletion and amortization expense for the three years ended December 31, 1990, would be greater if the expense were stated on a current cost basis.

To the extent that the Company uses the last-in, first-out (LIFO) inventory accounting method, the replacement cost of inventory is greater than the historical cost reflected on the Company's balance sheet, while the costs of products sold reflected in the Company's income statement approximate current cost.

Treasury Stock Repurchases
millions of shares



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CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

For the year ended December 31	*1990*	*1989*	*1988*
Millions of dollars except per share amounts			
Revenues			
Sales and other operating revenues — including excise taxes	**$18,808**	$16,021	$18,324
Income from equity investments	**277**	240	48
Interest	**368**	355	290
Other revenues	**443**	199	206
	19,896	16,815	18,868
Expenses			
Costs and other operating expenses	**10,763**	8,975	10,731
Selling, general and administrative expenses	**1,652**	1,476	1,408
Taxes other than excise and income taxes	**1,303**	943	665
Excise taxes	**800**	670	698
Depreciation, depletion and amortization	**1,723**	1,748	1,704
Interest	**835**	799	842
	17,076	14,611	16,048
Income before gain on subsidiary stock transaction	**2,820**	2,204	2,820
Gain on subsidiary stock transaction	**—**	957	—
Income before income taxes, minority interest and cumulative effect of change in accounting principle	**2,820**	3,161	2,820
Provision for taxes on income	**1,076**	1,142	1,144
Minority interest in earnings of subsidiary	**56**	66	93
Income before cumulative effect of change in accounting principle	**1,688**	1,953	1,583
Cumulative effect of change in accounting for income taxes	**323**	—	—
Net Income	**$ 2,011**	$ 1,953	$ 1,583
Earned per Share			
Before cumulative effect of change in accounting principle	**$ 10.20**	$ 11.26	$ 8.78
Cumulative effect of change in accounting for income taxes	**1.95**	—	—
Net Income per Share	**$ 12.15**	$ 11.26	$ 8.78
Retained Earnings			
Balance, January 1	**$ 5,636**	$ 7,562	$ 6,683
Net income	**2,011**	1,953	1,583
Cash dividends:			
Preference stocks	**(3)**	(4)	(4)
Common stock	**(807)**	(756)	(700)
Cancellation of treasury stock	**—**	(3,119)	—
Balance, December 31	**$ 6,837**	$ 5,636	$ 7,562

See Notes on pages 49 through 59.

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December 31	1990	1989
Millions of dollars		
Assets		
Current assets:		
Cash and cash equivalents	$ 1,102	$ 1,173
Short-term investments	1,929	1,836
Accounts receivable	1,963	1,483
Inventories	760	710
Prepaid expenses and other current assets	294	212
Total current assets	6,048	5,414
Investments and long-term receivables:		
Investments accounted for on the equity method	291	194
Other investments and long-term receivables	66	80
	357	274
Fixed assets:		
Property, plant and equipment	30,164	28,431
Less accumulated depreciation, depletion and amortization	13,764	12,774
	16,400	15,657
Deferred charges and other assets	1,059	916
Total Assets	$23,864	$22,261
Liabilities and Stockholders' Equity		
Current liabilities:		
Notes payable	$ 932	$ 577
Accounts payable	1,394	1,078
Taxes payable, including excise taxes	529	409
Long-term debt due within one year	502	704
Accrued interest	233	200
Other	670	469
Total current liabilities	4,260	3,437
Long-term debt	5,997	5,313
Deferred income taxes	3,440	3,407
Other deferred liabilities and credits	2,709	3,273
Minority interest	309	269
Stockholders' equity:		
Preference stocks	1	1
Common stock, $2.50 par value; shares issued 167,679,563 (1990), 167,584,194 (1989); shares outstanding 158,912,873 (1990), 164,186,803 (1989)	419	419
Capital in excess of par value of stock	740	764
Retained earnings	6,837	5,636
Treasury stock, at cost	(890)	(236)
Foreign currency translation	42	(22)
Total stockholders' equity	7,149	6,562
Total Liabilities and Stockholders' Equity	$23,864	$22,261

The Company follows the successful efforts method of accounting for oil and gas producing activities.
See Notes on pages 49 through 59.

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For the year ended December 31	*1990*	*1989*	*1988*
Millions of dollars			
Cash flows from operating activities:			
Net income	**$2,011**	$1,953	$1,583
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation, depletion and amortization	**1,723**	1,748	1,704
Gain on subsidiary stock transaction	**—**	(634)	—
Income from equity investments	**(277)**	(240)	(48)
Dividends from equity investments	**192**	84	31
Noncash provisions greater (less) than cash payments	**(472)**	570	146
Net change in deferred taxes	**33**	(363)	129
Dry-hole expense	**299**	163	149
Net change in accounts receivable, inventories and accounts payable	**(214)**	380	(263)
Net change in other working capital accounts	**272**	57	114
Other	**(58)**	11	6
Net cash provided by operating activities	**3,509**	3,729	3,551
Cash flows from investing activities:			
Additions to fixed assets (including dry-hole costs)	**(2,718)**	(2,105)	(3,038)
Net cash provided (used) by short-term investments	**(93)**	(814)	1,597
Proceeds from asset sales	**338**	149	145
Payments received on notes for sales of property	**—**	—	60
Net proceeds from subsidiary stock transaction	**—**	1,241	—
Other	**(87)**	(334)	142
Net cash used in investing activities	**(2,560)**	(1,863)	(1,094)
Cash flows from financing activities:			
Repayments of long-term debt	**(810)**	(486)	(868)
Proceeds from issuance of long-term debt	**1,062**	459	219
Net cash provided (used) by notes payable	**277**	85	(1,026)
Dividends paid	**(810)**	(760)	(704)
Treasury stock purchases, including subsidiaries	**(704)**	(810)	(601)
Other	**(33)**	(29)	(13)
Net cash used in financing activities	**(1,018)**	(1,541)	(2,993)
Effect of exchange rate changes on cash	**(2)**	(28)	(23)
Net increase (decrease) in cash and cash equivalents	**(71)**	297	(559)
Cash and cash equivalents at beginning of year	**1,173**	876	1,435
Cash and cash equivalents at end of year	**$1,102**	$1,173	$ 876

See Notes on pages 49 through 59.

Note 1 Accounting Policy

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. The Company also consolidates its interest in undivided interest pipeline companies and in oil and gas and coal mining joint ventures. The Company uses the equity method of accounting for companies where its ownership is between 20 and 50 percent, and for other ventures and partnerships in which less than a controlling interest is held.

Cash Equivalents; Short-Term Investments
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. Short-term investments consist of similar investments maturing in more than three months of purchase. Cash equivalents and short-term investments 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.

Dismantlement, Restoration and Reclamation Costs
The estimated costs, net of salvage value, of dismantling facilities or projects with limited lives or facilities which are required to be dismantled by contract, regulation or law, and the estimated cost of restoration and reclamation of land associated with such projects and land associated with mining operations, are accrued during operations 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.

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

Disposal of Fixed 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.

Minority Interest
Minority interest represents the minority stockholders' proportionate share of the equity and the income or loss of certain consolidated subsidiaries, primarily ARCO Chemical Company (ACC). At December 31, 1990, ARCO owned approximately 83.4 percent of the outstanding shares of ACC.

Reclassifications
Certain previously reported amounts have been restated to conform to classifications adopted in 1990.

Note 2 Public Offering of Lyondell Petrochemical Company Common Stock

In January 1989, ARCO completed an initial public offering of its Lyondell Petrochemical Company (Lyondell) common stock. The Company recognized an after-tax gain of $634 million from this transaction. Effective January 1989, ARCO accounts for its investment in Lyondell on the equity method.

At December 31, 1990, ARCO owned 49.9 percent of Lyondell common stock outstanding. The market value of ARCO's shares of Lyondell common stock, based upon the closing quoted market price at December 31, 1990, was $585 million.

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Note 3 Segment Information

The Company operates primarily in the Resources and Products segments. The Resources segment includes the Company's 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, such as propylene oxide, styrene monomer, tertiary butyl alcohol and methyl tertiary butyl ether.

Lyondell, a significant equity investment of the Company, is engaged in the manufacture, refining and marketing of basic commodity chemicals, including ethylene, propylene, methanol and aromatics, and petroleum products. Prior to ARCO's sale of a majority interest in 1989, Lyondell was consolidated and reported as the integrated petrochemical and petroleum processing component of the Products segment.

Segment information for the years *1990, 1989* and *1988*, was as follows:

Millions of dollars	*1990*	*1989*	*1988*
Sales and Other Operating Revenues			
Resources:			
Oil and gas	**$ 9,425**	$ 8,138	$ 6,949
Coal	**541**	519	405
Products:			
Refining and marketing	**8,649**	6,789	6,138
Transportation	**946**	862	931
Intermediate chemicals and specialty products	**2,950**	2,663	2,700
Integrated petrochemical and petroleum processing	**—**	—	4,696
Other operations	**33**	55	48
Elimination of intersegment amounts	**(3,736)**	(3,005)	(3,541)
Total	**$18,808**	$16,021	$18,324

Intersegment sales/transfers were made at prices approximating current market values. The amounts for intersegment sales that were included in sales and other operating revenues were as follows:

Millions of dollars	*1990*	*1989*	*1988*
Resources:			
Oil and gas	**$3,311**	$2,632	$2,406
Products:			
Refining and marketing	**25**	18	14
Transportation	**350**	312	353
Intermediate chemicals and specialty products	**24**	15	11
Integrated petrochemical and petroleum processing	**—**	—	732
Other operations	**26**	28	25
Total	**$3,736**	$3,005	$3,541
Pretax Segment Earnings			
Resources:			
Oil and gas	**$2,147**	$1,464	$ 959
Coal	***130***	*138*	*114*
Products:			
Refining and marketing	**806**	484	638
Transportation	**436**	424	488
Intermediate chemicals and specialty products	**439**	396	761
Integrated petrochemical and petroleum processing	**—**	—	850
Equity earnings from Lyondell Petrochemical Company	**250**	214	—
Gain on subsidiary stock transaction	**—**	957	—
Unallocated expenses and other operations	**(553)**	(317)	(148)
Interest	**(835)**	(799)	(842)
Income taxes	**(1,076)**	(1,142)	(1,144)
Minority interest	**(56)**	(66)	(93)
Cumulative effect of change in accounting principle	**323**	—	—
Net income	**$2,011**	$1,953	$1,583
After-Tax Segment Earnings			
Resources:			
Oil and gas	**$1,364**	$ 887	$ 542
Coal	**91**	92	79
Products:			
Refining and marketing	**439**	291	368
Transportation	**274**	266	308
Intermediate chemicals and specialty products (a)	**271**	336	400
Integrated petrochemical and petroleum processing	**—**	—	529
Equity earnings from Lyondell Petrochemical Company	**223**	214	—
Gain on subsidiary stock transaction	**—**	634	—
Unallocated expenses and other operations	**(410)**	(250)	(104)
Interest	**(564)**	(517)	(539)
Cumulative effect of change in accounting principle	**323**	—	—
Net income	**$2,011**	$1,953	$1,583

(a) Net of minority interest of $(51), $(66) and $(93) in 1990, 1989 and 1988, respectively.

Millions of dollars	1990	1989	1988
Total Assets			
Resources:			
Oil and gas	$11,146	$10,820	$11,046
Coal	929	857	725
Products:			
Refining and marketing	2,503	2,175	1,975
Transportation	2,162	2,170	2,326
Intermediate chemicals and specialty products	3,739	2,655	2,548
Integrated petrochemical and petroleum processing	—	—	864
Other operations	3,385	3,584	2,030
Total	$23,864	$22,261	$21,514
Depreciation, Depletion and Amortization			
Resources:			
Oil and gas	$1,247	$1,311	$1,269
Coal	43	44	34
Products:			
Refining and marketing	144	132	136
Transportation	108	107	104
Intermediate chemicals and specialty products	155	128	118
Integrated petrochemical and petroleum processing	—	—	16
Other operations	26	26	27
Total	$1,723	$1,748	$1,704
Additions to Fixed Assets			
Resources:			
Oil and gas	$1,560	$1,309	$2,555
Coal	109	148	107
Products:			
Refining and marketing	370	314	251
Transportation	103	43	53
Intermediate chemicals and specialty products	539	262	245
Integrated petrochemical and petroleum processing	—	—	65
Other operations	37	29	28
Total	$2,718	$2,105	$3,304

Millions of dollars	1990	1989	1988
Foreign Operations			
Sales and other operating revenues:			
Oil and gas	$ 719	$ 577	$ 484
Coal	288	256	154
Refining and marketing[a]	2,052	1,427	1,573
Intermediate chemicals and specialty products	1,146	920	850
Other operations	26	28	25
Elimination of intersegment amounts — oil and gas	(303)	(276)	(195)
Total	$3,928	$2,932	$2,891
Net income:			
Oil and gas	$ 76	$ (8)	$ (71)
Coal	34	34	23
Refining and marketing[a]	29	7	14
Intermediate chemicals and specialty products[b]	148	89	92
Other operations	(43)	(3)	6
Total	$ 244	$ 119	$ 64
Total assets:			
Oil and gas	$2,191	$1,902	$1,895
Coal	569	519	388
Refining and marketing[a]	321	244	275
Intermediate chemicals and specialty products	1,662	1,154	1,067
Other operations	155	167	313
Total	$4,898	$3,986	$3,938

(a) Principally marketing operations in Brazil.
(b) Includes earnings of equity affiliates, principally Asian joint ventures, of $18, $15 and $35, in 1990, 1989 and 1988, respectively.

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Note 4 Inventories

Inventories are recorded when purchased, produced or manufactured and are stated at the lower of cost or market. In 1990, approximately 55 percent of inventories, excluding materials and supplies, are valued by the last-in, first-out (LIFO) method. Materials and supplies and other non-LIFO inventories are valued predominantly on an average cost basis.

Total inventories at December 31, 1990 and 1989, comprised the following categories:

Millions of dollars	*1990*	*1989*
Crude oil and petroleum products	$184	$150
Chemical products	259	256
Other products	47	49
Materials and supplies	270	255
Total	$760	$710

The excess of the current cost of inventories over book value was approximately $191 million at December 31, 1990.

Note 5 Fixed Assets

Property, plant and equipment, and related accumulated depreciation, depletion and amortization at December 31, 1990 and 1989, were as follows:

Millions of dollars	*1990*	*1989*
Resources:		
Oil and gas	$20,177	$19,432
Coal	876	789
Products:		
Refining and marketing	2,915	2,591
Transportation	3,398	3,311
Intermediate chemicals and specialty products	2,467	1,851
Other operations	331	457
	30,164	28,431
Accumulated depreciation, depletion and amortization	13,764	12,774
Total	$16,400	$15,657

Expenses for maintenance and repairs for 1990, 1989 and 1988 were $519 million, $518 million and $469 million, respectively.

Note 6 Bank Credit Facilities and Compensating Balances

In 1990, the Company and certain wholly owned subsidiaries had bank credit facilities of approximately $5.2 billion. Included in this total is a credit facility negotiated on behalf of a subsidiary that is denominated in pounds sterling. At December 31, 1990, there were no borrowings under these committed facilities.

ACC maintains its own credit facility of $500 million which is not guaranteed by ARCO. At December 31, 1990, there were no borrowings against the ACC credit facility.

Notes payable on the balance sheet 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 Company has no requirements for compensating balances in a specific amount at a specific point in time. The Company does maintain balances for some of its banking services and products. Such balances are maintained on an average basis and are solely at the Company's discretion, so that effectively on any given date, none of the Company's cash is restricted.

Note 7 Interest Expense

Interest expense for the years ended December 31, 1990, 1989 and 1988, was comprised of the following:

Millions of dollars	*1990*	*1989*	*1988*
Long-term debt	$616	$587	$625
Short-term debt	118	75	80
Other	180	232	203
	914	894	908
Capitalized interest	(79)	(95)	(66)
Total interest expense	$835	$799	$842
Total interest paid in cash	$802	$818	$850

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Note 8 Taxes

Taxes other than excise and income taxes for the years ended December 31, 1990, 1989 and 1988, comprised the following:

Millions of dollars	1990	1989	1988
Property	$ 192	$177	$188
Production severance	459	395	268
Value Added	296	130	—
Other	356	241	209
Total	$1,303	$943	$665

The components of the provision for taxes on income for the years ended December 31, 1990, 1989 and 1988, were as follows:

Millions of dollars	1990	1989	1988
Federal:			
Current	$ 517	$1,074	$ 777
Deferred	277	(206)	89
	794	868	866
Foreign:			
Current	204	116	107
Deferred	(4)	14	24
	200	130	131
State:			
Current	43	183	146
Deferred	39	(39)	1
	82	144	147
Total provision for taxes on income	$1,076	$1,142	$1,144
Total taxes paid	$ 732	$1,267	$1,053

The sources of deferred income tax for the years ended December 31, 1990, 1989 and 1988, were as follows:

Millions of dollars	1990	1989	1988
Federal:			
Depreciation	$ 31	$ 38	$120
Capitalized interest	13	23	19
Oil and gas lease amortization	(14)	(19)	(3)
Intangible drilling costs	11	(11)	(25)
Reserve provisions	171	(181)	—
Subsidiary stock transaction	24	(60)	—
Other	41	4	(22)
	277	(206)	89
Foreign	(4)	14	24
State	39	(39)	1
Total	$312	$(231)	$114

The domestic and foreign components of income before income taxes, minority interest and cumulative effect of change in accounting principle, and a reconciliation of income tax expense with tax at the effective federal statutory rate for the years ended December 31, 1990, 1989 and 1988, were as follows:

Millions of dollars	Amount	Percent of Pretax Income
1990		
Income before income taxes:		
Domestic	$2,260	80.1
Foreign	560	19.9
Total	$2,820	100.0
Tax at 34%	$ 959	34.0
Increase (reduction) in taxes resulting from:		
Subsidiary dividend exclusion	(48)	(1.7)
Taxes on foreign income in excess of statutory rate	92	3.3
State income taxes (net of federal effect)	54	1.9
Other	19	.7
Provision for taxes on income	$1,076	38.2
1989		
Income before income taxes:		
Domestic	$2,830	89.5
Foreign	331	10.5
Total	$3,161	100.0
Tax at 34%	$1,075	34.0
Increase (reduction) in taxes resulting from:		
Subsidiary stock transaction/ dividend exclusion	(83)	(2.6)
Taxes on foreign income in excess of statutory rate	63	2.0
State income taxes (net of federal effect)	95	3.0
Other	(8)	(.3)
Provision for taxes on income	$1,142	36.1
1988		
Income before income taxes:		
Domestic	$2,581	91.5
Foreign	239	8.5
Total	$2,820	100.0
Tax at 34%	$ 959	34.0
Increase in taxes resulting from:		
Taxes on foreign income in excess of statutory rate	78	2.8
State income taxes (net of federal effect)	97	3.4
Other	10	.4
Provision for taxes on income	$1,144	40.6

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Effective January 1, 1990, the Company adopted Statement of Financial Accounting Standards No. 96, "Accounting for Income Taxes." The cumulative effect of this accounting change on years prior to 1990 was a $323 million reduction in the Company's deferred tax liability as of December 31, 1989. The reduction resulted in an increase in net income for 1990 of $323 million or $1.95 per share. The effect of the change on 1990 net income, excluding the cumulative effect upon adoption, was not material.

Note 9 Long-Term Debt

Long-term debt at December 31, 1990 and 1989, comprised the following:

Millions of dollars	*1990*	*1989*
5 ¾%, due in 1997	$ 31	$ 36
7.70%, due in 2000	58	62
7 ¼%, due in 2003	139	147
8 ⅝%, due in 2000	87	93
5.90%, due in 2007	265	265
8 ⅜%, due in 1997	33	41
6 ¾%, due in 1993	30	39
7%, due in 1991; $400 less unamortized discount of $23, effective rate 13.6%	377	355
Zero-coupon notes, due in 1992; $500 less unamortized discount of $69, effective rate 13.04%	431	377
11 ⅛%, due in 2015	—	300
11%, due in 2013	—	200
10 ¼%, due in 2000	250	250
10 ⅝%, due in 1995	500	500
10 ⅞%, due in 2005	500	500
Second Series Medium-Term Notes	—	18
Third Series Medium-Term Notes	162	172
10 ½%, due in 1995	150	150
9 ½%, due in 1996	150	150
9 ¼%, due in 1993	250	250
9 ⅛%, due in 1993	200	200
9 ⅞%, due in 2016	450	450
6 ⅛%, due in 1996	102	102
9 ⅛%, due in 2011	300	300
ARCO British Limited:		
Tricentrol Debt	69	131
Eurobonds, due in 1999	290	241
Eurobonds, due in 2000	145	—
ARCO Chemical Company:		
French bank loans	163	147
9.35%, due in 2019	123	123
Medium-Term Notes	80	100
9.9%, due in 2000	200	—
9.375%, due in 2005	100	—
10.25%, due in 2010	100	—
9.8%, due in 2020	224	—
ACNL bank loans	178	—
Capitalized lease obligations	27	26
Other	472	445
Total, including debt due within one year	6,636	6,170
Less:		
Debt due within one year	502	704
Bonds held in sinking fund	137	153
Long-term debt	$5,997	$5,313

Maturities and sinking fund obligations for the five years subsequent to December 31, 1990, are as follows (millions of dollars): 1991 — $502; 1992 — $649; 1993 — $553; 1994 — $99; 1995 — $105.

Note 10 Other Commitments and Contingencies

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

At December 31, 1990 and 1989, there were contingent liabilities with respect to guarantees of securities of other issuers of approximately $470 million and $405 million, respectively, of which approximately $34 million and $42 million, respectively, are indemnified. Of the 1990 amount, $380 million relates to the guarantee of commercial paper issued by an unrelated third party. The Company believes it would be made whole if it became obligated to pay pursuant to such guarantee.

Since June 1975, the Company and certain other petroleum companies have been named as defendants in a number of civil antitrust actions brought against them by state agencies or by private entities as class actions which allege violations of federal and state monopoly and restraint of trade statutes. The various types of relief sought in such actions include injunctive relief and damages. The Company is unable to predict the outcome of these actions at this time, but believes that they can be successfully defended; however, adverse decisions in certain such actions could have a significant effect on the scope and nature of the Company's operations. Final judicial determination of these actions is expected to take a number of years.

Claims of alleged violations of pricing regulations previously in effect established by the Department of Energy brought by private parties are pending in two actions against the Company, one of which has been certified as a class action. These two matters, when resolved, are not expected to have a material adverse effect on the consolidated financial position of the Company.

On March 24, 1989, an oil tanker, the EXXON Valdez, ran aground near Bligh Island, Alaska, after taking on crude oil from the Valdez Marine Terminal operated by Alyeska Pipeline Service Company (Alyeska), of which ARCO Pipe Line Company (APL) owns approximately 21 percent. Roughly 240,000 barrels of crude oil were discharged into the waters of Prince William Sound. As a result, numerous lawsuits seeking damages and injunctions have been filed in state and federal court in Alaska against Exxon and Alyeska, alleging, among other things, that Alyeska responded inadequately to the oil spill. APL, along with the other owners of Alyeska, has been named as a defendant in at least twenty-nine federal cases and twenty-three state cases. The Company does not believe that resolution of these claims will have a material adverse effect on its consolidated financial position.

There is pending against the Company a consolidated class action lawsuit alleging certain misstatements and omissions in the prospectus relating to the sale to the public by the Company in January 1989 of just over 50 percent of the common stock of Lyondell, the Company's then wholly owned subsidiary. The suit also names as defendants Lyondell, some of Lyondell's directors and the underwriters of the January 1989 initial public offering. The suit also alleges certain misstatements and omissions in certain of Lyondell's public disclosures made during 1989. The suit seeks to recover damages for stockholders who purchased stock between the period beginning January 18, 1989 and ending on November 14, 1989. The original complaint in this consolidated class action was dismissed by the court in October 1990. The plaintiffs then filed an amended complaint in January 1991. A new action alleging similar misstatements and omissions was filed by a stockbroker against the Company, Lyondell and two of Lyondell's directors in December 1990. The Company does not believe that resolution of these claims will have a material adverse effect on its consolidated financial position.

The Company and former producers of lead pigments and lead paints have been named as defendants in cases filed by the Cities of New York, Philadelphia and New Orleans and/or their respective housing authorities seeking damages and injunctive relief as a consequence of the presence of lead-based paint in housing units owned or operated by these plaintiffs and in privately owned buildings located in New York and Philadelphia. The Philadelphia case also purports to be a class action on behalf of all cities in the United States with over 100,000 residents that are engaged in or contemplating a program involving any aspect of lead paint and its alleged hazards. The Company does not believe that the resolution of these claims will have a material adverse effect on its consolidated financial position.

Since August 1990, the Company and its subsidiary, Atlantic Richfield Hanford Company, have been named as defendants in a number of civil actions brought against them by private citizens as purported class actions which allege commission of common law torts and violations of federal and state environmental statutes. These actions arise out of the performance by the subsidiary of a contract with the Atomic Energy Commission to provide chemical processing, waste management and support services at the Hanford Nuclear Reservation in Richland, Washington during the period from 1967 to 1977. The various types of relief sought in the actions include injunctive relief and compensatory and punitive damages. The Company does not believe that the resolution of these claims will have a material adverse effect on its consolidated financial position.

The Company is also the subject of or party to a number of pending or threatened legal actions for which the legal responsibility and financial impact cannot presently be ascertained. The Company does not anticipate that any ultimate liability arising from any of these suits would have a material effect on its consolidated financial position.

The Company 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 and petroleum substances at various sites, such as Superfund sites, oil fields, service stations, terminals and other operating and closed facilities. The Company is currently participating in environmental assessments and cleanups at numerous sites under these laws and may in the future be involved in additional environmental assessments and cleanups. The amount of such future cost is indeterminable due to such factors as the unknown magnitude of clean-up costs, the unknown timing and extent of the remedial actions which may be required, the determination of the Company's liability in proportion to other responsible parties and the extent, if any, to which such costs are recoverable from insurance. These contingencies also include claims for personal injuries allegedly caused by exposure to toxic materials manufactured or used by the Company. Although these contingencies could result in significant expenses or judgments, such expenses or judgments are not expected to have a material effect on the Company's consolidated financial position.

The operations and consolidated financial position of the Company 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, natural gas regulation, tax increases, environmental regulations, cancellation of contract rights and expropriation of property. Both the likelihood of such occurrences and their overall effect on the Company vary greatly and are not predictable.

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

Note 11 Retirement Plans

The Company 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. The Company's funding policy is to make annual contributions as required by applicable regulations. In 1990, 1989 and 1988, the Company charged pension costs as accrued, based on an actuarial valuation for each plan, and funded the plans through contributions to trust funds that are kept apart from Company funds.

The following table sets forth the plans' funded status and amounts recognized in the Company's balance sheet at December 31, 1990 and 1989:

Millions of dollars	*Assets Exceed Accumulated Benefits*	*Accumulated Benefits Exceed Assets*
1990		
Actuarial present value of benefit obligations:		
Vested benefit obligation	$1,314	$ 244
Accumulated benefit obligation	$1,322	$ 247
Projected benefit obligation	$1,499	$ 270
Plan assets at fair value, primarily stocks and bonds	2,193	14
Projected benefit obligation (in excess of) or less than plan assets	694	(256)
Unrecognized net gain	(36)	(18)
Prior service cost not yet recognized in net periodic pension cost	(2)	105
Remaining unrecognized (asset) obligation from January 1, 1986	(498)	82
Adjustment required to recognize minimum liability	—	(144)
Prepaid pension cost (pension liability) recognized in the balance sheet	$ 158	$ (233)
1989		
Actuarial present value of benefit obligations:		
Vested benefit obligation	$1,271	$ 155
Accumulated benefit obligation	$1,301	$ 157
Projected benefit obligation	$1,460	$ 172
Plan assets at fair value, primarily stocks and bonds	2,427	11
Projected benefit obligation (in excess of) or less than plan assets	967	(161)
Unrecognized net gain	(441)	(26)
Prior service cost not yet recognized in net periodic pension cost	44	13
Remaining unrecognized (asset) obligation from January 1, 1986	(535)	100
Adjustment required to recognize minimum liability	—	(74)
Prepaid pension cost (pension liability) recognized in the balance sheet	$ 35	$(148)

Pension costs related to Company-sponsored plans, on a pre-tax basis, including amortization of unfunded projected benefit obligations for 1990, 1989 and 1988, were as follows:

Millions of dollars	*1990*	*1989*	*1988*
Service cost-benefits earned during the period	$ 38	$ 32	$ 28
Interest cost on projected benefit obligation	130	117	120
Actual return on plan assets	127	(349)	(180)
Net amortization and deferral	(317)	190	26
Net periodic pension cost (benefit)	$ (22)	$ (10)	$ (6)

The Company's assumptions used as of December 31, 1990, 1989 and 1988, in determining the pension cost and pension liability shown above were as follows:

Percent	*1990*	*1989*	*1988*
Discount rate	9.5	9.75	10.0
Rate of salary progression	5.0	5.0	5.0
Long-term rate of return on assets	9.5	9.5	9.5

The Company provides certain health care and life insurance benefits for substantially all retired employees. *The costs of such benefits are recognized* as incurred. In 1990, 1989 and 1988, these costs totaled $39 million, $25 million and $22 million, respectively.

Note 12 Stockholders' Equity

Detail of the Company's capital stock as of December 31, 1990 and 1989, was as follows:

	1990	*1989*
$3.00 Cumulative convertible preference stock, par $1:		
Shares authorized	245,714	245,714
Shares issued and outstanding	114,352	126,101
Aggregate value in liquidation — (thousands)	$9,148	$10,088
$2.80 Cumulative convertible preference stock, par $1:		
Shares authorized	4,785,041	4,785,041
Shares issued and outstanding	1,070,285	1,181,758
Aggregate value in liquidation — (thousands)	$74,920	$82,723
Common stock, par $2.50:		
Shares authorized	600,000,000	600,000,000
Shares issued	167,679,563	167,584,194
Shares outstanding	158,912,873	164,186,803
Shares held in treasury	8,766,690	3,397,391

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The changes in preference stocks were due solely 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. The 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 the Company for $82 and $70 per share, respectively.

The Company has authorized 352,000 shares of Series B, 3.75 percent cumulative preferred stock, $100 par, of which none were issued or outstanding at December 31, 1990 and 1989.

