ARCO

1992 Annual Report













PNYC 00012953

HIGHLIGHTS

ARCO

Millions of dollars, except per share amounts	1992	1991	1990	1989	1988
Financial					
Total revenues	**$ 19,248**	$ 15,956	$ 19,924	$ 16,543	$ 15,900
Net income	**$ 801**	$ 709	$ 2,011	$ 1,953	$ 1,583
Net income per share	**$ 4.96**	$ 4.39	$ 12.15	$ 11.26	$ 9.75
Dividends	**$ 873**	$ 572	$ 510	$ 760	$ 704
Dividends per share of common stock	**$ 5.50**	$ 5.50	$ 5.00	$ 4.50	$ 4.00
Additions to fixed assets	**$ 2,278**	$ 3,239	$ 2,715	$ 2,105	$ 3,304
Total assets	**$ 24,256**	$ 24,492	$ 23,564	$ 22,261	$ 21,514
Return on stockholders' equity — percent	**11.8**	10.1	29.3	30.5	26.1
Return on capital employed — percent	**8.0**	7.7	15.6	15.3	13.0
Reserves					
Petroleum liquids — million barrels:					
Domestic	**2,517**	2,642	2,720	2,765	2,529
Foreign	**211**	189	210	237	264
Total	**2,728**	2,831	2,930	3,002	3,093
Natural gas — billion cubic feet:					
Domestic	**5,185**	5,798	6,256	6,452	6,373
Foreign	**3,117**	2,405	1,796	1,206	1,249
Total	**8,302**	8,203	8,052	7,658	7,622
Coal — million tons recoverable	**1,468**	1,118	1,265	1,190	1,183
Operations					
Oil and Gas production — net					
Liquids — barrels per day:					
Domestic	**660,500**	668,500	638,300	660,000	674,200
Foreign	**77,700**	75,700	67,100	70,100	63,600
Natural gas — million cubic feet per day:					
Domestic	**1,202**	1,399	1,554	1,529	1,389
Foreign	**240**	261	193	169	154
Coal shipments — thousand tons	**39,792**	41,559	38,256	39,447	32,447
Refining and Marketing					
Total refinery runs — barrels per day	**425,100**	404,900	398,600	400,900	396,900
Petroleum product sales (domestic) — barrels per day	**479,500**	466,400	444,000	435,500	418,800
Chemical sales — millions of pounds					
Propylene oxide and derivatives	**3,055**	2,729	2,563	2,586	2,512

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TO ARCO STOCKHOLDERS: ALTHOUGH 1992 WAS A YEAR OF CONTINUED WORLDWIDE ECONOMIC RECESSION AND POLITICAL UNCERTAINTIES, ARCO TURNED IN A STRONG PERFORMANCE AND MADE SIGNIFICANT PROGRESS IN ALL OF ITS OPERATIONS, PARTICULARLY IN ALASKA AND OVERSEAS. ARCO'S 1992 NET INCOME TOTALED $801 MILLION, OR $4.96 PER SHARE, COMPARED TO $709 MILLION, OR $4.39 PER SHARE, REPORTED FOR 1991. ADJUSTING FOR ACCOUNTING CHANGES IN 1992 AND CERTAIN OTHER ITEMS IN BOTH YEARS, EARNINGS FOR 1992 WOULD HAVE BEEN $1.053 BILLION, OR $6.52 PER SHARE, UP 5 PERCENT FROM $1.004 BILLION, OR $6.21 PER SHARE, IN 1991. THESE CHANGES AND ITEMS ARE OUTLINED IN MANAGEMENT'S DISCUSSION AND ANALYSIS, STARTING ON PAGE 32. ARCO'S CONTINUED STRONG PERFORMANCE WAS ACCOMPLISHED THROUGH

consistent adherence to our fundamental business strategies. Actions we took in 1991 and 1992 to strengthen ARCO for the future have positioned us for even more profitable operations when we move beyond the current worldwide recession.

Our strategies have been in place since our major restructuring in 1985. ARCO is a hydrocarbons-based company, with concentration 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 and utilize those markets effectively. We maintain financial leverage appropriate for our circumstances and long-range plans.

Adhering to these strategies in 1991 and 1992, we made tough decisions and moved quickly in response to changing economic conditions. As a result, in 1992 we realized a substantial reduction in leasehold operating costs and conducted a successful oil and gas property sales program in the Lower 48. At the same time, all of ARCO's operating interests achieved positive results in 1992, as you will read elsewhere in this report. A couple merit special attention here.

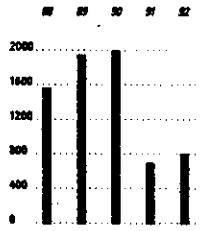
ARCO's integrated West Coast operations, which are built on our Alaskan oil production, a dedicated transportation system and our refining and marketing operations, are differential resources and should be for many years to come.

1992 was a year of very positive news from Alaska, where ARCO has been the key player in exploration and development for some 35 years. Crude oil from Alaska has provided over 25 percent of the United States' oil production for nearly 10 years. In 1992, when many of our traditional drilling partners had given up their Alaskan exploration programs, ARCO remained committed to finding new reserves in the 49th State. As a result, we announced three new discoveries in Alaska. These discoveries followed our very promising 1991 Sunfish discovery in Cook Inlet and the 1989 discovery of the Point McIntyre field, now under development with 300 million barrels of recoverable crude oil.

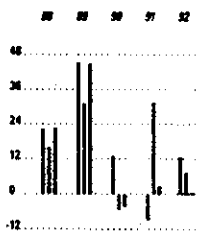
A 1992 delineation well confirmed our Sunfish discovery. We are now planning for development of the prospect and are doing further delineation drilling to determine the field size. In January of 1993, ARCO and its partner were the successful bidders on nearly 130,000 acres of new leases near that Cook Inlet discovery. This positions us for future successes in this area.

These announcements, plus prospects we are currently drilling, represent a renaissance of opportunity in Alaska. ARCO is by far the most favorably positioned company to capitalize on those opportunities.

Net Income
Millions of Dollars



Total Return to Stockholders
- *ARCO Common Stock*
- *S&P 500 Index*
- *Other Major Oils Common Stock*



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



Robert E. Wycoff
President and
Chief Operating Officer

Our refining and marketing operations had a very successful year despite continued weakness in the U.S. economy. Our refinery runs and gasoline sales reached record levels. ARCO intends to maintain its strong market position on the West Coast.

The West has the nation's most intense environmental concerns, and ARCO leads the industry in responding. In 1989, as Congress and California regulators considered eliminating gasoline, ARCO proved reformulated gasolines to be economically viable and as "clean" as proposed alternative fuels. Use of ARCO-developed fuels has helped Southern California air quality improve for four consecutive years. Both federal and state regulators have included reformulated gasoline in their plans, but uncertainties remain.

Of the $450 million capital we have budgeted for refining and marketing in 1993, about 20 percent is for projects that lay the groundwork to meet the expected 1995 federal Clean Air Act requirements. However, final federal Clean Air Act regulations are yet to be established.

In Southern California, stringent new stationary source emissions regulations for manufacturing plants have been proposed by the South Coast Air Quality Management District. We are working with the AQMD in hopes that 1993 will see certain necessary adjustments in the proposal. We are confident that eventually we will be able to move forward with our plans for producing reformulated fuels.

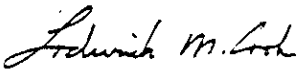
A great deal of ARCO's attention is focused overseas today, and we moved forward with several projects in 1992. We continue to have exploration successes in the North Sea and Indonesia as well as Ecuador, a new area for us. As a result of new long-term sales agreements, major developments are underway in southeast Asia and the North Sea.

In 1992, we completed sales agreements which allow for development of our South China Sea gas field. Gas from the field will be piped to Hong Kong for electrical power generation. Indonesia's increasing needs for electrical power have also provided the basis for two large natural gas developments.

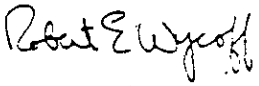
Upstream crude oil and natural gas exploration and development activities accounted for 55 percent of ARCO's $2.3 billion capital spending program in 1992. As a result of these activities, our worldwide reserves replacement for 1992 was 77 percent, in spite of Lower 48 property sales which reduced reserves by 141 million barrels of oil equivalent. In 1993, with a capital budget of $2.5 billion, we expect to invest $1.5 billion, or 60 percent, in exploration and development activities.

Throughout this year's report, you will see changes taking place. Many of the changes are developing from within, from ARCO people determined to do a better, safer, environmentally sensitive and more cost-efficient job.

Leadership is ARCO's way of doing business. As a result, there has been widespread recognition of ARCO's leadership around the world. The determination to keep ARCO number one is apparent throughout the company. ARCO's 1992 Total Return to Stockholders was 12.9 percent, topping the industry. We at ARCO sincerely appreciate your continuing support and recognition of ARCO's long-term strengths.



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

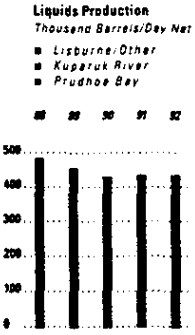


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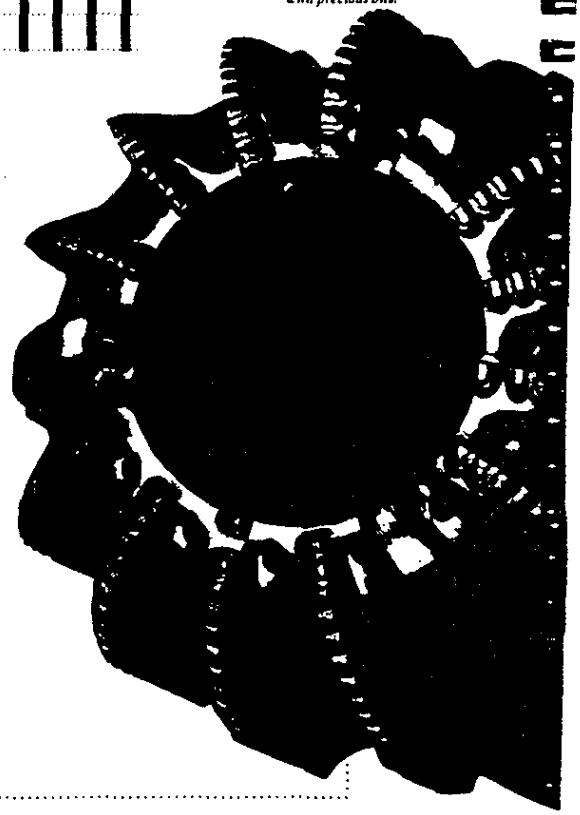
February 22, 1993

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ARCO ALASKA, INC. COMBINED EXPLORATION SUCCESSES AND PROGRESS ON MAJOR DEVELOPMENT PROJECTS WITH PRODUCTION RECORDS AND COMPANYWIDE OPERATING COST REDUCTIONS IN 1992. HEADQUARTERED IN ANCHORAGE, ARCO ALASKA IS RESPONSIBLE FOR EXPLORATION, DEVELOPMENT AND PRODUCTION OF ARCO'S OIL AND GAS INTERESTS IN THE STATE OF ALASKA AND SURROUNDING OFFSHORE WATERS. THREE NEW DISCOVERIES WERE ANNOUNCED IN 1992, WHICH FURTHER CONFIRMED THE COMPANY'S STRONG CONVICTION OF POTENTIAL FOR ADDITIONAL CRUDE OIL RESERVES IN THE 49TH STATE. THE POTENTIAL WAS FURTHER REINFORCED WITH



To accomplish equity well drilling of the Point McIntyre development more quickly, ARCO helped design this special hard rock, low invasion coring bit. The new bit moved through rock at 30 feet per hour, up from four feet per hour with previous bits.



"The change at Prudhoe Bay has been philosophical, cultural and structural. We've moved from separate, parallel operations toward shared services and reevaluation of all field practices. As a result, field operating costs were down $118 million gross, production exceeded projections by 26 million barrels and major projects like GHX-2 moved forward in 1992. More significantly, safety performance exceeded AAI and Corporate goals and surpassed each of the last six years' performance."



Phillip A. Gobe
Manager–Prudhoe Bay Operations

"Alaska is the best place in the United States to find major oil reserves. We are taking a systematic approach to explore the most promising areas of the state. While many of our traditional partners have given up exploring here, we have found others who share our vision of Alaska. Recently, we have had significant exploration successes."



Naresh Kumar
Manager–North Alaska Exploration

"We are changing the way we procure goods and services, moving from a transactional approach to an emphasis on strategic elements. We are using multifunctional 'Commodity Teams' to communicate, analyze and make decisions, looking closely at total ongoing, or life cycle costs, instead of low purchase price. Using this approach, we can narrow the supplier base, create long-term strategic alliances and reduce costs overall."



Stewart McCorkle
Manager–Materials, Purchasing and Contracts



Use of "life cycle costing" led to the decision to purchase 80-foot pipe lengths, rather than typical 40-foot. Extra transport cost from Fairbanks to Prudhoe Bay for longer pipe was less than costs of extra welding under arctic conditions.

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Prudhoe Bay's GHX-1, completed in 1992, increased gas handling capacity from 3.5 to a nominal 5.2 billion cubic feet per day. GHX-2 Phase 1 should boost it to 6.4 billion by 1994. Phase 2 is expected to reach 7.5 billion by 1995. Expansions will account for recovery of over 500 million gross additional barrels of crude oil.



ARCO Kuvlum No. 1 exploratory well was one of three discoveries announced by ARCO Alaska in 1992. The well was drilled from a floating rig 16 miles offshore in the Beaufort Sea, east of Prudhoe Bay.

the 1992 delineation drilling of the 1991 Sunfish discovery in Cook Inlet.

Recognizing the demands of a changing industry and business environment, ARCO Alaska made significant changes in its organization and operations in 1992. Positive changes also took place in co-owner and supplier relationships in 1992. Additional consolidation of Prudhoe Bay field services with co-operator, BP-Exploration, and establishment of new longer term alliances with selected contractors have yielded further efficiencies and cost savings. In addition, ARCO Alaska traded mature Cook Inlet oil properties for exploration acreage.

These and other cost reduction programs, initiated in late 1991 and enhanced and expanded in 1992, lowered ARCO Alaska's overall operating and support costs for 1992 by 23 percent, or $100 million pretax, compared to 1991.

Exploration

Maintaining an active commitment to exploration in Alaska, ARCO Alaska completed drilling 10 wells during 1992 and announced three discoveries, including the Kuvlum No. 1 exploratory well in the eastern Beaufort Sea, 60 miles east of Prudhoe Bay. The other two discoveries announced were 10 miles west of the Kuparuk River field in the Colville High area.

In Cook Inlet, where ARCO announced a discovery with the Sunfish well in late 1991, the company completed drilling a delineation well, the North Foreland State No. 1, during 1992. In January 1993, ARCO reported the well had confirmed the Sunfish discovery and had also flowed hydrocarbons in two other zones on separate tests. More delineation wells will be drilled in 1993 to determine field size and the number of platforms needed for production. The North Foreland State No. 1 is located one and one-half miles from the Sunfish discovery and about 32 miles west of Anchorage. ARCO holds a 60 percent interest in the prospect.

During 1992, ARCO Alaska made a number of moves to further enhance its exploration leasehold position both on- and offshore Alaska. In a property trade with Unocal, ARCO Alaska acquired additional interest in exploration properties on the North Slope in the Colville High area, and in the Cook Inlet Basin. In lease sales conducted during 1992 and early 1993, the company increased its exploration holdings in key areas, including those west of Kuparuk and in the Cook Inlet.

In January 1993, ARCO and its partner, Phillips Petroleum, acquired nearly 130,000 acres in the area of the Sunfish discovery. Evaluation of those tracts will be included in ongoing delineation plans.

ARCO Alaska continues to be the No. 1 federal and state leaseholder in Alaska with 1.2 million acres at year-end 1992.

Prudhoe Bay

The nation's largest oil field, Prudhoe Bay has been in production since 1977, and on December 14, 1992, this

	1992	1991	1990	1989	1988
Earnings — millions	**$ 453**	$ 413	$ 700	$ 546	$ 382
Total assets — millions	**$3,542**	$3,700	$3,724	$3,850	$3,977
Additions to fixed assets — millions	**$ 294**	$ 343	$ 298	$ 243	$ 214
Liquids production — thousand barrels/day — net	**438.9**	440.6	433.8	459.4	487.3
Average crude price — per barrel	**$11.41**	$11.23	$14.84	$11.71	$ 8.51
State taxes — millions*	**$ 374**	$ 381	$ 425	$ 394	$ 474
Exploration expense — millions	**$ 112**	$ 76	$ 147	$ 69	$ 56
Proved liquids reserves — million barrels	**1,769**	1,822	1,966	1,985	2,064
Proved natural gas reserves — billion cubic feet	**2,284**	2,369	2,367	2,486	2,484

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

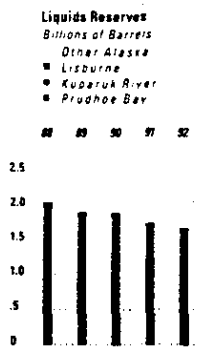
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reservoir produced its eight billionth barrel of oil. During 1992, natural field decline in crude oil production was partially mitigated by increased gas handling and infill drilling. As oil production declines, the reservoir produces additional gas and water. When processed and reinjected back into the reservoir, these fluids enhance oil production by increasing reservoir pressures and, consequently, the recovery of larger amounts of liquids.

Implementation of an expanded gas handling system, GHX-1, was completed in 1992 and enabled record condensate and natural gas liquids (NGLs) levels. GHX-2, a $1.3 billion gross project, is expected to increase gas handling capacity to 7.5 billion cubic feet per day and result in gross liquids production benefits of 100,000 barrels per day by 1995. Facility modules being constructed in Louisiana and Alaska will be sealifted and trucked to the North Slope of Alaska in 1993 and 1994 for installation, with production benefits beginning late in 1993.

Some of the most significant events at Prudhoe Bay in 1992 centered around operating cost reductions. Continuous assessment of operating practices identified opportunities to reduce costs in key areas. As a result, the field's gross operating costs were reduced by 17 percent compared to 1991. The Prudhoe Bay field is co-operated with ARCO Alaska operating the eastern area. Since 1990, the two operators have been consolidating services in order to increase operating efficiencies. By the end of 1992, a number of the field service operations, including drilling, construction projects, aviation and road/equipment maintenance, had been consolidated.

ARCO Alaska has a 42.56 percent working interest in the condensate produced at Prudhoe Bay, a 21.78 percent working interest in the crude oil, and in 1992, a 37.8 percent working interest in the NGLs.



"Combining old technologies in new ways is the hot idea in exploration technology today. Significant advancement has resulted from having specialists in different fields work closely with one another or from having them exchange roles. New seismic stratigraphic techniques are an example. Many combinations remain to be tried. The possibilities are very exciting."



Pamela R. Parks
Manager–Geoscience Operations

"In 1992, we combined reservoir and operations engineering into one group, which allowed us to improve efficiencies. The combination has put more responsibility in the hands of all involved, causing broader thinking and a group that seeks out change and improvement."



Leonard Gurule
Manager–Kuparuk River Reservoir

Kuparuk River

The Kuparuk River field set production records in 1992 for the second consecutive year while reducing its gross field operating costs by 4 percent compared with 1991. The field has been operated by ARCO Alaska since its startup in 1981. Process and plant optimizations, development drilling and infill well performance contributed to the record production and also resulted in the addition of 88 million barrels of proved oil reserves.

Development continued at Kuparuk in 1992, with startup of two new drillsites, 2M and 3R. The 30-well Drillsite 2M used 15-foot spacing between wellheads, down from an original 120-foot spacing at early Kuparuk sites. As a result, ARCO Alaska realized cost savings in piping and gravel required while significantly reducing the environmental impact. Drilling horizontal and directional wells at 2M, ARCO was able to extend the development sufficiently to eliminate one planned drillsite, a savings of $6 million to the company.

ARCO Alaska's working interest in Kuparuk is 55.17 percent.

Lisburne/Point McIntyre

Facilities at the Lisburne field, in operation since 1986, will serve as the production center for the new Point



Directional (top line) and horizontal drilling were used successfully in developing the new Kuparuk River field Drillsite 2M in 1992. The extended horizontal reach possible with these wells, some reaching up to two miles, reduces drillsite spacing and development costs.

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Wellhead spacing at Kuparuk River and other North Slope fields has been steadily decreasing. At Kuparuk's Drillsite 2M wellheads are just 15 feet apart, down from 120 feet when the field was developed in 1981.

ARCO and its Prudhoe Bay co-operator are implementing shared services with



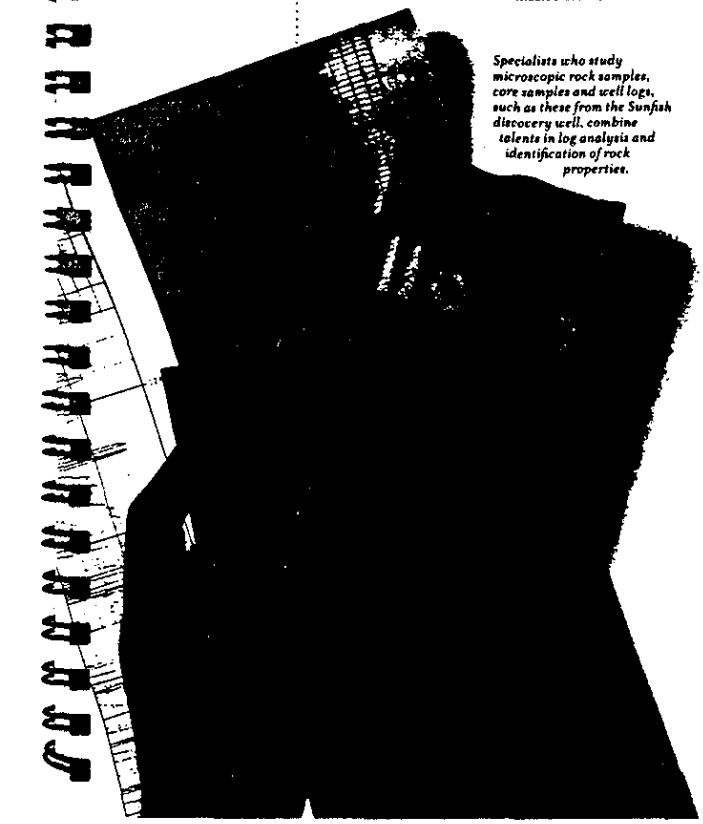
combined field responsibility for ongoing programs, eliminating duplicate staffing and services.



