FILED PURSUANT TO RULE 424(b)(4)
REGISTRATION NO. 33-53481

35,000,000 EXCHANGEABLE NOTES

ATLANTIC RICHFIELD COMPANY

[LOGO OF ARCO]

9% EXCHANGEABLE NOTES DUE SEPTEMBER 15, 1997
(SUBJECT TO EXCHANGE INTO SHARES OF COMMON STOCK, PAR VALUE $1.00 PER SHARE, OF LYONDELL PETROCHEMICAL COMPANY)

Of the 35,000,000 Exchangeable Notes offered, 30,000,000 Exchangeable Notes are being offered hereby in the United States and 5,000,000 Exchangeable Notes are being offered in a concurrent international offering outside the United States. The initial public offering price and the aggregate underwriting discount per Exchangeable Note will be identical for both offerings. See "Underwriting."

The principal amount of each of the 9% Exchangeable Notes due September 15, 1997 of Atlantic Richfield Company ("ARCO") being offered hereby will be $24.75 (the closing price of the common stock, par value $1.00 per share, of Lyondell Petrochemical Company on August 1, 1994, as reported on the New York Stock Exchange Composite Tape) (the "Initial Price"). The Exchangeable Notes will mature on September 15, 1997. Interest on the Exchangeable Notes, at the rate of 9% of the principal amount per annum, is payable quarterly in arrears on March 15, June 15, September 15 and December 15, beginning September 15, 1994. Exchangeable Notes are not subject to redemption or any sinking fund prior to maturity.

At maturity (including as a result of acceleration or otherwise), the principal amount of each Exchangeable Note will be mandatorily exchanged by ARCO into a number of shares of Lyondell Common Stock (or, at ARCO's option, cash with an equal value) at the Exchange Rate. The Exchange Rate is equal to, subject to certain adjustments, (a) if the Maturity Price per share of Lyondell Common Stock is greater than or equal to $27.72 per share of Lyondell Common Stock (the "Threshold Appreciation Price"), .8929 shares of Lyondell Common Stock per Exchangeable Note, (b) if the Maturity Price is less than the Threshold Appreciation Price but is greater than the Initial Price, a fractional share of Lyondell Common Stock per Exchangeable Note so that the value thereof at the Maturity Price equals the Initial Price and (c) if the Maturity Price is less than or equal to the Initial Price, one share of Lyondell Common Stock per Exchangeable Note. The "Maturity Price" means the average Closing Price per share of Lyondell Common Stock on the 20 Trading Days immediately prior to maturity. Accordingly, holders of the Exchangeable Notes will not necessarily receive an amount equal to the principal amount thereof. The Exchangeable Notes will be unsecured obligations of ARCO ranking pari passu with all of its other unsecured and unsubordinated indebtedness. Lyondell will have no obligations with respect to the Exchangeable Notes. See "Description of the Exchangeable Notes."

Attached hereto as Appendix A and included as part of this Prospectus is a prospectus of Lyondell covering the shares of Lyondell Common Stock which may be received by a holder of Exchangeable Notes at maturity. The Lyondell prospectus relates to an aggregate of 39,921,400 shares of Lyondell Common Stock.

PROSPECTIVE INVESTORS ARE ADVISED TO CONSIDER CAREFULLY THE INFORMATION

CONTAINED UNDER "SPECIAL CONSIDERATIONS RELATING TO EXCHANGEABLE NOTES."

For a discussion of certain United States federal income tax consequences for holders of Exchangeable Notes, see "Certain United States Federal Income Tax Considerations."

The Lyondell Common Stock is listed on the New York Stock Exchange ("NYSE") under the symbol LYO.

The Exchangeable Notes have been approved for listing on the NYSE under the symbol "LYX."

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

<TABLE>
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	PRICE TO PUBLIC (1)	UNDERWRITING DISCOUNT (2)	PROCEEDS TO ARCO (1) (3)
<S>	<C>	<C>	<C>
Per Exchangeable Note....................	$24.75	$0.75	$24.00
Total (4)................................	$866,250,000	$26,250,000	$840,000,000

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(1) Plus accrued interest, if any, from August 8, 1994.
(2) ARCO and the Company have agreed to indemnify the Underwriters against certain liabilities, including liabilities under the Securities Act of 1933.
(3) Before deducting expenses payable by ARCO estimated to be $3,500,000.

(4) ARCO has granted the Underwriters an option, exercisable within 30 days from the date hereof, to purchase up to an additional 4,921,400 Exchangeable Notes at the Price to Public, less Underwriting Discount, for the purpose of covering over-allotments, if any. If the Underwriters exercise such option in full, the total Price to Public, Underwriting Discount, and Proceeds to ARCO will be $988,054,650, $29,941,050 and $958,113,600, respectively. See "Underwriting."

The Exchangeable Notes are offered subject to receipt and acceptance by the U.S. Underwriters, to prior sale and to their right to reject any order in whole or in part and to withdraw, cancel or modify the offer without notice. It is expected that certificates for the Exchangeable Notes will be ready for delivery in New York, New York, on or about August 8, 1994.

GOLDMAN, SACHS & CO.

MERRILL LYNCH & CO.

SALOMON BROTHERS INC

The date of this Prospectus is August 1, 1994.

AVAILABLE INFORMATION

ARCO is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports with the Securities and Exchange Commission (the "Commission"). Reports, proxy statements, and other information filed by ARCO with the Commission pursuant to the informational requirements of the Exchange Act can be inspected and copied at the public reference facilities maintained by the Commission at Room 1024, Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549, Seven World Trade Center, 13th Floor, New York, New York 10048 and Chicago Regional Office, Northwestern Atrium Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661-2511. Copies of such material can also be obtained upon written request addressed to the Securities and Exchange Commission, Public Reference Section, Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549 at prescribed rates. Such reports, proxy statements and other information can also be inspected at the offices of the New York Stock Exchange ("NYSE"), on which one or more of ARCO's securities are listed.

DOCUMENTS INCORPORATED BY REFERENCE

ARCO incorporates herein by this reference the following documents filed pursuant to the Exchange Act, which also have been filed with the Commission (File No. 1-1196):

(a) ARCO's Annual Report on Form 10-K for the year ended December 31, 1993;

(b) ARCO's Current Reports on Form 8-K dated March 28, 1994 and July 25, 1994; and

(c) ARCO's Report on Form 10-Q for the quarterly period ended March 31, 1994.

All documents filed by ARCO pursuant to Sections 13(a), 13(c), 13(d), 14 and 15(d) of the Exchange Act after the date hereof and prior to the termination of the offering of the Exchangeable Notes offered hereby (collectively with the documents referenced above the " '34 Act Reports") shall be deemed to be incorporated by reference herein and to be a part hereof from the date of filing of such documents.

ARCO WILL FURNISH WITHOUT CHARGE TO EACH PERSON, INCLUDING ANY BENEFICIAL OWNER, TO WHOM THIS PROSPECTUS IS DELIVERED, UPON WRITTEN OR ORAL REQUEST OF SUCH PERSON, A COPY OF ANY AND ALL OF THE '34 ACT REPORTS INCORPORATED HEREIN BY REFERENCE (NOT INCLUDING EXHIBITS TO SUCH REPORTS, UNLESS SUCH EXHIBITS ARE SPECIFICALLY INCORPORATED BY REFERENCE INTO SUCH REPORTS) AND ANY OTHER DOCUMENTS SPECIFICALLY IDENTIFIED HEREIN AS INCORPORATED BY REFERENCE INTO THE REGISTRATION STATEMENT TO WHICH THIS PROSPECTUS RELATES, OR INTO ANOTHER '34 ACT REPORT OF ARCO. REQUESTS SHOULD BE ADDRESSED TO: JUNE WORTH, SECURITIES REGULATION COORDINATOR, ATLANTIC RICHFIELD COMPANY, 515 SOUTH FLOWER STREET, LOS ANGELES, CALIFORNIA 90071 (TELEPHONE: 213-486-1450).

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE EXCHANGEABLE NOTES AND THE LYONDELL COMMON STOCK AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH TRANSACTIONS MAY BE EFFECTED ON THE NEW YORK STOCK EXCHANGE OR OTHERWISE. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

SPECIAL CONSIDERATIONS RELATING TO EXCHANGEABLE NOTES

As described in more detail below, the trading price of the Exchangeable Notes may vary considerably prior to maturity (including by acceleration or otherwise, "Maturity") due to, among other things, fluctuations in the price of Lyondell Common Stock and other events that are difficult to predict and beyond ARCO's control.

COMPARISON TO OTHER DEBT SECURITIES; RELATIONSHIP TO LYONDELL COMMON STOCK

The terms of the Exchangeable Notes differ from those of ordinary debt securities in that the amount that a holder of the Exchangeable Notes will receive upon mandatory exchange of the principal amount thereof at Maturity is not fixed, but is based on the price of the Lyondell Common Stock as specified in the Exchange Rate (as defined under "Description of the Exchangeable Notes"). There can be no assurance that such amount receivable by such holder upon exchange at Maturity will be equal to or greater than the principal amount of the Exchangeable Notes. For example, if the Maturity Price of the Lyondell Common Stock is less than the Initial Price, such amount receivable upon exchange will be less than the principal amount paid for the Exchangeable Notes, in which case an investment in Exchangeable Notes may result in a loss.

In addition, the opportunity for equity appreciation afforded by an investment in the Exchangeable Notes is less than the opportunity for equity appreciation afforded by an investment in the Lyondell Common Stock because the amount receivable by holders of the Exchangeable Notes upon exchange at Maturity will only exceed the principal amount of such Exchangeable Notes if the Maturity Price exceeds the Threshold Appreciation Price (which represents an appreciation of 12% of the Initial Price). Holders of the Exchangeable Notes will only be entitled to receive upon exchange at Maturity 89.29% of any appreciation of the value of Lyondell Common Stock in excess of the Threshold Appreciation Price. Because the price of the Lyondell Common Stock is subject to market fluctuations, the value of the Lyondell Common Stock (or, at the option of the Company, the amount of cash) received by a holder of Exchangeable Notes upon exchange at Maturity, determined as described herein, may be more or less than the principal amount of the Exchangeable Notes.

It is impossible to predict whether the price of Lyondell Common Stock will rise or fall. Trading prices of Lyondell Common Stock will be influenced by Lyondell's operational results and by complex and interrelated political, economic, financial and other factors that can affect the commodity petrochemical and refining markets generally. See the prospectus relating to Lyondell and to Lyondell Common Stock attached hereto as Appendix A and included as part of this Prospectus.

DILUTION OF LYONDELL COMMON STOCK

The amount that holders of the Exchangeable Notes are entitled to receive upon the mandatory exchange at Maturity is subject to adjustment for certain events arising from stock splits and combinations, stock dividends and certain other actions of Lyondell that modify its capital structure. See "Description of the Exchangeable Notes--Dilution Adjustments." Moreover, the amount to be received by Note holders upon exchange at Maturity may not be adjusted for other events, such as offerings of Lyondell Common Stock for cash or in connection with acquisitions, that may adversely affect the price of the Lyondell Common Stock and, because of the relationship of such amount to be received upon exchange to the price of Lyondell Common Stock, such other events may adversely affect the trading price of the Exchangeable Notes. There can be no assurance that Lyondell will not make offerings of Lyondell Common Stock or take such other action in the future or as to the amount of such offerings, if any. In addition, until such time as ARCO shall deliver shares of Lyondell Common Stock to holders of the Exchangeable Notes at Maturity thereof (in the event ARCO does not exercise its option to deliver cash), holders of the Exchangeable Notes will not be entitled to any rights with respect to the Lyondell Common Stock (including without limitation voting rights and the rights to receive any dividends or other distributions in respect thereof).

POSSIBLE ILLIQUIDITY OF THE SECONDARY MARKET

It is not possible to predict how the Exchangeable Notes will trade in the secondary market or whether such market will be liquid or illiquid. Exchangeable Notes are novel and innovative securities and there is currently no secondary market for the Exchangeable Notes. The Underwriters currently intend, but are not obligated, to make a market in the Exchangeable Notes. There can be no assurance that a secondary market will develop or, if a secondary market does develop, that it will provide the holders of the Exchangeable Notes with liquidity of investment or that it will continue for the life of the Exchangeable Notes.

The Exchangeable Notes have been approved for listing on the NYSE. However, there can be no assurance that the Exchangeable Notes will not later be delisted or that trading in the Exchangeable Notes on the NYSE will not be suspended. In the event of a delisting or suspension of trading on such exchange, ARCO will apply for listing of the Exchangeable Notes on another national securities exchange or for quotation on another trading market. If the Exchangeable Notes are not listed or traded on any securities exchange or trading market, or if trading of the Exchangeable Notes is suspended, pricing information for the Exchangeable Notes may be more difficult to obtain, and the liquidity of the Exchangeable Notes may be adversely affected.

NO OBLIGATION ON THE PART OF LYONDELL WITH RESPECT TO THE EXCHANGEABLE NOTES

Lyondell has no obligations with respect to the Exchangeable Notes or amounts to be paid to holders thereof, including any obligation to take the needs of ARCO or of holders of the Exchangeable Notes into consideration for any reason. Lyondell will not receive any of the proceeds of the offering of the Exchangeable Notes made hereby and is not responsible for the determination of the timing of, prices for or quantities of the Exchangeable Notes to be issued or the determination or calculation of the amount to be paid upon mandatory exchange at Maturity.

WITHDRAWAL BY ARCO OF ACTIVE INVOLVEMENT IN LYONDELL

Following consummation of the offering, ARCO currently intends, but is not committed by any agreement or otherwise, to vote its shares of Lyondell Common Stock proportionately to the votes cast by the non-ARCO stockholders, including with respect to the election of directors, except under certain circumstances. ARCO has agreed, during the period the Exchangeable Notes are outstanding, to limit certain of its rights as a stockholder of Lyondell, including its right to call a special meeting of stockholders, to take action by written consent, to solicit proxies in respect of the election of directors or certain other matters, and to initiate or solicit proposals by a single entity or group of affiliated entities to acquire all or substantially all of the Lyondell Common Stock or otherwise to acquire Lyondell. ARCO also intends to cause the five ARCO officers who currently serve on Lyondell's Board of Directors to resign following issuance of the Exchangeable Notes; however, ARCO will retain the right to nominate and vote for candidates for Lyondell's Board of Directors. ARCO is not required to retain its shares of Lyondell Common Stock pursuant to the terms of the Exchangeable Notes or otherwise. ARCO remains free to sell all or any portion of its Lyondell Common Stock in a public or private offering intended to result in widespread distribution or pursuant to a tender or exchange offer; subject to the foregoing, ARCO has agreed, during the period the Exchangeable Notes are outstanding, and continuing for a period of one year thereafter, not to sell all or any portion of its Lyondell Common Stock to a single entity or group of affiliated entities in a private transaction without the approval of Lyondell's Board of Directors. For all of these reasons, there can be no assurance that ARCO will have any influence over the actions and decisions taken and made by Lyondell following consummation of the offering.

ATLANTIC RICHFIELD COMPANY

Atlantic Richfield Company ("ARCO") was incorporated in 1870 under the laws of Pennsylvania as The Atlantic Refining Company. Atlantic Petroleum Storage Company, a predecessor to The Atlantic Refining Company, began operations in 1866. ARCO's principal executive offices are at 515 South Flower

Street, Los Angeles, California 90071 (Telephone (213) 486-3511). ARCO's present name was adopted subsequent to the merger of Richfield Oil Corporation into The Atlantic Refining Company in 1966. In 1969, Sinclair Oil Corporation was merged into ARCO. In 1977, The Anaconda Company was merged into a wholly owned subsidiary of ARCO and, on December 31, 1981, that subsidiary was merged into ARCO. On May 7, 1985, ARCO was reincorporated in the State of Delaware. Unless indicated otherwise, the term "ARCO" as used herein refers to Atlantic Richfield Company or Atlantic Richfield Company and one or more of its consolidated subsidiaries.

ARCO, including its subsidiaries, constitutes one of the largest integrated enterprises in the petroleum industry, with its principal operations conducted in the United States. ARCO conducts operations in two business segments: resources and products. ARCO also owns a 49.9 percent equity interest in Lyondell, or 39,921,400 shares of Lyondell Common Stock, which operates petrochemical and petroleum processing businesses.

ARCO's resources segment includes the exploration, development and production of petroleum, which includes petroleum liquids (crude oil, condensate and natural gas liquids ("NGLs")) and natural gas, the purchase and sale of petroleum liquids and natural gas, and the mining and sale of coal. The exploration, development and production of all of ARCO's oil and gas interests in the State of Alaska and surrounding offshore waters are conducted through a wholly owned subsidiary, ARCO Alaska, Inc. The exploration, development and production of ARCO's oil and gas interests in foreign countries are conducted through the ARCO International Oil and Gas division. The mining and marketing of coal from surface and underground mines located in the western United States and in Australia are conducted through the ARCO Coal division.

In October 1993, ARCO reorganized the ARCO Oil and Gas division, which operated ARCO's Lower 48 exploration, development, production and marketing activities. The cornerstone of ARCO's program to reorganize its Lower 48 operations is Vastar Resources, Inc. ("Vastar"), which on a stand alone basis is one of the largest independent (non-integrated) oil and gas companies in the United States. On July 5, 1994, Vastar consummated the sale of 17,250,000 shares of its Common Stock to the public at an initial offering price of $28 per share. ARCO currently owns 80,000,001 shares of Vastar's Common Stock, which represents 82.3% of Vastar's outstanding Common Stock. Net proceeds to Vastar were $457 million. Vastar is engaged in the exploration for and the development and production of natural gas and, to a lesser extent, crude oil in selected major producing basins in the Gulf of Mexico, the Gulf Coast, the San Juan Basin and the Mid-Continent areas. ARCO conducts its other operations in the Lower 48 through its ARCO Permian business unit, which exploits long-lived producing fields in the Permian and East Texas basins; its ARCO Western Energy business unit, which focuses on oil production primarily from five producing oil fields in California and related cogeneration operations; and ARCO Long Beach Inc., a wholly-owned subsidiary, which manages the optimized waterflood program for the Long Beach unit of the Wilmington Field pursuant to a contractual arrangement with the State of California and the City of Long Beach.

ARCO's products segment includes the refining and transportation of petroleum and petroleum products, the marketing of petroleum products on the West Coast and the manufacture and sale of intermediate chemicals and specialty products. The ARCO Products division is a refiner and marketer of refined petroleum products on the West Coast. ARCO Chemical Company, a subsidiary of which ARCO owns 83.3 percent ("ARCO Chemical"), produces and markets on a worldwide basis certain intermediate chemicals and specialty products, including propylene oxide and its derivatives, tertiary butyl alcohol and its derivatives, and styrene monomer and its derivatives. The ARCO Transportation division operates domestic facilities for the transportation and storage of petroleum liquids, refined petroleum products, petrochemicals and natural gas.

USE OF PROCEEDS

Proceeds to be received from the sale of the Exchangeable Notes offered hereby will be used, together with internally generated funds, for general corporate purposes, including capital expenditures and retirement of indebtedness. Pending ultimate application, the proceeds from the sale of the Exchangeable Notes will be invested in marketable securities.

LYONDELL PETROCHEMICAL COMPANY

ARCO owns a 49.9 percent equity interest in Lyondell, or 39,921,400 shares of Lyondell Common Stock, which is accounted for on the equity method. Prior to 1989, Lyondell was first a division and then a wholly-owned subsidiary of ARCO.

Lyondell is a manufacturer and marketer of petrochemicals and, through its interest in LYONDELL-CITGO Refining Company Ltd. ("LCR"), a manufacturer of refined petroleum products. Lyondell produces a wide variety of petrochemicals, including olefins (primarily ethylene, propylene and butadiene), polyolefins (low density polyethylene and polypropylene), methanol, MTBE (methyl tertiary butyl ether) and aromatics. Lyondell's refining business is conducted through its approximate 90 percent interest in LCR, which operates a 265,000 barrels per day refinery (the "Refinery"). LCR sells the majority of the gasoline, jet fuel and heating oil it produces to CITGO Petroleum Corporation ("CITGO"), which currently has an approximate 10 percent interest in LCR.

For the year ended December 31, 1993, Lyondell recorded total revenues of approximately $263 million from sales of petrochemical products to ARCO Chemical. Lyondell also provides certain plant services at facilities owned by ARCO Chemical on Lyondell property. ARCO Chemical in turn provides certain feedstocks and supplies to Lyondell. Lyondell historically purchased a portion of its crude oil, natural gas and NGLs requirements from ARCO. Lyondell currently purchases certain of these requirements from ARCO's Lower 48 business units under short-term contracts and/or on the spot market at prices based on prevailing market prices. In addition, Lyondell and ARCO have entered into a services agreement and various leases, technology transfers and licenses and other arrangements. Lyondell has various lease agreements with ARCO Pipe Line Company ("APL"), including one relating to APL's private pipeline systems. During 1993, Lyondell paid ARCO and its consolidated subsidiaries an aggregate of $73 million under these agreements, arrangements and transactions and received an aggregate of $278 million, including sales to ARCO Chemical.

In July 1993, Lyondell and CITGO, a subsidiary of Petroleos de Venezuela, S.A. ("PDVSA"), the Venezuelan national oil company, created LCR, a jointly owned Texas limited liability company that owns and operates Lyondell's refining business. Lyondell contributed its refining assets (including the lube oil blending and packaging plant in Birmingport, Alabama) and refining working capital to LCR. CITGO contributed $100 million to LCR in 1993 (excluding its contribution towards the upgrade project described below) giving it an approximate 10 percent interest in LCR. Prior to the in-service date for the upgrade project, CITGO is required to reinvest its share of LCR's operating cash flow and thereby increase its interest in LCR. LCR is undertaking a major upgrade project at the Refinery to enable the facility to process substantial additional volumes of very heavy crude oil. The upgrade project, which is subject to regulatory approvals and the resolution of certain other matters, is intended to increase the heavy crude oil processing capability of the Refinery from approximately 130,000 barrels per day of 22 degree API gravity crude oil to approximately 200,000 barrels per day of 17 degree API gravity Venezuelan crude oil in a full conversion mode. The upgrade is not intended to increase the total throughput of the Refinery, but rather its ability to process heavier crude oil. The cost of the upgrade project, based on the detailed engineering completed to date, currently is estimated to be approximately $830 million. In addition, LCR has estimated a 15 percent ($125 million) allowance for contingency costs, which would increase the total project cost estimate to approximately $955 million. Completion of the upgrade project is anticipated in late 1996 or early 1997.

CITGO is required to fund the first phase ($300 million) of the upgrade project. The second phase is expected to be funded through an LCR borrowing and the third phase is anticipated to be funded: (i) 50 percent through an LCR borrowing, (ii) 25 percent through CITGO contributions and (iii) 25 percent through subordinated loans of Lyondell.

The timing of the third phase and the level of contributions from Lyondell and CITGO will depend on the total cost of the upgrade project and/or LCR's ability to obtain construction financing. In the event that LCR is unable to obtain construction financing for the refinery upgrade project, Lyondell and CITGO each are obligated to fund one-half of the cost of the upgrade project in excess of $300 million.

In exchange for CITGO's upgrade project contributions described above, the reinvestment of its share of cash flows and an additional $30 million cash contribution at the in-service date, CITGO's interest in LCR is expected to increase to approximately 40 percent effective as of the in-service date. CITGO will have a one-time option to increase its interest in LCR up to 50 percent during the 20-month period following the in-service date. In addition, in 1993 an affiliate of PDVSA entered into a 25-year contract to supply and LCR to purchase specified quantities of heavy crude oil. At the same time, CITGO entered into a long-term Products Agreement with LCR to purchase at market-based prices the full volume of gasoline, jet fuel and heating oil manufactured at the Refinery following the expiration of one contract retained by Lyondell. The upgrade project also will expand the Refinery's ability to produce low-sulfur diesel and reformulated fuel.

For additional information about Lyondell, see the Lyondell Prospectus attached hereto as Appendix A. A copy of Lyondell's 1993 Annual Report to Stockholders and 1993 Annual Report on Form 10-K can be obtained by writing to Investor Relations, Lyondell Petrochemical Company, One Houston Center, 1221 McKinney Street, Houston, Texas 77010. Lyondell's telephone number is (713) 652-7200.

RELATIONSHIP BETWEEN ARCO AND LYONDELL

ARCO, which prior to January 1989 owned 100 percent of the outstanding Lyondell Common Stock, presently owns for its own account approximately 49.9 percent (39,921,400 shares) of the outstanding Lyondell Common Stock. Five of the eleven directors of Lyondell are officers of ARCO. In addition, ARCO and Lyondell have entered into various intercompany transactions and arrangements. See "Relationship with ARCO" in the Lyondell prospectus attached hereto as Appendix A.

Lyondell is operated and managed as a corporation independent from ARCO. ARCO has agreed, during the period the Exchangeable Notes are outstanding, to limit certain of its rights as a stockholder of Lyondell, including its rights to call a special meeting of stockholders, to take action by written consent, to solicit proxies in respect of the election of directors or certain other matters, and to initiate or solicit proposals by a single entity or group of affiliated entities to acquire all or substantially all of the Lyondell Common Stock or otherwise to acquire Lyondell. Following consummation of the offering, ARCO currently intends, but is not committed by any agreement or otherwise, to vote its shares of Lyondell Common Stock proportionately to the votes cast by the non-ARCO stockholders, including with respect to the election of directors; provided, that in the event (i) a person or group of persons other than ARCO are deemed to own more than 10 percent of the Lyondell Common Stock within the meaning of Section 13(d) of the Securities and Exchange Act of 1934 (the "Exchange Act"), and (ii) there occurs a contested proxy solicitation within the meaning of Rule 14a-11(a) of the Exchange Act, ARCO intends to vote its shares in the manner it deems appropriate. Also following consummation of the offering, ARCO intends to cause the ARCO officers who currently serve on Lyondell's Board of Directors to resign; however, ARCO will retain the right to nominate and vote for candidates for Lyondell's Board of Directors.

ARCO is not required to retain its present holdings of shares of Lyondell Common Stock pursuant to the terms of the Exchangeable Notes or otherwise. ARCO and Lyondell are entering into a Registration Rights Agreement (the "Registration Rights Agreement") pursuant to which Lyondell is registering on Form S-3 (the "Lyondell S-3") the Lyondell Common Stock deliverable, at ARCO's option, upon maturity of the Exchangeable Notes. ARCO will pay all of Lyondell's costs and expenses in respect of the Lyondell S-3. In addition, Lyondell will grant ARCO certain further registration rights. ARCO remains free to sell all or any portion of its Lyondell Common Stock in a public or private offering intended to result in widespread distribution or pursuant to a tender or exchange offer; subject to the foregoing, ARCO has also agreed, during the period the Exchangeable Notes are outstanding, and continuing for a period of one year thereafter, not to sell all or any portion of its Lyondell Common Stock to a single entity or group of affiliated entities in a private transaction without the approval of Lyondell's Board of Directors.

Moreover, because ARCO is not required to retain its Lyondell Common Stock and because of all of the agreements described in the preceding three paragraphs, there can be no assurance that ARCO will have any influence over the actions and decisions taken and made by Lyondell.

Lyondell has no obligations with respect to the Exchangeable Notes or amounts to be paid to holders thereof, including any obligation to take the needs of ARCO or of holders of the Exchangeable Notes into consideration for any reason. Lyondell will not receive any of the proceeds of the offering of the Exchangeable Notes made hereby and is not responsible for the determination of the timing of, prices for or quantities of the Exchangeable Notes to be issued or the determination or calculation of the amount to be paid upon mandatory exchange at Maturity.

CAPITALIZATION (UNAUDITED)

The following table sets forth the capitalization of ARCO and its consolidated subsidiaries as of March 31, 1994, and as adjusted for the Exchangeable Notes offered hereby.

<TABLE>
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	ACTUAL	AS ADJUSTED

	(MILLIONS OF DOLLARS)	
Obligations due within one year:		
Notes payable	$ 1,729	$ 1,729
Long-term debt due within one year	159	159
	1,888	1,888
Long-term debt:		
Debentures, notes and other	7,008	7,008
9% Exchangeable Notes offered hereby	--	866
Total notes payable and debt	8,896	9,762
Stockholders' equity:		
Preference stocks	1	1
Common stock	402	402
Capital in excess of par value of stock	656	656
Retained earnings	5,236	5,236
Pension liability adjustment	(29)	(29)
Treasury stock, at cost	(47)	(47)
Foreign currency translation	(116)	(116)
Total stockholders' equity	6,103	6,103
Total capitalization	$14,999	$15,865

At March 31, 1994, ARCO and its consolidated subsidiaries had outstanding notes payable due within one year aggregating approximately $1.7 billion and cash, cash equivalents and short-term investments aggregating approximately $3.6 billion.

Notes, debentures and other long-term debt are stated at their principal amount, except for issues sold at a substantial discount, which are included net of unamortized original issue discount.

SELECTED FINANCIAL DATA

The following table sets forth selected financial information for ARCO:

	THREE MONTHS ENDED MARCH 31, (UNAUDITED)		YEARS ENDED DECEMBER 31, (MILLIONS OF DOLLARS EXCEPT PER SHARE AMOUNTS)				
	1994	1993	1993(1)	1992(2)	1991(3)	1990	1989(4)
Sales and other operating revenues (including excise taxes)	$ 3,800	$ 4,507	$18,487	$18,668	$18,191	$18,836	$16,049
Income before changes in accounting principles	$ 149	$ 260	$ 269	$ 1,193	$ 709	$ 1,688	$ 1,953
Net income	$ 149	$ 260	$ 269	$ 801	$ 709	$ 2,011	$ 1,953
Earned per share before changes in accounting principles	$ .92	$ 1.60	$ 1.66	$ 7.39	$ 4.39	$ 10.20	$ 11.26

Earned per share........	$ .92	$ 1.60	$ 1.66	$ 4.96	$ 4.39	$ 12.15	$ 11.26
Cash dividends per common share..............	$ 1.375	$ 1.375	$ 5.50	$ 5.50	$ 5.50	$ 5.00	$ 4.50
Total assets............	$23,818	$ 23,903	$23,894	$24,256	$24,492	$23,864	$22,261
Long-term debt and capital lease obligations..	$ 7,008	$ 6,216	$ 7,089	$ 6,227	$ 5,989	$ 5,997	$ 5,313

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(1) In 1993, ARCO provided as unusual items a pretax charge of $659 million, $404 million after tax, associated with an announced reorganization of its Lower 48 oil and gas operations.

(2) In 1992, ARCO recognized a pretax benefit of $149 million from a settlement with Iran and a pretax benefit of $178 million related to a portion of the gain from the 1989 sale of a majority interest in Lyondell. ARCO also recognized a pretax charge of $56 million resulting from ARCO Chemical's withdrawal from a joint venture in Korea. The net benefit related to 1992 unusual items was $211 million after tax.

(3) In 1991, ARCO provided as unusual items an estimated pretax charge of $281 million associated with a reorganization of its Lower 48 oil and gas operations and a company-wide workforce reduction. ARCO also provided as unusual items a pretax charge of approximately $222 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 1991 unusual items was $312 million after tax.

(4) Includes after-tax gain of $634 million from the sale of a majority interest in Lyondell.

ARCO's financial statements for the year ended December 31, 1993 are contained in its Annual Report on Form 10-K for such period, incorporated herein by reference.

ARCO cautions against projecting any future results based on present earnings levels because of, among other things, economic uncertainties and the impact of potential government actions.

RATIO OF EARNINGS TO FIXED CHARGES

The following table sets forth the ratio of earnings to fixed charges for ARCO for the three months ended March 31, 1994 and for the five years ended December 31, 1993:

<TABLE>
<CAPTION>

MARCH 31, 1994	1993	1992	1991	1990	1989
<S>	<C>	<C>	<C>	<C>	<C>
2.17	1.69	2.89	2.00	3.71	4.13

</TABLE>

PRICE RANGE OF LYONDELL COMMON STOCK AND DIVIDENDS

The Lyondell Common Stock has been traded on the NYSE since January 18, 1989. The following table sets forth, for the indicated calendar periods, the reported high and low sales prices of the Lyondell Common Stock on the NYSE Composite Tape and the cash dividends per share of Lyondell Common Stock. As of August 1, 1994, there were approximately 3,000 record holders of the Lyondell Common Stock, including The Depository Trust Company which holds shares of

Lyondell Common Stock on behalf of an indeterminate number of beneficial owners.

PERIOD	HIGH	LOW	DIVIDENDS PER SHARE
1992			
First Quarter	$25 3/4	$22 1/8	$0.45
Second Quarter	25 7/8	21 1/8	0.45
Third Quarter	25 5/8	21 3/8	0.45
Fourth Quarter	25 1/2	23 1/8	0.45
1993			
First Quarter	29 1/2	23 3/4	0.45
Second Quarter	26 5/8	19	0.225*
Third Quarter	21 5/8	16 3/4	0.225
Fourth Quarter	21 1/2	18 3/8	0.225
1994			
First Quarter	23 7/8	20 5/8	0.225
Second Quarter	26 7/8	21 1/4	0.225**
Third Quarter (through August 1)	25 3/4	24	

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* On July 23, 1993, Lyondell's Board of Directors decreased the amount of the regular quarterly dividend from $0.45 to $0.225 per share.

** On July 22, 1994, Lyondell's Board of Directors declared a regular quarterly dividend in the amount of $0.225 per share payable on September 15, 1994 to stockholders of record on August 12, 1994.

For a recent sale price of the Lyondell Common Stock, see the cover page of this Prospectus. See also "Price Range of Common Stock and Dividends" in the Lyondell Prospectus attached hereto as Appendix A.

ARCO makes no representation as to the amount of dividends, if any, that Lyondell will pay in the future. In any event, holders of the Exchangeable Notes will not be entitled to receive any dividends that may be payable on the Lyondell Common Stock until such time as ARCO, if it so elects, delivers Lyondell Common Stock at Maturity of the Exchangeable Notes. See "Description of the Exchangeable Notes."

DESCRIPTION OF THE EXCHANGEABLE NOTES

The Exchangeable Notes are one series of Debt Securities (as defined below) to be issued under an indenture dated as of January 1, 1992, between ARCO and The Bank of New York, as trustee, as supplemented by a First Supplemental Indenture dated as of May 1, 1994, between ARCO and The Bank of New York, as trustee (the "Trustee") (as supplemented from time to time, the "Indenture"). All references herein to "Debt Securities" shall refer to debt securities issued under the Indenture. The following summary of certain provisions of the Indenture does not purport to be complete and is qualified in its entirety by reference to the Indenture, a copy of which is filed as an exhibit to the Registration Statement of which this Prospectus is a part. All article and section references appearing herein are to articles and sections of the Indenture, and all capitalized terms have the meanings specified in the Indenture.