By Board authorization, effective December 31, 1989, the Company cancelled 50 million shares of common stock held in treasury. As a result of the cancellation, common stock decreased by $125 million, capital in excess of par value of stock decreased by $228 million, and retained earnings decreased by $3,119 million.

The balance in the Company's common stock was $419 million at December 31, 1990 and 1989, and $544 million at December 31, 1988. The change in 1989 was due to the cancellation of treasury stock.

Detail of changes in the Company's treasury stock in 1990, 1989 and 1988, was as follows:

Millions of dollars

Balance, January 1, 1988	$2,438
Treasury stock purchases	492
Conversions	(18)
Employee benefit plans	(3)
Balance, December 31, 1988	2,909
Treasury stock purchases	827
Conversions	(28)
Cancellation of treasury stock	(3,472)
Balance, December 31, 1989	236
Treasury stock purchases	685
Conversions	(31)
Balance, December 31, 1990	$ 890

The net decrease in capital in excess of par value of stock in 1990, 1989 and 1988 of $24 million, $252 million and $18 million, respectively, was due primarily to the conversion of preference stock to common stock and the cancellation of treasury stock in 1989.

The Company's certificate of incorporation contains a provision restricting dividend payments; however, at December 31, 1990, retained earnings were free from such restriction. At December 31, 1990, shares of the Company's authorized and unissued common stock were reserved as follows:

Conversions:	
$3.00 Preference stock	777,594
$2.80 Preference stock	2,568,684
Stock option plans	3,160,397
Employee benefit plans	9,974,482
Total	16,481,157

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

Note 13 Stock Options

Options to purchase shares of the Company's common stock have been granted to executives, outside directors and key employees. These options become exercisable in varying installments and expire eight to ten years after the date of grant. Transactions during 1990, 1989 and 1988, were as follows:

Balance, January 1, 1988	690,119
Granted	539,371
Cancelled or expired	(3,176)
Exercised (average option price per share: $49.20)	(43,316)
Balance, December 31, 1988	1,182,998
Granted	424,496
Cancelled or expired	(5,479)
Exercised (average option price per share: $50.19)	(113,480)
Balance, December 31, 1989	1,488,535
Granted	474,610
Cancelled or expired	(14,404)
Exercised (average option price per share: $63.80)	(157,608)
Balance, December 31, 1990	1,791,133
At December 31, 1990	
Shares exercisable	386,269
Shares available for option (1,789,470 at December 31, 1989)	1,369,264
Average option price per share:	
Shares under option	$87.72
Shares exercisable	$73.78

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Note 14 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 dividends attributable to the convertible securities are considered, for this calculation, to be available to common shares.

The information necessary for the calculation of earned per share for the years ended December 31, 1990, 1989 and 1988, was as follows:

Millions of dollars and shares except per share amounts	*1990*	*1989*	*1988*
Net income	$2,011.2	$1,952.8	$1,583.1
Average number of common shares outstanding	161.5	169.2	175.8
Common stock equivalents	4.0	4.2	4.6
Total	165.5	173.4	180.4
Earned per share	$12.15	$11.26	$8.78

Note 15 Supplemental Cash Flow Information

The following is supplemental cash flow information provided in accordance with SFAS No. 95, "Statement of Cash Flows," for the years ended December 31, 1990, 1989 and 1988:

Millions of dollars	*1990*	*1989*	*1988*
Gross maturities of short-term investments	$7,859	$5,551	$14,151
Gross purchases of short-term investments	(7,952)	(6,365)	(12,554)
Net cash provided (used) by short-term investments	$ (93)	$ (814)	$ 1,597
Gross proceeds from issuance of notes payable	$7,448	$2,891	$11,650
Gross repayments of notes payable	(7,171)	(2,806)	(12,676)
Net cash provided (used) by notes payable	$ 277	$ 85	$(1,026)
Gross noncash provisions charged to income	$ 990	$ 834	$ 489
Cash payments of previously deferred items	(1,462)*	(264)	(343)
Noncash provisions greater (less) than cash payments	$ (472)	$ 570	$ 146

** Includes payments of approximately $800 million to the Internal Revenue Service and $290 million to the State of Alaska in settlement of disputed windfall profit taxes and royalty issues on ARCO's Alaskan North Slope crude production.*

During 1988, the Company purchased all of the capital stock of Tricentrol PLC. In connection with the acquisition, liabilities were assumed as follows:

Millions of dollars	
Net fair value of assets acquired	$710
Cash paid for capital stock	(454)
Liabilities assumed	$256

Liabilities assumed consisted of $132 million of long-term debt and $124 million outstanding under a short-term credit facility.

Note 16 Lease Commitments

Commitments under capital financial leases are capitalized with the obligation recorded at the present value of future rental payments. The related assets are amortized on a straight-line basis.

At December 31, 1990, future minimum rental payments due under leases were as follows:

Millions of dollars	*Capital Leases*	*Operating Leases*
1991	$ 3	$ 158
1992	3	130
1993	3	112
1994	3	94
1995	3	85
Later years	87	471
Total minimum lease payments	102	$1,050
Imputed interest (rates ranging from 9.75% to 14.875%)	75	
Present value of minimum lease payments included in long-term debt	$ 27	

Minimum future rental income under noncancelable subleases at December 31, 1990, amounted to $217 million.

Operating lease net rental expense for the years ended December 31, 1990, 1989 and 1988, was as follows:

Millions of dollars	*1990*	*1989*	*1988*
Minimum rentals	$206	$169	$165
Contingent rentals	3	2	1
Sublease rental income	(15)	(23)	(16)
Net rental expense	$194	$148	$150

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

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Note 17 Foreign Currency Transaction Loss

Foreign exchange losses amounted to $102 million, $89 million and $97 million in 1990, 1989 and 1988, respectively, relating primarily to Brazilian operations.

Note 18 Financial Instruments with Off-Balance-Sheet Risk

At December 31, 1990, the Company had letters of credit outstanding totaling $275 million, of which approximately $95 million guarantee obligations carried on the balance sheet.

At December 31, 1990, the Company had outstanding several foreign currency forward contracts and foreign cross-currency forward contracts outstanding, maturing at various dates. The Company also has sold foreign currency put and call options outstanding. In the aggregate, these transactions require the exchange of $49 million for 75 million Deutsche marks, $16 million for 2 billion yen, and 75 million French francs for 25 million Dutch guilders.

Approximately $1 billion of the Company's long-term debt is denominated in foreign currencies. To reduce exposure to foreign currency fluctuations, the Company has 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 rate of 8.14 percent.

The Company has entered into two currency swap agreements with a commercial bank to reduce its exposure to sterling/dollar exchange rate fluctuations. These agreements, having a total notional principal amount of $380 million, effectively remove the Company's currency exposure created by agreements entered into with an unrelated third party. The currency swaps mature at the time the associated third party agreements expire in 1999 and 2000.

The counterparties to these transactions are major international financial institutions; the Company does not anticipate nonperformance by the counterparties.

Note 19 Lyondell Petrochemical Company

Summarized financial information for Lyondell, an equity investment of ARCO, was as follows:

Millions of dollars	*1990*	*1989*	*1988*
Year Ended December 31:			
Revenues	$6,495	$5,358	$4,696
Sales to ARCO and ACC	$ 390 (a)	$ 667 (a)	$ 732
Income before income taxes	$ 537	$ 558	$ 825
Net income	$ 356	$ 374	$ 543
ARCO's equity in net income of Lyondell	$ 223 (b)	$ 214	(d)
Cash dividends received from Lyondell	$ 164	$ 48	(d)
At December 31:			
Current assets	$ 788	$ 801	
Noncurrent assets	$ 584	$ 466	
Current liabilities	$ 550	$ 434	
Long-term debt	$ 471	$ 500	
Other liabilities	$ 315	$ 324	
Stockholders' equity	$ 38 (c)	$ 9	

(a) Approximates 6% and 10% of ARCO's purchases in 1990 and 1989, respectively.
(b) Includes 49.9% of Lyondell's 1990 income plus $45 million after tax from dividends received in excess of ARCO's basis of investment.
(c) ARCO's investment in Lyondell comprises 49.9% of Lyondell's stockholders' equity plus $72 million of dividends received in excess of basis.
(d) Prior to 1989, Lyondell was a 100% owned consolidated subsidiary.

Note 20 Unaudited Quarterly Results

Millions of dollars except per share amounts	*1990*	*1989*
Sales and other operating revenues (including excise taxes)		
Quarter ended:		
March 31	$ 4,215	$ 3,962
June 30	4,035	4,334
September 30	4,818	3,714
December 31	5,740	4,011
Total	$18,808	$16,021
Income before income taxes, minority interest and cumulative effect of change in accounting principle		
Quarter ended:		
March 31	$ 468	$ 1,071
June 30	684	770
September 30	723	648
December 31	945	672
Total	$ 2,820	$ 3,161
Net Income		
Quarter ended:		
March 31	$ 592*	$ 704
June 30	391	467
September 30	462	379
December 31	566	403
Total	$ 2,011	$ 1,953
Earned per Share		
Quarter ended:		
March 31	$ 3.55*	$ 4.00
June 30	$ 2.36	$ 2.66
September 30	$ 2.79	$ 2.19
December 31	$ 3.45	$ [illegible]

** Includes cumulative effect of change in accounting for income taxes of $[illegible] million or $1.95 per share.*

RESPONSIBILITY FOR FINANCIAL STATEMENTS

To the Stockholders of Atlantic Richfield Company (ARCO)

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 twenty 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.

Lodwrick M. Cook

Lodwrick M. Cook
Chairman of the Board and
Chief Executive Officer

INDEPENDENT ACCOUNTANTS' REPORT

To the Stockholders and Board of Directors of Atlantic Richfield Company (ARCO)

We have audited the accompanying consolidated balance sheets of Atlantic Richfield Company as of December 31, 1990 and 1989, 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, 1990. 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, 1990 and 1989, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1990, in conformity with generally accepted accounting principles.

As discussed in Note 8 to the consolidated financial statements, the Company changed its method of accounting for income taxes in 1990.

Coopers & Lybrand

Coopers & Lybrand
Los Angeles, California
February 14, 1991

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 which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. Proved developed 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 Company 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 proved oil and gas reserves of the Company were as follows:

	Petroleum Liquids (million barrels)		*Natural Gas (billion cubic feet)*	
	Domestic	*Foreign*	*Domestic*	*Foreign*
January 1, 1988:				
Proved reserves	2,818	223	5,854	897
Proved developed reserves	2,201	86	4,806	319
December 31, 1988:				
Proved reserves	2,829	264	6,373	1,249
Proved developed reserves	2,184	115	5,420	363
December 31, 1989:				
Proved reserves	2,765	237	6,452	1,206
Proved developed reserves	2,157	101	5,473	324
December 31, 1990:				
Proved reserves	**2,720**	**210**	**6,256**	**1,796**
Proved developed reserves	**2,152**	**134**	**5,343**	**475**

The changes in proved reserves for the years ended December 31, 1988, 1989 and 1990, were as follows:

	Petroleum Liquids (million barrels)		*Natural Gas (billion cubic feet)*	
	Domestic	*Foreign*	*Domestic*	*Foreign*
Reserves at January 1, 1988	2,818	223	5,854	897
Revisions of estimates	18	18	415	(28)
Improved recovery	98	—	41	—
Purchases of minerals-in-place	117	30	45	430
Extensions and discoveries	32	16	620	6
Production	(246)	(23)	(508)	(56)
Consumed in production	—	—	(75)	—
Sales of minerals-in-place	(8)	—	(19)	—
Reserves at December 31, 1988	2,829	264	6,373	1,249
Revisions of estimates	38	(2)	204	13
Improved recovery	31	—	12	—
Purchases of minerals-in-place	39	—	5	—
Extensions and discoveries	79	2	507	6
Production	(241)	(26)	(558)	(62)
Consumed in production	—	—	(68)	—
Sales of minerals-in-place	(10)	(1)	(23)	—
Reserves at December 31, 1989	2,765	237	6,452	1,206
Revisions of estimates	**55**	**22**	**(70)**	**(14)**
Improved recovery	**115**	**16**	**2**	—
Purchases of minerals-in-place	**15**	**10**	**103**	—
Extensions and discoveries	**19**	**6**	**499**	**678**
Production	**(233)**	**(24)**	**(567)**	**(71)**
Consumed in production	—	—	**(74)**	—
Sales of minerals-in-place	**(16)**	**(57)**	**(89)**	**(3)**
Reserves at December 31, 1990	**2,720**	**210**	**6,256**	**1,796**

Significant changes to proved oil and gas reserves during 1990 were due to the following: the addition of reserves from the Pagerungan gas field in Indonesia upon finalization of a gas supply agreement; the addition of liquids reserves at Prudhoe Bay as a result of an agreement with co-owners which included the addition of a second gas handling facility (GHX-2); and a reduction in foreign liquids reserves due to the sale of the Company's Norwegian interests.

PNYC 00013090

Estimates of petroleum reserves have been made by Company engineers. These estimates do not include probable or possible reserves. Natural gas liquids comprise 13 percent of petroleum liquid proved reserves.

Included in domestic proved reserves are approximately 90 million barrels of crude oil equivalents associated with the Coal Oil Point field offshore California. In 1987, the California State Lands Commission (SLC) denied development permits for this project. The Company has filed suit against the SLC and County of Santa Barbara to force approval of the development plan or allow the Company to recover damages. On January 24, 1990, the California Superior Court for the County of Los Angeles issued an order in favor of the SLC. Under the order, the SLC was allowed to defer development of the Coal Oil Point leases for a reasonable period while ARCO and the SLC evaluate technological and economic feasibility of alternative methods for further development. ARCO has appealed this order to the California Court of Appeal. Meanwhile, ARCO and the SLC have undertaken settlement discussions with a view toward settling the litigation and resolving the question of Coal Oil Point development.

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. There are currently two active projects under consideration: 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.

The Company has studied various options for marketing North Slope gas over the past few years. However, ARCO Alaska believes that market conditions are not likely to permit implementation of any large gas sales project within the foreseeable future.

On January 31, 1991, ARCO completed the acquisition of all of Oryx Energy Company's oil properties in the Midway-Sunset field in Kern County, California. These oil properties will add approximately 125 million barrels of crude oil equivalent to domestic proved reserves in 1991.

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, 1990, 1989 and 1988, were as follows:

Millions of dollars	*Proved Properties*		*Unproved Properties*	
1990	*Domestic*	*Foreign*	*Domestic*	*Foreign*
Gross	$16,140	$2,647	$786	$573
Accumulated depreciation, depletion and amortization	8,859	1,318	93	77
Net	$ 7,281	$1,329	$693	$496
1989				
Gross	$15,751	$2,347	$826	$477
Accumulated depreciation, depletion and amortization	8,307	1,108	89	74
Net	$ 7,444	$1,239	$737	$403
1988				
Gross	$15,558	$2,311	$749	$350
Accumulated depreciation, depletion and amortization	7,821	934	25	81
Net	$ 7,737	$1,377	$724	$269

Costs, both capitalized and expensed, incurred in oil and gas producing activities (including operating overhead) during the three years ended December 31, 1990, 1989 and 1988, were as follows:

Millions of dollars	*Domestic*	*Foreign*	*Total*
1990			
Property acquisition costs:			
Proved properties	$ 38	$ 64	$ 102
Unproved properties	$113	$ 5	$ 118
Exploration costs	$483	$232	$ 715
Development costs	$657	$233	$ 890
1989			
Property acquisition costs:			
Proved properties	$ 7	—	$ 7
Unproved properties	$121	$ 6	$ 127
Exploration costs	$384	$173	$ 557
Development costs	$625	$216	$ 841
1988			
Property acquisition costs:			
Proved properties	$249	$579	$ 828
Unproved properties	$351	$123	$ 474
Exploration costs	$323	$232	$ 555
Development costs	$734	$209	$ 943

PNYC 00013091

Results of operations from oil and gas producing activities (including operating overhead) for the three years ended December 31, 1990, 1989 and 1988, were as follows:

Millions of dollars	Domestic	Foreign	Total
1990			
Revenues:			
Sales	$2.523	$416	$2.939
Transfers	2.415	303	2,718
Other	246	86	332
	5,184	805	5,989
Production costs	1.626	240	1,866
Exploration expenses	404	244	648
Depreciation, depletion and amortization	1,002	215	1.217
Other	167	—	167
	1,985	106	2,091
Income tax expense	732	30	762
Results of operations from production activities	$1.253	$ 76	$1.329
1989			
Revenues:			
Sales	$1.679	$301	$1.980
Transfers	2.487	276	2,763
Other	156	15	171
	4,322	592	4,914
Production costs	1.392	211	1.603
Exploration expenses	283	157	440
Depreciation, depletion and amortization	1.094	192	1.286
Other	134	—	134
	1,419	32	1,451
Income tax expense	533	40	573
Results of operations from production activities	$ 886	$ (8)	$ 878
1988			
Revenues:			
Sales	$ 723	$289	$1,012
Transfers	2,725	195	2.920
Other	152	17	169
	3,600	501	4.101
Production costs	1,220	172	1,392
Exploration expenses	277	192	469
Depreciation, depletion and amortization	1,024	166	1.190
Other	136	—	136
	943	(29)	914
Income tax expense	359	42	401
Results of operations from production activities	$ 584	$(71)	$ 513

The difference between the above results of operations for 1990, 1989 and 1988, and the amounts reported for after-tax oil and gas segment earnings in Note 3 of Notes to Consolidated Financial Statements is primarily the marketing-related activities.

The standardized measure of discounted estimated future net cash flows, and changes therein, related to proved oil and gas reserves were as follows:

Billions of dollars	Domestic	Foreign	Total
1990			
Future cash inflows	$61.4	$9.4	$70.8
Future development and production costs	27.3	3.2	30.5
Future income tax expense	11.8	2.4	14.2
Future net cash flows	22.3	3.8	26.1
10% annual discount	10.2	1.7	11.9
Standardized measure of discounted future net cash flows	$12.1	$2.1	$14.2
1989			
Future cash inflows	$48.6	$6.9	$55.5
Future development and production costs	24.0	3.1	27.1
Future income tax expense	8.2	1.4	9.6
Future net cash flows	16.4	2.4	18.8
10% annual discount	7.3	1.1	8.4
Standardized measure of discounted future net cash flows	$ 9.1	$1.3	$10.4
1988			
Future cash inflows	$33.3	$6.8	$40.1
Future development and production costs	17.4	3.2	20.6
Future income tax expense	5.0	1.2	6.2
Future net cash flows	10.9	2.4	13.3
10% annual discount	5.0	1.3	6.3
Standardized measure of discounted future net cash flows	$ 5.9	$1.1	$ 7.0

PNYC 00013092

Primary changes in the standardized measure of discounted estimated future net cash flows were as follows:

Billions of dollars	1990	1989	1988
Sales and transfer of oil and gas, net of production costs	$(3.8)	$(3.2)	$(2.5)
Extensions, discoveries and improved recovery, less related costs	1.3	.9	.7
Revisions of estimates of reserves proved in prior years:			
Quantity estimates	.6	.3	.3
Net changes in price and production costs	6.3	5.3	(1.7)
Purchases/Sales	—	—	.8
Other	(.6)	.2	(.1)
Accretion of discount	1.6	1.1	1.0
Development costs incurred during the period	.9	.8	.9
Net change in income taxes	(2.5)	(2.0)	.1
Net change	$ 3.8	$ 3.4	$ (.5)

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 expenses are 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. Because of unpredictable variances in expenses and capital forecasts, crude oil and natural gas price changes, largely influenced and controlled by U.S. and foreign governmental actions, and the fact that the bases for such estimates vary significantly, management believes the usefulness of these projections is limited. Estimates of future net cash flows presented do not represent management's assessment of future profitability or future cash flow to the Company. Management's investment and operating decisions are based upon reserve estimates that include proved reserves prescribed by the SEC as well as probable reserves, and upon different price and cost assumptions from those used here.

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

Regarding the information concerning estimated reserve quantities and discounted future net cash flows, the Company has no long-term supply contracts with foreign governments or any interest in equity affiliates involved in oil and gas producing activities.

Coal Operations

Supplemental operating statistics for the coal operations of the Company for the three years ended December 31, 1990, 1989 and 1988, were as follows:

	1990	1989	1988
Coal shipments - thousand tons:			
Domestic	29,437	31,114	26,936
Foreign	8,819	8,333	5,511
Total	38,256	39,447	32,447
Coal reserves - million tons recoverable:			
Domestic	854	869	877
Foreign	411	321	306
Total	1,265	1,190	1,183
Average market price per ton of coal:			
Domestic	$ 9.45	$ 9.29	$10.60
Foreign	$32.70	$31.33	$28.87
Composite price	$14.81	$13.95	$13.71

PNYC 00013093

Millions of dollars except per share amounts	*1990*	*1989*	*1988*	*1987*	*1986*
Sales and Other Operating Revenues					
Resources:					
Oil and gas	**$ 9,425**	$ 8,138	$ 6,949	$ 7,724	$ 6,942
Coal	**541**	519	403	320	345
Products:					
Refining and marketing	**8,649**	6,789	6,138	5,960	5,256
Transportation	**946**	862	931	967	1,045
Intermediate chemicals and specialty products	**2,950**	2,663	2,700	1,967	1,907
Integrated petrochemical and petroleum processing[a]	**—**	—	4,696	3,926	3,008
Other operations	**33**	55	48	64	83
Elimination of intersegment amounts	**(3,736)**	(3,005)	(3,541)	(3,951)	(3,477)
Total	**$18,808**	$16,021	$18,324	$16,977	$15,109
Net Income					
Resources:					
Oil and gas	**$ 1,364**	$ 887	$ 542	$ 835	$ 333
Coal	**91**	92	79	67	76
Products:					
Refining and marketing	**439**	291	368	150	353
Transportation	**274**	266	308	340	352
Intermediate chemicals and specialty products	**271**	336	400	404	70
Integrated petrochemical and petroleum processing[a]	**—**	—	529	132	132
Equity earnings from Lyondell Petrochemical Company	**223**	214	—	—	—
Gain on subsidiary stock transactions	**—**	634	—	—	—
Unallocated expenses and other operations	**(410)**	(250)	(104)	(126)	(187)
Interest	**(564)**	(517)	(539)	(578)	(514)
Cumulative effect of change in accounting for income taxes	**323**	—	—	—	—
Net Income	**$ 2,011**	$ 1,953	$ 1,583	$ 1,224	$ 615
Earned per share[b]	**$ 12.15**	$ 11.26	$ 8.78	$ 6.68	$ 3.38
Retained earnings	**$ 6,837**	$ 5,636	$ 7,562	$ 6,683	$ 6,173
Additions to Fixed Assets					
Resources:					
Oil and gas (including dry-hole costs)	**$ 1,560**	$ 1,309	$ 2,555	$ 721	$ 1,322
Coal	**109**	148	107	12	15
Products:					
Refining and marketing	**370**	314	251	318	246
Transportation	**103**	43	53	26	31
Intermediate chemicals and specialty products	**539**	262	245	312	172
Integrated petrochemical and petroleum processing[a]	**—**	—	65	27	13
Other operations	**37**	29	28	47	23
Total	**$ 2,718**	$ 2,105	$ 3,304	$ 1,463	$ 1,822

(a) Prior to 1989, Lyondell Petrochemical Company was a 100 percent owned consolidated subsidiary. For years subsequent to 1988, Lyondell is treated as an equity investment and is no longer consolidated.

(b) The cumulative effect of the change in accounting for income taxes in 1990 was $1.95 per share.

PNYC 00013094

	1990	1989	1988	1987	1986
Oil and Gas					
After-tax oil and gas earnings (millions):					
Alaska	**$ 700**	$546	$382	$487	$124
Lower 48	**588**	349	231	335	195
Foreign	**76**	(8)	(71)	13	14
Total	**$1,364**	$887	$542	$835	$333
Exploration expense (millions):					
Alaska —					
Dry-hole costs	**$ 91**	$ 6	$ 8	$ 2	$ 9
Lease amortization	**17**	23	24	24	18
Geological and geophysical	**20**	21	10	9	4
Other	**19**	19	14	10	13
Total Alaska	**147**	69	56	45	44
Lower 48 —					
Dry-hole costs	**108**	107	82	33	174
Lease amortization	**90**	95	90	95	66
Geological and geophysical	**44**	34	42	30	31
Other	**92**	76	83	74	105
Total Lower 48	**334**	312	297	232	376
Total Domestic	**481**	381	353	277	420
Foreign —					
Dry-hole costs	**100**	50	59	41	10
Geological and geophysical	**19**	19	25	28	15
Other	**51**	29	48	36	34
Total Foreign	**170**	98	132	105	59
Total	**$ 651**	$479	$485	$382	$479
Crude oil, condensate and NGL production (thousand barrels/day-net):					
Domestic —					
Prudhoe Bay	**263.1**	280.5	304.9	313.4	306.8
Kuparuk	**138.4**	147.1	146.3	122.0	109.9
Lisburne	**13.9**	12.5	13.6	15.0	4.1
Other Alaska	**3.4**	4.3	5.2	6.1	7.3
NGLs	**15.0**	15.0	17.3	13.9	1.8
Total Alaska	**433.8**	459.4	487.3	470.4	429.9
Lower 48 — Crude oil	**168.2**	166.2	151.2	157.1	188.8
— NGLs	**36.3**	34.4	35.7	37.5	40.4
Total Domestic	**638.3**	660.0	674.2	665.0	659.1
Foreign —					
Indonesia	**38.4**	47.2	42.4	46.6	56.8
Dubai	**12.9**	8.1	8.7	9.6	10.9
United Kingdom	**10.7**	9.6	6.8	1.0	—
Other	**.6**	.9	.6	.8	.9
NGLs	**4.5**	4.3	5.1	5.2	6.0
Total Foreign	**67.1**	70.1	63.6	63.2	74.6
Total	**705.4**	730.1	737.8	728.2	733.7

	1990	1989	1988	1987	1986
Oil and Gas (continued)					
Natural gas production (million cubic feet/day):					
Domestic —					
Onshore	**939.3**	855.0	708.0	587.0	582.0
Offshore	**614.3**	674.0	681.0	685.0	662.0
Total Domestic	**1,553.6**	1,529.0	1,389.0	1,272.0	1,244.0
Foreign —					
United Kingdom	**155.5**	117.9	99.8	108.3	72.4
Indonesia	**13.6**	14.2	17.5	21.9	28.5
Netherlands	**24.4**	31.1	29.4	26.1	23.2
Colombia	**—**	6.0	7.4	8.1	8.5
Total Foreign	**193.5**	169.2	154.1	164.4	132.6
Total	**1,747.1**	1,698.2	1,543.1	1,436.4	1,376.6
Average sales prices —					
Crude oil and condensate (dollars/barrel):					
Alaska	**$14.84**	$11.71	$ 8.51	$10.95	$ 6.43
Lower 48	**$20.85**	$16.92	$14.20	$17.23	$14.66
Composite average	**$16.56**	$13.13	$ 9.90	$12.56	$ 8.94
Foreign	**$20.15**	$16.25	$14.20	$16.44	$13.77
NGLs, lease and plant (dollars/barrel):					
Domestic	**$14.40**	$10.38	$ 9.25	$10.43	$ 9.53
Foreign	**$10.89**	$ 6.60	$ 7.53	$ 9.02	$ 8.59
Natural gas (dollars/thousand cubic feet):					
Domestic	**$ 1.66**	$ 1.67	$ 1.68	$ 1.63	$ 1.94
Foreign	**$ 3.08**	$ 2.71	$ 2.64	$ 2.36	$ 1.51
Proved oil and gas reserves — net					
Crude oil and NGLs (million barrels):					
Alaska	**1,966**	1,985	2,064	2,136	2,046
Lower 48	**754**	780	765	682	682
Foreign	**210**	237	264	223	199
Total	**2,930**	3,002	3,093	3,041	2,927
Natural gas (billion cubic feet):					
Alaska	**2,367**	2,486	2,484	2,207	1,985
Lower 48	**3,889**	3,966	3,889	3,647	3,938
Foreign	**1,796**	1,206	1,249	897	972
Total	**8,052**	7,658	7,622	6,751	6,895

PNYC 00013096

	1990	1989	1988	1987	1986
Oil and Gas (continued)					
Net wells completed:					
Domestic —					
Exploratory — oil	**5**	4	6	4	4
gas	**22**	21	22	15	7
dry	**48**	41	42	28	45
Development — oil	**225**	188	271	150	215
gas	**137**	131	85	59	35
dry	**44**	32	36	16	16
Foreign —					
Exploratory — oil	**4**	2	3	5	3
gas	**2**	1	—	2	1
dry	**18**	15	17	8	5
Development — oil	**21**	22	14	17	33
gas	**3**	3	—	1	6
dry	**1**	—	—	—	1
Net producing wells:					
oil	**7,582**	8,138	8,418	7,582	8,946
gas	**2,009**	1,889	1,796	1,672	1,772
Net acreage (thousand acres):					
Domestic —					
Developed	**2,379**	2,453	2,508	2,458	2,855
Undeveloped	**6,144**	5,858	5,839	5,575	6,317
Foreign —					
Developed	**75**	69	69	64	55
Undeveloped	**17,319**	16,752	16,236	10,849	10,161
Coal					
Coal shipments (thousand tons):					
Domestic	**29,437**	31,114	26,936	22,888	24,371
Foreign	**8,819**	8,333	5,511	3,249	2,778
Total	**38,256**	39,447	32,447	26,137	27,149
Coal reserves (million tons recoverable):					
Domestic	**854**	869	877	910	991
Foreign	**411**	321	306	118	124
Total	**1,265**	1,190	1,183	1,028	1,115
Net coal acreage (thousand acres):					
Domestic	**73**	76	78	122	222
Foreign	**17**	14	12	6	6
Average market price (dollars/ton):					
Domestic	**$ 9.45**	$ 9.29	$10.60	$11.42	$11.15
Foreign	**$32.70**	$31.33	$28.87	$25.27	$29.42