Alaska's operating and support costs were trimmed $100 million in a companywide program which included, among other changes, pooling vehicles at Kuparuk River field rather than individually assigning them.

		Prudhoe Bay	*Kuparuk*	*Lisburne*
1992 liquids production* — thousand barrels/day	Gross	1,247	322	38
	Net	271	151	13
Cumulative liquids production* — millions of barrels	Gross	8,019	954	96
	Net	1,594	461	34
Cumulative field investment — billions	Net	$3.6	$2.5	$0.5
Producing oil wells — as of 12/31/92	Gross	893	366	61
	Net	195	213	24
Remaining proved liquids reserves — millions of barrels	Net	1,107	515	48

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



Specialists who study microscopic rock samples, core samples and well logs, such as these from the Sunfish discovery well, combine talents in log analysis and identification of rock properties.

McIntyre field. ARCO Alaska, operator of the Lisburne field, continued in 1992 to successfully use well stimulation technology to mitigate the accelerating decline of crude oil production.

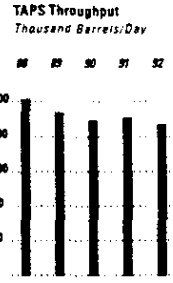
Point McIntyre was confirmed as a discovery in 1989 and contains estimated gross reserves of 300 million barrels of crude oil. Development work for Point McIntyre began in 1992, with completion of a nine-well program to determine ownership interests. Several agreements were reached among co-owners during the year resolving funding, cost and facility sharing issues. Proved liquids reserves of 28 million barrels net were added by ARCO in 1992, bringing total net proved reserves recorded to date at Point McIntyre to 90 million barrels net. Production is expected to begin with 15 wells in August 1993.

Reserves

As a result of 1992 development programs, ARCO Alaska added proved liquids reserves of 118 million barrels. Net reserve additions replaced 67 percent of production.

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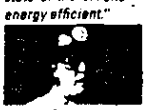
ARCO TRANSPORTATION COMPANY POSITIONED ITSELF FOR THE FUTURE WITH COMPLETION OF MAJOR OPERATIONAL CHANGES, ASSET REDEPLOYMENTS AND AN AGGRESSIVE MARKET-ORIENTED APPROACH IN 1992. THE COMPANY MADE A STRONG FINANCIAL CONTRIBUTION WHILE IMPROVING SAFETY PERFORMANCE. IN ADDITION TO PROVIDING A DIRECT LINK BETWEEN ARCO'S ALASKAN OIL PRODUCTION AND ITS WEST COAST REFINING AND MARKETING OPERATIONS, ARCO TRANSPORTATION COMPANY, WHICH IS HEADQUARTERED IN LONG BEACH, CALIFORNIA, MANAGES COMMERCIAL TRANSPORTATION AND STORAGE



ARCO's Texas City marine terminal directly links imported crude oil with refineries in the Midcontinent via ARCO pipelines.



"The East Hynes property conversion from crude oil storage to a light product handling facility brings nearly 1.6 million barrels of new storage to the Southern California market. The facility provides storage, blending and distribution access through truck rack and pipeline connections. A large-scale vapor recovery system is also included which is both environmentally state-of-the-art and energy efficient."



John P. Strawn Manager–East Hynes Clean Products Project

"We converted our two smallest crude tankers to transport products. These vessels are currently the largest domestic product carriers and have significantly reduced ARCO's transportation costs. Furthermore, ARCO's crude transportation costs are now estimated to be the lowest in the industry due to the average size of our tankers in Alaska service."



Nolan A. Miura Manager–Planning, Evaluation & Business Development, ARCO Marine, Inc.

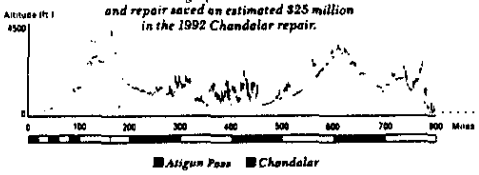
"Our willingness to try new approaches in marketing our dock, terminals and pipeline systems has paid off. Our assets position us well to serve the Houston and Midcontinent refiners, and we compete aggressively for their business by offering operational flexibility and innovative terms."



Karen K. Caldwell Manager–Crude Marketing, Scheduling and Business Development, ARCO Pipe Line Company

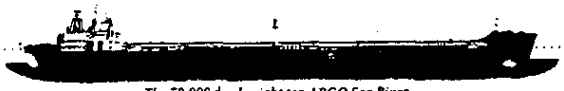


High-tech testing of the Trans Alaska Pipeline identified corrosion on less than 2 percent of the 800-mile line. Both Atigun Pass, where 6.5 miles of pipe were replaced in 1991, and the Chandalar area, where pipe was repaired in 1992, are severe environments at very high altitude, as shown on the elevation graph. Advances in corrosion evaluation and repair saved an estimated $25 million in the 1992 Chandalar repair.



The latest advances in environmental and handling technologies are incorporated in the new East Hynes products storage and terminal facility which offers pipeline and truck rack access.

PNYC 00012962



The 70,000 deadweight ton ARCO Sag River was converted from crude oil service to product service in 1992.



ARCO Transportation implemented in 1992 an integrated financial system designed to increase efficiency and reduce costs across its marine, three pipeline and headquarters operations.

businesses on the West Coast, Gulf Coast, and in the Midcontinent.

Higher crude oil volumes on ARCO's West Coast and Midcontinent crude systems, higher marine charter rates and lower marine fuel prices all positively impacted ARCO Transportation Company's 1992 financial performance. As a result, 1992 was the first year that a decline in income from the Trans Alaska Pipeline System (TAPS) was offset by income from other business activities.

Integrated Businesses

ARCO Transportation's portfolio of assets includes a 21.3 percent interest in TAPS, the 800-mile pipeline and marine terminal system that transports crude oil for ARCO and other producers from the North Slope of Alaska to the Valdez Terminal in Prince William Sound. The assets also include a 57-percent interest in Kuparuk Transportation Company, which moves crude oil via pipelines from the Kuparuk River field to TAPS. In addition, ARCO Transportation's portfolio includes oceangoing crude oil and product tankers, and crude oil and product terminals and pipelines serving ARCO's Los Angeles and Cherry Point refineries.

In a further realignment of its marine tanker fleet, ARCO Transportation's marine unit converted a second crude oil tanker to light product service and returned a very large crude carrier (VLCC), which had been previously chartered to a third party, to crude oil service between Alaska and ARCO's West Coast refineries.

The converted product tanker reentered the fleet in late 1992, primarily to carry oxygenates from the Gulf Coast to the West Coast for blending into gasolines. The market for oxygenate transportation was expanded in 1992 as a result of federal Clean Air Act requirements mandating additional oxygenates during the winter months. This product tanker joined another placed in service at the end of 1991 to carry refined product to West Coast market areas.

Commercial Businesses

Changes resulting from the Clean Air Act also opened additional market opportunities for ARCO Transportation's commercial businesses. Responding to requirements for the storage of oxygenated fuels and blending components in the Los Angeles Basin, ARCO Transportation's terminalling unit opened a full-service, finished product facility in 1992 at the site of a previously underutilized crude oil storage facility. The new facility features access to major product pipelines serving the Southwest, a state-of-the-art truck rack, and additional finished product storage capacity.

An ARCO Transportation subsidiary implemented a new southern focus for its Midcontinent business in 1992, relocating offices to the Houston area and divesting underperforming assets. The new emphasis allows the company to focus on maximizing the value of its marine terminal at Texas City and its crude oil and product pipeline system linking the harbor and Gulf Coast refineries with refineries and terminals in the Midcontinent.

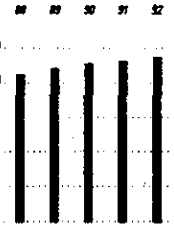
As part of this focus the company launched an aggressive marketing effort aimed at providing transportation for all types of crude oil, finished product and petrochemicals and added connections to new customers.

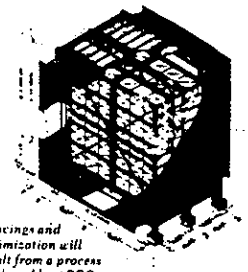
	1992	1991	1990	1989	1988
Earnings — millions	**$ 239**	$ 212	$ 274	$ 266	$ 308
Total assets — millions	**$2,191**	$2,223	$2,162	$2,170	$2,326
Additions to fixed assets — millions	**$ 94**	$ 124	$ 103	$ 43	$ 53
TAPS tariff — per barrel	**$ 3.26**	$ 3.72	$ 3.83	$ 3.11	$ 3.11
TAPS throughput — thousand barrels/day	**1,747**	1,822	1,789	1,980	2,034
Kuparuk throughput — thousand barrels/day	**341**	330	310	310	302
Marine crude barrels delivered — millions	**205**	199	210	209	216

PNYC 00012963

ARCO PRODUCTS COMPANY MAINTAINED ITS HIGHLY SUCCESSFUL REFINING AND MARKETING RECORD IN 1992, A YEAR OF INCREASING UNCERTAINTY ABOUT FUTURE SOUTHERN CALIFORNIA ENVIRONMENTAL REGULATIONS FOR THE INDUSTRY'S REFINING OPERATIONS. ARCO PRODUCTS COMPANY EARNINGS INCREASED IN 1992 AS A RESULT OF IMPROVED MARGINS ON REFINED PRODUCTS, DESPITE GENERALLY LOWER ECONOMIC ACTIVITY THROUGHOUT ITS FIVE-STATE MARKETING AREA. ARCO PRODUCTS COMPANY IS THE RECOGNIZED LEADER IN THE DEVELOPMENT AND MARKETING OF CLEAN FUELS. ARCO'S PIONEERING

Gasoline Sales
Thousand Barrels/Day





Cost savings and waste minimization will both result from a process developed by ARCO to rejuvenate and reuse emission-reducing catalyst used at the co-generation facility adjacent to the Los Angeles refinery.

"To meet the Clean Air Act requirements that oxygenates be blended into all gasolines during the winter season starting in the Fall of 1992, we began lining up purchase commitments and making distribution plans in early 1991. We also developed a program to inform drivers and dealers about the requirements."



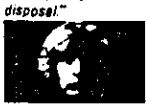
John J. Rak
Manager–Volume Planning & Acquisition

"Sales of butane and other natural gas liquids increased dramatically in 1992 with much of the increase going to the export market. Our refineries are producing more butane as a result of changing composition in Alaska North Slope crude, higher crude runs and lower vapor pressure gasoline due to environmental regulations."



James R. Mandich
Manager–Industrial Products

"Working with our Engineering and Technology group, we developed a process for reactivating our nitrogen oxide emission control catalyst. This process will save us $2,850,000 in catalyst purchase costs over three years as well as reduce the amount of waste catalyst requiring landfill disposal."

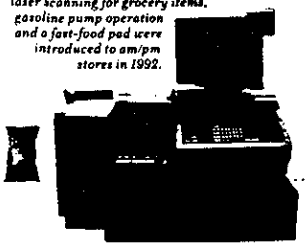


R.J. Steger
Manager–Maintenance & Engineering, Watson Cogeneration Company

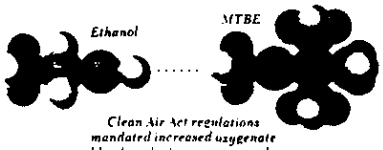


A welder works inside a 35-inch pipe during the 1992 turnaround of the Los Angeles Refinery's fluid catalytic cracker. The unit, which cracks gas oil to make gasoline and other lighter products, had run a record four years and three months since its last turnaround. With the 1992 upgrade, it produces about 2.5 million gallons of gasoline a day.

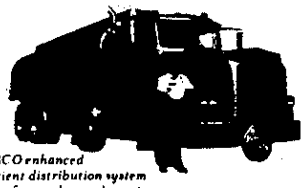
New point-of-sale registers combining laser scanning for grocery items, gasoline pump operation and a fast-food pad were introduced to am/pm stores in 1992.



PNYC 00012964



Clean Air Act regulations mandated increased oxygenate blending during winter months to reduce carbon monoxide. ARCO used both ethanol and methyl tertiary butyl ether (MTBE) to meet the requirements throughout its five-state marketing area.



ARCO enhanced its efficient distribution system with safety and attendance incentive programs for drivers like Bruce Folks in Seattle.

emission-control gasolines, EC-1 and EC-Premium, have reduced Southern California air emissions by more than 350 million pounds since their introduction in 1989-90. In 1991, ARCO Products announced the development of EC-X formula gasoline, an environmentally superior fuel, which reduces emissions from late-model vehicles to levels equal to or better than alternative methanol-based fuels at a substantially lower cost to consumers.

Clean Air Research

ARCO Products Company's research results, which continue to demonstrate the cost and performance advantages of reformulated gasoline, have been shared with regulatory agencies and industry groups. The California Air Resources Board adopted new gasoline specifications for 1996 implementation, which are similar to ARCO's EC-X formulation. The proposed gasoline can be made at ARCO's Los Angeles refinery after major modifications.

In 1992, however, the South Coast Air Quality Management District, or AQMD, which sets standards for a five-county area of Southern California, proposed a concept that could dramatically change the industry's ability to operate refineries in the area. Called the Regional Clean Air Incentives Market (RECLAIM) program, the concept introduces buying and selling emission credits, while at the same time requiring an 55 percent reduction in stationary source emissions over a period of time. While ARCO supports the concept of marketable emissions credits, the regulations as proposed do not take into account the substantial reductions in emissions already made at ARCO's Los Angeles refinery.

Refining Operations

While ARCO Products works to resolve the RECLAIM program issues, it is preparing to meet the expected federal Clean Air Act requirements, which are to take effect in January 1995. Design work for modifications to units at the Los Angeles refinery was underway in 1992 with some construction scheduled to start in 1993.

ARCO operates two of the West Coast's most efficient refineries — the Los Angeles Refinery in Carson, California, and the Cherry Point Refinery near Ferndale, Washington. Both use Alaska North Slope crude oil exclusively. An independent refinery in Northern California also supplies gasoline to ARCO under a long-term supply agreement.

In 1992, the ARCO refineries operated at 109 percent of rated capacity, which compared to an industry average of 88 percent. They achieved record crude oil runs, averaging 236,600 barrels a day at Los Angeles and 188,500 barrels a day at Cherry Point. Yield of higher value light products, such as gasoline, jet fuel, and distillate, was 86 percent, compared to 78 percent for the industry.

Supplementing the basic refinery operations are two businesses which provide additional profit: petroleum coke and cogeneration. A by-product of refining, petroleum coke is upgraded by ARCO Products Company at company-owned calciners. The high value calcined coke is marketed to the aluminum industry worldwide. ARCO Products is the world leader in calcined coke production and sales and the United States' number one exporter. Calcined coke sales reached record levels in 1992 totaling 1.1 million tons.

At the Los Angeles Refinery, Watson Cogeneration Company provides steam

	1992	*1991*	*1990*	*1989*	*1988*
Earnings — millions	**$ 346**	$ 266	$ 439	$ 291	$ 368
Total assets — millions	**$2,630**	$2,732	$2,503	$2,175	$1,975
Additions to fixed assets — millions	**$ 315**	$ 448	$ 370	$ 314	$ 251
Crude oil refinery runs — thousand barrels/day	**425.1**	404.9	398.6	400.9	396.9
Petroleum product sales (U.S.) — thousand barrels/day	**479.5**	466.4	444.0	435.5	415.8
Branded retail outlets (U.S.)	**1,641**	1,632	1,547	1,700	1,700

PNYC 00012965

and electricity for plant operations in addition to electricity for Southern California customers. The cogeneration company is a joint venture with a subsidiary of SCEcorp.

Marketing

ARCO Products Company's domestic retail marketing operations are in five western states — California, Arizona, Nevada, Oregon and Washington. In Brazil the company also markets motor fuels and lubricants, purchased from the Brazilian national oil company.

ARCO Products Company continued to be the leader in gasoline market-

"To meet the expected January 1, 1995, requirements of the federal Clean Air Act, we will begin major modifications at our Los Angeles Refinery in 1993. Our challenge is to remain the low-cost producer, despite capital expenditures driven by environmental regulations."



Richard L. Dernbach Director–Major Capital Projects

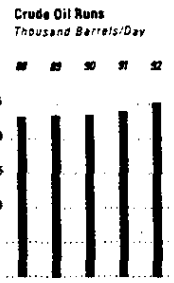
"Our PayPoint electronic payment system offers a variety of highly sophisticated solutions for debit, credit and electronic check processing. In addition to ARCO's retail outlets, we are now supporting a wide range of major retailers in a variety of industries. PayPoint is positioned to be a major player in the rapidly expanding electronic payments industry."



John K. Lannan Manager–PayPoint Systems

share in the five western states. ARCO's 1992 retail gasoline sales reached record levels, up 2.7 percent from 1991, in a relatively flat gasoline market. ARCO gasoline is sold to independent franchise dealers, distributors who supply retail outlets, and to Prestige Stations, Inc., a wholly owned subsidiary, which operates 415 ARCO retail outlets.

The April riots in the Los Angeles area caused damage or destruction to 50 ARCO outlets but had little financial impact. ARCO committed to reopen all damaged facilities where necessary permits can be obtained. In addition, it



sought out minority-owned businesses to assist in rebuilding and reopening the ARCO-owned facilities.

As part of the recent federal Clean Air Act requirements, in late 1992 ARCO and other gasoline marketers nationwide were required to begin blending oxygenates into gasolines to reduce carbon monoxide emissions. Using methyl tertiary butyl ether (MTBE) in Southern California and Reno, Nevada, and ethanol in all other areas to meet the requirements, the company purchased and transported approximately 130 million gallons of the oxygenates through its distribution system.

In wholesale marketing, ARCO Products' annual commercial jet fuel sales reached an all-time record of 1.3 billion gallons. This 5 percent growth enabled ARCO to maintain its position as the number one marketer of commercial jet fuel on the West Coast. In mid-1992, ARCO was awarded a military fuels contract for 447 million gallons of product.

ARCO's successful am/pm® mini-market concept, which originated in 1979, continued to grow both in terms of number of outlets and popularity with consumers. At the end of 1992, there were 568 am/pm stores in the five western states, an increase of 53 from the end of 1991. Gross total food sales grew by almost 12 percent in 1992.

A new computerized point-of-sale register system was introduced during 1992 to give am/pm dealers increased efficiencies in customer service and inventory management.

ARCO Products Company has marketed the am/pm concept internationally through licensing agreements and joint ventures. At the end of 1992, there were over 140 stores in six countries outside the United States in Japan, Taiwan, Korea, Canada, Brazil and Thailand.

Domestically, over 135 outlets also operate as ARCO's SMOGPROS® franchise service centers, which feature state-required smog checks.

Another concept complementing ARCO Products Company's retail operations, the PayPoint® electronic payment system is expanding throughout

PayPoint, ARCO's electronic card payment system originally developed for the company's retail outlets, has been adapted to meet the needs of major retailers as consumers switch from check writing



to plastic debit and credit cards, as well as providing retailers with check authorization capabilities.

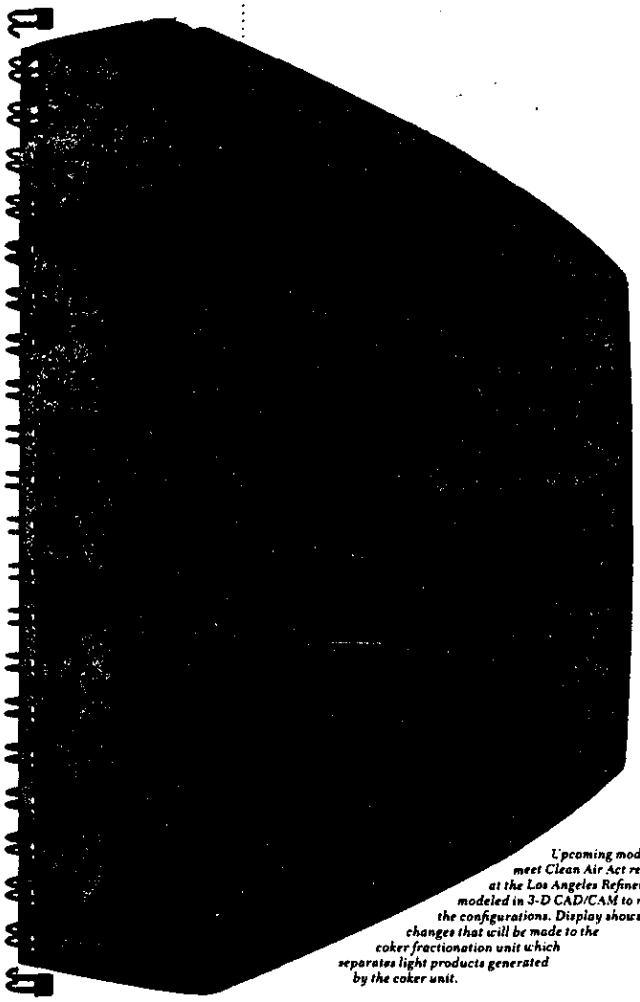
PNYC 00012966



ARCO's Cherry Point Refinery installed a fourth boiler in 1992 to meet increased steam processing needs. The refinery was able to save time and at least $2 million by selecting a pre-fabricated boiler that met its requirements.



Tank cars transporting butane are loaded at ARCO's Los Angeles Refinery for sale to other refiners and into export markets.



Upcoming modifications to meet Clean Air Act requirements at the Los Angeles Refinery were modeled in 3-D CAD/CAM to review the configurations. Display shows changes that will be made to the coker fractionation unit which separates light products generated by the coker unit.

the U.S., with debit and credit card payment services offered to a wide variety of retailers including grocery stores, fast food chains and drug stores. In 1992, the combination of increased business at ARCO locations and the expansion to other retailers gave Pay-Point a 44 percent growth in transactions compared with 1991.