GENERAL

The Exchangeable Notes will be unsecured and will rank on a parity with all other unsecured and unsubordinated indebtedness of ARCO. The Indenture does not limit the amount of Debt Securities which may be issued thereunder. (Section 2.01) The aggregate number of Exchangeable Notes to be issued will be 35,000,000, plus such additional number of Exchangeable Notes as may be issued pursuant to the over-allotment option granted by ARCO to the Underwriters (see "Plan of Distribution"). The Exchangeable Notes will mature on September 15, 1997.

Each Exchangeable Note, which will be issued with a principal amount of $24.75, will bear interest at the annual rate of 9% of the principal amount per annum (or $2.2275 per annum) from August 8, 1994, or from the most recent Interest Payment Date to which interest has been paid or provided for until the principal amount thereof exchanged at Maturity pursuant to the terms of the Exchangeable Notes. Interest on the Exchangeable Notes will be payable quarterly in arrears on March 15, June 15, September 15 and December 15, commencing September 15, 1994 (each, an "Interest Payment Date"), to the persons in whose names the Exchangeable Notes are registered at the close of business on the twenty-fifth day of the calendar month immediately preceding such Interest Payment Date; provided, that the record date for the September 15, 1994 Interest Payment Date will be August 12, 1994. Interest on the Exchangeable Notes will be computed on the basis of a 360-day year of twelve 30-day months. If an Interest Payment Date falls on a day that is not a Business Day, the interest payment to be made on such Interest Payment Date will be made on the next succeeding Business Day with the same force and effect as if made on such Interest Payment Date, and no additional interest will accrue as a result of such delayed payment.

At Maturity, the principal amount of each Exchangeable Note will be mandatorily exchanged by ARCO into a number of shares of Lyondell Common Stock at the Exchange Rate (as defined below) or, at ARCO's option, cash with an equal value. Accordingly, holders of the Exchangeable Notes will not necessarily receive an amount equal to the principal amount thereof. The "Exchange Rate" is equal to, subject to adjustment as a result of certain dilution events (see "Dilution Adjustments" below), (a) if the Maturity Price (as defined below) per share of Lyondell Common Stock is greater than or equal to $27.72 per share of Lyondell Common Stock (the "Threshold Appreciation Price"), .8929 shares of Lyondell Common Stock per Exchangeable Note, (b) if the Maturity Price is less than the Threshold Appreciation Price but is greater than the Initial Price, a fractional share of Lyondell Common Stock per Exchangeable Note so that the value thereof (determined at the Maturity Price) is equal to the Initial Price and (c) if the Maturity Price is less than or equal to the Initial Price, one share of Lyondell Common Stock per Exchangeable Note. No fractional shares of Lyondell Common Stock will be issued at Maturity as provided under "Fractional Shares" below. Notwithstanding the foregoing, ARCO may, at its option in lieu of delivering shares of Lyondell Common Stock, deliver cash in an amount equal to the value of such number of shares of Lyondell Common Stock at the Maturity Price. On or prior to August 1, 1997, ARCO will notify the Trustee and The Depository Trust Company and publish a notice in a daily newspaper of national circulation stating whether the principal amount of each Exchangeable Notes will be exchanged for shares of Lyondell Common Stock or cash. If ARCO elects to deliver shares of Lyondell Common Stock, holders of the Exchangeable Notes will be responsible for the payment of any and all brokerage costs upon the subsequent sale of such stock. (Section 16.01)

The "Maturity Price" is defined as the average Closing Price per share of Lyondell Common Stock on the 20 Trading Days immediately prior to Maturity. The "Closing Price" of any security on any date of determination means the closing sale price (or, if no closing price is reported, the last reported sale price) of such security on the NYSE on such date or, if such security is not listed for trading on the NYSE on any such date, as reported in the composite transactions for the principal United States securities exchange on which such security is so listed, or if such security is not so listed on a United States national or regional securities exchange, as reported by the National Association of Securities Dealers, Inc. Automated Quotation System, or, if such security is not so reported, the last quoted bid

price for such security in the over-the-counter market as reported by the National Quotation Bureau or similar organization, or, if such bid price is not available, the market value of such security on such date as determined by a nationally recognized independent investment banking firm retained for this purpose by ARCO. A "Trading Day" is defined as a Business Day on which the security the Closing Price of which is being determined (A) is not suspended from trading on any national or regional securities exchange or association or over-the-counter market at the close of business and (B) has traded at least once on the national or regional securities exchange or association or over-the-counter market that is the primary market for the trading of such security. "Business Day" means any day that is not a Saturday, a Sunday or a day on which the NYSE, banking institutions or trust companies in The City of New York are authorized or obligated by law or executive order to close.

For illustrative purposes only, the following chart shows the number of shares of Lyondell Common Stock or the amount of cash that a holder of Exchangeable Notes would receive for each Exchangeable Note at various Maturity Prices. The table assumes that there will be no adjustments to the Exchange Rate described under "Dilution Adjustments" below. There can be no assurance that the Maturity Price will be within the range set forth below. Given the Issue Price of $24.75 per Exchangeable Note and the Threshold Appreciation Price of $27.72, holders of Exchangeable Notes would receive at Maturity the following number of shares of Lyondell Common Stock or amount of cash (if ARCO elects to pay the Exchangeable Notes in cash):

<TABLE>
<CAPTION>

MATURITY PRICE OF LYONDELL COMMON STOCK	NUMBER OF SHARES OF LYONDELL COMMON STOCK	AMOUNT OF CASH
<S>	<C>	<C>
$22.00	1.0000	$22.00
$24.75	1.0000	$24.75
$26.25	0.9429	$24.75
$27.72	0.8929	$24.75
$29.00	0.8929	$25.89

</TABLE>

Interest on the Exchangeable Notes will be payable, and delivery of Lyondell Common Stock (or, at the option of ARCO, its cash equivalent) in exchange for the Exchangeable Notes at Maturity will be made upon surrender of such Exchangeable Notes, at the office or agency of ARCO maintained for such purposes in the city where the principal corporate trust office of the Trustee is located, which will initially be the principal corporate trust office of the Trustee, provided that payment of interest may be made (subject to collection) at the option of ARCO by check mailed to the persons in whose names the Exchangeable Notes are registered at the close of business on February 25, May 25, August 25 and November 25; provided that the record date for the September 15, 1994 Interest Payment Date will be August 12, 1994. The principal corporate trust office of the Trustee at the date hereof is 101 Barclay Street, New York, New York 10286.

The Exchangeable Notes will be transferable at any time or from time to time. No service charge will be made to the Holder for any such transfer except for any tax or governmental charge incidental thereto.

The Indenture does not contain any restriction on the ability of ARCO to sell, pledge or otherwise convey all or any portion of the Lyondell Common Stock held by it, and no such shares of Lyondell Common Stock will be pledged or otherwise held in escrow for use at Maturity of the Exchangeable Notes. Consequently, in the event of a bankruptcy, insolvency or liquidation of ARCO, the Lyondell Common Stock, if any, owned by ARCO will be subject to the claims of the creditors of ARCO. In addition, as described herein, ARCO will have the option, exercisable in its sole discretion, to satisfy its obligations pursuant to the mandatory exchange for the principal amount of each Exchangeable Note at Maturity by delivering to holders of the Exchangeable Notes either the specified number of shares of Lyondell Common Stock or cash in an amount equal to the value of such number of shares at the Maturity Price. In the event of such a sale, pledge or conveyance, a holder of the Exchangeable Notes

may be more likely to receive cash in lieu of Lyondell Common Stock. As a result, there can be no assurance that ARCO will elect at Maturity to deliver Lyondell Common Stock or, if it so elects, that it will use all or any portion of its current holdings of Lyondell Common Stock to make such delivery. Consequently, holders of the Exchangeable Notes will not be entitled to any rights with respect to the Lyondell Common Stock (including without limitation voting rights and rights to receive any dividends or other distributions in respect thereof) until such time, if any, as ARCO shall have delivered shares of Lyondell Common Stock to holders of the Exchangeable Notes at Maturity thereof.

DILUTION ADJUSTMENTS

The Exchange Rate is subject to adjustment if Lyondell shall (i) pay a stock dividend or make a distribution with respect to Lyondell Common Stock in shares of such stock, (ii) subdivide or split its outstanding shares of Lyondell Common Stock, (iii) combine its outstanding shares of Lyondell Common Stock into a smaller number of shares, (iv) issue by reclassification of its shares of Lyondell Common Stock any shares of common stock of Lyondell, (v) issue rights or warrants to all holders of Lyondell Common Stock entitling them to subscribe for or purchase shares of Lyondell Common Stock at a price per share less than the market price of the Lyondell Common Stock (other than rights to purchase Lyondell Common Stock pursuant to a plan for the reinvestment of dividends or interest) or (vi) pay a dividend or make a distribution to all holders of Lyondell Common Stock of evidences of its indebtedness or other assets (excluding any dividends or distributions referred to in clause (i) above or any cash dividends other than any Extraordinary Cash Dividends) or issue to all holders of Lyondell Common Stock rights or warrants to subscribe for or purchase any of its securities (other than those referred to in clause (v) above). An "Extraordinary Cash Dividend" means, with respect to any one-year period, all cash dividends on the Lyondell Common Stock during such period to the extent such dividends exceed on a per share basis 10% of the average price of the Lyondell Common Stock over such period (less any such dividends for which a prior adjustment to the Exchange Rate was previously made). All adjustments to the Exchange Rate will be calculated to the nearest 1/10,000th of a share of Lyondell Common Stock (or if there is not a nearest 1/10,000th of a share to the next lower 1/10,000th of a share). No adjustment in the Exchange Rate shall be required unless such adjustment would require an increase or decrease of at least one percent therein; provided, however, that any adjustments which by reason of the foregoing are not required to be made shall be carried forward and taken into account in any subsequent adjustment.

In the event of (A) any consolidation or merger of Lyondell, or any surviving entity or subsequent surviving entity of Lyondell (a "Lyondell Successor"), with or into another entity (other than a merger or consolidation in which Lyondell is the continuing corporation and in which the Lyondell Common Stock outstanding immediately prior to the merger or consolidation is not exchanged for cash, securities or other property of Lyondell or another corporation), (B) any sale, transfer, lease or conveyance to another corporation of the property of Lyondell or any Lyondell Successor as an entirety or substantially as an entirety, (C) any statutory exchange of securities of Lyondell or any Lyondell Successor with another corporation (other than in connection with a merger or acquisition) or (D) any liquidation, dissolution or winding up of Lyondell or any Lyondell Successor (any such event, a "Reorganization Event"), the Exchange Rate used to determine the amount payable upon exchange at Maturity for each Exchangeable Note will be adjusted to provide that each holder of Exchangeable Notes will receive at Maturity cash in an amount equal to (a) if the Transaction Value (as defined below) is greater than or equal to the Threshold Appreciation Price, .8929 multiplied by the Transaction Value, (b) if the Transaction Value is less than the Threshold Appreciation Price but greater than the Initial Price, the Initial Price and (c) if the Transaction Value is less than or equal to the Initial Price, the Transaction Value. "Transaction Value" means (i) for any cash received in any such Reorganization Event, the amount of cash received per share of Lyondell Common Stock, (ii) for any property other than cash or securities received in any such Reorganization Event, an amount equal to the market value at Maturity of such property received per share of Lyondell Common Stock as determined by a nationally recognized independent investment banking firm retained for this purpose by ARCO and (iii) for any

securities received in any such Reorganization Event, an amount equal to the average Closing Price per share of such securities on the 20 Trading Days immediately prior to Maturity multiplied by the number of such securities received for each share of Lyondell Common Stock.

Notwithstanding the foregoing, in lieu of delivering cash as provided above, ARCO may at its option deliver an equivalent value of securities or other property received in such Reorganization Event, determined in accordance with clause (ii) or (iii) above, as applicable. If ARCO elects to deliver securities or other property, holders of the Exchangeable Notes will be responsible for the payment of any and all brokerage and other transaction costs upon the sale of such securities or other property. The kind and amount of securities into which the Exchangeable Notes shall be exchangeable after consummation of such transaction shall be subject to adjustment as described in the immediately preceding paragraph following the date of consummation of such transaction.

ARCO is required, within ten Business Days following the occurrence of an event that requires an adjustment to the Exchange Rate (or if ARCO is not aware of such occurrence, as soon as practicable after becoming so aware), to provide written notice to the Trustee of the occurrence of such event and a statement in reasonable detail setting forth the method by which the adjustment to the Exchange Rate was determined and setting forth the revised Exchange Rate. (Section 16.03)

FRACTIONAL SHARES

No fractional shares of Lyondell Common Stock will be issued if ARCO exchanges the Exchangeable Notes for shares of Lyondell Common Stock. In lieu of any fractional share otherwise issuable in respect of all Exchangeable Notes of any holder which are exchanged at Maturity, such holder shall be entitled to receive an amount in cash equal to the value of such fractional share at the Maturity Price. (Section 16.02)

REDEMPTION

The Exchangeable Notes are not subject to redemption prior to Maturity.

TRUSTEE

The Trustee for the Exchangeable Notes is The Bank of New York under the Indenture dated as of January 1, 1992 between ARCO and The Bank of New York, as amended by the First Supplemental Indenture dated as of May 1, 1994.

LIMITATION ON LIENS

ARCO agrees that neither it nor any Restricted Subsidiary will issue, assume or guarantee any notes, bonds, debentures or other similar evidences of indebtedness for money borrowed ("Debt") secured by a mortgage, lien, pledge or other encumbrance ("Mortgages") upon any Restricted Property without effectively providing that the Debt Securities (together with, if ARCO so determines, any other indebtedness or obligation then existing or thereafter created ranking equally with the Debt Securities) shall be secured equally and ratably with (or prior to) such Debt so long as such Debt shall be so secured, except that this restriction will not apply to: (a) Mortgages affecting property of a corporation existing at the time it becomes a Subsidiary or at the time it is merged into or consolidated with ARCO or a Subsidiary; (b) Mortgages on property existing at the time of acquisition thereof or incurred to secure payment of the purchase price thereof or to secure Debt incurred prior to, at the time of, or within 24 months after the acquisition for the purpose of financing all or part of the purchase price; (c) Mortgages on property to secure all or part of the cost of exploration, drilling or development thereof or the cost of improvement of property which, in the opinion of the Board of Directors, is substantially unimproved for the use intended by ARCO or to secure Debt incurred to provide funds for any such

purpose; (d) Mortgages which secure only indebtedness owing by a Subsidiary to ARCO or to a Subsidiary; (e) certain Mortgages to government entities, including pollution control or industrial revenue bond financing; and (f) any extension, renewal or replacement of any Mortgage referred to in the foregoing clauses (a) through (e). Notwithstanding the foregoing, ARCO and any one or more Restricted Subsidiaries may, without securing the Debt Securities, issue, assume or guarantee Debt which would otherwise be subject to the foregoing restrictions in an aggregate principal amount which, together with all other such Debt of ARCO and its Restricted Subsidiaries and the aggregate Value of Sale and Lease-Back Transactions (other than those in connection with which ARCO has voluntarily retired Funded Debt) does not at any one time exceed 10% of Consolidated Net Tangible Assets of ARCO and its consolidated Subsidiaries. The following types of transactions shall not be deemed to create Debt secured by Mortgage: (1) the sale or other transfer of oil, gas or other minerals in place for a period of time until, or in an amount such that, the transferee will realize therefrom a specified amount (however determined) of money or such minerals, or the sale or other transfer of any other interest in property of the character commonly referred to as a production payment; and (2) Mortgages required by any contract or statute in order to permit ARCO or a Subsidiary to perform any contract or subcontract made by it with or at the request of the United States, any State or any department, agency or instrumentality of either. (Sections 5.03 and 5.04)

The term Restricted Property means any of ARCO's or a Subsidiary's oil or gas producing properties or refining or manufacturing plants (other than such determined by the Board of Directors not to be a principal plant) located in the continental United States, and any shares of capital stock or indebtedness of a Restricted Subsidiary. The term Restricted Subsidiary means any Subsidiary which owns Restricted Property unless substantially all such Subsidiary's physical properties are located outside the continental United States. The term Subsidiary will be defined to mean any corporation at least a majority of the outstanding securities of which having ordinary voting power to elect a majority of the board of directors of such corporation is at the time owned or controlled directly or indirectly by ARCO or one or more Subsidiaries. The term Consolidated Net Tangible Assets means the total amount of assets (less applicable reserves and other properly deductible items) after deducting therefrom (i) all current liabilities (excluding any thereof which are by their terms extendible or renewable at the option of the obligor thereon to a time more than 12 months after the time as of which the amount thereof is being computed), and (ii) all goodwill, trade names, trademarks, patents, unamortized debt discount and expense and other like intangible assets, all as set forth on the most recent balance sheet of ARCO and its consolidated Subsidiaries and computed in accordance with generally accepted accounting principles. (Article One)

ARCO agrees that, if, upon any consolidation or merger of ARCO with or into any other corporation, or upon any sale or conveyance of all or substantially all of its property to any other corporation, any of the property of ARCO or of any Restricted Subsidiary would thereupon become subject to any mortgage, lien or pledge, ARCO will first secure the Debt Securities equally and ratably with any other obligations of ARCO or any Restricted Subsidiary then entitled thereto, by a direct lien on all such property prior to all liens other than any theretofore existing thereon. (Section 12.02)

LIMITATION ON SALE AND LEASE-BACK

ARCO agrees that neither it nor any Restricted Subsidiary will enter into any Sale and Lease-Back Transaction with respect to any Restricted Property with any person (other than ARCO or a Subsidiary) unless either (a) ARCO or such Restricted Subsidiary would be entitled, pursuant to the above provisions, to incur Debt in a principal amount equal to or exceeding the Value of such Sale and Lease-Back Transaction secured by a Mortgage on the property to be leased without equally and ratably securing the Debt Securities, or (b) ARCO during or immediately after the expiration of four months after the effective date of such transaction applies to the voluntary retirement of its Funded Debt an

amount equal to the greater of: (1) the net proceeds of the sale of the property leased in such transaction or (2) the fair value in the opinion of the Board of Directors of the leased property at the time such transaction was entered into (subject to credits for certain voluntary retirements of Funded Debt, including the Debt Securities). (Sections 5.04 and 5.05)

MODIFICATION OF THE INDENTURE

The Indenture contains provisions permitting ARCO and the Trustee, with the consent of the Holders of not less than 50% in principal amount of the Debt Securities of each series affected by the modification or amendment at the time outstanding, to modify the Indenture or any supplemental indenture or the rights of the Holders of the Debt Securities; provided that no such modification shall (a) extend the fixed maturity of any Debt Security, or reduce the rate or extend the time of payment of interest thereon, or reduce the principal amount thereof, or change the method of computing the amount of principal thereof at any date, or change the currency in which the Debt Security is payable, without the consent of the Holder of each Debt Security so affected, or (b) reduce the aforesaid percentage of Debt Securities, the consent of the Holders of which is required for any such modification, without the consent of the Holders of all outstanding Debt Securities of such series so affected. (Section 11.02)

EVENTS OF DEFAULT

The Indenture defines an Event of Default with respect to a particular series of Debt Securities as being any one of the following events and such other event as may be established for the Debt Securities of such series: (a) default for 30 days in any payment of interest on such series; (b) default in any payment of principal, and premium, if any, on such series when due; (c) default for 30 days in the payment of any sinking fund installment when due; (d) default for 90 days after appropriate notice in performance of any other covenant in the Indenture applicable to that series; or (e) certain events in bankruptcy, insolvency or reorganization. No Event of Default with respect to a particular series of Debt Securities issued under the Indenture necessarily constitutes an Event of Default with respect to any other series of Debt Securities issued thereunder. In case an Event of Default shall occur and be continuing with respect to a particular series of Debt Securities, the Trustee or the Holders of not less than 25% in aggregate principal amount of the Debt Securities then outstanding of the series (or, in the case of defaults under (d) or (e), of the Debt Securities of all series) may declare the principal or, in the case of discounted Debt Securities, the amount specified in the terms thereof, of such series (or of all outstanding Debt Securities, as the case may be) to be due and payable. Any Event of Default with respect to a particular series of Debt Securities may be waived by the Holders of a majority in aggregate principal amount of the outstanding Debt Securities of such series (or of the outstanding Debt Securities of all series, in the case of defaults under (d) or (e)), except in each case a failure to pay principal, or premium, if any, or interest on such Debt Security. (Section 7.01)

The Indenture requires ARCO to file annually with the Trustee an Officers' Certificate as to the absence of certain defaults under the terms of the Indenture. (Section 5.08) The Indenture provides that the Trustee may withhold notice to the Holders of the Debt Securities of any default (except in payment of principal, or premium, if any, or interest) if it considers it in the interest of the Holders of the Debt Securities to do so. (Section 7.08)

Subject to the provisions of the Indenture relating to the duties of the Trustee in case an Event of Default shall occur and be continuing, the Indenture provides that the Trustee shall be under no obligation to exercise any of its rights or powers under the Indenture at the request, order or direction of the Holders of the Debt Securities unless such Holders shall have offered to the Trustee reasonable indemnity. (Sections 7.04, 8.01 and 8.02) Subject to such provisions for indemnification and certain other rights of the Trustee, the Indenture provides that the Holders of a majority in principal amount of the outstanding Debt Securities of the particular series affected shall have the right to direct the time,

method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee. (Sections 7.07 and 8.02)

Other than the restrictions on liens and Sale and Lease-Back Transactions described above, the Indenture and the Debt Securities do not contain any covenants or other provisions designed to afford holders of the Debt Securities protection in the event of a highly leveraged transaction involving ARCO or any Subsidiary.

CONCERNING THE TRUSTEE

The Bank of New York, the Trustee, also acts as trustee under other indentures of ARCO and extends credit to ARCO and its subsidiaries in the ordinary course of business.

CERTAIN UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS

The following is a summary of certain United States federal income tax consequences relating to ownership of the Exchangeable Notes. No information is provided herein with respect to foreign, state or local tax laws. This summary is based upon the provisions of the Internal Revenue Code of 1986, as amended (the "Code") and the regulations, rulings and judicial decisions thereunder as of the date hereof, and such authorities may be repealed, revoked or modified so as to result in federal income tax consequences different from those discussed below.

This summary deals only with holders who are initial holders of the Exchangeable Notes and who will hold the Exchangeable Notes as capital assets. It does not address all aspects of United States federal income taxation and does not deal with tax considerations applicable to investors that may be subject to special United States federal income tax treatment, such as dealers in securities or persons holding the Exchangeable Notes as a position in a "straddle" for United States federal income tax purposes or as part of a "synthetic security" or other integrated investment.

As used herein, a "United States Holder" of the Exchangeable Notes means a citizen or resident of the United States, a corporation, partnership or other entity created or organized under the laws of the United States or any political subdivision thereof, an estate or trust the income of which is subject to United States federal income taxation regardless of its source who is the beneficial owner of the Exchangeable Notes. A "Non-United States Holder" is a holder who is not a United States Holder. All references to "holders" (including United States Holders and Non-United States Holders) are to beneficial owners of the Exchangeable Notes.

No statutory, judicial or administrative authority directly addresses the characterization of the Exchangeable Notes or instruments similar to the Exchangeable Notes for United States federal income tax purposes. As a result, significant aspects of the United States federal income tax consequences of an investment in the Exchangeable Notes are not certain. No ruling is being requested from the Internal Revenue Service (the "IRS") with respect to the Exchangeable Notes and no assurance can be given that the IRS will agree with the conclusions expressed herein. ACCORDINGLY, PROSPECTIVE INVESTORS (INCLUDING TAX-EXEMPT INVESTORS) IN THE EXCHANGEABLE NOTES SHOULD CONSULT THEIR OWN TAX ADVISORS WITH RESPECT TO THE TAX CONSEQUENCES OF ACQUIRING, HOLDING AND DISPOSING OF THE EXCHANGEABLE NOTES, INCLUDING THE TAX CONSEQUENCES THAT MAY ARISE UNDER THE LAWS OF ANY FOREIGN, STATE, LOCAL OR OTHER TAXING JURISDICTION.

Pursuant to the terms of the Indenture, ARCO and all holders of the Exchangeable Notes will be obligated to treat the Exchangeable Notes as a unit (the "Unit") consisting of (i) a debt obligation ("Note") with a fixed principal amount unconditionally payable at Maturity equal to the principal amount

of the Exchangeable Notes, bearing interest at the stated interest rate on the Exchangeable Notes, and (ii) a forward purchase contract (the "Purchase Contract") pursuant to which the holder agrees to use the principal payment due on the Note to purchase at Maturity the Lyondell Common Stock which the holder is entitled to receive at that time (subject to the Company's right to deliver cash in lieu of the Lyondell Common Stock). The Indenture will require each United States Holder to include currently in income when received or accrued payments denominated as interest that are made with respect to the Exchangeable Notes in accordance with such holder's regular method of tax accounting.

Pursuant to the agreement to treat the Exchangeable Notes as a unit, a holder will be required to allocate the purchase price of the Exchangeable Notes between the two components of the Unit (the Note and the Purchase Contract) on the basis of their relative fair market values. The purchase price so allocated will generally constitute the tax basis for each component. Pursuant to the terms of the Indenture, ARCO and the holders agree to allocate the entire purchase price of the Exchangeable Notes to the Note. Upon the sale or other disposition of Exchangeable Notes, a United States Holder generally will be required to allocate the amount realized between the two components of the Exchangeable Notes on the basis of their then relative fair market values. A United States Holder will recognize gain or loss with respect to each component equal to the difference between the amount realized on the sale or other disposition for each such component and the United States Holder's tax basis in such component. Such gain or loss generally will be long-term capital gain or loss if the United States Holder has held the Exchangeable Notes for more than one year at the time of disposition.

The distinction between capital gain or loss and ordinary income or loss is important for purposes of the limitations on a United States Holder's ability to offset capital losses against ordinary income. In addition, certain individuals are subject to tax at a reduced rate on long-term capital gains.

At Maturity, pursuant to the agreement to treat the Exchangeable Notes as a unit, (i) on the repayment of the Note, a United States Holder will realize long-term capital gain or loss equal to any difference between its tax basis and the principal amount of the Note, (ii) if ARCO delivers Lyondell Common Stock, a United States Holder will realize no additional gain or loss on the exchange, pursuant to the Purchase Contract, of the principal payment due on the Note for the Lyondell Common Stock, will have a tax basis in such stock equal to the amount of the principal payment, and will realize capital gain or loss upon the sale or disposition of such stock, and (iii) if ARCO pays the Exchangeable Notes in cash, a United States Holder will have gain or loss (which might be ordinary income or loss rather than long-term capital gain or loss) equal to the difference between the principal amount of the Note and the amount of cash received from ARCO.

Due to the absence of authority as to the proper characterization of the Exchangeable Notes, no assurance can be given that the IRS will accept or that a court will uphold the characterization described above. Under alternative tax characterizations of the Exchangeable Notes, it is possible, for example, that (i) gain may be treated as ordinary income, instead of capital gain, (ii) a United States Holder may be taxable upon the receipt of Lyondell Common Stock with a value in excess of the principal amount of the Note, rather than upon the sale of such stock, (iii) all or part of the interest income on the Note may be treated as nontaxable, increasing the gain (or decreasing the loss) at Maturity or disposition of the Exchangeable Notes (or disposition of the Lyondell Common Stock) or (iv) the Notes could be considered as issued at a premium which, if amortized, would reduce the amount of interest income currently includible in income by a holder and would increase the taxable gain (or decrease the loss) realized at Maturity or disposition of the Exchangeable Notes (or disposition of the Lyondell Common Stock).

It is possible that the IRS may contend that the Exchangeable Notes should be subject to certain proposed Treasury regulations dealing with "contingent payment" debt instruments (the "Proposed Regulations"). Under the Proposed Regulations, payments made in respect of the Exchangeable Notes (including the value of the Lyondell Common Stock received at Maturity) would be treated first as a

nontaxable return of the holder's investment in the Exchangeable Notes and thereafter would be taxable as interest income to the holder.

The IRS has indicated that it is considering withdrawing the Proposed

Regulations, and may replace them with a rule that requires some minimum amount of interest income to be accrued on all contingent payment debt instruments. It is impossible to predict whether, or in what manner, the Proposed Regulations may be modified and whether any modifications would apply to the Exchangeable Notes. In addition, the IRS has announced that it intends to promulgate regulations addressing the tax consequences of complex financial instruments which could affect the tax treatment of the Exchangeable Notes.

The Revenue Reconciliation Act of 1993 added Section 1258 to the Code, which may require certain holders of the Exchangeable Notes who enter into hedging transactions or offsetting positions with respect to the Exchangeable Notes to treat all or a portion of their gain as ordinary income rather than as capital gain upon the disposition of the Exchangeable Notes. United States Holders hedging their positions with respect to the Notes should consult their own tax advisors regarding the applicability of this legislation to an investment in the Exchangeable Notes.

NON-UNITED STATES HOLDERS

Based on the treatment of the Exchangeable Notes described above, in the case of a Non-United States Holder of the Exchangeable Notes, payments made with respect to the Exchangeable Notes should not be subject to United States withholding tax, provided that such holder complies with applicable certification requirements. Any capital gain realized upon the sale or other disposition of the Exchangeable Notes by a Non-United States Holder will generally not be subject to United States federal income tax unless (i) such gain is effectively connected with a United States trade or business of such holder; (ii) such gain is treated as effectively connected with a trade or business in the United States because Lyondell is or has been a "United States real property holding corporation" for United States federal income tax purposes and the Non-United States Holder held, directly or indirectly, at any time during the five-year period ending on the date of disposition, more than five percent of the Exchangeable Notes (in which case withholding of such tax may also apply); or (iii) in the case of an individual, such individual is present in the United States for 183 days or more in the taxable year of the sale or other disposition or the gain is attributable to a fixed place of business maintained by such individual in the United States.

As discussed above, alternative characterizations of the Exchangeable Notes for federal income tax purposes are possible. Should an alternative characterization cause payments with respect to the Exchangeable Notes to become subject to withholding tax, ARCO will withhold tax at the statutory rate. However, until the IRS provides further guidance, no tax will be withheld. Non-United States Holders should consult their own tax advisors.

BACKUP WITHHOLDING AND INFORMATION REPORTING

A holder of the Exchangeable Notes may be subject to information reporting and to backup withholding at a rate of 31 percent of certain amounts paid to the holder unless such holder provides proof of an applicable exemption or a correct taxpayer identification number, and otherwise complies with applicable requirements of the backup withholding rules. Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules will be refunded or credited against such holder's United States federal income tax liability, provided that required information is furnished to the IRS.

UNDERWRITING

Subject to the terms and conditions of the Underwriting Agreement, ARCO has agreed to sell to each of the U.S. Underwriters named below (the "U.S. Underwriters"), and each of such U.S. Underwriters, for whom Goldman, Sachs &

Co., Merrill Lynch, Pierce, Fenner & Smith Incorporated and Salomon Brothers Inc are acting as representatives, has severally agreed to purchase from ARCO, the respective number of Exchangeable Notes set forth opposite its name below:

<TABLE>
<CAPTION>

UNDERWRITER	NUMBER OF EXCHANGEABLE NOTES
<S>	<C>
Goldman, Sachs & Co.	4,950,000
Merrill Lynch, Pierce, Fenner & Smith Incorporated	4,950,000
Salomon Brothers Inc	4,950,000
Advest, Inc.	375,000
Robert W. Baird & Co. Incorporated	375,000
Bear, Stearns & Co. Inc.	600,000
Sanford C. Bernstein & Co., Inc.	375,000
William Blair & Company	375,000
Alex. Brown & Sons Incorporated	600,000
The Buckingham Research Group Incorporated	275,000
CS First Boston Corporation	600,000
Dain Bosworth Incorporated	375,000
Dean Witter Reynolds Inc.	600,000
A. G. Edwards & Sons, Inc.	600,000
J.J.B. Hilliard, W.L. Lyons, Inc.	275,000
Howard, Weil, Labouisse, Friedrichs Incorporated	600,000
Janney Montgomery Scott Inc.	375,000
Kemper Securities, Inc.	600,000
Kidder, Peabody & Co. Incorporated	600,000
C.J. Lawrence/Deutsche Bank Securities Corporation	375,000
Legg Mason Wood Walker Incorporated	375,000
Lehman Brothers Inc.	600,000
Luther, Smith & Small, Inc.	275,000
McDonald & Company Securities, Inc.	375,000
J.P. Morgan Securities Inc.	600,000
Morgan Stanley & Co. Incorporated	600,000
Oppenheimer & Co., Inc.	600,000
Parker/Hunter Incorporated	275,000
Rauscher Pierce Refsnes, Inc.	375,000
Scott & Stringfellow, Inc.	275,000
Smith Barney Inc.	600,000
Stifel, Nicolaus & Company, Incorporated	275,000
Sutro & Co. Incorporated	375,000
UBS Securities Inc.	600,000
Wertheim Schroder & Co. Incorporated	600,000
Wheat, First Securities, Inc.	375,000
Total	30,000,000

</TABLE>

Under the terms and conditions of the Underwriting Agreement, the U.S. Underwriters are committed to take and pay for all of the Exchangeable Notes offered hereby, if any are taken.

The U.S. Underwriters propose to offer the Exchangeable Notes in part directly to the public at the initial public offering price set forth on the cover page of the ARCO Prospectus, and in part to certain securities dealers at such price less a concession of $0.45 per Exchangeable Note. The U.S.

Underwriters may allow, and each of such dealers may reallow, a concession not exceeding $0.10 per Exchangeable Note to certain dealers and brokers. After the Exchangeable Notes are released for sale to the public, the offering price and the other selling terms may from time to time be varied by the representatives.

ARCO has entered into an underwriting agreement (the "International Underwriting Agreement") with the underwriters of the International Offering (the "International Underwriters") providing for the concurrent offer and sale of 5,000,000 shares of Exchangeable Notes in an international offering outside the United States. The offering price and underwriting discount per Exchangeable Note for the two offerings are identical. The closing of the offering made hereby is a condition to the closing of the international offering, and vice versa. The representatives of the International Underwriters are Goldman Sachs International, Merrill Lynch International Limited and Salomon Brothers International Limited.

Pursuant to an Agreement between the U.S. and International Underwriting Syndicates (the "Agreement Between") relating to the two offerings, each of the U.S. Underwriters named herein has agreed that, as a part of the distribution of the Exchangeable Notes offered hereby and subject to certain exceptions, it will offer, sell or deliver the Exchangeable Notes, directly or indirectly, only in the United States of America (including the States and the District of Columbia), its territories, its possessions and other areas subject to its jurisdiction (the "United States") and to U.S. persons, which term shall mean, for purposes of this paragraph: (a) any individual who is a resident of the United States or (b) any corporation, partnership or other entity organized in or under the laws of the United States or any political subdivision thereof and whose office most directly involved with the purchase is located in the United States. Each of the International Underwriters has agreed pursuant to the Agreement Between that, as a part of the distribution of the Exchangeable Notes offered as a part of the International Offering, and subject to certain exceptions, it will (i) not, directly or indirectly, offer, sell or deliver any Exchangeable Notes (a) in the United States or to any U.S. persons or (b) to any person whom it believes intends to reoffer, resell or deliver the Exchangeable Notes in the United States or to any U.S. persons, and (ii) cause any dealer to whom it may sell such Exchangeable Notes at any concession to agree to observe a similar restriction.