PNYC 00013097

	1990	1989	1988	1987	1986
Refining and Marketing					
Refinery runs (thousand barrels/day):					
Blended crude oil —					
Los Angeles, California	**231.4**	233.6	224.4	211.8	219.9
Cherry Point, Washington	**167.2**	167.3	172.5	160.8	154.3
	398.6	400.9	396.9	372.6	374.2
Unfinished stock —					
Los Angeles, California	**2.5**	1.0	—	2.4	3.4
Total	**401.1**	401.9	396.9	375.0	377.6
Petroleum product sales volumes, including intersegment sales (thousand barrels/day):					
West Coast —					
Gasoline	**231.2**	223.1	214.8	209.2	187.4
Distillate fuels	**78.3**	85.4	87.2	84.9	88.7
Jet fuels	**88.0**	84.3	78.5	72.0	63.3
Coke	**14.8**	13.3	16.2	13.6	15.8
Natural gas liquids	**12.5**	12.8	9.8	7.0	5.3
Other	**19.2**	16.6	12.3	19.5	30.6
Total West Coast	**444.0**	435.5	418.8	406.2	391.1
Foreign	**92.0**	93.0	85.1	86.2	87.4
Total	**536.0**	528.5	503.9	492.4	478.5
Domestic branded retail outlets	**1,547**	1,700	1,700	1,750	1,700
Transportation					
Crude pipelines (miles)	**7,500**	7,500	7,500	7,500	7,500
Product and petrochemical pipelines (miles)	**3,000**	3,000	3,000	3,000	3,000
TAPS throughput (thousand barrels/day)	**1,789**	1,880	2,034	1,959	1,819
Crude transported (million barrel miles)	**144,200**	158,500	182,600	163,000	164,900
Product transported (million barrel miles)	**8,500**	9,500	10,300	10,400	10,100
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)	**2,563**	2,586	2,812	2,334	1,986
TBA and derivatives (gallons)	**955**	912	917	794	680
Styrene monomer and derivatives (pounds)	**1,098**	1,478	1,665	1,290	1,258
Chemical sales revenue, including intersegment sales (millions)	**$2,950**	$2,663	$2,700	$1,967	$1,907

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Millions of dollars except per share amounts	1990	1989	1988	1987	1986
Other Data					
Dividends:					
Common stock — total (millions of dollars)	**$ 807**	$ 756	$ 700	$ 710	$ 701
— per share	**$ 5.00**	$ 4.50	$ 4.00	$ 4.00	$ 4.00
Total dividends declared (millions of dollars)	**$ 810**	$ 760	$ 704	$ 714	$ 706
Common stock:					
Average shares outstanding, including equivalents (millions of shares)	**165.5**	173.4	180.4	183.3	182.2
Earned per share	**$ 12.15**	$ 11.26	$ 8.78	$ 6.68	$ 3.38
Book value per share	**$ 44.83**	$ 39.64	$ 35.59	$ 32.38	$ 28.91
Market price per share — high	**142¼**	114⅜	90⅞	99¼	64½
— low	**105¼**	80⅝	67½	58¾	45½
— close	**123⅝**	111⅞	80⅝	69	60
Stockholders (thousands)	**120**	126	158	166	178
Employees (thousands)					
Resources:					
Oil and gas	**10.4**	10.4	10.6	10.1	10.3
Coal	**1.8**	1.7	1.2	1.2	1.2
Products:					
Refining and marketing	**8.1**	7.7	7.1	7.2	7.2
Transportation	**1.7**	1.7	1.6	1.6	1.6
Intermediate chemicals and specialty products	**3.7**	3.2	3.0	2.5	2.6
Integrated petrochemical and petroleum processing	**—**	—	2.0	1.9	2.1
Other operations	**1.6**	1.9	2.0	1.8	2.0
Total	**27.3**	26.6	27.5	26.3	27.0
Payroll expense (millions of dollars)	**$ 1,406**	$ 1,256	$ 1,209	$ 1,147	$ 1,117
Financial Data					
Total assets	**$23,864**	$22,261	$21,514	$22,890	$21,913
Working capital	**$ 1,788**	$ 1,977	$ 1,493	$ 2,885	$ 1,945
Current ratio	**1.42**	1.58	1.46	1.64	1.50
Long-term debt	**$ 5,997**	$ 5,313	$ 5,400	$ 6,028	$ 6,662
Stockholders' equity	**$ 7,149**	$ 6,562	$ 6,247	$ 5,878	$ 5,259
Research and Development Expense	**$ 136**	$ 112	$ 119	$ 109	$ 94

PNYC 00013099

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William D. Leake
Vice President, Environmental Protection

Donald A. Murray
Vice President, Human Resources

Steven J. Shapiro
Vice President, Corporate Planning

Howard L. Edwards
Corporate Secretary

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PNYC 00013101

MARKET PRICE [illegible]
FOR VOTING SECURI[illegible]

	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	2nd	1st
Common Stock:								
Market Price Per Share — High	136	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	92 ⅜
Low	120 [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	80 ⅜
Cash Dividends Per Share	[illegible]	[illegible]	[illegible]	[illegible]	$1.125	$1.125	$1.125	$1.125
$3.00 Convertible Preference Stock:								
Market Price Per Share — High	900	[illegible]	[illegible]	700	751	710 ⅝	629	610 ¼
Low	[illegible]	[illegible]	[illegible]	700	692 ¼	652	601 ¾	576 ¼
Cash Dividends Per Share	$0.75	[illegible]	[illegible]	[illegible]	$0.75	$0.75	$0.75	$0.75
$2.80 Convertible Preference Stock:								
Market Price Per Share — High	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	258 ¾	228	220
Low	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	225 ¾	211 ⅞	192 ⅝
Cash Dividends Per Share	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	$0.70	$0.70	$0.70

Stock Exchanges
Atlantic Richfield Common Stock [illegible] New York, Pacific, Basel, Gene[illegible] exchanges. The $2.80 Preferen[illegible] Preference Stock are listed on [illegible] stock exchanges.

Transfer Agent and Registr[illegible]
First Chicago Trust Company of [illegible]
P.O. Box 3981
Church Street Station
New York, New York 10008-3981
(212) 791-6422

Annual Meeting
The Annual Meeting of St[illegible] May 6, 1991, beginning at [illegible] room, Sheraton Grande [illegible] Street, Los Angeles, Californi[illegible] proxy statement and proxy [illegible] stockholders in advance of [illegible]

[illegible] accounts, dividends, [illegible] of address should be [illegible] York [illegible]

[illegible] a copy of the [illegible] and Exchange [illegible]

[illegible] right within [illegible] 60,000 tons of [illegible] pages of the 1990 [illegible] paper.

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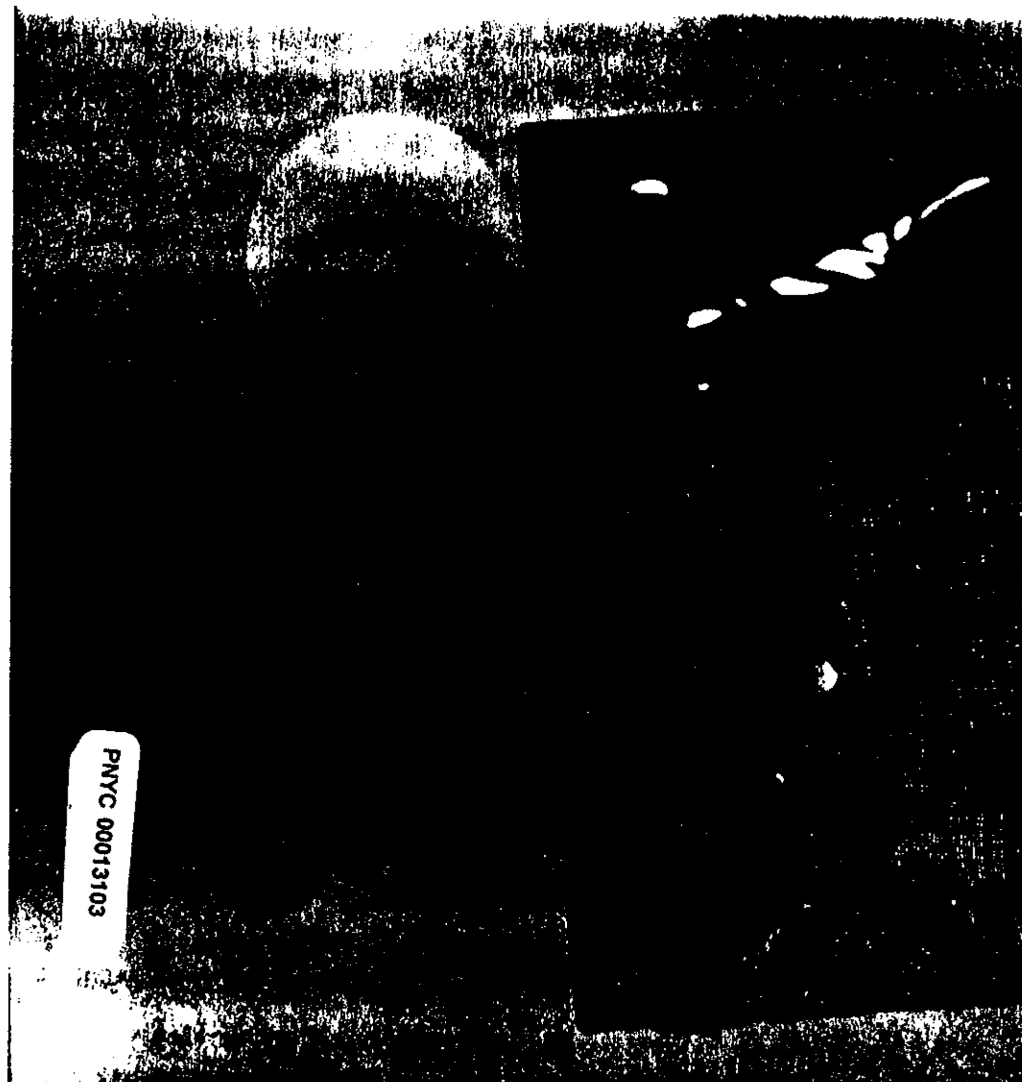


ARCO, Atlantic Richfield Company, is a worldwide, integrated hydrocarbons company which traces its history back to July 1, 1866, the beginning of Atlantic Refining Company, its principal predecessor. Today, ARCO's operations encompass all aspects of the oil and gas business: exploration and production of crude oil, natural gas and natural gas liquids, and refining, marketing and transportation of petroleum products. ARCO also mines and markets coal and has interests in two petrochemical companies.

A highly visible company with its corporate, as well as refining and marketing, headquarters in downtown Los Angeles (as seen on the cover), ARCO is recognized for its focus on long-term financial and operational success and for making environmental sensitivity and community concern an integral part of its business. The report on 1991 shows a company working toward the future in all of its endeavors.

Millions of dollars, except per share amounts	1991	1990	1989	1988	1987
[illegible]					
Total revenues	**$18,922**	$19,896	$16,815	$18,868	$17,579
Net income	**$ 709**	$ 2,011	$ 1,953	$ 1,583	$ 1,224
Net income per share	**$ 4.39**	$ 12.15	$ 11.26	$ 8.78	$ 6.68
Dividends	**$ 872**	$ 810	$ 760	$ 704	$ 714
Dividends per share of common stock	**$ 5.50**	$ 5.00	$ 4.50	$ 4.00	$ 4.00
Additions to fixed assets	**$ 3,239**	$ 2,718	$ 2,105	$ 3,304	$ 1,463
Total assets	**$24,492**	$23,864	$22,261	$21,514	$22,890
Return on stockholders' equity — percent	**10.1**	29.3	30.5	26.1	22.0
Return on capital employed — percent	**7.7**	15.6	15.3	13.0	10.9
RESERVES					
Petroleum liquids — million barrels:					
Domestic	**2,642**	2,720	2,765	2,829	2,818
Foreign	**189**	210	237	264	223
Total	**2,831**	2,930	3,002	3,093	3,041
Natural gas — billion cubic feet:					
Domestic	**5,798**	6,256	6,452	6,373	5,854
Foreign	**2,405**	1,796	1,206	1,249	897
Total	**8,203**	8,052	7,658	7,622	6,751
Coal — million tons recoverable	**1,118**	1,265	1,190	1,183	1,028
OPERATIONS					
Oil and Gas					
Liquids production — net barrels per day:					
Domestic	**668,500**	638,300	660,000	674,200	665,000
Foreign	**75,700**	67,100	70,100	63,600	63,200
Natural gas production — million cubic feet per day net:					
Domestic	**1,399**	1,554	1,529	1,389	1,272
Foreign	**261**	193	169	154	164
Coal shipments — thousand tons	**41,559**	38,256	39,447	32,447	26,137
Refining and Marketing					
Total refinery runs — barrels per day	**407,600**	401,100	401,900	396,900	375,000
Petroleum product sales (domestic) — barrels per day	**466,400**	444,000	435,500	418,800	406,200
Chemical sales — millions of pounds					
Propylene oxide and derivatives	**2,729**	2,563	2,586	2,812	2,334

CONTENTS

PNYC 00013105

As you are all aware, 1991 was a year that posed many challenges. The economic recession eroded consumer confidence and demand, while oil prices, which are always volatile, declined to their lowest level in the past three years.

In spite of this environment, ARCO had significant achievements and took steps forward in 1991 that will enable us to be a stronger company in the future.

With 1991 net income of $709 million, or $4.39 per share, our company was still profitable. However, after five years of sustained earnings growth, profits and earnings per share were down and were disappointing, particularly after last year's record-setting performance.

The 1991 net income included charges related to personnel reductions and property sales and writedowns. Without these charges and other special items, we would have reported earnings of $1.004 billion, or $6.21 per share. Either way, this was less than the 1990 earnings of $2.011 billion, which included a net benefit from special items of approximately $100 million.

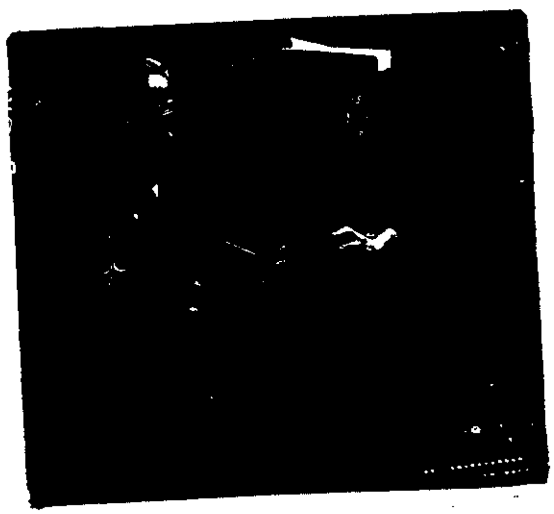
There were very different economic climates in the two years, and these caused most of the decline in earnings. First, crude oil prices were significantly lower in 1991, compared with 1990 when they were temporarily inflated by the Middle East crisis. Despite the fact that production from Iraq and Kuwait was out of the market in 1991, other OPEC members, principally Saudi Arabia, more than made up for the slack. Moreover, domestic natural gas prices were at their lowest level in the past 11 years.

Secondly, the West Coast was hit harder by the current recession than it had been in the past. For the first time in recent memory, in the five Western states that comprise our retail marketing area, gasoline demand was down compared to the previous year. This weak demand, coupled with record industry gasoline production on the West Coast, led to lower product prices. While ARCO's gasoline sales volumes were up, product margins were lower.

Finally, the impact of the worldwide recession on our chemical businesses also depressed 1991 results.

The $205 million in special charges further lowered earnings, but the action was necessary to enhance the long-term strength of the company. These charges included the costs of personnel reductions, the restructuring of our Lower 48 operations and the writedown of certain properties.

Stockholders who have been with ARCO for some years, as a great many of you have, will remember that our company underwent a major restructuring in 1985. At that time, we established basic business strategies that were designed to help us in good times as well as those less favorable.



These strategies continue to serve us well. They state that ARCO is a hydrocarbons-based company, concentrating on oil and gas, coal and petrochemicals. We focus on quality assets with low-cost resources and competitive differentiation. We continue to evaluate the capital markets for opportunities to effectively utilize those markets in our activities. Our final strategy is to maintain appropriate financial leverage. Our dividend policy and, in the past several years, our stock repurchase program have enhanced stockholder returns.

ARCO's strategies were crafted to withstand the test of time, providing sufficient flexibility to respond to short-term economic conditions. That flexibility was put to the test in 1991. All of our operating units, along with ARCO Chemical Company, of which ARCO holds an 83.4 percent interest, evaluated their operations in line with current economic conditions as well as expectations for the next several years. This required timely and difficult decisions.

All company units were involved in the changes made in 1991, but the most significant changes came in the Lower 48 oil and gas operations. A major part of our Lower 48 exploration and development efforts in the last several years involved natural gas. By early 1991, it was apparent that the impact of excess natural gas supplies was going to keep domestic natural gas prices at lower levels throughout the 1990s than originally anticipated. After careful review of our future plans, steps were taken to reduce our operating costs and refocus our exploration program so that we can compete more effectively.

While maintaining our overall strategies, we took actions to fine-tune and tighten up all of our operations in response to the competitive environment. We were able to make these changes quickly and without altering the promising future we have planned for ARCO.

We have, for example, continued extensive exploration and development programs. We have confidence in these programs and are pleased with the successes we have seen in 1991, including 20 oil and 27 gas discoveries companywide.

Moreover, ARCO's leadership in refining and marketing on the West Coast will be maintained. We are expanding both the numbers and quality of retail outlets annually.

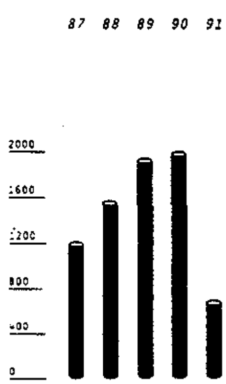
The ultimate objective of ARCO's strategies is to maximize the total return to our stockholders while preserving our financial strength for the long run. One important indicator of this is the amount of proved oil and gas reserves behind each share of stock outstanding. In the seven years since these strategies were implemented, ARCO's reserves of oil equivalent have risen from 17 barrels per share to 27 barrels per share. This is an improvement of 54 percent. But,

perhaps a more important fact is that ARCO's annualized total return to stockholders over this seven-year period, assuming all dividends were reinvested, was 19.6 percent versus the industry average of 14.9 percent.

In January 1991, our Board of Directors approved the latest increase in the quarterly dividend, an increase of 10 percent to $1.375 per share. At this rate, stockholders are receiving $5.50 per share annually.

For 1992, our additions to fixed assets are planned at $2.4 billion, down about 10 percent from the $2.7 billion we spent in 1991, excluding the acquisition of oil and gas properties in California early in the year. More than 55 percent of the budget will be devoted to exploration and

NET INCOME
MILLIONS OF DOLLARS



development, with a significant amount of that going to Alaskan and international areas which ARCO has targeted for its primary growth.

We are making this commitment to our capital programs because we know that growth and the cost-effective replacement of our oil and gas reserves is essential for the long term. Fluctuations in financial performance because of volatility in the political and economic environment could affect the level of these programs, but not our overall strategies.

ARCO will also maintain its proactive commitment to the environment, health and safety, community involvement and the development of its people, whom we see as our most important asset. Just as ARCO's people are key to our operational and financial success, they are also essential to the company's role in environmental protection, its health and safety record and its community involvement.

ARCO continues to be at the forefront of environmental concerns in our industry. In 1991, the California Air Resources Board (CARB) passed the world's most stringent regulations for reformulated gasolines. According to CARB estimates, these gasolines will reduce smog-causing auto pollutants by 30 to 40 percent when they are fully implemented in early 1996. ARCO was the only major oil company that supported these tough new California standards.

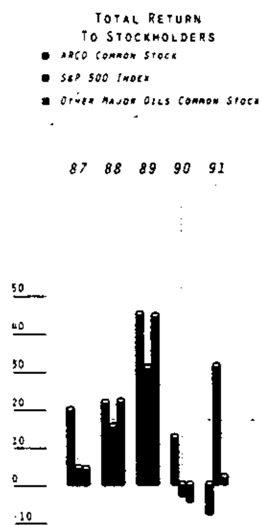
In fact, ARCO paved the route to reformulated gasoline. Three years ago, California air quality regulators, as well as federal legislators, planned to effectively eliminate gasoline and were looking at a number of alternative fuels, including a methanol-based product. ARCO accepted the challenge: Can we economically produce a reformulated gasoline as clean as the proposed alternatives? First, ARCO introduced EC-1 Regular, the first unleaded gasoline for older cars and trucks. A year later, Premium was reformulated under the name EC-Premium and joined EC-1 in the large Southern California market. In July 1991, we announced development of an experimental gasoline, EC-X, and shared with the regulators test results that proved an unleaded gasoline could be as clean or cleaner than the methanol-blend fuel known as M85. And, of course, continued use of gasoline will not require the infrastructure changes that a new M85 fuel would require.

While the newly required fuels in California will mean costly modifications to our Los Angeles Refinery, we recognize that they will mean better air quality and an exciting future for our gasolines. The modification projects should provide a boost for the local economy as well.

Reformulated gasoline is just one example of ARCO stepping out ahead of the industry, taking a leadership role in finding environmentally cleaner and safer ways to conduct our operations. Moreover, we include considerations of the environment, health and safety in the planning for projects worldwide.

Through our active community involvement, we are seeking answers to many of society's most pressing problems. ARCO people are involved — in schools, shelters, and charitable organizations throughout our communities — in helping shape the future for an increasingly diverse population.

Together we share a tremendous pride in the company's accomplishments and potential for the future. In 1991, we made decisions that will enhance the long-term success of our company. As everyone knows, the worldwide economic and political climate remains uncertain. What is certain is that ARCO will maintain its strategies and aggressive response to meet challenges under all circumstances. We have proven that our strategies work for the long-term benefit of our stockholders, employees and the communities in which we operate.



Lodwrick M. Cook
Chairman of the Board and
Chief Executive Officer

Robert E. Wycoff
President and
Chief Operating Officer

February 24, 1992

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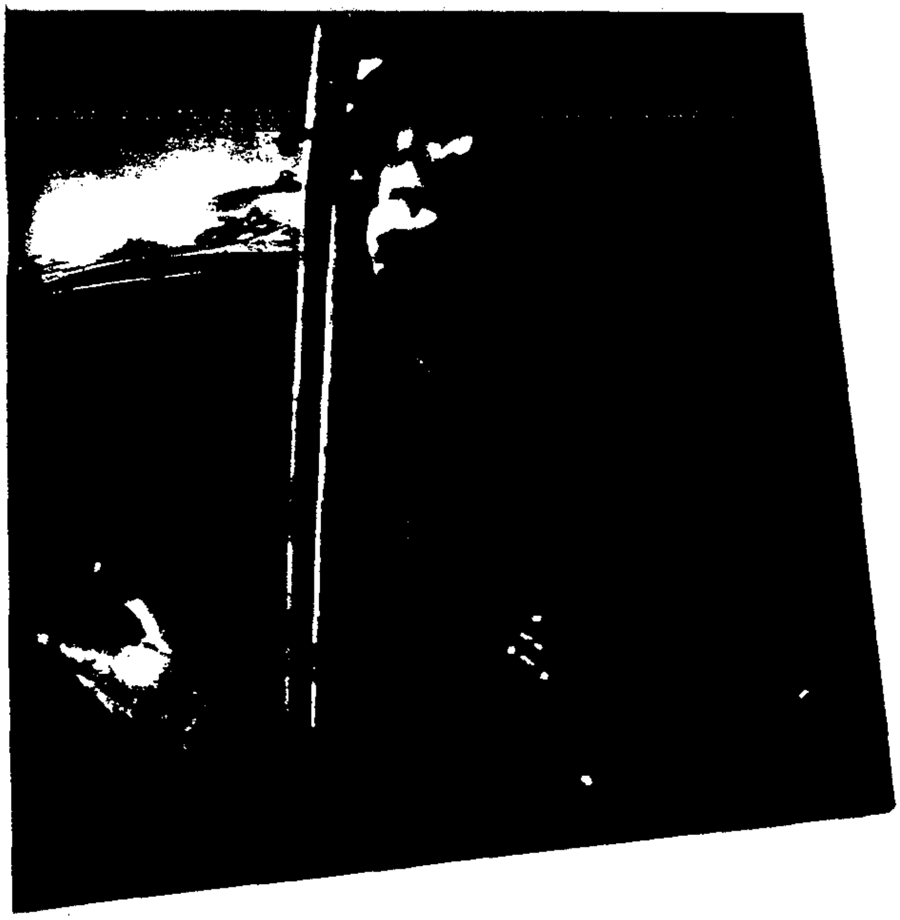


ARCO ALASKA, INC.

Production records, a significant exploratory find and adjustments in the company's expense structure highlighted 1991 activities at ARCO Alaska, Inc. Headquartered in Anchorage, the company is responsible for the operation of the Kuparuk River field, the Lisburne field and half of the Prudhoe Bay field on Alaska's North Slope, as well as several properties in the Cook Inlet area.

The production records set by ARCO Alaska and its partners were achieved primarily as the result of ongoing programs to improve field recovery. While ARCO Alaska's net crude oil production topped 1990 levels, the average price per barrel was down, resulting in reduced earnings for the year.

ARCO Alaska had an active exploration program in 1991, highlighted by the company's announcement of the first oil discovery in the Cook Inlet area since 1965.

Significant steps were taken to mitigate cost increases during 1991, including staff reductions. In addition, ARCO and its Prudhoe Bay co-operator agreed in 1990 to

PNYC 00013111

consolidate several common services at the giant oil field for the purpose of increased efficiency and cost savings.

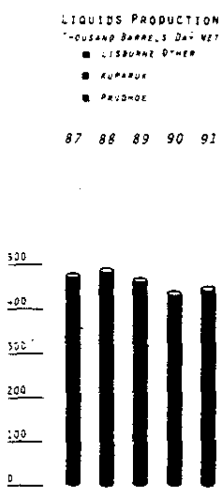
[illegible] Liquids production at Prudhoe Bay, the largest producing oil field in America, was maintained at essentially the same level as 1990 due to increased capacity to handle reservoir gases. The increased gas handling was responsible for 1991 record production of condensate and natural gas liquids which along with crude oil make up the total liquids production. ARCO Alaska has a 42.56 percent working interest in the condensate produced, a 21.78 percent working interest in the crude oil and, in 1991, a 37 percent working interest in the NGLs.

In operation since 1977, Prudhoe Bay has been in an oil production decline since 1988. As the field declines, it produces additional gas and water. These fluids are processed for reinjection into the reservoir to enhance oil production and increase recoverable reserves. The first Gas Handling Facility Expansion (GHX-1) was installed in late 1990. Preparation for construction of modules which will be part of a second gas handling expansion, GHX-2, is under way in Louisiana, with planned sealifts and installations in 1993 and 1994. This $1.4 billion project is expected to increase gas handling capacity to 7.5 billion cubic feet per day and to provide gross liquids production benefits of 100,000 barrels per day by 1995.

KUPARUK RIVER The second largest producing oil field in America, the Kuparuk River field celebrated its 10th production anniversary in 1991 and set new records both for gross annual crude oil production and single-day production (353,000 barrels). An ongoing series of projects were responsible for Kuparuk's production improvements, despite natural field decline. New drill sites were developed and existing drill sites expanded. Infill drilling, enhanced oil recovery pr[illegible]sses and a well refracture program were successfully implemented. As a result of a 1990 redetermination of ownership interests, ARCO Alaska is subject to a 24-month production payback to the other owners of 9,000 barrels per day. The payback will be completed by the end of June 1992. ARCO Alaska's working interest in the Kuparuk River field is 55.17 percent.

LISBURNE Operated by ARCO, Lisburne completed its fifth full year of production in 1991. The reservoir underlies the Prudhoe Bay field.

POINT McINTYRE Confirmed as a discovery in 1989, Point McIntyre is expected to start production by late 1993. It has a potential of 300 million gross barrels of recoverable crude oil. Working interests have yet to be determined between ARCO Alaska and its co-owners. Point McIntyre will share production facilities with the Lisburne and Prudhoe Bay fields. This will require only a modest expansion of facilities and add cost efficiencies.



		Prudhoe Bay	Kuparuk	Lisburne
1991 liquids production* — thousand barrels/day	Gross	1,333	310	40
	Net	282	140	14
Cumulative liquids production* — millions of barrels	Gross	7,562	835	82
	Net	1,495	406	29
Cumulative field investment — billions	Net	$3.5	$2.4	$0.5
Producing oil wells — as of 12/31/91	Gross	777	361	74
Remaining proved liquids reserves — millions of barrels	Net	1,205	485	52

*Includes crude oil, condensate and natural gas liquids

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ARCO Alaska was involved in the drilling of nine exploratory wells in 1991, seven of which were on or offshore the North Slope of Alaska. Two wells were drilled in the Cook Inlet region. The 1991 oil discovery with the Sunfish well, 35 miles from Anchorage, confirms that the Cook Inlet region still has potential.

Reflecting its continuing interest in future production opportunities, ARCO Alaska maintains the No. 1 leasehold position in the State of Alaska with nearly two million acres as of December 31, 1991. In 1991, the company conducted an active leasehold acquisition program, adding about 400,000 net acres.

In 1991, ARCO Alaska added proved liquids reserves of 17 million barrels, which came primarily from revisions associated with ongoing development at Kuparuk. Reserve additions were more than offset by production.

	1991	*1990*	*1989*	*1988*	*1987*
Earnings — millions	**$ 413**	$ 700	$ 546	$ 382	$ 487
Total assets — millions	**$3,700**	$3,724	$3,850	$3,977	$4,221
Additions to fixed assets — millions	**$ 343**	$ 298	$ 243	$ 214	$ 136
Liquids production — thousand barrels/day — net	**440.6**	433.8	459.4	487.3	470.4
Average crude price — per barrel	**$11.23**	$14.84	$11.71	$ 8.51	$10.95
State taxes — millions*	**$ 381**	$ 425	$ 394	$ 474	$ 328
Exploration expense — millions	**$ 76**	$ 147	$ 69	$ 56	$ 45
Proved liquids reserves — million barrels	**1,822**	1,966	1,985	2,064	2,136
Proved natural gas reserves — billion cubic feet	**2,369**	2,367	2,486	2,484	2,207

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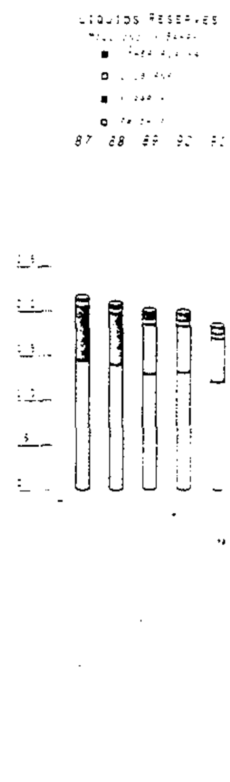

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ARCO Transportation Company directly links ARCO's Alaskan oil production and its West Coast refining and marketing operations. The assets it manages include a 21.3 percent interest in the Trans Alaska Pipeline System (TAPS); a 57 percent interest in Kuparuk Transportation Company, which moves crude oil via pipeline from the Kuparuk River field to TAPS; oceangoing tankers, and crude oil and products terminals and pipelines serving ARCO's Los Angeles Refinery.