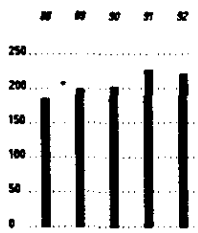
Long a leader in market development, ARCO Products Company introduced three new retail programs in 1992. Lube Now!® features a 10-minute lube service as part of performing 15 key vehicle maintenance services, along with special environmental features that include collecting all used motor oil for recycling. ARCO All-in-One auto centers made their debut in 1992. These centers combine a number of ARCO's marketing programs at one location for customer convenience. They include an am/pm, a SMOGPROS, a Lube Now! and a one-minute Wax & Dry Car Wash. SUBWorks®, an am/pm minimarket program featuring custom-made submarine sandwiches with bread freshly baked on the premises, made its debut at 32 ARCO locations.

PNYC 00012967

ARCO OIL AND GAS COMPANY, WHICH IS RESPONSIBLE FOR EXPLORATION, PRODUCTION AND MARKETING OF CRUDE OIL, NATURAL GAS AND NATURAL GAS LIQUIDS IN THE LOWER 48 STATES, MOVED FORWARD WITH IDENTIFYING STRATEGIC PROPERTIES AND CARRYING OUT PROGRAMS OF CONSOLIDATION, COST REDUCTION AND PROPERTY DIVESTITURES IN 1992. THE DALLAS-HEADQUARTERED COMPANY ALSO EXPANDED ITS MARKETING PROGRAM AND CHANGED ITS EXPLORATION STRATEGY. CONTINUED COST REDUCTIONS WERE IMPLEMENTED THROUGH CONSOLIDATION OF RESPONSIBILITIES AND NEW APPROACHES TO TRADITIONAL

Liquids Production
Thousand Barrels/Day Net

- *NGL*
- *Crude Oil and Condensate*



"Our 1992 property sales program was successful because, compared to others, we were offering a better class of properties which had also been developed with environmental consciousness. It involved every facet of the company and was the quintessential team effort."



Charles W. "Sonny" Measley
Director–Property Acquisitions and Sales, Eastern District

"Even though South Pass 60 has been producing for 20 years, it remains one of the most exciting oil fields in the Lower 48. We established a multi-disciplined South Pass 60 asset team, and they have successfully continued to replace and produce reserves profitably. The team has also identified additional prospects that could potentially add millions of barrels of reserves in the next several years."



Jerry R. Schuyler
Area Manager–Eastern District Offshore Operations

"Together as a redevelopment team, the City of Long Beach, THUMS, State of California and ARCO are making changes to most profitably develop the Long Beach Unit's reservoirs. Through ARCO Long Beach, Inc., and as the 100 percent owner of THUMS since early 1992, ARCO is an integral part of these changes."



Joseph A. Leone
Asset Manager–Long Beach Business Unit



Changes in United States regulation of natural gas production and distribution are opening new markets for producers like ARCO and making it possible to sell directly to local distribution companies and electric power generators.

Offshore employees (from left) Woody Hall, Cornell Patterson and Mark Barnes arrive at ARCO's South Pass 60 via boat from the Louisiana shore base, rather than by helicopter, as part of a cost reduction program developed at the unit. Boats serve over 200 people working on the field's eight platforms.

PNYC 00012968



In production 20 years and having yielded about 170 million barrels of oil equivalent, South Pass 60 still represents an area of strong potential.



ARCO designed and installed 55 continuous steam injectors on its leases in California's Midway-Sunset field. By increasing pressure in the reservoir, the steam is expected to increase crude oil production.



An optimized waterflood project was designed and implemented at the Long Beach Unit in the Wilmington oil field.

operations. Ongoing efforts to expand the role of automation in oil and gas facilities, including the use of computerized field data-gathering and operations monitoring, continue to reduce operational costs. Additional cost reduction measures implemented in 1992 include a more cost-effective approach to offshore transportation, longer term alliances with service companies, field office and shore base consolidations and the increased use of contract operations.

ARCO Oil and Gas Company was successful in selling a number of nonstrategic properties which had been identified as part of a 1991 restructure program. The company entered the producing property marketplace with approximately 1,100 oil and gas properties. By the end of 1992, the company had completed the sale of virtually all of the properties identified, which accounted for approximately 6 percent of ARCO's total Lower 48 production in 1991.

As part of the Lower 48 company's commitment to constantly evaluate existing properties for profit potential within strategic focus areas, an asset study was completed in 1992. Over 65 percent of the company's producing fields, which accounted for 8 percent of 1991 production, were determined to be nonstrategic. The decision was made to actively market these properties, and in the fourth quarter, the company reached agreement with three buyers to sell 146 fields in the Permian Basin, California and Northern Rocky Mountains for approximately $360 million.

In total, these 146 fields comprised about 36 percent of ARCO Oil and Gas Company's oil and gas fields at the time of the sale, but only 4 percent of 1991 production.

In its remaining properties, the company will continue active development designed to both enhance recovery and lower production costs.

ARCO Oil and Gas Company also continued to set high standards in environmental awareness. In 1992, several operations were recognized for outstanding management of oil and gas operations in environmentally sensitive areas. The Bureau of Land Management's "Partners in Public Spirit" award was given to ARCO's Wyoming production operations for extraordinary contributions to the enhancement of public lands. One of only five recipients named by the Bureau, ARCO was the only major oil and gas company to receive the award in 1992.

ARCO also achieved an environmental milestone through deeding a conservation easement on approximately 6,000 acres in the Coles Levee field to the California Department of Fish and Game. An unprecedented public/private partnership, the arrangement allows a private party (ARCO) to manage the ecosystem preserve on behalf of the Department. ARCO received a "Special Recognition" award from the Wildlife Society's Western Section for the establishment of the Coles Levee preserve.

	1992	1991	1990	1989	1988
Earnings — millions	**$ 192**	$ 57	$ 588	$ 349	$ 231
Total assets — millions	**$4,405**	$5,185	$5,040	$5,068	$5,174
Additions to fixed assets — millions	**$ 404**	$1,083	$ 808	$ 703	$1,285
Liquids production — thousand barrels/day — net	**221.6**	227.9	204.5	200.6	196.9
Natural gas production — million cubic feet/day — net	**1,161**	1,358	1,515	1,497	1,359
Average crude price — per barrel	**$16.34**	$16.72	$20.85	$16.92	$14.20
Average natural gas price — per thousand cubic feet	**$ 1.66**	$ 1.54	$ 1.67	$ 1.68	$ 1.69
Exploration expense — millions	**$ 289**	$ 339	$ 334	$ 312	$ 297
Proved liquids reserves — million barrels	**748**	820	754	790	765
Proved natural gas reserves — billion cubic feet	**2,901**	3,429	3,889	3,966	3,989

PNYC 00012969

Liquids Production

Crude oil and natural gas liquids production accounted for 53 percent of ARCO Oil and Gas Company's total production on an oil equivalent basis in 1992. This was up slightly from 1991. The property divestitures did not substantially impact liquids production in 1992.

The liquids production in the Lower 48 came primarily from California, the Permian Basin, and the Gulf of Mexico. Production also came from onshore Texas, Oklahoma, Louisiana and Arkansas.

"In jointly creating the Coles Levee Ecosystem Preserve, ARCO and the State of California took an innovative approach to streamlining the permitting process related to endangered species. We also believe that the Preserve will be a model for future public/private and environmental/business partnerships."



Marcia Hamann Wolfe
Senior Environmental Coordinator

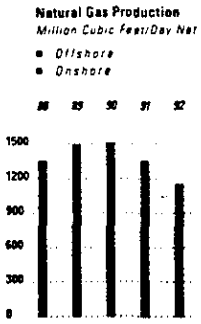
"In 1993, new natural gas regulations will be implemented and will provide ARCO GAS the opportunity to compete for markets traditionally served by pipeline companies. ARCO GAS will be differential by combining its strength of proprietary production with an aggressive gas aggregation strategy. This will allow us to provide our customers with maximum flexibility and security."



Joan M. Baumli
Account Manager, ARCO Natural Gas Marketing, Inc.

A number of enhanced oil recovery projects were completed during 1992. In the Midway-Sunset field of Southern California, ARCO implemented two major steamflood expansions, which are expected to increase production by more than 4,000 barrels per day at its peak. In the Long Beach Unit of California's Wilmington oil field, ARCO Oil and Gas Company developed and launched an optimized waterflood project, drilling over 60 wells in 1992. ARCO also became the 100 percent owner of THUMS, the field contractor of the Unit, in early 1992.

The Gulf of Mexico continued to be a promising development area for ARCO Oil and Gas Company. While



ARCO has several strategic assets in the Gulf. its most prolific field is South Pass 60. The South Pass 60 field was discovered in 1972 and was the site of extensive drilling activity in 1992 as its complex geological structure continues to yield opportunities for additional reserves. The drilling program continued to replace 90 percent of the field's annual produced reserves.

Natural Gas

ARCO's Lower 48 natural gas production declined in 1992, compared with 1991, as a result of natural field declines, property sales and low market prices.

Domestic natural gas prices were extremely volatile in 1992, but, on average, were higher than 1991.

ARCO Oil and Gas Company's natural gas production areas are located primarily in the Gulf of Mexico, the onshore Gulf Coast area, Oklahoma and the San Juan Basin of southern Colorado and northern New Mexico.

In its natural gas producing properties, ARCO has reduced costs for existing operations and introduced new technologies to improve performance. 3-D seismic activity continues to play a key role in reserve replacement for ARCO. In the Bayou Sale field in Louisiana, for example, 3-D seismic is being used to identify additional reserve opportunities in the highly complex salt dome structure.

Development work on coal seam reserves in the San Juan Basin was essentially completed in 1992 with the project having added approximately 550 billion cubic feet of proved gas reserves over its five-year development program.

Responding to opportunities in a more open and competitive market, the company expanded its natural gas marketing operations in 1992, including the purchase of third-party gas for resale. Marketing efforts focused on providing reliable supplies and related services to local distribution companies (LDCs), industrial users and electric power generators. Historically, the regulated nature of the domestic natural gas industry limited opportunities for producers to provide full marketing services. As a result of federal regulatory and other changes, ARCO GAS is able to meet the various needs of a substantially expanded customer base.



Drilling continued through the winter in snowy Nevada mountains, one of the Lower 48 new venture prospects in which ARCO participated during 1992.



With a changing Lower 48 marketplace, ARCO's natural gas trading activities have increased. Traders in natural gas and in crude oil stay up with the markets in the company's Dallas headquarters.

PNYC 00012970



A unique partnership of private and public interests was struck in the Coles Levee oil field of Southern California. ARCO agreed with the State of California to a 6,000-acre conservation easement to protect the field's rare and endangered animal and plant life, including the kit fox and kangaroo rat.



A successful 1992 property sales program included two ARCO auctions at which smaller properties were put on the block.

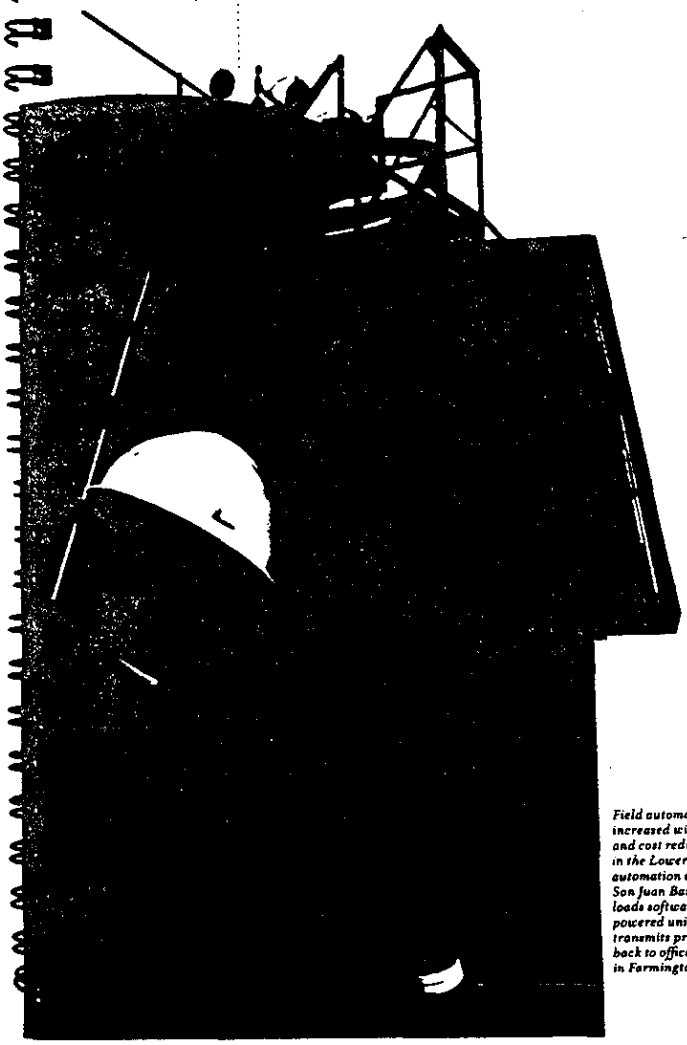
Exploration

With a focus on selected Lower 48 and Gulf of Mexico areas of exploration interest, ARCO Oil and Gas Company participated in about 65 percent more gross exploratory wells in 1992 than in the previous year. Total capital spending for exploration was down 26 percent. The dramatic increase in wells was accomplished by joint venturing its own exploration program as well as participating in the drilling of exploration prospects generated by other companies.

In addition, the company maintained an active program in hydrocarbon-rich areas of the Gulf Coast, Permian, Midcontinent and Arkoma areas. In all, the company participated in over 130 gross exploratory wells in 1992, with 16 decisioned as oil discoveries and 11 decisioned as gas discoveries.

Reserves

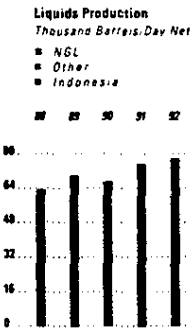
Reserves were down, compared with the end of 1991, as a result of production and property divestitures. Development, acquisition and exploration results replaced 88 percent of 1992 net production.



Field automation has increased with consolidation and cost reduction efforts in the Lower 48. Brian Briscoe, automation supervisor in ARCO's San Juan Basin natural gas field, loads software logic at a solar-powered unit which automatically transmits production statistics back to offices 40 miles away in Farmington, New Mexico.

PNYC 00012971

ARCO INTERNATIONAL OIL AND GAS COMPANY AFFIRMED ITS POSITION AS AN INTERNATIONAL PETROLEUM COMPANY THROUGH THE ONGOING DEVELOPMENT OF NATURAL GAS PROJECTS IN SOUTHEAST ASIA AND THE UNITED KINGDOM. ONGOING EXPLORATION SUCCESSES IN NEW AREAS AND CURRENT PRODUCTION AREAS ARE EXPECTED TO PROVIDE FUTURE GROWTH POTENTIAL. HEADQUARTERED IN PLANO, TEXAS, ARCO INTERNATIONAL IS RESPONSIBLE FOR THE CORPORATION'S GROWING OIL AND GAS EXPLORATION, DEVELOPMENT, PRODUCTION, AND MARKETING ACTIVITIES OUTSIDE THE UNITED STATES. THE COMPANY CONTINUED TO EXPAND ITS



"The Pickerill field is both geologically and geophysically complicated. To accomplish a successful development and timely production startup, a multidisciplinary team was assembled, comprising manager, reservoir engineer, drilling engineer, geologists, geophysicists and mapping specialist. The team approach proved a great success."



Ian Pigram
Geologist–Pickerill Development Group, ARCO British Limited

"Projects we have been working on for years came to fruition in 1992. The China gas project and the two gas projects in Indonesia result from growing economies and technological advancements which allow the efficient use of natural gas for power generation. A growing economy which needs environmentally sensitive power generation is a key element in international gas marketing today."



Greg Beard
Manager–International Marketing

"In developing the China gas project, the challenge is that we are starting from scratch with no existing infrastructure as far as other gas production in the area. We will also have a large recruiting effort and an 18-month training program for Chinese nationals before we start production."



Frank Hsu
Manager–Engineering and Operations, China Gas

Development work to bring natural gas from ARCO's Java Sea contract area to the Indonesian capital on Java began in 1992. ARCO and its partners will own and operate the gas transmission pipeline which will bring 1.1 trillion cubic feet ashore to power generating plants in Jakarta harbor.





The first of two platforms in the Pickerill gas field, offshore in the United Kingdom, was set and began producing in 1992. The field is operated remotely from onshore, a first in the North Sea.

PNYC 00012972



ARCO began work in Yemen during 1992 with a services contract in the Shabwa Block and an exploration block in the country's northeast corner, near the border with Saudia Arabia.



Development of a natural gas field in the South China Sea will provide fuel for power generation in Hong Kong. ARCO, a 34 percent owner in the project, will develop and operate the field and the 480-mile pipeline linking the field and the city.

large offshore operation in Indonesia in 1992 and is a major participant in the U.K.'s Southern Gas Basin.

The expansion of ARCO's international operations, coupled with economic and social changes in many areas of the world, have created new investment opportunities.

Europe

Increased use of natural gas and the privatization of power generation in the U.K. have opened new market opportunities for the development of North Sea natural gas reserves. ARCO International produces oil onshore and offshore in the U.K. and natural gas offshore in the U.K. and the Netherlands. Net natural gas production from the North Sea averaged 227 million cubic feet per day in 1992. Developments completed in 1992 and underway for 1993 are expected to materially increase natural gas production in 1993 and years to come.

The ARCO-operated Pickerill gas field in the U.K. Southern Gas Basin, in which ARCO holds a 31 percent interest, began producing in August 1992. Since then, Pickerill has added an average of 35 million cubic feet per day to ARCO's net gas production. The field's gross production is contracted to a privatized power generation company and is expected to grow to 210 million cubic feet per day in 1993 with the addition of a second platform. The Pickerill field is the first development in the North Sea operated remotely from a shore base, thereby reducing costs.

The Orwell and Murdoch gas fields in the Southern Gas Basin are scheduled to come onstream by the fourth quarter of 1993, adding estimated net production of 95 million cubic feet per day. As operator and holder of a 50 percent interest in the Orwell development, ARCO will bring its production via a dedicated pipeline to the Thames gas complex. The company has secured a long-term purchase contract with a power company.

ARCO holds a 34 percent interest in the Murdoch field and the planned pipeline to Theddlethorpe, where production will be sold.

In addition to its gas interests, the company holds a 17.5 percent interest in production from the Wytch Farm oil field in the U.K., the largest onshore oil field in Western Europe. Planned development of Wytch Farm's offshore reserves in 1993 will further increase oil production.

Indonesia

Growing industrialization has increased the demand for electrical power throughout Indonesia and created a rapidly growing market for natural gas. ARCO International is well positioned to meet this demand with offshore gas reserves in the Java Sea and Kangean areas. These reserves are advantageous because of their proximity to the country's two largest industrial centers, Jakarta and Surabaya.

ARCO holds a 54 percent interest in the Pagerungan gas project, located in the Kangean region. Development

	1992	1991	1990	1989	1988
Earnings (Losses) — millions	**$ 171***	$ 79	$ 76	$ (8)	$ (71)
Total assets — millions	**$2,415**	$2,466	$2,205	$1,902	$1,895
Additions to fixed assets — millions	**$ 551**	$ 464	$ 454	$ 363	$1,056
Liquids production — thousand barrels/day — net	**77.7**	75.7	67.1	70.1	63.6
Natural gas production — million cubic feet/day — net	**238.7**	261.2	193.5	169.2	154.1
Average crude price — per barrel	**$18.17**	$18.67	$20.15	$16.25	$14.20
Average natural gas price — per thousand cubic feet	**$ 2.96**	$ 3.16	$ 3.08	$ 2.71	$ 2.64
Exploration expense — millions	**$ 185**	$ 178	$ 170	$ 98	$ 132
Proved liquids reserves — million barrels	**211**	189	210	237	264
Proved natural gas reserves — billion cubic feet	**3,117**	2,405	1,796	1,206	1,249

*Includes gain from settlement on assets nationalized by Iran in the late 1970s.

PNYC 00012973

began in 1991 and initial production is expected in early 1994. Gross production from this ARCO-operated field is expected to start at 240 million cubic feet per day and increase to 360 million cubic feet per day by the end of the decade. The Pagerungan production will be transported via a third-party pipeline from an island near Bali to its primary customers, the state gas utility company, a petrochemical concern and the state electric power plant near the city of Surabaya.

ARCO is developing natural gas production and transportation facilities in the Offshore Northwest Java Sea area, where onshore demand for natural gas has opened up a new development opportunity. This is the first major gas project for ARCO in an area where the company has been an oil producer for over 20 years. ARCO holds a 46 percent interest in this project, which will begin production in August 1993. Initial gross production is expected to be 260 million cubic feet per day.

Gross oil production from the Offshore Northwest Java Sea contract area was 126,800 barrels per day, up from 119,500 barrels per day in 1991. The increase is a result of the first full year of production from the new BZZ field. ARCO also expanded its leading position offshore Indonesia by commissioning eight new platforms in late 1992, bringing total offshore structures to nearly 200. ARCO's net share of oil production from the Offshore Northwest Java Sea area in 1992 was 39,100 barrels per day.

"In Yemen's Block 4, we entered a service arrangement with an option for future production equity by teaming up with a large Saudi company. In this way, we were able to put ARCO's technology and people resources together with our partner's desire to get a field into production and to perform further exploration work."

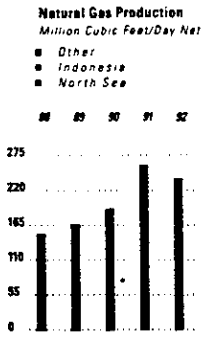


Amjad A. Bseisu
Business Development Negotiator

"Since arriving in Indonesia 25 years ago, ARCO has been exceedingly successful in its exploration efforts, discovering nearly two billion barrels of oil equivalent. We continue to find new areas with significant commercial potential, such as Seram Island in the Moluccas, the Kalosi Block in South Sulawesi and the Birdshead region of Irian Jaya."



Suherman Tisnawidjaja
New Ventures Exploration Manager, ARCO Indonesia, Inc.



ARCO International also holds a 25.5 percent interest in the Malacca Straits oil field, which produced 5,700 net barrels of oil per day in 1992.

China

In 1992, major progress was made in the development of the Yacheng natural gas field in the South China Sea. Two contract sales agreements have been signed for a project in which ARCO will be the operator and hold a 34.3 percent working interest. Production is expected to begin in early 1996.