Pursuant to the Agreement Between, sales may be made between the U.S. Underwriters and the International Underwriters of such number of Exchangeable Notes as may be mutually agreed. The price of any Exchangeable Notes so sold shall be the initial public offering price, less an amount not greater than the selling concession.

ARCO has granted the U.S. Underwriters an option exercisable for 30 days after the date of this Prospectus to purchase up to an aggregate of 4,171,400 additional Exchangeable Notes solely to cover over-allotments, if any. If the U.S. Underwriters exercise their over-allotment option, the U.S. Underwriters have severally agreed, subject to certain conditions, to purchase approximately the same percentage thereof that the number of Exchangeable Notes to be purchased by each of them, as shown in the foregoing table, bears to the 30,000,000 Exchangeable Notes offered. The U.S. Underwriters may exercise such option only to cover over-allotments in connection with the sale of the 30,000,000 Exchangeable Notes offered. ARCO has granted the International Underwriters an option exercisable for 30 days to purchase up to an aggregate of 750,000 additional Exchangeable Notes, solely to cover over-allotments, at the initial public offering price less the underwriting discount, as set forth on the cover page of the Prospectus.

ARCO and Lyondell have agreed that during the period beginning from the date of the ARCO Prospectus and continuing to and including the date 120 days after the date of the ARCO Prospectus, subject to certain exceptions set forth in the Underwriting Agreement and the International Underwriting Agreement, they will not offer, sell, contract to sell or otherwise dispose of any shares of Common Stock of Lyondell or securities convertible into Common Stock of Lyondell without the prior written consent of the representatives.

The representatives have informed ARCO that they do not expect sales to discretionary accounts by the U.S. Underwriters to exceed five percent of the total number of Exchangeable Notes offered by them and that sales to discretionary accounts by the representatives will be less than one percent of the total number of Exchangeable Notes offered by them.

The Exchangeable Notes will be a new issue of securities with no established trading market. The representatives have advised ARCO that they intend to make a market in the Exchangeable Notes but will not be obligated to do so and may discontinue any market making at any time without notice. No assurance can be given as to the liquidity of the trading market for the Exchangeable Notes.

ARCO and Lyondell have agreed to indemnify the several Underwriters against certain liabilities, including liabilities under the Securities Act of 1933.

EXPERTS

The consolidated financial statements of ARCO, appearing in ARCO's Annual Report on Form 10-K for the year ended December 31, 1993, have been audited by Coopers & Lybrand, independent accountants, as set forth in their report included therein, and are incorporated by reference herein in reliance upon such report and upon the authority of such Firm as experts in accounting and auditing.

LEGAL OPINIONS

The legality of the Exchangeable Notes registered hereby has been passed upon for ARCO by Ronald C. Redcay, Esq., Acting General Counsel of Atlantic Richfield Company, 515 South Flower Street, Los Angeles, California 90071. Certain other legal matters related to the Exchangeable Notes offered hereby will be passed upon for ARCO by Diane A. Ward, Esq., Senior Counsel, Securities & Finance, of Atlantic Richfield Company, 515 South Flower Street, Los Angeles, CA 90071. As of July 1, 1994, Mr. Redcay owned 7,646 options to purchase shares of Common Stock of ARCO and Ms. Ward owned 547 options to purchase shares, and 706 shares of Common Stock of ARCO all held pursuant to ARCO's employee benefit plans. The legality of the Exchangeable Notes offered hereby will be passed upon for the Underwriters by Cravath, Swaine & Moore, New York, New York. Cravath, Swaine & Moore provides legal services to ARCO from time to time and is currently doing so on certain matters relating to ARCO's investment in Lyondell.

APPENDIX A

35,000,000 SHARES

LOGO Lyondell Petrochemical Company

COMMON STOCK
(PAR VALUE $1.00 PER SHARE)

This Prospectus relates to 35,000,000 shares of common stock, par value $1.00

per share (the "Common Stock"), of Lyondell Petrochemical Company (the "Company"), which may be delivered by Atlantic Richfield Company ("ARCO"), at its option, pursuant to the terms of the 9% Exchangeable Notes due September 15, 1997 (the "Exchangeable Notes") of ARCO. This Prospectus is Appendix A to both a U.S. prospectus of ARCO covering the sale of 30,000,000 Exchangeable Notes and an international prospectus of ARCO covering the sale of 5,000,000 Exchangeable Notes. The Company will not receive any of the proceeds from the sale of the Exchangeable Notes or the delivery thereunder of shares of Common Stock covered hereby.

ARCO has granted the underwriters of the Exchangeable Notes a 30-day option to purchase up to an additional 4,921,400 Exchangeable Notes, which may be exchangeable at their maturity for additional shares of Common Stock. Such option has been granted solely to cover over-allotments, if any.

SEE "CERTAIN INVESTMENT CONSIDERATIONS" FOR A DISCUSSION OF CERTAIN CONSIDERATIONS RELEVANT TO AN INVESTMENT IN THE COMMON STOCK.

The Common Stock is traded on the New York Stock Exchange, Inc. ("NYSE") under the symbol "LYO." On August 1, 1994, the last reported sale price of Common Stock on the NYSE Composite Tape was $24.75 per share. See "Price Range of Common Stock and Dividends."

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The date of this Prospectus is August 1, 1994.

AVAILABLE INFORMATION

The Company is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and, in accordance therewith, files reports, proxy statements and other information with the Securities and Exchange Commission (the "Commission"). Such reports, proxy statements and other information filed by the Company with the Commission may be inspected and copied at the Public Reference Section of the Commission at 450 Fifth Street, N.W., Judiciary Plaza, Washington, D.C. 20549, and at the following Regional Offices of the Commission: Chicago Regional Office, Northwestern Atrium Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661-2511; and New York Regional Office, Seven World Trade Center, New York, New York 10048. Copies of such material may also be obtained from the Public Reference Section of the Commission at its principal office at 450 Fifth Street, N.W., Judiciary Plaza, Washington, D.C. 20549, at prescribed rates. The Company's registration statements, reports, proxy statements and other information may also be inspected at the offices of the New York Stock Exchange, 20 Broad Street, New York, New York 10005.

This Prospectus, which constitutes a part of a registration statement on Form S-3 (the "Registration Statement") filed by the Company with the Commission under the Securities Act of 1933, as amended (the "Securities Act"), omits certain of the information set forth in the Registration Statement. Reference is hereby made to the Registration Statement and to the exhibits thereto for further information with respect to the Company and the securities offered hereby. Statements contained herein concerning the provisions of such documents are necessarily summaries of such documents, and each such statement is qualified in its entirety by reference to the copy of the applicable document filed with the Commission. Copies of the Registration Statement and the exhibits thereto are on file at the offices of the Commission and may be obtained upon payment of the fee prescribed by the Commission, or may be examined without charge at the public reference facilities of the Commission described above.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The Company's Annual Report on Form 10-K for the year ended December 31, 1993 ("1993 Form 10-K Report"), Quarterly Report on Form 10-Q for the quarter ended March 31, 1994, Quarterly Report on Form 10-Q for the quarter ended June 30, 1994, Current Report on Form 8-K dated June 6, 1994, Current Report on Form 8-K dated June 21, 1994, Current Report on Form 8-K dated July 11, 1994 and Proxy Statement dated April 14, 1994 (as supplemented by Supplement to Proxy Statement dated June 23, 1994) are incorporated herein by reference.

All documents filed by the Company pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act subsequent to the date of this Prospectus and prior to the termination of the offering made hereby shall be deemed to be incorporated by reference in this Prospectus and to be part hereof from the date of filing of such documents. Any statement contained herein or in a document incorporated or deemed to be incorporated herein by reference shall be deemed to be modified or superseded for purposes of the Registration Statement and this Prospectus to the extent that a statement contained herein or in any other subsequently filed incorporated document or in any accompanying prospectus supplement modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus.

Copies of all documents incorporated herein by reference other than exhibits to such documents (unless such exhibits are specifically incorporated by reference) will be provided without charge to each person who receives a copy of this Prospectus upon request to the Company, 1221 McKinney Street, Suite 1600, Houston, Texas 77002, Attention: Assistant Secretary (telephone: (713) 652-7200).

The Company is incorporated in Delaware, and its executive offices are located at 1221 McKinney Street, Suite 1600, Houston, Texas 77002 (telephone: (713) 652-7200).

THE COMPANY HAS BEEN ADVISED THAT IN CONNECTION WITH THE OFFERING OF THE EXCHANGEABLE NOTES BY ARCO, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE EXCHANGEABLE NOTES OR THE COMMON STOCK OF THE COMPANY, OR EACH OF THEM, AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH TRANSACTIONS MAY BE EFFECTED ON THE NEW YORK STOCK EXCHANGE, IN THE OVER-THE-COUNTER MARKET OR OTHERWISE. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

PROSPECTUS SUMMARY

The following summary is qualified in its entirety by reference to, and should be read in connection with, the more detailed information and the consolidated financial statements (including the notes thereto) appearing elsewhere in this Prospectus as well as the information incorporated herein by reference. Unless otherwise indicated or required by context, references to "Lyondell" or the "Company" include its consolidated subsidiaries.

COMPANY OVERVIEW

Lyondell Petrochemical Company ("Lyondell" or the "Company") is a leading manufacturer and marketer of petrochemicals and, through its interest in LYONDELL-CITGO Refining Company Ltd. ("LCR"), of refined petroleum products. The Company's corporate headquarters and manufacturing facilities are located in the Houston, Texas area.

The Company produces a wide variety of petrochemicals, including olefins (primarily ethylene, propylene and butadiene), polyolefins (low density polyethylene and polypropylene), methanol, MTBE (methyl tertiary butyl ether) and aromatics. Lyondell is the largest domestic merchant marketer of ethylene and propylene, with rated production capacities of 3.6 and 2.1 billion pounds per year, respectively. Lyondell's petrochemical products are primarily commodity chemicals that are sold to customers for use in the manufacture of chemicals, plastics and other synthetic materials. These materials are used, in turn, to produce a wide variety of consumer goods and industrial products.

The Company's refining business is conducted through its approximate 90 percent interest in LCR, which operates a 265,000 barrels per day refinery (the "Refinery"). LCR sells the majority of the gasoline, jet fuel and heating oil it produces to CITGO Petroleum Corporation ("CITGO"), which currently has an approximate 10 percent interest in LCR. LCR also produces fuel oil and aromatics, as well as lubricants for the transportation, oil drilling and food processing industries.

LYONDELL'S STRATEGY

Lyondell's management believes that the best means to create value for its stockholders is to maximize free cash flow over the long term. Lyondell's strategy is to achieve the lowest possible costs and the highest degree of operational flexibility in order to capture the benefits of cyclical upturns in its businesses and to minimize the impact of downturns. The following are the key elements of the Company's strategy to achieve superior performance throughout the business cycle:

. LOW COSTS AND UNIQUE OPERATING FLEXIBILITY IN PETROCHEMICALS

Management believes that Lyondell's cost to produce ethylene is the lowest in the United States and that its olefins plants are the most flexible in the industry. In order to enhance the Company's low cost position, management strives to quickly identify and capitalize on opportunities to use its operating and organizational flexibility, including the ability to recover and upgrade by-products and to optimize integration of its facilities. Lyondell is the only ethylene producer with the flexibility to process from 100 percent petroleum liquids feedstocks (including heavy liquids) to 90 percent natural gas liquids feedstocks as market conditions change. Lyondell also has a unique ability to vary the production ratios of ethylene and propylene in order to capture more profitable market opportunities through its product flexibility unit, which converts ethylene and other light hydrocarbons into propylene. After a doubling of capacity in 1993, this unit is designed to produce up to one billion pounds of propylene per year.

High productivity, lean staffing and a participative management style also are key to the Company's low operating costs. Industry studies show that Lyondell's olefins plants have the highest production per plant-level employee in the industry. Lyondell's lean staff levels and

minimal expenses have resulted in a five-year average for annual selling, general and administrative expenses (which exclude certain distribution costs) of 2.4 percent of sales, which management believes is among the lowest in the industry.

. ENHANCING THE VALUE OF THE REFINING BUSINESS

Management believes the Company has significantly improved the outlook for its refining business through a mutually advantageous arrangement with CITGO and other affiliates of the Venezuelan national oil company, Petroleos de Venezuela, S.A. ("PDVSA"), entered into in 1993.

A crude oil supply agreement (the "Crude Supply Agreement") provides LCR with a 25-year supply of Venezuelan crude oil under a pricing formula that incorporates market prices for refined products as well as deemed yields, deemed operating costs and deemed margins. The Crude Supply Agreement is expected to significantly diminish the impact of market volatility on the refining business and stabilize its cash flow at attractive levels relative to historic performance. Under this arrangement, LCR currently is processing approximately 130,000 barrels per day of heavy crude oil, and upon successful completion of the upgrade project discussed below is expected to process approximately 200,000 barrels per day of very heavy crude oil.

LCR is undertaking a major upgrade project to create a world-class facility capable of refining very heavy grades of crude oil into valuable light products, including reformulated gasoline and low-sulfur diesel. Completion of the upgrade project is anticipated in late 1996 or early 1997. CITGO has entered into a long-term agreement to purchase the upgraded Refinery's gasoline, jet fuel, heating oil and low-sulfur diesel at market-based prices.

In 1993, CITGO contributed $100 million to LCR for on-going capital projects other than the Refinery upgrade project, giving CITGO an approximate 10 percent interest in LCR. The arrangement with CITGO provides that the Refinery upgrade project will be funded primarily by additional CITGO equity contributions and LCR borrowings, with CITGO funding all interest and fees for the borrowings prior to completion. Upon completion of the upgrade project, when it receives credit for its project-related contributions, CITGO's interest in LCR will increase to approximately 40 percent. CITGO also has a one-time option following completion of the upgrade to make an additional contribution to LCR in order to increase its interest up to 50 percent.

. DISCIPLINED CAPITAL SPENDING

The Company's discretionary capital spending strategy focuses on high-return projects that enhance manufacturing efficiency, increase production volume, upgrade product streams or achieve lower operating costs. For example, through a low cost debottleneck project in 1989 the Company increased its ethylene capacity from 2.8 to 3.6 billion pounds per year. Lyondell continues to develop and review both internal and external opportunities to enhance the value of the Company's business through increased cash flow. Examples of this approach are the Company's 1990 acquisition of its polyolefins business and polymers facility, which enhanced its petrochemicals business, and the LCR transaction, which is improving its refining business.

Through the strategy described above, Lyondell expects to maximize cash flow throughout the business cycle by emphasizing low operating costs, high operating flexibility and stable refining margins. Specifically, management expects refining operations to generate relatively stable cash flow, while the Company's large petrochemical capacity positions Lyondell to capture higher cash flows when the petrochemical cycle improves.

SUMMARY FINANCIAL DATA

<TABLE>
<CAPTION>

	AS OF OR FOR								
	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,		YEAR ENDED DECEMBER 31,				
	1994	1993	1994	1993	1993	1992	1991	1990	1989
	(UNAUDITED)		(UNAUDITED)						
	(IN MILLIONS, EXCEPT PER SHARE AND CERTAIN OTHER DATA)								
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
INCOME STATEMENT DATA:									
Sales and other operating revenues....	$ 900	$1,080	$1,724	$2,145	$3,850	$4,809	$5,735	$6,499	$5,361
Cost of sales..........	794	1,040	1,530	2,069	3,627	4,578	5,210	5,777	4,640
Selling, general and administrative expenses..............	35	35	69	64	130	127	126	121	108
Operating income.......	71	5	125	12	93	104	399	601	613
Net interest expense...	(18)	(19)	(35)	(36)	(72)	(69)	(60)	(64)	(57)
Minority interest......	(2)	--	(5)	--	(5)	--	--	--	--
Income tax (provision) benefit...............	(19)	3	(31)	5	(12)	(9)	(117)	(181)	(182)
Income (loss) before cumulative effect of accounting changes....	32	(11)	54	(19)	4	26	222	356	374
Cumulative effect of accounting changes(1).	--	--	--	22	22	(10)	--	--	--
Net income.............	$ 32	$ (11)	$ 54	$ 3	$ 26	$ 16	$ 222	$ 356	$ 374
Net income (loss) per common share:									
Before cumulative effect of accounting changes.............	$ .40	$ (.14)	$ .68	$ (.23)	$ .06	$ .32	$ 2.78	$ 4.45	$ 4.67
From cumulative effect of accounting changes.............	--	--	--	.27	.27	(.12)	--	--	--
Net income...........	$ .40	$ (.14)	$ .68	$ .04	$ .33	$ .20	$ 2.78	$ 4.45	$ 4.67
BALANCE SHEET DATA:									
Cash, restricted cash, cash equivalents and short-term investments(2)........	$ 92	$ 29	$ 92	$ 29	$ 119	$ 121	$ 307	$ 127	$ 245
Working capital........	214	132	214	132	224	223	375	238	367
Property, plant and equipment, net........	716	621	716	621	655	623	569	568	455
Total assets...........	1,308	1,159	1,308	1,159	1,231	1,215	1,479	1,372	1,267
Long-term debt, excluding current portion...............	707	717	707	717	717	725	554	471	500
Capitalized lease obligations, less current portion.......	--	--	--	--	--	--	156	187	214

Common stockholders' equity (deficit)......	(70)	(75)	(70)	(75)	(88)	(6)	122	38	9
OTHER DATA:									
Capital expenditures...	$ 47	$ 13	$ 79	$ 28	$ 69	$ 97	$ 43	$ 145	$ 176
Depreciation and amortization(1).......	14	14	29	28	58	39	39	31	19
Cash flow provided by operating activities..	43	28	72	37	84	108	270	386	538
Distribution to ARCO...	--	--	--	--	--	--	--	--	500
Dividends per share....	$ .225	$ .225	$ .45	$ .675	$ 1.35	$ 1.80	$ 1.75	$ 4.10(3)	$ 1.20
Ethylene, propylene and polymers sales (million pounds)......	1,458	1,454	2,961	2,761	5,366	5,785	6,000	6,373	5,048
Refined product sales average per day (thousand barrels)....	240	288	239	292	263	277	288	301	298

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(1) See Note 4 of "Notes to Consolidated Financial Statements."

(2) As of June 30, 1994 and December 31, 1993, $45 million and $73 million of cash and $12 million and $6 million of short-term investments, respectively, were restricted for use in LCR capital projects and other expenditures as determined by the LCR owners.

(3) Includes a $2.50 per share special dividend paid in the first quarter of 1990.

CERTAIN INVESTMENT CONSIDERATIONS

Prospective investors should carefully consider the specific factors set forth below as well as the other information contained in this Prospectus and the information incorporated herein by reference.

IMPACT OF THE EXCHANGEABLE NOTES ON THE MARKET FOR LYONDELL COMMON STOCK

It is not possible to accurately predict how or whether the 9% Exchangeable Notes due September 15, 1997 (the "Exchangeable Notes") of Atlantic Richfield Company ("ARCO") will trade in the secondary market or whether such market will be liquid. Any market that develops for the Exchangeable Notes is likely to influence, and be influenced by, the market for the common stock, par value $1.00 per share (the "Common Stock"), of Lyondell Petrochemical Company ("Lyondell" or the "Company"). For example, the price of the Common Stock could become more volatile and could be depressed by investors' anticipation of the potential distribution into the market of substantial additional amounts of Common Stock at the maturity of the Exchangeable Notes, by possible sales of Common Stock by investors who view the Exchangeable Notes as a more attractive means of equity participation in Lyondell and by hedging or arbitrage trading activity that may develop involving the Exchangeable Notes and Common Stock.

CYCLICALITY AND VOLATILITY OF EARNINGS

The Company's historical operating results reflect the cyclical and volatile nature of both the petrochemical and refining industries. Both industries are mature and capital intensive, and industry margins are sensitive to supply and demand cycles. As a result, the Company's earnings may be subject to significant fluctuations. In general, external factors beyond the Company's control, such as general economic conditions, competition, international events and circumstances and governmental regulation, can cause volatility in crude oil and other feedstock prices, as well as fluctuations in product prices, volumes, and margins and can magnify the impact of economic cycles on the Company's businesses.

UNCERTAIN PETROCHEMICAL INDUSTRY OUTLOOK

The petrochemical industry historically has experienced alternating periods of tight supply, causing prices and margins to increase, followed by periods of substantial capacity additions resulting in oversupply and declining prices and margins. For example, during the mid 1980s, olefins capacity increases did not keep pace with demand and by the 1987-1988 period domestic producers were operating at high capacity utilization rates and prices and margins had increased substantially. The high profitability experienced by the ethylene industry during this period peaked in early 1989. As a result of a downturn in general economic conditions experienced in the late 1980s, the rate of growth in U.S. demand slowed, which in turn had an adverse effect on ethylene margins. In addition, increased olefins and polyolefins capacity in the Far East, as well as increased export sales from Europe and the Middle East to the Far East, adversely affected net U.S. export sales of polyolefins and, therefore, ethylene margins. As a consequence, since 1990, the olefins industry, including the Company, has experienced an overcapacity condition that has resulted in lower average selling prices and low profit margins. Two new ethylene plants (including one plant that came on line during the second quarter of 1994), along with other announced plant expansions, currently are scheduled to commence operations in the U.S. prior to December 1995, resulting in an aggregate capacity addition of approximately four billion pounds per year (approximately 8.6 percent of 1993 domestic industry capacity). There can be no assurance that future growth in demand for ethylene and its by-products will be sufficient to utilize current and anticipated capacity. Excess capacity, to the extent it occurs, may depress volumes and margins. Furthermore, there can be no assurance that future conditions will not be aggravated by unanticipated industry capacity additions.

COMPETITION; RELIANCE ON MERCHANT MARKET

Both the petrochemical and refining industries in which the Company operates are highly competitive. Many of the Company's competitors, particularly in petrochemicals, are larger and have greater financial resources than the Company. Among Lyondell's petrochemical competitors are some

of the world's largest chemical companies. In the last several years, there have been a number of mergers, acquisitions and spin-offs in the petrochemical industry. This restructuring activity may result in fewer but more competitive producers with greater financial resources than the Company.

As a producer of olefins primarily for the merchant market, Lyondell may experience greater variations in its sales volumes and profitability when industry supply and demand relationships are at extremes in comparison to more integrated competitors, i.e., those with a higher proportion of captive demand for olefins derivatives production. Among the refining competitors of LYONDELL-CITGO Refining Company Ltd. ("LCR") are major integrated petroleum companies that have their own raw material resources and, in many cases, downstream markets, both of which tend to decrease the impact of business cycles on these competitors' sales volumes and profitability.

LCR TRANSACTION AND REFINERY UPGRADE PROJECT

REFINERY UPGRADE PROJECT COST AND POTENTIAL DELAYS. The ultimate cost to LCR of the upgrade project at its refinery (the "Refinery") will have a significant impact on the value to the Company of the LCR transaction with CITGO Petroleum Corporation ("CITGO"). The cost of the upgrade project, based on the detailed engineering completed to date, currently is estimated to be approximately $830 million. In addition, LCR has estimated a 15 percent ($125 million) allowance for contingency costs, which would increase the total project cost estimate to approximately $955 million. The final cost of the project will be influenced by numerous factors, many of which are beyond LCR's control, including the timing and terms of necessary construction, operating and regulatory permits, as well as construction schedule delays whether caused by adverse weather conditions, material shortages, labor disputes or otherwise. In addition, there can be no assurance that LCR will be able to obtain the numerous required regulatory and environmental approvals, or that this process will not result in unanticipated delays.

FINANCING OF REFINERY UPGRADE PROJECT AND POTENTIAL LIMITATIONS ON LCR DISTRIBUTIONS. A significant portion of the funds for the Refinery upgrade project are to be provided pursuant to CITGO's contractual commitments to LCR as well as by financing at the LCR level. To the extent that LCR cannot obtain financing for its share of costs, CITGO and the Company each will fund one half of the cost of the upgrade project in excess of $300 million. See "The Company--Refining--LCR Transaction." There can be no assurance that CITGO will meet its remaining funding obligations or that LCR will be able to obtain either construction loans or any other financing of sufficient magnitude or on terms acceptable to it or to the Company and CITGO. The failure to obtain such funding or loans could delay or decrease the scope of the Refinery upgrade project, require the Company to loan or contribute additional amounts to LCR or to guarantee its borrowings, and affect the repayment by LCR of Company loans. The Company's ability to make contributions to LCR may, under certain circumstances, be restricted by the Company's $400 million credit facility. In addition, the existence of significant levels of financing at the LCR level and the terms of the related financing agreements could restrict LCR's ability to make cash distributions or otherwise impair the financial flexibility of the Company, including its ability to obtain additional financing or to renew its existing long-term debt. In addition, LCR may enter into other financing arrangements following the completion of the upgrade project.

CRUDE SUPPLY AGREEMENT. The pricing of the crude oil purchased by LCR under the crude supply agreement (the "Crude Supply Agreement") is based upon published market prices of refined products, deemed yields, deemed operating costs and deemed margins. If the actual yields, costs or volumes differ substantially from those contemplated by the Crude Supply Agreement, the benefits of this agreement to LCR could be substantially diminished, and it could result in lower earnings and cash flow. Furthermore, there may be periods during which LCR's costs for crude oil under the Crude Supply Agreement may be higher than might otherwise be available to LCR from other sources.

The supplier of crude oil under the Crude Supply Agreement is Lagoven, S.A. ("Lagoven"), which like CITGO is a subsidiary of Petroleos de Venezuela, S.A. ("PDVSA"), the Venezuelan national oil company. There are risks associated with enforcing the provisions of contracts with companies such as Lagoven that are non-United States affiliates of a sovereign nation. It is impossible to predict how governmental policies may change under the current or any subsequent Venezuelan government. In addition, there are risks associated with enforcing judgments of United States courts against entities whose assets may be located outside of the United States and whose management does not reside in the United States. Although the parties have negotiated alternative arrangements in the event of certain force majeure conditions, including governmental or other actions restricting or otherwise limiting Lagoven's ability to perform its obligations, any such alternative arrangements may not be as beneficial as the Crude Supply Agreement. In the event that CITGO transfers its interest in LCR to an unaffiliated third party after the completion of the Refinery upgrade project, Lagoven has an option to terminate the Crude Supply Agreement. Depending on then current market conditions, breach or termination of the Crude Supply Agreement could adversely affect the Company. There can be no assurance that alternative crude oils with similar margins would be available for purchase by LCR. Furthermore, the breach or termination of the Crude Supply Agreement would require LCR to return to the practice of purchasing all of its crude oil feedstocks in the merchant market and would again subject LCR to significant volatility and price fluctuations.

HEAVY CRUDE OIL PROCESSING. The heavy (22 degree API gravity) Venezuelan crude oil currently being processed by LCR under the Crude Supply Agreement contains high levels of heavy metals, naphthenic acids, sulfur and residual fuels, which make it more difficult to process than lighter, sweeter crude oils. The Refinery began processing Venezuelan crude oil in the third quarter of 1992. Although the Company and LCR have made significant progress in identifying and overcoming obstacles inherent in processing high volumes of heavy Venezuelan crude oil, unplanned shutdowns of two units were necessary during 1993 to address limitations and improve processing efficiency. There can be no assurance that there will not be additional operational interruptions. See "The Company--Refining--LCR Transaction."

The design of the Refinery upgrade project is based on proven technology and is intended to result in the processing of 200,000 barrels per day of very heavy (17 degree API gravity) Venezuelan crude oil after completion of the project, which is currently expected in late 1996 or early 1997. To the Company's knowledge, no refinery has previously processed this quantity of 17 degree API gravity crude oil. Although the Company does not presently anticipate such developments, the design, construction, start up and testing of the upgrade project are subject to all of the risks of and the consequential expenses related to such matters as design errors, construction accidents, fires, explosions and similar events that can potentially affect large complex manufacturing projects built within substantial existing refining, petrochemical or other manufacturing plant sites. In addition, there can be no assurance that the anticipated post-upgrade processing of very heavy (rather than heavy) Venezuelan crude oil will not require significant additional design or operational modifications. Furthermore, unanticipated difficulties in eventually achieving the designed processing capability of the upgraded Refinery may under certain circumstances result in LCR not being able to satisfy its minimum processing requirements under the Crude Supply Agreement. As a consequence, LCR would be required to renegotiate or obtain other contractual relief with respect to these minimum requirements. Any such risks, modifications or delays could result in significantly increased costs for the project or negatively affect LCR's operating results.

FINANCING RISKS; POTENTIAL DILUTION

To the extent that the Company requires additional financing, whether to pursue an expansion, acquisition or other enhancement of its business, or for other purposes, the primary sources for such financing will be the Company's internal cash flow, additional debt or equity financing or a combination

thereof. There can be no assurance that any such debt or equity financing can be obtained on terms acceptable to the Company. In addition, the existence of financing at the LCR level could impair the financial flexibility of the Company. To the extent the Company finances such activities through the issuance of additional equity securities, the equity interests of its holders of Common Stock could be substantially diluted. In addition, the Company's $400 million credit facility may restrict under certain circumstances the Company's ability to incur additional indebtedness. See "Financial Matters--Long-Term Debt and Financing Arrangements."

OPERATING RISKS

Lyondell has two major operating facilities, the petrochemical complex in Channelview, Texas (the "Channelview Complex") and the Refinery, and the loss or shutdown over an extended period of operations at either such facility would have a material adverse effect on the Company. The Company's operations are subject to the usual hazards associated with petrochemical manufacturing, petroleum refining, and the related storage (including in underground salt domes) and transportation of feedstocks and products, including pipeline leaks and ruptures, explosions, fires, inclement weather and natural disasters, mechanical failure, unscheduled downtime, transportation interruptions, oil and chemical spills, discharges or releases of toxic substances or gases, storage tank leaks, and other environmental risks. These hazards can cause personal injury and loss of life, severe damage to or destruction of property and equipment and environmental damage, and may result in suspension of operations. The Company maintains property, business interruption and casualty insurance which it believes is in accordance with customary industry practices, but it is not fully insured against all potential hazards incident to its business.

ENVIRONMENTAL AND OTHER GOVERNMENT REGULATIONS

The Company's operations are subject to extensive environmental, health and safety laws and regulations promulgated by federal, state and local governments. Many of these laws and regulations provide for substantial fines and criminal sanctions for violations. The nature of the petrochemical and refining industries exposes the Company to risks of liability due to the production, storage, transportation and sale of materials that can cause contamination or personal injury if released into the environment. In addition, environmental laws may have a significant effect on the nature and scope of cleanup of contamination at operating facilities and the costs of transportation and storage of feedstocks and finished products. The Company believes that its business, operations and facilities have been and are being operated in compliance in all material respects with all such applicable laws and regulations. However, the operation of any petrochemical and refining business entails risks in this area, and there can be no assurance that material costs or liabilities will not be incurred. See "The Company--Environmental Matters" and "--Legal Proceedings."

Lyondell expects that the nature of its businesses will continue to subject the Company to increasingly stringent environmental and other regulatory standards. It is difficult to predict the future development of such laws and regulations or their impact on future earnings and operations, but the Company anticipates that these standards will continue to require increased capital expenditures. In particular, the ultimate effect of the Clean Air Act on the Company's operations will depend on how the law is interpreted and implemented pursuant to regulations that are currently being developed and on additional factors such as the evolution of environmental control technologies. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Environmental Matters" and "The Company--Environmental Matters."

The Company's policy is to accrue remediation costs when it is probable that such efforts will be required and the related costs can be reasonably estimated. Estimated costs for future environmental compliance and remediation are necessarily imprecise due to such factors as the continuing evolution of environmental laws and regulatory requirements, the availability and application of technology, the identification of presently unknown remediation sites and the allocation of costs among the responsible

parties under applicable statutes. On a quarterly basis, the Company evaluates the status of all significant existing or potential environmental issues, develops or revises estimates of costs to satisfy known remediation requirements and adjusts its accruals accordingly; as of June 30, 1994, the reserve was $19 million. Based upon information presently available, the Company does not expect that such future costs will have a material adverse effect on its competitive or financial position or its ongoing results of operations. However, it is not possible to predict accurately the amount or timing of costs of any future environmental remediation requirements. Such costs could be material to future quarterly or annual results of operations. In addition, the "Superfund" statutes may impose joint and several liability for the costs of remedial investigations and actions on the entities that arranged for disposal of the wastes, the waste transporters that selected the disposal sites and the past and present owners and operators of such sites; responsible parties (or any one of them, including the Company) may be required to bear all of such costs regardless of fault, legality of the original disposal or ownership of the disposal site. In such event, the amount owed by the Company for liabilities at Superfund sites would be significantly greater.

The Audit Committee of the Board of Directors and its independent counsel recently completed an investigation into certain allegations by a senior employee in the Company's legal department regarding environmental noncompliance. The investigation concluded that two process waste water streams were not in compliance with certain benzene regulations for a fourteen-month period and that two incorrect reports had been filed with regulatory authorities during that period. See "The Company--Environmental Matters--Audit Committee Report Regarding Alleged Violations of Certain Environmental Laws."

CERTAIN RELATED PARTY MATTERS

ARCO and its affiliates are important customers and, in some cases, suppliers of materials and services, of the Company. During 1993, for instance, the Company sold $263 million (or 17 percent of petrochemical sales) of products and services to ARCO Chemical Company, an affiliate of ARCO. Subject to the contractual agreements that are currently in place with ARCO and its affiliates, there can be no assurance that these existing business relationships will be continued unchanged after the offering of the Exchangeable Notes. ARCO has expressed its current intention as to how it will vote its shares of Lyondell Common Stock, and ARCO and Lyondell have entered into an agreement limiting certain of ARCO's rights as a stockholder of Lyondell. See "Relationship with ARCO--General" and "--Registration Rights Agreement with ARCO." Notwithstanding ARCO's current intentions and applicable contractual restrictions, there is no assurance regarding the extent to which its influence on the Company's actions and decisions will be limited.

POTENTIAL RESTRICTIONS ON DIVIDEND PAYMENTS

In 1993, the Company decreased the amount of its regular quarterly dividend from $0.45 to $0.225 per share as a result of the Board of Directors' decision that the previous level was no longer appropriate in light of current business conditions. The future declaration and payment of dividends and the amount thereof will depend upon the Company's results of operations, financial condition, cash position and requirements, investment opportunities, future prospects and other factors deemed relevant by the Board of Directors.