ARCO Transportation Company also manages commercial businesses in the Lower 48 states. These entities include pipelines and terminals on the West Coast and in the Midcontinent.

Reorganization expenses and a special charge for the settlement of an outstanding Kuparuk pipeline rate case were the primary reasons for the 1991 earnings decline. In addition, lower TAPS earnings, principally determined by the TAPS Settlement Methodology Agreement, and reduced volumes on ARCO's Midcontinent systems, partially offset by higher volumes on its West Coast systems, negatively affected ARCO Transportation Company's 1991 financial performance.

In order to maximize utilization of the tanker fleet, the company's marine subsidiary placed a large crude oil carrier, previously chartered to a third party, into the proprietary fleet. This enabled the conversion of a smaller vessel for refined product service along the West Coast.

ARCO Transportation Company continued to dedicate substantial resources to environmental protection and safety during 1991. In Alaska and the Lower 48 states, the company is actively involved with local oil-spill cooperatives, and is participating in funding a nationwide oil-spill response organization through the Marine Preservation Association. The company is also working closely with state and local governments on the West Coast in connection with the development of oil-spill response and environmental regulations.

Market demand for the West Coast pipelines and terminals was very strong in 1991. Clean air and environmental standards have resulted in a need for storage of reformulated gasoline and blending components in the Los Angeles Basin. A full-service, finished products facility is being developed for startup in 1992 to meet that need.

In the midcontinent area, the company expanded the capacity of its Houston-to-Cushing pipeline and connected the pipeline to its Texas City Marine Terminal. These assets enable waterborne crude oil to be moved directly from the Texas Gulf Coast to midcontinent refineries.

In 1991, ARCO also acquired a 37.45 percent interest in Olympic Pipe Line Company, which delivers finished products from refineries in northwest Washington, including ARCO's Cherry Point Refinery, to Pacific Northwest markets.

TAPS THROUGHPUT
THOUSAND BARRELS DAY

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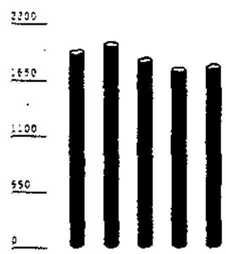
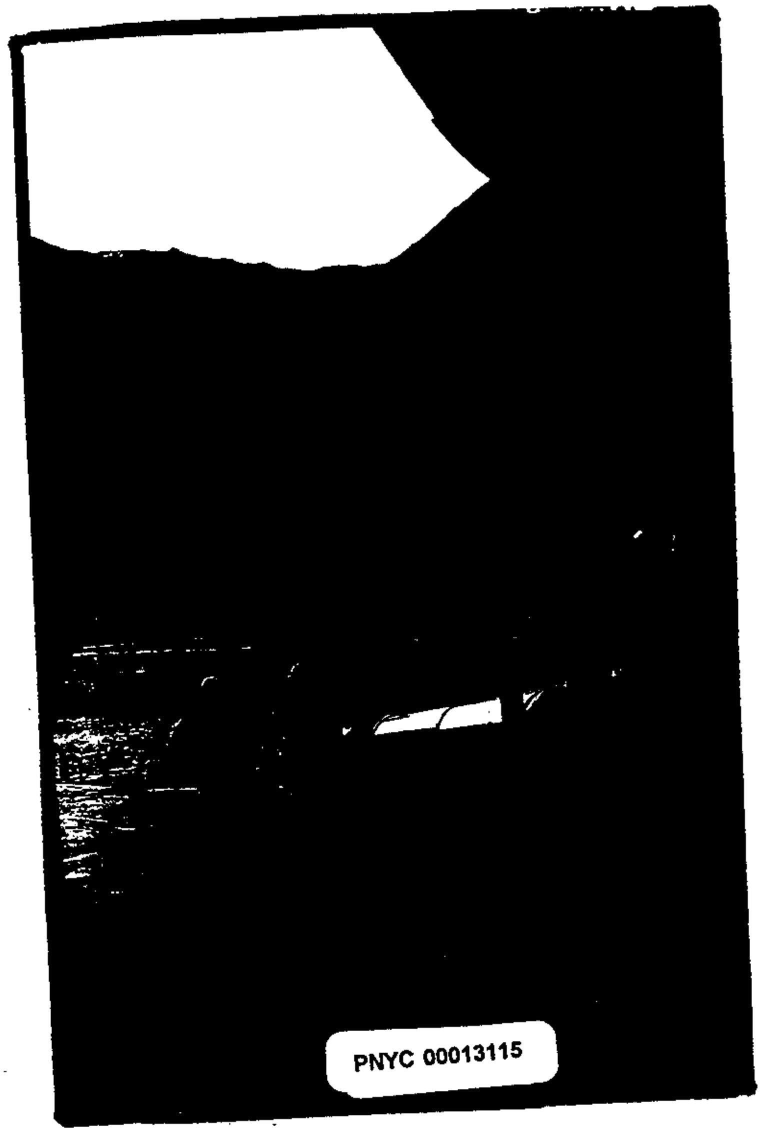
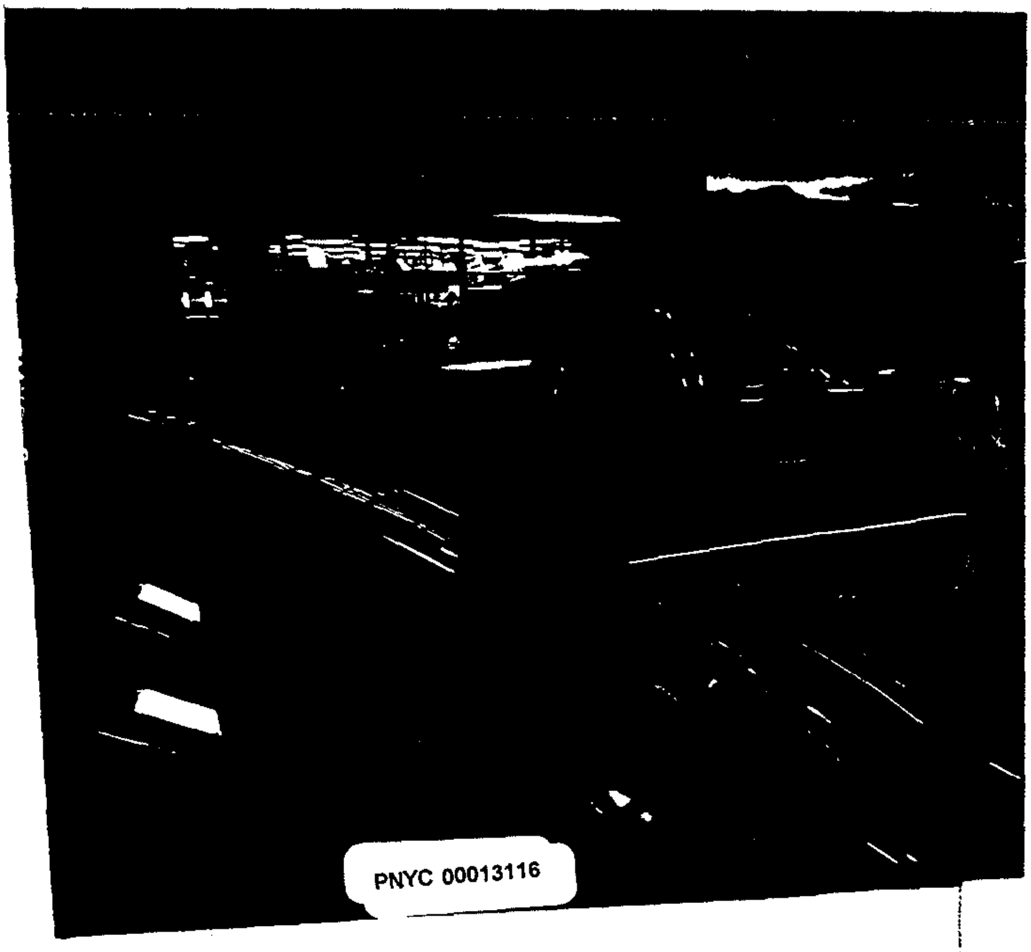


	1991	1990	1989	1988	1987
Earnings — millions	**$ 212**	$ 274	$ 266	$ 308	$ 340
Total assets — millions	**$2.223**	$2.162	$2.170	$2.326	$2.319
Additions to fixed assets — millions	**$ 124**	$ 103	$ 43	$ 53	$ 26
TAPS tariff — per barrel	**$ 3.72**	$ 3.83	$ 3.11	$ 3.11	$ 3.93
TAPS throughput — thousand barrels/day	**1.822**	1.789	1.880	2.034	1.959
Kuparuk throughput — thousand barrels/day	**330**	310	310	302	283
Marine crude barrels delivered — millions	**199**	210	209	216	210

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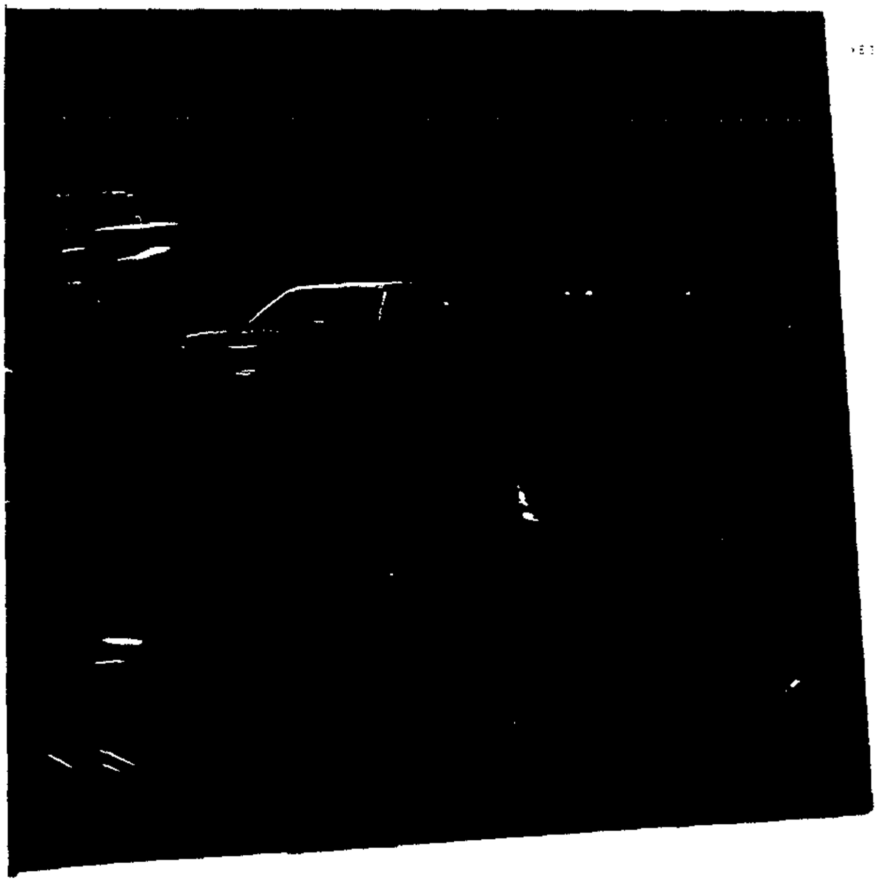


ARCO Products Company

Environmental issues dominated the outlook while marketplace competition intensified for ARCO Products Company during 1991. The company leads the industry in its emphasis on clean air solutions and consumer marketing.

In response to current economic conditions and the need to maintain the utmost in operating efficiency, the Los Angeles-headquartered company reorganized and consolidated its marketing organization and made personnel reductions during 1991. Lower product margins resulting from higher industry production levels on the West Coast and weak consumer demand reduced earnings.

CLEAN FUELS LEADERSHIP ARCO Products Company continued to take a leadership role in clean fuels. In July 1991, the company announced it had developed an environmentally superior gasoline formula that would reduce gasoline's smog-producing potential and toxic emissions for all cars. Moreover, tests showed the experimental fuel,

PNYC 00013117

called EC-X, would reduce emissions from late-model vehicles to levels equal to or better than those from flexible-fuel vehicles powered by an alternative methanol-based fuel, M85, and at a substantially lower cost to consumers. In addition, with the EC-X development, ARCO Products demonstrated that a refiner can meet anticipated clean fuel requirements by modifying existing facilities.

In November 1991, the California Air Resources Board (CARB) announced new, strict specifications for reformulated gasoline. While not identical to ARCO's proposed EC-X gasoline, the required formula is very similar. Following modifications to the Los Angeles Refinery, ARCO will be able to produce the new gasoline by early 1996.

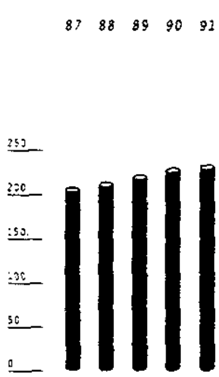
ARCO introduced the first emission control gasoline, EC-1® Regular, in Southern California markets in 1989, and added EC-Premium® to its pump offerings in 1990. In its first expansion of EC products outside of California, ARCO Products Company introduced EC-1 Regular into southern Nevada in December 1991.

California [illegible] required smog checks along with gasoline and repairs at ARCO's new SMOGPROS [illegible] and Mike [illegible]. SMOGPROS [illegible] with franchisee John Nabas in [illegible] California. SMOGPROS [illegible] first full year of operation in 1991.

REFINING. As a result of CARB and other anticipated clean fuel requirements, ARCO will make modifications at its Los Angeles Refinery in Carson, California, and the Cherry Point Refinery near Ferndale, Washington, over the next five years. Already two of the most efficient refineries on the West Coast, they operated at 104 percent of capacity in 1991, compared to an 88 percent industry average. Light product yield was 88 percent, compared to 78 percent for the industry. Gasoline production from the two refineries is supplemented in Northern California with product from the Tosco Corporation refinery under a long-term supply agreement.

In conjunction with its refinery operations, ARCO Products also operates calcined coke and cogeneration facilities, which provided additional profits. Calcined coke is marketed to the aluminum industry worldwide from ARCO calciners at Cherry Point and at Wilmington, near the Los Angeles Refinery. The Watson Cogeneration Company is a joint venture with a subsidiary of SCEcorp. It provides steam and electricity for the Los Angeles Refinery in addition to electricity for Southern California Edison's customers.

GASOLINE SALES
THOUSAND BARRELS DAY



MARKETING The established No. 1 gasoline marketer in the five western states, ARCO Products faced strong marketing competition in 1991. While crude oil prices were generally lower than the previous year, product prices were also lower, leading to reduced operating margins. Lower prices resulted from higher industry production levels and weak demand that intensified market competition.

ARCO lessee dealers led the industry with average throughput of 228,000 gallons of gasoline per month in 1991. This compared favorably to an average of 226,000 gallons per month in 1990, a year when ARCO's price freeze following the onset of the Middle East crisis contributed to increased station sales. The 1991 average throughput was more than double the nationwide average for ARCO's competitors.

ARCO Products Company's total gasoline sales grew by 1 percent in 1991, while overall industry gasoline sales in the five-state marketing area were estimated to be down about 1 percent.

ARCO Products continued to expand its am/pm® and SMOGPROS® marketing outlets during 1991. The am/pm mini markets, which feature fast food and convenience store items as well as gasoline, make up about half of the company's 1,632 branded retail outlets. The SMOGPROS service centers in California were increased to a total of 134 units in 1991, with many offering state-required smog checks and repair services, in addition to gasoline, seven days a week.

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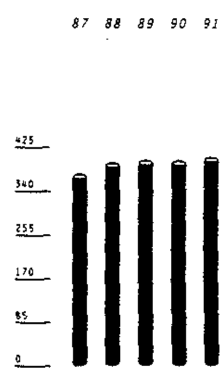
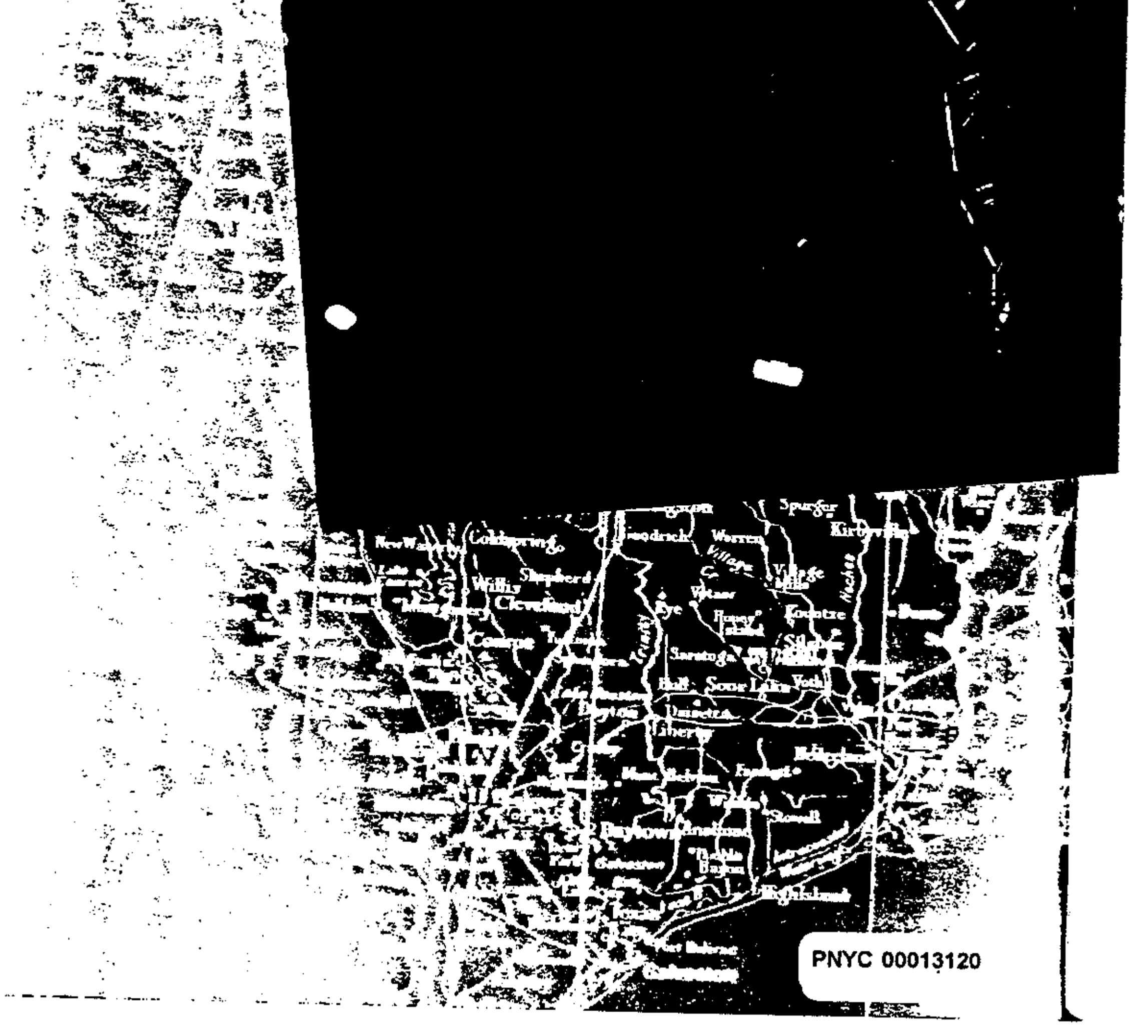
The ARCO Products Company also operates internationally. The am/pm mini markets have expanded through licensing agreements and joint ventures in six countries, with 100 stores in operation at the end of 1991. The company also markets motor fuels and lubricants in Brazil through a chain of more than 2,600 service stations, most of which are owned by individual operators.

The company's PayPoint® electronic payment system allows customers to pay for their gasoline and other purchases using the convenience of their bank ATM card. In addition to being featured at most ARCO retail outlets, the PayPoint system expanded to provide electronic payment service to major grocery, fast food and other retailers during 1991. A total of 2,150 locations were connected to the PayPoint network by the end of 1991, including 1,000 outside the ARCO retail system.

Crude Oil Runs
Thousand Barrels/Day



	1991	1990	1989	1988	1987
Earnings — millions	**$ 266**	$ 439	$ 291	$ 368	$ 150
Total assets — millions	**$2,732**	$2,503	$2,175	$1,975	$1,850
Additions to fixed assets — millions	**$ 448**	$ 370	$ 314	$ 251	$ 318
Refinery runs — thousand barrels/day	**407.6**	401.1	401.9	396.9	375.0
Petroleum product sales (U.S.) — thousand barrels/day	**466.4**	444.0	435.5	418.8	406.2
Branded retail outlets (U.S.)	**1,632**	1,547	1,700	1,700	1,750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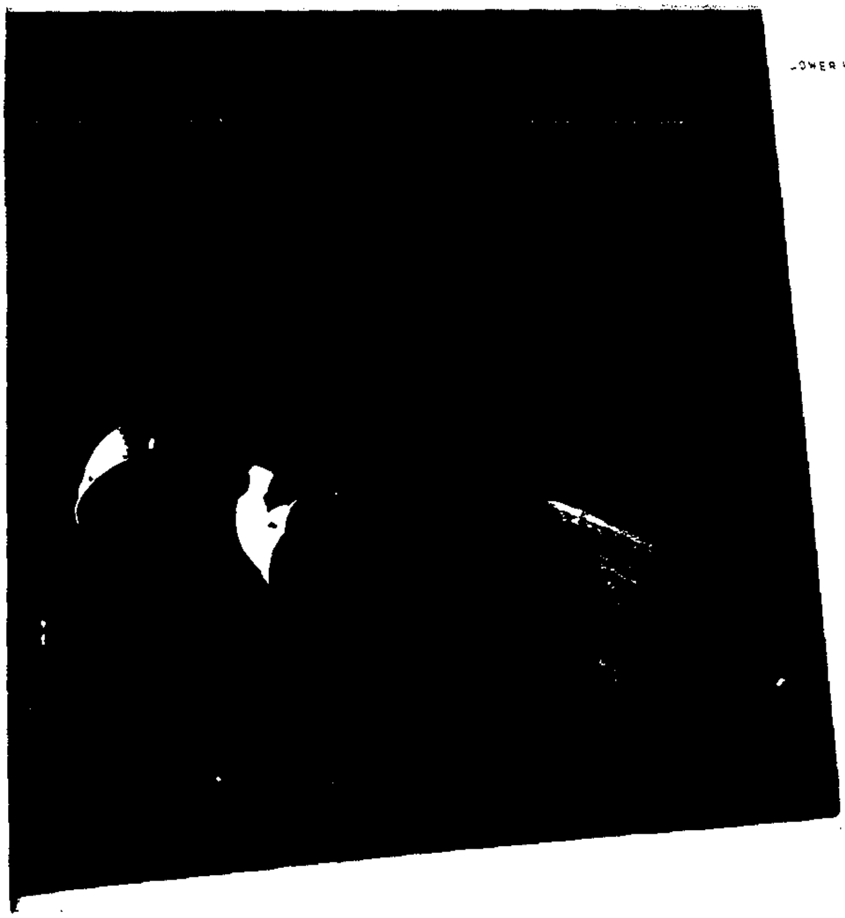


ARCO Oil and Gas Company

ARCO Oil and Gas Company is responsible for exploration, production and marketing of crude oil, natural gas and natural gas liquids in the Lower 48 states. During 1991, the company implemented several significant changes to address the continued weakness in natural gas markets and further strengthen its position in the industry.

A restructure program, implemented in the third quarter, resulted in consolidation of district offices from four to two, decentralization of numerous functions to give districts greater responsibilities, and a workforce reduction. Additionally, ARCO Oil and Gas Company adopted a plan to divest 1,100 oil and gas properties that account for approximately 5 percent of ARCO's total production.

The company completed purchase of additional properties in the Midway-Sunset field in Kern County, California, and increased its ownership to 80 percent in the THUMS Long Beach Company, which is a contract operator in the Wilmington oil field. As a result of these acquisitions, the two fields accounted for 21 percent of the company's 1991

Horizontal drilling technology was successfully employed in east Texas development projects during 1991. Reservoir Engineer David Blakeley, left, and Adam Blanchard, senior drilling supervisor, review logs in the Cheneyboro field.

PNYC 00013121

liquids production, compared to 11 percent in 1990. An agreement to acquire the remaining 20 percent of the THUMS Long Beach Company was finalized in early 1992.

ARCO has been given the right to implement an expanded waterflood project at Long Beach as a result of an agreement with the State of California. The project will increase oil production from the THUMS Long Beach Company, benefitting the City and the State, as well as ARCO. Following State approval of this project, ARCO surrendered two Coal Oil Point leases to the State and dismissed a related lawsuit.

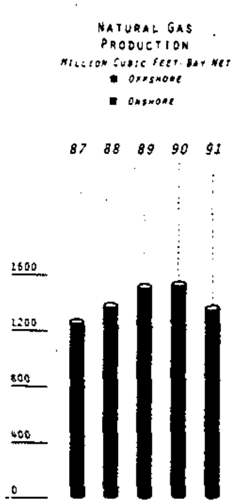
The Midway-Sunset purchase, a strategic fit with the company's other Midway-Sunset assets, increased ARCO's production from the field by over 20,000 barrels of crude oil per day. The company was able to capitalize on its existing operating structure to improve its competitive position in the field.

ARCO [illegible] Southern California [illegible] Manager Walter J[illegible] [illegible] full year of operation in 1991

LIQUIDS PRODUCTION ARCO Oil and Gas Company continued to increase its overall liquids production in 1991, reaching a five-year high. Crude oil and natural gas liquids comprised 50 percent of the company's total production on an oil equivalent basis, up from 45 percent in 1990. The increased ownership in the two California fields and increased production at South Pass 60 offshore Louisiana, following completion of platform repairs, were responsible for the liquids production increases. The property divestiture program did not materially affect 1991 production.

ARCO Oil and Gas Company initiated development activity in new areas and participated in a number of enhanced oil recovery projects in existing fields during 1991. Development of new ARCO acreage in the Austin Chalk of East Texas began, using horizontal drilling technology, and ARCO participated in CO_2 and waterflood expansion projects in the Permian Basin of West Texas. The company is also involved in two major drilling programs in California with over 150 new steam-flood wells being drilled.

NATURAL GAS Natural gas production declined 10 percent from peak levels in 1990. The decrease was due to natural field decline and reduced spending on natural gas projects in response to a depressed natural gas market in the United States.



The outlook for natural gas prices in the future caused the company to alter its strategy for developing gas plays. The focus moved to areas where technology could be used to improve project performance or where the company maintained competitive advantages in asset operations and cost structure.

Development continued at the North Dauphin Island and the Northwest Dauphin fields, located offshore Alabama. Moving to improve overall economics of these fields, ARCO was one of the first companies to drill horizontal wells to shallow gas horizons in an offshore environment, resulting in significantly increased production rates over those obtainable from standard wellbores. This reduces the number of years necessary to recover the reserves in these fields. The company also continued development of coal seam degasification projects in New Mexico and Colorado, where an existing infrastructure and the utilization of available tax credits allow for the continued economic development of reserves.

EXPLORATION In conjunction with the company's restructuring, ARCO made strategic changes in its Lower 48 exploration efforts. Operations were streamlined, geoscience support decentralized and a new exploration group formed to pursue increasing joint venture opportunities. As a result, the company has completed six agreements to drill approximately 25 joint venture wells in 1992.

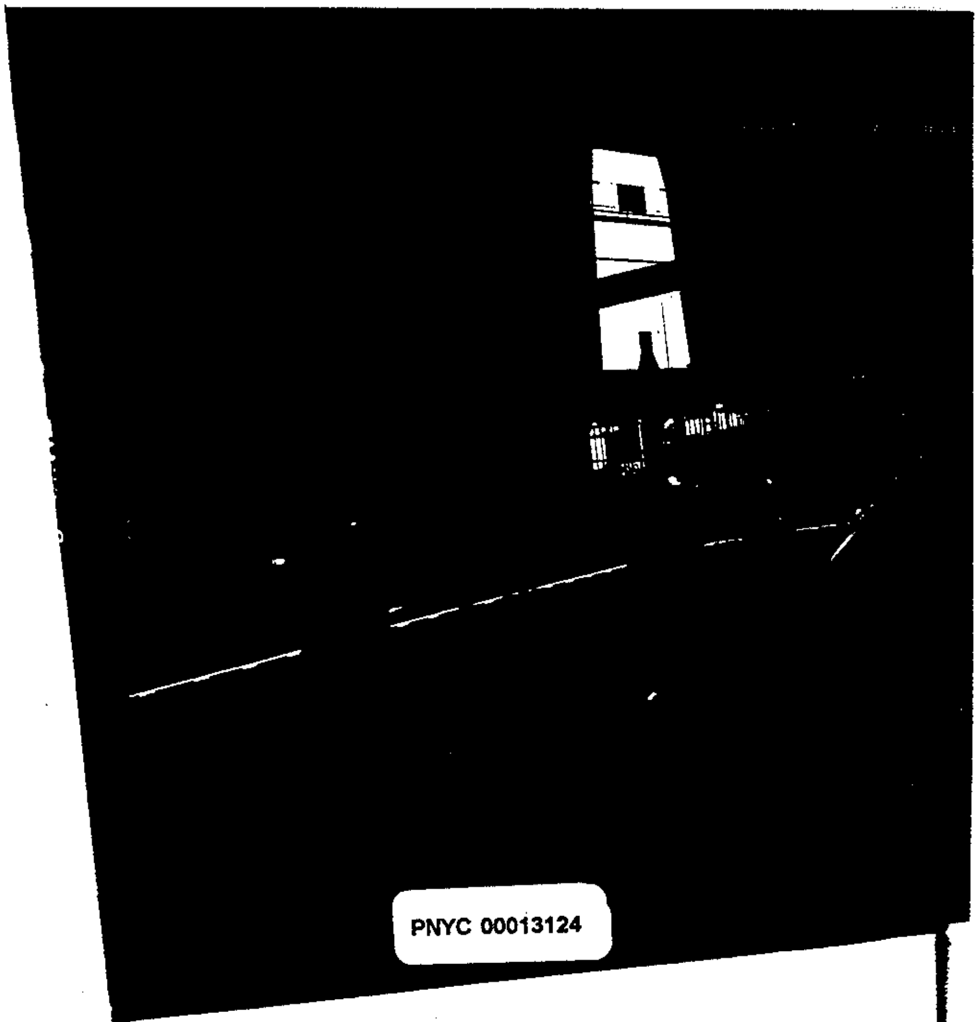
PNYC 00013122

During 1991, ARCO's Lower 48 projects were concentrated in the Gulf of Mexico, East Texas and the Arkoma Basin of Oklahoma, plus onshore areas of California and Louisiana. The company participated in 79 decisioned gross exploratory wells, with 10 oil discoveries and 22 gas discoveries.