The contracts call for export sales of 260 million gross cubic feet per day of gas to a utility in Hong Kong. In addition, domestic sales of 30 million gross cubic feet per day will be made to nearby Hainan Island. ARCO and its partners discovered the field in 1983. It contains 2.5 trillion cubic feet of gross proved gas reserves.

Dubai

ARCO is the sole working interest owner and operator of the Margham condensate field in Dubai, United Arab Emirates. Net condensate production during 1992 averaged 9,700 barrels per day.

Turkey

A new sales agreement was signed during 1992 for the Cendere oil field in southeastern Turkey. ARCO's interest in Turkish oil licenses produced 2,000 barrels net per day during 1992.

Yemen

Oil production began in 1992 on a block where ARCO International has a contract to provide exploration and development services to the operator and sole working interest owner. Located in the Shabwa province of the Republic of Yemen, the block was partially developed. ARCO has an option to acquire a 25 percent interest in the block.



The Pagerungan gas field in Indonesia is being developed on an island offshore from Bali for startup in 1994.



The Pickerill gas field development in the North Sea included a 3-D seismic project performed by ARCO Exploration and Production Technology in Texas. The image visualizes the subsurface reservoir horizon of the productive interval and three wells that have been drilled.

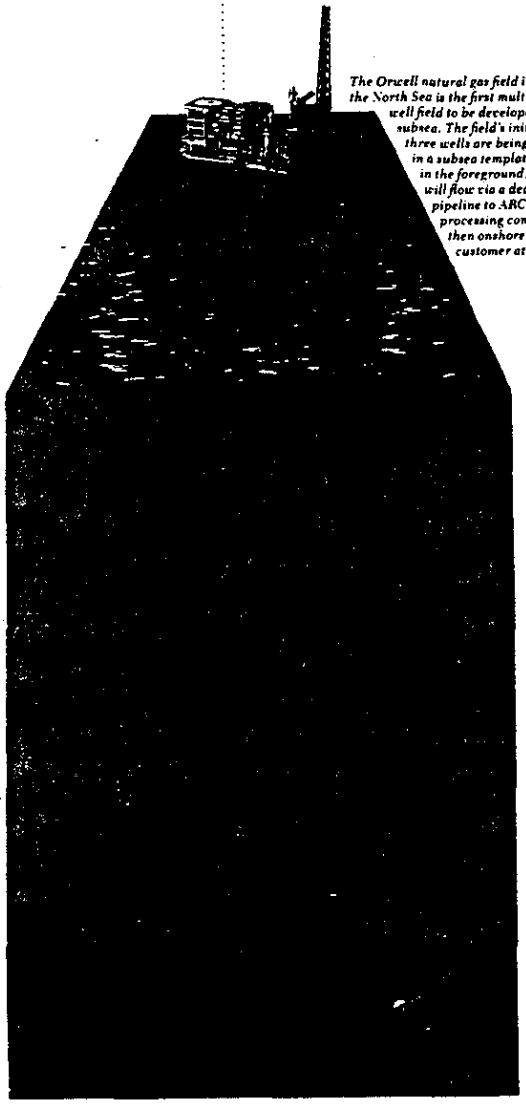
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Seismic work has started in Romania as part of an exploration licensing agreement reached during 1992.



Extending its interests in Indonesia, ARCO initiated a seismic survey on the Kalosi Block in South Sulawesi during 1992; exploration drilling is planned for late 1993.



The Orwell natural gas field in the North Sea is the first multiple well field to be developed subsea. The field's initial three wells are being housed in a subsea template (shown in the foreground). Production will flow via a dedicated 22-mile pipeline to ARCO's Thames processing complex and then onshore to the customer at Bacton.

Exploration

ARCO International's 1992 drilling activities involved both current producing and new venture areas. A total of 56 gross wells were drilled in 10 countries during 1992. The program resulted in 14 gross discoveries, including 11 oil discoveries and three gas discoveries.

During the year, the company reached agreements to acquire new exploration rights in Algeria and Romania. Upon completion of evaluation drilling, activities were concluded in Syria, Gabon, the Congo, and Egypt. An interest in an Australian license was sold during 1992.

A successful exploration drilling program in the Oriente area of Ecuador was completed, and a proposal for commercial oil development is now being discussed with the Ecuadorean government.

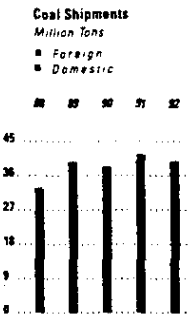
ARCO International began seismic work in 1992 on an exploration block in northern Yemen. In addition, the company spudded an exploration well in the Shabwa province of Yemen as part of its services agreement.

Reserves

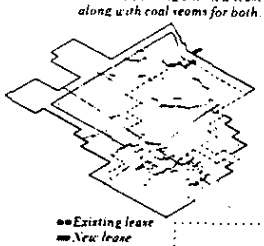
ARCO International's net proved reserves increased 24 percent on a barrel-of-oil-equivalent basis compared to the end of 1991. The increased reserves came primarily from the Yacheng gas field in China and Wytch Farm's offshore oil field reserves in the U.K.

PNYC 00012975

ARCO COAL COMPANY MADE SIGNIFICANT STRIDES IN IMPROVING THE QUALITY OF ITS ASSET BASE DURING 1992 THROUGH INVESTMENTS IN NEW MINING EQUIPMENT AND RESERVE ADDITIONS AT ITS EXISTING OPERATIONS. THE CONTINUED DEVELOPMENT OF A NEW MINE IN AUSTRALIA, AND THE SALE OF TWO SMALLER, LESS PRODUCTIVE MINES. HEADQUARTERED IN DENVER, COLORADO, ARCO COAL OPERATES MINES IN THE POWDER RIVER AND UINTA BASINS IN THE WESTERN UNITED STATES AND IN THE BOWEN BASIN IN NORTHEASTERN AUSTRALIA. ARCO'S MINES PRODUCE HIGH-QUALITY, LOW-SULFUR STEAM AND COKING COALS WHICH ARE MARKETED



The remaining reserves at the Black Thunder surface mine in Wyoming nearly doubled during 1992 with the addition of the West Black Thunder lease. A three-dimensional map shows the existing and new leases along with coal seams for both.



Existing lease
New lease
Coal seam

"Gordonstone is the first Australian coal mine to implement a comprehensive environmental management program that addresses all potential environmental impacts in the early stages of planning and design."



Catherine Brosnan Environmental Officer, Gordonstone

"The self-directed teams at Gordonstone are a total change in concept for Australian mining. They give us better cooperation between all parties. We can get involved in planning and managing our work; for example, safety, training, annual leave, weekly team meetings. This gives our miners a positive feeling of ownership of day-to-day work and input into their future career path. It produces safety conscious, multi-skilled well-coordinated teams."

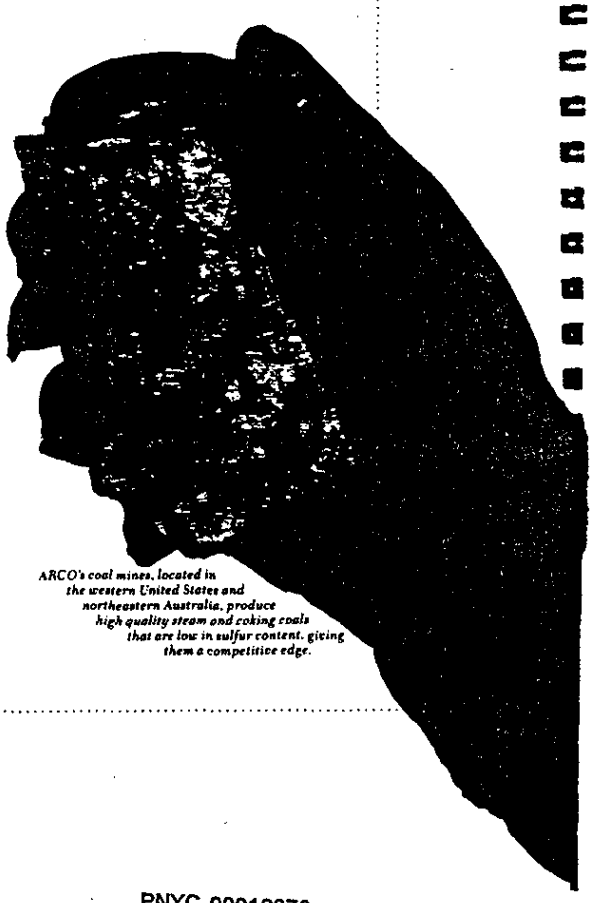


John Perry Team Leader– Gordonstone

"West Elk's mine development and installation of the world-class longwall mining system, coupled with expansions of conveyor systems, surface coal handling and other facilities, were achieved safely, ahead of schedule and under budget. It was an extremely gratifying year and a unique opportunity to work on an aggressive and highly collaborative team, such as we have at West Elk."



Phil G. Schmidt P.E. Maintenance Superintendent– West Elk Mine



ARCO's coal mines, located in the western United States and northeastern Australia, produce high quality steam and coking coals that are low in sulfur content, giving them a competitive edge.



The Curragh mine in Australia introduced the Southern Hemisphere's largest dragline in 1992. The giant bucket is capable of moving 135 cubic yards, or 675,000 pounds, of overburden in each pass.

PNYC 00012976



The West Elk underground mine in Colorado dramatically increased its productive capacity with a longwall unit, the most up-to-date and efficient mining system. The shearer works along a 700-foot-wide block of coal, as hydraulically operated plates form a roof and back wall.



ARCO's development of the Gordonstone mine, which will be Australia's largest underground mine, represents a milestone in environmental consciousness for Australian mine development by including potential impact to plants and animals in the design and planning.

on a global basis. Worldwide coal prices were soft in 1992 as a result of increases in supply, industry-wide productivity gains and lower than anticipated demand due to the continuing global recession. ARCO was able to partially compensate for this softening in prices by lowering its unit costs through productivity improvements. ARCO's focus on high-quality, low-cost operations continues to give the company an advantage in an extremely competitive marketplace.

United States Operations

ARCO Coal has a 100 percent interest in Black Thunder and Coal Creek, two surface mines in Wyoming, and West Elk, an underground mine in Colorado. All of these mines produce high-quality, low-sulfur steam coal used in the generation of electricity.

The Black Thunder mine, which shipped almost 29 million tons of coal in 1992, is the largest surface coal mine in the Americas. ARCO Coal nearly doubled the reserves remaining at this mine during 1992, successfully bidding on the West Black Thunder lease. The new lease holds an estimated 408 million tons of recoverable reserves, bringing the mine's total remaining recoverable reserves to approximately 844 million tons. Black Thunder is also finalizing construction of one of the world's largest draglines. Scheduled to come on-line in the first quarter of 1993, it is designed to move 43 million cubic yards of overburden annually. In addition to its size and productivity, Black Thunder has been widely acclaimed for its environmental achievements in reclaiming mined land. With reclamation and land use an integral part of its original design, Black Thunder has reclaimed 1,600 acres in its 16-year life.

The West Elk mine completed the installation and startup of one of the largest longwall mining units in the United States in 1992. With the unit, the mine can produce up to 20,000 tons per day, compared to 4,000 tons per day with the continuous miner system previously used.

Trail Mountain, a small, underground continuous miner operation, was sold in late 1992.

Australian Operations

ARCO Coal has an interest in three mines in Queensland, Australia — two active surface mines and an underground mine which is under development. The Australian mines shipped 9.2 million net tons in 1992.

Development of the Gordonstone Mine, Australia's largest underground mine, continued throughout 1992, and longwall operations are scheduled for startup in the first half of 1993. With estimated recoverable reserves in excess of 100 million net tons, Gordonstone is designed to produce approximately 4 million net tons of high-quality coking and steam coal per year. ARCO Coal is the operator and currently holds an 80 percent interest in the project.

ARCO has an 87 percent interest in and operates the Curragh mine that shipped 5.4 million net tons of coal in 1992. Curragh produces high-quality coking and steam coals.

Blair Athol, in which ARCO holds a 31.4 percent interest, is the country's lowest-cost producer of export steam coal. ARCO's share of production from Blair Athol totaled 3 million net tons in 1992.

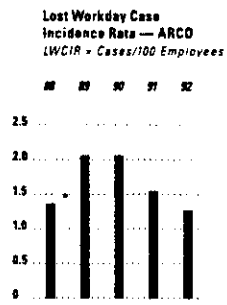
Coal Resources of Queensland Limited was shut down in November 1992, and subsequently sold in January 1993. ARCO had taken a writedown on this underground mine in 1991 after it continued to experience difficult mining conditions which hampered productivity.

	1992	1991	1990	1989	1988
Earnings — millions	**$ 83**	$ 33	$ 91	$ 92	$ 79
Total assets — millions	**$1,411**	$1,095	$ 929	$ 857	$ 725
Additions to fixed assets — millions	**$ 308**	$ 305	$ 109	$ 148	$ 107
Average market price — per ton	**$14.64**	$14.27	$14.81	$13.95	$13.71
Coal shipments — millions of tons	**39.8**	41.6	38.3	39.4	32.4
Coal reserves — million tons recoverable	**1,468**	1,118	1,265	1,190	1,183

PNYC 00012977

ENVIRONMENT, HEALTH AND SAFETY ISSUES AND REGULATIONS CONTINUED TO CHANGE THE WAY MOST INDUSTRIES VIEWED THEIR BUSINESS OPERATIONS IN 1992. ARCO IS ACTIVE IN THESE CONCERNS AT FEDERAL, STATE AND LOCAL LEVELS, AS WELL AS INTERNATIONALLY.

ARCO'S BOARD OF DIRECTORS HAS AN ENVIRONMENT, HEALTH AND SAFETY COMMITTEE WHICH MEETS REGULARLY AND OVERSEES RELATED ACTIVITIES THROUGHOUT THE COMPANY. THE DIRECTION AND GOALS ARE SET BY COMPANY MANAGEMENT AND EACH OPERATING LOCATION IS RESPONSIBLE FOR THE RESULTS ACHIEVED. ARCO



"Alaska has been in the middle of the wetlands controversy, although it's not that we have few wetlands left. Our state is dominated by wetlands — at least 200 million acres under the jurisdictional definition — with very few alternative sites to use for development. While protecting high value wetlands nationally, we need to recognize regional differences so we can move forward with necessary but environmentally sound growth and development."



Michael R. Joyce
Senior Consultant–Biological Sciences
ARCO Alaska, Inc.

"Since we know most about our operations, we are better at developing workable, cost-effective solutions to environmental problems than outside regulators. We must find ways to encourage and support the creativity already here. Just look at what happened with office paper recycling! It wasn't planned or mandated but was a grass-roots movement by interested individuals. Now all locations have recycling programs."

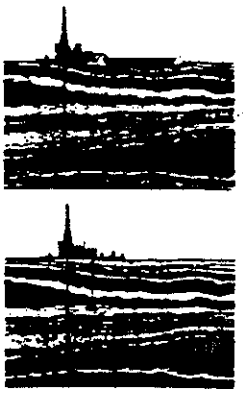


June L. Siva
Manager–Environmental Protection

"Safety, industrial hygiene and environmental issues are interrelated and are important to the quality of our operations. We have made positive gains in the past year based on traditional safety performance indicators. Look for us to advance our industrial hygiene efforts as well. We plan to become the industry leader."



Danny Y. Wong
Senior Safety and Industrial Hygiene Consultant



ARCO Alaska won the 1992 ARCO Environmental Achievement Award for two North Slope waste minimization projects. In one project, Alaska eliminated the need for reserve pits (seen at top) by injecting drilling wastes into a previously drilled wellhole (bottom diagram at right).

Three-dimensional artificial skin, which is shown, is being used increasingly as part of ARCO's skin irritation testing on nearly 100 refinery streams and products.





Senior Inspector Sam Cooley checks one of some 6,000 relief valves at the Los Angeles Refinery. Periodic inspections and regular training programs are part of companywide process safety management.

PNYC 00012978



An interactive video training program was developed by ARCO Oil and Gas Company for orienting its workers before they begin assignments on offshore platforms in the Gulf of Mexico.



ARCO Oil and Gas Company received national recognition for the care it took in developing the North Dauphin Island natural gas field, offshore Alabama. Environmental factors were an integral part of the project planning.

conducts audits to look at both management systems and compliance with environmental, safety and health laws and regulations. Management receives audit results and takes appropriate action.

ARCO's companywide concerns for environmental issues have been widely recognized. In 1992, three ARCO projects received national recognition. ARCO Oil and Gas Company's North Dauphin Island project received the National Ocean Industries Association's Award for Excellence. A voluntary ARCO remediation program at a former refinery site near Vinita, Oklahoma, was certified by the Wildlife Habitat Enhancement Council (WHEC) for the development of a successful wildlife management program. The Black Thunder mine was one of only 21 companies nationwide to receive the WHEC's highest habitat certification for its voluntary wildlife and conservation efforts.

In developing the North Dauphin Island natural gas field offshore Alabama, ARCO Oil and Gas Company installed a platform and pipeline in "one of the most environmentally sensitive areas in the U.S."

Before starting work on the North Dauphin Island field, which came onstream in late 1991, ARCO employed specialists, including a marine biologist, archaeologist, ornithologist, surveyors, oyster fishermen and property owners, to study environmental factors and technical requirements. Adaptations for the project included a roof on the platform to prevent possible rainwater contamination as it washes across processing equipment. The pipeline was routed to avoid areas important to local oyster fishermen.

ARCO has its own companywide annual environmental achievement recognition to encourage ingenuity. The 1992 Environmental Achievement Award honored ARCO Alaska, Inc. for two waste minimization projects on the North Slope. The first project developed a method to dispose of drilling wastes by injecting them into a previously drilled wellhole during the drilling process. This eliminated the need for reserve pits and reduced waste disposal costs by 50 percent. The second project involved the development of a way to clean drill cuttings, primarily sand and gravel, as they are produced. They can then be used in road and drill pad construction, instead of becoming waste. The two projects together represent a major advance in environmental management on the North Slope.

ARCO's concern for matters of safety and health underwent a revitalization in 1991 and 1992 because of management's concern that overall safety performance was not measuring up to ARCO standards. The typical yardstick used in safety measurement is "lost workday case incident" rates. In 1992, the lost workday case incident rate for ARCO overall was 1.29 per 100 employees, a 17 percent reduction from 1991. ARCO expects the same high standards from contractors that it demands of its own employees. In 1992, the Corporation increased its emphasis on contractor safety programs.

With widespread and large-scale production, manufacturing and distribution activities, ARCO has increased its process safety management in all operations. Hazard analyses are conducted on both existing operations and new developments to identify potential hazards and develop approaches to improve the operational safety.

Training systems enhancements have been a key element in the company's improved safety performance. For its offshore operations in the Gulf of Mexico, for example, ARCO Oil and Gas Company has introduced interactive video training and requires workers to complete the training before they work on platforms.

With concern for worker and consumer safety that goes beyond regulations, ARCO conducts detailed testing on nearly 100 refinery streams and products. To accomplish these tests, the Corporation has sought out and increasingly used laboratories that employ three-dimensional artificial skin models.

PNYC 00012979

CORPORATE RESPONSIBILITY WAS NEVER MORE CHALLENGING THAN DURING 1992, A YEAR WHEN URBAN RIOTS AND DESPAIR, DEVASTATING HURRICANES AND RIGHTS FOR INDIVIDUALS WITH DISABILITIES DOMINATED THE NEWS HEADLINES, REFLECTING SOME OF ITS PROUDEST TRADITIONS, ARCO MET IMMEDIATE NEEDS RESULTING FROM THE CRISES AND CONTINUED ITS EFFORTS TO CURE THE ROOT CAUSES OF THE PROBLEMS THAT ACCOMPANY THE NATION'S ADJUSTMENT TO AN INCREASINGLY DIVERSE POPULATION. ARCO RESPONDED QUICKLY TO EMERGENCY NEEDS ARISING OUT OF THE APRIL RIOTS IN THE LOS ANGELES AREA. IT GAVE $1 MILLION TO ORGANIZATIONS PROVIDING FOOD, SHELTER, EMERGENCY SERVICES AND FINANCIAL AID TO RIOT VICTIMS. ALONG WITH



Greg Owston, accounts payable clerk at ARCO Coal's Black Thunder mine, has worked from a wheelchair since 1990. A one-time pit operations driver, Owston got an accounting degree after an off-work vehicle accident.

"ARCO's capital investment of $1 million into Los Angeles' only African-American-owned commercial bank will significantly increase the bank's ability to make inner-city loans to businesses affected by the riots. We cannot rebuild the inner cities of America without addressing the need to empower minority financial institutions throughout the country. Therefore, our capital infusion was an investment in the future of Los Angeles and a sound business decision."



William A. Holland Manager–Equal Opportunity Affairs & Minority Business

"In our funding priorities, the Foundation has always targeted local community-based organizations as a means to promote self-sufficiency. We recognize that grass-roots leadership provides more innovative solutions to the problems of inner cities. Over the years, we have seen that programs grown and nurtured from the bottom up develop a sense of community ownership and have an impact far beyond a top-down approach."



Russell Sakaguchi Program Officer–ARCO Foundation

"Our annual conference planning committee wanted to create a team-building exercise with maximum interaction and lasting impact. We brainstormed with the City of Long Beach, where our headquarters is located, and jointly developed a park rehabilitation project. At the end of the project day, after seven sweaty hours for 125 of us, it was clear that everyone won from this unique collaboration — we as individuals, ATC and our community."



Lenore C. Rozner Manager–Internal Control & Policy ARCO Transportation Company

Minority vendor recruiting received renewed attention following the April 1992 riots, which put many people out of work in the greater Los Angeles area.



PNYC 00012980



Nick Kompkoff, facility maintenance technician in Prudhoe Bay Flow Station 2 operations, is one of many Alaska natives who work in ARCO Alaska's exploration and production operations.



Dutch C. Ross and Virginia Oaxaca are on loan to Rebuild LA as part of ARCO's commitment to the community's revitalization efforts. Ross is applying his accounting training; Oaxaca provides human resources skills.

ARCO has invested over $5 million on the past



five years in programs to retain under-represented minority students in engineering programs.



ARCO Transportation management invested sweat and sore muscles in a day-long, clean-up, fix-up of a City of Long Beach park.

the initial assistance, ARCO pledged to help put people back to work as soon as possible. Minority vendors were recruited for the work necessary to repair ARCO's retail outlets damaged or destroyed during the riots.