Pursuant to the terms of its $400 million unsecured credit facility (the "Credit Facility"), the Company is subject to several restrictive covenants including a restriction as to the payment of dividends. In addition, certain of the Company's debt instruments contain provisions (the "Put Rights") that provide that the holders of such debt may under certain circumstances require the Company to repurchase the debt at par. The Put Rights may be triggered by, among other things, the making of certain unearned distributions to stockholders, other than regular dividends, that are followed by a specified decline in the public ratings on such debt. Regular dividends are defined in the Company's debt instruments as those quarterly cash dividends determined in good faith by the Company's Board of Directors (whose determination is conclusive) to be appropriate in light of the Company's results of operations and capable of being sustained. See "Financial Matters--Long-Term Debt and Financing Arrangements." The Credit Facility includes restrictive covenants regarding the incurrence of additional debt, the maintenance of certain fixed charge coverage and leverage ratios and the making of contributions to LCR, as well as the payment of dividends to the extent the Company's net income after January 1, 1994 generally does not exceed, over time, dividends declared or paid after that date. As of June 30, 1994, approximately $104 million was available for the payment of dividends, and the Company is currently in compliance with the financial and other covenants in the Credit Facility and its other debt instruments. However, if the Company were to fail to comply with any of its financial covenants, there can be no assurance that as a condition to waiving any default or otherwise providing the Company with continued access to credit, lenders would not impose certain restrictions on the Company's operations, including a requirement that the Company eliminate or severely restrict dividend payments.

PRICE RANGE OF COMMON STOCK AND DIVIDENDS

The Common Stock is listed on the New York Stock Exchange ("NYSE") under the trading symbol "LYO." ARCO has advised the Company that, as of August 1, 1994, ARCO owned 39,921,400 shares of the Common Stock, which represented 49.9 percent of the outstanding shares.

The reported high and low sale prices of the Common Stock based on the New York Stock Exchange Composite Tape for each quarter from January 1, 1992 through August 1, 1994, inclusive, were:

<TABLE>
<CAPTION>

PERIOD	HIGH	LOW
<S>	<C>	<C>
1992		
First Quarter..	$25 3/4	$22 1/8
Second Quarter.......................................	25 7/8	21 1/8
Third Quarter..	25 5/8	21 3/8
Fourth Quarter.......................................	25 1/2	23 1/8
1993		
First Quarter..	29 1/2	23 3/4
Second Quarter.......................................	26 5/8	19
Third Quarter..	21 5/8	16 3/4
Fourth Quarter.......................................	21 1/2	18 3/8
1994		
First Quarter..	23 7/8	20 5/8
Second Quarter.......................................	26 7/8	21 1/4
Third Quarter (through August 1).....................	25 3/4	24

</TABLE>

On August 1, 1994 the closing price of the Common Stock was $24.75 and there were approximately 3,000 record holders of the Common Stock, including The Depositary Trust Company which holds shares of Common Stock on behalf of an indeterminate number of beneficial owners.

Since January 1, 1992, Lyondell has declared per share quarterly cash dividends (which were paid in the subsequent quarter) as follows:

<TABLE>
<CAPTION>

	1ST QUARTER	2ND QUARTER	3RD QUARTER	4TH QUARTER
<S>	<C>	<C>	<C>	<C>
1992......................	$0.45	$0.45	$0.45	$0.45
1993......................	$0.45	$0.225*	$0.225	$0.225

1994......................	$0.225	$0.225**

*On July 23, 1993, the Board of Directors decreased the amount of the regular quarterly dividend from $0.45 to $0.225 per share. For a discussion of this dividend reduction, see "Management's Discussion and Analysis of Financial Condition and Results of Operations--Current Business Outlook."

**On July 22, 1994, the Board of Directors declared a regular quarterly dividend in the amount of $0.225 per share payable on September 15, 1994 to stockholders of record on August 12, 1994.

The declaration and payment of dividends is at the discretion of the Board of Directors of the Company. The future declaration and payment of dividends and the amount thereof will be dependent upon the Company's results of operations, financial condition, cash position and requirements, investment opportunities, future prospects and other factors deemed relevant by the Board of Directors.

Subject to these considerations and to the legal considerations discussed in the following paragraph, the Company currently intends to distribute to its stockholders cash dividends on its Common Stock at a quarterly rate of $0.225 per share.

In order to declare and pay dividends in the future, the Company's Board of Directors will have to make the determination that for purposes of the General Corporation Law of the State of Delaware (the "Delaware Law") there is a sufficient amount of surplus (the amount by which its assets exceed its liabilities and capital) or sufficient net profits at that time. In determining the amount of surplus of the Company for purposes of Delaware Law, the Company's assets, including the stock of any of its subsidiaries, may be valued by the Board of Directors at their current market value. If prior to or as a result of any future dividend the Company had a negative stockholders' equity (as is currently the case), the Company's Board of Directors would have to make the determination that, based upon its familiarity with the Company's business, prospects and financial condition, the Company's recent earnings history, an appraisal of the Company's assets and discussions with the Company's executive officers, legal department and accountants, the dividend was a permitted dividend under Delaware Law.

For a discussion of possible restrictions on the payment of dividends, see "Certain Investment Considerations--Potential Restrictions on Dividend Payments."

CAPITALIZATION

The following table sets forth the capitalization of the Company as of June 30, 1994. This table should be read in conjunction with the historical financial statements of the Company and the related notes thereto appearing elsewhere in this Prospectus.

	JUNE 30, 1994 (IN MILLIONS)
Long-term debt, excluding current portion........................	$ 707
Stockholders' equity (deficit):	
Common stock, $1 par value, 250,000,000 shares authorized, 80,000,000 issued and outstanding(1).........................	80
Additional paid-in capital....................................	158
Accumulated deficit...	(308)

Total stockholders' deficit	(70)
Total capitalization	$ 637

</TABLE>

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(1) Excludes 1,464,328 shares of Common Stock issuable pursuant to outstanding employee stock options at June 30, 1994.

SELECTED FINANCIAL DATA

The following selected income statement and balance sheet data for each of the five years in the period ending December 31, 1993, have been derived from financial statements audited by Coopers & Lybrand, independent accountants. Their report on the Company's financial statements as of December 31, 1993 and 1992 and for each of the three years for the period ended December 31, 1993 is included elsewhere in this Prospectus. The historical financial data set forth with respect to the Company as of and for the three months and six months ended June 30, 1994 and 1993 have been derived from unaudited financial statements that, in the opinion of management, reflect all normal recurring adjustments necessary for a fair presentation of such data. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year. This information should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and with the consolidated financial statements and notes thereto appearing elsewhere in this Prospectus.

<TABLE>
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	AS OF OR FOR								
	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,		YEAR ENDED DECEMBER 31,				
	1994	1993	1994	1993	1993	1992	1991	1990	1989
	(UNAUDITED)		(UNAUDITED)						
	(IN MILLIONS, EXCEPT PER SHARE AND CERTAIN OTHER DATA)								
INCOME STATEMENT DATA:									
Sales and other operating revenues	$ 900	$1,080	$1,724	$2,145	$3,850	$4,809	$5,735	$6,499	$5,361
Cost of sales	794	1,040	1,530	2,069	3,627	4,578	5,210	5,777	4,640
Selling, general and administrative expenses	35	35	69	64	130	127	126	121	108
Operating income	71	5	125	12	93	104	399	601	613
Net interest expense	(18)	(19)	(35)	(36)	(72)	(69)	(60)	(64)	(57)
Minority Interest	(2)	--	(5)	--	(5)	--	--	--	--
Income tax (provision) benefit	(19)	3	(31)	5	(12)	(9)	(117)	(181)	(182)
Income (loss) before cumulative effect of accounting changes	32	(11)	54	(19)	4	26	222	356	374
Cumulative effect of accounting changes(1)	--	--	--	22	22	(10)	--	--	--

Net income	$ 32	$ (11)	$ 54	$ 3	$ 26	$ 16	$ 222	$ 356	$ 374
Net income (loss) per common share:									
Before cumulative effect of accounting changes	$ .40	$ (.14)	$ .68	$ (.23)	$ .06	$ .32	$ 2.78	$ 4.45	$ 4.67
From cumulative effect of accounting changes	--	--	--	.27	.27	(.12)	--	--	--
Net income	$ .40	$ (.14)	$ .68	$ .04	$ .33	$ .20	$ 2.78	$ 4.45	$ 4.67
BALANCE SHEET DATA:									
Cash, restricted cash, cash equivalents and short-term investments(2)	$ 92	$ 29	$ 92	$ 29	$ 119	$ 121	$ 307	$ 127	$ 245
Working capital	214	132	214	132	224	223	375	238	367
Property, plant and equipment, net	716	621	716	621	655	623	569	568	455
Total assets	1,308	1,159	1,308	1,159	1,231	1,215	1,479	1,372	1,267
Long-term debt, excluding current portion	707	717	707	717	717	725	554	471	500
Capitalized lease obligations, less current portion	--	--	--	--	--	--	156	187	214
Common stockholders' equity (deficit)	(70)	(75)	(70)	(75)	(88)	(6)	122	38	9
OTHER DATA:									
Capital expenditures	$ 47	$ 13	$ 79	$ 28	$ 69	$ 97	$ 43	$ 145	$ 176
Depreciation and amortization(1)	14	14	29	28	58	39	39	31	19
Cash flow provided by operating activities	43	28	72	37	84	108	270	386	538
Distribution to ARCO	--	--	--	--	--	--	--	--	500
Dividends per share	$.225	$ .225	$ .45	$ .675	$ 1.35	$ 1.80	$ 1.75	$ 4.10(3)	$ 1.20
Ethylene, propylene and polymers sales (million pounds)	1,458	1,454	2,961	2,761	5,366	5,785	6,000	6,373	5,048
Refined product sales average per day (thousand barrels)	240	288	239	292	263	277	288	301	298

</TABLE>

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(1) See Note 4 of "Notes to Consolidated Financial Statements."

(2) As of June 30, 1994 and December 31, 1993, $45 million and $73 million of cash and $12 million and $6 million of short-term investments, respectively, were restricted for use in LCR capital projects and other expenditures as determined by the LCR owners.

(3) Includes a $2.50 per share special dividend paid in the first quarter of 1990.

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

GENERAL

On July 1, 1993, the Company and CITGO announced the commencement of operations of LCR, a new entity owned by subsidiaries of the Company and CITGO. LCR owns and operates the refining business formerly owned by the Company, including the full-conversion Refinery. LCR is undertaking a major upgrade project at the Refinery to enable the facility to process substantial additional volumes of very heavy crude oil. CITGO is providing a major portion of the funds for the upgrade project and has provided in excess of $100 million for funding other capital projects.

The cost of the upgrade project, based on the detailed engineering completed to date, currently is estimated to be approximately $830 million. In addition, LCR has estimated a 15 percent ($125 million) allowance for contingency costs, which would increase the total project cost estimate to approximately $955 million. The final cost of the project will be influenced by numerous factors, many of which are beyond LCR's control, including the timing and terms of necessary construction, operating and regulatory permits, as well as construction schedule delays whether caused by adverse weather conditions, material shortages, labor disputes or otherwise.

On July 1, 1993, LCR entered into a long-term Crude Supply Agreement with Lagoven, an affiliate of CITGO. In addition, under terms of a long-term product sales agreement ("Products Agreement"), CITGO is purchasing a substantial portion of the refined products produced at the Refinery. Both Lagoven and CITGO are subsidiaries of PDVSA, the national oil company of Venezuela.

Prior to commencment of LCR operations on July 1, 1993, the petrochemical and refining operations of the Company were considered to be a single segment due to the integrated nature of their operations. However, these operations are now considered to be separate segments due to the formation of LCR and the related separate management and operations of that entity.

The petrochemical segment consists of olefins, including ethylene, propylene, butadiene, butylenes and specialty products; polyolefins, including polypropylene and low density polyethylene; aromatics produced at the Channelview Complex, including benzene and toluene; methanol and refinery blending stocks.

The refining segment consists of refined petroleum products, including gasoline, heating oil and jet fuel; aromatics produced at the Refinery, including benzene, toluene, paraxylene and orthoxylene; lubricants, including industrial and motor oils; olefins feedstocks and crude oil resales.

The following table sets forth sales volumes for the Company's major products, for the periods indicated. Sales volumes include production, purchases of products for resale, propylene production from the product flexibility unit and draws from inventory.

<TABLE>
<CAPTION>

	FOR THREE MONTHS ENDED JUNE 30,		FOR SIX MONTHS ENDED JUNE 30,		FOR YEAR ENDED DECEMBER 31,		
	1994	1993	1994	1993	1993	1992	1991
	(IN MILLIONS)						
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Selected petrochemical products (excluding intersegment sales):							
Ethylene, propylene							

and polymers (pounds)............	1,458	1,454	2,961	2,761	5,366	5,785	6,000
Other olefins (pounds)(*).........	249	312	486	599	1,150	1,158	1,112
Methanol (gallons)(*).	46	62	92	111	225	212	224
Aromatics (gallons)...	41	26	77	54	125	112	108
Refined products (thousand barrels per day) (excluding intersegment sales):							
Gasoline..............	103	124	108	132	120	125	131
Heating oil (no. 2 distillate)..........	51	72	50	68	62	60	74
Jet fuel..............	29	33	26	36	30	38	33
Aromatics.............	7	12	8	12	10	11	11
Other refined products............	50	47	47	44	41	43	39
Total refined products volumes...	240	288	239	292	263	277	288

</TABLE>

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(*) The 1994 amounts exclude volumes now sold as MTBE.

The following table sets forth the Company's sales and other revenues for the periods indicated:

<TABLE>
<CAPTION>

	FOR THREE MONTHS ENDED JUNE 30,		FOR SIX MONTHS ENDED JUNE 30,		FOR YEAR ENDED DECEMBER 31,		
	1994	1993	1994	1993	1993	1992	1991
	(IN MILLIONS)						
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Petrochemical products (excluding intersegment sales):							
Ethylene, propylene and polymers...............	$232	$ 226	$ 439	$ 430	$ 808	$ 939	$1,135
Other olefins..........	38	49	73	90	169	177	171
Methanol................	27	23	50	41	89	77	100
Aromatics...............	43	26	75	56	120	121	130
Other petrochemical products and other revenues..............	46	32	89	63	140	95	130
Total petrochemical products sales.......	386	356	726	680	1,326	1,409	1,666
Refined products (excluding intersegment sales):							
Gasoline................	201	278	388	563	950	1,123	1,289
Heating oil (no. 2 distillate)...........	88	144	172	272	481	510	667
Jet fuel................	53	69	96	151	245	342	316
Aromatics...............	32	52	70	97	167	193	195
Other refined products and other revenues.....	82	83	153	157	280	339	294

Total refined products sales................	456	626	879	1,240	2,123	2,507	2,761
Crude oil resales(**).....	58	98	119	225	401	893	1,308
Total.................	$ 900	$ 1,080	$1,724	$2,145	$3,850	$4,809	$5,735

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(**) Crude oil resales consist of revenues from the resale of previously purchased crude oil and from locational exchanges of crude oil that are settled on a cash basis. Crude oil exchanges and resales facilitate the operation of the Company's petroleum processing business by allowing the Company to optimize the crude oil feedstock mix in response to market conditions and refinery maintenance turnarounds and also to reduce transportation costs.

RESULTS OF OPERATIONS

OVERVIEW

Three Months and Six Months Ended June 30, 1994 and 1993

Net income for the second quarter of 1994 was $32 million or $.40 per share compared to net loss of $11 million or $.14 per share for the second quarter of 1993. The net loss in the second quarter of 1993 included charges of $6 million resulting from a write-off of engineering costs associated with the cancellation of a capital project and $2 million for a workforce reduction and realignment. Excluding the effects of these adjustments, earnings improved $35 million during the second quarter of 1994 compared to the second quarter of 1993. This improvement was primarily due to higher margins for petrochemicals.

Net income for the second quarter of 1994 was $10 million higher compared to the first quarter of 1994. This increase was primarily due to higher petrochemical margins, partially offset by lower ethylene sales volumes and lower profitability within the refining segment.

Net income for the first six months of 1994 was $54 million or $.68 per share compared to a net income of $3 million or $.04 per share for the first six months of 1993. First six months 1993 earnings included a $22 million favorable adjustment for the cumulative effect related to prior periods associated with a change in accounting for major maintenance turnarounds. Excluding the effect of this accounting change, earnings improved $73 million during the first six months of 1994 compared to the first six months of 1993. This improvement was primarily due to higher margins for petrochemicals and refined products as well as higher ethylene sales volumes.

Years Ended December 31, 1993, 1992 and 1991

Net income for 1993 was $26 million or $0.33 per share compared with $16 million or $0.20 per share in 1992 and $222 million or $2.78 per share in 1991. Earnings for 1993 included a net $13 million after-tax benefit associated with a change in accounting for major maintenance turnarounds consisting of a $22 million favorable adjustment for the cumulative effect related to prior periods, partially offset by a $9 million charge to current operations. Earnings for 1992 reflect a net after-tax charge of $10 million for the cumulative effect related to prior periods of adopting Financial Accounting Standards Board mandated accounting standards for postretirement benefits and income taxes. Excluding the effect of these accounting changes, the earnings decline was primarily due to lower ethylene sales volumes and lower polyolefins margins, partially offset by higher refined products margins. The decrease in

1992 versus 1991 resulted primarily from lower refining and ethylene margins as well as higher maintenance expenses for scheduled and unscheduled downtime at the Refinery.

The 1993 results included after-tax charges of $11 million consisting of the cancellation of a capital project, an increase in the environmental reserve and a workforce reduction and realignment and an additional charge of $3 million for an adjustment to deferred income taxes associated with an increase in the federal income tax rate. These charges were partially offset by a benefit of $7 million due to a contract adjustment and LIFO inventory profits. Net income in 1992 included a benefit of $3 million due to an insurance recovery. This compares to a benefit of $25 million in 1991 primarily associated with insurance and litigation settlements and LIFO inventory profits.

PETROCHEMICAL SEGMENT

Three Months and Six Months Ended June 30, 1994 and 1993

Revenues. Sales and other operating revenues for the second quarter of 1994 were $439 million compared to $400 million for the second quarter of 1993. The $39 million increase was primarily due

to higher petrochemical sales prices reflecting the improved worldwide economy which has created better market conditions for petrochemicals generally.

Sales and other operating revenues for the first six months of 1994 were $823 million compared to $790 million for the first six months of 1993, an increase of $33 million. The increase was caused by higher petrochemical sales volumes, partially offset by generally lower petrochemical sales prices except for sales prices of methanol which were higher. Higher demand for petrochemicals was caused by the improved worldwide economy. Methanol sales prices were higher due to higher demand caused by the improvement in the worldwide economy and increased use for MTBE as well as industry supply disruptions.

Cost of Sales. Cost of sales was $362 million in the second quarter of 1994 compared to $393 million in the second quarter of 1993, a decrease of $31 million. Cost of sales for the first six months of 1994 was $65 million lower compared to the first six months of 1993. Contributing to these decreases were lower feedstock costs generally caused by lower crude oil prices and the write-off during the second quarter of 1993 of engineering costs associated with the cancellation of the capital project.

Selling, General and Administrative Expenses. Selling, general and administrative expenses for the second quarter of 1994 were unchanged at $9 million compared to the second quarter of 1993. Selling, general and administrative expenses were $1 million higher for the first six months of 1994 compared to the first six months of 1993.

Operating Income. Operating income for the second quarter of 1994 was $68 million compared to an operating loss of $2 million in the second quarter of 1993. The $70 million increase was primarily due to higher ethylene and methanol sales margins. Improved ethylene margins resulted primarily from lower feedstock costs and higher ethylene sales prices. Olefins feedstock costs were lower due to lower crude oil prices. Ethylene sales prices were higher due to higher demand caused by improvement in the worldwide economy, particularly in the U.S. automotive and construction sectors. Methanol margins were higher primarily due to higher sales prices.

Operating income for the second quarter of 1994 compared to the first quarter of 1994 increased $29 million. The increase was primarily due to higher ethylene margins, partially offset by lower ethylene sales volumes. Ethylene margins continued to improve during the current quarter due to higher sales prices caused by improvement in the worldwide economy. Although industry demand for ethylene was strong and production rates remained high, the Company's ethylene sales volumes were lower during the current period due to the repayment of product as a result of inventory exchanges entered into during prior periods.

Operating income for the first six months of 1994 was $107 million compared to $10 million for the first six months of 1993. The $97 million increase was primarily due to higher ethylene and methanol sales margins and to higher ethylene sales volumes. The higher methanol sales margins and higher ethylene sales volumes were caused by the higher demand brought about by the improvement in the worldwide economy. The higher ethylene sales margins were due to lower olefins feedstock costs.

Years Ended December 31, 1993, 1992 and 1991

Revenues. Sales and other operating revenues, including intersegment sales, were $1.5 billion in 1993 compared to $1.7 billion in 1992 and $2.0 billion in 1991. The 1993 decrease of $169 million compared to 1992 was primarily due to lower olefins and polyolefins sales volumes and prices caused by continued weak demand associated with poor worldwide industry conditions and higher industry production due to reduced maintenance downtime during 1993.

The 1992 decrease in sales and other operating revenues of $284 million versus 1991 was primarily due to lower sales prices for olefins and methanol. Olefins sales prices were negatively affected by the continued weak worldwide economy and by additional industry production capability due to capacity additions.

Cost of Sales. Cost of sales was $1.4 billion in 1993 compared to $1.5 billion in 1992 and $1.7 billion in 1991. The 1993 decrease of $124 million compared to 1992 and the 1992 decrease of $175 million compared to 1991 were principally due to lower olefins feedstock costs due to the curtailment of production resulting from the poor economic conditions and to a lesser extent to lower feedstock prices.

Cost of sales was reduced in 1993 and 1992 by $5 million and $2 million, respectively, and was increased $2 million in 1991 relating to LIFO inventory adjustments.

Operating Income. Operating income amounted to $57 million in 1993 compared to $102 million in 1992 and $213 million in 1991. The decrease of $45 million in operating income in 1993 compared to 1992 was primarily due to lower ethylene sales volumes and lower polyolefins margins. Ethylene sales volumes and polyolefins margins were lower primarily due to poor industry and economic conditions.

The decrease of $111 million in operating income in 1992 compared to 1991 was primarily due to lower ethylene and methanol margins. Ethylene margins were negatively affected by the continued weak worldwide economy and by industry capacity additions. Methanol sales prices were lower due to the dissipation during 1992 of the Gulf War related price premium created during 1990 and 1991. Contributing to the decrease in operating income was the absence of a $12 million one-time gain recorded in 1991 for proceeds received from an out-of-period settlement of litigation.

REFINING SEGMENT

Three Months and Six Months Ended June 30, 1994 and 1993

Revenues. Sales and other operating revenues for the second quarter of 1994 were $570 million compared to $789 million for the second quarter of 1993, a reduction of $219 million. Sales and other operating revenues for the first six months of 1994 were $1,105 million, a $498 million reduction compared to the first six months of 1993. These decreases were due to lower resale volumes of purchased light refined products, lower sales prices for refined products and lower crude oil resales. Effective with the beginning of LCR operations on July 1, 1993, a majority of the refined products produced at the Refinery is sold to CITGO under the Products Agreement and, as a result, the purchase and resale activity for light refined products conducted for logistic and other reasons declined during the current period. Refined products sales prices were lower primarily due to lower industry crude oil prices. Crude oil resale volumes were lower due to reduced logistical purchases required to meet refinery feedstock requirements, a significant percentage of which are satisfied by Venezuelan crude oil purchased under the Crude Supply Contract.

Cost of Sales. Cost of sales was $541 million in the second quarter of 1994 compared to $756 million in the second quarter of 1993, a decrease of $215 million. Cost of sales decreased by $518 million in the first six months of 1994 compared to the first six months of 1993. These decreases were primarily due to lower purchases for resale of light refined products, lower purchases of crude oil that were resold and lower feedstock costs primarily due to lower crude oil prices.

Selling, General and Administrative Expenses. Selling, general and administrative expenses were $14 million in the second quarter of 1994, an increase of $2 million compared to the second quarter of 1993. Selling, general and administrative expenses increased by $5 million in the first six months of 1994 compared to the first six months of 1993. These increases were primarily due to general and administrative expenses attributable to the creation of LCR as a separate entity and the treatment of ongoing costs beginning July 1, 1993.

Operating Income. Operating income for the second quarter of 1994 was $15 million compared to $21 million for the second quarter of 1993. The $6 million decrease was primarily due to lower industry refining margins, partially offset by higher Venezuelan crude oil processing rates and improved profits from lubricants.

Operating income for the second quarter of 1994 was lower by $11 million compared to the first quarter of 1994. The decrease was primarily due to lower aromatics profitability and lower refined

products margins. Also contributing to the decrease was lower profitability for lubricants. Contributions from aromatics declined from a very strong first quarter primarily due to unit downtime for maintenance turnarounds. Refined products margins were lower primarily due to crude oil costs increasing more rapidly than product prices.

Operating income for the first six months of 1994 was $41 million compared to $26 million for the first six months of 1993. The $15 million increase was primarily due to improved refined products margins. Refined products margins were higher primarily due to processing higher volumes of Venezuelan crude oil purchased under the Crude Supply Contract.

Years Ended December 31, 1993, 1992 and 1991

Revenues. Sales and other operating revenues, including intersegment sales, were $2.8 billion in 1993 compared to $3.7 billion in 1992 and $4.5 billion in 1991. The 1993 decrease of $973 million compared to 1992 was due to lower crude oil resale volumes, lower sales prices for refined products and lower resale volumes of purchased light products. Crude oil resale volumes were lower due to reduced logistical purchases required to meet refinery feedstock requirements which were impacted by higher Venezuelan crude oil volumes purchased under the Crude Supply Agreement. Refined products sales prices were lower as additional industry supply exceeded demand growth due to additions of oxygenates, primarily MTBE to meet stricter environmental standards, as well as new industry conversion capacity. The purchase and resale activity for light refined products conducted for logistic and other reasons was curtailed during the current period because, effective with the beginning of LCR operations on July 1, 1993, a majority of the refined products produced at the Refinery are now sold to CITGO under the Products Agreement.

The 1992 decrease in sales and other operating revenues of $790 million versus 1991 was primarily due to lower crude oil resales and to lower sales prices and volumes for refined products. The price premium that existed for refined products during 1991 that was caused by the 1990-1991 Gulf War dissipated in 1992 resulting in lower prices. Refined products sales volumes were lower primarily due to lower production resulting from scheduled and unscheduled downtime of major units.

Cost of Sales. Cost of sales was $2.6 billion in 1993, compared to $3.6 billion in 1992 and $4.2 billion in 1991. The 1993 decrease compared to 1992 of $1,010 million was principally due to lower quantities of crude oil purchased, lower light refined products purchased and lower crude oil prices. Crude oil purchases were lower due to the reduced logistical purchases. Purchases of light refined products were lower primarily due to lower purchases for resale activity. Lower crude oil prices were due to generally lower industry-wide crude oil prices and to the processing of higher volumes of lower priced heavy Venezuelan crude oil purchased under the Crude Supply Agreement.

The 1992 decrease compared to 1991 of $605 million was principally due to lower crude oil purchases that were resold and to lower refining feedstock costs. Refining feedstock costs were lower primarily due to lower production resulting from the scheduled and unscheduled downtime and a reduction in crude oil runs due to unfavorable margins. Partially offsetting this decrease were higher maintenance expenses related to the scheduled and unscheduled downtime. Cost of sales was reduced in 1991 by $8 million relating to LIFO inventory profits.

Selling, General and Administrative Expenses. Selling, general and administrative expenses were $48 million in 1993, compared to $43 million in 1992 and $42 million in 1991. The increase in 1993 compared to 1992 of $5 million resulted primarily from higher personnel and realignment expenses associated with ongoing operations of LCR starting on July 1, 1993.

Operating Income. Operating income amounted to $81 million in 1993, compared to $49 million in 1992 and $235 million in 1991. The $32 million increase in 1993 compared to 1992 was primarily due to improved refined products margins, partially offset by higher selling, general and administrative expenses. Refined products margins were higher due to processing higher volumes of lower priced heavy Venezuelan crude oil purchased under the Crude Supply Agreement.

The decrease in operating income of $186 million in 1992 compared to 1991 resulted primarily from lower refined products margins and to higher maintenance expenses. Refined products margins were lower primarily because decreasing product prices more than offset reductions in crude oil costs. Product prices were lower due to the dissipation during 1992 of the Gulf War related price premium created in 1990 and 1991. Higher maintenance expenses and the reduced ability to process higher margin heavy crude oils which resulted from the scheduled and unscheduled downtime of major units during 1992 contributed to lower operating profits. Also contributing to the decrease in operating income during 1992 compared to 1991 was a net reduction in benefits of $11 million from insurance settlements and lower LIFO inventory profits of $8 million.

UNALLOCATED

Three Months and Six Months Ended June 30, 1994 and 1993

General and Administrative Expenses. General and administrative expenses were $12 million in the second quarter of 1994 compared to $14 million in the second quarter of 1993, a decrease of $2 million. General and administrative expenses were $23 million in the first six months of 1994, a $1 million decrease compared to the first six months of 1993. The improvement was primarily due to the charge during the second quarter of 1993 for the workforce reduction and realignment.

Minority Interest in LYONDELL-CITGO Refining Company Ltd. Minority interest was $2 million in the second quarter of 1994 and $5 million for the first six months of 1994, representing CITGO's allocated share of LCR's income.

Income Tax. The effective income tax rate during the second quarter of 1994 from continuing operations was 37 percent compared to 22 percent (tax benefit) for the second quarter of 1993. The effective income tax rate during the first six months of 1994 from continuing operations was 36 percent compared to 23 percent (tax benefit) for the year earlier period. The tax benefit in 1993 was reduced by a charge to state deferred taxes related to Texas franchise taxes, resulting in relatively low effective income tax benefit rates.

Years Ended December 31, 1993, 1992 and 1991

Selling, General and Administrative. General and administrative expenses were $45 million in 1993, $47 million in 1992 and $49 million in 1991. The reduction of $2 million in general and administrative expenses in 1993 compared to 1992 and in 1992 compared to 1991 primarily resulted from lower personnel related costs.

Interest Expense and Interest Income. Interest expense was $74 million in 1993 compared to $79 million in 1992 and $74 million in 1991. The $5 million reduction in interest expense in 1993 compared to 1992 was primarily caused by a reduction of outstanding debt due to the prepayment of amounts due under capitalized leases during April, 1992. The $5 million increase in 1992 compared to 1991 resulted from higher average debt outstanding in 1992 which more than offset lower interest rates.

Interest income was $2 million in 1993 compared to $10 million in 1992 and $14 million in 1991. The $8 million decrease in 1993 versus 1992 was primarily due to lower amounts of cash available for investment. The $4 million decrease in 1992 versus 1991 was primarily due to lower interest rates and to a lesser extent to lower amounts of cash available for investment.

Minority Interest in LYONDELL-CITGO Refining Company Ltd. Minority interest was $5 million in 1993 representing CITGO's allocation of LCR's income.

Income Tax. The effective income tax rate during 1993 from continuing operations was 73.1 percent compared to 27.3 percent for 1992 and 34.6 percent for 1991. The difference for 1993, between the effective tax rate and the federal statutory rate was primarily due to a charge to state deferred taxes

related to Texas franchise taxes and the unfavorable impact on federal deferred taxes of the increase in the federal tax rate. The difference for 1992 was primarily due to a state income tax adjustment, tax exempt income related to company owned life insurance and tax exempt interest.

FINANCIAL CONDITION

Three Months and Six Months Ended June 30, 1994 and 1993

Cash flow from operations for the six months ended June 30, 1994 was $72 million which was net of annual property tax payments of $28 million made in the first quarter of 1994 and federal income tax payments of $29 million made in the second quarter of 1994. Cash flows associated with investing activities during the six months ended June 30, 1994 included capital expenditures of $79 million, of which $29 million was for environmentally related projects and $28 million was for the upgrade project at the Refinery which was contributed by CITGO, the minority owner. Cash flows associated with financing activities during the six months ended June 30, 1994 included $36 million of dividend payments and a net $12 million for debt repayments. On July 22, 1994, the Board of Directors declared a regular quarterly dividend of $0.225 per share of common stock, payable September 15, 1994 to stockholders of record on August 12, 1994. Management is currently considering additional capital projects which could result in a moderate increase over budgeted 1994 capital expenditures.

Years Ended December 31, 1993, 1992 and 1991

Investing Activities. Cash flows associated with investing activities during 1993 included capital expenditures of $60 million, excluding $9 million related to the Refinery upgrade project, of which $38 million was for environmentally related projects at the Refinery and the Channelview Complex. During 1992, capital expenditures were $97 million, of which $57 million was for environmentally related projects. The 1994 capital expenditures budget, excluding the Refinery upgrade project, has been set at $90 million. The budget provides approximately $60 million for refinery projects, $26 million of which are to be funded by Lyondell according to the terms of the agreement with LCR and $34 million to be funded from the restricted cash balance which was created by CITGO's 1993 contributions to LCR. The remaining $30 million is for petrochemical projects at the Channelview Complex. In addition to the capital expenditures budget, $150 million of spending in 1994, funded by CITGO, is planned for the Refinery upgrade project designed to increase the Refinery's ability to process larger volumes of very heavy Venezuelan crude oil.

As of December 31, 1993, $73 million of cash and $6 million of short-term investments were restricted for use in LCR capital projects, including the Refinery upgrade project and other expenditures as determined by the LCR owners.

Financing Activities. Cash flows associated with financing activities during 1993 included $108 million of dividend payments, $29 million for scheduled repayments of medium-term notes and $4 million of net proceeds from short-term debt.

In December 1993, the Company completed a five-year, $400 million revolving Credit Facility with a group of banks, representing an increase in amount and term compared to the Company's previous $300 million bank credit facility, which was scheduled to terminate in July, 1994. Borrowings under the new Credit Facility bear interest based on Euro-Dollar, CD or prime rates, at the Company's option. The facility is available for working capital and general corporate purposes as needed. This Credit Facility contains covenants relating to dividend payments, debt incurrence, liens, disposition of assets, mergers and consolidations, fixed charge and leverage ratios and certain investments in LCR. At December 31, 1993, no amounts were outstanding under this Credit Facility. See Note 11 of "Notes to Consolidated Financial Statements."

During 1993, all of the $108 million of dividend payments exceeded earnings and profits in 1993, as computed for federal income tax purposes subject to final determination by the Internal Revenue Service, and will be considered a return of capital to all stockholders. See Note 13 of "Notes to Consolidated Financial Statements."

ENVIRONMENTAL MATTERS

Various environmental laws and regulations impose substantial requirements upon the operations of the Company. The Company's policy is to be in compliance with such laws and regulations, which include, among others, the Comprehensive Environmental Response, Compensation and Liability Act of 1980 ("CERCLA"), as amended, the Resource Conservation and Recovery Act ("RCRA") and the Clean Air Act and Clean Air Act Amendments of 1990. ARCO, along with many other companies, has been named a potentially responsible party ("PRP") under CERCLA in connection with the past disposal of waste at third party waste sites. The Company may have an obligation to reimburse ARCO for a portion of the remediation costs for two of those sites pursuant to a cross-indemnity agreement. For a discussion of this agreement, see "Relationship with ARCO--Cross-Indemnity Agreement."