RESERVES As a result of development additions, acquisitions and exploration success, ARCO Oil and Gas Company maintained its reserve levels in 1991, replacing 93 percent of its production, despite divestitures and lease surrenders. Net reserve additions included 149 million barrels of petroleum liquids and 50 billion cubic feet of natural gas.

	1991	1990	1989	1988	1987
Earnings — millions	**$ 57**	$ 588	$ 349	$ 231	$ 335
Total assets — millions	**$5,343**	$5,217	$5,068	$5,174	$4,717
Additions to fixed assets — millions	**$1,083**	$ 808	$ 703	$1,285	$ 420
Liquids production — thousand barrels/day — net	**227.9**	204.5	200.6	186.9	194.6
Natural gas production — million cubic feet/day — net	**1,358**	1,515	1,497	1,359	1,244
Average crude price — per barrel	**$16.72**	$20.85	$16.92	$14.20	$17.23
Average natural gas price — per MCF	**$ 1.54**	$ 1.67	$ 1.68	$ 1.69	$ 1.64
Exploration expense — millions	**$ 339**	$ 334	$ 312	$ 297	$ 232
Proved liquids reserves — million barrels	**820**	754	780	765	682
Proved natural gas reserves — billion cubic feet	**3,429**	3,889	3,966	3,889	3,647

LIQUIDS PRODUCTION
THOUSAND BARRELS/DAY NET
■ NGL
■ CRUDE OIL AND CONDENSATE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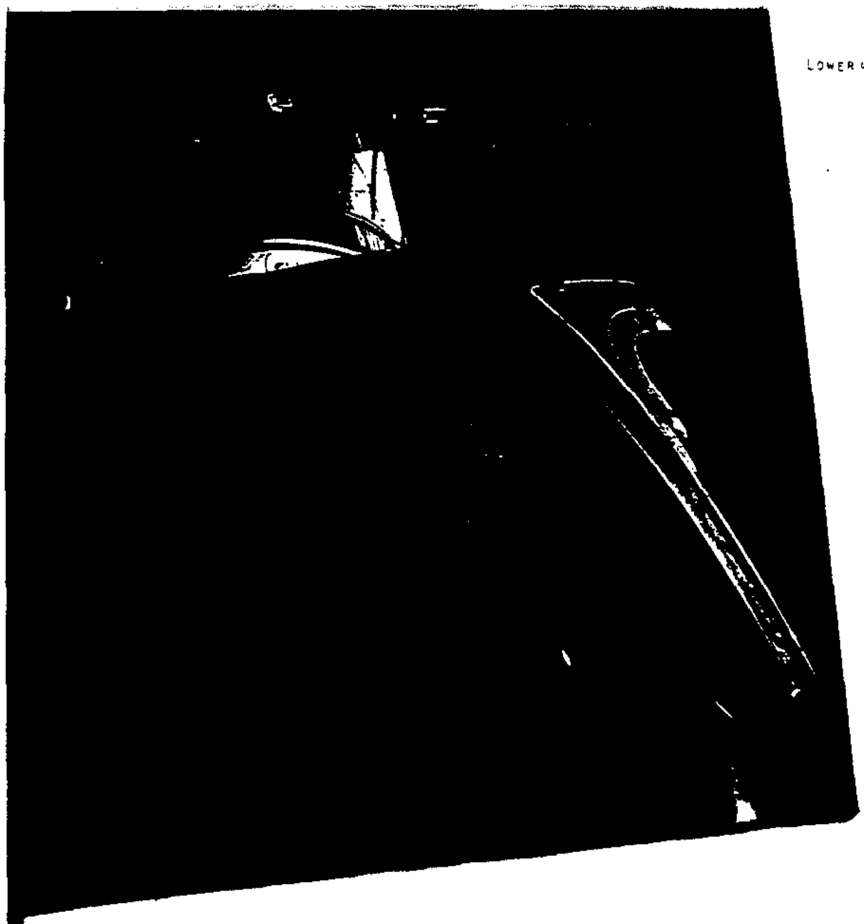


ARCO International Oil and Gas Company

PNYC 00013125

ARCO International Oil and Gas Company continued its growth in 1991 by increasing both its crude oil and natural gas production and by adding to its net reserves following significant progress on several strategic gas development projects.

From its headquarters in Plano, Texas, ARCO International is involved in oil and gas exploration, development, production and marketing activities throughout the world.

EUROPE ARCO International has current production both on and offshore United Kingdom and offshore of the Netherlands. Net natural gas and oil production in the U.K. increased 42 percent from 1990 as a result of the first full-year production from three new gas fields and an onshore oil field expansion. Three additional major gas development projects are also under way in the U.K. waters of the North Sea.

Net gas production from the U.K. North Sea averaged 221 million cubic feet per day in 1991. The three new gas fields which began production in the third quarter of 1990 —

ARCO increased acreage in the North Sea during 1991 and was active in a number of exploration drilling projects there. ARCO International Drilling Supervisor Dale Bulla, left, and Dan Jackson exchange information on a helideck at one North Sea project.

Welland, Ravenspurn North, and Amethyst — contributed 95 million cubic feet per day to 1991 net gas production. Following additional field development in 1990, ARCO's net share of production from the Wytch Farm onshore oil field in the U.K. increased to 10,700 barrels per day in 1991.

Development work on the Pickerill gas field in the U.K. North Sea proceeded on schedule. ARCO will operate Pickerill and holds a 31 percent interest. The field is expected to add 46 million cubic feet per day to ARCO's net production by late 1992.

Negotiations for the sale of gas from the Murdoch field, also in the U.K. North Sea, were finalized in 1991. ARCO increased its Murdoch field interest from 25 to 34 percent. ARCO's net gas reserves in the field, where production is projected to begin in the fall of 1993, are 135 billion cubic feet.

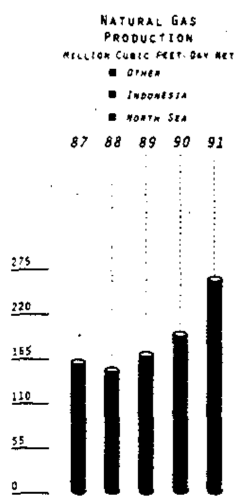
ARCO acquired a 50 percent interest in the Orwell field in the Southern Gas Basin of the U.K. North Sea in 1991. As operator of the field, ARCO plans to bring it to production in late 1993. Net gas reserves are 112 billion cubic feet.

Development work for the Pagerungan natural gas field in Indonesia was under way in 1991. Chris Blair, left, engineering manager and Zainal Rachman, staff project engineer, review some of the plans for the project, which includes a 350-million-cubic-feet-per-day processing compression plant, on and offshore wellsite production, subsea pipelines and workers' accommodations.

INDONESIA ARCO International's largest production operation is located in the Offshore Northwest Java contract area in Indonesia, where it operates a complex of over 180 platforms as well as processing and export facilities.

Gross oil production from the Java Sea increased to 119,500 barrels a day in 1991 with the initial startup of the BZZ development in August. ARCO's net share of oil production from the contract area was 35,300 barrels per day, up from 31,800 barrels per day in 1990. ARCO International also holds interests in crude oil production in the Malacca Straits. In 1991, ARCO's net production in this area was 7,200 barrels per day.

Development work on the first ARCO-operated natural gas project in Indonesia began in 1991. The Pagerungan field will be operated from an island near Bali. The Indonesian government authorized construction of a pipeline that will connect the natural gas field with an electric power plant, the primary customer. The field, which has proved reserves of 1.4 trillion cubic feet of natural gas (646 billion net to ARCO), is expected to start production in 1993.



A major natural gas development project in the Offshore Northwest Java contract area is planned following ARCO's signing in 1991 of a gas sales Letter of Intent with Pertamina, the Indonesian national oil company. Gas reserves associated with this project are estimated at 1.1 trillion cubic feet (428 billion cubic feet net to ARCO).

DUBAI The company is the sole working interest owner and operator of the Margham condensate field in Dubai, United Arab Emirates. In production since 1984, the field produced 12,700 barrels of liquids per day in 1991.

TURKEY In its first full year of production, the Cendere field in southeastern Turkey averaged 3,600 barrels of crude oil per day (1,200 net to ARCO).

YEMEN Committed to increasing opportunities abroad, ARCO International agreed to provide exploration and development services to the operator and sole working interest owner of a block in the Shabwa province of the Republic of Yemen. ARCO has an option to acquire a 25 percent working interest in the block upon completion of the minimum work commitment. Originally explored by Soviet Technoexport, the area has had at least three discoveries, one of which has had limited production.

EXPLORATION ARCO International was actively involved in exploration projects, with 72 gross wells drilled in 13 countries during 1991. The company participated in 17 new venture wells in Australia, Ecuador, the Philippines, New Zealand, the German

PNYC 00013126

North Sea, Syria, Egypt and Gabon. The exploration program resulted in 14 gross discoveries, nine oil and five gas, as well as one confirmation of a previous discovery.

In anticipation of future drilling projects, ARCO International acquired additional acreage in six countries during 1991. The company successfully competed in the Twelfth Licensing Round in the U.K. North Sea, receiving five licenses, all ARCO-operated.

RESERVES ARCO International's net proved reserves increased 16 percent on an oil equivalent basis by the end of 1991. This was primarily due to the progress made on the Java Sea, Murdoch and Orwell gas development projects.

	1991	1990	1989	1988	1987
Earnings (Losses) — millions	$ 79	$ 76	$ (8)	$ (71)	$ 13
Total assets — millions	$2,466	$2,205	$1,902	$1,895	$1,089
Additions to fixed assets — millions	$ 464	$ 454	$ 363	$1,056	$ 165
Liquids production — thousand barrels/day — net	75.7	67.1	70.1	63.6	63.2
Natural gas production — million cubic feet/day — net	261.2	193.5	169.2	154.1	164.4
Average crude price — per barrel	$18.67	$20.15	$16.25	$14.20	$16.44
Average natural gas price — per MCF	$ 3.16	$ 3.08	$ 2.71	$ 2.64	$ 2.36
Exploration expense — millions	$ 178	$ 170	$ 98	$ 132	$ 105
Proved liquids reserves — million barrels	189	210	237	264	223
Proved natural gas reserves — billion cubic feet	2,405	1,796	1,206	1,249	897

PNYC 00013127

Headquartered in Denver, Colorado, ARCO Coal Company continued to grow in 1991 in the United States and Australia through its interests in some of the highest quality and most productive coal mines in the world. Its coal reserves are low in sulfur and ash content, have relatively high energy values and, in Australia, have very high coking properties. These attributes, combined with lower operating costs, give ARCO Coal's mines a competitive advantage.

In Australia, ARCO Coal is [illegible] new Gordonstone mine, [illegible] country's largest underground coal mine. [illegible] Gordonstone [illegible] and Derek [illegible] the mine's [illegible] production [illegible] workers completing installation [illegible] medium bath. Gordonstone [illegible] produce 4.6 million [illegible] of superior quality coking and steam coals per year.

In 1991, ARCO Coal's worldwide shipments reached record levels. However, earnings were reduced by $50 million in net after-tax charges primarily associated with a write-down for an Australian mine and U.S. personnel reductions. ARCO Coal's production is currently concentrated in the western United States and in Queensland, Australia, after its entire 24 percent interest in a surface coal mine in Venezuela was sold in 1991.

UNITED STATES OPERATIONS ARCO Coal owns and operates the Black Thunder Mine in Wyoming's Powder River Basin, the largest surface coal mine in the Americas. The company also operates another surface mine at nearby Coal Creek.

During 1991, Black Thunder achieved several milestones as it produced and shipped a record 31 million tons of coal to surpass a quarter billion tons shipped in its 15-year life.

The company operates two underground mines in the United States, West Elk in Colorado and Trail Mountain in Utah, which together shipped 1.36 million tons in 1991. West Elk is in the process of installing a longwall mining unit that will significantly increase productive capacity and reduce operating costs. Startup is scheduled for mid-1992.

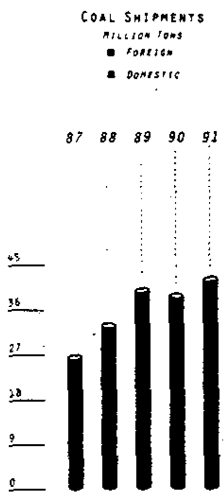
AUSTRALIAN OPERATIONS In Australia, ARCO Coal has an interest in three active coal mines, two of which it operates, and is currently developing what will become Australia's largest underground mine. Together, the Australian mines shipped nine million tons net to ARCO in 1991, making ARCO one of the top coal producers in Australia.

The ARCO-operated Curragh surface mine produces high-quality coking coals, as well as steam coal used for electricity generation. In 1991, the mine shipped five million net tons of coal, with an expected increase to over 6.1 million tons per year in 1992 as a result of a large dragline added in late 1991.

The writedown was related to the Coal Resources of Queensland (CRQ) mine. An underground mine, CRQ continued to experience difficulties in mining, which limited shipments to approximately 900,000 tons in 1991.

ARCO Coal also owns a 31.4 percent interest in Blair Athol, a surface mine, which shipped three million net tons in 1991.

Gordonstone, currently under development near Emerald in Central Queensland, is designed to produce 4.6 million tons of coal per year. ARCO Coal is the mine operator and holds an 80 percent interest in the project. Scheduled to begin production in late 1992, Gordonstone has estimated recoverable reserves in excess of 100 million gross tons of superior quality coking and steam coals.



	1991	1990	1989	1988	1987
Earnings — millions	**$ 33**	$ 91	$ 92	$ 79	$ 67
Total assets — millions	**$1,095**	$ 929	$ 857	$ 725	$ 540
Additions to fixed assets — millions	**$ 305**	$ 109	$ 148	$ 107	$ 12
Average market price — per ton	**$14.27**	$14.81	$13.95	$13.71	$13.14
Coal shipments — millions of tons	**41.6**	38.3	39.4	32.4	26.1
Coal reserves — million tons recoverable	**1,118**	1,265	1,190	1,183	1,028

PNYC 00013128

ARCO holds an 83.4 percent interest in ARCO Chemical Company, which is headquartered in Newtown Square, Pennsylvania. Its stock is listed on the New York Stock Exchange under the symbol "RCM."

ARCO Chemical is the world's leading producer of propylene oxide and methyl tertiary butyl ether (MTBE) and a leading merchant marketer of styrene monomer.

The manufacture of MTBE has put ARCO Chemical in the forefront of environmental programs concerning clean air. MTBE in gasoline promotes more efficient combustion, reduces tailpipe emissions and boosts octane, and, consequently, worldwide demand for MTBE is expected to increase substantially by the mid-1990s.

The recession in world markets slowed ARCO Chemical Company's growth in 1991. ARCO Chemical implemented a cost-reduction program that included a work force downsizing, the realigning of functions, and the deferral of some future capital commitments. At the same time, the company is stressing basic elements for building value while meeting the long-term needs of its customers — profit improvement, manufacturing excellence and environmental performance. ARCO Chemical's focus on manufacturing excellence stresses safe and environmentally sound operations along with improved quality, efficiency and reliability at all of its plants.

A new deep-water terminal [illegible] Rotterdam's Europoort in late 1991 is improving logistics and reducing [illegible] for shipping raw materials to ARCO Chemical's nearby propylene oxide/ tertiary butyl alcohol plant. Ronald van Nederpelt, right, maintenance manager, and Dieter Nykof, head technician, [illegible] the port and new storage vessels.

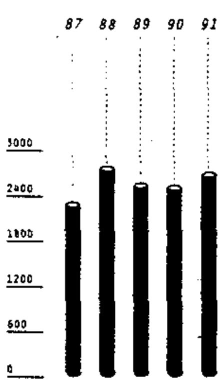
WORLDWIDE OPERATIONS ARCO Chemical operates plants in three major world regions — the Americas, Europe and Asia Pacific. Marketing programs are conducted throughout the world.

Building on its worldwide market leadership, ARCO Chemical has a number of projects under way. In Channelview, Texas, a world-scale propylene oxide/styrene monomer plant is scheduled for completion in 1992. A new technical center was opened in Singapore during 1991, providing customer and manufacturing support throughout Asia Pacific. A joint venture propylene oxide/styrene monomer plant in South Korea completed its first year of operation.

Two significant events in 1991 have strengthened the company's conventional and polymer polyols business: ARCO Chemical began operations of a new polyols plant at Fos-sur-Mer, France, and, after Federal Trade Commission approval, began integrating a worldwide polyols business acquired from Union Carbide. Polymer polyols, derivatives of propylene oxide, enhance the combustion resistance of urethane foams and allow the replacement of chlorofluorocarbons (CFCs) by foammakers.

For more information about ARCO Chemical, a copy of the company's annual report can be obtained by writing to Investor Relations, ARCO Chemical Company, 3801 West Chester Pike, Newtown Square, PA 19073-2387.

PROPYLENE OXIDE AND DERIVATIVES
MILLION POUNDS



	1991	*1990*	*1989*	*1988*	*1987*
Earnings — millions	**$ 188**	$ 351	$ 405	$ 494	$ 257
Total assets — millions	**$3,676**	$3,739	$2,655	$2,548	$2,534
Additions to fixed assets — millions	**$ 435**	$ 539	$ 262	$ 245	$ 295
Total revenues — millions	**$2,990**	$2,950	$2,663	$2,700	$1,952
Propylene oxide and derivatives — million pounds	**2,729**	2,563	2,586	2,812	2,334
TBA and derivatives — million gallons	**996**	955	912	917	794
Styrene monomer and derivatives — million pounds	**1,278**	1,098	1,478	1,665	1,290

This table represents stand-alone financial and statistical information of ARCO Chemical Company and does not include statistics related to chemical assets retained by ARCO and other adjustments included in ARCO's intermediate chemicals and specialty products segment, such as corporate-allocated interest expense and minority interest.

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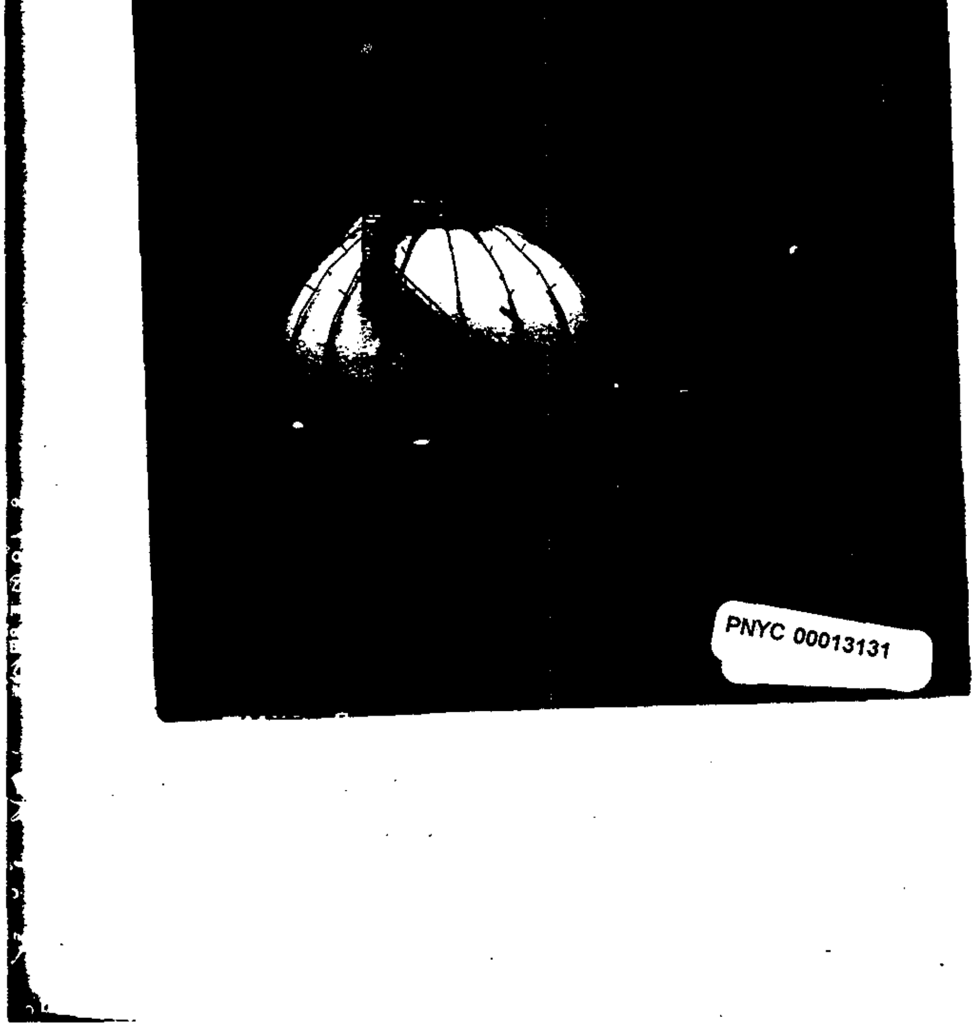


Headquartered in Houston, Texas, Lyondell Petrochemical Company is one of the nation's largest producers of ethylene and propylene and also one of the nation's largest independent refiners. ARCO holds a 49.9 percent equity interest in Lyondell. Lyondell stock has been traded on the New York Stock Exchange under the symbol "LYO" since its initial public offering in 1989.

Lyondell's 1991 earnings were below 1990 results due to the weak economic environment and recent industry overbuilding of petrochemical capacity, which combined to compress product margins.

Despite these factors, the company achieved good results relative to the industry due to ongoing emphasis on low costs and operational flexibility, as well as continued high employee productivity. The most recent Fortune 500 surveys have shown Lyondell is the most productive company in sales per employee and sales per dollar of stockholders' equity and, based on Fortune 500 data, it is number one in profits per employee.

During 1991, Lyondell increased its dividend by 12.5 percent to $1.80 per share on an annualized basis.

Along with the industry, Lyondell's petrochemicals businesses suffered from a cyclical downturn in 1991 as increased industry capacity was coupled with stagnant demand. However, Lyondell's ethylene and methanol sales volumes were at record levels, reflecting strong marketing performance and continued emphasis on quality.

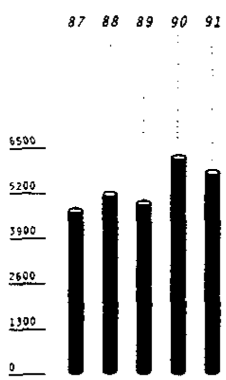
Lyondell's refining operation maintained its profitability levels for the second consecutive year as industry supply and demand conditions remained favorable, despite the recession.

The passage of the Clean Air Act has had important implications for the refining and petrochemicals businesses. On the refining side, the company has supplied reformulated gasoline to several customers and is well positioned to capitalize on the increasing demand. In terms of petrochemicals, Lyondell is a major producer of oxygenates, which are necessary to produce reformulated gasolines. The company is a major producer of methanol and MTBE and has an active research project under way to produce low-cost isobutylene, a key feedstock in the production of MTBE. A commercial-scale demonstration of this technology is planned for 1992.

Lyondell's $115 million capital program for 1992 includes projects to expand its product flexibility unit, which converts ethylene to propylene, and to upgrade the fluid catalytic cracker, as well as several major projects to reduce environmental emissions.

For additional information, a copy of Lyondell's 1991 Annual Report can be obtained by writing to Investor Relations, Lyondell Petrochemical Company, 1221 McKinney, Houston, TX 77010.

ETHYLENE, PROPYLENE AND POLYMERS SALES
MILLION POUNDS



	1991	1990	1989	1988	1987
Earnings — millions	$ 222	$ 356	$ 374	$ 543	$ 123
Total assets — millions	$1,479	$1,372	$1,267	$ 913	$ 750
Additions to fixed assets — millions	$ 43	$ 145	$ 176	$ 63	$ 29
Sales and other operating revenues — millions	$5,729	$6,495	$5,358	$4,696	$3,931
Refinery crude runs — thousand barrels/day	254.6	257.7	236.4	247.3	240.4
Petroleum product sales — thousand barrels/day	287.7	300.9	298.2	261.0	285.1
Ethylene, propylene and polymers sales — million pounds	6,000	6,373	5,048	5,294	4,830

This table represents stand-alone financial and statistical information of Lyondell Petrochemical Company.

PNYC 00013132

ARCO places high priority on its corporate responsibilities to the communities in which it operates. Faced with an increasingly diverse population in the United States and urgent worldwide economic struggles, the role of ARCO and other industrial leaders has taken on new significance in addressing these complex issues.

While ARCO's corporate citizenship activities are many, those most visible are in the areas of community involvement through participation and funding, equal opportunity in employment and promotion, and seeking out and working with women- and minority-owned businesses.

Being part of ARCO, as an employee or retiree, generally means being involved. Whether it's the chairman of the board, president or a new employee, ARCO people have a spirit of involvement. In hundreds of communities throughout the world, ARCO employees are helping children to learn more, helping hungry people eat better, helping homeless people find affordable shelter and helping all people to experience cultural and historical events that help bind them together as a society.

ARCO's history of community involvement is now serving to help others in business recognize what can be done through volunteerism and focused, strategic project funding. Chairman Lod Cook is serving on the board of the Points of Light Foundation, created to facilitate the spirit of consequential personal involvement in the most urgent social needs in communities nationwide.

Education is receiving increasing attention at ARCO to address society's current ills and to fulfill the future needs of society. ARCO volunteers have long been involved in classroom projects through activities such as adopt-a-school mentoring programs and Junior Achievement. While supporting these efforts, ARCO President Bob Wycoff and other executives are working with other business, community and political leaders to restructure U.S. public education so that it can teach today's students more effectively.

ARCO helped [illegible] Family Shelter and Assistance Program at Dallas [illegible] ARCO Oil and Gas Company's Laura Starks, left, and Billy Johnson, right, lend their talents to the [illegible] program. Laura is president-elect of the [illegible] board of directors while Billy serves on its advisory board and volunteers his time for the sustaining campaign. Families living in a nearby transitional housing facility are invited weekly for a family meal followed by educational, informative programs and recreational activities.

PNYC 00013133

In Los Angeles, Wycoff heads a group called LEARN, which stands for Los Angeles Educational Alliance for Restructuring Now and is dedicated to school reform.

In Anchorage and Fairbanks, children [illegible]icipating in day-care and after-school-care programs are now learning the joys of science and math, thanks to ARCO's assistance in developing special activity kits created by Children's Television Workshop (originators of *Sesame Street*). ARCO financed a pilot project which took these learning kits to YMCA after-school clubs in the inner-city areas of Houston, Los Angeles and Dallas three years ago. Popularity and use of the kits has been expanding rapidly.

The company's interest in education extends beyond the primary grades. In 1991, 25 universities, primarily in the West and Southwest, received financial assistance to help in retaining minority students in engineering disciplines related to the energy industry.

ARCO's involvement in community reaches throughout its operating areas. In total for 1991, ARCO invested approximately $26 million in nonprofit organizations through the ARCO Foundation's direct grants, employee matching grants programs and other company-participation projects.

ARCO is also actively involved in shaping the future of its work force, which is being recruited from a diverse population. In hiring and promotion programs, the company seeks out qualified female and minority candidates. Although the number of employees at ARCO has declined since 1985, the percentage of minority and female employees has increased. Furthermore, ARCO strives to increase the number of women and minorities in mid-to-senior levels of management.

In managing its procurement practices, ARCO endeavors to promote opportunities for a diverse business base. As a result, the company spent over $280 million of its total purchasing budget in 1991 with women- and minority-owned vendors and contractors.

ARCO's inner-city schools Joint Educational Project started at Los Angeles' 10th Street School in 197[illegible]. Employee volunteers devote a weekly class period with students, and ARCO has also helped obtain a computer language laboratory along with other needed equipment. Longtime ARCO Products Company volunteer, Mike Noonan, helps fifth graders create a United States map. The students, for most of whom English is a second language, wrote to each state for pictures and information to complete reports and the colorful map.

PNYC 00013134

ARCO's commitment to environment, health and safety issues is long-standing and well recognized in the petroleum industry. Like technology for managing its other operations, expertise in these matters is growing. ARCO's Board of Directors has an Environment, Health and Safety Committee which meets regularly. The direction and goals are set by company management, and the operating locations are responsible for the results achieved.

ENVIRONMENT Environmental issues are part of the planning for all ARCO projects. With increased exploration drilling worldwide, the company's environmental specialists are part of the initial planning for each project. In the Oriente area of Ecuador, for example, ARCO completed drilling its first well in the rain forest in 1991. Before any well-site preparation work started, rain forest environmental protection guidelines were developed. Minimizing the use of heavy equipment in the forest, ARCO kept the drilling area to just four acres (previous comparable sites in Ecuador averaged 8 to 12 acres). Helicopter flights were used instead of roads for transport of equipment and workers to the site. Local citizens from the nearby village, Moretecocha, and scientific consultants studied the specific site for drilling. Local residents selected trees to be cut for use at the well site.

Immediately following the drilling, restoration of the site began. An on-site nursery was utilized to grow seedlings for transplant to the drilling area. Boards used at the drill site were recycled and made into wooden pallets that were spread over the reseeded areas to protect tiny plants from the tropical sun. Low-impact site preparation methods, use of nursery-grown plants, banking and reuse of the topsoil are all resulting in accelerated recovery of the forest.

Lessons learned at this site are already being utilized at a second well site being prepared for drilling nearby, minimizing even further any impacts to the environment.

ARCO [illegible] Department of Environmental [illegible] U.S. Coast Guard, [illegible] Pipeline Service Company's Ship Escort/Response Vessel System (SERVS). SERVS Manager Larry [illegible] explains barge-based skimmer systems.

PNYC 00013135

HEALTH AND SAFETY In 1991, ARCO moved to revitalize its safety culture when it concluded overall safety performance was unacceptable compared to other performance measures. By the end of 1991, ARCO's lost workday case incident rates had improved 24 percent, compared to 1990. There were no employee work-related fatalities in 1991, but four contractor fatalities did occur. To improve contractor safety performance, ARCO has implemented a contractor strategy which demands the same high standards required of ARCO employees.