In late 1992, ARCO increased its commitment to minority-owned business by making a $1 million capital investment in the Founders National Bank of Los Angeles, California's only African-American-owned commercial bank. The Corporation also offered an additional $1 million "challenge investment," whereby through December 31, 1993, ARCO will match dollar-for-dollar new capital investment in the bank by other corporations.

"Investment" continued to be a key word in ARCO's community involvement during 1992. Over $25 million went to nonprofit organizations through ARCO Foundation's direct grants, employer matching grants and other company-participation projects. Approximately 30 percent was directed toward education programs for young Americans, from infancy through college. In an industry heavily reliant on engineering disciplines, ARCO invested $600,000 in grants to 25 universities and colleges to retain under-represented minority students pursuing careers in engineering. With the 1992 grant, the Foundation's five-year total commitment to its Minority Engineering Retention Program topped $5 million.

ARCO Alaska, Inc. has long been active in education and job development programs for the state's native population. While modifying its contractor and procurement practices in 1992, it directed added attention to native-owned businesses and to other contractors who recognize these resources through partnering arrangements with native corporations or affirmative hiring programs.

The Americans with Disabilities Act (ADA), called "the most comprehensive act relating to employment since the Civil Rights Act of 1964," became effective in 1992, arousing concern throughout American industry. ARCO responded with positive support for the law's concepts and provided educational and informational programs for employees companywide.

Volunteer involvement by employees at all levels and ARCO retirees has been a hallmark of ARCO's community participation for generations, and with the crises of 1992, that volunteerism was even more evident. In the Gulf of Mexico where employees themselves were impacted by Hurricane Andrew's devastation and, later, by tornados in south Texas, ARCO employees were in the forefront with volunteer assistance and contributions that are typically matched dollar-for-dollar by ARCO.

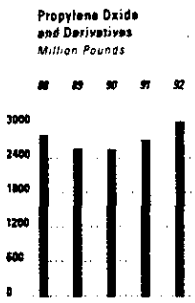
The ARCO Foundation matched over $6 million in individual employee and retiree contributions to nonprofit organizations in 1992, and it invested another $240,000 in organizations for which employees or retirees volunteered at least 12 hours per month of their own time.

ARCO Transportation combined a management team-building exercise with the desire to make a meaningful contribution to the community and came up with a park renewal program. Headquartered in Long Beach, California, ARCO Transportation volunteered 125 managers from across the nation, who were attending an annual management conference, for a day-long fix-up, paint-up exercise at a local park.

Along with ARCO's investments in minority education and drive to increase purchases from minority and women-owned businesses, ARCO works to shape a future work force that is reflective of the population. In hiring and promotion programs, the company seeks out qualified female and minority candidates. In addition, the company is committed to ensuring that no individual will be discriminated against on the basis of a disability. Increasing the number of women and minorities in mid-to-senior levels of management is also stressed throughout the company.

PNYC 00012981

ARCO CHEMICAL COMPANY CONTINUED TO STRENGTHEN ITS WORLDWIDE BUSINESS IN 1992. ALTHOUGH SLOW RECOVERY IN THE UNITED STATES ECONOMY AND GENERAL WEAKNESS IN WORLD ECONOMIES, PARTICULARLY IN EUROPE, PRESENTED ONGOING CHALLENGES, THE COMPANY REPORTED POSITIVE FINANCIAL RESULTS FOR 1992, WITH RESEARCH, TECHNICAL AND MANUFACTURING FACILITIES IN THE UNITED STATES, EUROPE AND THE ASIA PACIFIC REGION, ARCO CHEMICAL SERVES CUSTOMERS IN MORE THAN 100 COUNTRIES WITH A WIDE RANGE OF CONSUMER AND INDUSTRIAL PRODUCTS. ARCO



"Our de-icer products have grown in popularity with the airlines. These customers have become increasingly aware of the environmental, regulatory and worker health benefits of using propylene glycol-based de-icers which are less toxic than competing products. We offer excellent service and quality products which have lower toxicity than competing products."



Angela L. Brant
Product Manager, De-icers

"With our Manufacturing Excellence program, we have defined a process of continuous improvement which incorporates specific goals and measurements for one purpose: manufacturing superiority worldwide. Audit teams, comprised of representatives from plants around the world, visited each facility twice in 1992, reviewing adherence to newly established Manufacturing Standards."



Denis C. Boyle
Director–Manufacturing Auditing

"Completion of our new propylene oxide/styrene monomer plant, PO/SM II, nearly doubled the PO capacity at our Channelview complex. This new plant operates with 1,000 pieces of equipment, much of it smaller and more efficient than earlier designs, all integrated into a complex, continuous process. It is a tremendous achievement."



Tim C. Salmon
Operations Superintendent–Channelview

Vials of gasoline are tested to ensure proper levels of methyl tertiary butyl ether (MTBE), an oxygenate used to reduce emissions in gasoline. ARCO Chemical is an industry leader in the manufacture of MTBE and other environmentally favorable products.





ARCO Chemical Company operates manufacturing facilities worldwide and products are sold to a wide variety of manufacturers around the globe.

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A new world-class facility to manufacture propylene oxide and styrene monomer was completed and began production at ARCO Chemical's complex in Texas during 1992.

ARCO Chemical's companywide initiative, 'Manufacturing Excellence,' is improving the efficiency and reliability of its processes and products, while also emphasizing safety, health and environmental responsibility.



Sales to United States airlines of propylene glycol-based de-icers increased in 1992 with the recognition of their environmental and performance advantages.

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."

A worldwide leader in the manufacture of its core product, propylene oxide (PO), ARCO Chemical commissioned a new propylene oxide/styrene monomer manufacturing facility in Channelview, Texas, in the Fall of 1992. The plant has design capacity for 500 million pounds per year of PO and increases total PO production capacity by 15 percent. It also has design capacity of 1.1 billion pounds per year of styrene monomer (SM). With this new plant, ARCO Chemical has nearly 60 percent of the PO capacity and nearly 20 percent of the SM capacity in North America.

Increasing internal consumption of PO utilized in the production of higher-value derivative products is a cornerstone of ARCO Chemical's strategy. In line with this strategy, in 1992 the company completed the full integration of a polyols business that uses PO to manufacture high-performance polyols. This business gives ARCO Chemical Company a leading position for polyols in the U.S. automotive markets and offers potential for growth in world markets.

ARCO Chemical continued its leadership as a producer of environmentally favorable products. Sales volumes increased for methyl tertiary butyl ether (MTBE), a high-octane fuel oxygenate that reduces emissions in gasoline, while helping refiners meet United States government clean air standards.

In 1992, ARCO Chemical also became the first company to develop the ability to produce commercial quantities of a companion product, ethyl tertiary butyl ether (ETBE), for the merchant market. ETBE, which uses corn-derived ethanol as a key raw material, gives customers added flexibility for producing cleaner-burning gasolines.

A growing market for environmentally favorable products, such as propylene glycol-based Type I and Type II aircraft de-icers, brought increased sales to major United States airlines. These products offer environmental advantages over competing products that are based on ethylene glycol.

To further strengthen its operations and product performance, ARCO Chemical increased activity related to its initiative, Manufacturing Excellence, that is establishing tough new worldwide operating standards for ARCO Chemical facilities.

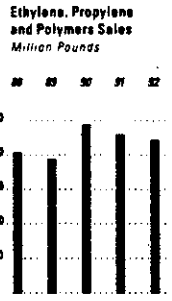
For more information about ARCO Chemical, a copy of the company's annual report can be obtained by writing Investor Relations, ARCO Chemical Company, 3801 West Chester Pike, Newtown Square, PA 19073-2387.

	1992	1991	1990	1989	1988
Earnings — millions	**$ 195**	$ 188	$ (351)	$ 405	$ 494
Total assets — millions	**$3,599**	$3,676	$3,739	$2,655	$2,548
Additions to fixed assets — millions	**$ 295**	$ 435	$ 539	$ 262	$ 245
Total revenues — millions	**$3,100**	$2,990	$2,950	$2,663	$2,700
Propylene oxide and derivatives — million pounds	**3,055**	2,729	2,563	2,586	2,512
TBA and derivatives — million gallons	**1,092**	996	955	912	917
Styrene monomer and derivatives — million pounds	**1,434**	1,278	1,098	1,478	1,665

This table represents stand-alone financial and statistical information of ARCO Chemical Company and does not include 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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LYONDELL PETROCHEMICAL COMPANY IS THE UNITED STATES' LARGEST MERCHANT MARKETER OF ETHYLENE AND PROPYLENE, A MAJOR PRODUCER OF METHANOL, MTBE, OLEFINS CO-PRODUCTS AND POLYMERS AS WELL AS OPERATOR OF THE NINTH LARGEST REFINERY IN THE NATION. ARCO HOLDS A 49.9 PERCENT EQUITY INTEREST IN LYONDELL, WHICH IS HEADQUARTERED IN HOUSTON, TEXAS. WHILE THE ECONOMIC CLIMATE NEGATIVELY IMPACTED 1992 EARNINGS, LYONDELL TOOK ACTIONS TO FURTHER STRENGTHEN ITS POSITION IN BOTH REFINING AND PETROCHEMICALS. THE COMPANY MAINTAINED ITS



focus on low costs, flexibility, quality and employee empowerment.

To increase flexibility in its refining business, Lyondell signed a letter of intent with CITGO Petroleum Corporation, a subsidiary of Petroleos de Venezuela, S.A. (PDVSA), which is the national oil company of Venezuela. The proposed agreement provides that CITGO will fund the major portion of a significant upgrade at the Lyondell refinery. This will enable the facility to process additional very heavy, low-cost crude oil. Under the proposal, PDVSA is supplying heavy crude to the refinery.

In exchange for its investment in the venture, CITGO receives a small initial ownership position which is expected to increase to over 30 percent upon project completion. CITGO has an option to increase its ownership up to 50 percent after project completion by investing additional capital. The final agreement for the venture is expected to be signed in the first half of 1993.

On the petrochemical side of its business, Lyondell continued to strengthen its position in products for the manufacture of oxygenated fuels. In 1992, the company unveiled a new process for producing isobutylene, a key component in the production of MTBE. The Lyondell technology converts normal butylenes to isobutylene in a single-step process, sharply reducing capital costs versus other processes. In early 1993, the company announced it entered into an agreement with CDTECH, the leading supplier of ethers technologies used in reformulated fuels production, to develop and license this isomerization process.

Expansion of Lyondell's product flexibility unit, which converts ethylene and other light hydrocarbons to propylene, is expected to be completed in early 1993. This will further increase the company's competitive advantage as the most flexible olefins producer in its industry.

In 1992, Lyondell's plants achieved higher capacity utilization than the industry averages for olefins plants and refineries. The company also provided an annual total return to stockholders of 17 percent, one of the highest in the industries in which it competes.

In early 1992, Lyondell became the first major refiner to recycle used lubricating oil back through the refinery as a feedstock to make gasoline and other products. The program offers an environmentally responsible alternative for disposal of used oil.

For the second consecutive year, Lyondell qualified for a site visit for the prestigious Malcolm Baldrige National Quality Award and was selected for inclusion in the new edition of "The 100 Best Companies to Work for in America."

For additional information, a copy of Lyondell's 1992 Annual Report can be obtained by writing Investor Relations, Lyondell Petrochemical Company, 1221 McKinney, Houston, TX 77010.

	1992	*1991*	*1990*	*1989*	*1988*
Earnings — millions	**$ 16**	$ 222	$ 356	$ 374	$ 543
Total assets — millions	**$1,215**	$1,479	$1,372	$1,267	$ 913
Additions to fixed assets — millions	**$ 97**	$ 43	$ 145	$ 176	$ 63
Sales and other operating revenues — millions	**$4,805**	$5,729	$6,495	$5,358	$4,696
Refinery crude runs — thousand barrels/day	**235.6**	254.6	257.7	236.4	247.3
Petroleum product sales — thousand barrels/day	**277.2**	287.7	300.9	298.2	261.0
Ethylene, propylene and polymer sales — million pounds	**5,785**	6,000	6,373	5,048	5,294

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

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SELECTED FINANCIAL INFORMATION

Millions of dollars, except per share amounts	*1992[1,2]*	*1991[2]*	*1990[3]*	*1989[4]*	*1988*
Sales and other operating revenues — including excise taxes	$18,668	$18,191	$18,836	$16,049	$18,356
Net income	$ 801	$ 709	$ 2,011	$ 1,953	$ 1,583
Earned per share	$ 4.96	$ 4.39	$ 12.15	$ 11.26	$ 8.78
Cash dividends per common share	$ 5.50	$ 5.50	$ 5.00	$ 4.50	$ 4.00
Total assets	$24,256	$24,492	$23,864	$22,261	$21,514
Long-term debt and capital lease obligations	$ 6,227	$ 5,989	$ 5,997	$ 5,313	$ 5,665

1 The 1992 impact on net income from the cumulative effect of the changes in accounting principles (See Note 2 of Notes to Consolidated Financial Statements) was an after-tax charge of $392 million, or $2.43 per share.

2 See Note 3 of Notes to Consolidated Financial Statements.

3 The 1990 impact on net income from the cumulative effect of the change in accounting for income taxes was a benefit of $323 million, or $1.95 per share.

4 Includes after-tax gain of $634 million from sale of majority interest in Lyondell; the resulting deconsolidation of Lyondell reduced ARCO's sales and other operating revenues by $4.7 billion and total assets by $1.3 billion.

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

Overview of 1992 Results

In 1992, ARCO's net income was $801 million, or $4.96 per share. The improvement in operating results in 1992, compared to 1991, reflected improved margins and higher sales volumes in the Corporation's West Coast refining and marketing operations, lower lease operating costs, higher sales volumes and margins in its chemical operations and higher natural gas prices, partially offset by lower natural gas sales. In addition, the Corporation's income from equity earnings, interest income and interest expense were lower in 1992.

The 1992 results included approximately $140 million after tax in net benefits primarily related to unusual items, partially offset by provisions for future environmental costs. Unusual items were $271 million before tax, $211 million after tax and were comprised of a settlement on assets nationalized by Iran more than 12 years ago and recognition of a previously deferred portion of the gain from the 1989 sale of a majority interest in Lyondell Petrochemical Company ("Lyondell"), partially offset by a charge related to the withdrawal by ARCO Chemical Company ("ARCO Chemical") from a South Korean joint venture.

The 1992 results also included a net after-tax charge of $392 million, or $2.43 per share, for the cumulative effect of adopting two new accounting standards, Statement of Financial Accounting Standards ("SFAS") No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," and SFAS No. 109, "Accounting for Income Taxes."

Overview of 1991 Results

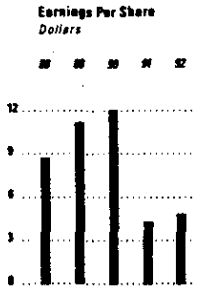
In 1991, ARCO's net income was $709 million, or $4.39 per share. Operating results in 1991, compared to 1990, were negatively impacted by lower crude oil and natural gas prices and lower margins related to refining and marketing and chemical operations, only partially offset by higher crude oil and refined products sales volumes. In addition, the Corporation's income from equity investments and interest was also lower.

The 1991 results also included net charges for unusual items of $503 million before tax, $312 after tax, primarily related to personnel reductions, anticipated loss on property sales and property writedowns. The unusual items were partially offset by a $17 million net after-tax benefit.

Overview of 1990 Results

In 1990, ARCO recorded the highest net income in its history. 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 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 also included a $323 million gain, or $1.95 per share, for the cumulative effect of the adoption of SFAS No. 96, "Accounting for Income Taxes" and approximately $185 million in after-tax gains resulting from a settlement related to an offshore accident and from the sale of ARCO's Norwegian oil and gas assets. These gains were partially offset by after-tax charges of $130 million for future environmental remediation and $267 million for tax and royalty issues.



Results of Consolidated Operations

Revenues

Sales and other operating revenues were $18.7 billion in 1992, $18.2 billion in 1991 and $18.8 billion in 1990. The increase in revenues in 1992, compared to 1991, resulted from higher crude oil trading volumes, refined product prices and sales volumes, chemical product sales volumes and natural gas prices, partially offset by lower crude oil prices and natural gas volumes. 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.

Income from equity investments was $22 million in 1992, $119 million in 1991 and $277 million in 1990. The lower income in 1992 and 1991 primarily resulted from a decline in ARCO's equity earnings in Lyondell. Lyondell's earnings were impacted by lower refining margins, and lower olefins margins and volumes resulting from a weak economic environment and additional petrochemical industry capacity in 1992, compared to 1991. The lower earnings in 1991 associated with Lyondell resulted from reduced operating margins as well as the absence of $45 million after-tax related to dividends received from Lyondell during 1990 in excess of ARCO's equity investment in Lyondell.

Other revenues were $376 million in 1992, compared to $385 million in 1991 and $443 million in 1990. Other revenues in 1992 were comparable to 1991. The 1990 other revenues included the offshore accident settlement and the gain from the Norwegian oil and gas assets sale. The 1991 other revenues included net foreign currency transaction gains versus losses in 1990.

Expenses

Trade purchases were $7.3 billion in 1992, $7.0 billion in 1991 and $6.8 billion in 1990. The trade purchases increase in 1992, compared to 1991, related primarily to higher crude oil trading volumes, partially offset by lower crude oil prices. The trade purchases increase in 1991, compared to 1990, reflected higher crude oil trading volumes which were partially offset by lower crude oil feed stock prices and also included higher purchased volumes of finished refined products and chemical feedstocks.

Operating expenses were $3.2 billion in 1992, $3.1 billion in 1991 and $3.5 billion in 1990. In 1992, lower operating costs in the Corporation's oil and gas operations were offset by higher operating costs in the Corporation's chemical operations. In 1990, operating expenses were higher than in 1991 because they included charges for tax and royalty settlements and higher charges for future environmental remediation. However, operating expenses in 1991, compared to 1990, included higher operating costs associated with oil and gas properties purchased in California and increased production in the United Kingdom.

Exploration expenses were $586 million in 1992, $593 million in 1991 and $651 million in 1990. The decreased expenses in 1992 and 1991 reflected the lower activity level in the Lower 48, partially offset by increased activity in Alaska and overseas.

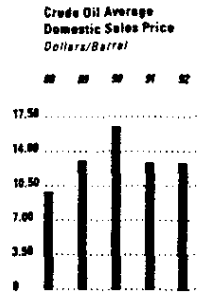
Selling, general and administrative expenses were $1.7 billion in 1992, $1.8 billion in 1991 and $1.6 billion in 1990. The decrease in expenses in 1992, compared to 1991, primarily reflects lower insurance and pension costs. Increased expenses in 1991, compared to 1990, primarily resulted from higher insurance costs.

Taxes other than excise and income taxes were $1.2 billion in 1992, $1.1 billion in 1991 and $1.3 billion in 1990. The increase in 1992 taxes primarily resulted from an increase in the Brazilian value-added tax rate. 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.

Excise taxes were $1.2 billion in 1992, $1.1 billion in 1991 and $.8 billion in 1990. The increase in 1992, compared to 1991, resulted from higher refined product sales volumes and increases in state excise tax rates in certain states in the fourth quarter of 1992. The increase in 1991, compared to 1990, primarily resulted from increases in federal and state excise taxes in 1991 and the full-year effect in 1991 of increased rates in 1990.

Depreciation, depletion and amortization was $1.8 billion in 1992, $1.7 billion in 1991 and $1.6 billion in 1990. The increase in 1992, compared to 1991, included the start-up of

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the new ARCO Chemical propylene oxide/styrene monomer plant in Channelview, Texas and new assets placed in service at the Corporation's two refineries.

Interest expense was $762 million in 1992, $892 million in 1991 and $835 million in 1990. A decline in the weighted average rate on the Corporation's outstanding long-term debt in 1992 is the primary cause of the lower interest expense compared to 1991. The higher interest expense in 1991, compared to 1990, primarily reflects a higher weighted average amount of long-term debt outstanding.

Results of Segment Operations

Oil and Gas

ARCO's worldwide oil and gas exploration and production operations earned $816 million after tax in 1992, up from $549 million in 1991. The 1992 results reflected the effect of lower operating and exploration costs and higher natural gas prices, offset by lower natural gas sales volumes, compared to 1991. The 1992 results included a net benefit of $138 million after tax consisting of gains from the Iranian settlement, and gains from Lower 48 property sales partially offset by charges associated with the downsizing of Lower 48 operations. The 1991 results 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 from the reduction in U.K. corporation tax rates.

ARCO's oil and gas exploration and production operations earned $549 million after tax in 1991, versus $1,364 million in 1990. The effect of lower crude oil prices, lower natural gas prices and volumes, and higher operating costs, partially offset by higher crude oil sales volumes, resulted in the lower earnings for 1991, compared to 1990. The 1990 earnings also included after-tax gains of approximately $185 million as a result of the offshore accident settlement and the sale of ARCO's Norwegian assets.

The Corporation's domestic composite average price for crude oil was $12.92 per barrel in 1992, $12.93 per barrel in 1991 and $16.56 per barrel in 1990. Average domestic natural gas prices were $1.65 per thousand cubic feet in 1992, $1.54 per thousand cubic feet in 1991, and $1.66 per thousand cubic feet in 1990.

The Corporation's worldwide petroleum liquids production averaged 738,200 barrels per day in 1992, 744,200 barrels per day in 1991 and 705,400 barrels per day in 1990. Worldwide production in 1992 benefited from increased international volumes, although this was offset by natural field declines and Lower 48 property divestitures. The worldwide production volumes were higher in 1991 than in 1990 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"), designed to increase production, installed in late 1990 at Prudhoe Bay on Alaska's North Slope.

ARCO's share of production from its largest Alaskan field, Prudhoe Bay, was 270,500 barrels of petroleum liquids per day in 1992, compared to 281,700 barrels per day in 1991 and 276,800 barrels per day in 1990. The decline in 1992, compared to 1991, primarily reflected natural field decline.

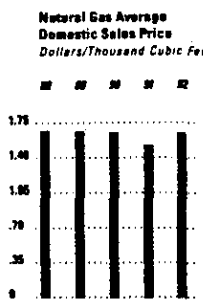
The Corporation's share of petroleum liquids production from the Kuparuk River field increased to 150,800 barrels per day in 1992 from 140,300 barrels per day in 1991 and 138,400 barrels per day in 1990. The increase in 1992, compared to 1991, primarily reflects the completion as of July 1, 1992 of a 24-month production payback of 9,000 barrels per day and improved field operations.