The Company reserves for contingencies, including those based upon unasserted claims, that are probable and reasonably estimable. In connection with environmental matters, the Company establishes reserves based upon known facts and circumstances. Based on current environmental laws and regulations, the Company believes that it has adequately reserved for the matters described above and, based upon such reserves, does not anticipate any material adverse effect upon its earnings, operations or competitive position, although the resolution in any reporting period of one or more of these matters could have a material impact on the Company's results of operations for that period.

The environmental reserve on June 30, 1994 was $19 million and included $1 million of estimated advances to ARCO for remediation costs associated with CERCLA waste disposal sites and $18 million of estimated remediation costs related to waste disposal sites located within the Company's facilities associated with RCRA. The Company spent $143,000 during the six months ended June 30, 1994 and $627,000, $593,000 and $1 million in 1993, 1992 and 1991, respectively, relating to CERCLA matters. The Company also spent $4,739,000 during the six months ended June 30, 1994 and $2 million, $158,000 and $224,000 in 1993, 1992 and 1991, respectively, in conjunction with RCRA matters. The Company estimates it will incur an additional $2 million of costs in conjunction with CERCLA and RCRA matters during 1994, an amount which is included in the June 30, 1994 environmental reserve.

CURRENT BUSINESS OUTLOOK

Lyondell's second quarter and first six months of 1994 results reflect a petrochemicals business environment which has continued to improve. These results were partially offset by refining industry conditions which reflect depressed margins. The effect of the depressed industry margins on LCR was partially offset by the benefits of LCR's Crude Supply Contract.

Profitability and cash flows for the petrochemical and refining businesses are affected by market conditions, feedstock cost volatility, capital expenditures required to meet increasing environmental standards, repair and maintenance costs, and downtime of production units due to turnarounds. Turnarounds on major units can have significant financial impact due to the repair and maintenance costs incurred as well as the associated loss of production, resulting in lower profitability during the period of the turnaround. The methanol unit at the Channelview Complex is currently expected to be shut down for maintenance for approximately six weeks during the third quarter. In addition, turnarounds on the coker and one of the major crude distillation units at the Refinery currently are scheduled to begin in October 1994. During these Refinery turnarounds, which are also expected to last approximately six weeks, work will be completed to "tie-in" the crude distillation unit to the upgrade project, thereby avoiding or reducing downtime of the unit that otherwise would be necessary for the completion of the upgrade project. However, the timing of such turnarounds may be accelerated or delayed because of numerous factors, some of which are beyond the Company's control.

Management believes that the low costs and operating flexibility of its petrochemical business, as well as its large production capacity, position it to generate higher cash flows if the petrochemical cycle continues to improve. In the first six months of 1994, the domestic olefins industry operated at close to maximum available capacity. However, additional capacity scheduled to come on-stream in 1994 and early 1995 (including one plant that came on stream during the second quarter of 1994) and rising feedstock prices may negatively affect future operating rates and margins. Management believes the Company has significantly improved the outlook for its refining business by forming LCR which has entered into the Crude Supply Contract and Products Agreement. These arrangements are designed to diminish the impact of market volatility and stabilize cash flow at attractive levels relative to historic performance, although the remaining portion of LCR's crude oil volume continues to be sensitive to market conditions.

Although the future economic environment cannot be known with certainty, the Company believes that the cash flow management, cost reduction and other steps taken during the past two years have positioned it to capitalize on the improvement in the business environment. Further, the Company believes that business conditions will be such that cash balances, cash generated from operating activities and existing lines of credit will be adequate to meet future cash requirements for scheduled debt repayments, necessary capital expenditures and to sustain for the reasonably foreseeable future the regular quarterly dividend. However, the Company continually evaluates its cash requirements and allocates cash in order to maximize stockholder returns.

Management cautions against projecting any future results based on present or prior earnings levels because of the cyclical nature of the refining and petrochemical industries and uncertainties associated with the United States and worldwide economies and United States governmental regulatory actions.

FINANCIAL MATTERS

OVERVIEW

The Company's primary financial strategy is to use its cash position and cash flow to enhance total return to stockholders as determined by stock appreciation and dividends, while maintaining suitable credit ratings and appropriate financial liquidity. The Company believes that its ability to maintain suitable debt ratings, to fund a capital program appropriate to its asset base, to pay dividends on its Common Stock and to position the Company to benefit from upturns in the business cycle are critical factors in maximizing total return to stockholders.

In 1993, as it became apparent that the downturn in petrochemicals would be broader and more prolonged than previously expected, the Company took action consistent with the strategies described above to improve its ability to generate cash flow. These actions included implementation of a cost reduction program, a reduction of the capital budget and a decrease in the regular quarterly dividend. These and the other actions, as well as management's continued commitment to keep working capital at minimal levels, have better positioned the Company to benefit from an upturn in the business cycle. See "Managements' Discussion and Analysis of Financial Condition and Results of Operations--Current Business Outlook."

CAPITAL SPENDING

The Company invests discretionary capital in order to improve operating efficiency, increase production capability in a cost-effective manner, lower operating costs or upgrade the petrochemical components in its product streams. A significant portion of the Company's non-discretionary capital spending is used for projects to improve the health, safety and environmental aspects of its operations, including compliance with government regulations, and for replacing capital assets.

Lyondell places major emphasis on finding innovative solutions to improve its operations without a high level of discretionary capital spending. As one example of this strategy, in order to take advantage of the strong market for its petrochemical products and to reduce operating costs, the Company debottlenecked its two olefins plants and related units in 1989, which increased the rated ethylene capacity from 2.8 to 3.6 billion pounds per year and also increased the capacities of certain downstream units at less than half of the estimated cost of new "grassroots" capacity. Another example of this strategy is the LCR transaction. The funds contributed to LCR by CITGO (other than for the upgrade project) are required to be used for capital spending and other expenditures as determined by the LCR owners, and will substantially reduce the total capital spending that the Company otherwise would be required to make in connection with Refinery operations. See "The Company--Refining--LCR Transaction--Contributions of the Parties."

The petrochemical business capital expenditures totaled $15 million in 1993, and its capital budget for 1994 is $30 million, of which approximately $3 million is for environmentally-related capital projects. The refining business capital expenditures (excluding spending on the upgrade project) totaled $45 million in 1993. The refining business capital budget (excluding the upgrade project) for 1994 is approximately $60 million, of which $48 million is for environmentally-related capital projects. See "The Company--Environmental Matters" for a discussion of these environmentally-related capital projects. Management is currently considering additional capital projects which could result in a moderate increase in 1994 capital expenditures.

The Company remains obligated to fund certain Refinery environmentally-related capital projects begun prior to the creation of LCR as well as its share of ongoing Refinery capital improvements; the total of these obligations is estimated to be approximately $75 million through the completion of the upgrade project. The level and timing of these anticipated capital expenditures will be affected by changes in applicable governmental regulations, including environmental and tax laws. See "The Company--Refining--LCR Transaction--Contributions of the Parties."

As part of its ongoing operations, the Company periodically conducts maintenance turnarounds on its facilities, during which capital expenditures and maintenance expenses as well as lost operating income are typically incurred. In addition, it may become necessary to shut down units between major turnarounds in order to perform less extensive maintenance. Such shutdowns were necessary on the two olefins units at the Channelview Complex during 1993. In addition to the required repairs, other work was performed during the shutdowns which is expected to postpone the next major turnaround on the Company's olefins units. Shutdowns also were necessary on two units at the Refinery during 1993. The methanol unit at the Channelview Complex is currently expected to be shut down for approximately six weeks to perform maintenance later this year. Although turnarounds on principal facilities are usually scheduled well in advance, the timing of such turnarounds can be accelerated or delayed because of numerous factors, many of which are beyond the Company's control. Turnarounds on the coker and one of the major crude distillation units at the Refinery currently are scheduled to begin in October 1994; however the timing of such turnarounds may be accelerated or delayed because of numerous factors, some of which are beyond the Company's control. During these Refinery turnarounds, work will be completed on the crude distillation unit to "tie-in" this unit to the upgrade project, thereby preventing or reducing downtime of the unit that otherwise would be necessary as part of the upgrade project. See "Certain Investment Considerations--LCR Transaction and Refinery Upgrade Project--Heavy Crude Oil Processing" and "The Company--Refining--Refining Feedstocks."

LONG-TERM DEBT AND FINANCING ARRANGEMENTS

As of June 30, 1994, the Company had $707 million of long-term debt consisting of $300 million of notes due 1996 and 1999, $200 million of notes due 1997 and 2002 and $207 million of medium-term notes due from 1995 to 2005.

The notes due 1996 and 1999 and the medium-term notes contain Put Rights that would allow the holders to require the Company to repurchase the debt at par upon the occurrence of certain events combined with specified declines in public ratings on the notes due 1996 and 1999. Events that may trigger the Put Rights include, among other things, (i) acquisitions by persons other than ARCO or the Company of more than 20 percent of the Company's Common Stock, (ii) any merger or transfer of substantially all of the Company's assets in connection with which the Company's Common Stock is changed into or exchanged for cash, securities or other property and (iii) payment of dividends other than regular dividends. See "Certain Investment Considerations--Potential Restrictions on Dividend Payments."

Company Unsecured Revolving Credit Facility

During December 1993, the Company executed the Credit Facility, a five year, $400 million unsecured revolving credit facility that replaced its existing $300 million credit facility which was due to expire in July 1994. At June 30, 1994, no amounts were outstanding under the Credit Facility.

Under the terms of the Credit Facility, the interest rate for borrowings is based on Euro-Dollar, CD or prime rates, at the Company's option, and also is dependent upon the Credit Facility utilization rate and the Company's debt ratings. The Credit Facility contains restrictive covenants regarding the incurrence of additional debt, the maintenance of certain fixed charge coverage and leverage ratios and the provision of contributions to LCR, as well as the payment of dividends. The Company is currently in compliance with the financial and other covenants in the Credit Facility. See "Certain Investment Considerations--Potential Restrictions on Dividend Payments."

LCR Unsecured Revolving Credit Facility

Effective July 1, 1994, LCR entered into a 364-day unsecured $70 million revolving credit facility with a group of banks, including Continental Bank as agent. Under terms of the credit facility, LCR may borrow with interest based on prime, LIBOR or CD rates at LCR's option or have letters of credit

issued on its behalf. The revolving credit facility may be extended at the request of LCR upon consent of the bank group. The credit facility contains covenants that limit LCR's ability to modify certain significant contracts, dispose of assets or merge or consolidate with other entities. This agreement replaced a $100 million revolving credit facility with substantially the same terms which expired on June 30, 1994.

Petrochemical Financing Strategy

Potential funding sources for long-term capital projects, whether involving transactions with third parties or otherwise, could include, without limitation, the Company's current financial resources, potential earnings growth, future borrowings and future issuance of equity securities, as well as possible contractual arrangements such as joint ventures or partnerships. See "The Company--Business Strategy." There is no assurance that such funding could be obtained on terms acceptable to the Company. Both the Company's ability to undertake and fund its business strategies, and the general level of the Company's capital commitments and expenditures from period to period, will be affected by a variety of factors including, without limitation, the general business environment, as well as changes in applicable government regulations and tax laws. See "Certain Investment Considerations--Financing Risks; Potential Dilution."

For a further discussion of the Company's long-term debt and financing arrangements, see "Management's Discussion and Analysis of Financial Condition and Results of Operations--Financial Condition" and Note 11 of "Notes to Consolidated Financial Statements."

THE COMPANY

COMPANY OVERVIEW

Lyondell is a leading manufacturer and marketer of petrochemicals and, through its interest in LCR, of refined petroleum products. The Company's corporate headquarters and manufacturing facilities are located in the Houston, Texas area.

The Company produces a wide variety of petrochemicals, including olefins (primarily ethylene, propylene and butadiene), polyolefins (low density polyethylene and polypropylene), methanol, MTBE (methyl tertiary butyl ether) and aromatics. Lyondell is the largest domestic merchant marketer of ethylene and propylene, with rated production capacities of 3.6 and 2.1 billion pounds per year, respectively. Lyondell's petrochemical products are primarily commodity chemicals that are sold to customers for use in the manufacture of chemicals, plastics and other synthetic materials. These materials are used, in turn, to produce a wide variety of consumer goods and industrial products.

The Company's refining business is conducted through its approximate 90 percent interest in LCR, which operates the Refinery. LCR sells the majority of the gasoline, jet fuel and heating oil it produces to CITGO, which currently has an approximate 10 percent interest in LCR. LCR also produces fuel oil and aromatics, as well as lubricants for the transportation, oil drilling and food processing industries.

Lyondell was originally created by ARCO as a separate division (the "Lyondell Division") in 1985 through the combination of the operations of the Channelview Complex and the Refinery. Effective July 1, 1988, ARCO transferred substantially all the assets and liabilities relating to the integrated petrochemical and petroleum processing business of the Lyondell Division to a wholly-owned subsidiary incorporated under the laws of the state of Delaware. In February, 1990, the Company acquired a polypropylene plant and a low density polyethylene plant located in Pasadena, Texas (the "Polymers Facility"). On July 1, 1993 the Company and CITGO announced the commencement of operations of LCR, a new entity formed and owned by the Company and CITGO in order to own, operate and upgrade the Company's refining business.

In exchange for the initial transfer of petrochemical and refining assets and liabilities in 1988, Lyondell issued ARCO additional shares of its Common Stock, bringing ARCO's stock ownership to 80,000,000 shares, which represented all of the then outstanding Common Stock. In January 1989, ARCO completed an initial public offering of shares of Lyondell's Common Stock, and ARCO currently owns 39,921,400 shares, or 49.9 percent of the outstanding shares. For information relating to certain continuing relationships and potential conflicts of interest among Lyondell, LCR and ARCO, including their respective subsidiaries and affiliates, see "Relationship with ARCO."

BUSINESS STRATEGY AND MANAGEMENT PHILOSOPHY

The Company's primary objective is to maximize total return to stockholders (as measured by stock price appreciation plus dividends). Lyondell's management believes that in its petrochemical and refining commodity businesses maximizing free cash flow over the long term is the best means to create value for stockholders. Lyondell's strategy is to position the Company to capture the opportunities of the upturns and to minimize the impact of downturns in the inevitable cycles of its commodity businesses. The Company's assets are managed to maintain low costs and high operational flexibility and management strives to quickly identify and capitalize on opportunities to use its operating and organizational flexibility to improve profitability. Lyondell believes that it has the lowest cost, most flexible operations among its competitors in the domestic olefins industry. Through its interest in LCR, the Company is enhancing the value of its refining business by undertaking a major upgrade of the Refinery in connection with entering into the long-term Crude Supply Agreement and the Products Agreement. In both of its businesses, the Company employs a disciplined approach to capital spending, with discretionary capital spending focused on high-return projects. See "Financial Matters."

Lyondell evaluates, on an ongoing basis, opportunities to expand or diversify its petrochemical operations through potential acquisitions, joint ventures and other opportunities involving third parties. The petrochemical industry is currently experiencing significant merger, acquisition and divestiture activity, and the Company believes the industry ultimately will be left with fewer but more competitive participants. Although management does not believe that the Company will be required to undertake such a transaction in order to maintain its competitive position, management believes that there may be opportunities to create incremental cash flow for the Company's petrochemical business by applying its experience in the efficient and low-cost operation of the Company's facilities to a larger asset base. Vertical integration with an ethylene or propylene consumer could increase olefins plant operating rates during weak market periods by providing captive demand. Horizontal integration with another olefins producer could improve operating efficiencies by spreading costs across larger volumes and enhancing operating flexibility. Consistent with the Company's overall strategy, however, management's intent is to undertake such a transaction only if it expects that the transaction would produce both near-term and long-term improved cash flow. While management has publicly stated the Company's interest in pursuing such transactions, no assurance can be given with respect to the size, scope, timing or likelihood, or the financial or business effect of, any possible transaction. See "Certain Investment Considerations--Financing Risks; Potential Dilution."

Management believes that Lyondell's productive work force, lean organizational structure and participative management style enable the Company to quickly identify and take advantage of profit opportunities in rapidly changing marketplaces. The Company's team-based approach and management style emphasize low costs, quality, customer satisfaction and the responsibility and accountability of each employee. In addition, industry studies have shown that

Lyondell's olefins plants have the highest production per plant-level employee in the industry.

Lyondell also emphasizes superior safety performance in order to safeguard employees, the community and the Company's assets. Lyondell's safety performance at the Channelview Complex and the Refinery has been better than industry averages in each of the past four years, and has improved over that time period. The recordable incidence rates for the Channelview Complex were 1.69 and 1.39 in 1992 and 1993, respectively, both well below the petrochemical industry average rate of 3.3 in 1992 (the year of the most recently available industry data). The LCR recordable incidence rates were 3.9 and 2.8 in 1992 and 1993, respectively, also well below the refining industry average rate of 4.4 in 1992 (the year of the most recently available industry data). Recent comparative data for the polymers industry is not available, but the Polymer Facility's recordable incidence rate was 4.4 in 1993, and it has completed seven and one half years of operations without a lost-workday injury. In 1993, the Channelview Complex received Star certification for plant safety under the Voluntary Protection Programs established by the Occupational Safety and Health Administration ("OSHA"), for which less than one-tenth of one percent of eligible sites have qualified to date.

INDUSTRY OVERVIEW

The manufacture and marketing of petrochemicals is fundamental to many segments of the economy, including the production of consumer products, housing components, automotive products and other durable and non-durable goods. Ethylene is the largest single petrochemical in terms of volume of production worldwide and is the key building block for a large number of chemicals. With the wide proliferation of end-use products derived from ethylene during the past 20 years, especially as plastics have developed into low-cost, high performance substitutes for a wide range of materials such as metals and paper, U.S. ethylene consumption has grown by an average annual rate of approximately four percent.

The supply of and demand for ethylene in the various geographic regions of the world, and the movement of ethylene and its derivatives between regions, significantly affects a large segment of the petrochemical business. Foreign consumption of ethylene derivatives has, on a per capita basis,

substantially lagged that in the U.S. However, as other regions develop economically, this gap could narrow.

The petrochemical industry historically has experienced periods of high demand and high capacity utilization which result in increasingly high operating margins and profitability. This generally leads to new capacity investment until supply exceeds demand. The overcapacity in turn leads to periods of decreasing capacity utilization and declining operating margins until demand exceeds supply and the cycle is repeated. For example, during the mid 1980's, olefins capacity increases did not keep pace with demand and, by 1987-1988, domestic producers were operating at high capacity utilization rates and prices and margins had increased substantially as a result of ethylene demand growth. Ethylene demand growth peaked at 6.7 percent in 1987 resulting in average industry operating rates of 97 and 100 percent (of nameplate capacity), in 1987 and 1988, respectively. The high profitability experienced by the ethylene industry during this period peaked in early 1989. Over 7.7 billion pounds was added to domestic ethylene capacity from the end of 1989 to the beginning of 1994 (a 20 percent increase). The additional capacity, combined with poor overall U.S. and world economic conditions and further additions to supply in other parts of the world, outpaced ethylene demand growth and caused the industry to experience a decline in margins. During 1992 and 1993, U.S. industry operating rates were 89 and 92 percent, respectively.

The data in this paragraph with respect to industry operating rates, demand and capacity is based on reports by Chemical Data, Inc.

Domestic ethylene demand grew at approximately three percent during 1993 and increased in the fourth quarter, with growth at more than four percent. One new plant came on line during the second quarter of 1994 and another plant is scheduled for completion in early 1995. Capacity additions resulting from these two new plants, along with additional plant expansions, are expected to total four billion pounds, or 8.6 percent of 1993 domestic industry capacity. No new additional ethylene plants have been announced for the U.S. after 1995. The Company estimates that the average length of time to design, obtain necessary permits for, construct and begin to operate a new ethylene plant on the U.S. Gulf Coast is approximately four years. See "Certain Investment Considerations--Uncertain Petrochemical Industry Outlook."

Due to the Company's large ethylene capacity, a small change in ethylene margin causes a large change in the Company's profitability and cash flow. For example, assuming that the Company operates at its rated capacity, a one cent per pound annual increase in ethylene margins can result in a $36 million annual increase in the Company's pre-tax operating income. The Company's other major commodity chemical products all experience cyclical market conditions similar to (although not necessarily coincident with) those of ethylene. As a producer of olefins primarily for the merchant market, Lyondell may experience greater variations in its sales volumes and profitability when industry supply and demand relationships are at extremes in comparison to more integrated competitors, i.e., those with a higher proportion of captive demand for olefins derivatives production. In 1993 the Company sold approximately 90 percent of its ethylene and propylene production into the merchant market.

The refining business tends to be volatile as well as cyclical. Crude oil prices, which are impacted by worldwide political events and the economics of exploration and production in addition to refined products demand, are the largest source of this volatility. Demand for refined products is influenced by seasonal and short-term factors such as weather and driving patterns, as well as by longer term issues such as energy conservation and alternative fuels. The refined products supply is also dependent on industry operating capabilities and on long-term refining capacity trends. Among LCR's refining competitors are major integrated petroleum companies that have their own raw material resources and, in many cases, downstream markets, both of which tend to decrease the impact of business cycles on these competitors' sales volumes and profitability.

Although 1990 and 1991 were generally viewed as good years for the refining industry, industry profitability returned to lower levels beginning in 1992. Although apparent demand for refined products has shown a slight increase consistent with growth in the overall economy, supply has been more than adequate to meet this demand. Capacity increases have occurred in the form of debottlenecks to

conversion units and additional oxygenate capacity, including new MTBE plants, which have added to gasoline supply. To date, this has more than offset the declines in industry crude oil distillation capacity, which are beginning to occur as smaller, less efficient plants are shut down. The resulting lower refining profitability has been more evident for merchant refiners, who do not have retail outlets for their products.

PETROCHEMICALS

The Company believes, based on the most recently available ethylene industry survey by Solomon Associates, Inc. (which used 1991 data), that it is the lowest cost producer of ethylene in the U.S. industry. Factors contributing to the Company's low-cost position include flexibility in feedstock supply and product output, integration of manufacturing, storage and transportation facilities and the ability to upgrade by-product streams.

Petrochemical Products

The Company's olefins plants and related processing units produce ethylene, propylene, butadiene, butylenes, benzene, toluene, hydrogen and certain specialty products, such as isoprene, dicyclopentadiene, piperylenes and resin oils along with gasoline blendstocks and heavy liquid fuels. The Company's petrochemical products are used by its customers to manufacture intermediate chemicals for plastics and other synthetic materials that are used in a variety of consumer and industrial products. The Company also produces methanol and MTBE.

PETROCHEMICAL PRODUCTS AND RATED CAPACITIES

<TABLE>
<CAPTION>

PRODUCT	PRIMARY USES
<S>	<C>
ETHYLENE Produced at Channelview Complex. Current rated capacity: 3.6 billion pounds/year.	Polyethylene, ethylene oxide used to produce ethylene glycol, ethylene dichloride used to produce polyvinyl chloride, ethylbenzene used to produce styrene. Major end uses: trash bags, packaging film, toys, blow-molded bottles, pipe, anti-freeze, polyester fibers and resins.
PROPYLENE Produced at Channelview Complex. Current rated capacity: 2.1 billion pounds/year (excludes product flexibility unit).	Polypropylene, acrylonitrile, propylene oxide. Major end uses: carpet backing, luggage, high impact plastics, polypropylene fibers, polyurethane foams, cleaning compounds and coatings.
BUTADIENE Produced at Channelview Complex. Current rated capacity: 615 million pounds/year.	Styrene butadiene rubber (SBR), ABS copolymer (acrylonitrile butadiene styrene). Major end uses: rubber for tires, hoses, surgical gloves (SBR), high-impact plastics (ABS).
AROMATICS Benzene and toluene produced at Channelview Complex. Benzene current rated capacity: 90 million gallons/year. Toluene current rated capacity: 40 million gallons/year.	Benzene: styrene, phenol nylon. Toluene: octane enhancers, benzene production, urethane chemicals. Major end uses: plastics, rubber markets, fibers for carpet and apparel, polyurethane foams for seat cushions, gasoline.
SPECIALTY PRODUCTS Dicyclopentadiene (DCPD), LRO (Lyondell resin oil), piperylenes, isoprene produced at Channelview Complex. Total current rated capacity: 388 million pounds/year.	Various types of hydrocarbon resins and unsaturated polyester resins. Major end uses: inks, adhesives, paints and varnishes, rubber market, fiberglass products.
METHANOL Produced at Channelview Complex. Current rated capacity: 233 million gallons/year.	MTBE, formaldehyde, acetic acid. Major end uses: gasoline, adhesive resins, textiles, paints, coatings.
MTBE Produced at Channelview	Blending component for oxygenated gasoline.

Complex. Current rated capacity: 167 million gallons/year.	
LOW DENSITY POLYETHYLENE Produced at Polymers Facility. Current rated capacity: 140 million pounds/year.	Trash bags, packaging film, toys, housewares, paper coatings.
POLYPROPYLENE Produced at Polymers Facility. Current rated capacity: 300 million pounds/year.	Plastics for auto parts, household products, carpet backing, fibers, films.

</TABLE>

Petrochemical Marketing and Product Distribution

Lyondell sells substantially all of its olefins products to long-term customers. Sales are made pursuant to written agreements, which typically provide for monthly negotiations of prices based upon then current market prices. Contract volumes are established within a range, and the contracts generally allow the customer to take up to 10 to 20 percent less than the maximum contract commitment. The terms of these contracts are fixed for a period (typically three to five years), although earlier terminations may occur if the parties fail to agree on price and deliveries are suspended for a period of several months. In some cases, these contracts also contemplate extension of the term unless specifically terminated by one of the parties.

The Company sells substantially all of its methanol output and the majority of the benzene volumes under long-term contracts having terms similar to those contained in the olefins contracts. A significant portion of the Company's benzene production is sold under contract to ARCO Chemical at market-based prices. See "Relationship with ARCO." Lyondell licenses MTBE technology from ARCO Chemical and sells MTBE produced at one of its two units to ARCO Chemical at market-based prices. The production from the second unit is tolled for LCR for gasoline blending.

Ethylene and propylene are shipped or exchanged via a comprehensive pipeline system which has connections to numerous Gulf Coast ethylene and propylene consumers. The pipeline system is owned by ARCO Pipe Line Company, and substantially all of it is leased by the Company under a long-term lease. See "--Facilities and Properties" and "Relationship with ARCO--Agreements Between the Company and ARCO Pipe Line Company." The Company has exchange agreements with other olefins producers which allow access to customers who are not directly connected to the pipeline system. Butadiene, methanol, aromatics and other petrochemicals are distributed by one or more of the following means: pipeline, railcar, truck or barge.

Feedstock Flexibility

The primary feedstocks used in the production of ethylene are natural gas liquids feedstocks (ethane, propane and butane, collectively "NGLs") and petroleum liquids. However, olefins plants with the flexibility to consume a wide range of feedstocks are better able to maintain higher levels of profitability during periods of changing energy and petrochemical prices than olefins plants that are restricted in their feedstock processing capability. Prior to the mid 1970s, the feedstocks used at most ethylene plants in the United States consisted predominantly of NGLs. As of July 1, 1994, approximately 44 percent of domestic ethylene plant capacity was limited to NGL feedstocks, and the remaining approximately 56 percent could process to some extent both NGLs and petroleum liquids feedstocks.

Management believes that the Channelview Complex has the highest degree of feedstock flexibility in the domestic industry, and management continuously evaluates both the optimum use of the Company's current feedstock flexibility and opportunities to increase its capacity to process low-cost feeds. The Channelview olefins units are capable of processing not only 100 percent petroleum liquids feedstocks (for which the plants were originally designed) but also up to 90 percent NGLs. Liquid feedstocks have had a significant historical margin advantage over ethane and propane, with an average light naphtha to ethane variable cost advantage over the last five years of three cents per pound of ethylene. The industry margin differential between these feedstocks has been typically between one and four cents per pound of ethylene. The Company has the capability to capture this differential due to its feedstock flexibility. Lyondell is one of only five U.S. producers that has the ability to process a full range of liquid feedstocks through light vacuum gas oil. The factors described above historically have given the Company a competitive advantage that has contributed to the Company's low operating costs.

The Company obtains a portion of its petroleum liquids requirements from the Refinery (primarily naphtha and gas oil), a portion of its petroleum liquids requirements in the form of petroleum condensates pursuant to a contract with a foreign government affiliate, and the remainder of its

petroleum liquids requirements under short-term contracts or on the spot market from a variety of foreign and domestic sources. The Company purchases NGLs from a wide variety of domestic sources, many of which have storage facilities in the Mont Belvieu area.

The Company consumed an average of 186 million standard cubic feet per day of natural gas in 1993 for use as fuel in its operations at the Refinery and the Channelview Complex and as feedstock for its methanol plant. The Channelview Complex is connected to a diverse natural gas supply network, which provides the Channelview Complex with a choice of natural gas suppliers (including producers) at competitive prices. During 1993, the Company's natural gas costs averaged $0.27 less per thousand cubic feet than the published Texas Average Industrial Price, resulting in $18.3 million of savings. If NGLs or residual oils are more favorably priced than natural gas, the Company substitutes them for natural gas in some applications in order to lower its average fuel costs. The primary feedstock and fuel used in the methanol plant is natural gas, although the plant has the flexibility to process NGL feedstocks as well.

Product Flexibility

The Company has the flexibility to adjust its product output mix in response to changing market conditions to capture the highest available margins. The two major factors contributing to this flexibility are (i) the adjustment of olefins plants operating conditions and (ii) the product flexibility unit at the Channelview Complex. The product flexibility unit uses technology licensed from a third party as well as the Company's patented technology to convert ethylene and other light petrochemical streams into propylene. Improvements to this unique unit in 1993 included a doubling of capacity, so that the unit currently is designed to produce one billion pounds per year of propylene in addition to the Company's base capacity of 2.1 billion pounds. Adjustment of olefins plants operating conditions can result in production of up to an additional 0.4 billion pounds of propylene with some reduction in ethylene production.

By-Product Stream Upgrading

Another key component of Lyondell's low-cost position is the Company's capability to upgrade by-products from its olefins production. At the Channelview Complex, the Company recovers and sells valuable petrochemical components contained in a number of intermediate product streams.

The Channelview Complex includes units for butadiene recovery and aromatics recovery. The Company has further enhanced the value of its product slate by expanding its capability to recover other high value products. The Channelview Complex has recovered valuable components such as high purity isoprene, piperylenes and dicyclopentadiene ("DCPD"), and resin oils from its gasoline products since 1986. In 1993, the Company increased resin oil capacity by 14 percent and increased piperylenes capacity by 20 percent with debottlenecks and instrumentation improvements.

The Company plans to utilize its proprietary butylene isomerization technology, known as ISOMPLUS, to efficiently produce isobutylene from olefins plant butylene by-product streams. The project, which will start up in the second half of 1994, includes a MTBE unit debottleneck. See "--Research and Technology; Patents and Trademarks."

Integration

The Company takes advantage of the integration of operations among the Channelview Complex, the LCR Refinery and the Polymers Facility to capture additional opportunities to increase profits by upgrading product streams or providing feedstocks for downstream processes.

The Company and LCR have entered into multiple agreements designed to preserve much of the synergy between the Refinery and the Channelview Complex. Economic evaluations at the Channelview Complex and the Refinery are based on sending products to the highest-value disposition, which may be local use, use at the other site, or third party sales. Certain refinery products (propane, butane, low-octane naphthas, heating oils, and gas oils) can be used as feedstocks for olefins production, and certain Channelview Complex olefins by-products (pyrolysis gasoline and pyrolysis gas oil) can be processed by the Refinery into gasoline, jet fuel or heating oil. Butylenes from the LCR Refinery are tolled through Channelview for the production of alkylate and MTBE for gasoline blending. Hydrogen from the Channelview Complex is used at the Refinery for sulfur removal and product stabilization. Ethylene and propylene produced at the Channelview Complex are used as feedstocks for the Polymers Facility.

[Paste up Graph]

REFINING

Through its interest in LCR, the Company is undertaking a major upgrade project at the Refinery in connection with securing a long-term supply of crude oil and a long-term arrangement to sell its light refined products. Management believes that this strategic initiative will stabilize cash flow from the refining business and reduce the Company's exposure to market volatility. See "--LCR Transaction" and "Certain Investment Considerations--LCR Transaction and Refinery Upgrade Project."

Refined Products

The Refinery produces gasoline, heating oil and jet fuel, for sale primarily to CITGO, aromatics and lube oils (white oils, industrial lubricants, motor oils and process oils) and certain industrial products for sale to others, and feedstocks for the Channelview Complex. The Refinery's aromatics recovery unit produces benzene, toluene, paraxylene and orthoxylene which are marketed by the Company. Benzene and toluene also are produced at the Channelview Complex.

The Refinery has a crude distillation rated capacity of 265,000 barrels per day. In 1993, the Refinery produced approximately 293,000 barrels per day of total products.

The following table shows the typical ranges of production for the Refinery's principal products based on 1993 actual production. It is not possible to produce the maximum amount of all products at the same time. Specific product mix (and thus production volume) is dependent on feedstock type and operating conditions, which are selected based on market conditions.

<TABLE>
<CAPTION>

PRODUCT	TYPICAL PRODUCTION (BARRELS PER DAY)
<S>	<C>
Gasoline	80,000 - 120,000
Heating Oil	35,000 - 70,000
Jet Fuel/Kerosene	10,000 - 35,000
Lube Oils	3,000 - 7,000

</TABLE>

The Refinery has maintained a low-cost position in the best one-third of the domestic industry, according to the two most recent refining industry surveys by Solomon Associates, Inc. The Refinery's flexibility to process a wide range of crude oils as well as its access to numerous sources of crude oil are important factors in maximizing the margins of its cracking operations. The Refinery also has the capability to produce lubricants and aromatics, process purchased intermediates such as fluid and reformer feed, and produce oxygenated gasoline and other specialty products when market conditions are favorable.

Marketing and Product Distribution

CITGO purchases gasoline, heating oil and jet fuel from LCR under the long-term Products Agreement at market-based prices. See "--LCR Transaction--Products Agreement." Lube oils are manufactured and sold directly to end consumers and to distributors throughout the United States and international markets. Aromatics produced at the Refinery are marketed on LCR's behalf by Lyondell.

LCR Transaction

Overview. Management believes that the LCR transaction, entered into in July 1993, accomplishes the Company's strategy for the refining business by significantly upgrading the quality of the refining assets and securing an economically favorable long-term supply of crude oil while reducing the exposure of the refining business to market volatility. The LCR transaction is expected to stabilize cash flow from the refining business at attractive levels relative to historic performance. Major components of the LCR transaction include:

- An upgrade project to increase heavy crude oil processing capability;

- Asset contributions by the Company, cash contributions by CITGO and the resulting ownership positions;

. A long-term crude supply contract for heavy Venezuelan crude oil; and

. A long-term product arrangement to sell light products to CITGO.