ARCO carries its safety concern through all operating divisions worldwide. ARCO management and employees, as well as contractor employees and visitors, are required to maintain specific safety standards at ARCO-operated locations. By training and managing for safety, ARCO plans to become the top performer in its industry.

REMEDIATION Federal clean-up procedures and standards for post-industrial activities have become very complex and stringent. Remediation programs cost ARCO $148 million in 1991. ARCO has found that by leading the investigation and remedial design effort, the whole process can be shortened and still produce an equally effective remedy.

Near Vinita, Oklahoma, for example, ARCO recognized its potential responsibility related to a refinery site abandoned by a predecessor company in 1925. While parts of the acreage had been used for ranching, it also included acid tar pits which had been fenced and abandoned. ARCO purchased the land and voluntarily signed an agreement with the Oklahoma Department of Health providing for cleanup of the site. In 1992, after a $5 million, 22-month restoration, ARCO plans to transfer the restored 148-acre site to the Oklahoma Department of Wildlife Conservation for public use. Moving ahead of requirements or specific regulations is also the approach that ARCO is taking on the North Slope of Alaska, where it has been active since the 1960s. New seed and plant development, along with tundra restoration, are under way so that the footprints from exploration and development activities in past years can be removed even as production continues.

ARCO Coal's Black [illegible] Mine won the 1991 ARCO Environmental Achievement Award for wildlife habitat enhancement [illegible] on mined land. Nearly 1,450 acres [illegible] for [illegible] planting [illegible] lands especially [illegible] 19 different species of grasses, forbs and shrubs which [illegible] operate the roller harrow [illegible]. In the background is a year-old reseeded area. The annual award recognizes innovative and successful projects which surpass regulatory requirements and enhance performance.

PNYC 00013136

CONTENTS

Selected Financial Information

Millions of dollars, except per share amounts	*1991(1)*	*1990(2)*	*1989(3)*	*1988*	*1987*
Sales and other operating revenues — including excise taxes	**$18,157**	$18,808	$16,021	$18,324	$16,977
Net income	**$ 709**	$ 2,011	$ 1,953	$ 1,583	$ 1,224
Earned per share	**$ 4.39**	$ 12.15	$ 11.26	$ 8.78	$ 6.68
Cash dividends per common share	**$ 5.50**	$ 5.00	$ 4.50	$ 4.00	$ 4.00
Total assets	**$24,492**	$23,864	$22,261	$21,514	$22,890
Long-term debt and capital lease obligations	**$ 5,989**	$ 5,997	$ 5,313	$ 5,665	$ 6,314

(1) See Note 2 of Notes to Consolidated Financial Statements.
(2) The 1990 impact on net income from the cumulative effect of the change in accounting for income taxes was $323, or $1.95 per share.
(3) See Note 19 of Notes to Consolidated Financial Statements.

Management's Discussion and Analysis of Financial Condition and Results of Operations

RESULTS OF CONSOLIDATED OPERATIONS Earnings were lower in 1991 compared to 1990 and 1989, primarily as a result of an unfavorable economic climate. The upward trend in crude oil prices, which had a strong influence on operating results in the two preceding years, reversed itself in 1991. The Company also took charges in 1991 against earnings for unusual items related to personnel reductions, restructuring of its Lower 48 operations, the anticipated loss on the sale of certain Lower 48 oil and gas properties and the writedown of certain coal assets. In recognition of the currently difficult and changing business environment, the Company took these steps to improve its profitability in the future. Charges for the unusual items associated with these actions totaled $503 million pretax, $312 million after tax.

OVERVIEW OF 1991 RESULTS In 1991, ARCO's net income was $709 million, or $4.39 per share, and included approximately $295 million after tax in net charges, primarily related to personnel reductions, anticipated loss on property sales and property writedowns. Earnings in 1991 were also negatively impacted by lower crude oil and natural gas prices, refining and marketing margins and margins related to chemical operations, only partially offset by higher crude oil and refined products sales volumes. In addition, the Company's income from equity investments and interest was lower in 1991.

OVERVIEW OF 1990 RESULTS In 1990, ARCO recorded the highest net income in the history of the Company. Net income was $2,011 million, or $12.15 per share. The effect of higher crude oil prices was partially offset by higher exploration expenses and operating costs. Additionally, higher refined product margins contributed to the earnings improvement. However, earnings from ARCO's ownership interest in ARCO Chemical Company (ARCO Chemical) were lower as a result of reduced domestic volumes and increased costs associated with a plant accident and shutdown in the second half of the year, partially offset by margin improvements for propylene oxide and methyl tertiary butyl ether.

The 1990 results included a $323 million gain as a result of the Company's adoption of Statement of Financial Accounting Standards No. 96, "Accounting for Income Taxes." The cumulative effect of this accounting change on 1990 net income per share was $1.95.

In addition, the 1990 results included approximately $185 million in after-tax gains resulting from a settlement with SONAT related to an offshore accident and the sale of ARCO's Norwegian oil and gas assets. These gains were offset by after-tax charges of $130 million for future environmental remediation and $267 million for tax and royalty issues.

OVERVIEW OF 1989 RESULTS In 1989, the Company's net income was $1,953 million, or $11.26 per share. The 1989 results included a $634 million after-tax gain from ARCO's sale of a majority interest in Lyondell Petrochemical Company (Lyondell) in January 1989 and $43 million of after-tax gains resulting from settlements of natural gas contract disputes. Partially offsetting these gains were $345 million in first quarter after-tax charges for future environmental remediation, provisions for the anticipated loss associated with the sale of ARCO Solar, Inc., the writedown of abatable preferred stock, and some tax-related provisions.

RESULTS OF CONSOLIDATED OPERATIONS

REVENUES Sales and other operating revenues were $18.2 billion in 1991, $18.8 billion in 1990 and $16.0 billion in 1989. The decrease in revenues in 1991 compared to 1990 resulted from lower crude oil and refined and chemical products prices and lower natural gas prices and sales volumes, partially offset by higher crude oil trading volumes and higher refined and chemical products sales volumes. The $2.8 billion increase in 1990 compared to 1989 primarily resulted from higher crude oil and refined product prices.

Income from equity investments was $119 million in 1991, $277 million in 1990 and $240 million in 1989. The lower income in 1991 primarily resulted from lower earnings from ARCO's equity interest in Lyondell. The lower earnings resulted from reduced operating margins for Lyondell as well as the absence of any income related to dividends received during 1991 in excess of ARCO's equity investment in Lyondell. The higher income in 1990 compared to 1989 primarily resulted from the inclusion of $45 million after tax related to ARCO's recognition of income from dividends received during 1990 in excess of its equity investment in Lyondell.

Other revenues were $385 million in 1991 compared to $443 million in 1990 and $199 million in 1989. The 1991 revenues included net foreign currency transaction gains, versus losses in 1990. The 1990 revenues included the SONAT settlement and the gain from the Norwegian oil and gas assets sale.

EXPENSES Costs and other operating expenses were $10.5 billion in 1991, $10.8 billion in 1990 and $9.0 billion in 1989. Operating expenses in 1991 included higher crude oil trading volumes, which were partially offset by lower crude oil feedstock prices, and higher operating costs associated with oil and gas properties purchased in California and increased production in the United Kingdom. In addition, 1991 operating expenses included higher purchased volumes of finished refined products and chemical feedstocks. In 1990, however, operating expenses were higher than in 1991 because they included charges for tax and royalty settlements and higher charges for future environmental remediation. The increase in operating expenses in 1990 compared to 1989 primarily resulted from higher crude oil and refined product costs and higher operating and exploration expenses.

Selling, general and administrative expenses were $1,784 million in 1991, $1,652 million in 1990 and $1,476 million in 1989. Increased expenses in 1991 resulted primarily from higher insurance costs. The increase in 1990 selling and administrative expenses compared to 1989 resulted from higher retail marketing costs associated with ARCO Products Company's additional am/pm® stores and with its Brazilian operations, higher advertising costs associated with ARCO's emission control gasolines, EC-1® and EC-Premium®, and higher delivery charges associated with ARCO Coal Company's operations. In addition, ARCO Chemical incurred higher administrative costs, including costs associated with personnel additions and additional support facilities, related to its continued program of worldwide growth.

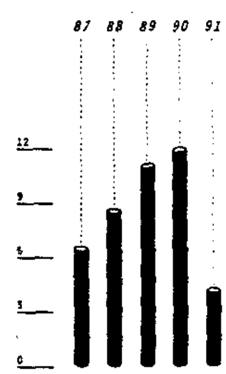
Taxes other than excise and income taxes were $1,131 million in 1991, $1,303 million in 1990 and $943 million in 1989. The decrease in 1991 taxes primarily resulted from lower production taxes related to lower crude oil prices and a decrease in Brazilian value-added taxes related to lower products prices. The increase in 1990 taxes primarily resulted from an increase in Brazilian value-added taxes and Alaskan production taxes associated with higher crude oil prices in 1990.

Excise taxes were $1,120 million in 1991, $800 million in 1990 and $670 million in 1989. The increases in 1991 and 1990 compared to 1989 primarily resulted from increases in federal and state excise tax rates in 1991 and 1990 and the full-year effect in 1991 of increased rates in 1990.

RESULTS OF SEGMENT OPERATIONS

OIL AND GAS ARCO's worldwide oil and gas exploration and production operations earned $549 million after tax in 1991. This amount included approximately $170 million after tax in net charges related to personnel reductions and the anticipated loss on divestiture of properties in the Lower 48, partially offset by a benefit associated with the reduction in U.K. corporation tax rates. The effect of lower crude oil prices, lower

EARNINGS PER SHARE
DOLLARS



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natural gas prices and volumes, and higher operating costs, partially offset by higher crude oil sales volumes, resulted in the lower earnings for 1991.

ARCO's oil and gas exploration and production operations earned $1,364 million after tax in 1990, versus $887 million after tax in 1989. The effect of higher crude oil prices, partially offset by higher operating costs, increased exploration expenses and lower production volumes, was responsible for the improved performance. The 1990 earnings also included after-tax gains of approximately $185 million as a result of the SONAT settlement and the sale of ARCO's Norwegian assets. The 1989 results included $43 million of after-tax gains as a result of settlements of natural gas contract disputes.

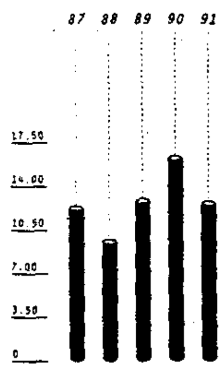
Fluctuating crude oil prices have had a significant impact on earnings over the past three years. The Company's domestic composite average price for crude oil was $12.93 per barrel in 1991, $16.56 per barrel in 1990 and $13.13 per barrel in 1989. Average domestic natural gas prices were $1.54 per thousand cubic feet in 1991, $1.66 per thousand cubic feet in 1990 and $1.67 per thousand cubic feet in 1989.

The Company's worldwide petroleum liquids production averaged 744,200 barrels per day in 1991, 705,400 barrels per day in 1990 and 730,100 barrels per day in 1989. ARCO's share of production from its largest Alaskan field, Prudhoe Bay, was 281,700 barrels of petroleum liquids per day in 1991, compared to 276,800 barrels per day in 1990 and 294,300 barrels per day in 1989. The worldwide production volumes were higher than in the previous year as a result of leases acquired in the Midway-Sunset field of California in early 1991 and the impact of the expanded gas handling system (GHX-1) installed in late 1990 at Prudhoe Bay on Alaska's North Slope, which was designed to increase production. The decrease in worldwide production in 1990 primarily resulted from the following factors: reduced Alaskan production as a result of scheduled field downtime for installation of GHX-1, pipeline maintenance, a Kuparuk River field production payback of 9,000 barrels per day that commenced on July 1, 1990 and natural field decline in Alaska.

The Company's share of petroleum liquids production from the Kuparuk River field increased to 140,300 barrels per day in 1991 from 138,400 barrels per day in 1990 and 147,100 barrels per day in 1989. The decrease in 1990 primarily resulted from the six-month effect of the above-mentioned payback of 9,000 barrels per day. The 24-month payback is the result of a final equity redetermination in 1990 among ARCO Alaska and the other working interest owners of the field.

Lower 48 petroleum liquids production was 227,900 barrels per day in 1991, 204,500 barrels per day in 1990 and 200,600 barrels per day in 1989. The increase in 1991 was primarily attributable to the additional leases in the Midway-Sunset field.

CRUDE OIL
AVERAGE DOMESTIC
SALES PRICE
DOLLARS/BARREL



Foreign petroleum liquids production averaged 75,700 barrels per day in 1991, 67,100 barrels per day in 1990 and 70,100 barrels per day in 1989. ARCO's international operations in 1991 reflected increased production from the startup of the BZZ field in Indonesia and increased production onshore in the United Kingdom. The decrease in foreign production in 1990 was attributable to Indonesian production, which was the result of natural field decline and a reduction in the number of barrels required to provide for cost recovery under the Indonesian production sharing agreement.

Domestic natural gas production totaled 1.399 billion cubic feet per day in 1991, 1.554 billion cubic feet per day in 1990 and 1.529 billion cubic feet per day in 1989. The reduced production level in 1991 reflected primarily natural field decline in the Lower 48.

COAL After-tax earnings from the Company's coal operations were $33 million in 1991, $91 million in 1990 and $92 million in 1989. Included in the 1991 earnings were approximately $50 million in net after-tax charges primarily associated with a write-down of the Coal Resources of Queensland (CRQ) mine in Australia, partially offset by gains from the sale of Venezuelan and other assets. As a result of CRQ's difficulties in meeting its production objectives, ARCO Coal has been considering various options, including the use of alternative mining methods and mining plans and/or a reduction in its ownership interest. Total worldwide coal shipments in 1991 were 41.6 million tons compared to 38.3 million tons in 1990 and 39.4 million tons in 1989.

REFINING AND MARKETING After-tax earnings for refining and marketing operations were $266 million in 1991, $439 million in 1990 and $291 million in 1989.

Earnings were lower in 1991 because of lower refining margins resulting from higher industry production levels on the West Coast and weak consumer demand. The 1991 earnings also included approximately $10 million of net after-tax charges for personnel reductions, for future environmental remediation, primarily associated with previously divested properties, and for certain legal exposures, partially offset by benefits associated with accounting and tax adjustments related to Brazilian operations.

The increased earnings in 1990 resulted from higher refined product margins, partially offset by the effects of higher crude oil prices. West Coast petroleum products sales totaled 466,400 barrels per day in 1991, 444,000 barrels per day in 1990 and 435,500 barrels per day in 1989. The progressive increase in sales volumes from 1989 resulted in increased market share for the Company's refining and marketing operations. The refining and marketing operations met part of this increased sales demand by reselling products not refined by the Company.

TRANSPORTATION After-tax earnings for the transportation operations were $212 million in 1991, $274 million in 1990 and $266 million in 1989. The 1991 earnings were lower as a result of lower Trans Alaska Pipeline System (TAPS) revenues, as determined by the TAPS Settlement Methodology Agreement, and reduced volumes on the Midcontinent system. The 1991 earnings also included after-tax charges of approximately $30 million for personnel reduction costs and for settlement of Kuparuk Pipeline tariff rate litigation. The increase in 1990 compared to 1989 was the result of a higher TAPS tariff rate, partially offset by lower TAPS volumes associated with the decline in production from Prudhoe Bay and higher pipeline maintenance expenses. The 1990 tariff included a makeup for costs resulting from volume losses and higher costs in 1989, both associated with the EXXON VALDEZ spill.

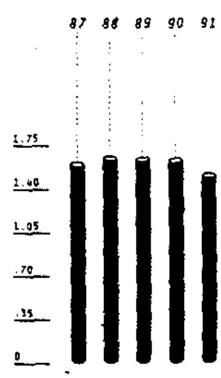
INTERMEDIATE CHEMICALS AND SPECIALTY PRODUCTS After-tax earnings for the Company's intermediate chemicals and specialty products segment were $192 million in 1991, $271 million in 1990 and $336 million in 1989. The segment consists of ARCO Chemical, an 83.4 percent owned subsidiary of the Company. Sales volumes were higher in all major product lines in 1991 compared to 1990 when the Channelview, Texas, plant was shut down after an accident; however, margins were generally lower as a result of the weak worldwide economy. ARCO Chemical's reported 1991 results included a $153 million pretax benefit from business interruption insurance related to the July 1990 Channelview claim, which is now finalized, and to feedstock contamination in the fourth quarter of 1990 at its Bayport, Texas, plant. Also included in the 1991 results were pretax charges totaling $38 million, reflecting personnel reductions and future environmental remediation costs, partially offset by a pretax benefit of $18 million related to a change in estimated accident charges.

ARCO Chemical's earnings in 1990 included a pretax accrual totaling $120 million for business interruption insurance related to the Channelview accident. In 1990, an increase in propylene oxide and methyl tertiary butyl ether margins was more than offset by a decrease in styrene margins and volumes and higher administrative and interest expenses. The 1990 ARCO Chemical results also reflected pretax charges of approximately $90 million for costs related to the Channelview accident and $24 million for future environmental remediation.

LYONDELL PETROCHEMICAL COMPANY ARCO's 49.9 percent equity share of Lyondell's net income was $111 million for 1991, $223 million for 1990 and $214 million for 1989. Lyondell's 1991 earnings were lower as a result of lower ethylene margins, which were partially offset by higher methanol margins. In 1990, higher refining profits were more than offset by lower olefins margins resulting from higher raw material costs. The 1990 results include $45 million after tax relating to ARCO's recognition of income from dividends received in excess of its equity investment in Lyondell.

UNALLOCATED EXPENSES AND OTHER Unallocated expenses and other after tax totaled $60 million in 1991, $410 million in 1990 and $250 million in 1989. The 1991 results included after-tax charges of $34 million for future environmental remediation. In addition, 1991 results reflected higher insurance costs compared to 1990. The 1990 results included approximately $250 million after tax for provisions for taxes and royalties, a $110 million after-tax charge for future environmental remediation primarily associated with operations previously discontinued and a $30 million after-tax

NATURAL GAS
AVERAGE DOMESTIC
SALES PRICE
DOLLARS/THOUSAND CUBIC FEET



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charge for the early redemption of two debt issues. In addition, 1990 results included lower net investment income.

The 1989 results included a $120 million after-tax charge for future environmental remediation and a $25 million after-tax charge for the writedown of abatable preferred stock. In addition, 1989 results included higher net investment income and lower insurance expenses, partially offset by provisions for the anticipated loss associated with the sale of ARCO Solar, Inc., which was completed in 1990.

FINANCIAL POSITION AND LIQUIDITY Cash flows from operating activities were $2,984 million in 1991, $3,509 million in 1990 and $3,729 million in 1989. The net cash used in investing activities was $2,691 million in 1991 and primarily included expenditures for additions to fixed assets (including dry-hole costs) of $3,239 million, and a net decrease in short-term investments of $608 million. The net cash used in financing activities was $112 million in 1991 and primarily included repayments of long-term debt of $957 million, proceeds of $1,079 million from the issuance of long-term debt, dividend payments of $872 million and treasury stock purchases by ARCO of $204 million.

Cash and cash equivalents and short-term investments totaled $2,549 million at year-end 1991. Short-term borrowings were $1,807 million at year-end 1991. The Company's working capital decreased by $1,663 million, primarily as a result of a drawdown in short-term investments and an increase in notes payable outstanding. During 1991, short-term interest rates declined more sharply than long-term interest rates, making shorter term debt more attractive to the Company than longer term debt.

The Company has a capital spending program that includes $2.4 billion for additions to fixed assets in 1992. 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, debt repayments and any treasury stock purchases will come from cash generated from operating activities, future borrowings and existing cash balances.

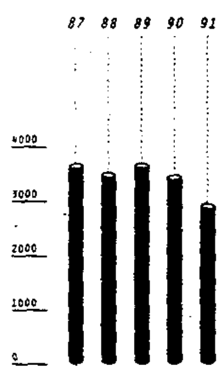
In January 1989, the Company's Board of Directors authorized a common stock buy-back program. Under the program, the Company repurchased for its treasury approximately 1.7 million shares for $204 million in 1991.

In April and May 1991, the Company issued $300 million and $150 million of 9 percent debentures due in 2021 and 2031, respectively. In August 1991, the Company issued $350 million of 9⅛ percent debentures due 2031, and in September 1991, the Company completed the issuance and sale of $200 million of medium-term notes due in nine months to 30 years from date of issue. These debt securities were issued pursuant to a shelf registration statement on Form S-3 (Registration No. 33-39277) filed with the Securities and Exchange Commission in March 1991 under which the Company registered the issuance of up to $1 billion of debt securities.

In January 1992, the Company filed a $1 billion shelf registration statement on Form S-3 (Registration No. 33-44925) with the Securities and Exchange Commission. On February 3, 1992, the Company issued $250 million of 8¾ percent debentures due 2022. In February 1992, the Company also began the issuance and sale of up to $250 million of medium-term notes due in nine months to 30 years from date of issue.

ENVIRONMENTAL MATTERS The Company 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 and petroleum substances at various sites. The Company is currently participating in environmental assessments and cleanups at numerous sites under these laws, and may in the future be involved in additional environmental assessments and cleanups. The Company continues to estimate the amount of these costs in periodically establishing reserves based on progress made in determining the magnitude of remediation costs, the timing and extent of remedial actions required by the applicable governmental authorities and the amount of the Company's liability in proportion to the other responsible parties. As the scope of the Company's obligations becomes more clearly defined, there may be

CASH PROVIDED BY OPERATIONS
MILLIONS OF DOLLARS



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changes in these estimated costs, which might result in future charges against the Company's earnings.

The Company's reserve covers federal Superfund and comparable state sites as well as other clean-up sites, including service stations, refineries, terminals, chemical facilities, third-party landfills, former nuclear processing facilities and sites associated with discontinued operations. The Company accrues for all its estimated liabilities associated with environmental remediation, including sites as to which no claims have been asserted. During 1991, the Company charged to income $148 million for environmental remediation costs and made related payments of $156 million for a net reduction in the environmental reserve of $8 million. At December 31, 1991, such reserve totaled $729 million. Approximately half of the reserve was related to sites associated with the Company's discontinued operations. Another significant component is related to currently and formerly owned chemical, nuclear processing, and refining and marketing 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 reserve. Substantially all amounts accrued in the reserve are expected to be paid out over the next five to six years.

STATEMENTS OF FINANCIAL ACCOUNTING STANDARDS NOT YET ADOPTED In December 1990, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," effective for fiscal years beginning after December 15, 1992. The standard requires companies to accrue the actuarially determined costs of postretirement benefits during the years that the employee renders the necessary service. The Company currently recognizes an expense when an obligation is paid. The Company has not yet determined whether it will adopt the new standard in 1992 or 1993.

The new standard allows an employer to record the unrecognized accumulated postretirement benefit liability (transition obligation) immediately in the year of adoption as the effect of an accounting change. Alternatively, an employer can choose to record the transition obligation prospectively over the average remaining service life of active participants. If that period is less than 20 years, the Company may elect to use a 20-year period. If the Company uses the prospective basis for recognition of the transition obligation, then the unrecognized amount must be disclosed.

The Company has not yet determined in which manner it will choose to recognize its transition obligation, which is estimated to be approximately $600 million before tax, based on current data and assumptions. The Company does not anticipate that adoption of the new standard will have a material adverse effect on its consolidated financial position or results of operations.

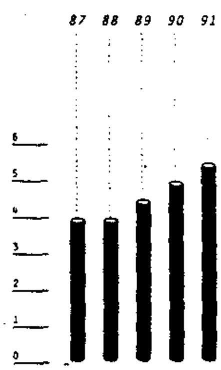
During the first quarter of 1992, the FASB issued SFAS No. 109 "Accounting for Income Taxes," effective for fiscal years beginning after December 15, 1992. SFAS No. 109 will increase the ability to record deferred tax assets because anticipated future income will now be considered when assessing realizability. The standard may also impact deferred taxes related to previous acquisitions of some companies. SFAS No. 109 is not expected to have an adverse impact on ARCO's financial statements.

EFFECTS OF INFLATION While the annual rate of inflation remained moderate during the three-year period ended December 31, 1991, the Company continued to experience certain inflationary effects. The Company will achieve some benefits by using current, inflated dollars to satisfy its debt obligations and other monetary liabilities, because the Company's monetary assets are less than its monetary liabilities at December 31, 1991.

Based on the age of the Company's property, plant and equipment, it is estimated that the replacement cost of those assets is greater than the historical cost reflected in the Company's financial statements. Accordingly, the Company's depreciation, depletion and amortization expense for the three years ended December 31, 1991, would be greater if the expense were stated on a current-cost basis.

To the extent that the Company uses the last-in, first-out (LIFO) inventory accounting method, the replacement cost of inventory is greater than the historical cost reflected on the Company's balance sheet, while the costs of products sold reflected in the Company's income statement approximate current cost.

CASH DIVIDENDS
PER COMMON SHARE
DOLLARS



Consolidated Statement of Income and Retained Earnings

Millions of dollars, except per share amounts	*For the year ended December 31,* 1991	1990	1989
REVENUES			
Sales and other operating revenues (including excise taxes)	$18,157	$18,808	$16,021
Income from equity investments	119	277	240
Interest	261	368	355
Other revenues	385	443	199
	18,922	19,896	16,815
EXPENSES			
Costs and other operating expenses	10,525	10,763	8,975
Selling, general and administrative expenses	1,784	1,652	1,476
Taxes other than excise and income taxes	1,131	1,303	943
Excise taxes	1,120	800	670
Depreciation, depletion and amortization	1,807	1,723	1,748
Interest	892	835	799
Unusual items	503	—	—
	17,762	17,076	14,611
Income before gain on subsidiary stock transaction	1,160	2,820	2,204
Gain on subsidiary stock transaction	—	—	957
Income before income taxes, minority interest and cumulative effect of change in accounting principle	1,160	2,820	3,161
Provision for taxes on income	420	1,076	1,142
Minority interest in earnings of subsidiaries	31	56	66
Income before cumulative effect of change in accounting principle	709	1,688	1,953
Cumulative effect of change in accounting for income taxes	—	323	—
Net Income	$ 709	$ 2,011	$ 1,953
EARNED PER SHARE			
Before cumulative effect of change in accounting principle	$ 4.39	$ 10.20	$ 11.26
Cumulative effect of change in accounting for income taxes	—	1.95	—
Net Income per Share	$ 4.39	$ 12.15	$ 11.26
RETAINED EARNINGS			
Balance, January 1	$ 6,837	$ 5,636	$ 7,562
Net income	709	2,011	1,953
Cash dividends:			
Preference stocks	(3)	(3)	(4)
Common stock	(869)	(807)	(756)
Cancellation of treasury stock	(684)	—	(3,119)
Balance, December 31	$ 5,990	$ 6,837	$ 5,636

See Notes on pages 43 through 53.

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Millions of dollars	December 31, 1991	1990
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,228	$ 1,102
Short-term investments	1,321	1,929
Accounts receivable	1,680	1,963
Inventories	861	760
Prepaid expenses and other current assets	248	294
Total current assets	5,338	6,048
Investments and long-term receivables:		
Investments accounted for on the equity method	428	291
Other investments and long-term receivables	124	66
	552	357
Fixed assets:		
Property, plant and equipment	32,273	30,164
Less accumulated depreciation, depletion and amortization	14,721	13,764
	17,552	16,400
Deferred charges and other assets	1,050	1,059
Total Assets	$24,492	$23,864
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable	$ 1,807	$ 932
Accounts payable	1,221	1,394
Taxes payable, including excise taxes	329	529
Long-term debt due within one year	644	502
Accrued interest	214	233
Other	998	670
Total current liabilities	5,213	4,260
Long-term debt	5,989	5,997
Deferred income taxes	3,224	3,440
Other deferred liabilities and credits	2,912	2,709
Minority interest	322	309
Stockholders' equity:		
Preference stocks	1	1
Common stock, $2.50 par value; shares issued 160,743,361 (1991), 167,679,563 (1990); shares outstanding 157,627,284 (1991), 158,912,873 (1990)	402	419
Capital in excess of par value of stock	688	740
Retained earnings	5,990	6,837
Treasury stock, at cost	(325)	(890)
Foreign currency translation	76	42
Total stockholders' equity	6,832	7,149
Total Liabilities and Stockholders' Equity	$24,492	$23,864

The Company follows the successful efforts method of accounting for oil and gas producing activities.
See Notes on pages 43 through 53.

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CONSOLIDATED STATEMENT OF CASH FLOWS

Millions of dollars	*For the year ended December 31.* 1991	1990	1989
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	**$ 709**	$ 2,011	$ 1,953
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation, depletion and amortization	**1,807**	1,723	1,748
Gain on subsidiary stock transaction	**—**	—	(634)
Income from equity investments	**(119)**	(277)	(240)
Dividends from equity investments	**112**	192	84
Noncash provisions greater (less) than cash payments	**440**	(472)	570
Net change in deferred taxes	**(216)**	33	(363)
Dry-hole expense	**218**	299	163
Net change in accounts receivable, inventories and accounts payable	**9**	(214)	380
Net change in other working capital accounts	**21**	272	57
Other	**3**	(58)	11
Net cash provided by operating activities	**2,984**	3,509	3,729
CASH FLOWS FROM INVESTING ACTIVITIES:			
Additions to fixed assets (including dry-hole costs)	**(3,239)**	(2,718)	(2,105)
Net cash provided by (used in) short-term investments	**608**	(93)	(814)
Proceeds from asset sales	**117**	358	149
Net proceeds from subsidiary stock transaction	**—**	—	1,241
Investments and long-term receivables	**(205)**	(13)	10
Other	**28**	(74)	(344)
Net cash used in investing activities	**(2,691)**	(2,560)	(1,863)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Repayments of long-term debt	**(957)**	(810)	(486)
Proceeds from issuance of long-term debt	**1,079**	1,062	459
Net cash provided by notes payable	**873**	277	85
Dividends paid	**(872)**	(810)	(760)
Treasury stock purchases	**(204)**	(704)	(810)
Other	**(31)**	(33)	(29)
Net cash used in financing activities	**(112)**	(1,018)	(1,541)
Effect of exchange rate changes on cash	**(55)**	(2)	(28)
Net increase (decrease) in cash and cash equivalents	**126**	(71)	297
Cash and cash equivalents at beginning of year	**1,102**	1,173	876
Cash and cash equivalents at end of year	**$ 1,228**	$ 1,102	$ 1,173

See Notes on pages 43 through 53.