Lower 48 petroleum liquids production was 221,600 barrels per day in 1992, 227,900 barrels per day in 1991 and 204,500 barrels per day in 1990. The decrease in 1992 production was primarily associated with natural field declines and the sale of Lower 48 properties. The increase in 1991 was primarily attributable to the additional leases in the Midway-Sunset field.

Foreign petroleum liquids production averaged 77,700 barrels per day in 1992, 75,700 barrels per day in 1991 and 67,100 barrels per day in 1990. The increase in 1992 production came from ARCO's Indonesian and United Kingdom oil fields. 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.

Domestic natural gas production totaled 1.2 billion cubic feet per day in 1992, 1.4 billion cubic feet per day in 1991 and 1.6 billion cubic feet per day in 1990. The reduced pro-

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duction levels in 1992 primarily resulted from natural field declines and property sales in the Lower 48. The reduced production levels in 1991 reflected primarily natural field declines in the Lower 48.

Foreign natural gas production was 239.7 million cubic feet per day in 1992, 261.2 million cubic feet per day in 1991 and 193.5 million cubic feet per day in 1990. The decline in 1992 production, compared to 1991, reflects natural field decline in the United Kingdom. The increase in 1991 production, compared to 1990, reflects the full year impact of the start up of production in three fields in the United Kingdom in the second half of 1990.

Coal

After-tax earnings from the Corporation's coal operations were $83 million in 1992, $33 million in 1991 and $91 million in 1990. The 1992 earnings reflected the absence of operating losses associated with the Coal Resources of Queensland ("CRQ") mine in Australia, partially offset by lower coal shipments from Black Thunder mine. The Corporation completed the sale of the CRQ mine in January 1993. Included in the 1991 earnings were approximately $50 million in net after-tax charges primarily associated with a writedown of the CRQ mine, partially offset by gains from the sale of Venezuelan and other assets. Total worldwide coal shipments in 1992 were 39.8 million tons compared to 41.6 million tons in 1991 and 38.3 million tons in 1990.

Refining and Marketing

After-tax earnings for refining and marketing operations were $346 million in 1992, $266 million in 1991 and $439 million in 1990. The improved earnings in 1992, compared to 1991, were the result of higher margins and sales volumes in the Corporation's West Coast marketing area. The 1992 results also included a charge of approximately $40 million after tax primarily for environmental costs related to previously divested operations. Earnings were lower in 1991, compared to 1990, 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.

West Coast petroleum products sales totaled 479,500 barrels per day in 1992, 466,400 barrels per day in 1991 and 444,000 barrels per day in 1990. The progressive increase in sales volumes from 1990 resulted from increased market share. The refining and marketing operations met part of this increased sales demand by reselling products not refined by the Corporation.

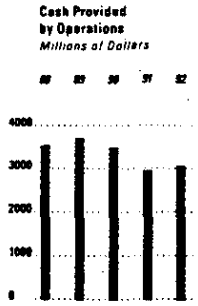
Transportation

After-tax earnings for the transportation operations were $239 million in 1992, $212 million in 1991 and $274 million in 1990. In 1992, improved results from Lower 48 terminal and pipeline operations offset a decline in earnings from the Trans Alaska Pipeline System ("TAPS"). The 1991 earnings included after-tax charges of approximately $30 million for personnel reduction costs and for settlement of the Kuparuk Pipeline tariff rate litigation. The 1991 earnings were lower, compared to 1990, as a result of lower TAPS revenues, as determined by the TAPS Settlement Methodology Agreement, and reduced volumes on the Midcontinent systems. 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 Corporation's intermediate chemicals and specialty products segment were $210 million in 1992, $192 million in 1991 and $271 million in 1990. The segment consists of ARCO Chemical, an 83.4 percent owned subsidiary of the Corporation. The 1992 earnings improved, compared to 1991, as a result of higher sales volumes and margins. Sales volumes for all major product groups, including propylene oxide ("PO") derivatives and methyl tertiary butyl ether ("MTBE"), were higher in 1992 than 1991. The increases in PO and derivatives sales and processing volumes in 1992 reflected a modest improvement in the U.S. economy and overall growth in ARCO Chemical's derivatives businesses. PO margins were higher in 1992 primarily in Europe reflecting a weaker dollar. MTBE sales volumes were higher in 1992 primarily in the U.S. as a result of higher demand from domestic gasoline

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refiners, in response to the ongoing implementation of the Federal Clean Air Act Amendments of 1990. The MTBE margins were higher on average in 1992 in both the U.S. and Europe as a result of lower raw materials costs, partially offset by lower selling prices in Europe. The 1992 results included $56 million before tax for a charge resulting from ARCO Chemical's withdrawal from the YUKONG ARCO Chemical, Ltd., joint venture in South Korea.

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 before tax benefit from business interruption insurance related to the July 1990 Channelview accident and to feedstock contamination at its Bayport, Texas, plant in the fourth quarter of 1990. Also included in 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 before-tax accrual totaling $120 million for business interruption insurance related to the Channelview accident and before-tax 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 $8 million for 1992, $111 million for 1991 and $223 million for 1990. Lyondell's 1992 earnings, compared to 1991, were lower as a result of lower olefins margins and volumes, reduced refining margins in the Gulf Coast and costs associated with a refinery turnaround in the first quarter of 1992. Lyondell's reported 1992 results reflected a charge of $10 million for the cumulative effect associated with the adoption of SFAS No. 106 and SFAS No. 109. Lyondell's 1991 earnings, compared to 1990, were lower as a result of lower ethylene margins, which were partially offset by higher methanol margins. The 1990 results included $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

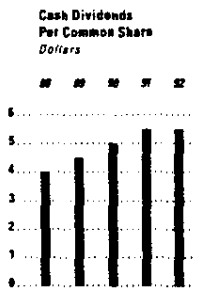
Unallocated expenses and other was a net after-tax benefit of $25 million in 1992 compared to net after-tax expenses of $60 million in 1991 and $410 million in 1990. In 1992 unallocated expenses and other included the recognition of a $111 million after-tax gain representing a previously deferred portion of the gain from the 1989 sale of a majority interest in Lyondell. In addition, the 1992 net investment income was lower. The 1991 unallocated expenses and other included after-tax charges of $34 million for future environmental remediation and 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 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.

Financial Position and Liquidity

Cash flows from operating activities were $3.1 billion in 1992, $3.0 billion in 1991 and $3.5 billion in 1990. The net cash used in investing activities was $2.1 billion in 1992 and primarily included expenditures for additions to fixed assets (including dry hole costs) of $2.3 billion, proceeds from asset sales of $553 million and a net increase in short-term investments of $180 million. The net cash used in financing activities was $716 million in 1992 and primarily included repayments of long-term debt of $834 million, proceeds of $1.1 billion from the issuance of long-term debt and dividend payments of $873 million.

Cash and cash equivalents and short-term investments totaled $2.9 billion at year-end 1992 and short-term borrowings were $1.5 billion. The Corporation's working capital was $700 million higher at the end of 1992 and primarily reflected an increase in short-term investments and a decrease in notes payable outstanding.

The Corporation's 1993 capital spending program includes $2.5 billion for additions to fixed assets. Future capital expenditures remain subject to business conditions affecting the industry, particularly changes in price and demand for crude oil, natural gas and petroleum products. Changes



in the tax laws, the imposition of and changes in federal and state clean air and clean fuel requirements, and other changes in environmental rules and regulations may also affect future capital expenditures.

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

In February 1992, the Corporation sold $250 million of 8¼% debentures due in 2022 and $250 million of 8¾% debentures due in 2032. In March 1992, the Corporation sold $250 million of 8½% debentures due 2012 and completed the sale of $250 million of medium-term notes due in nine months to 30 years from date of issue. These debt securities were issued pursuant to a $1 billion shelf registration statement on Form S-3 (Registration No. 33-44925) filed with the Securities and Exchange Commission in January 1992. The proceeds were used for general corporate purposes.

Environmental Matters

The Corporation is subject to federal, state and local environmental laws and regulations which require the Corporation to remove or mitigate the effect on the environment of the disposal or release of certain chemical, mineral and petroleum substances at various sites. The Corporation 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 Corporation 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 Corporation's liability in proportion to the other responsible parties. As the scope of the Corporation's obligations becomes more clearly defined, there may be changes in these estimated costs, which might result in future charges against the Corporation's earnings.

The Corporation'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 Corporation accrues for its estimated liabilities associated with environmental remediation, including sites as to which no claims have been asserted. During 1992, the Corporation charged to income $188 million before tax for environmental remediation costs and made related payments of $235 million for a net reduction in the environmental reserve of $47 million. At December 31, 1992, such reserve totaled $682 million. Approximately half of the reserve was related to sites associated with the Corporation'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.

Effects of Inflation

While the annual rate of inflation remained moderate during the three- year period ended December 31, 1992, the Corporation continued to experience certain inflationary effects. The Corporation will achieve some benefits by using current, inflated dollars to satisfy its debt obligations and other monetary liabilities, because the Corporation's monetary assets are less than its monetary liabilities at December 31, 1992.

Based on the age of the Corporation's property, plant and equipment, it is estimated that the replacement cost of those assets is greater than the historical cost reflected in the Corporation's financial statements. Accordingly, the Corporation's depreciation, depletion and amortization expense for the three years ended December 31, 1992 would be greater if the expense were stated on a current-cost basis.

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

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CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

A B C D

Millions of dollars, except per share amounts	*For the year ended December 31,* 1992	1991	1990
Revenues			
Sales and other operating revenues (including excise taxes)	$18,668	$18,191	$18,836
Income from equity investments	22	119	277
Interest	182	261	368
Other revenues	376	385	443
	19,248	18,956	19,924
Expenses			
Trade purchases	7,263	7,022	6,759
Operating expenses	3,155	3,078	3,514
Exploration expenses	586	593	651
Selling, general and administrative expenses	1,724	1,763	1,631
Taxes other than excise and income taxes	1,203	1,131	1,303
Excise taxes	1,165	1,120	800
Depreciation, depletion and amortization	1,754	1,694	1,611
Interest	762	892	835
Unusual items	(271)	503	—
	17,341	17,796	17,104
Income before income taxes, minority interest and cumulative effect of changes in accounting principles	1,907	1,160	2,820
Provision for taxes on income	678	420	1,076
Minority interest in earnings of subsidiaries	36	31	56
Income before cumulative effect of changes in accounting principles	1,193	709	1,688
Cumulative effect of changes in accounting principles	(392)	—	323
Net income	$ 801	$ 709	$ 2,011
Earned per Share			
Before cumulative effect of changes in accounting principles	$ 7.39	$ 4.39	$ 10.20
Cumulative effect of changes in accounting principles	(2.43)	—	1.95
Net income per share	$ 4.96	$ 4.39	$ 12.15
Retained Earnings			
Balance, January 1	$ 5,990	$ 6,837	$ 5,636
Net income	801	709	2,011
Cash dividends:			
Preference stocks	(3)	(3)	(3)
Common stock	(870)	(869)	(807)
Cancellation of treasury stock	—	(684)	—
Balance, December 31	$ 5,918	$ 5,990	$ 6,837

See Notes on pages 41 through 51.

CONSOLIDATED BALANCE SHEET

ARCO

Millions of dollars	December 31, 1992	1991
Assets		
Current assets:		
Cash and cash equivalents	$ 1,414	$ 1,228
Short-term investments	1,501	1,321
Accounts receivable	1,511	1,680
Inventories	963	861
Prepaid expenses and other current assets	257	248
Total current assets	5,646	5,338
Investments and long-term receivables:		
Investments accounted for on the equity method	318	428
Other investments and long-term receivables	210	124
	528	552
Fixed assets:		
Property, plant and equipment	31,798	32,273
Less accumulated depreciation, depletion and amortization	14,882	14,721
	16,916	17,552
Deferred charges and other assets	1,166	1,050
Total assets	$24,256	$24,492
Liabilities and Stockholders' Equity		
Current liabilities:		
Notes payable	$ 1,494	$ 1,807
Accounts payable	1,263	1,221
Taxes payable, including excise taxes	267	329
Long-term debt due within one year	676	644
Accrued interest	224	214
Other	897	998
Total current liabilities	4,821	5,213
Long-term debt	6,227	5,989
Deferred income taxes	2,982	3,224
Other deferred liabilities and credits	3,177	2,912
Minority interest	328	322
Stockholders' equity:		
Preference stocks	1	1
Common stock, $2.50 par value; shares issued 160,745,937 (1992), 160,743,361 (1991); shares outstanding 158,922,188 (1992), 157,627,284 (1991)	402	402
Capital in excess of par value of stock	676	688
Retained earnings	5,918	5,990
Treasury stock, at cost	(191)	(325)
Foreign currency translation	(85)	76
Total stockholders' equity	6,721	6,832
Total liabilities and stockholders' equity	$24,256	$24,492

The Corporation follows the successful efforts method of accounting for oil and gas producing activities.
See Notes on pages 41 through 51.

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CONSOLIDATED STATEMENT OF CASH FLOWS

Millions of dollars	*For the year ended December 31.* 1992	1991	1990
Cash flows from operating activities:			
Net income	$ 801	$ 709	$ 2,011
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation, depletion and amortization	1,754	1,694	1,611
Income from equity investments	(22)	(119)	(277)
Dividends from equity investments	111	112	192
Transition obligation for postretirement benefits	697	—	—
Noncash provisions greater (less) than cash payments	(270)	440 [b]	(472)
Net change in deferred taxes	(242)	(216)	33
Dry hole expense and undeveloped leasehold amortization	331	330	412
Net change in accounts receivable, inventories and accounts payable	109	9	(214)
Net change in other working capital accounts	(162)	21	272
Other	(28)[a]	4	(59)
Net cash provided by operating activities	3,079	2,984	3,509
Cash flows from investing activities:			
Additions to fixed assets (including dry hole costs)	(2,278)	(3,239)	(2,718)
Net cash provided (used) by short-term investments	(180)	608	(93)
Proceeds from asset sales	553	117	338
Investments and long-term receivables	(93)	(205)	(13)
Other	(117)	28	(74)
Net cash used by investing activities	(2,115)	(2,691)	(2,560)
Cash flows from financing activities:			
Repayments of long-term debt	(834)	(957)	(810)
Proceeds from issuance of long-term debt	1,112	1,079	1,062
Net cash provided (used) by notes payable	(199)	873	277
Dividends paid	(873)	(872)	(810)
Treasury stock purchases	—	(204)	(704)
Treasury stock contributed to benefit plans	110	—	—
Other	(32)	(31)	(33)
Net cash used by financing activities	(716)	(112)	(1,018)
Effect of exchange rate changes on cash	(62)	(55)	(2)
Net increase (decrease) in cash and cash equivalents	186	126	(71)
Cash and cash equivalents at beginning of year	1,228	1,102	1,173
Cash and cash equivalents at end of year	$ 1,414	$ 1,228	$ 1,102

(a) Includes noncash unusual items of ($149) million.
(b) Includes noncash unusual items of $476 million.
See Notes on pages 41 through 51.

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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, including ARCO Chemical Company (ACC), of which ARCO owned 83.4 percent of the outstanding shares at December 31, 1992. The Corporation also consolidates its interests in undivided interest pipeline companies and in oil and gas and coal mining joint ventures. The Corporation 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 costs 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.

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.

Reclassifications

Certain previously reported amounts have been restated to conform to classifications adopted in 1992.

Note 2 ***Accounting Changes***

Effective January 1, 1992, the Corporation and its subsidiaries implemented on the immediate recognition basis 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. The Corporation's previous policy was to expense these costs when incurred (pay-as-you-go).

The cumulative effect of adopting SFAS No. 106 as of January 1, 1992, resulted in a charge of $435 million, or $2.70 per share, to 1992 earnings, net of income tax effects of approximately $262 million.

Effective January 1, 1992, the Corporation adopted SFAS No. 109, "Accounting for Income Taxes." The cumulative effect of the change on 1992 net income was a benefit of $43 million, or $0.27 per share. The effect of adopting SFAS No. 106 and No. 109 on 1992 net income, excluding the cumulative effect, was not material.

Previously the Corporation accounted for income taxes under SFAS No. 96. The Corporation had adopted SFAS No. 96 effective January 1, 1990, which resulted in an increase in 1990 net income of $323 million, or $1.95 per share.

Effective January 1, 1992, the Corporation also adopted SFAS No. 112, "Employers' Accounting for Postemployment Benefits." The standard requires companies to accrue the cost of postemployment benefits either during the years that the employee renders the necessary service or at the date of the event giving rise to the benefit, depending upon whether certain conditions are met. The effect of adoption did not have a material impact on 1992 net income.

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Note 3 ***Unusual Items***

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

In the third quarter of 1991, the Corporation announced a reorganization of its oil and gas operations in the Lower 48 states and a companywide work force reduction. The Corporation provided as unusual items an estimated pretax charge of $308 million for the cost of these programs. The Corporation also provided as unusual items a pretax charge of approximately $215 million for the anticipated loss on the sale of certain Lower 48 oil and gas properties and the writedown of certain coal assets. The net provision related to the above items was $325 million after tax. The estimates were revised in the fourth quarter of 1991, resulting in a pretax benefit of $20 million ($13 million after tax).

Note 4 ***Segment Information***

The Corporation operates primarily in the Resources and Products segments. The Resources segment includes the Corporation'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 and derivatives, tertiary butyl alcohol, methyl tertiary butyl ether and styrene monomer.

Segment information for the years ended December 31, 1992, 1991 and 1990 was as follows:

Millions of dollars	*1992*	*1991*	*1990*
SALES AND OTHER OPERATING REVENUES			
Resources:			
Oil and gas	$ 8,994	$ 9,859	$ 9,425
Coal	583	597	569
Products:			
Refining and marketing	6,461	7,989	8,649
Transportation	900	849	946
Intermediate chemicals and specialty products	3,100	2,990	2,950
Other	24	30	33
Elimination of intersegment amounts	(3,396)	(3,123)	(3,736)
Total	$18,668	$18,191	$18,836

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	*1992*	*1991*	*1990*
Resources:			
Oil and gas	$ 2,833	$ 2,694	$ 3,311
Products:			
Refining and marketing	16	19	25
Transportation	419	346	350
Intermediate chemicals and specialty products	104	41	24
Other	24	23	26
Total	$ 3,396	$ 3,123	$ 3,736

Millions of dollars	*1992*	*1991*	*1990*
PRETAX SEGMENT EARNINGS			
Resources:			
Oil and gas	$ 1,034	$ 841	$ 2,147
Coal	107	25	130
Products:			
Refining and marketing	547	394	806
Transportation	378	333	436
Intermediate chemicals and specialty products	451	377	487
Equity in earnings from Lyondell Petrochemical Company	8	111	250
Unallocated expenses and other	144	(29)	(601)
Interest	(762)	(892)	(835)
Income taxes	(678)	(420)	(1,076)
Minority interest	(36)	(31)	(56)
Cumulative effect of changes in accounting principles	(392)	—	323
Net income	$ 801	$ 709	$ 2,011

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Millions of dollars	1992	1991	1990
AFTER-TAX SEGMENT EARNINGS			
Resources:			
Oil and gas	$ 316	$ 549	$ 1,364
Coal	53	33	91
Products:			
Refining and marketing	146	266	439
Transportation	239	212	274
Intermediate chemicals and specialty products[a]	210	192	271
Equity in earnings from Lyondell Petrochemical Company	8	111	223
Unallocated expenses and other	25	(60)	(410)
Interest	(534)	(594)	(564)
Cumulative effect of changes in accounting principles	(392)	—	323
Net income	$ 401	$ 709	$ 2,011

(a) Net of minority interest of $(32), $(21), and $(51) in 1992, 1991 and 1990, respectively.

Millions of dollars	1992	1991	1990
TOTAL ASSETS			
Resources:			
Oil and gas	$10,362	$11,351	$10,969
Coal	1,411	1,095	929
Products:			
Refining and marketing	2,930	2,732	2,503
Transportation	2,191	2,223	2,162
Intermediate chemicals and specialty products	3,599	3,676	3,739
Other	3,863	3,415	3,562
Total	$24,256	$24,492	$23,864
DEPRECIATION, DEPLETION AND AMORTIZATION			
Resources:			
Oil and gas[a]	$ 1,176	$ 1,203	$ 1,135
Coal	53	46	43
Products:			
Refining and marketing	178	161	144
Transportation	98	94	108
Intermediate chemicals and specialty products	199	164	155
Other	50	26	26
Total	$ 1,754	$ 1,694	$ 1,611

(a) Excludes undeveloped leasehold amortization of $110, $122, and $113, respectively, included in exploration expense.

Millions of dollars	1992	1991	1990
ADDITIONS TO FIXED ASSETS			
Resources:			
Oil and gas	$ 1,249	$ 1,890	$ 1,560
Coal	308	305	109
Products:			
Refining and marketing	315	448	370
Transportation	94	124	103
Intermediate chemicals and specialty products	295	435	539
Other	17	37	37
Total	$ 2,278	$ 3,239	$ 2,718

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

Millions of dollars	1992	1991	1990
FOREIGN OPERATIONS			
Sales and other operating revenues:			
Oil and gas	$ 952	$ 980	$ 719
Coal	282	293	288
Refining and marketing	1,794	1,751	2,052
Intermediate chemicals and specialty products	1,255	1,172	1,146
Other	23	23	26
Elimination of intersegment amounts — oil and gas	—	(11)	(303)
Total	$4,306	$4,208	$3,928
Net income (loss):			
Oil and gas	$ 171[a]	$ 79	$ 76
Coal	41	(16)	34
Refining and marketing	28	57	29
Intermediate chemicals and specialty products[b]	37	22	148
Other	(26)	(38)	(43)
Total	$ 251	$ 104	$ 244
Total assets:			
Oil and gas	$2,415	$2,466	$2,205
Coal	901	693	569
Refining and marketing	301	305	321
Intermediate chemicals and specialty products	1,367	1,731	1,662
Other	233	710	141
Total	$5,417	$5,905	$4,898

(a) Includes gain from settlement on assets nationalized by Iran (Note 3).
(b) Includes earnings (losses) of equity affiliates, principally Asian joint ventures, of $(18), $(22), and $18, in 1992, 1991 and 1990, respectively.