Prior to completion of the upgrade project, the keys to operational success for LCR will be (i) to maximize the amount of heavy Venezuelan crude oil processed in the coking mode, (ii) to optimize the efficient utilization of the remaining cracking capacity, and (iii) to maintain an overall focus on low-cost operations. See "--Refining Feedstocks." Heavy (22 degree API gravity) Venezuelan crude oil is supplied pursuant to the Crude Supply Agreement, which is intended to stabilize cash flow from this portion of the refinery. Prior to completion of the Refinery upgrade project, when the full benefits of the upgrade and the Crude Supply Agreement should be realized, the margins realized from the remaining crude processed at the Refinery in a cracking mode will continue to be subject to the volatile refining business environment. The Refinery's low cost, flexibility and access to numerous sources of crude oil supply continue to be important factors in maximizing margins on this portion of the Refinery's operations. See "Certain Investment Considerations--LCR Transaction and Refinery Upgrade Project."

Upgrade Project. LCR is undertaking a major upgrade project at the Refinery to enable the facility to process substantial additional volumes of very heavy crude oil. Project engineering for the upgrade is currently underway. The upgrade project, which is subject to regulatory approvals and the resolution of certain other matters, is intended to increase the heavy crude oil processing capability of the Refinery from approximately 130,000 barrels per day of 22 degree API gravity crude oil to approximately 200,000 barrels per day of 17 degree API gravity Venezuelan crude oil in a coking mode. The upgrade is not intended to increase the total throughput of the Refinery, but rather its ability to process heavier, higher margin crude oils. The project also will include expansion of the Refinery's reformulated gasoline capability and the addition of low sulfur diesel production capability. Major components of the upgrade include new coking, hydrotreating and sulfur recovery units; a new crude distillation unit and modifications to the Refinery's largest existing crude distillation unit and various hydrodesulfurization units.

The cost of the upgrade project, based on the detailed engineering completed to date, currently is estimated to be approximately $830 million. In addition, LCR has estimated a 15 percent ($125 million) allowance for contingency costs, which would increase the total project cost estimate to approximately $955 million. The final cost of the project will be influenced by numerous factors, many of which are beyond LCR's control, including the timing and terms of necessary construction, operating and regulatory permits, as well as construction schedule delays whether caused by adverse weather conditions, material shortages, labor disputes or otherwise.

Following the upgrade, the earnings potential of the Refinery is expected to be enhanced because of the higher margins expected to be associated with the resulting heavier crude oil mix and the

Refinery's increased coking capability, enhanced reformulated fuel and low sulfur diesel production capability and other yield improvements.

Contributions of the Parties. Pursuant to agreements between the Company and CITGO (and their affiliates), the Company contributed its refining business and refining working capital to LCR in July 1993. CITGO contributed $100 million to LCR in 1993 (excluding its contribution towards the upgrade project described below) giving it an approximate 10 percent interest in LCR. Prior to the in-service date for the upgrade project, CITGO is required to reinvest its share of LCR's operating cash flow and thereby increase its interest in LCR. These contributions by CITGO will be used for ongoing LCR capital projects, other than (i) the upgrade project and (ii) certain Refinery environmental capital projects for which liability has been retained by the Company and that the Company will fund with cash contributions. Any additional ongoing LCR capital requirements prior to the in-service date (for purposes other than the upgrade project) will be funded substantially by Lyondell, primarily in the form of subordinated loans to LCR. The Company estimates that during 1994 to 1996 its total contributions to LCR with respect to the capital requirements described in this paragraph will be approximately $75 million, with a significant portion of this amount being in the form of subordinated loans to LCR.

Funding for the upgrade project will occur in three phases. The first phase, the initial $300 million, will be funded by CITGO. As of July 1, 1994, CITGO had contributed $200 million, including letters of credit and cash, toward this phase. The second phase is expected to be funded by an LCR borrowing of approximately $200 million. The third phase (which would be $330 million based on an estimated $830 million upgrade project cost, and would be $455 million based on an estimated $955 million upgrade project cost) is anticipated to be funded (i) 50 percent through an LCR borrowing, (ii) 25 percent through contributions from CITGO and (iii) 25 percent through subordinated loans from the Company. Prior to completion of the upgrade project, the financing costs for the third party borrowings are required to be funded by CITGO. In exchange for CITGO's upgrade project contributions described above and an additional $30 million cash contribution at the in-service date, CITGO's interest in LCR is expected to increase to approximately 40 percent effective as of the in-service date. The timing of the third phase and the level of contributions from the Company and CITGO will depend on the total cost of the upgrade project and on LCR's ability to obtain construction financing. See "Certain Investment Considerations--LCR Transaction and Refinery Upgrade Project--Refinery Upgrade Project Cost and Potential Delays." In the event that LCR is unable to obtain construction financing for the refinery upgrade project, the Company and CITGO each are obligated to fund one-half of the cost of the upgrade project in excess of $300 million. In turn, CITGO's interest in LCR as of the in-service date will be dependent upon the actual contributions of CITGO as discussed in this and the preceding paragraph. CITGO will have a one-time option to increase its interest in LCR up to 50 percent during the 20-month period following the in-service date. See "Certain Investment Considerations--LCR Transaction and Refinery Upgrade Project--Financing of Refinery Upgrade Project and Potential Limitations on LCR Distributions." Subsequent to the in-service date, Lyondell will no longer consolidate LCR in its financial statements but will instead account for LCR as an equity investment.

Crude Supply Agreement. LCR also has entered into the Crude Supply Agreement with Lagoven. The Crude Supply Agreement requires Lagoven to supply and LCR to purchase specified quantities of crude oil for 25 years. The contract incorporates a formula price based on the market value of a slate of refined products deemed to be produced from each particular crude oil or feedstock, less: (i) certain deemed operating costs; (ii) certain actual costs, including crude transportation costs, import duties and taxes; and (iii) a deemed margin, which varies according to the grade of crude oil or other feedstock delivered. Deemed margins and deemed costs are adjusted periodically by a formula primarily based on the rate of inflation. Because deemed operating costs and the slate of refined products deemed to be produced from a given barrel of crude oil or other feedstock do not necessarily reflect the actual costs and yields in any period, the actual refining margin earned by LCR under the contract will vary depending on, among other things, the efficiency with which LCR conducts its operations during such period. See "Certain Investment Considerations--LCR Transaction and Refinery Upgrade Project--Crude Supply Agreement."

Products Agreement. CITGO also has entered into the long-term Products Agreement with LCR to purchase at market-based prices the full volume of gasoline, jet fuel and heating oil manufactured at the Refinery following the expiration of one contract retained by Lyondell. LCR evaluates and determines the optimal product output mix based on spot market prices and conditions. The Products Agreement thus provides a secure outlet for the Refinery's products without imposing an economic penalty caused by production requirements based on retail outlet needs.

Other Agreements. Effective July 1, 1993, LCR and Lyondell entered into multiple agreements for feedstock and product sales designed to preserve much of the synergy between the Refinery and the Company's petrochemical business. Under the terms of these agreements, various feedstock and product streams will be transferred between the Refinery and Lyondell's Channelview Complex at market-related prices. LCR and Lyondell also have entered into tolling agreements, pursuant to which alkylate and MTBE attributable to Refinery feedstocks will be produced for LCR at Lyondell's Channelview Complex.

Also effective July 1, 1993, the majority of the employees formerly employed by Lyondell in its refining business became employees of LCR. Pursuant to the terms of a number of service agreements, Lyondell has contracted with LCR to continue to perform services in certain areas, including employee services, administrative services and marketing services. Lyondell and LCR also have entered into a variety of contracts providing for the assignment or licensing of intellectual property rights associated with the refining business.

Management of LCR. LCR is a limited liability company organized under the laws of the state of Texas, and has pass-through tax characteristics similar to those of a partnership for federal income tax purposes. The Company owns its interest in LCR through a wholly-owned subsidiary, Lyondell Refining Company. CITGO holds its interest through CITGO Refining Investment Company, a wholly-owned subsidiary of CITGO (together with Lyondell Refining Company, the "Owners"). The operative agreement with respect to the rights of each of the Owners and their parent companies is the Amended and Restated Limited Liability Company Regulations (the "Regulations") of LCR. The Regulations govern ownership and cash distribution rights. CITGO has committed to reinvest its share of operating cash flow during the upgrade project which will increase its interest in LCR. Under the Regulations, the Company has unrestricted access to its share of operating cash flow from LCR. See "Certain Investment Considerations--LCR Transaction and Refinery Upgrade Project--Financing of Refinery Upgrade Project and Potential Limitations on LCR Distributions." The term of the Regulations is 25 years, although they may be terminated under certain circumstances, including the insolvency of LCR or either Owner, uncured material breaches by either Owner or failure to obtain permits for the upgrade project. Under the terms of a reciprocal Performance Guarantee and Control Agreement, Lyondell and CITGO each have unconditionally guaranteed the obligations and performance of their respective Owner under the terms of the Regulations.

The Regulations provide that LCR is managed by an Owners Committee, which has three representatives from each Owner. Certain actions require unanimous consent of the representatives, including, without limitation, amendment of the Regulations, borrowing money outside of LCR's existing credit facility, delegation of authority to committees, certain purchase commitments and capital expenditures in excess of designated amounts. All actions not requiring unanimous consent can be determined by Lyondell so long as it is the majority owner. The day-to-day operations of the Refinery are managed by the executive officers of LCR, including former Lyondell officers with responsibility for manufacturing and refining operations and refined products marketing. The results of LCR's operations currently are consolidated into Lyondell's financial statements.

Refining Feedstocks

The Refinery can process a wide variety of domestic and foreign crude oil feedstocks, including heavy (low API gravity, high viscosity) and sour (high sulfur content) crude oils. In addition to 45,000

barrels per day of light sweet crude oil for lubricants production, the Refinery can process up to (i) approximately 220,000 barrels per day of light sour crude oil in a coking mode, or (ii) in the mode in which it currently operates, approximately 130,000 barrels per day of heavy sour crude oil (22 degree API gravity) primarily in a coking mode plus approximately 80,000 barrels per day of light crude oil in a cracking mode. The upgrade project is intended to increase the Refinery's processing capability to 200,000 barrels per day of very heavy Venezuelan crude oil (17 degree API gravity) in a coking mode.

The Refinery began processing Venezuelan crude oil in the third quarter of 1992. Since that time, the Company and LCR have identified and overcome a number of obstacles inherent in processing high rates of heavy Venezuelan crude oil, including making operational changes to the coker and physical modifications to one of the crude distillation units. These changes increased the Refinery's capability of running high volumes of heavy Venezuelan crude oil to approximately 130,000 barrels per day in a coking mode. In the second quarter the Refinery processed an average of 140,000 barrels per day of heavy Venezuelan crude oil, with crude oil run in a coking mode limited to 115,000 barrels per day because of coker mechanical problems. The remainder of the Refinery's capacity currently is used to process lighter crude oils and feedstocks. See "Certain Investment Considerations--LCR Transaction and Refinery Upgrade Project--Heavy Crude Oil Processing."

Domestic crude oil is transported to the Refinery primarily by common carrier pipeline systems. Foreign crude oil is transported by tankers either directly to the Refinery or to the connecting deepwater terminals at Texas City or on the Houston Ship Channel.

FACILITIES AND PROPERTIES

Channelview Petrochemical Complex

The Channelview petrochemical complex, located on an approximately 2,900 acre site in Channelview, Texas, 20 miles east of Houston, includes two large olefins plants, two MTBE units, a methanol plant, a butadiene recovery unit, a product flexibility unit, an aromatics (benzene and toluene) recovery unit, an isoprene recovery unit, a DCPD recovery unit, a piperylenes recovery unit, an alkylation unit and other petrochemical processing units. This complex is connected by pipeline systems to Lyondell's salt dome storage facility at Mont Belvieu, Texas, which has approximately 10 million barrels of storage capacity for NGL feedstocks and for the Company's ethylene and propylene production. The Channelview Complex also is connected by pipeline systems to the LCR Refinery, which is approximately 16 miles away and provides a portion of the petroleum liquids feedstock requirements for the Channelview Complex. See "--Other Properties."

The combined rated capacity of the two olefins plants at January 1, 1994 was approximately 3.6 billion pounds of ethylene per year or approximately 7.7 percent of total domestic production capacity. Based on published rated production capacities, the Company believes it is one of the five largest producers of ethylene in the United States. Of the total ethylene production capacity in the United States, approximately 93 percent is located along the Gulf Coast, and approximately 77 percent is owned by ten manufacturers.

Lyondell licenses MTBE technology from ARCO Chemical and sells MTBE produced at one of its two units to ARCO Chemical at market-based prices. The production from the second unit is tolled for LCR for gasoline blending. The Channelview Complex also includes an isopropyl alcohol ("IPA") unit, which the Company uses for the manufacture of IPA for ARCO Chemical. See "Relationship with ARCO--Agreements Between the Company and ARCO Chemical Company."

Polymers Facility

The Polymers Facility, located on approximately 200 acres in Pasadena, Texas, converts propylene and ethylene supplied by the Channelview Complex into polypropylene and low density polyethylene that is sold into the derivative markets and transported by railcar and truck. The Polymers Facility is connected by pipeline systems to the Company's Mont Belvieu, Texas storage facility for feedstock supply.

LCR Refinery

The LCR Refinery, located on an approximately 700 acre site alongside the Houston Ship Channel, currently includes a coker, a fluid catalytic cracking unit, three reformers, four crude distillation units, two sulfur recovery plants and several hydrodesulfurization units, as well as lube oil manufacturing and packaging facilities and an aromatics recovery unit. The upgrade project will include new coker, hydrotreater, sulfur recovery and crude distillation units, as well as modifications to the largest existing crude distillation unit and various hydrodesulfurization units. The Refinery is connected by pipeline to the Channelview Complex and provides feedstocks to and receives by-products from that complex.

Historically, the Refinery has operated in a "full conversion" mode, processing the heaviest portion of crude oil through the coker unit without producing lower-value residual fuel. The Refinery currently produces residual fuel as a result of processing the heavy Venezuelan crude oil. The upgrade project will enhance the Refinery's conversion capability so that very heavy 17 degree API gravity Venezuelan crude oil can be processed in a full conversion mode.

Other Properties

In addition to the real property, plant and equipment that comprise its Channelview Complex and the real property, plant and equipment which comprise the Polymers Facility, Lyondell owns several pipelines connecting the Channelview Complex, the Refinery and the Mont Belvieu storage facility, including six lines used to transport heavy liquid feedstocks, butylenes, benzene, hydrogen, butane, MTBE and unfinished gasolines between the Channelview Complex and the Refinery. Lyondell also owns the storage facility, a brine pond facility and a tract of vacant land at Mont Belvieu, Texas. Storage capacity for up to 10 million barrels of NGL feedstocks, ethylene, propylene and butylenes is provided in salt domes at the Mont Belvieu facility. The Company also owns an approximate 10 percent undivided joint interest in much of the real property surrounding the Mont Belvieu site which is maintained as a greenbelt for these facilities. The Company has a lease on product pipelines from Mont Belvieu to most olefins customers. See "Relationship with ARCO--General" and "--Agreements Between the Company and ARCO Pipe Line Company."

In addition to the real property, plant and equipment which comprise the Refinery, LCR also owns the real property, plant and equipment which comprise a lube oil blending and packaging plant in Birmingport, Alabama. LCR owns a pipeline and utilizes another pipeline to transport refined products from the Refinery to the GATX Terminal to interconnect with common carrier pipelines.

RESEARCH AND TECHNOLOGY; PATENTS AND TRADEMARKS

The Company maintains a small, focused research and development effort that builds on the Company's strengths and existing businesses. Recent efforts have concentrated on Lyondell's position in butylenes. In 1992, the Company introduced a new technology called ISOMPLUS for producing low-cost isobutylene by isomerizing normal butylenes. Management believes that ISOMPLUS will play an important role in the next increments of capacity that the industry will need to supply the growing MTBE demand in reformulated gasoline. Lyondell is seeking to take advantage of this opportunity by commercializing the technology through a joint development and licensing relationship with CDTECH, a joint venture that is a leading supplier of ethers technologies used in reformulated fuels production. The arrangement with CDTECH is intended to commercialize two isomerization processes that produce blending agents for cleaner burning gasolines. If successful, the alliance is expected to accelerate worldwide commercialization of Lyondell's butene isomerization process. Research efforts are continuing on a similar technology to produce isoamylene, a feedstock used to produce TAME, another oxygenate used in the production of reformulated gasoline. The Company also has product development efforts aimed at tailoring products to meet specific customer needs, especially in such areas as resins, fibers, adhesives and sealants.

The Company, including LCR, uses numerous patents in its operations, many of which are licensed from third parties, including ARCO. See "Relationship with ARCO." Although the Company's licenses from ARCO and others are significant to its operations, the Company is not dependent upon any particular patent, trade secret or the like, and it believes that the loss of any individual patent, trade secret, or similar proprietary right would not have a material adverse effect on the operations of the Company. The Company submitted several new patent applications during 1993 to protect processes it developed.

The Company, including LCR, uses numerous trademarks in its marketing operations, a portion of which are licensed from third parties, including ARCO. The Company is not dependent upon any particular trademark, and it believes the loss of any individual trademark would not have a material adverse effect on its operations. The Company submitted several new trademark applications during 1993 to protect product line names and to foster its marketing position.

ENVIRONMENTAL MATTERS

General

The Company's production facilities generally are required to have permits and licenses regulating air emissions, discharges to water and generation, storage, treatment and disposal of hazardous wastes. Companies that are permitted to treat, store or dispose of hazardous waste and maintain underground storage tanks pursuant to RCRA also are required to meet certain financial responsibility requirements. The Company believes that it has all permits and licenses generally necessary to conduct its business or, where necessary, is applying for additional, amended or modified permits, and that it meets applicable financial responsibility requirements.

The Company's policy is to be in compliance with all applicable environmental laws. The Company is committed to Responsible Care(R), a chemical industry initiative to enhance the industry's responsible management of chemicals. The Company (together with the industry in which it operates) is subject to extensive federal, state and local environmental laws and regulations concerning emissions to the air, discharges onto land or waters and the generation, handling, storage, transportation, treatment and disposal of waste materials. Some of these laws and regulations are subject to varying and conflicting interpretations. In addition, the Company cannot accurately predict future developments, such as increasingly strict requirements of environmental laws, inspection and enforcement policies and compliance costs therefrom, which might affect the handling, manufacture, use, emission or disposal of products, other materials or hazardous and non-hazardous waste. For example, a revised testing procedure under RCRA that became effective in 1990, the toxicity characteristic leachate procedure ("TCLP"), resulted in the reclassification of some wastes at the Company's facilities which has required changes in the Company's waste management practices. These changes have caused the Company to make expenditures in 1993 and will cause the Company to make substantial additional expenditures in 1994. In addition, in April 1994, new regulations relating to emission standards for a large number of petrochemicals such as methanol, butadiene and toluene, were announced by the Environmental Protection Agency ("EPA"). The Company is in the process of analyzing the impact that these new regulations will have on its petrochemical business. Some risk of environmental costs and liabilities is inherent in particular operations and products of the Company, as it is with other companies engaged in similar businesses, and there is no assurance that material costs and liabilities will not be incurred. With respect to the capital expenditures and risks described above, however, the Company does not expect that it will be affected differentially from the rest of the domestic petrochemical and refining industry.

In some cases, compliance with environmental, health and safety laws and regulations require capital expenditures. In the years ended December 31, 1992 and 1993, the Company spent approximately $57 million and $38 million, respectively, for environmentally-related capital expenditures at existing facilities. For 1994 and 1995, the Company currently estimates that environmentally-related capital expenditures at existing facilities (including the Refinery) will be approximately $51 million and $50 million, respectively. The timing and amount of these expenditures are subject to the regulatory

and other uncertainties described above as well as obtaining of the necessary permits and approvals. The Company's 1994 capital budget includes the following environmentally-related projects: (1) work on installation of a wet gas scrubber that will reduce sulfur dioxide and particulate emissions from the Refinery's fluid catalytic cracking unit; (2) TCLP-related projects at the Refinery; (3) completion of a number of projects to reduce benzene emissions in compliance with federal regulations; (4) a marine vapor recovery project at the Refinery; and (5) compliance costs at the Channelview Complex and the Refinery related to nitrogen oxide emissions from combustion sources. Additional projects may be required as a result of various enforcement orders that the Company is negotiating with the appropriate regulatory authorities. For periods beyond 1995, additional environmentally related capital expenditures will be required, although the Company cannot accurately predict the levels of such expenditures at this time.

The Refinery contains on-site solid-waste landfills which were used in the past to dispose of waste, and it is anticipated that corrective actions will be necessary to comply with federal and state requirements with respect to this facility. In addition, the Company negotiated an order with the Texas Water Commission, now the Texas Natural Resource Conservation Commission (the "TNRCC"), for assessment and remediation of groundwater and soil contamination at the Refinery. The Company has reserved an amount (without regard to potential insurance recoveries or other third party reimbursements) it believes to be sufficient to cover current estimates of the cost for remedial measures at its manufacturing facilities based upon its interpretation of current environmental standards. Based on the establishment of such reserves, and the status of discussions with the applicable regulatory agencies, and although the reserves are subject to increase, the Company does not anticipate any material adverse effect upon its earnings, operations or competitive position as a result of compliance with the laws and regulations described in this or the preceding paragraphs. See also "Legal Proceedings--Claims Relating to Waste Disposal Sites."

Audit Committee Report Regarding Alleged Violations of Certain Environmental Laws

From April 1993 to June 1994, two process waste water streams at the Channelview Complex were not in compliance with applicable Benzene National Emissions Standard for Hazardous Air Pollutants ("NESHAPS") regulations. In response to an employee's allegations, described further below, regarding this situation, the Board of Directors directed the Audit Committee of the Board (the "Audit Committee"), which is composed of the four directors of the Company who are not affiliated with either the Company or ARCO, to conduct an independent investigation regarding the compliance status of the process waste water streams and the issues raised by the employee's statements. The investigation by the Audit Committee and its independent legal counsel was conducted during the month of June and involved interviews of over 50 Company employees and the review of more than 10,000 document pages. The Audit Committee has issued a report to the Board concerning the results of its investigation.

The investigation highlighted the following events:

. As of April 7, 1993 two process waste water streams at the Channelview Complex were not in compliance with applicable Benzene NESHAPS regulations which generally require that process waste water streams containing concentrations of benzene in excess of 10 parts per million be "controlled"--i.e., treated, recycled, deep well injected or otherwise isolated from the open air;

. On April 7, 1993 the Company submitted a report to the TNRCC that affirmatively and incorrectly indicated that the streams were controlled in accordance with the Benzene NESHAPS regulations. The Company also filed a subsequent report with the TNRCC on April 7, 1994. While the April 1994 report did not repeat the assertion that the streams were controlled in compliance with the Benzene NESHAPS regulations, it also did not specifically state that the streams were out of compliance;

. After learning that the process waste water streams were not controlled in accordance with the Benzene NESHAPS regulations, Company employees determined that the streams did not create a discernible impact on health or safety and began working on compliance solutions;

. After the development of compliance solutions was substantially underway, on and after May 20, 1994, a senior employee in the Company's legal department made several written and oral statements to the Company's executive management and the Board with respect to the compliance status of the process waste water streams and the accuracy of the related reports. The employee also made a number of statements regarding alleged conduct by the Company's management with respect to compliance with environmental laws, allegations regarding the commitment of the Company's management to compliance with applicable environmental laws and the general effectiveness of the Company's environmental processes;

. On May 20, 1994, the Company notified the TNRCC that the two streams were not controlled in accordance with the Benzene NESHAPS regulations, and shortly thereafter the Company also notified the EPA, which has oversight of the Clean Air Act compliance program supervised by the TNRCC, and the Department of Justice; and

. After May 20, 1994, efforts to implement a compliance solution for the two process waste water streams were expedited. Compliance was achieved for both streams by June 7, 1994 using an interim solution.

The Company estimates that the capital costs incurred in achieving a permanent compliance solution will be approximately $1,000,000.

The Audit Committee's report to the Board and the results of the investigation include the following conclusions:

. Treating the Company's Benzene NESHAPS experience as a test of the Company's environmental commitment, the overall record evidences the Company's willingness to incur substantial cost and inconvenience in order to meet its stated goal of wholehearted compliance with environmental laws;

. The Company intended all waste water streams to be controlled in compliance with the Benzene NESHAPS regulations, and the omission of the two waste water streams was an oversight due to a series of miscommunications and organizational failures and not a deliberate violation;

. According to the Company's routine monitoring of employees, the fact that the streams were not controlled in accordance with the Benzene NESHAPS regulations did not result in employee exposures above the health and safety standards for benzene exposure set by OSHA. Furthermore, there is no evidence that the process waste water streams at issue caused exposure of the general public to benzene concentrations which were in excess of levels established by applicable regulations. In fact, both monitoring by Lyondell and an independent third party showed benzene levels far below maximum permissible levels;

. Once the compliance issue with respect to the two process waste water streams had been clearly defined, the Company's actions were consistent with an intent to find and implement a permanent solution as quickly as it reasonably could. The problem was neither ignored nor covered up;

. There is no evidence that anyone was aware that the April 1993 report was incorrect as filed. Although certain lower and middle management employees became aware that the process waste water streams were not controlled just prior to the submission of the April 1994 report, that fact was not understood by the officer signing the April 1994 report; and

. There is no basis to support a generalized allegation that the Company's senior management knowingly conceals or tolerates environmental compliance problems.

In connection with its report to the Board, the Audit Committee has recommended that the Company's senior management address certain organizational and managerial issues to ensure that

there is no recurrence of the kinds of oversights that occurred in connection with the Benzene NESHAPS situation.

On June 6, 1994, the Company received a Notice of Violation from TNRCC regarding the two uncontrolled process waste water streams. In an initial enforcement conference the TNRCC has indicated that it intends to proceed with an administrative enforcement action, and the Company expects that the TNRCC will impose an administrative fine. Noncompliance with the Benzene NESHAPS regulations and the related reporting requirements can result in civil penalties and, under certain circumstances, substantial civil and, potentially, criminal penalties. However, the Company does not believe that any of the matters described above are likely to subject the Company to criminal liability or will have a material adverse effect on the Company's business or financial condition.

LEGAL PROCEEDINGS

General

Although Lyondell is involved in numerous and varied legal proceedings, a significant portion of its litigation arises in three contexts: (1) claims for personal injury or death allegedly arising out of exposure to the Company's products; (2) claims for personal injury or death, and/or property damage allegedly arising out of the generation and disposal of chemical wastes at Superfund and other waste disposal sites; and (3) claims for personal injury and/or property damage and air and noise pollution allegedly arising out of the operation of the Company's facilities. Lyondell (either directly or through ARCO as its indemnitee) is the real party at interest in these proceedings, all of which are described at greater length in the Company's periodic filings with the Commission.

In connection with the transfer of assets and liabilities from ARCO to Lyondell, Lyondell agreed to assume certain liabilities arising out of the operation of the Company's integrated petrochemical and petroleum processing business prior to July 1, 1988. At that time, the Company and ARCO entered into an agreement ("Cross-Indemnity Agreement") whereby the Company agreed to defend and indemnify ARCO against certain uninsured claims and liabilities which ARCO may incur relating to the operation of the business of the Company prior to July 1, 1988, including liabilities which may arise out of certain of the legal proceedings described in this section. See "Relationship with ARCO."

Prior to November 20, 1990, ARCO's insurance carriers had assumed the defense of most of the lawsuits described in this section. Since that date, ARCO's insurance carriers have refused to advance defense costs in those lawsuits relating to certain of the waste disposal sites. On November 21, 1990, ARCO filed suit against certain of its insurers with respect to insurance policies in effect at times during past years. This litigation involves claims for reimbursement of defense costs and environmental expenses incurred by ARCO in connection with ARCO's activities at sites and locations throughout the United States. ARCO's insurers had been participating in the defense of the Company and ARCO for the Mont Belvieu proceedings (see "--Claims Related to Company Operations") as well as the litigation involving the French Ltd. and the Brio Superfund sites (see "--Claims Related to Waste Disposal Sites"); however, subsequent to the filing of ARCO's lawsuit, the insurers have refused to advance defense costs for these proceedings (and certain other proceedings relating to the Company's products) until the coverage dispute has been resolved. ARCO currently is paying the defense costs in these proceedings, as well as certain other waste disposal site litigation, pending the resolution of the coverage dispute. It has not been determined whether or not the Company has an obligation to reimburse ARCO for defense costs related to the coverage dispute.

In addition to the types of proceedings specifically described in this section, ARCO, the Company and its subsidiaries are defendants in other suits, some of which are not covered by insurance. Many of these additional suits involve smaller amounts than the matters described herein, or make no specific claim for relief. Although final determination of legal liability and the resulting financial impact with

respect to the litigation described in this section, as well as the other litigation affecting the Company, cannot be ascertained with any degree of certainty, the Company does not believe that any ultimate uninsured liability resulting from the legal proceedings in which it currently is involved (directly or indirectly) will individually, or in the aggregate, have a material adverse effect on the business or financial condition of the Company. See Note 18 of "Notes to Consolidated Financial Statements."

Claims Related to Company Products

ARCO and the Company are involved in numerous suits arising in whole or in part from the operation of the Company's integrated petrochemical and petroleum processing business and the assets related thereto in which the plaintiffs allege damages arising from exposure to allegedly toxic chemical products, such as benzene and butadiene. Plaintiffs in these cases usually worked at a manufacturing facility as employees of one of Lyondell's customers, were employees of the Company's contractors, or were employees of companies involved in the transportation of the Company's products to its customers. These suits allege toxic effects of exposure to chemicals sold in the ordinary course of business to third parties by various industrial concerns, including ARCO or the Company, or allege toxic chemical exposures at the Company's manufacturing facilities. The Company believes that it has always followed a policy of not only complying with all mandated standards related to product warnings and exposure levels but also of complying with Company specific standards that were more strict than those imposed by the law. As a result, the Company believes that it has a basis to avail itself of legal defenses against claims regarding its products due to exposures by employees and by claims of exposures from third parties to whom the Company sold its products.

The vast majority of chemical exposure cases name a large number of industrial concerns, in addition to the Company, as defendants and are at various stages of discovery. Although the Company does not believe that the pending chemical exposure cases will have a material adverse effect on its business or financial condition, it is difficult to determine the potential outcome of this type of case. The majority of the plaintiffs in chemical exposure legal proceedings request relief in the form of unspecified monetary damages. Furthermore, when specific amounts are requested they often bear no objective relation to the merits of the case. Notwithstanding the foregoing, it is possible that if one or more of the presently pending chemical exposure cases were resolved against ARCO or the Company, the resulting damage award could be material to the Company without giving effect to contribution or indemnification obligations of co-defendants or others, or to the effect of any insurance coverage that may be available to offset the effects of any such award.

Claims Relating to Waste Disposal Sites

Wastes generated from products produced by facilities transferred from ARCO and now owned by the Company have, from time to time, been disposed of at waste disposal landfill sites owned by third parties. Two of these waste disposal facilities, known as the "French Ltd." and the "Brio" sites, both of which are located near Houston, Texas, have been classified as "Superfund" sites under CERCLA. The EPA has entered into consent decrees with numerous PRPs, including ARCO, from whom wastes were allegedly received at each site. Based on the current law, the Company does not believe that its obligation to ARCO related to ARCO's share of clean-up costs at either of these sites will result in a liability that will have, individually or in the aggregate, a material adverse effect on the business or financial condition of the Company. In addition, numerous private plaintiffs have made claims and filed lawsuits involving the French Ltd. and Brio sites. ARCO (or its affiliate) is the named defendant in the above described proceedings. Under the provisions of the Cross-Indemnity Agreement, Lyondell is not obligated to indemnify ARCO for costs and losses arising out of litigation for which ARCO is insured. Lyondell believes that the ultimate resolution of these matters will not result in any material obligation on the part of Lyondell to ARCO with respect to the Brio and the French Ltd. Superfund sites.

It is possible that the Company may be involved in future CERCLA and comparable state law investigations and clean-ups. The Administration recently proposed a plan to revise significantly the Superfund law which is scheduled for reauthorization this year. Because the proposal is so recent and because it has generated strong reactions from business, insurance companies, lenders, municipalities and environmentalists, the Company is not able to predict whether the Administration's plan will be enacted or to determine with specificity what the impact of such legislation would be on the Company.

Claims Related To Company Operations

Several organizations and groups of citizens who own property in the vicinity of Mont Belvieu, Texas, have instituted lawsuits against ARCO and others who own underground storage and transportation facilities in the city of Mont Belvieu. ARCO is paying all defense costs in all of the Mont Belvieu litigation and the Company does not expect that a claim will be made under the Cross-Indemnity Agreement. The Company also is a defendant in lawsuits alleging the emission of loud noises, bright lights and noxious fumes from the Channelview Complex in proximity to the plaintiffs homes as well as a diminished quality of well water.

Other Matters

In the fourth quarter of 1992, the Refinery underwent an EPA multi-media inspection and an OSHA Process Quality Verification Audit. The OSHA inspection of the Refinery was resolved in an informal settlement agreement in April 1993. At this time, the EPA has not formally notified the Company of the enforcement action to be taken, if any.

The Company has reached a settlement agreement with the City of Houston, Texas and the TNRCC to resolve a lawsuit filed by the City of Houston alleging violations of the Texas Clean Air Act at the Refinery. Pursuant to the settlement agreement, the Company has agreed to pay fines of $175,000 to each of the City of Houston and the TNRCC and has agreed to cover attorneys' fees of $50,000. In addition, LCR has committed to construct a larger flare as part of the Refinery upgrade project and to tie-in certain atmospheric relief valves. Lyondell will fund $1.5 million of the costs of these modifications, which is the current estimate of the costs of the tie-in to the flare system. See "The Company--Refining--LCR Transaction--Contributions of the Parties." The settlement agreement was approved by the court in July 1994.

In addition to the matters reported herein, from time to time the Company receives notices from federal, state or local governmental entities of alleged violations of environmental laws and regulations pertaining to, among other things, the disposal, emission and storage of chemical and petroleum substances, including hazardous wastes. Although the Company has not been the subject of significant penalties to date, such alleged violations may become the subject of enforcement actions or other legal proceedings and may (individually or in the aggregate) involve monetary sanctions of $100,000 or more (exclusive of interest and costs).

MANAGEMENT

Five of the eleven members of the Board of Directors of Lyondell are officers of ARCO, which owns 49.9 percent of the outstanding Common Stock. Following consummation of the offering of the Exchangeable Notes, ARCO has informed the Company that it will cause the ARCO officers who currently serve on the Board of Directors to resign. The Board of Directors has adopted a resolution decreasing the size of the Board from eleven members to 6 members, effective upon these resignations. Set forth below are the directors of the Company as of

July 25, 1994.