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NOTE 1 ACCOUNTING POLICY

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. The Company also consolidates its interests in undivided interest pipeline companies and in oil and gas and coal mining joint ventures. The Company uses the equity method of accounting for companies where its ownership is between 20 and 50 percent and for other ventures and partnerships in which less than a controlling interest is held.

Cash Equivalents; Short-Term Investments

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. Short-term investments consist of similar investments maturing in more than three months of purchase. Cash equivalents and short-term investments 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.

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 cost of restoration and reclamation of land associated with such projects and land associated with mining operations are accrued during operations 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.

Fixed Assets

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

Disposal of Fixed 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.

Minority Interest

Minority interest represents the minority stockholders' proportionate share of the equity and the income or loss of certain consolidated subsidiaries, primarily ARCO Chemical Company (ACC). At December 31, 1991, ARCO owned approximately 83.4 percent of the outstanding shares of ACC.

Reclassifications

Certain previously reported amounts have been restated to conform to classifications adopted in 1991.

NOTE 2 UNUSUAL ITEMS

In the third quarter of 1991, the Company announced a reorganization of its oil and gas operations in the Lower 48 states and a company wide work force reduction. The Company provided as unusual items an estimated $177 million, net of tax benefits of $111 million, for the cost of these programs. The Company also provided as unusual items approximately $135 million, net of tax benefits of $80 million, for the anticipated loss on the sale of certain Lower 48 oil and gas properties and the write-down of certain coal assets.

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NOTE 3 SEGMENT INFORMATION

The Company operates primarily in the Resources and Products segments. The Resources segment includes the Company's 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, tertiary butyl alcohol, methyl tertiary butyl ether and styrene monomer. Segment information for the years 1991, 1990 and 1989 was as follows:

Millions of dollars	*1991*	*1990*	*1989*
SALES AND OTHER OPERATING REVENUES			
Resources:			
Oil and gas	**$ 8,859**	$ 9,425	$ 8,138
Coal	**563**	541	519
Products:			
Refining and marketing	**7,989**	8,649	6,789
Transportation	**849**	946	862
Intermediate chemicals and specialty products	**2,990**	2,950	2,663
Other	**30**	33	55
Elimination of intersegment amounts	**(3,123)**	(3,736)	(3,005)
Total	**$18,157**	$18,808	$16,021

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

Millions of dollars	*1991*	*1990*	*1989*
Resources:			
Oil and gas	**$ 2,694**	$ 3,311	$ 2,632
Products:			
Refining and marketing	**19**	25	18
Transportation	**346**	350	312
Intermediate chemicals and specialty products	**41**	24	15
Other	**23**	26	28
Total	**$ 3,123**	$ 3,736	$ 3,005

Millions of dollars	*1991*	*1990*	*1989*
PRETAX SEGMENT EARNINGS			
Resources:			
Oil and gas	**$ 841**	$ 2,147	$ 1,464
Coal	**25**	130	138
Products:			
Refining and marketing	**394**	806	484
Transportation	**333**	436	424
Intermediate chemicals and specialty products	**377**	487	596
Equity earnings from Lyondell Petrochemical Company	**111**	250	214
Gain on subsidiary stock transaction	**—**	—	957
Unallocated expenses and other	**(29)**	(601)	(317)
Interest	**(892)**	(835)	(799)
Income taxes	**(420)**	(1,076)	(1,142)
Minority interest	**(31)**	(56)	(66)
Cumulative effect of change in accounting principle	**—**	323	—
Net income	**$ 709**	$ 2,011	$ 1,953
AFTER-TAX SEGMENT EARNINGS			
Resources:			
Oil and gas	**$ 549**	$ 1,364	$ 887
Coal	**33**	91	92
Products:			
Refining and marketing	**266**	439	291
Transportation	**212**	274	266
Intermediate chemicals and specialty products[a]	**192**	271	336
Equity earnings from Lyondell Petrochemical Company	**111**	223	214
Gain on subsidiary stock transaction	**—**	—	634
Unallocated expenses and other	**(60)**	(410)	(250)
Interest	**(594)**	(564)	(517)
Cumulative effect of change in accounting principle	**—**	323	—
Net income	**$ 709**	$ 2,011	$ 1,953

(a) Net of minority interest of $(31), $(51), and $(66) in 1991, 1990 and 1989, respectively

Millions of dollars	*1991*	*1990*	*1989*
TOTAL ASSETS			
Resources:			
Oil and gas	**$11,509**	$11,146	$10,820
Coal	**1,095**	929	857
Products:			
Refining and marketing	**2,732**	2,503	2,175
Transportation	**2,223**	2,162	2,170
Intermediate chemicals and specialty products	**3,676**	3,739	2,655
Other	**3,257**	3,385	3,584
Total	**$24,492**	$23,864	$22,261
DEPRECIATION, DEPLETION AND AMORTIZATION			
Resources:			
Oil and gas	**$ 1,316**	$ 1,247	$ 1,311
Coal	**46**	43	44
Products:			
Refining and marketing	**161**	144	132
Transportation	**94**	108	107
Intermediate chemicals and specialty products	**164**	155	128
Other	**26**	26	26
Total	**$ 1,807**	$ 1,723	$ 1,748

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Millions of dollars	1991	1990	1989
ADDITIONS TO FIXED ASSETS			
Resources:			
Oil and gas	$ 1,890	$ 1,560	$ 1,309
Coal	305	109	148
Products:			
Refining and marketing	448	370	314
Transportation	124	103	43
Intermediate chemicals and specialty products	435	539	262
Other	37	37	29
Total	$ 3,239	$ 2,718	$ 2,105

Foreign operations are conducted principally in the following geographic regions: Oil and gas — United Kingdom, Netherlands, Indonesia and Dubai; Coal — Australia; Refining and marketing — Brazil (marketing only); Intermediate chemicals and specialty products — Europe and Asia Pacific.

Millions of dollars	1991	1990	1989
FOREIGN OPERATIONS			
Sales and other operating revenues:			
Oil and gas	$ 980	$ 719	$ 577
Coal	293	288	256
Refining and marketing	1,751	2,052	1,427
Intermediate chemicals and specialty products	1,172	1,146	920
Other	23	26	28
Elimination of intersegment amounts — oil and gas	(11)	(303)	(276)
Total	$ 4,208	$ 3,928	$ 2,932
Net income (loss):			
Oil and gas	$ 79	$ 76	$ (8)
Coal	(16)	34	34
Refining and marketing	57	29	7
Intermediate chemicals and specialty products[(a)]	22	148	89
Other	(38)	(43)	(3)
Total	$ 104	$ 244	$ 119
Total assets:			
Oil and gas	$ 2,466	$ 2,205	$ 1,902
Coal	693	569	519
Refining and marketing	305	321	244
Intermediate chemicals and specialty products	1,731	1,662	1,154
Other	710	141	167
Total	$ 5,905	$ 4,898	$ 3,986

(a) Includes earnings (losses) of equity affiliates, principally Asian joint ventures, of ($22), $18, and $15, in 1991, 1990 and 1989, respectively.

NOTE 4 INVENTORIES

Inventories are recorded when purchased, produced or manufactured and are stated at the lower of cost or market. In 1991, approximately 65 percent of inventories excluding 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, 1991 and 1990 comprised the following categories:

Millions of dollars	1991	1990
Crude oil and petroleum products	$209	$184
Chemical products	331	259
Other products	33	47
Materials and supplies	288	270
Total	$861	$760

The excess of the current cost of inventories over book value was approximately $304 million at December 31, 1991.

NOTE 5 FIXED ASSETS

Property, plant and equipment, and related accumulated depreciation, depletion and amortization at December 31, 1991 and 1990 were as follows:

Millions of dollars	1991	1990
Resources:		
Oil and gas	$21,034	$20,177
Coal	1,129	876
Products:		
Refining and marketing	3,320	2,915
Transportation	3,479	3,398
Intermediate chemicals and specialty products	2,968	2,467
Other	343	331
	32,273	30,164
Accumulated depreciation, depletion and amortization	14,721	13,764
Total	$17,552	$16,400

Expenses for maintenance and repairs for 1991, 1990 and 1989 were $523 million, $519 million and $518 million, respectively.

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NOTE 6 TAXES

Taxes other than excise and income taxes for the years ended December 31, 1991, 1990 and 1989 comprised the following:

Millions of dollars	1991	1990	1989
Property	$ 206	$ 192	$177
Production/severance	406	459	395
Value added	250	296	130
Other	269	356	241
Total	$1,131	$1,303	$943

The components of the provision for taxes on income for the years ended December 31, 1991, 1990 and 1989 were as follows:

Millions of dollars	1991	1990	1989
Federal:			
Current	$355	$ 517	$1,074
Deferred	(66)	277	(206)
	289	794	868
Foreign:			
Current	104	204	116
Deferred	(36)	(4)	14
	68	200	130
State:			
Current	76	43	183
Deferred	(13)	39	(39)
	63	82	144
Total provision for taxes on income	$420	$1,076	$1,142
Total taxes paid in cash	$776	$ 732	$1,267

The sources of deferred income tax for the years ended December 31, 1991, 1990 and 1989 were as follows:

Millions of dollars	1991	1990	1989
Federal:			
Depreciation	$ 6	$ 31	$ 38
Capitalized interest	—	13	23
Oil and gas lease amortization	(15)	(14)	(19)
Intangible drilling costs	4	11	(11)
Reserve provisions	(98)	171	(181)
Equity earnings/subsidiary stock transaction	2	24	(60)
Other	35	41	4
	(66)	277	(206)
Foreign	(36)	(4)	14
State	(13)	39	(39)
Total	$(115)	$312	$(231)

The domestic and foreign components of income before income taxes, minority interest and cumulative effect of change in accounting principle, and a reconciliation of income tax expense with tax at the effective federal statutory rate for the years ended December 31, 1991, 1990 and 1989 were as follows:

Millions of dollars	Amount	Percent of Pretax Income
1991		
Income before income taxes:		
Domestic	$ 900	77.6
Foreign	260	22.4
Total	$1,160	100.0
Tax at 34%	$ 394	34.0
Increase (reduction) in taxes resulting from:		
Dividend exclusion	(30)	(2.6)
Taxes on foreign income in excess of statutory rate	54	4.7
State income taxes (net of federal effect)	42	3.6
Other	(40)	(3.5)
Provision for taxes on income	$ 420	36.2
1990		
Income before income taxes:		
Domestic	$2,260	80.1
Foreign	560	19.9
Total	$2,820	100.0
Tax at 34%	$ 959	34.0
Increase (reduction) in taxes resulting from:		
Dividend exclusion	(48)	(1.7)
Taxes on foreign income in excess of statutory rate	92	3.3
State income taxes (net of federal effect)	54	1.9
Other	19	.7
Provision for taxes on income	$1,076	38.2
1989		
Income before income taxes:		
Domestic	$2,830	89.5
Foreign	331	10.5
Total	$3,161	100.0
Tax at 34%	$1,075	34.0
Increase (reduction) in taxes resulting from:		
Subsidiary stock transaction/dividend exclusion	(83)	(2.6)
Taxes on foreign income in excess of statutory rate	63	2.0
State income taxes (net of federal effect)	95	3.0
Other	(8)	(.3)
Provision for taxes on income	$1,142	36.1

Effective January 1, 1990, the Company adopted Statement of Financial Accounting Standards No. 96, "Accounting for Income Taxes." The cumulative effect of this accounting change on years prior to 1990 was a $323 million reduction in the Company's deferred tax liability as of December 31, 1989. The reduction resulted in an increase in net income for 1990 of $323 million, or $1.95 per share. The effect of the change on 1991 and 1990 net income, excluding the cumulative effect upon adoption, was not material.

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NOTE 7 LONG-TERM DEBT

Long-term debt at December 31, 1991 and 1990 comprised the following:

Millions of dollars	*1991*	*1990*
5¾%, due in 1997	$ 27	$ 31
8⅝%, due in 2000	82	87
7.70%, due in 2000	54	58
7⅛%, due in 2003	132	139
10⅜%, due in 1995	500	500
10⅞%, due in 2005	500	500
10½%, due in 1995	150	150
9½%, due in 1996	150	150
9¼%, due in 1993	250	250
9⅞%, due in 2016	450	450
9¼%, due in 2011	300	300
9⅛%, due in 1993	200	200
5.90%, due in 2007	265	265
7%, due in 1991	—	377
Zero-coupon notes, due in 1992:		
$500 less unamortized discount of		
$6, effective rate 13.04%	494	431
10¼%, due in 2000	250	250
Third Series Medium-Term Notes	137	162
6⅛%, due in 1996	102	102
9%, due in 2021	300	—
9%, due in 2031	150	—
9⅛%, due in 2031	350	—
ARCO Tresop Notes	223	148
A Series Medium-Term Notes	200	—
ARCO British Limited:		
Tricentrol Debt	66	69
Eurobonds, due in 1999	—	290
Eurobonds, due in 2000	—	145
ARCO Chemical Company:		
French bank loans	142	163
9.35%, due in 2019	123	123
Medium-Term Notes	65	80
9.9%, due in 2000	200	200
9.375%, due in 2005	100	100
10.25%, due in 2010	100	100
9.8%, due in 2020	224	224
ACNL bank loans	175	178
Capitalized lease obligations	26	27
Other	304	387
Total, including debt due within one year	6,791	6,636
Less:		
Debt due within one year	644	502
Bonds held in sinking fund	158	137
Long-term debt	$5,989	$5,997

Maturities and sinking fund obligations for the five years subsequent to December 31, 1991 are as follows (millions of dollars): 1992 — $644; 1993 — $541; 1994 — $101; 1995 — $789; 1996 — $337.

NOTE 8 BANK CREDIT FACILITIES AND COMPENSATING BALANCES

In 1991, the Company and certain wholly owned subsidiaries had committed bank credit facilities of approximately $5.2 billion. Included in this total is a credit facility negotiated on behalf of a subsidiary that is denominated in pounds sterling. At December 31, 1991, there were no borrowings under these committed facilities.

ACC maintains its own credit facility of $500 million which is not guaranteed by ARCO. At December 31, 1991, there were no borrowings against the ACC credit facility.

Notes payable on the balance sheet 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 Company has no requirements for compensating balances. The Company does maintain balances for some of its banking services and products. Such balances are solely at the Company's discretion, so that on any given date, none of the Company's cash is restricted.

NOTE 9 INTEREST EXPENSE

Interest expense for the years ended December 31, 1991, 1990 and 1989 was comprised of the following:

Millions of dollars	*1991*	*1990*	*1989*
Long-term debt	$684	$616	$587
Short-term debt	92	118	75
Other	195	180	232
	971	914	894
Capitalized interest	(79)	(79)	(95)
Total interest expense	$892	$835	$799
Total interest paid in cash	$912	$802	$818

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NOTE 10 OTHER COMMITMENTS AND CONTINGENCIES

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

At December 31, 1991 and December 31, 1990, there were contingent liabilities with respect to guarantees of securities of other issuers of approximately $382 million and $470 million, respectively, of which approximately $42 million and $34 million, respectively, are indemnified.

Since June 1975, the Company and certain other petroleum companies have been named as defendants in a number of civil antitrust actions brought against them by state agencies or by private entities as class actions which allege violations of federal and state monopoly and restraint of trade statutes. The various types of relief sought in such actions include injunctive relief and damages. The Company is unable to predict the outcome of these actions at this time, but believes that they can be successfully defended; however, adverse decisions in certain such actions could have a significant effect on the scope and nature of the Company's operations. Final judicial determination of these actions is expected to take a number of years.

Claims brought by private parties of alleged violations of pricing regulations previously in effect that were established by the Department of Energy are pending in two actions against the Company, one of which has been certified as a class action. These two matters, when resolved, are not expected to have a material adverse effect on the consolidated financial position of the Company.

On March 24, 1989, an oil tanker, the EXXON VALDEZ, ran aground near Bligh Island, Alaska, after taking on crude oil from the Valdez Marine Terminal operated by Alyeska Pipeline Service Company (Alyeska), of which ARCO Transportation Alaska, Inc. (ATAI) owns approximately 21 percent. Roughly 240,000 barrels of crude oil were discharged into the waters of Prince William Sound. As a result, numerous lawsuits seeking compensatory and punitive damages and injunctions have been filed in state and federal court in Alaska by the State of Alaska, the United States and others against Exxon, Alyeska and Alyeska's owner companies (including ATAI), alleging, among other things, that Alyeska responded inadequately to the oil spill. On October 8, 1991, the Alaska federal District Court approved an Agreement and Consent Decree under which Exxon will pay $900 million over the next ten years (with a possible additional $100 million to be paid under a re-opener provision) in settlement of all federal and state civil damage claims. In further consideration of the Exxon payments under the Agreement and Consent Decree, Alyeska and its owner companies are released from federal and state natural resource civil damage claims. The Company does not believe that resolution of the remaining claims will have a material adverse effect on its consolidated financial position.

There is pending against the Company a consolidated class action lawsuit alleging certain misstatements and omissions in the prospectus relating to the sale to the public by the Company in January 1989 of just over 50 percent of the common stock of Lyondell, the Company's then wholly owned subsidiary. The suit seeks to recover from the Company, Lyondell and others damages for stockholders who purchased stock during the period from January 18, 1989 through November 14, 1989. On July 17, 1991, the court entered an order dismissing the consolidated class action, and the plaintiffs have appealed. The Company does not believe that resolution of these claims will have a material adverse effect on its consolidated financial position.

The Company and former producers of lead pigments and lead paints have been named as defendants in cases filed by the cities of New York, Philadelphia and New Orleans and/or their respective housing authorities seeking damages and injunctive relief as a consequence of the presence of lead-based paint in housing units owned or operated by these plaintiffs and in privately owned buildings located in New York and Philadelphia. The Philadelphia case also purports to be a class action on behalf of all cities in the United States with over 100,000 residents that are engaged in or contemplating a program involving any aspect of lead paint and its alleged hazards. The Company and former manufacturers of lead pigments and/or lead paints have also been named as defendants in a suit filed by four individuals and their respective spouses; this suit also purports to be a class

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action on behalf of all current and retired residential, commercial and industrial painters, and their spouses, residing in Pennsylvania and New Jersey, who have been occupationally exposed to lead pigment and/or lead paint products. In addition, the Company, former manufacturers of lead pigments and/or lead paints, the City and Housing Authority of Philadelphia and the U.S. Department of Housing and Urban Development (HUD) have been named in a suit filed by four individuals on behalf of themselves and their children; this suit also purports to be a class action on behalf of all current residents of the Philadelphia Housing Authority and/or HUD homes built and/or repainted before 1978 in the City of Philadelphia. The Company has also been added as a defendant in a pending suit that seeks to recover the costs of abating lead-based paint in the buildings that comprise 150 schools in Orleans Parish, Louisiana. The Company does not believe that the resolution of these claims will have a material adverse effect on its consolidated financial position.

The Company and its subsidiary, Atlantic Richfield Hanford Company (ARHCO), and several other companies have been named as defendants in a consolidated complaint filed on behalf of individual persons and seven purported classes. The consolidated complaint contains allegations that radioactive and non-radioactive toxic and hazardous substances generated at the Hanford Nuclear Reservation in Richland, Washington (HNR) have been accidentally and deliberately released by the defendants into the air, water and ground. The claims against the Company and ARHCO arise out of the performance by ARHCO of a contract with the Atomic Energy Commission to provide chemical processing, waste management and support services at HNR from 1967 to 1977. The court has limited the relief sought to compensatory damages. The Company does not believe that the resolution of these actions will have a material adverse effect on its consolidated financial position.

The Company is also the subject of or party to a number of pending or threatened legal actions for which the legal responsibility and financial impact cannot presently be ascertained. The Company does not anticipate that any ultimate liability arising from any of these suits would have a material adverse effect on its consolidated financial position.

The Company 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 and petroleum substances at various sites. The Company is currently participating in environmental assessments and cleanups under these laws at federal Superfund and comparable state sites, as well as other cleanup sites, including service stations, refineries, terminals, chemical facilities, third party landfills, former nuclear processing facilities, and sites associated with discontinued operations. The Company may in the future be involved in additional environmental assessments and cleanups. The amount of such future cost is indeterminable due to such factors as the unknown magnitude of clean-up costs, the unknown timing and extent of the remedial actions which may be required, the determination of the Company's liability in proportion to other responsible parties. These contingencies also include claims for personal injuries allegedly caused by exposure to toxic materials manufactured or used by the Company. Although these contingencies could result in significant expenses or judgments, such expenses or judgments are not expected to have a material adverse effect on the Company's consolidated financial position.

The operations and consolidated financial position of the Company 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, natural gas regulation, tax increases, environmental regulations, cancellation of contract rights and expropriation of property. Both the likelihood of such occurrences and their overall effect on the Company vary greatly and are not predictable.

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

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NOTE 11 RETIREMENT PLANS

The Company 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. The Company's funding policy is to make annual contributions as required by applicable regulations. The Company charges pension costs as accrued, based on an actuarial valuation for each plan, and funds the plans through contributions to trust funds that are kept apart from Company funds.

The following table sets forth the plans' funded status and amounts recognized in the Company's balance sheet at December 31, 1991 and 1990:

Millions of dollars	*Assets Exceed Accumulated Benefits*	*Accumulated Benefits Exceed Assets*
1991		
Actuarial present value of benefit obligations:		
Vested benefit obligation	$1,501	$ 296
Accumulated benefit obligation	$1,512	$ 300
Projected benefit obligation	$1,727	$ 332
Plan assets at fair value, primarily stocks and bonds	2,528	16
Projected benefit obligation (in excess of) or less than plan assets	801	(316)
Unrecognized net gain	(201)	(28)
Prior service cost not yet recognized in net periodic pension cost	(2)	165
Remaining unrecognized (asset) obligation from January 1, 1986	(459)	65
Adjustment required to recognize minimum liability	—	(172)
Prepaid pension cost (pension liability) recognized in the balance sheet	$ 139	$(286)
1990		
Actuarial present value of benefit obligations:		
Vested benefit obligation	$1,314	$ 244
Accumulated benefit obligation	$1,322	$ 247
Projected benefit obligation	$1,499	$ 270
Plan assets at fair value, primarily stocks and bonds	2,193	14
Projected benefit obligation (in excess of) or less than plan assets	694	(256)
Unrecognized net gain	(36)	(18)
Prior service cost not yet recognized in net periodic pension cost	(2)	103
Remaining unrecognized (asset) obligation from January 1, 1986	(498)	82
Adjustment required to recognize minimum liability	—	(144)
Prepaid pension cost (pension liability) recognized in the balance sheet	$ 158	$(233)

Pension costs related to Company-sponsored plans, on a pretax basis, including amortization of unfunded projected benefit obligations for 1991, 1990 and 1989 were as follows:

Millions of dollars	*1991*	*1990*	*1989*
Service cost-benefits earned during the period	$ 43	$ 38	$ 32
Interest cost on projected benefit obligation	137	130	117
Actual return on plan assets	(370)	127	(349)
Net amortization and deferral	201	(317)	190
Net periodic pension cost (benefit)	$ 11	$ (22)	$ (10)

In addition to the $11 million pension cost above, the Company recorded $103 million before tax as pension expense in connection with the company wide workforce reduction in 1991.

The Company's assumptions used as of December 31, 1991, 1990 and 1989 in determining the pension cost and pension liability shown above were as follows:

Percent	*1991*	*1990*	*1989*
Discount rate	8.75	9.5	9.75
Rate of salary progression	5.0	5.0	5.0
Long-term rate of return on assets	9.5	9.5	9.5

NOTE 12 OTHER POSTRETIREMENT BENEFITS

The Company currently recognizes an expense for health care and life insurance benefits for retired employees when incurred. In 1991, 1990 and 1989 these costs totaled $35 million, $39 million, and $25 million, respectively.

In December 1990, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." The standard requires companies to accrue the actuarially determined costs of postretirement benefits during the years that the employee renders the necessary service. SFAS No. 106 requires adoption by most companies for fiscal years beginning after December 15, 1992. The Company has not yet determined whether it will adopt the new standard in 1992 or 1993.

The new standard allows an employer to record the unrecognized accumulated postretirement benefit liability (transition obligation) immediately in the year of adoption as the effect of an accounting change. Alternatively, an employer can choose to record the transition obligation prospectively over the average remaining service life of active participants. The Company has not yet determined in which manner it will choose to recognize its transition obligation, which is estimated to be approximately $600 million before tax based on current data and assumptions. The Company does not anticipate that adoption of the new standard will have a material adverse effect on its consolidated financial position or results of operations.

NOTE 13 STOCKHOLDERS' EQUITY

Detail of the Company's capital stock as of December 31, 1991 and 1990 was as follows:

	1991	1990
$3.00 Cumulative convertible preference stock, par $1:		
Shares authorized	245,714	245,714
Shares issued and outstanding	99,970	114,352
Aggregate value in liquidation — (thousands)	$7,998	$9,148
$2.80 Cumulative convertible preference stock, par $1:		
Shares authorized	4,785,041	4,785,041
Shares issued and outstanding	986,513	1,070,285
Aggregate value in liquidation — (thousands)	$69,056	$74,920
Common stock, par $2.50:		
Shares authorized	600,000,000	600,000,000
Shares issued	160,743,361	167,679,563
Shares outstanding	157,627,284	158,912,873
Shares held in treasury	3,116,077	8,766,690

The changes in preference stocks were due solely 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. The 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 the Company for $82 and $70 per share, respectively.

The Company has authorized 352,000 shares of Series B, 3.75 percent cumulative preferred stock, $100 par, of which none were issued or outstanding at December 31, 1991 and 1990.

By Board authorization, effective December 31, 1991 and 1989, the Company canceled 7 million and 50 million shares of common stock held in treasury, respectively. As a result of these cancellations, common stock decreased by $17 million and $125 million, capital in excess of par value of stock decreased by $30 million and $228 million, and retained earnings decreased by $684 million and $3,119 million in 1991 and 1989, respectively.

The balance in the Company's common stock was $402 million at December 31, 1991 and $419 million at December 31, 1990 and 1989. The change in 1991 was due to the cancellation of treasury stock.

Detail of changes in the Company's treasury stock in 1991, 1990 and 1989 was as follows:

Millions of dollars

Balance, January 1, 1989	$2,909
Treasury stock purchases	827
Conversions	(28)
Cancellation of treasury stock	(3,472)
Balance, December 31, 1989	236
Treasury stock purchases	685
Conversions	(31)
Balance, December 31, 1990	890
Treasury stock purchases	202
Conversions	(36)
Cancellation of treasury stock	(731)
Balance, December 31, 1991	$ 325

The net decrease in capital in excess of par value of stock in 1991, 1990 and 1989 of $52 million, $24 million and $252 million, respectively, was due primarily to the conversion of preference stock to common stock and the cancellation of treasury stock in 1991 and 1989.

The Company's Certificate of Incorporation contains a provision restricting dividend payments; however, at December 31, 1991, retained earnings were free from such restriction. At December 31, 1991, shares of the Company's authorized and unissued common stock were reserved as follows:

Conversions:	
$3.00 Preference stock	679,796
$2.80 Preference stock	2,367,631
Stock option plans	2,960,472
Employee benefit plans	9,974,482
Total	15,982,381

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

NOTE 14 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, 1991, 1990, and 1989 were 161.7 million, 165.5 million and 173.4 million, respectively.

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NOTE 15 STOCK OPTIONS

Options to purchase shares of the Company's common stock have been granted to executives, outside directors and key employees. These options become exercisable in varying installments and expire eight to ten years after the date of grant. Transactions during 1991, 1990 and 1989 were as follows:

Balance, January 1, 1989	1,182,998
Granted	424,496
Canceled or expired	(5,479)
Exercised (average option price per share: $50.19)	(113,480)
Balance, December 31, 1989	1,488,535
Granted	474,610
Canceled or expired	(14,404)
Exercised (average option price per share: $63.80)	(157,608)
Balance, December 31, 1990	1,791,133
Granted	528,686
Canceled or expired	(1,740)
Exercised (average option price per share: $77.67)	(199,988)
Balance, December 31, 1991	2,118,091
At December 31, 1991	
Shares exercisable	1,257,020
Shares available for option (1,369,264 at December 31, 1990)	842,381
Average option price per share:	
Shares under option	$98.36
Shares exercisable	$85.98

NOTE 16 SUPPLEMENTAL CASH FLOW INFORMATION

The following is supplemental cash flow information for the years ended December 31, 1991, 1990 and 1989:

Millions of dollars	1991	1990	1989
Gross maturities of short-term investments	$ 7,480	$ 7,859	$ 5,551
Gross purchases of short-term investments	(6,872)	(7,952)	(6,365)
Net cash provided by (used in) short-term investments	$ 608	$ (93)	$ (814)
Gross proceeds from issuance of notes payable	$ 7,877	$ 7,448	$ 2,891
Gross repayments of notes payable	(7,004)	(7,171)	(2,806)
Net cash provided by notes payable	$ 873	$ 277	$ 85
Gross noncash provisions charged to income	$ 1,003	$ 1,027	$ 861
Cash payments of previously deferred items*	(563)	(1,499)	(291)
Noncash provisions greater (less) than cash payments	$ 440	$ (472)	$ 570

** In 1990, payments include approximately $800 to the Internal Revenue Service and $290 to the State of Alaska in settlement of disputed windfall profit taxes and royalty issues on ARCO's Alaskan North Slope crude production.*

NOTE 17 LEASE COMMITMENTS

Commitments under capital financial leases are capitalized with the obligation recorded at the present value of future rental payments. The related assets are amortized on a straight-line basis.

At December 31, 1991, future minimum rental payments due under leases were as follows:

Millions of dollars	Capital Leases	Operating Leases
1992	$ 3	$ 163
1993	3	133
1994	3	120
1995	3	112
1996	3	96
Later years	83	469
Total minimum lease payments	98	$1,093
Imputed interest (rates ranging from 9.75% to 14.875%)	72	
Present value of minimum lease payments included in long-term debt	$ 26	

Minimum future rental income under noncancelable subleases at December 31, 1991 amounted to $160 million.

Operating lease net rental expense for the years ended December 31, 1991, 1990 and 1989 was as follows:

Millions of dollars	1991	1990	1989
Minimum rentals	$197	$206	$169
Contingent rentals	1	3	2
Sublease rental income	(16)	(15)	(23)
Net rental expense	$182	$194	$148

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

NOTE 18 FOREIGN CURRENCY TRANSACTION GAIN/LOSS

In 1991, the Company began discounting and/or reclassifying certain Brazilian transactions to eliminate distortions in the Statement of Income otherwise created by translating financial statements from high-inflation countries. Therefore, foreign exchange transactions, which relate primarily to Brazilian operations, resulted in a net gain of $41 million in 1991, which is not comparable to net losses of $102 million and $89 million in 1990 and 1989, respectively.