Note 5 *Inventories*

Inventories are recorded when purchased, produced or manufactured and are stated at the lower of cost or market. In 1992, approximately 82 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, 1992 and 1991 comprised the following categories:

Millions of dollars	1992	1991
Crude oil and petroleum products	$283	$209
Chemical products	375	331
Other products	42	33
Materials and supplies	263	288
Total	$963	$861

The excess of the current cost of inventories over book value was approximately $285 million and $304 million at December 31, 1992 and 1991, respectively.

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Note 6 *Taxes*

Taxes other than excise and income taxes for the years ended December 31, 1992, 1991 and 1990 comprised the following:

Millions of dollars	*1992*	*1991*	*1990*
Property	$ 205	$ 206	$ 192
Production/severance	389	406	459
Value added	330	250	296
Other	279	269	356
Total	$1,203	$1,131	$1,303

The components of the provision for taxes on income for the years ended December 31, 1992, 1991 and 1990 were as follows:

Millions of dollars	*1992*	*1991*	*1990*
Federal:			
Current	$292	$355	$ 517
Deferred	198	(66)	277
	490	289	794
Foreign:			
Current	80	104	204
Deferred	17	(36)	(4)
	97	68	200
State:			
Current	42	76	43
Deferred	49	(13)	39
	91	63	82
Total provision for taxes on income	$678	$420	$1,076
Total taxes paid in cash	$675	$776	$ 732

The deferred tax benefit in 1991 primarily resulted from book accruals associated with the reorganization and work force reductions. The deferred tax expense in 1990 was attributed primarily to settlement payments for windfall profit tax and royalty issues.

The major components of net deferred tax liability as of December 31, 1992 and January 1, 1992, were as follows:

Millions of dollars	*December 31, 1992*	*January 1, 1992*
Depreciation, depletion and amortization	$(3,734)	$(3,754)
Other	(306)	(312)
Total deferred tax liabilities	(4,040)	(4,066)
Dismantlement and environmental	474	481
Postretirement benefits	277	262
Foreign operating losses	165	130
Other	244	327
Total deferred tax assets	1,160	1,200
Valuation allowance	(102)	(34)
Net deferred income tax liability	$(2,982)	$(2,900)

The Corporation has foreign loss carryforwards of $515 million which begin expiring in 1993.

The domestic and foreign components of income before income taxes, minority interest and cumulative effect of changes in accounting principles, and a reconciliation of income tax expense with tax at the effective federal statutory rate for the years ended December 31, 1992, 1991 and 1990 were as follows:

Millions of dollars	*Amount*	*Percent of Pretax Income*
1992		
Income before income taxes:		
Domestic	$1,449	76.0
Foreign	458	24.0
Total	$1,907	100.0
Tax at 34%	$ 648	34.0
Increase (reduction) in taxes resulting from:		
Dividend exclusion	12	.6
Taxes on foreign income in excess of statutory rate	25	1.3
State income taxes (net of federal effect)	60	3.2
Other	(67)	(3.5)
Provision for taxes on income	$ 675	35.6
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

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Note 7 *Long-Term Debt*

Long-term debt at December 31, 1992 and 1991 comprised the following:

Millions of dollars	*1992*	*1991*
5¼%, due in 1997	$ 23	$ 27
5.40%, due in 2007	265	265
6.[illegible]%, due in 1996	102	102
7.70%, due in 2000	51	54
7¼%, due in 2003	124	132
8¼%, due in 2022	250	—
8½%, due in 2012	250	—
8¾%, due in 2000	76	92
8¾%, due in 2032	250	—
9%, due in 2021	300	300
9%, due in 2031	150	150
9⅛%, due in 1993	200	200
9¼%, due in 2011	300	300
9¼%, due in 2031	350	350
9⅜%, due in 1993	250	250
9½%, due in 1996	150	150
9⅝%, due in 2016	450	450
10⅛%, due in 2000	250	250
10¼%, due in 1995	300	300
10½%, due in 1995	—	150
10¾%, due in 2005	500	500
Zero-coupon notes, due in 1992	—	494
Third Series Medium-Term Notes	137	137
Medium-Term Notes — A Series	200	200
Medium-Term Notes — B Series	250	—
ARCO Tresop Notes	311	223
ARCO Chemical Company:		
9.35%, due in 2019	123	123
9.375%, due in 2005	100	100
9.8%, due in 2020	224	224
9.9%, due in 2000	200	200
10.25%, due in 2010	100	100
Medium-Term Notes	35	65
French bank loans	117	142
ACNL bank loans	165	175
Capitalized lease obligations	26	26
Other	256	370
Total, including debt due within one year	7,035	6,791
Less:		
Debt due within one year	676	644
Bonds held in sinking fund	132	158
Long-term debt	$6,227	$5,989

Maturities and sinking fund obligations for the five years subsequent to December 31, 1992 are as follows (millions of dollars): 1993 — $676; 1994 — $98; 1995 — $634; 1996 — $183; 1997 — $283.

Note 8 *Bank Credit Facilities and Compensating Balances*

In 1992, the Corporation and certain wholly owned subsidiaries had committed bank credit facilities of approximately $5.2 billion, including a credit facility negotiated on behalf of a subsidiary that is denominated in pounds sterling. At December 31, 1992, 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, 1992, 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 Corporation has no requirements for compensating balances. The Corporation does maintain balances for some of its banking services and products. Such balances are solely at the Corporation's discretion, so that on any given date, none of the Corporation's cash is restricted.

At December 31, 1992, the Corporation had letters of credit outstanding totalling $293 million.

Note 9 *Interest Expense*

Interest expense for the years ended December 31, 1992, 1991 and 1990 was comprised of the following:

Millions of dollars	*1992*	*1991*	*1990*
Long-term debt	$624	$684	$616
Short-term debt	105	92	118
Other	148	195	180
	877	971	914
Capitalized interest	*(115)*	*(79)*	*(79)*
Total interest expense	$762	$892	$835
Total interest paid in cash	$752	$912	$802

Note 10 *Fixed Assets*

Property, plant and equipment, and related accumulated depreciation, depletion and amortization at December 31, 1992 and 1991 were as follows:

Millions of dollars	*1992*	*1991*
Resources:		
Oil and gas	$19,543	$20,705
Coal	1,324	1,129
Products:		
Refining and marketing	3,600	3,320
Transportation	3,346	3,479
Intermediate chemicals and specialty products	3,165	2,968
Other	620	672
	31,798	32,273
Accumulated depreciation, depletion and amortization	14,882	14,721
Total	$16,916	$17,552

Expenses for maintenance and repairs for 1992, 1991 and 1990 were $513 million, $523 million and $519 million, respectively.

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Note 11 ***Other Commitments and Contingencies***

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

At December 31, 1992 and 1991, there were contingent liabilities with respect to guarantees of securities of other issuers of approximately $161 million and $382 million, respectively, of which approximately $45 million and $42 million, respectively, were indemnified.

Claims brought by private parties, certified as a class action, alleging violations of federal pricing regulations in effect from 1973-1981 are pending against the Corporation.

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. ("ATA") 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 ATA), 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. On November 25, 1992, the Alaska federal District Court approved an Agreement and Consent Decree by which Alyeska and its owner companies will pay $2 million to the United States and a total of $29.7 million over the next two years to the State of Alaska in settlement of remaining federal and state civil damage claims.

The Corporation 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 Corporation 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 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 Corporation, 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 Corporation 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 Corporation 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 the 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 Corporation 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 Corporation 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 Corporation does not anticipate that any ultimate liability arising from any of these suits or from any of the proceedings described above, would have a material adverse effect on its consolidated financial position.

The Corporation is subject to other loss contingencies pursuant to federal, state and local environmental laws

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and regulations. These include possible obligations to remove or mitigate the effects on the environment of the disposal or release of certain chemical, mineral and petroleum substances at various sites. The Corporation is currently participating in environmental assessments and cleanups under these laws at 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 facilities, and sites associated with discontinued operations. The Corporation may in the future be involved in additional environmental assessments and cleanups. The amount of such future costs 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 and the determination of the Corporation'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 Corporation. 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 Corporation's consolidated financial position.

The operations and consolidated financial position of the Corporation 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 Corporation vary greatly and are not predictable.

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

Note 12 ***Retirement Plans***

The Corporation 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 Corporation's funding policy is to make annual contributions as required by applicable regulations. The Corporation 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 Corporation funds.

The following table sets forth the plans' funded status and amounts recognized in the Corporation's balance sheet at December 31, 1992 and 1991:

Millions of dollars	*Assets Exceed Accumulated Benefits*	*Accumulated Benefits Exceed Assets*
1992		
Actuarial present value of benefit obligations:		
Vested benefit obligation	$1,626	$ 95
Accumulated benefit obligation	$1,638	$ 95
Projected benefit obligation	$1,828	$ 98
Plan assets at fair value, primarily stocks and bonds	2,443	—
Projected benefit obligation (in excess of) or less than plan assets	615	(98)
Unrecognized net (gain) loss	(178)	4
Prior service cost not yet recognized in net periodic pension cost	143	1
Remaining unrecognized (asset) obligation from January 1, 1986	(376)	10
Adjustment required to recognize minimum liability	—	(4)
Prepaid pension cost (pension liability) recognized in the balance sheet	$ 204	$ (87)
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) loss	(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	$(256)

Pension costs related to Corporation-sponsored plans, on a pretax basis, including amortization of unfunded projected benefit obligations for the years ended December 31, 1992, 1991 and 1990 were as follows:

Millions of dollars	*1992*	*1991*	*1990*
Service cost-benefits earned during the period	$ 51	$ 43	$ 38
Interest cost on projected benefit obligation	133	137	130
Actual return on plan assets	(91)	(370)	127
Net amortization and deferral	(127)	201	(317)
Net periodic pension cost (benefit)	$ (34)	$ 11	$ (22)

In addition to the $11 million pension cost above, in 1991 the Corporation recorded $103 million before tax as

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additional pension expense in connection with the companywide work force reduction in 1991.

The Corporation's assumptions used as of December 31, 1992, 1991 and 1990 in determining the pension cost and pension liability shown above were as follows:

Percent	1992	1991	1990
Discount rate	8.5	8.75	9.5
Rate of salary progression	5.0	5.0	5.0
Long-term rate of return on assets	10.5	9.5	9.5

Note 13 ***Other Postretirement Benefits***

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

The Corporation's current policy is to fund the cost of postretirement health care and life insurance plans on a pay-as-you-go basis. Pursuant to Section 401(h) of the Internal Revenue Code of 1986, excess pension assets totalling $21 million were transferred from the pension plans to health care benefit accounts within the pension plans for reimbursement of 1992 retiree health care benefits.

The following table sets forth the plans' combined postretirement benefit liability as of December 31, 1992:

Millions of dollars	Health Care	Life Insurance	Total
Accumulated postretirement Benefit obligation:			
Retirees	$416	$155	$571
Employees fully eligible	27	8	35
Other active participants	133	32	165
Total	576	195	771
Unrecognized loss	(14)	(4)	(18)
Accrued postretirement benefit cost recognized in the balance sheet	$562	$191	$753

The Corporation charges postretirement benefit costs as accrued, based on actuarial calculations for each plan.

Net annual postretirement benefit costs for 1992 included the following components:

Millions of dollars	Health Care	Life Insurance	Total
Service cost-benefits earned during the period	$12	$ 3	$15
Interest cost on accumulated postretirement benefit obligation	46	15	61
Net postretirement benefit cost	$58	$18	$76

For the years ended December 31, 1991 and 1990, the Corporation recognized postretirement benefit costs as incurred. Accordingly, the amounts recognized as expense in prior years are not comparable.

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

Millions of dollars	December 31, 1992	January 1, 1992
Discount rate	8.5	8.75
Rate of salary progression	5.0	5.0

The weighted average annual assumed rate of increase in the per capita cost of covered benefits (i.e., health care trend rate) for the health plans is 10 percent for 1992 to 1996, 8 percent for 1997 to 2001, and 6 percent thereafter. The effect of a one percentage point increase in the assumed health care cost trend rate would increase the accumulated postretirement benefit obligation as of December 31, 1992, by approximately 7 percent, and the aggregate of the service and interest cost components of net annual postretirement benefit cost by approximately 9 percent.

Note 14 ***Stockholders' Equity***

Detail of the Corporation's capital stock as of December 31, 1992 and 1991 was as follows:

	1992	1991
$3.00 Cumulative convertible preference stock, par $1:		
Shares authorized	94,316	245,714
Shares issued and outstanding	90,377	99,970
Aggregate value in liquidation — (thousands)	$7,230	$7,998
$2.80 Cumulative convertible preference stock, par $1:		
Shares authorized	942,016	4,785,041
Shares issued and outstanding	916,653	986,513
Aggregate value in liquidation — (thousands)	$64,166	$69,056
Common stock, par $2.50:		
Shares authorized	600,000,000	600,000,000
Shares issued	160,745,937	160,743,361
Shares outstanding	158,922,188	157,627,294
Shares held in treasury	1,823,749	3,116,067

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The changes in preference stocks outstanding 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 Corporation for $82 and $70 per share, respectively.

The Corporation 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, 1992 and 1991.

By Board authorization, effective December 31, 1991, the Corporation canceled 7 million shares of common stock held in treasury. As a result of this cancellation, common stock decreased by $17 million, capital in excess of par value of stock decreased by $30 million, and retained earnings decreased by $684 million in 1991.

The balance in the Corporation's common stock at December 31, 1992, and 1991 was $402 million and $419 million at December 31, 1990. The change in 1991 was due to the cancellation of treasury stock.

Detail of changes in the Corporation's treasury stock in 1992, 1991 and 1990 was as follows:

Millions of dollars	
Balance, January 1, 1990	$ 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
Treasury stock contributed to benefit plans	(110)
Conversions	(24)
Balance, December 31, 1992	$ 191

The net decrease in capital in excess of par value of stock in 1992, 1991 and 1990 of $12 million, $52 million and $24 million, respectively, was due primarily to the conversion of preference stock to common stock and the cancellation of treasury stock in 1991.

The Corporation's Certificate of Incorporation contains a provision restricting dividend payments; however, at December 31, 1992, retained earnings were free from such restriction. At December 31, 1992, shares of the Corporation's authorized and unissued common stock were reserved as follows:

Conversions:	
$3.00 Preference stock	614,564
$2.80 Preference stock	2,199,967
Stock option plans	3,926,181
Employee benefit plans	9,974,482
Total	16,715,194

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

Note 15 ***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, 1992, 1991 and 1990 were 161.5 million, 161.7 million and 165.5 million, respectively.

Note 16 ***Stock Options***

Options to purchase shares of the Corporation's common stock have been granted to executives, outside directors and key employees. These options become exercisable in varying installments and expire ten years after the date of grant. Transactions during 1992, 1991 and 1990 were as follows:

Balance, January 1, 1990	1,378,535
Granted	474,610
Canceled or expired	(14,404)
Exercised (average option price per share: $63.80)	(157,608)
Balance, December 31, 1990	1,681,133
Granted	528,686
Canceled or expired	(1,740)
Exercised (average option price per share: $77.67)	(199,988)
Balance, December 31, 1991	2,008,091
Granted	679,457
Exercised (average option price per share: $77.09)	(51,385)
Balance, December 31, 1992	2,636,163
At December 31, 1992:	
Shares exercisable	1,692,575
Shares available for option (842,381 at December 31, 1991)	1,290,018
Average option price per share:	
Shares under option	$100.89
Shares exercisable	$ 96.14

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Note 17 *Supplemental Cash Flow Information*

The following is supplemental cash flow information for the years ended December 31, 1992, 1991 and 1990:

Millions of dollars	*1992*	*1991*	*1990*
Short-term investments:			
Gross maturities	$ 4,796	$ 7,480	$ 7,559
Gross purchases	(4,976)	(6,872)	(7,952)
Net cash provided (used)	$ (180)	$ 608	$ (93)
Notes payable:			
Gross proceeds	$ 7,380	$ 7,877	$ 7,448
Gross repayments	(7,579)	(7,004)	(7,171)
Net cash provided (used)	$ (199)	$ 873	$ 277
Gross noncash provisions charged to income	$ 490	$ 1,003	$ 1,027
Cash payments of previously accrued items[a]	(760)	(563)	(1,499)
Noncash provisions greater (less) than cash payments	$ (270)	$ 440	$ (472)

(a) 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 18 *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, 1992, future minimum rental payments due under leases were as follows:

Millions of dollars	*Capital Leases*	*Operating Leases*
1993	$ 3	$ 164
1994	3	145
1995	3	130
1996	3	109
1997	3	91
Later years	79	390
Total minimum lease payments	94	$1,029
Imputed interest (rates ranging from 9.75% to 14.875%)	68	
Present value of minimum lease payments included in long-term debt	$26	

Minimum future rental income under noncancelable subleases at December 31, 1992 amounted to $116 million.

Operating lease net rental expense for the years ended December 31, 1992, 1991 and 1990 was as follows:

Millions of dollars	*1992*	*1991*	*1990*
Minimum rentals	$206	$197	$206
Contingent rentals	1	1	3
Sublease rental income	(18)	(16)	(15)
Net rental expense	$189	$182	$194

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

Note 19 *Foreign Currency Transaction Gain/Loss*

In 1991, the Corporation 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 net gains of $1 million and $41 million in 1992 and 1991, respectively, which are not comparable to a net loss of $102 million in 1990.

Note 20 *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.

At December 31, 1992, ARCO owned 49.9 percent of Lyondell common stock outstanding and the Corporation accounts for this investment on the equity method. The market value of ARCO's shares of Lyondell common stock, based on the closing quoted market price at December 31, 1992, was $983 million.

Summarized financial information for Lyondell was as follows:

Millions of dollars	*1992*	*1991*	*1990*
Year ended December 31:			
Revenues[a]	$4,805	$5,729	$6,495
Gross profit	$ 233	$ 522	$ 718
Income before income taxes and cumulative effect of accounting changes	$ 35	$ 340	$ 537
Cumulative effect of changes in accounting principles	$ (10)	—	—
Net income	$ 16	$ 222	$ 356
ARCO's equity in net income of Lyondell[b]	$ 8	$ 111	$ 223
Cash dividends received from Lyondell	$ 72	$ 70	$ 164
At December 31:			
Current assets	$ 568	$ 889	
Noncurrent assets	$ 647	$ 590	
Current liabilities	$ 345	$ 514	
Long-term debt	$ 725	$ 554	
Other liabilities	$ 151	$ 289	
Stockholders' (deficit)/equity[c]	$ (6)	$ 122	

(a) Includes $229, $536 and $580 of sales to ARCO in 1992, 1991 and 1990, respectively, which approximated 5%, 8% and 8% 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 $73 of dividends received in 1990 in excess of basis of investment.

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Note 21 ***Financial Instruments; Fair Value and Off-Balance-Sheet Risk***

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

The carrying amount of cash and equivalents, short-term investments and notes payable approximates fair value because of the short maturity of those instruments.

The fair value of other investments and long-term receivables was estimated primarily based on quoted market prices for those or similar investments. At December 31, 1992, the fair value of other investments and long-term receivables approximated carrying value.

The fair value of the Corporation's long-term debt was estimated based on the quoted market prices for the same or similar issues or on the current rates offered to the Corporation for debt of the same remaining maturities. At December 31, 1992, the fair value of long-term debt, including long-term debt due within one year, was $7,570 million.

The fair value of foreign currency forward contracts and derivatives was estimated by obtaining quotes from brokers. Fair value of these instruments at December 31, 1992, approximated carrying value.

At December 31, 1992 and 1991, the Corporation had foreign currency forward contracts and foreign cross-currency contracts outstanding, which mature at various dates, to reduce exposure to foreign currency exchange risk. The aggregate contract value of instruments used to buy U.S. dollars in exchange for Australian dollars was approximately $367 million at December 31, 1992. The aggregate value of instruments used to buy U.S. dollars in exchange for British pound sterling was approximately $45 million at December 31, 1992. The aggregate contract value of instruments used to sell European currencies in exchange for Deutsche marks was approximately $20 million and $27 million at December 31, 1992 and 1991, respectively. Additionally, the Corporation had outstanding foreign currency swaps which mature at various dates through 1994, to sell approximately 187 million French francs for $35 million at December 31, 1992, and 202 million French francs for $37 million at December 31, 1991.

At December 31, 1992 and 1991, approximately $405 million and $500 million, respectively, of the Corporation's long-term debt was denominated in foreign currencies. To reduce the exposure to foreign currency fluctuations, the Corporation 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. At December 31, 1992 and 1991, the Corporation had an outstanding interest rate swap on a seven-year credit agreement in the amount of 150 million Dutch guilders due in March 1997. This effectively changed the debt's floating interest rate to a fixed rate of 9.69 percent through November 1993.

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

Note 22 ***Unaudited Quarterly Results***

Millions of dollars except per share amounts	*1992*	*1991*
Sales and other operating revenues (including excise taxes)		
Quarter ended:		
March 31	$ 4,334	$ 4,705
June 30	4,328	4,264
September 30	4,828	4,386
December 31	4,978	4,836
Total	$18,668	$18,191
Income (loss) before income taxes, minority interest and cumulative effect of changes in accounting principles		
Quarter ended:		
March 31	$ 338	$ 564
June 30	549 [a]	362
September 30	587	(245)[a]
December 31	433 [a]	479 [a]
Total	$ 1,907	$ 1,160
Net income (loss)		
Quarter ended:		
March 31	$ (212)[b]	$ 351
June 30	309 [a]	246
September 30	332	(156)[a]
December 31	372 [a,c]	268 [a]
Total	$ 801	$ 709
Earned per Share		
Quarter ended:		
March 31	$ (1.31)[b]	$ 2.17
June 30	$ 1.91	$ 1.51
September 30	$ 2.06	$ (.99)
December 31	$ 2.30	$ 1.67

(a) See Note 3.
(b) Restated to include cumulative effect of changes in accounting principles of ($392) million, or ($2.43) per share.
(c) Includes $100 million benefit from reduced taxes resulting from adjustments for capital transactions and reversions of previously accrued taxes.

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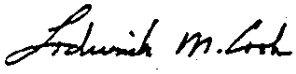
Responsibility for Financial Statements

To the Stockholders of Atlantic Richfield Company (ARCO)

The Corporation'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 Corporation 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 Corporation'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 Corporation maintains a staff of internal auditors who conduct internal control audits as well as special audits, coordinating their activities with the independent accountants.