<TABLE>
<CAPTION>

NAME, AGE AND PRESENT POSITION WITH LYONDELL	BUSINESS EXPERIENCE DURING PAST FIVE YEARS
<S>	<C>
Mike R. Bowlin, 51.......... Chairman of the Board	Mr. Bowlin was elected a Director of the Company on July 23, 1993 and Chairman of the Board on August 13, 1993. On March 28, 1994 Mr. Bowlin was elected Chief Executive Officer of ARCO, effective on July 1, 1994. He has been President and Chief Operating Officer of ARCO since June 1, 1993 and a director of ARCO since June 1992. He was an Executive Vice President of ARCO from June 1992 to May 1993. He was a Senior Vice President of ARCO from August 1985 to June 1992 and President of ARCO International Oil and Gas Company from November 1987 to June 1992. He was Senior Vice President of International Oil and Gas Acquisitions from July 1987 to November 1987. He was President of ARCO Coal Company from August 1985 to July 1987. He was a Vice President of ARCO from October 1984 to July 1985. From April 1981 to December 1984, he was Vice President of ARCO Oil and Gas Company. He has been an officer of ARCO since October 1984. He originally joined ARCO in 1969.
William T. Butler, 61........	Dr. Butler was elected a Director of the Company on December 21, 1988, effective as of January 25, 1989. He has held his current position as President and Chief Executive Officer of Baylor College of Medicine (education and research) since 1979. He is also a director of First City Bancorporation of Texas, Inc., C. R. Bard, Inc. and Browning-Ferris Industries Inc.
Allan L. Comstock, 50........	Mr. Comstock was elected a Director of the Company on July 23, 1993. He has been a Vice President and Controller of ARCO since June 1993. He was a Vice President of ARCO Chemical from October 1989 through May 1993. From November 1985 to September 1989 he was General Auditor of ARCO. He originally joined ARCO in 1969.
Terry G. Dallas, 43..........	Mr. Dallas was elected a Director of the Company on July 23, 1993. He has been a Vice President of ARCO since June 1993 and Treasurer of ARCO since January 24, 1994. He was Vice President, Corporate Planning of ARCO from June 1993 to January 1994. He served as Assistant Treasurer for ARCO Corporate Finance from 1990 to 1993. He was Vice President of Finance, Control

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NAME, AGE AND PRESENT POSITION WITH LYONDELL	BUSINESS EXPERIENCE DURING PAST FIVE YEARS
<S>	<C>
	and Planning for ARCO British, Ltd. from 1988 to

	1990 and Manager of International Acquisitions for ARCO International Oil and Gas Company from 1986 to 1988. He originally joined ARCO in 1979.
Bob G. Gower, 56............ President and Chief Executive Officer	Mr. Gower was elected Chief Executive Officer of the Company on October 24, 1988 and a Director and President of the Company on June 27, 1988. He has been President of Lyondell and its predecessor, the Lyondell Division, since the formation of the Lyondell Division in April 1985. Mr. Gower was a Senior Vice President of ARCO from June 1984 until his resignation as an officer of ARCO in January 1989. Prior to 1984 he served in various capacities with the then ARCO Chemical Division. He originally joined ARCO in 1963. Mr. Gower is also a director of Texas Commerce Bank-Houston and Keystone International Inc.
Stephen F. Hinchliffe, Jr., 60.........................	Mr. Hinchliffe was elected a Director of the Company on March 1, 1991. Since 1988, he has held his current position of Chairman of the Board and Chief Executive Officer of BHH Management, Inc., the managing partner of Leisure Group, Inc. Previously, he served as Chairman of the Board of Leisure Group, Inc. (a manufacturer of consumer products), which he founded in 1964.
Dudley C. Mecum II, 59......	Mr. Mecum was elected a Director of the Company on November 28, 1988, effective as of January 25, 1989. He has held his current position as a partner with G. L. Ohrstrom & Company (merchant banking) since August 1989. Previously he was Chairman of Mecum Associates, Inc. (management consulting) from December 1987 to August 1989. He served as Group Vice President and director of Combustion Engineering Inc. from 1985 to December 1987, and as a managing partner of the New York region of Peat, Marwick, Mitchell & Co. from 1979 to 1985. He is also a director of The Travelers, Inc., Dyncorp, VICORP Restaurants, Inc., Fingerhut Companies, Inc. and Roper Industries, Inc.
William C. Rusnack, 49......	Mr. Rusnack was elected a Director of the Company on October 24, 1988. He has been a Senior Vice President of ARCO since July 1990 and President of ARCO Products Company since June 1993. He was President of ARCO Transportation Company from July 1990 to May 1993. He was Vice President, Corporate Planning, of ARCO from July 1987 to July 1990. He was Senior Vice President, Marketing and Employee Relations, of the ARCO Oil and Gas Division from August 1985 to July 1987 and Vice President, Manufacturing, of the ARCO Products Division from July 1984 to August 1985. From June 1983 to July 1984 he was Vice President, Planning

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NAME, AGE AND PRESENT POSITION WITH LYONDELL	BUSINESS EXPERIENCE DURING PAST FIVE YEARS
<S>	<C>
	and Control, of the ARCO Products Division. He originally joined ARCO in 1966. Mr. Rusnack is

	also a director of BWIP Holding, Inc.
Dan F. Smith, 48............ Executive Vice President and Chief Operating Officer	Mr. Smith was elected a Director of the Company on October 24, 1988. He was elected Executive Vice President and Chief Operating Officer on May 6, 1993. He served as Vice President Corporate Planning of ARCO from October 1991 until May 1993. He previously served as Executive Vice President and Chief Financial Officer of the Company from October 1988 to October 1991 and as Senior Vice President of Manufacturing of Lyondell, and its predecessor, the Lyondell Division, from June 1986 to October 1988. From August 1985 to June 1986 Mr. Smith served as Vice President of Manufacturing for the Lyondell Division. He joined the Lyondell Division in April 1985 as Vice President, Control and Administration. Prior to 1985, he served in various financial, planning and manufacturing positions with ARCO. He originally joined ARCO in 1968.
Paul R. Staley, 64..........	Mr. Staley was elected a Director of the Company on November 28, 1988, effective as of January 25, 1989. He has held his current position as Chairman of the Executive Committee of the Board of Directors of P. Q. Corporation (an industry supplier of silicates) since January 1991. He held the positions of President and Chief Executive Officer of P.Q. Corporation from 1973 and 1981, respectively, until January 1991.
William E. Wade, Jr., 51....	Mr. Wade was elected a director of the Company on August 13, 1993. He has been Executive Vice President of ARCO since June 1, 1993 and a director of ARCO since June 1, 1993. He was a Senior Vice President of ARCO from May 1987 to May 1993 and President of ARCO Oil and Gas Company from October 1990 to May 1993. He was President of ARCO Alaska, Inc. from July 1987 to July 1990. He was a Vice President of ARCO from 1985 to May 1987. From 1981 to 1985, he was Vice President of ARCO Exploration Company. He has been an officer of ARCO since 1985. He originally joined ARCO in 1968.

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Set forth below are the executive officers of the Company as of July 25, 1994.

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NAME, AGE AND PRESENT POSITION WITH LYONDELL	BUSINESS EXPERIENCE DURING PAST FIVE YEARS AND PERIOD SERVED AS OFFICER(S)
<S>	<C>
John R. Beard, 42........... Vice President, Quality, Supply and Planning	Mr. Beard became Vice President Quality, Supply and Planning on July 1, 1993. Mr. Beard was appointed Vice President, Planning and Evaluations in May 1992. He served as the Site Manager of Lyondell's Houston Refinery from 1988 until April 1992. From 1985 until

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NAME, AGE AND PRESENT POSITION WITH LYONDELL	BUSINESS EXPERIENCE DURING PAST FIVE YEARS AND PERIOD SERVED AS OFFICER(S)
	1988, he served in management assignments in evaluations, marketing and manufacturing. Prior to 1985, he served in various management positions for ARCO Products Company and the ARCO Chemical Division. He originally joined ARCO in 1974.
Bob G. Gower, 56............ Chief Executive Officer, President and Director	Mr. Gower was elected Chief Executive Officer of the Company on October 24, 1988 and Director and President of the Company on June 27, 1988. He has been President of Lyondell and its predecessor, the Lyondell Division, since formation of the Lyondell Division in April, 1985. Mr. Gower was a Senior Vice President of ARCO from June, 1984 until his resignation as an officer of ARCO in January, 1989. Prior to 1984, he served in various capacities with the then ARCO Chemical Division. He originally joined ARCO in 1963.
Robert H. Ise, 59.......... Vice President, Lyondell Petrochemical Company Vice President, Marketing, Supply and Evaluations, LYONDELL-CITGO Refining Company Ltd.	Mr. Ise was appointed Vice President, Marketing, Supply and Evaluations of LYONDELL-CITGO Refining Company Ltd. on July 1, 1993. He previously served Lyondell as Vice President, Marketing and Sales, Polymers and Petroleum Products from April, 1992 until June, 1993 and continues to serve as a Vice President of Lyondell. He served as Vice President, Marketing and Sales, Petroleum Products, from December, 1988 until April, 1992. He served as Vice President of Industrial Products Marketing of the Lyondell Division from June, 1987 to December, 1988. From May, 1985 to June, 1987 he served as Director, Industrial Products Marketing for the Lyondell Division. Prior thereto, he served in various marketing capacities for the ARCO Products Division. He originally joined ARCO in 1959.
Richard W. Park, 54......... Vice President, Human Resources	Mr. Park was elected Vice President, Human Resources on June 27, 1988. He previously served as Vice President of Employee Relations of the Lyondell Division since February, 1987. From 1985 to 1987 he served as Manager of Personnel for the then ARCO Chemical Division's Specialty Chemicals and International Units. Prior to 1985 he held other employee relations positions with divisions of ARCO. He originally joined ARCO in 1965.
Jeffrey R. Pendergraft, 46.. Senior Vice President, Secretary and General Counsel	Mr. Pendergraft was named Senior Vice President on May 6, 1993. Mr. Pendergraft was elected Vice President and General Counsel on June 27, 1988 and Secretary on October 24, 1988. From September, 1985 to June, 1988, he served as General Attorney of the Lyondell Division. Prior to September, 1985, he served as an attorney for various operating divisions and corporate units of ARCO at increasing levels of responsibility. He originally joined ARCO in 1972.
W. Norman Phillips, Jr., 39. Vice President, Channelview Operations	Mr. Phillips was elected Vice President, Channelview Operations on May 6, 1993. From May 22, 1992 until May 6, 1993, he served as Site Manager of Channelview

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NAME, AGE AND PRESENT POSITION WITH LYONDELL	BUSINESS EXPERIENCE DURING PAST FIVE YEARS AND PERIOD SERVED AS OFFICER(S)
	Operations. He previously served as Manager, Planning from August, 1991 until May, 1992. Prior to August, 1991, he served in various positions in manufacturing and marketing for ARCO and Lyondell, including Sales Manager in the Petroleum Products Marketing Department from September, 1987 until August, 1991. He originally joined ARCO in 1977.
Joseph M. Putz, 53.......... Vice President and Controller	Mr. Putz was elected Vice President and Controller on October 24, 1988. Previously he was Vice President, Control and Administration of Lyondell, and its predecessor, the Lyondell Division, from June 1987 to October 1988. From 1986 to 1987 he served as Director, Internal Control of ARCO. From 1985 to 1986 he served as Manager of Special Projects for ARCO. Prior to 1985, he held various financial positions with divisions of ARCO. He originally joined ARCO in 1965.
Dan F. Smith, 48............ Executive Vice President and Chief Operating Officer	Mr. Smith was elected a Director of the Company on October 24, 1988. He was elected Executive Vice President and Chief Operating Officer on May 6, 1993. He served as Vice President Corporate Planning of ARCO from October 1991 until May 1993. He previously served as Executive Vice President and Chief Financial Officer of the Company from October 1988 to October 1991 and as Senior Vice President of Manufacturing of Lyondell, and its predecessor, the Lyondell Division, from June 1986 to October 1988. From August 1985 to June 1986, Mr. Smith served as Vice President of Manufacturing for the Lyondell Division. He joined the Lyondell division in April 1985 as Vice President, Control and Administration. Prior to 1985, he served in various financial, planning and manufacturing positions with ARCO. He originally joined ARCO in 1968.
Debra L. Starnes, 41........ Vice President, Petrochemicals Business Management and Marketing	Ms. Starnes was appointed Vice President, Petrochemicals Business Management and Marketing on July 1, 1993. She previously served as Vice President, Petrochemicals Business Management from May 22, 1992 to July 1993. She served as Vice President, Corporate Planning from September 1991 until May 1992. From January 1989 to September 1991, she served as Director, Planning. Prior to 1989, she held various manufacturing, marketing and planning positions with ARCO and Lyondell. She originally joined ARCO in 1975.
Russell S. Young, 46........ Senior Vice President, Chief Financial Officer and Treasurer	Mr. Young was elected Senior Vice President, Chief Financial Officer and Treasurer on May 7, 1992. He previously served as Vice President and Treasurer from November 1988 until May 1992. Mr. Young served as Controller of the ARCO Products Division from September 1986 to January, 1989. From July 1984 to September 1986 he served as Assistant Treasurer of ARCO. Prior thereto he served in corporate finance positions for ARCO. He originally joined ARCO in 1980.

The By-Laws of the Company provide that each officer shall hold office until the officer's successor is elected or appointed and qualified or until the officer's death, resignation or removal by the Board of Directors.

RELATIONSHIP WITH ARCO

GENERAL

As described in "The Company," Lyondell was first a division and then a wholly-owned subsidiary of ARCO until January 1989, when ARCO completed an initial public offering of Lyondell's Common Stock. ARCO currently owns 39,921,400 shares, or 49.9 percent of the outstanding Common Stock. The Company and ARCO have entered into various intercompany transactions and arrangements as described below. Five of the eleven directors of Lyondell are officers of ARCO. Following consummation of the offering of the Exchangeable Notes, ARCO has informed the Company that it intends to cause the ARCO officers who currently serve on the Board of Directors to resign; however, ARCO has not limited its right to nominate and vote for candidates for Lyondell's Board of Directors. ARCO has also stated its current intent to vote its shares of Lyondell Common Stock proportionately to the votes of the non-ARCO stockholders, including with respect to the election of directors; provided, that in the event a person other than ARCO is deemed to own more than 10 percent of the Common Stock within the meaning of Section 13(d) of the Exchange Act and there occurs a contested proxy solicitation within the meaning of Rule 14a-11(a) of the Exchange Act, ARCO intends to vote its shares as it deems appropriate.

REGISTRATION RIGHTS AGREEMENT WITH ARCO

Subject to the terms and conditions of a registration rights agreement ("Registration Rights Agreement") to be entered into with Lyondell concurrently with the U.S. and international underwriting agreements with respect to the offerings of the Exchangeable Notes ("Underwriting Agreements"), ARCO will agree that it will not, without the prior approval of Lyondell's Board of Directors, prior to the maturity of the Exchangeable Notes, (i) initiate or solicit proposals by a single entity or a group of affiliated entities to acquire all or substantially all of ARCO's Lyondell Common Stock or otherwise to acquire Lyondell, (ii) take action by written consent in lieu of a meeting of Lyondell's stockholders or cause to be called any special meeting of Lyondell's stockholders, (iii) initiate or propose, or solicit proxies in respect of, stockholder proposals with respect to the Company, or (iv) solicit proxies or written consents in respect of replacing or adding members of the Lyondell Board of Directors.

Under the terms and conditions of the Registration Rights Agreement, ARCO will also agree that it will not, without the prior approval of Lyondell's Board of Directors or except upon exchange of the Exchangeable Notes as contemplated by the prospectus for the Exchangeable Notes, prior to one year following maturity date of the Exchangeable Notes dispose of (or enter into an agreement contemplating the disposition of) all or any portion of its Lyondell Common Stock in a private sale to a single entity or a group of affiliated entities, provided that this agreement will not restrict ARCO from selling all or any portion of its Lyondell Common Stock (i) in a public offering intended to result in widespread distribution; (ii) in a Rule 144 transaction under the Securities Act in accordance with the volume limitations set forth therein; (iii) in a Rule 144A transaction intended to result in widespread distribution to institutional buyers; or (iv) pursuant to a tender offer or exchange offer by Lyondell or a third party or a merger or other business combination including Lyondell that is not solicited by ARCO and in which ARCO is treated on substantially comparable terms with other holders of Lyondell Common Stock.

Notwithstanding the foregoing, ARCO is not precluded from (i) participating in any self tender offer or exchange offer or open market purchase program conducted by Lyondell, (ii) voting its shares of Lyondell Common Stock as it deems proper, or (iii) disclosing (including in response to private inquiries) either its intentions concerning matters to be brought before Lyondell's stockholders or making such disclosures as ARCO determines appropriate in compliance with its obligation under the federal securities laws.

Pursuant to the Registration Rights Agreement, ARCO will have the right to require the Company to use its best efforts to file up to three registration statements under the Securities Act covering ARCO

shares of Lyondell Common Stock. ARCO will also have the right, if the Company files a registration statement, to require the Company to register ARCO's shares of Common Stock for sale under the Securities Act on such registration statement. If the exercise by ARCO of such "piggyback registration rights" would result in the registration of a number of shares of Common Stock, that in the judgment of the managing underwriter for the proposed offering exceeds the number which can be sold in the offering, the number of shares that ARCO initially intended to register shall be reduced. ARCO has agreed to pay all costs and expenses relating to the exercise of ARCO's "demand" registration rights. In the event of a "demand" registration, ARCO and the Company will indemnify the underwriters of the offering for certain liabilities, including liabilities under the Securities Act in connection with any such registration, except that in the event that ARCO owns less than 20 percent of the Lyondell Common Stock, the Company will indemnify both ARCO and the underwriters.

ARCO will pay all costs and expenses incurred by Lyondell in connection with this Prospectus, the Registration Statement and the offering of the Exchangeable Notes. For a further description of expense reimbursement and indemnification agreements, see "Plan of Distribution."

RELATIONSHIP BETWEEN LYONDELL AND ARCO

In connection with the transfer of assets and liabilities to Lyondell in 1988, the Company and ARCO entered into a number of agreements for the purpose of defining their ongoing relationships. In addition, in July 1987 the Lyondell Division and ARCO Chemical Company ("ARCO Chemical"), then a wholly-owned (and now an 83.3 percent owned) subsidiary of ARCO, entered into a number of agreements in connection with the organization of ARCO Chemical. None of these agreements was the result of arm's-length negotiations between independent parties. It was the intention of the Company, ARCO and ARCO Chemical that such agreements and the transactions provided for therein, taken as a whole, accommodate the parties' interests in a manner that was fair to the parties, while continuing certain mutually beneficial joint arrangements. The Audit Committee of the Board of Directors of the Company, none of the members of which are affiliated with the Company (including LCR), ARCO or ARCO Chemical has determined that such agreements, taken as a whole, were in its opinion fair to the Company and its stockholders. Because of the complexity of the various relationships between the Company, ARCO and its direct and indirect subsidiaries, including ARCO Chemical (together, "ARCO Affiliates"), however, there can be no assurance that each of such agreements, or the transactions provided for therein, has been effected on terms at least as favorable to the Company as could have been obtained from unaffiliated third parties.

The terms and provisions of many of those initial agreements have been modified subsequently or supplemented and additional or modified agreements, arrangements and transactions have been and will continue to be entered into by the Company and ARCO Affiliates. Any such future agreements, arrangements and transactions will be determined through negotiation between the Company and ARCO Affiliates and it is possible that conflicts of interest will be involved.

Future contractual relations among the Company and ARCO Affiliates will be subject to certain provisions of the Company's Certificate of Incorporation. See "--Certificate of Incorporation Provisions Relating to Corporate Conflicts of Interest." In addition, the Audit Committee of the Board of Directors has adopted a set of guidelines for the review of all agreements entered into between the Company and ARCO Affiliates. These guidelines include a provision that, at least annually, the Audit Committee will review such agreements, or the transactions provided for therein, to assure that such agreements are, in its opinion, fair to the Company and its stockholders.

For the year ended December 31, 1993, Lyondell (including LCR) paid ARCO Affiliates an aggregate of approximately $80 million. For the year ended December 31, 1993, Lyondell recorded revenues of approximately $278 million from sales to ARCO Affiliates, of which $263 million represented sales to ARCO Chemical. Sales to ARCO Chemical accounted for approximately 17 percent of total revenues from sales of petrochemical products, and approximately seven percent of revenues from gross sales.

TECHNOLOGY TRANSFERS AND LICENSES

Effective July 1, 1988, ARCO assigned to the Company numerous domestic and foreign trademarks and certain U.S. and foreign patents and granted the Company a nonexclusive license to use other trademarks which contain the word "ARCO," to use ARCO's spark symbol as a logo and to use ARCO's color striping scheme, which license was royalty-free for a period of four years. The Company paid ARCO approximately $80,000 under the terms of this license in 1993.

In connection with the transfer of assets and liabilities relating to the Lyondell Division from ARCO to the Company, the Company and ARCO, effective July 1, 1988, entered into (i) a License Agreement pursuant to which ARCO licensed to the Company on a nonexclusive, royalty-free basis certain rights (including Lyondell's right to sublicense to third parties, in some cases without accounting to ARCO) to ARCO's technology and intellectual property related to certain operations or assets of the Company, (ii) a technology assignment agreement pursuant to which legal title to certain other technology and intellectual property useful in the Company's business (including, without limitation, technology relating to olefins, including product flexibility) was transferred to the Company; provided, however, that except for technology relating to the product flexibility unit, ARCO retained a nonexclusive license to use the technology and property rights in ARCO's other operations, and (iii) an immunity from suit agreement in respect of the Company's right to practice all remaining technology in the possession of the Company prior to July 1, 1988. During 1990, the Company and ARCO entered into a series of amendments to these agreements designed to clarify the parties' rights under the original technology transfer. In addition, Lyondell and ARCO executed a patent maintenance agreement pursuant to which ARCO agreed to maintain certain patents licensed to Lyondell. Lyondell and ARCO also entered into a letter agreement granting Lyondell the right to obtain additional licensing rights.

CROSS-INDEMNITY AGREEMENT

In connection with the transfer by ARCO of substantially all of the assets and liabilities of its Lyondell Division to the Company, the Company and ARCO executed the Cross-Indemnity Agreement. In the Cross-Indemnity Agreement, the Company agreed generally to indemnify ARCO against substantially all fixed and contingent liabilities relating to the integrated petrochemical and petroleum processing business and certain assets of the Lyondell Division. The liabilities assumed by the Company include the following, to the extent not covered by ARCO's insurance: (1) all liabilities and obligations of the Company and its combined subsidiaries, as of July 1, 1988; (2) all liabilities and obligations under contracts and commitments relating to the business of the

Lyondell Division and certain assets relating thereto; (3) employment and collective bargaining agreements affecting the Company's employees; (4) specified pending litigation and other proceedings; (5) federal, state, foreign and local income taxes to the extent provided in the Cross-Indemnity Agreement; (6) liabilities for other taxes associated with the Lyondell Division's business and certain assets relating thereto; (7) liabilities for any past, present or future violations of federal, state or other laws (including environmental laws), rules, regulations or other requirements of any governmental authority in connection with the business of the Lyondell Division and certain assets relating thereto; (8) existing or future liabilities for claims based on breach of contract, breach of warranty, personal or other injury or other torts relating to such integrated petrochemical and petroleum processing businesses and certain assets relating thereto; and (9) any other liabilities relating to the assets transferred to the Company or its subsidiaries. ARCO has indemnified the Company with respect to other claims or liabilities and other matters of litigation not related to the assets or business transferred by ARCO to the Company.

The Cross-Indemnity Agreement includes procedures for notice and payment of indemnification claims and provides that a party entitled to indemnification for a claim or suit brought by a third party may require the other party to assume the defense of such claim. The Cross-Indemnity Agreement also includes a defense cost-sharing agreement, whereby the Company will bear its allocated defense costs for certain lawsuits.

SERVICES AGREEMENTS

The Company and ARCO entered into an agreement effective January 1, 1991 and amended as of February, 1992 (the "Administrative Services Agreement") under which ARCO agreed to continue to provide various transitional services to the Company that ARCO had been providing pursuant to previous administrative service agreements. The services which ARCO now provides the Company pursuant to the Administrative Services Agreement include telecommunications and certain computer-related services. The Administrative Services Agreement terminates no later than December 31, 1997, although it may be terminated in its entirety earlier than such date upon the terminating party providing the other party with at least two years prior notice, and a party may elect to terminate some of the services it is receiving upon 30 days prior notice to the other party. The Administrative Services Agreement provides for an annual renegotiation of fees. ARCO earned a fee of approximately $2 million during 1993 for all of the services (some of which are now provided under other agreements as discussed below) which it provided under the Administrative Services Agreement.

Effective January 1, 1994, certain services that ARCO had previously been providing under the Administrative Services Agreement began to be provided pursuant to an agreement (the "Employee Services Agreement") covering various employee benefits administration and payroll services and an agreement (the "Investment Management Agreement") covering investment services with regard to the management of Lyondell's qualified employee benefit plan funds. Each of these agreements terminates on May 1, 1998, although it may be terminated in its entirety by ARCO (provided that ARCO no longer owns at least five percent of the outstanding Common Stock) by giving Lyondell at least two years prior notice. In addition, Lyondell may elect to terminate some or all of the services being provided upon 30 days prior notice. Upon termination of any or all services, ARCO will provide Lyondell with support and assistance to accomplish an orderly transition from ARCO's provision of the services to Lyondell's acquisition of comparable services. The Employee Services Agreement provides for substantially all services to be provided at a fee based on ARCO's costs and for the other services to be provided at mutually-agreed fees. The Investment Management Agreement provides for a renegotiation of fees from time to time.

Effective January 1, 1991, the Company and ARCO entered into an agreement which terminated the insurance coverage previously provided by ARCO and established procedures for the resolution of pending and future claims that are or will be covered under ARCO's policies in effect prior to January 1, 1991.

AGREEMENTS BETWEEN THE COMPANY AND ARCO PIPE LINE COMPANY

The Company has entered into several contracts with ARCO Pipe Line Company ("ARCO Pipe Line") pursuant to which the Company (1) leased certain pipelines and pipeline segments from ARCO Pipe Line at annual rental rates which include recovery of operating costs, return on capital investment and inflation escalators, (2) acquired the services of ARCO Pipe Line to operate various groups of pipelines owned by the Company, and (3) entered into a throughput and deficiency commitment for volumes at tariff rates for transportation of crude oil and other products. Certain of these contracts that relate to the refining business were assigned to LCR as of July 1, 1993. The Company and LCR paid ARCO Pipe Line approximately $20 million during 1993 for rental fees and services under these contracts. In April 1994, the Company and ARCO Pipe Line concluded negotiations that extend the term of the Company's lease of ARCO Pipe Line's pipeline system described in (1) above through December 31, 2023. Absent any major regulatory changes, the terms and conditions of this lease extension will not be materially different from the current lease.

ARCO Pipe Line also owns various easements and licenses for its pipelines and related equipment located on the property of the Company or LCR and has performed services relating to the pipeline

systems. The Company (including LCR) also ships products over common carrier pipelines owned and operated by ARCO Pipe Line pursuant to filed tariffs on the same basis as other non-affiliated customers.

AGREEMENTS BETWEEN THE COMPANY AND ARCO CHEMICAL COMPANY

Lyondell provides to ARCO Chemical a large portion of the feedstocks (including ethylene, propylene and methanol) purchased by ARCO Chemical for its manufacturing facilities located at Channelview, Texas. Pricing arrangements under these contracts are generally representative of prevailing market prices. Lyondell also provides certain nominal plant services at the aforementioned plants. ARCO Chemical in turn provides certain feedstocks and supplies to Lyondell at market-based prices.

The Company sells MTBE produced at one of its two MTBE units to ARCO Chemical at market-based prices. The term of this agreement extends through December 1995. In addition, the Company has agreed to sell to ARCO Chemical MTBE produced at the Company's second MTBE unit that is in excess of LCR's requirements at market-based prices.

DISPUTE RESOLUTION AGREEMENT

In April 1993, the Company, ARCO and ARCO Chemical entered into a Dispute Resolution Agreement that mandates a procedure for negotiation and binding arbitration of significant commercial disputes among any two or more of the parties.

OTHER AGREEMENTS BETWEEN THE COMPANY AND ARCO

Lyondell has purchased and LCR continues to purchase certain of its crude oil requirements from affiliates of ARCO under short-term arrangements at prices based on market values at the time of delivery. LCR also purchases crude oil from affiliates of ARCO from time to time on the spot market at then-current spot market prices. The Company and LCR also purchased natural gas and natural gas liquids from affiliates of ARCO during 1993 on the spot market at then-current spot market prices.

The Company (including LCR) also sold products to ARCO Affiliates, including crude oil resales and sales of heating oil and lube oil at market-based prices.

CERTIFICATE OF INCORPORATION PROVISIONS RELATING TO CORPORATE CONFLICTS OF INTEREST

In order to address certain potential conflicts of interest between the Company and ARCO (for purposes of this section the term "ARCO" also includes ARCO's successors and any corporation, partnership or other entity in which ARCO owns fifty percent or more of the voting securities or other interests), the Company's Certificate of Incorporation contains provisions regulating and defining the conduct of certain affairs of the Company as they may involve ARCO and its officers and directors, and the powers, rights, duties and liabilities of the Company and its officers, directors and stockholders in connection therewith. In general, these provisions recognize that from time to time the Company and ARCO may engage in the same or similar activities or lines of business and have an interest in the same areas of corporate opportunities. The Certificate of Incorporation provides that ARCO has no duty to refrain from (1) engaging in business activities or lines of business that are the same as or similar to those of the Company, (2) doing business with any customer of the Company or (3) employing any officer or employee of the Company. The Certificate of Incorporation provides that ARCO is not under any duty to present any corporate opportunity to the Company which may be a corporate opportunity for both ARCO and the Company, and that ARCO will not be liable to the Company or its stockholders for breach of any fiduciary duty as a stockholder of the Company by reason of the fact that ARCO pursues or acquires such corporate opportunity for itself, directs such corporate opportunity to another person or does not present the corporate opportunity to the Company. ARCO currently owns interests in certain chemical companies and refiners (other than the Company) and has advised the Company that it may continue to acquire additional interests in chemical companies and refiners.

The Certificate of Incorporation provides that directors and officers of the Company will not be liable to the Company or its stockholders for breach of any fiduciary duty if they comply with the following provisions of the Certificate of Incorporation. When a corporate opportunity is offered in writing to an officer or an officer and a director of the Company who is also an officer or an officer and a director of ARCO, solely in his or her designated capacity with one of the two companies, such opportunity shall be first presented to whichever company was so designated. No person is currently in this category. Otherwise, (1) a corporate opportunity offered to any person who is an officer or officer and director of the Company and who is also a director of ARCO, shall be first presented to the Company, (2) a corporate opportunity offered to a person who is a director of the Company and who is also an officer or officer and director of ARCO shall be first presented to ARCO, (3) in all other cases, a corporate opportunity offered to any person who is an officer and/or a director of both the Company and ARCO shall be first presented to the Company. Mr. Bowlin, Mr. Comstock, Mr. Dallas, Mr. Rusnack and Mr. Wade are in category (2) and no persons currently are in categories (1) and (3).

Another section of the Certificate of Incorporation provides that no contract, agreement, arrangement or transaction between the Company and ARCO or between the Company and a director or officer of the Company or of ARCO would be void or voidable for the reason that ARCO or any director or officer of the Company or of ARCO are parties thereto or because any such director or officer were present or participated in the meeting of the Board of Directors which authorized the contract if the material facts about the contract, agreement, arrangement or transaction were disclosed or known to the Board of Directors or the stockholders and the Board of Directors in good faith authorizes the contract by a vote of a majority of the disinterested directors or the majority of stockholders approves such contract, agreement, arrangement or transaction.

The foregoing Certificate of Incorporation provisions describe the obligations of officers and directors of the Company with respect to presentation of corporate opportunities, but do not limit the ability of the Company or of ARCO to consider and act upon such opportunities whether or not such provisions have been followed.

SECURITY OWNERSHIP BY ARCO

ARCO currently owns, and immediately following the offering of the Exchangeable Notes will own, 39,921,400 shares, or 49.9 percent, of the outstanding Common Stock. Pursuant to the terms of the Exchangeable Notes, ARCO may, at its option, consummate the mandatory exchange at maturity thereof by delivering to holders thereof shares of Common Stock or cash with an equal value. ARCO's ownership interest after maturity of the Exchangeable Notes could remain at 49.9 percent of the presently outstanding number of shares of Common Stock (if it elects to deliver cash) or could be reduced to less than one percent of the presently outstanding shares of Common Stock if (a) at maturity of the Exchangeable Notes the "Maturity Price" is less than or equal to the "Initial Price" (each as defined in the prospectus for the Exchangeable Notes), (b) the underwriters of the offering of the Exchangeable Notes elect to exercise their over-allotment option in full and (c) ARCO elects to deliver Common Stock instead of cash. However, ARCO is under no obligation to, and there can be no assurance that ARCO will, elect to exercise its option to deliver Common Stock pursuant to the terms of the Exchangeable Notes.

For a description of expense reimbursement and indemnification agreements with respect to this Prospectus, the Registration Statement and the offering of the Exchangeable Notes, see "Plan of Distribution," and for a description of ARCO's intentions with respect to the Company and of the Registration Rights Agreement between ARCO and the Company, see "Relationship with ARCO--General" and "--Registration Rights Agreement with ARCO."

For additional information concerning the relationship between the Company and ARCO, see "Relationship with ARCO."

DESCRIPTION OF CAPITAL STOCK

The authorized capital stock of the Company currently consists of 250,000,000 shares of Common Stock, par value $1.00 per share, and 80,000,000 shares of Preferred Stock, $0.01 par value per share (the "Preferred Stock"). ARCO, which owns 49.9 percent of the outstanding Common Stock, has entered into a Registration Rights Agreement with the Company regarding certain voting, transfer and other matters with respect to the shares of Common Stock it owns. See "Relationship with ARCO--Registration Rights Agreement with ARCO."

COMMON STOCK

The Company is currently authorized to issue 250,000,000 shares of Common Stock, of which 80,000,000 shares of Common Stock are outstanding at the date hereof.

Holders of Common Stock are entitled (i) to receive such dividends as may from time to time be declared by the Board of Directors of the Company; (ii) to one vote per share on all matters on which the stockholders are entitled to vote; (iii) to act by written consent in lieu of voting at a meeting of stockholders; and (iv) to share ratably in all assets of the Company available for distribution to the stockholders, in the event of liquidation, dissolution or winding up of the Company. For additional information regarding the Company's dividend policy, see Item 5 of the Company's 1993 Form 10-K Report, which report is incorporated herein by reference. The holders of a majority of the shares of Common Stock represented at a meeting can elect all of the directors.