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NOTE 19 LYONDELL PETROCHEMICAL COMPANY

Lyondell Petrochemical Company (Lyondell) is engaged in the manufacture, refining and marketing of basic commodity chemicals, including ethylene, propylene, methanol and aromatics, and petroleum products.

In January 1989, ARCO completed an initial public offering of its Lyondell common stock. The Company recognized an after-tax gain of $634 million from this transaction. Effective January 1989, ARCO accounts for its investment in Lyondell on the equity method.

At December 31, 1991, ARCO owned 49.9 percent of Lyondell common stock outstanding. The market value of ARCO's shares of Lyondell common stock, based on the closing quoted market price at December 31, 1991, was $904 million.

Summarized financial information for Lyondell was as follows:

Millions of dollars	*1991*	*1990*	*1989*
Year Ended December 31:			
Revenues[a]	$5,729	$6,495	$5,358
Operating margin	$ 522	$ 718	$ 717
Income before income taxes	$ 340	$ 537	$ 558
Net income	$ 222	$ 356	$ 374
ARCO's equity in net income of Lyondell[b]	$ 111	$ 223	$ 214
Cash dividends received from Lyondell	$ 70	$ 164	$ 48
At December 31:			
Current assets	$ 889	$ 788	
Noncurrent assets	$ 590	$ 584	
Current liabilities	$ 514	$ 550	
Long-term debt	$ 554	$ 471	
Other liabilities	$ 289	$ 313	
Stockholders' equity[c]	$ 122	$ 38	

(a) Includes $526, $390 and $667 of sales to ARCO in 1991, 1990 and 1989, respectively, which approximated 8%, 6% and 10% of ARCO's purchases in those years.
(b) Includes 49.9% of Lyondell's net income plus in 1990 $45 after tax from dividends received in excess of ARCO's basis of investment.
(c) ARCO's investment in Lyondell comprises 49.9% of Lyondell's stockholders' equity, plus $72 of dividends received in 1990 in excess of basis.

NOTE 20 FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK

At December 31, 1991, the Company had letters of credit outstanding totaling $288 million, of which approximately $100 million guarantee obligations carried on the balance sheet.

At December 31, 1991, the Company had outstanding numerous foreign currency forward contracts, foreign cross-currency forward contracts and foreign currency swaps, maturing at various dates. In the aggregate, these transactions require the exchange of $20 million for 35 million Deutsche marks, $7 million for 1 billion yen and $37 million for 202 million French francs.

Approximately $500 million of the Company's long-term debt is denominated in foreign currencies. To reduce exposure to foreign currency fluctuations, the Company has 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 rate of 8.14 percent.

The counterparties to these transactions are major international financial institutions; the Company does not anticipate nonperformance by the counterparties.

NOTE 21 UNAUDITED QUARTERLY RESULTS

Millions of dollars except per share amounts	1991	1990
Sales and other operating revenues (including excise taxes)		
Quarter ended:		
March 31	$ 4,696	$ 4,215
June 30	4,257	4,035
September 30	4,377	4,818
December 31	4,827	5,740
Total	$18,157	$18,808
Income (loss) before income taxes, minority interest and cumulative effect of change in accounting principle		
Quarter ended:		
March 31	$ 564	$ 468
June 30	362	684
September 30[a]	(245)	723
December 31[b]	479	945
Total	$ 1,160	$ 2,820
Net Income (loss)		
Quarter ended:		
March 31[c]	$ 351	$ 592
June 30	246	391
September 30[a]	(156)	462
December 31[b]	268	566
Total	$ 709	$ 2,011
Earned per Share		
Quarter ended:		
March 31[c]	$2.17	$3.55
June 30	$1.51	$2.36
September 30	$(.99)	$2.79
December 31	$1.67	$3.45

(a) Includes unusual items of $(523) before tax, $(325) after tax in the third quarter 1991.
(b) Includes revision of estimated unusual items of $20 before tax, $13 after tax in the fourth quarter 1991.
(c) Includes cumulative effect of change in accounting for income taxes of $323 or $1.95 per share in the first quarter 1990.

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Responsibility for Financial Statements

TO THE STOCKHOLDERS OF ATLANTIC RICHFIELD COMPANY (ARCO)

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 20 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.

Lodwrick M. Cook

Lodwrick M. Cook
Chairman of the Board and
Chief Executive Officer

Independent Accountants' Report

TO THE STOCKHOLDERS AND BOARD OF DIRECTORS OF ATLANTIC RICHFIELD COMPANY (ARCO)

We have audited the accompanying consolidated balance sheets of Atlantic Richfield Company as of December 31, 1991 and 1990, 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, 1991. 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, 1991 and 1990, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1991, in conformity with generally accepted accounting principles.

As discussed in Note 6 to the consolidated financial statements, the Company changed its method of accounting for income taxes in 1990.

Coopers & Lybrand

Coopers & Lybrand
Los Angeles, California
February 14, 1992

PNYC 00013158

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 Company 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 proved oil and gas reserves of the Company were as follows:

	Petroleum Liquids (million barrels)		*Natural Gas (billion cubic feet)*	
	Domestic	*Foreign*	*Domestic*	*Foreign*
January 1, 1989:				
Proved reserves	2,829	264	6,373	1,249
Proved developed reserves	2,184	115	5,420	363
December 31, 1989:				
Proved reserves	2,765	237	6,452	1,206
Proved developed reserves	2,157	101	5,473	324
December 31, 1990:				
Proved reserves	2,720	210	6,256	1,796
Proved developed reserves	2,152	134	5,343	475
December 31, 1991:				
Proved reserves	**2,642**	**189**	**5,798**	**2,405**
Proved developed reserves	**2,094**	**131**	**5,069**	**534**

The changes in proved reserves for the years ended December 31, 1989, 1990 and 1991 were as follows:

	Petroleum Liquids (million barrels)		*Natural Gas (billion cubic feet)*	
	Domestic	*Foreign*	*Domestic*	*Foreign*
Reserves at January 1, 1989	2,829	264	6,373	1,249
Revisions of estimates	38	(2)	204	13
Improved recovery	31	—	12	—
Purchases of minerals-in-place	39	—	5	—
Extensions and discoveries	79	2	507	6
Production	(241)	(26)	(558)	(62)
Consumed in production	—	—	(68)	—
Sales of minerals-in-place	(10)	(1)	(23)	—
Reserves at December 31, 1989	2,765	237	6,452	1,206
Revisions of estimates	55	22	(70)	(14)
Improved recovery	115	16	2	—
Purchases of minerals-in-place	15	10	103	—
Extensions and discoveries	19	6	499	678
Production	(233)	(24)	(567)	(71)
Consumed in production	—	—	(74)	—
Sales of minerals-in-place	(16)	(57)	(89)	(3)
Reserves at December 31, 1990	2,720	210	6,256	1,796
Revisions of estimates	**(8)**	**3**	**42**	**69**
Improved recovery	**89**	**—**	**3**	**—**
Purchases of minerals-in-place	**137**	**2**	**27**	**247**
Extensions and discoveries	**35**	**2**	**213**	**392**
Production	**(244)**	**(28)**	**(511)**	**(95)**
Consumed in production	**—**	**—**	**(78)**	**(4)**
Sales of minerals-in-place	**(87)**	**—**	**(154)**	**—**
Reserves at December 31, 1991	**2,642**	**189**	**5,798**	**2,405**

Significant changes to proved oil and gas reserves during 1991 were due to the addition of reserves from the acquisition of Oryx Energy Company's oil properties in the Midway-Sunset field in Kern County, California and the addition of natural gas reserves from the Offshore Northwest Java contract area and the United Kingdom sector of the North Sea.

PNYC 00013159

Estimates of petroleum reserves have been made by Company engineers. These estimates include reserves in which the Company 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 percent 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 the Company'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.

The Company has studied various options for marketing North Slope gas over the past few years. However, ARCO Alaska believes that market conditions are not likely to permit implementation of any large gas sales project within the foreseeable future.

ARCO Oil and Gas increased ownership in the THUMS Long Beach Unit to 80 percent and obtained approval from the State of California to initiate a waterflood program. The increase in ownership and the approval from the State resulted in ARCO adding 95 million barrels of crude oil equivalent to proved reserves.

Following California approval of the THUMS Long Beach project, ARCO agreed to dismiss its Coal Oil Point lawsuit, surrendering two disputed offshore leases to the State. This resulted in ARCO removing approximately 90 million barrels of crude oil equivalent from proved reserves. The Company had been prevented from completing development of Coal Oil Point, located offshore near the city of Santa Barbara.

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, 1991, 1990 and 1989 were as follows:

	Proved Properties		*Unproved Properties*	
Millions of dollars	*Domestic*	*Foreign*	*Domestic*	*Foreign*
1991				
Gross	$16,700	$2,933	$747	$602
Accumulated depreciation, depletion and amortization	9,232	1,521	112	93
Net	$ 7,468	$1,412	$635	$509
1990				
Gross	$16,140	$2,647	$786	$573
Accumulated depreciation, depletion and amortization	8,859	1,318	93	[illegible]
Net	$ 7,281	$1,329	$693	$496
1989				
Gross	$15,751	$2,347	$826	$477
Accumulated depreciation, depletion and amortization	8,307	1,108	89	74
Net	$ 7,444	$1,239	$737	$403

Costs, both capitalized and expensed, incurred in oil and gas producing activities (including operating overhead) during the three years ended December 31, 1991, 1990 and 1989 were as follows:

Millions of dollars	*Domestic*	*Foreign*	*Total*
1991			
Property acquisition costs:			
Proved properties	$351	$ 55	$ 406
Unproved properties	$ 50	$ 9	$ 59
Exploration costs	$416	$275	$ 691
Development costs	$776	$258	$1,034
1990			
Property acquisition costs:			
Proved properties	$ 38	$ 64	$ 102
Unproved properties	$113	$ 5	$ 118
Exploration costs	$483	$232	$ 715
Development costs	$657	$233	$ 890
1989			
Property acquisition costs:			
Proved properties	$ 7	—	$ 7
Unproved properties	$121	$ 6	$ 127
Exploration costs	$384	$173	$ 557
Development costs	$625	$216	$ 841

PNYC 00013160

Results of operations from oil and gas producing activities (including operating overhead) for the three years ended December 31, 1991, 1990 and 1989 were as follows:

Millions of dollars	Domestic	Foreign	Total
1991			
Revenues:			
Sales	$2,271	$874	$3,145
Transfers	1,819	—	1,819
Other	99	41	140
	4,189	915	5,104
Production costs	1,868	307	2,175
Exploration expenses	326	233	559
Depreciation, depletion and amortization	1,046	244	1,290
Other	305	—	305
	644	131	775
Income tax expense	215	52	267
Results of operations from production activities	$ 429	$ 79	$ 508
1990			
Revenues:			
Sales	$2,523	$416	$2,939
Transfers	2,415	303	2,718
Other	246	86	332
	5,184	805	5,989
Production costs	1,626	240	1,866
Exploration expenses	404	244	648
Depreciation, depletion and amortization	1,002	215	1,217
Other	167	—	167
	1,985	106	2,091
Income tax expense	732	30	762
Results of operations from production activities	$1,253	$ 76	$1,329
1989			
Revenues:			
Sales	$1,679	$301	$1,980
Transfers	2,487	276	2,763
Other	156	15	171
	4,322	592	4,914
Production costs	1,392	211	1,603
Exploration expenses	283	157	440
Depreciation, depletion and amortization	1,094	192	1,286
Other	134	—	134
	1,419	32	1,451
Income tax expense	533	40	573
Results of operations from production activities	$ 886	$ (8)	$ 878

The difference between the above results of operations for 1991, 1990 and 1989 and the amounts reported for after-tax oil and gas segment earnings in Note 3 of Notes to Consolidated Financial Statements is primarily marketing-related activities.

The standardized measure of discounted estimated future net cash flows, and changes therein, related to proved oil and gas reserves was as follows:

Billions of dollars	Domestic	Foreign	Total
1991			
Future cash inflows	$35.7	$9.2	$44.9
Future development and production costs	23.1	4.2	27.3
Future income tax expense	3.6	1.7	5.3
Future net cash flows	9.0	3.3	12.3
10% annual discount	3.8	1.5	5.3
Standardized measure of discounted future net cash flows	$ 5.2	$1.8	$ 7.0
1990			
Future cash inflows	$61.4	$9.4	$70.8
Future development and production costs	27.3	3.2	30.5
Future income tax expense	11.8	2.4	14.2
Future net cash flows	22.3	3.8	26.1
10% annual discount	10.2	1.7	11.9
Standardized measure of discounted future net cash flows	$12.1	$2.1	$14.2
1989			
Future cash inflows	$48.6	$6.9	$55.5
Future development and production costs	24.0	3.1	27.1
Future income tax expense	8.2	1.4	9.6
Future net cash flows	16.4	2.4	18.8
10% annual discount	7.3	1.1	8.4
Standardized measure of discounted future net cash flows	$ 9.1	$1.3	$10.4

PNYC 00013161

Primary changes in the standardized measure of discounted estimated future net cash flows were as follows:

Billions of dollars	1991	1990	1989
Sales and transfer of oil and gas, net of production costs	$(2.8)	$(3.8)	$(3.2)
Extensions, discoveries and improved recovery, less related costs	.4	1.3	.9
Revisions of estimates of reserves proved in prior years:			
Quantity estimates	—	.6	.3
Net changes in price and production costs	(11.5)	6.3	5.3
Purchases/Sales	.4	—	—
Other	(1.6)	(.6)	.2
Accretion of discount	2.1	1.6	1.1
Development costs incurred during the period	1.1	.9	.8
Net change in income taxes	4.7	(2.5)	(2.0)
Net change	$(7.2)	$ 3.8	$ 3.4

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. Because of unpredictable variances in expenses and capital forecasts, crude oil and natural gas price changes, largely influenced and controlled by U.S. and foreign governmental actions, and the fact that the bases for such estimates vary significantly, management believes the usefulness of these projections is limited. Estimates of future net cash flows presented do not represent management's assessment of future profitability or future cash flow to the Company. 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 percent standard discount rate does not convey absolute value. The discounted amounts arrived at are only one measure of the value of proved reserves.

Regarding the information on estimated reserve quantities and discounted future net cash flows, the Company has no long-term supply contracts to purchase from foreign governments or any interest in equity affiliates involved in oil and gas producing activities.

COAL OPERATIONS

Supplemental operating statistics for the coal operations of the Company for the three years ended December 31, 1991, 1990 and 1989 were as follows:

	1991	1990	1989
Coal shipments – thousand tons:			
Domestic	32,598	29,437	31,114
Foreign	8,961	8,819	8,333
Total	41,559	38,256	39,447
Coal reserves – million tons recoverable:			
Domestic	876	854	869
Foreign	242	411	321
Total	1,118	1,265	1,190
Average market price per ton of coal:			
Domestic	$ 9.20	$ 9.45	$ 9.29
Foreign	$32.70	$32.70	$31.33
Composite price	$14.27	$14.81	$13.93

PNYC 00013162

Millions of dollars, except per share amounts	1991	1990	1989	1988	1987
SALES AND OTHER OPERATING REVENUES					
Resources:					
Oil and gas	$ 8,859	$ 9,425	$ 8,138	$ 6,949	$ 7,724
Coal	563	541	519	403	320
Products:					
Refining and marketing	7,989	8,649	6,789	6,138	5,960
Transportation	849	946	862	931	967
Intermediate chemicals and specialty products	2,990	2,950	2,663	2,700	1,967
Integrated petrochemical and petroleum processing[a]	—	—	—	4,696	3,926
Other	30	33	55	48	64
Elimination of intersegment amounts	(3,123)	(3,736)	(3,005)	(3,541)	(3,951)
Total	$18,157	$18,808	$16,021	$18,324	$16,977
NET INCOME					
Resources:					
Oil and gas	$ 549	$ 1,364	$ 887	$ 542	$ 835
Coal	33	91	92	79	67
Products:					
Refining and marketing	266	439	291	368	150
Transportation	212	274	266	308	340
Intermediate chemicals and specialty products	192	271	336	400	404
Integrated petrochemical and petroleum processing[a]	—	—	—	529	132
Equity earnings from Lyondell Petrochemical Company	111	223	214	—	—
Gain on subsidiary stock transaction	—	—	634	—	—
Unallocated expenses and other	(60)	(410)	(250)	(104)	(126)
Interest	(594)	(564)	(517)	(539)	(578)
Cumulative effect of change in accounting for income taxes	—	323	—	—	—
Net Income	$ 709	$ 2,011	$ 1,953	$ 1,583	$ 1,224
Earned per share[b]	$ 4.39	$ 12.15	$ 11.26	$ 8.78	$ 6.68
Retained earnings	$ 5,990	$ 6,837	$ 5,636	$ 7,562	$ 6,683
ADDITIONS TO FIXED ASSETS					
Resources:					
Oil and gas (including dry-hole costs)	$ 1,890	$ 1,560	$ 1,309	$ 2,555	$ 721
Coal	305	109	148	107	12
Products:					
Refining and marketing	448	370	314	251	318
Transportation	124	103	43	53	26
Intermediate chemicals and specialty products	435	539	262	245	312
Integrated petrochemical and petroleum processing[a]	—	—	—	65	27
Other	37	37	29	28	47
Total	$ 3,239	$ 2,718	$ 2,105	$ 3,304	$ 1,463

(a) Prior to 1989, Lyondell Petrochemical Company was a 100 percent owned consolidated subsidiary. For years subsequent to 1988, Lyondell is treated as an equity investment and is no longer consolidated.
(b) The cumulative effect of the change in accounting for income taxes in 1990 was $1.95 per share.

PNYC 00013163

	1991	1990	1989	1988	1987
OIL AND GAS					
After-tax oil and gas earnings (millions):					
Alaska	$ 413	$ 700	$ 546	$ 382	$ 487
Lower 48	57	588	349	231	335
Foreign	79	76	(8)	(71)	13
Total	$ 549	$1,364	$ 887	$ 542	$ 835
Crude oil, condensate and NGL production (thousand barrels/day — net):					
Domestic:					
Prudhoe Bay	262.9	263.1	280.5	304.9	313.4
Kuparuk	140.3	138.4	147.1	146.3	122.0
Lisburne	12.8	13.9	12.5	13.6	15.0
Other Alaska	4.3	3.4	4.3	5.2	6.1
NGLs	20.3	15.0	15.0	17.3	13.9
Total Alaska	440.6	433.8	459.4	487.3	470.4
Lower 48 — Crude oil	188.4	168.2	166.2	151.2	157.1
— NGLs	39.5	36.3	34.4	35.7	37.5
Total Domestic	668.5	638.3	660.0	674.2	665.0
Foreign:					
Indonesia	42.5	38.4	47.2	42.4	46.6
Dubai	11.6	12.9	8.1	8.7	9.6
United Kingdom	15.2	10.7	9.6	6.8	1.0
Other	1.2	.6	.9	.6	.8
NGLs	5.2	4.5	4.3	5.1	5.2
Total Foreign	75.7	67.1	70.1	63.6	63.2
Total	744.2	705.4	730.1	737.8	728.2
Natural gas production (million cubic feet/day — net):					
Domestic:					
Onshore	862.8	939.3	855.0	708.0	587.0
Offshore	536.0	614.3	674.0	681.0	685.0
Total Domestic	1,398.8	1,553.6	1,529.0	1,389.0	1,272.0
Foreign:					
United Kingdom	221.1	155.5	117.9	99.8	108.3
Indonesia	15.3	13.6	14.2	17.5	21.9
Netherlands	24.8	24.4	31.1	29.4	26.1
Colombia	—	—	6.0	7.4	8.1
Total Foreign	261.2	193.5	169.2	154.1	164.4
Total	1,660.0	1,747.1	1,698.2	1,543.1	1,436.4

PNYC 00013164

	1991	1990	1989	1988	1987
OIL AND GAS (continued)					
Exploration expense (millions):					
Alaska:					
Dry-hole costs	**$ 28**	$ 91	$ 6	$ 8	$ 2
Lease amortization	**16**	17	23	24	24
Geological and geophysical	**10**	20	21	10	9
Other	**22**	19	19	14	10
Total Alaska	**76**	147	69	56	45
Lower 48:					
Dry-hole costs	**118**	108	107	82	33
Lease amortization	**89**	90	95	90	95
Geological and geophysical	**44**	44	34	42	30
Other	**88**	92	76	83	74
Total Lower 48	**339**	334	312	297	232
Total Domestic	**415**	481	381	353	277
Foreign:					
Dry-hole costs	**71**	100	50	59	41
Lease amortization	**8**	6	6	6	—
Geological and geophysical	**21**	19	19	25	28
Other[a]	**78**	45	23	42	36
Total Foreign	**178**	170	98	132	105
Total	**$ 593**	$ 651	$ 479	$ 485	$ 382
Average sales prices:					
Crude oil and condensate (dollars/barrel):					
Alaska	**$11.23**	$14.84	$11.71	$ 8.51	$10.95
Lower 48	**$16.72**	$20.85	$16.92	$14.20	$17.23
Composite average	**$12.93**	$16.56	$13.13	$ 9.90	$12.56
Foreign	**$18.67**	$20.15	$16.25	$14.20	$16.44
NGLs, lease and plant (dollars/barrel):					
Domestic	**$12.86**	$14.40	$10.38	$ 9.25	$10.43
Foreign	**$11.51**	$10.89	$ 6.60	$ 7.53	$ 9.02
Natural gas (dollars/thousand cubic feet):					
Domestic	**$ 1.54**	$ 1.66	$ 1.67	$ 1.68	$ 1.63
Foreign	**$ 3.16**	$ 3.08	$ 2.71	$ 2.64	$ 2.36
Proved oil and gas reserves — net					
Crude oil and NGLs (million barrels):					
Alaska	**1,822**	1,966	1,985	2,064	2,136
Lower 48	**820**	754	780	765	682
Foreign	**189**	210	237	264	223
Total	**2,831**	2,930	3,002	3,093	3,041
Natural gas (billion cubic feet):					
Alaska	**2,369**	2,367	2,486	2,484	2,207
Lower 48	**3,429**	3,889	3,966	3,889	3,647
Foreign	**2,405**	1,796	1,206	1,249	897
Total	**8,203**	8,052	7,658	7,622	6,751

(a) Includes costs of successful exploratory wells expensed under cost recovery production-sharing contract accounting.

PNYC 00013165

	1991	1990	1989	1988	1987
OIL AND GAS (continued)					
Net wells completed:					
Domestic:					
Exploratory — oil	8	5	4	6	4
gas	18	22	21	22	15
dry	42	48	41	42	28
Development — oil	265	225	188	271	150
gas	168	137	131	85	59
dry	173*	44	32	36	16
Foreign:					
Exploratory — oil	4	4	2	3	5
gas	2	2	1	—	2
dry	19	18	15	17	8
Development — oil	24	21	22	14	17
gas	5	3	3	—	1
dry	—	1	—	—	—
Net producing wells:					
oil	8,372	7,582	8,138	8,418	7,582
gas	1,704	2,009	1,889	1,796	1,672
Net acreage (thousand acres):					
Domestic:					
Developed	2,333	2,379	2,453	2,508	2,458
Undeveloped	6,302	6,144	5,858	5,839	5,575
Foreign:					
Developed	76	75	69	69	64
Undeveloped	29,251	17,319	16,752	16,236	10,849
COAL					
Coal shipments (thousand tons):					
Domestic	32,598	29,437	31,114	26,936	22,888
Foreign	8,961	8,819	8,333	5,511	3,249
Total	41,559	38,256	39,447	32,447	26,137
Coal reserves (million tons recoverable):					
Domestic	876	854	869	877	910
Foreign	242	411	321	306	118
Total	1,118	1,265	1,190	1,183	1,028
Net coal acreage (thousand acres):					
Domestic	73	73	76	78	122
Foreign	13	17	14	12	6
Average market price (dollars/ton):					
Domestic	$ 9.20	$ 9.45	$ 9.29	$10.60	$11.42
Foreign	$32.70	$32.70	$31.33	$28.87	$25.27

*Includes 132 dry development wells associated with a shallow coal bed methane gas project at a total cost of $5.5 million.

PNYC 00013166

	1991	1990	1989	1988	1987
REFINING AND MARKETING					
Refinery runs (thousand barrels/day):					
Blended crude oil:					
Los Angeles, California	**230.4**	231.4	233.6	224.4	211.8
Cherry Point, Washington	**174.5**	167.2	167.3	172.5	160.8
	404.9	398.6	400.9	396.9	372.6
Unfinished stock:					
Los Angeles, California	**2.7**	2.5	1.0	—	2.4
Total	**407.6**	401.1	401.9	396.9	375.0
Petroleum product sales volumes, including intersegment sales (thousand barrels/day):					
Domestic:					
Gasoline	**234.5**	231.2	223.1	214.8	209.2
Distillate fuels	**84.6**	78.3	85.4	87.2	84.9
Jet fuels	**95.6**	88.0	84.3	78.5	72.0
Coke	**17.0**	14.8	13.3	16.2	13.6
Natural gas liquids	**13.9**	12.5	12.8	9.8	7.0
Other	**20.8**	19.2	16.6	12.3	19.5
Total Domestic	**466.4**	444.0	435.5	418.8	406.2
Foreign	**97.0**	92.0	93.0	85.1	86.2
Total	**563.4**	536.0	528.5	503.9	492.4
Domestic branded retail outlets	**1,632**	1,547	1,700	1,700	1,750
TRANSPORTATION					
Crude pipelines (miles)	**6,600**	7,500	7,500	7,500	7,500
Product and petrochemical pipelines (miles)	**2,700**	3,000	3,000	3,000	3,000
TAPS throughput (thousand barrels/day)	**1,822**	1,789	1,880	2,034	1,959
Crude transported (million barrel miles)	**143,300**	144,200	158,500	182,600	163,000
Product transported (million barrel miles)	**6,100**	8,500	9,500	10,300	10,400
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)	**2,729**	2,563	2,586	2,812	2,334
TBA and derivatives (gallons)	**996**	955	912	917	794
Styrene monomer and derivatives (pounds)	**1,278**	1,098	1,478	1,665	1,290
Chemical sales revenue, including intersegment sales (millions)	**$2,990**	$2,950	$2,663	$2,700	$1,967

PNYC 00013167

Millions of dollars, except per share amounts	1991	1990	1989	1988	1987
OTHER DATA					
Dividends:					
Common stock — total	$ 869	$ 807	$ 756	$ 700	$ 710
— per share	$ 5.50	$ 5.00	$ 4.50	$ 4.00	$ 4.00
Total dividends declared	$ 872	$ 810	$ 760	$ 704	$ 714
Common stock:					
Average shares outstanding, including equivalents (million of shares)	161.7	165.5	173.4	180.4	183.3
Earned per share	$ 4.39	$ 12.15	$ 11.26	$ 8.78	$ 6.68
Book value per share	$ 42.95	$ 44.82	$ 39.64	$ 35.59	$ 32.38
Market price per share — high	135¾	142¼	114⅝	90⅞	99⅛
— low	99⅛	105½	80⅛	67½	58¼
— close	106¾	123⅜	111⅛	80⅜	69
Stockholders (thousands)	116	120	126	158	166
Employees (thousands):					
Resources:					
Oil and Gas	10.0	10.7	10.5	10.6	10.1
Coal	1.8	1.7	1.6	1.2	1.2
Products:					
Refining and marketing	8.4	8.1	7.7	7.1	7.2
Transportation	1.7	1.8	1.6	1.6	1.6
Intermediate chemicals and specialty products	4.2	4.0	3.6	3.0	2.5
Integrated petrochemical and petroleum processing	—	—	—	2.0	1.9
Other operations	1.6	1.5	1.9	2.0	1.8
Total	27.7	27.8	26.9	27.5	26.3
Payroll expense	$ 1,449	$ 1,367	$ 1,221	$ 1,164	$ 1,056
FINANCIAL DATA					
Total assets	$24,492	$23,864	$22,261	$21,514	$22,890
Working capital	$ 125	$ 1,788	$ 1,977	$ 1,493	$ 2,885
Current ratio	1.02	1.42	1.58	1.46	1.64
Long-term debt	$ 5,989	$ 5,997	$ 5,313	$ 5,400	$ 6,028
Stockholders' equity	$ 6,832	$ 7,149	$ 6,562	$ 6,247	$ 5,878
RESEARCH AND DEVELOPMENT EXPENSE	$ 130	$ 136	$ 112	$ 119	$ 109

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World Wildlife Fund
Past President and Chairman,
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Co-Founder,
Former Chairman and Chief Executive Officer,
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WILLIAM F. KIESCHNICK
Retired President,
ARCO

JOHN B. SLAUGHTER
President,
Occidental College

HICKS B. WALDRON
Former Chairman of the Board,
Avon Products, Inc.

HENRY WENDT
Chairman of the Board,
SmithKline Beecham

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Executive Vice President

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Vice President and Investment Officer
President, ARCO Investment Management Company

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Vice President, Human Resources

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Vice President, Corporate Planning

MICHAEL E. WILEY
Vice President and Manager
ARCO Exploration and Production Technology

HOWARD L. EDWARDS
Corporate Secretary

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MARKET PRICE[illegible]
FOR VOTING SEC[illegible]

ARCO

Common Stock:		
Market Price Per Share — High	124 ½	[illegible]
Low	99 ¼	112
Cash Dividends Per Share	$1.375	[illegible]
$3.00 Convertible Preference Stock:		
Market Price Per Share — High	748	[illegible]
Low	679 ½	[illegible]
Cash Dividends Per Share	$ 0.75	[illegible]
$2.80 Convertible Preference Stock:		
Market Price Per Share — High	297	[illegible]
Low	[illegible]	[illegible]
Cash Dividends Per Share	[illegible]	[illegible]

STOCK EXCHANGES

Atlantic Richfield Common [illegible]
New York, Pacific, [illegible]
exchanges. The $2.80 [illegible]
Preference Stock are list[illegible]
stock exchanges.

TRANSFER AGENT[illegible]

First Chicago Tru[illegible]
P.O. Box 3981
Church Street Sta[illegible]
New York, New York [illegible]
(212) 791-6422

ANNUAL MEETING

The Annual Meeting of Stock[illegible]
May 4, 1992, beginning at 10 [illegible]
room, Sheraton Grande Hotel[illegible]
Street, Los Angeles, California. [illegible]
proxy statements and proxy card[illegible]
holders in advance of the meeting.

PNYC 00013171