The Corporation has had an Audit Committee of the Board of Directors for more than 25 years. The Committee currently consists exclusively of directors who are not employees of the Corporation, 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 Corporation'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
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, 1992 and 1991, 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, 1992. 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, 1992 and 1991, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1992, in conformity with generally accepted accounting principles.

As discussed in Note 2 to the consolidated financial statements, the Company changed its method of accounting for income taxes in 1992 and 1990 and for postretirement benefits other than pensions and for postemployment benefits in 1992.

Coopers & Lybrand
Los Angeles, California
February 12, 1993

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Oil and Gas Producing Activities

The Securities and Exchange Commission (SEC) defines proved oil and gas reserves as those estimated quantities of crude oil, natural gas, and natural gas liquids that geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. Proved developed oil and gas reserves are reserves that can be expected to be recovered through existing wells with existing equipment and operating methods.

ARCO reports reserve estimates to various federal government agencies and commissions. These estimates may cover various regions of crude oil and natural gas classifications within the United States and may be subject to mandated definitions. There have been no reports of total Corporation 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 Corporation were as follows:

	Petroleum Liquids (million barrels)		*Natural Gas (billion cubic feet)*	
	Domestic	*Foreign*	*Domestic*	*Foreign*
January 1, 1990:				
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
December 31, 1992:				
Proved reserves	2,517	211	5,185	3,117
Proved developed reserves	1,915	122	4,552	690

The changes in proved reserves for the years ended December 31, 1990, 1991 and 1992 were as follows:

	Petroleum Liquids (million barrels)		*Natural Gas (billion cubic feet)*	
	Domestic	*Foreign*	*Domestic*	*Foreign*
Reserves at January 1, 1990	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
Revisions of estimates	40	22	22	44
Improved recovery	39	—	48	—
Purchases of minerals-in-place	35	—	37	—
Extensions and discoveries	100	29	145	761
Production	(242)	(28)	(440)	(88)
Consumed in production	—	—	(72)	(5)
Sales of minerals-in-place	(97)	(1)	(353)	—
Reserves at December 31, 1992	2,517	211	5,185	3,117

Significant changes to proved oil and gas reserves during 1992 were due to the addition of reserves from the Yacheng gas field in China and the sale of Lower 48 oil and gas properties.

PNYC 00013007

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

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, 1992, 1991 and 1990 were as follows:

	Proved Properties		*Unproved Properties*	
Millions of dollars	*Domestic*	*Foreign*	*Domestic*	*Foreign*
1992				
Gross	$15,212	$3,369	$677	$196
Accumulated depreciation, depletion and amortization	8,821	1,718	77	1
Net	$ 6,391	$1,651	$600	$195
1991				
Gross	$16,700	$3,234	$747	$300
Accumulated depreciation, depletion and amortization	9,232	1,603	112	10
Net	$ 7,468	$1,631	$635	$290
1990				
Gross	$16,140	$2,936	$796	$283
Accumulated depreciation, depletion and amortization	8,859	1,379	93	15
Net	$ 7,281	$1,557	$693	$268

Costs, both capitalized and expensed, incurred in oil and gas producing activities (including operating overhead) during the three years ended December 31, 1992, 1991 and 1990 were as follows:

Millions of dollars	*Domestic*	*Foreign*	*Total*
1992			
Property acquisition costs:			
Proved properties	$ 13	$ 5	$ 18
Unproved properties	$ 41	$ 2	$ 43
Exploration costs	$385	$270	$655
Development costs	$393	$388	$781
1991			
Property acquisition costs:			
Proved properties	$506	$ 53	$563
Unproved properties	$ 50	$ 9	$ 59
Exploration costs	$416	$275	$691
Development costs	$619	$258	$877
1990			
Property acquisition costs:			
Proved properties	$ 39	$ 64	$102
Unproved properties	$113	$ 5	$118
Exploration costs	$483	$232	$715
Development costs	$657	$233	$890

PNYC 00013008

Results of operations from oil and gas producing activities (including operating overhead) for the three years ended December 31, 1992, 1991 and 1990 were as follows:

Millions of dollars	*Domestic*	*Foreign*	*Total*
1992			
Revenues			
Sales	$2,107	$ 803	$2,910
Transfers	1,842	—	1,842
Other	121	41	162
	4,070	844	4,914
Production costs	1,584	291	1,875
Exploration expenses	381	243	624
Depreciation, depletion and amortization	914	236	1,150
Other	170	(129)	41
	1,021	203	1,224
Income tax expense	350	32	382
Results of operations from production activities	$ 671	$ 171	$ 842
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	285	2,153
Exploration expenses	431	241	672
Depreciation, depletion and amortization	941	236	1,177
Other	305	22	327
	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	219	1,845
Exploration expenses	511	250	761
Depreciation, depletion and amortization	895	209	1,104
Other	167	21	188
	1,985	106	2,091
Income tax expense	732	30	762
Results of operations from production activities	$1,253	$ 76	$1,329

The difference between the above results of operations for 1992, 1991 and 1990 and the amounts reported for after-tax oil and gas segment earnings in Note 4 of Notes to Consolidated Financial Statements is primarily marketing-related activities.

The standardized measure of discounted estimated future net cash flows related to proved oil and gas reserves at December 31, 1992, 1991 and 1990 was as follows:

Billions of dollars	*Domestic*	*Foreign*	*Total*
1992			
Future cash inflows	$37.3	$10.9	$48.2
Future development and production costs	20.9	4.4	25.3
Future income tax expense	5.2	2.2	7.4
Future net cash flows	11.2	4.3	15.5
10% annual discount	4.9	2.2	7.1
Standardized measure of discounted future net cash flows	$ 6.3	$ 2.1	$ 8.4
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

Primary changes in the standardized measure of discounted estimated future net cash flows for the years ended December 31, 1992, 1991 and 1990 were as follows:

Billions of dollars	*1992*	*1991*	*1990*
Sales and transfers of oil and gas, net of production costs	$(2.9)	$(2.8)	$(3.8)
Extensions, discoveries and improved recovery, less related costs	1.0	.4	1.3
Revisions of estimates of reserves proved in prior years:			
Quantity estimates	.3	—	.6
Net changes in price and production costs	2.1	(11.5)	6.3
Purchases/Sales	(.4)	.4	—
Other	.5	(1.6)	(.6)
Accretion of discount	1.0	2.1	1.6
Development costs incurred during the period	.8	1.1	.9
Net change in income taxes	(1.0)	4.7	(2.5)
Net change	$ 1.4	$(7.2)	$ 3.8

PNYC 00013009

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 Corporation. 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 Corporation 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 Corporation for the three years ended December 31, 1992, 1991 and 1990 were as follows:

	1992	*1991*	*1990*
Coal shipments – thousand tons:			
Domestic	30,634	32,598	29,437
Foreign	9,158	8,961	8,819
Total	39,792	41,559	38,256
Coal reserves – million tons recoverable:			
Domestic	1,236	876	854
Foreign	232	242	411
Total	1,468	1,118	1,265
Average market price per ton of coal:			
Domestic	$ 9.79	$ 9.20	$ 9.45
Foreign	$30.84	$32.70	$32.70
Composite price	$14.64	$14.27	$14.81

The significant change to reserves in 1992 was due to the acquisition of the West Black Thunder lease acreage.

PNYC 00013010

Millions of dollars, except per share amounts	*1992*	*1991*	*1990*	*1989*	*1988*
Sales and other operating revenues					
Resources:					
Oil and gas	$ 8,994	$ 8,859	$ 9,425	$ 8,138	$ 6,949
Coal	585	597	569	547	435
Products:					
Refining and marketing	8,461	7,989	8,649	6,789	6,138
Transportation	900	849	946	862	931
Intermediate chemicals and specialty products	3,100	2,990	2,950	2,663	2,700
Integrated petrochemical and petroleum processing[a]	—	—	—	—	4,696
Other	24	30	33	55	48
Elimination of intersegment amounts	(3,396)	(3,123)	(3,736)	(3,005)	(3,541)
Total	$18,668	$18,191	$18,836	$16,049	$18,356
Net income					
Resources:					
Oil and gas	$ 816	$ 549	$ 1,364	$ 887	$ 542
Coal	83	33	91	92	79
Products:					
Refining and marketing	346	266	439	291	368
Transportation	239	212	274	266	308
Intermediate chemicals and specialty products	210	192	271	336	400
Integrated petrochemical and petroleum processing[a]	—	—	—	—	529
Equity earnings from Lyondell Petrochemical Company	8	111	223	214	—
Gain on subsidiary stock transaction	—	—	—	634	—
Unallocated expenses and other	25	(60)	(410)	(250)	(104)
Interest	(534)	(594)	(564)	(517)	(539)
Cumulative effect of changes in accounting principles	(392)	—	323	—	—
Net income	$ 801	$ 709	$ 2,011	$ 1,953	$ 1,583
Earned per share[b]	$ 4.96	$ 4.39	$ 12.15	$ 11.26	$ 8.78
Retained earnings	$ 5,918	$ 5,990	$ 6,837	$ 5,636	$ 7,562
Additions to fixed assets					
Resources:					
Oil and gas (including dry hole costs)	$ 1,249	$ 1,890	$ 1,560	$ 1,309	$ 2,555
Coal	308	305	109	148	107
Products:					
Refining and marketing	315	448	370	314	251
Transportation	94	124	103	43	53
Intermediate chemicals and specialty products	295	435	539	262	245
Integrated petrochemical and petroleum processing[a]	—	—	—	—	65
Other	17	37	37	29	28
Total	$ 2,278	$ 3,239	$ 2,718	$ 2,105	$ 3,304

PNYC 00013011

	1992	1991	1990	1989	1988
Oil and Gas					
After-tax oil and gas earnings (millions):					
Alaska	$ 453	$ 413	$ 700	$ 546	$ 382
Lower 48	192	57	588	349	231
Foreign	171	79	76	(8)	(71)
Total	$ 816	$ 549	$1,364	$ 887	$ 542
Crude oil, condensate and NGL production (*thousand barrels/day — net*):					
Domestic:					
Prudhoe Bay	249.0	262.9	263.1	280.5	304.9
Kuparuk	150.8	140.3	138.4	147.1	146.3
Lisburne	11.9	12.8	13.9	12.5	13.6
Other Alaska	4.0	4.3	3.4	4.3	5.2
NGLs	23.2	20.3	15.0	15.0	17.3
Total Alaska	438.9	440.6	433.8	459.4	487.3
Lower 48 — Crude oil	183.6	188.4	168.2	166.2	151.2
— NGLs	38.0	39.5	36.3	34.4	35.7
Total Domestic	660.5	668.5	638.3	660.0	674.2
Foreign:					
Indonesia	44.8	42.5	38.4	47.2	42.4
United Kingdom	16.5	15.2	10.7	9.6	6.8
Dubai	9.7	11.6	12.9	8.1	8.7
Other	2.2	1.2	.6	.9	.6
NGLs	4.5	5.2	4.5	4.3	5.1
Total Foreign	77.7	75.7	67.1	70.1	63.6
Total	738.2	744.2	705.4	730.1	737.8
Natural gas production (million cubic feet/day — net):					
Domestic:					
Onshore	826.9	862.8	939.3	855.0	708.0
Offshore	375.0	536.0	614.3	674.0	681.0
Total Domestic	1,201.9	1,398.8	1,553.6	1,529.0	1,389.0
Foreign:					
United Kingdom	203.4	221.1	155.5	117.9	99.8
Indonesia	13.1	15.3	13.6	14.2	17.5
Netherlands	23.2	24.8	24.4	31.1	29.4
Colombia	—	—	—	6.0	7.4
Total Foreign	239.7	261.2	193.5	169.2	154.1
Total	1,441.6	1,660.0	1,747.1	1,698.2	1,543.1

PNYC 00013012

	1992	1991	1990	1989	1988
Oil and Gas (continued)					
Pretax exploration expense (millions):					
Alaska:					
Dry hole costs	$ 56	$ 28	$ 91	$ 6	$ 8
Undeveloped leasehold amortization	15	16	17	23	24
Geological and geophysical	17	10	20	21	10
Other	24	22	19	19	14
Total Alaska	112	76	147	69	56
Lower 48:					
Dry hole costs	96	118	108	107	82
Undeveloped leasehold amortization	88	89	90	95	90
Geological and geophysical	23	44	44	34	42
Other	82	88	92	76	83
Total Lower 48	289	339	334	312	297
Total Domestic	401	415	481	381	353
Foreign:					
Dry hole costs	69	71	100	50	59
Undeveloped leasehold amortization	7	8	6	6	6
Geological and geophysical	37	21	19	19	25
Other	72	78	45	23	42
Total Foreign[a]	185	178	170	98	132
Total	$ 586	$ 593	$ 651	$ 479	$ 485
Average sales prices:					
Crude oil and condensate (dollars/barrel):					
Alaska	$11.41	$11.23	$14.84	$11.71	$ 8.51
Lower 48	$16.34	$16.72	$20.85	$16.92	$14.20
Composite average	$12.92	$12.93	$16.56	$13.13	$ 9.90
Foreign	$18.17	$18.67	$20.15	$16.25	$14.20
NGLs, lease and plant (dollars/barrel):					
Domestic	$12.44	$12.86	$14.40	$10.38	$ 9.25
Foreign	$12.23	$11.51	$10.89	$ 6.60	$ 7.53
Natural gas (dollars/thousand cubic feet):					
Domestic	$ 1.65	$ 1.54	$ 1.66	$ 1.67	$ 1.68
Foreign	$ 2.96	$ 3.16	$ 3.08	$ 2.71	$ 2.64
Proved oil and gas reserves — net					
Crude oil and NGLs (million barrels):					
Alaska	1,769	1,822	1,966	1,985	2,064
Lower 48	748	820	754	780	765
Foreign	211	189	210	237	264
Total	2,728	2,831	2,930	3,002	3,093
Natural gas (billion cubic feet):					
Alaska	2,284	2,369	2,367	2,486	2,484
Lower 48	2,901	3,429	3,889	3,966	3,889
Foreign	3,117	2,405	1,796	1,206	1,249
Total	8,302	8,203	8,052	7,658	7,622

(a) Includes $41 million, $41 million, $25 million, $23 million and $23 million of costs recovered in 1992, 1991, 1990, 1989 and 1988, respectively, under provisions of production-sharing agreements.

PNYC 00013013

	1992	1991	1990	1989	1988
Oil and Gas (continued)					
Net wells completed:					
Domestic:					
Exploratory — oil	9	8	5	4	6
gas	7	18	22	21	22
dry	70	42	48	41	42
Development — oil	124	265	225	188	271
gas	40	168	137	131	85
dry	19	173*	44	32	36
Foreign:					
Exploratory — oil	6	4	4	2	3
gas	3	2	2	1	—
dry	15	19	18	15	17
Development — oil	16	24	21	22	14
gas	6	5	3	3	—
dry	1	—	1	—	—
Net producing wells:					
oil	7,604	8,372	7,582	8,138	8,418
gas	1,827	1,704	2,009	1,869	1,796
Net acreage (thousand acres):					
Domestic:					
Developed	2,126	2,333	2,379	2,453	2,508
Undeveloped	6,331	6,302	6,144	5,858	5,839
Foreign:					
Developed	81	76	75	69	69
Undeveloped	26,250	29,251	17,319	16,752	16,236
Coal					
Coal shipments (thousand tons):					
Domestic	30,634	32,598	29,437	31,114	26,936
Foreign	9,158	8,961	8,819	8,333	5,511
Total	39,792	41,559	38,256	39,447	32,447
Coal reserves (million tons recoverable):					
Domestic	1,236	876	854	869	877
Foreign	232	242	411	321	306
Total	1,468	1,118	1,265	1,190	1,183
Average market price (dollars/ton):					
Domestic	$ 9.79	$ 9.20	$ 9.45	$ 9.29	$10.60
Foreign	$30.84	$32.70	$32.70	$31.35	$28.87

PNYC 00013014

	1992	1991	1990	1989	1988
Refining and Marketing					
Refinery runs (thousand barrels/day):					
Blended crude oil:					
Los Angeles, California	236.6	230.4	231.4	233.6	224.4
Cherry Point, Washington	188.5	174.5	167.2	167.3	172.5
Total	425.1	404.9	398.6	400.9	396.9
Petroleum product sales volumes, including intersegment sales (thousand barrels/day):					
Domestic:					
Gasoline	240.8	234.5	231.2	223.1	214.8
Distillate fuels	81.8	84.6	78.3	85.4	87.2
Jet fuels	104.9	95.6	88.0	84.3	78.5
Coke	16.0	17.0	14.8	13.3	16.2
Natural gas liquids	18.6	13.9	12.5	12.8	9.8
Other	17.4	20.8	19.2	16.6	12.3
Total Domestic	479.5	466.4	444.0	435.5	418.8
Foreign	92.8	97.0	92.0	93.0	85.1
Total	572.3	563.4	536.0	528.5	503.9
Domestic branded retail outlets	1,641	1,632	1,547	1,700	1,700
Transportation					
Crude pipelines* (miles)	5,500	5,500	5,700	5,700	5,700
Product and petrochemical pipelines* (miles)	2,200	2,700	3,000	3,000	3,000
TAPS throughput (thousand barrels/day)	1,747	1,822	1,789	1,880	2,034
Crude transported* (million barrel miles)	140,900	143,300	144,100	158,500	182,600
Product transported (million barrel miles)	7,200	6,100	8,500	9,500	10,300
Tankers owned or under long-term charter	10	10	10	10	10
Tonnage (thousand tons)	1,500	1,500	1,500	1,500	1,500
Intermediate Chemicals and Specialty Products					
Chemical product sales volumes, including intersegment sales (millions):					
Propylene oxide and derivatives (pounds)	3,055	2,729	2,563	2,586	2,812
TBA and derivatives (gallons)	1,092	996	955	912	917
Styrene monomer and derivatives (pounds)	1,434	1,278	1,098	1,478	1,665
Chemical revenues (millions)	$3,100	$2,990	$2,950	$2,663	$2,700

* *Trunk lines only*

PNYC 00013015

Millions of dollars, except per share amounts	*1992*	*1991*	*1990*	*1989*	*1988*
Other Data					
Dividends:					
Common stock — total	$ 870	$ 869	$ 807	$ 756	$ 700
— per share	$ 5.50	$ 5.50	$ 5.00	$ 4.50	$ 4.00
Total dividends declared	$ 873	$ 872	$ 810	$ 760	$ 704
Common stock:					
Average shares outstanding, including equivalents (millions of shares)	161.5	161.7	165.5	173.4	180.4
Earned per share	$ 4.96	$ 4.39	$ 12.15	$ 11.26	$ 8.78
Book value per share	$ 42.68	$ 42.95	$ 44.82	$ 39.64	$ 35.59
Market price per share — high	121¾	135¾	142¼	114⅜	90⅞
— low	98¼	99⅛	105½	80⅜	67½
— close	114¾	106¾	123⅜	111⅜	80⅝
Stockholders (thousands)	110	116	120	126	158
Employees (thousands):					
Resources:					
Oil and gas	8.3	10.0	10.7	10.5	10.6
Coal	1.7	1.8	1.7	1.6	1.2
Products:					
Refining and marketing	8.7	8.4	8.1	7.7	7.1
Transportation	1.6	1.7	1.8	1.6	1.6
Intermediate chemicals and specialty products	4.1	4.2	4.0	3.6	3.0
Integrated petrochemical and petroleum processing	—	—	—	—	2.0
Other operations	2.4	1.6	1.5	1.9	2.0
Total	26.8	27.7	27.8	26.9	27.5
Payroll expense	$ 1,478	$ 1,449	$ 1,367	$ 1,221	$ 1,164
Financial Data					
Total assets	$24,256	$24,492	$23,864	$22,261	$21,514
Working capital	$ 825	$ 125	$ 1,788	$ 1,977	$ 1,493
Current ratio	1.17	1.02	1.42	1.58	1.46
Long-term debt	$ 6,227	$ 5,989	$ 5,997	$ 5,313	$ 5,400
Stockholders' equity	$ 6,721	$ 6,832	$ 7,149	$ 6,562	$ 6,247
Return on capital employed* – percent	8.0	7.7	15.6	15.3	13.0
Research and Development Expense	$ 89	$ 119	$ 120	$ 95	$ 91

* *Net income plus after-tax interest expense, divided by average long-term debt (including due in one year), deferred taxes and stockholders' equity.*

PNYC 00013016

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President, ARCO Coal Company

Francis X. McCormack
Senior Vice President and General Counsel

William C. Rusnack
Senior Vice President
President, ARCO Transportation Company

William E. Wade, Jr.
Senior Vice President
President, ARCO Oil and Gas Company

Stephen J. Giovanisci
Vice President, Public Affairs

Beverly L. Hamilton
Vice President and Investment Officer
President, ARCO Investment Management Company

Allen C. Holmes
Vice President and General Tax Officer

Marie L. Knowles
Vice President and Controller

William D. Leahe
Vice President, Environmental Protection

Donald A. Murray
Vice President, Human Resources

Dan F. Smith
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 AND DIVIDEND DATA FOR VOTING SECURITIES BY QUARTER

	1992				1991			
	4th	*3rd*	*2nd*	*1st*	*4th*	*3rd*	*2nd*	*1st*
Common Stock:								
Market Price Per Share — High	121 ¼	121 ¼	119 ⅛	112 ⅝	124 ⅛	125 ½	132 ⅞	135 ⅛
Low	105 ⅜	107 ⅛	98 ⅛	98 ⅛	99 ⅛	112	113	113 ⅛
Cash Dividends Per Share	$1.375	$1.375	$1.375	$1.375	$1.375	$1.375	$1.375	$1.375
$3.00 Convertible Preference Stock:								
Market Price Per Share — High	820	740	782	721 ¾	748	824	888	853
Low	714	736 ¾	716 ½	680	679 ½	788	816	800
Cash Dividends Per Share	$ 0.75	$ 0.75	$ 0.75	$ 0.75	$ 0.75	$ 0.75	$ 0.75	$ 0.75
$2.80 Convertible Preference Stock:								
Market Price Per Share — High	287	290 ¾	281 ¼	266 ½	297	300	314	320 ½
Low	252	259 ½	235 ¾	236	240	270	271	271 ½
Cash Dividends Per Share	$ 0.70	$ 0.70	$ 0.70	$ 0.70	$ 0.70	$ 0.70	$ 0.70	$ 0.70

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