Shares of Common Stock are not liable to further calls or assessments by the Company for any liabilities of the Company that may be imposed on its stockholders under the laws of the State of Delaware, the state of incorporation of the Company. There are no preemptive rights for the Common Stock in the Certificate of Incorporation.

The Transfer Agent, Registrar and Dividend Disbursing Agent for the Common Stock is The Bank of New York.

PREFERRED STOCK

At the July 22, 1994 re-convened annual stockholders meeting, an amendment to the Certificate of Incorporation of the Company to authorize the issuance of up to 80,000,000 shares of Preferred Stock, $0.01 par value per share, was approved. The amendment to the Certificate of Incorporation that was filed on July 22, 1994 is included in the 1994 Proxy Statement (as supplemented) incorporated herein by reference. As a result of the amendment, the Board will be able to specify the precise characteristics of the Preferred Stock to be issued, in light of current market conditions and the nature of specific transactions, and will not be required to solicit further authorization from stockholders for any specific issue of Preferred Stock.

The Board of Directors has adopted a policy providing that no future issuance of Preferred Stock will be effected without stockholder approval unless the Board (whose decision shall be conclusive) determines in good faith (i) that such issuance is primarily for the purpose of facilitating a financing, an acquisition or another proper corporate objective or transaction, and (ii) that any anti-takeover effects of such issuance are not the Company's primary purpose for effecting such issuance. The Board of Directors will not amend or revoke this policy without giving written notice to the holders of all outstanding shares of the Company's stock; however, no such amendment or revocation will be effective, without stockholder approval, to permit a subsequent issuance of Preferred Stock for the primary purpose of obstructing a takeover of the Company by any person who has, prior to such written notice to stockholders, notified the Board of Directors of such person's desire to pursue a takeover of the Company. As of the date hereof, the Board of Directors has no present intention to issue any series of Preferred Stock.

Nothwithstanding the foregoing, the existence of the authorized but unissued Preferred Stock could have the effect of discouraging a tender offer or unsolicited attempt to acquire control of the Company in a transaction that a stockholder might deem desirable, including takeover attempts that might result in a premium over the market price of the Common Stock. Preferred stock issuances involving certain voting or conversion privileges can be used to make the acquisition of a company more difficult or more costly. The Company is not aware of any present effort by any person to accumulate the Company's Common Stock or to obtain control of the Company.

CERTAIN UNITED STATES FEDERAL TAX CONSEQUENCES FOR NON-UNITED STATES HOLDERS OF COMMON STOCK

The following is a summary of certain United States federal income tax consequences of the acquisition, ownership and disposition of Common Stock by a holder that, for United States federal income and estate tax purposes, is a

Non-United States Holder. For purposes of this discussion, a "Non-United States Holder" means a corporation, individual or partnership, that is, as to the United States, a foreign corporation, a non-resident alien individual or a foreign partnership, or a trust, other than one the income of which is subject to United States federal income tax regardless of its source. This summary does not address all aspects of the United States federal income and estate taxation and does not deal with foreign, state and local tax consequences that may be relevant to non-United States Holders in light of their specific circumstances. Furthermore, this summary is based upon the provisions of the United States Internal Revenue Code of 1986, as amended and the regulations, rulings and judicial decisions thereunder, all of which are subject to change. PROSPECTIVE INVESTORS ARE URGED TO CONSULT THEIR OWN TAX ADVISORS WITH RESPECT TO THE UNITED STATES TAX CONSEQUENCES TO THEM OF ACQUIRING, HOLDING AND DISPOSING OF COMMON STOCK AS WELL AS ANY TAX CONSEQUENCES WHICH MAY ARISE UNDER THE LAWS OF ANY FOREIGN, STATE, LOCAL OR OTHER TAXING JURISDICTION.

DIVIDENDS

Dividends paid to a Non-United States Holder generally will be subject to withholding of United States federal income tax at a rate of 30 percent (or a lower rate prescribed by an applicable tax treaty). If the dividends are effectively connected with the conduct of a trade or business within the United States by the Non-United States Holder, the dividends will be subject to the ordinary United States federal income tax on net income that applies to United States persons and will not be subject to withholding if the Non-United States Holder files a United States Internal Revenue Service Form 4224 with the Company or its dividend paying agent. In the case of corporate holders, such dividends might also be subject to the United States branch profits tax at a rate of 30 percent (or a lower rate prescribed by an applicable tax treaty). A Non-United States Holder may be required to satisfy certain certification requirements in order to obtain any reduction of or exemption from withholding under the foregoing rules and may obtain a refund of any excess amounts currently withheld by filing an appropriate refund claim with the United States Internal Revenue Service.

Distributions in excess of the Company's current and accumulated earnings and profits, as determined for United States federal income tax purposes, will be treated first as a return of capital to the extent of the Non-United States Holder's tax basis in the Common Stock (and will be applied against and reduce such holder's tax basis in the Common Stock) and thereafter as gain from the sale of Common Stock. The portion treated as a return of capital will not be subject to United States federal income tax and the portion, if any, treated as gain will be subject to the rules described below under "--Gain on Disposition." Because the Company will not be able to determine whether a distribution should properly be treated as a dividend or as a return of capital at the time of payment, it is required to treat all distributions as dividends for United States withholding tax purposes. Non-United States

Holders will be eligible to claim a refund to the extent that a distribution represents a return of capital and may in certain circumstances be eligible to claim a refund to the extent that a distribution is treated as gain. Non-United States Holders should consult their own tax advisors with respect to distributions in excess of current and accumulated earnings and profits.

GAIN ON DISPOSITION

General Rule. Subject to special rules for individuals described below, a Non-United States Holder generally will not be subject to United States federal income tax on gain recognized on a sale or other disposition of Common Stock unless (i) the gain is effectively connected with the conduct of a trade or business within the United States by the Non-United States Holder (in which case the United States branch profits tax described above may also apply to corporate holders) or (ii) the gain is treated as effectively connected with the conduct of a trade or business within the United States because the Company is or has been a "United States real property holding corporation" for United States federal income tax purposes (in which case, withholding of such tax may also apply). The Company believes that it is currently, and is likely to remain, a United States real property holding corporation. The preceding sentence notwithstanding, under currently effective United States federal income tax laws, gain recognized by a Non-United States Holder will not be treated as effectively connected with the conduct of a trade or business within the United States (or subject to withholding) unless such Non-United States Holder held, directly or indirectly, at any time during the five-year period ending on the date of disposition, more than five percent of the Common Stock. Non-United States Holders should consult applicable tax treaties, which may provide for different rules (including possibly the exemption of certain capital gains from tax).

Individuals. In addition to the rules described above, an individual Non-United States Holder who holds Common Stock as a capital asset generally will be subject to tax on any gain recognized on the disposition of such stock if such individual is present in the United States for 183 days or more in the taxable year of disposition and (i) has a "tax home" in the United States (as specifically defined under the United States federal income tax laws) or (ii) maintains an office or other fixed place of business in the United States to which the gain from the sale of the stock is attributable. Certain individual Non-United States Holders may also be subject to tax pursuant to provisions of United States federal income tax law applicable to certain United States expatriates.

FEDERAL ESTATE TAX

Common Stock owned or treated as owned by an individual Non-United States Holder at the date of death will be subject to United States federal estate tax, unless an applicable estate tax treaty provides otherwise.

INFORMATION REPORTING AND BACKUP WITHHOLDING

The Company or its designated paying agent (the "payor") must report annually to the United States Internal Revenue Service and to each Non-United States Holder the amount of dividends paid to and the tax, if any, withheld with respect to such holder. That information may also be made available to the tax authorities of the country in which the Non-United States Holder resides.

United States information reporting requirements (other than the reporting of dividend payments described in the preceding paragraph) and United States backup withholding (imposed at a 31 percent rate) generally will not apply to dividends paid to a Non-United States Holder at an address outside the United States, unless the payor has knowledge that the payee is a United States person. Otherwise, information reporting and backup withholding may apply to dividends paid on the Common Stock to a Non-United States Holder who fails to furnish certain information, including a tax identification number, in the manner required by United States law and applicable regulations.

Payment of the proceeds of a disposition of Common Stock by a United States office of a broker is subject to backup withholding and information reporting, unless the holder certifies to the broker under penalties of perjury as to its name, address and status as a Non-United States Holder or the holder otherwise establishes an exemption. Neither backup withholding nor information reporting generally will apply to a payment of the proceeds of a disposition of Common Stock by a foreign office of a foreign broker that is not a United States Related Person. Information reporting requirements (but not backup withholding) will apply to a payment of the proceeds of a disposition of Common Stock by a foreign office of a broker that is a United States person or a United States Related Person, unless the broker has documentary evidence in its records that the holder is a Non-United States Related Person, unless the broker has no knowledge to the contrary and certain other conditions are met. For this purpose, a "United States Related Person" is (i) a foreign broker, 50 percent or more of whose gross income for certain periods is effectively connected with the conduct of a trade or business in the United States or (ii) a foreign broker that is a "controlled foreign corporation" for United States federal income tax purposes.

Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules will be refunded or credited against the Non-United States Holder's United States federal income tax liability, provided that required information is furnished to the United States Internal Revenue Service.

PLAN OF DISTRIBUTION

The offering of the Exchangeable Notes by ARCO is being made through concurrent offerings in the United States and outside the United States. Subject to the terms and conditions of the Underwriting Agreement for the offering in the United States, ARCO has agreed to sell to each of the underwriters named below, and each of such underwriters, for whom Goldman, Sachs & Co., Merrill Lynch, Pierce, Fenner & Smith Incorporated and Salomon Brothers Inc are acting as representatives, has severally agreed to purchase from ARCO the respective number of Exchangeable Notes set forth opposite its name below:

<TABLE>
<CAPTION>

UNDERWRITER	NUMBER OF EXCHANGEABLE NOTES
<S>	<C>
Goldman, Sachs & Co.	4,950,000
Merrill Lynch, Pierce, Fenner & Smith Incorporated	4,950,000
Salomon Brothers Inc	4,950,000
Advest, Inc.	375,000
Robert W. Baird & Co. Incorporated	375,000
Bear, Stearns & Co. Inc.	600,000
Sanford C. Bernstein & Co., Inc.	375,000
William Blair & Company	375,000
Alex. Brown & Sons Incorporated	600,000
The Buckingham Research Group Incorporated	275,000
CS First Boston Corporation	600,000
Dain Bosworth Incorporated	375,000
Dean Witter Reynolds Inc.	600,000
A. G. Edwards & Sons, Inc.	600,000
J.J.B. Hilliard, W. L. Lyons, Inc.	275,000
Howard, Weil, Labouisse, Friedrichs Incorporated	600,000
Janney Montgomery Scott Inc.	375,000
Kemper Securities, Inc.	600,000
Kidder, Peabody & Co. Incorporated	600,000
C. J. Lawrence/Deutsche Bank Securities Corporation	375,000

</TABLE>

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<CAPTION>

NUMBER OF

UNDERWRITER	EXCHANGEABLE NOTES
Legg Mason Wood Walker Incorporated	375,000
Lehman Brothers Inc.	600,000
Luther, Smith & Small, Inc.	275,000
McDonald & Company Securities, Inc.	375,000
J. P. Morgan Securities Inc.	600,000
Morgan Stanley & Co. Incorporated	600,000
Oppenheimer & Co., Inc	600,000
Parker/Hunter Incorporated	275,000
Rauscher Pierce Refsnes, Inc.	375,000
Scott & Stringfellow, Inc.	275,000
Smith Barney Inc	600,000
Stifel, Nicolaus & Company, Incorporated	275,000
Sutro & Co. Incorporated	375,000
UBS Securities Inc.	600,000
Wertheim Schroder & Co. Incorporated	600,000
Wheat, First Securities, Inc.	375,000
Total	30,000,000

</TABLE>

Subject to the terms and conditions of the Underwriting Agreement for the offering outside of the United States, ARCO has agreed to sell to each of the international underwriters named below, and each of such international underwriters, for whom Goldman Sachs International, Merrill Lynch International Limited and Salomon Brothers International Limited are acting as representatives, has severally agreed to purchase from ARCO the respective number of Exchangeable Notes set forth opposite its name below:

<TABLE>
<CAPTION>

UNDERWRITER	NUMBER OF EXCHANGEABLE NOTES
Goldman Sachs International	1,148,000
Merrill Lynch International Limited	1,146,000
Salomon Brothers International Limited	1,146,000
Deutsche Bank AG London	200,000
Societe Generale	200,000
Swiss Bank Corporation	200,000
UBS Limited	200,000
S.G. Warburg Securities Ltd	200,000
ABN AMRO Bank N.V	40,000
Barclays de Zoete Wedd Limited	40,000
BMO Nesbitt Thomson Ltd	40,000
BNP Capital Markets Limited	40,000
CS First Boston Limited	40,000
Dresdner Bank Aktiengesellschaft	40,000
Robert Fleming & Co. Limited	40,000
NatWest Securities Limited	40,000
Nikko Europe Plc	40,000
N M Rothschild & Sons Limited	40,000
J.Henry Schroder Wagg & Co. Limited	40,000
ScotiaMcLeod Inc	40,000
The Toronto-Dominion Bank	40,000
Westdeutsche Landesbank Girozentrale	40,000
Total	5,000,000

</TABLE>

Under the terms and conditions of the Underwriting Agreements, the underwriters are committed to take and pay for all of the Exchangeable Notes offered pursuant to the applicable prospectus related thereto, if any are taken.

The underwriters propose to offer the Exchangeable Notes in part directly to the public at the initial public offering price set forth on the cover page of the applicable prospectus for the Exchangeable Notes; and in part to certain securities dealers at such price less a concession of $0.45 per Exchangeable Note. The underwriters may allow, and each of such dealers may reallow, a concession not exceeding $0.10 per Exchangeable Note to certain dealers and brokers. After the Exchangeable Notes are released for sale to the public, the offering price and other selling terms may from time to time be varied by the representatives.

ARCO and Lyondell have entered into separate U.S. and international Underwriting Agreements providing for the concurrent offer and sale by ARCO of 30,000,000 Exchangeable Notes in the United States and 5,000,000 Exchangeable Notes outside the United States. The offering price and underwriting discount per Exchangeable Note for the two offerings are identical. The closing of the offering made in the United States is a condition to the closing of the offering outside the United States, and vice versa.

ARCO has granted the underwriters an option exercisable for 30 calendar days after the date of this Prospectus to purchase up to an aggregate of an additional 4,921,400 Exchangeable Notes solely to cover over-allotments, if any. If the underwriters exercise their over-allotment option, the underwriters have severally agreed, subject to certain conditions, to purchase approximately the same percentage thereof that the number of the Exchangeable Notes to be purchased by each of them, as shown in the foregoing table, bears to the aggregate of 35,000,000 Exchangeable Notes being offered. The underwriters may exercise such option only to cover over-allotments in connection with the sale of the Exchangeable Notes being offered.

ARCO and Lyondell have agreed that during the period beginning from the date of this Prospectus and continuing to and including the date 120 days after the date of this Prospectus, subject to certain exceptions set forth in the Underwriting Agreements, they will not offer, sell, contract to sell or otherwise dispose of, without the prior written consent of the representatives of the underwriters, any shares of Common Stock or any securities convertible into or exercisable or exchangeable for Common Stock.

The Exchangeable Notes will be a new issue of securities with no established trading market. The representatives have advised ARCO that they intend to make a market in the Exchangeable Notes but will not be obligated to do so and may discontinue any market making at any time without notice. No assurance can be given as to the liquidity of the trading market for the Exchangeable Notes.

Lyondell has agreed to indemnify the underwriters of the Exchangeable Notes against certain civil liabilities, including liabilities under the Securities Act. ARCO has agreed to reimburse Lyondell for any legal and other expenses reasonably incurred by Lyondell in the preparation, printing and filing of, and in connection with investigating or defending any action or claim relating to, this Prospectus, the Registration Statement or the offering of the Exchangeable Notes.

This Prospectus relates to the 35,000,000 shares of Common Stock that may be delivered by ARCO pursuant to the Exchangeable Notes and is Appendix A to both the U.S. prospectus and the international prospectus of ARCO covering the sale of the Exchangeable Notes (individually, an "ARCO Prospectus"). At maturity of the Exchangeable Notes the principal amount of each such note will be mandatorily exchanged by ARCO into shares of Common Stock or, at ARCO's option, cash with an equal value. For a description of the Exchangeable Notes, see "Description of the Exchangeable Notes" in the applicable ARCO Prospectus.

CERTAIN LEGAL MATTERS

Certain legal matters will be passed upon for the Company by Jeffrey R. Pendergraft, Esq., Senior Vice President, Secretary and General Counsel of Lyondell. Mr. Pendergraft beneficially owns 25,521 shares of Common Stock. Certain legal matters will be passed upon for the underwriters by Cravath, Swaine & Moore. Cravath, Swaine & Moore provides legal services to ARCO from time to time, and is currently doing so on certain matters relating to ARCO's investment in the Company.

EXPERTS

The consolidated balance sheet as of December 31, 1993 and 1992 and the consolidated statements of income and accumulated deficit, and cash flows for each of the three years in the period ended December 31, 1993, included in this Prospectus, have been included herein in reliance on the report of Coopers & Lybrand, independent accountants, given on the authority of that firm as experts in accounting and auditing.

With respect to the unaudited consolidated interim financial information for the three-month and six-month periods ended June 30, 1994 and 1993 included in this Prospectus, the independent accountants have reported that they have applied limited procedures in accordance with professional standards for a review of such information. However, their separate report, appearing elsewhere herein states that they did not audit and they do not express an opinion on that interim financial information. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied. The accountants are not subject to the liability provisions of Section 11 of the Securities Act of 1933 for their report on the unaudited consolidated interim financial information because that report is not a "report" or a "part" of the Registration Statement prepared or certified by the accountants within the meaning of Sections 7 and 11 of the Securities Act.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT ACCOUNTANTS

To the Stockholders and Board of Directors
of Lyondell Petrochemical Company

We have audited the accompanying consolidated balance sheet of Lyondell Petrochemical Company as of December 31, 1993 and 1992, and the related consolidated statements of income and accumulated deficit and cash flows for each of the three years in the period ended December 31, 1993. 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 Lyondell Petrochemical Company as of December 31, 1993 and 1992, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1993, in conformity with generally accepted accounting principles.

As discussed in Note 4 to the consolidated financial statements, during 1993 the Company changed its method of accounting for the cost of repairs and maintenance incurred in connection with turnarounds of major units at its manufacturing facilities and in 1992, the Company changed its method of accounting for income taxes and for postretirement benefits other than pensions.

Coopers & Lybrand

Houston, Texas
February 11, 1994

LYONDELL PETROCHEMICAL COMPANY

CONSOLIDATED STATEMENT OF INCOME AND ACCUMULATED DEFICIT

<TABLE>
<CAPTION>

	FOR THE YEAR ENDED DECEMBER 31		
	1993	1992	1991

	MILLIONS OF DOLLARS EXCEPT PER SHARE AMOUNTS		
<S>	<C>	<C>	<C>
Sales and other operating revenues:			
Unrelated parties	$3,572	$4,480	$5,209
Related parties	278	329	526
	3,850	4,809	5,735
Operating costs and expenses:			
Cost of sales:			
Unrelated parties	3,359	4,283	4,801
Related parties	268	295	409
Selling, general and administrative expenses	130	127	126
	3,757	4,705	5,336
Operating income	93	104	399
Interest expense	(74)	(79)	(74)
Interest income	2	10	14
Minority interest in LYONDELL-CITGO Refining Company Ltd.	(5)	--	--
Income before income taxes and cumulative effect of accounting changes	16	35	339
Provision for income taxes	12	9	117
Income before cumulative effect of accounting changes	4	26	222
Cumulative effect on prior years of acounting changes, net of tax	22	(10)	--
Net income	$ 26	$ 16	$ 222
Earnings (loss) per share:			
Income before cumulative effect of accounting changes	$ .06	$ .32	$ 2.78
Cumulative effect on prior years of accounting changes	.27	(.12)	--
Net income	$ .33	$ .20	$ 2.78
Pro forma amounts, assuming retroactive application of new accounting method for turnarounds:			
Income before cumulative effect of accounting changes		$ 31	$ 216
Income per share before cumulative effect of acounting changes		$ .39	$ 2.70
Net income	$ 4	$ 22	$ 216
Net income per share	$ .06	$ .27	$ 2.70
Accumulated deficit at beginning of year	$ (244)	$ (116)	$ (200)
Net income	26	16	222
Cash dividends	(108)	(144)	(140)
Other	--	--	2
Accumulated deficit at end of year	$ (326)	$ (244)	$ (116)

</TABLE>

See notes to consolidated financial statements.

LYONDELL PETROCHEMICAL COMPANY

CONSOLIDATED BALANCE SHEET

<TABLE>
<CAPTION>

ASSETS	DECEMBER 31 1993 (MILLIONS OF DOLLARS)	DECEMBER 31 1992 (MILLIONS OF DOLLARS)
<S>	<C>	<C>
Current assets:		
Cash and cash equivalents	$ 40	$ 108
Restricted cash and cash equivalents (Note 3)	73	--
Short-term investments	6	13
Accounts receivable:		
Trade	179	227
Related parties	25	26
Inventories	191	180
Prepaid expenses and other current assets	9	14
Total current assets	523	568
Fixed assets:		
Property, plant and equipment	2,545	2,470
Less accumulated depreciation and amortization	1,890	1,847
	655	623
Deferred charges and other assets	53	24
Total assets	$1,231	$1,215

<CAPTION>

LIABILITIES AND STOCKHOLDERS' DEFICIT	1993	1992
<S>	<C>	<C>
Current liabilities:		
Accounts payable:		
Trade	$ 203	$ 234
Related parties	4	9
Notes payable	4	--
Current maturities of long-term debt	8	29
Other accrued liabilities	80	73
Total current liabilities	299	345
Long-term debt	717	725
Other liabilities and deferred credits	78	72
Deferred income taxes	101	79
Commitments and contingencies (Note 18)		
Minority interest	124	--
Stockholders' equity (deficit):		
Common stock, $1 par value, 250,000,000 shares authorized, 80,000,000 issued and outstanding	80	80
Additional paid-in capital	158	158
Accumulated deficit	(326)	(244)

Total stockholders' deficit	(88)	(6)
Total liabilities and stockholders' deficit	$1,231	$1,215

</TABLE>

See notes to consolidated financial statements.

LYONDELL PETROCHEMICAL COMPANY

CONSOLIDATED STATEMENT OF CASH FLOWS

<TABLE>
<CAPTION>

	FOR THE YEAR ENDED DECEMBER 31		
	1993	1992	1991
	MILLIONS OF DOLLARS		
<S>	<C>	<C>	<C>
Cash flows from operating activities:			
Net income	$ 26	$ 16	$222
Adjustments to reconcile net income to net cash provided by operating activities:			
Cumulative effect of accounting changes, net of tax	(22)	10	--
Depreciation and amortization	58	39	39
Deferred taxes	7	2	18
Net change in accounts receivable, inventories and accounts payable	(11)	54	(1)
Net change in other working capital accounts	16	(20)	3
Minority interest	5	--	--
Other	5	7	(11)
Net cash provided by operating activities	84	108	270
Cash flows from investing activities:			
Minority owner contribution	116	--	--
Additions to fixed assets	(69)	(97)	(43)
Purchases of short-term investments	(9)	--	(104)
Proceeds from sales of short-term investments	16	88	3
Net cash provided by (used in) investing activities	54	(9)	(144)
Cash flows from financing activities:			
Proceeds from short-term debt	16	--	--
Repayments of short-term debt	(12)	--	--
Proceeds from long-term debt	--	200	150
Repayments of long-term debt	(29)	(67)	(29)
Repayments of capitalized lease obligations	--	(186)	(28)
Dividends paid	(108)	(144)	(140)
Net cash used in financing activities	(133)	(197)	(47)
Increase (decrease) in cash, restricted cash and cash equivalents	5	(98)	79
Cash and cash equivalents at beginning of period	108	206	127
Cash, restricted cash and cash equivalents at end of period	$113	$108	$206

==== ==== ====

</TABLE>

See notes to consolidated financial statements.

LYONDELL PETROCHEMICAL COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. FORMATION OF THE COMPANY AND OPERATIONS

In 1985, Atlantic Richfield Company (ARCO) established the Lyondell Petrochemical Company as a division of ARCO (Lyondell Division). Lyondell Petrochemical Corporation, a wholly-owned subsidiary of ARCO, was incorporated in the state of Delaware in 1985 and subsequently changed its name to Lyondell Petrochemical Company (Company). Effective July 1, 1988, ARCO transferred substantially all the assets and liabilities relating to the integrated petrochemical and petroleum processing business of the Lyondell Division to the Company. In addition, certain pipeline assets were transferred to the Company. For financial reporting purposes, the transfer of these assets and liabilities was recorded at the historical net book value of $127 million as of July 1, 1988.

On January 25, 1989, ARCO completed an initial public offering of 43,000,000 shares of the Company's 80,000,000 shares of common stock owned by ARCO. The Company received none of the proceeds from the sale. As of December 31, 1993, ARCO owned 39,921,400 shares, which represents 49.9 percent of the outstanding common stock.

The Company and LYONDELL-CITGO Refining Company Ltd. (LCR) operate in two business segments: petrochemicals and refining. The Company generally sells its petrochemical products to customers for use primarily in the manufacture of other chemicals and products, which in turn are used in the production of a wide variety of consumer and end-use products. LCR sells its principal refined products primarily to CITGO Petroleum Corporation (CITGO) and to a lesser extent, other marketers of petroleum products. See Note 3.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation--The consolidated financial statements include the accounts of the Company and its subsidiaries. All significant transactions between the entities of the Company have been eliminated from the consolidated financial statements. Certain amounts from prior years have been reclassified to conform to current year presentation.

Cash, Cash Equivalents and Short-Term Investments--Cash equivalents consist of highly liquid debt instruments such as certificates of deposit, commercial paper and money market accounts purchased with an original maturity date of three months or less. Short-term investments consist of similar investments maturing in more than three months from purchase. The Company's policy is to invest cash in conservative, highly rated instruments and limit the amount of credit exposure to any one institution. The Company performs periodic evaluations of the relative credit standing of these financial institutions which are considered in the Company's investment strategy. Cash equivalents and short-term investments are stated at cost which approximates market value because of the short maturity of these instruments.

The Company has no requirements for compensating balances in a specific amount at a specific point in time. The Company does maintain compensating balances for some of its banking services and products. Such balances are maintained on an average basis and are solely at the Company's discretion, so that effectively on any given date, none of the Company's cash is restricted with the exception of cash held for use in connection with LCR capital projects and other expenditures as determined by the LCR owners (see Note 3).

Accounts Receivable--The Company sells its products primarily to companies in the petrochemical and refining industries. The Company performs ongoing credit evaluations of its customers' financial condition and in certain circumstances requires letters of credit from them. The Company's allowance for doubtful accounts receivable, which is reflected in the consolidated balance sheet as a reduction in accounts receivable, totaled $2 million at December 31, 1993 and 1992.

Inventories--Inventories are stated at the lower of cost or market. Cost is determined on the last-in, first-out (LIFO) basis except for materials and supplies, which are valued at average cost.

Fixed Assets--Fixed assets are recorded at cost. Depreciation of fixed assets is computed using the straight-line method over the estimated useful lives of the related assets as follows:

Manufacturing facilities and equipment	--	5 to 30 years
Leased assets and improvements	--	5 to 20 years

Upon retirement or sale, the Company removes the cost of the assets and the related accumulated depreciation from the accounts and reflects any resulting gains or losses in income.

Environmental Remediation Costs--Expenditures related to investigation and remediation of contaminated sites which include operating facilities and waste disposal sites, are accrued when it is probable that a liability has been incurred and the amount of that liability can reasonably be estimated. These costs are expensed or capitalized in accordance with generally accepted accounting principles.

Futures Contracts--The Company executes futures contracts primarily to hedge fluctuations in product prices and feedstock costs. Changes in the market value of hedging contracts are reported as an adjustment to cost of sales upon completion of the hedged transaction.

Exchanges--Crude oil and finished product exchange transactions, which are of a homogeneous nature of commodities in the same line of business, that do not involve the payment or receipt of cash, are not accounted for as purchases and sales. Any resulting volumetric exchange balances are accounted for as inventory in accordance with the normal LIFO valuation policy. Exchanges that are settled through payment and receipt of cash are accounted for as purchases and sales.

Income Taxes--Deferred taxes result from temporary differences in the recognition of revenues and expenses for tax and financial reporting purposes and are calculated, effective in 1992 with the adoption of Statement of Financial Accounting Standards (SFAS) No. 109, "Accounting for Income Taxes", based upon cumulative book/tax differences in the balance sheet.

3. FORMATION OF LYONDELL-CITGO REFINING COMPANY LTD.

On July 1, 1993, the Company and CITGO announced the commencement of operations of LCR, a new entity formed and owned by the Company and CITGO in order to own and operate the Company's refining business, including the full-conversion Houston refinery (Refinery). LCR is undertaking a major upgrade project at the Refinery to enable the facility to process substantial additional volumes of very heavy crude oil.

LCR is a limited liability company organized under the laws of the state of Texas. The Company owns its interest in LCR through a wholly-owned subsidiary, Lyondell Refining Company. CITGO holds its interest through CITGO Refining Investment Company, a wholly-owned subsidiary of CITGO. CITGO has committed to reinvest its share of operating cash flow during the upgrade project, while the Company has unrestricted access to its share of operating cash flow from LCR.

Under the terms of the transaction, CITGO will provide a major portion of the funds for the upgrade project, as well as certain funds for general refinery capital projects. Project engineering for the upgrade is currently underway and at the present time, LCR management anticipates the cost over the next three to four years to be approximately $800 million.

Funding for the upgrade project will occur in three phases. The first phase, the initial $300 million, will be funded by CITGO. The second phase will be funded by an LCR borrowing of $200 million. The third phase, which is expected to occur toward the end of the upgrade project, will be a combination of LCR borrowing and contributions from CITGO and the Company. Prior to completion of the upgrade project, the financing costs for the upgrade project loans will be funded by CITGO. The timing of the third phase and the level of contributions from the Company and CITGO will be dependent upon the total cost of the upgrade project. It is currently anticipated that the Company will contribute, in the form of a subordinated loan, 25 percent of the cost of the upgrade project in excess of $500 million ($75 million if the cost of the upgrade project equals $800 million).

On July 1, 1993, the Company contributed its refining assets (including the lube oil blending and packaging plant in Birmingport, Alabama) and refining working capital to LCR and retained an approximate 95 percent interest in LCR. CITGO contributed $50 million for future capital projects of LCR and in exchange received an approximate five percent interest in LCR. CITGO also made an additional $50 million contribution for future capital projects of LCR on December 31, 1993. At December 31, 1993, CITGO had an approximate 10 percent interest in LCR. In addition to the funding related to the upgrade project described in the prior paragraph, CITGO has one additional contribution commitment of $30 million to be made upon completion of the upgrade project and it has an option to make an additional equity contribution sufficient to increase its interest to 50 percent.

On July 1, 1993, LCR entered into a long-term crude oil supply agreement with LAGOVEN, S.A., an affiliate of CITGO. In addition, under the terms of a long-term product sales agreement, CITGO will purchase a majority of the refined products produced at the Refinery. Both LAGOVEN and CITGO are subsidiaries of Petroleos de Venezuela, S.A., the national oil company of Venezuela.

Also effective July 1, 1993, the parties entered into multiple agreements for feedstock and product sales between LCR and the Company. These agreements generally are aimed at preserving much of the synergy that previously existed between the Company's refining and petrochemical businesses. LCR and the

Company also have entered into a tolling agreement, pursuant to which alkylate and MTBE will be produced at the Channelview Complex for LCR, and various administrative services agreements.

With respect to liabilities associated with LCR, the Company generally has retained liability for events that occurred prior to July 1, 1993 and certain on-going environmental projects at the Refinery. LCR generally is responsible for liabilities associated with events occurring after June 30, 1993 and on-going environmental compliance inherent to the operation of the Refinery.

At December 31, 1993, $73 million of cash and $6 million of short-term investments were restricted for use in connection with LCR capital projects, including the Refinery upgrade project and other expenditures as determined by the LCR owners.

4. ACCOUNTING CHANGES

In the first quarter of 1993, effective January 1, 1993, the Company changed its method of accounting for the cost of repairs and maintenance incurred in connection with turnarounds of major units at its manufacturing facilities. Under the new method, turnaround costs exceeding $5 million are deferred and amortized on a straight-line basis until the next planned turnaround, generally four to six years. In prior years, all turnaround costs were expensed as incurred. The Company believes that the new method of accounting is preferable in that it provides for a better matching of turnaround costs with future product revenues. The cumulative effect of this accounting change for years prior to 1993

resulted in a benefit of $33 million ($22 million or $.27 per share after income taxes), and was included in first quarter income. The change resulted in $9 million after-tax (or $.11 per share) of additional amortization expenses during the year ended December 31, 1993.

In the fourth quarter of 1992, the Company adopted, effective January 1, 1992, the provisions of SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions", requiring the accrual of postretirement benefits. The applicable postretirement benefits include medical and life benefit plans. In prior years, expenses for these plans were recognized on a pay-as-you-go basis. The change resulted in a decrease of 1992 net income before cumulative effect of accounting changes of approximately $3 million (or $.04 per share). The unfavorable effect of this accounting change through December 31, 1991 amounted to $28 million before taxes or $18 million (or $.22 per share) net of tax and was charged against 1992 income.

In the fourth quarter of 1992, the Company adopted, effective January 1, 1992, the provisions of SFAS No. 109, "Accounting for Income Taxes". The Statement requires, among other things, a change from the deferred to the liability method of computing deferred income taxes. The favorable cumulative effect of this accounting change on years prior to 1992 was an $8 million (or $.10 per share) reduction in the Company's deferred tax liability and was included in 1992 income. The favorable effect of the change on 1992 net income, excluding the cumulative effect upon adoption, was $2 million (or $.02 per share).

Effective January 1, 1992, the Company adopted SFAS No. 112, "Employers' Accounting for Postemployment Benefits". The standard requires companies to accrue the cost of postemployment (prior to retirement) 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.

5. RELATED PARTY TRANSACTIONS

Related party transactions with ARCO are summarized as follows:

	1993	1992	1991
	MILLIONS OF DOLLARS		
Costs			
Crude oil purchases	$53	$140	$299
Product purchases	3	9	13
Transportation fees	27	24	24
Other, net	2	2	2
Total	$85	$175	$338
Sales of crude oil and products	$15	$ 33	$171

In addition, sales to an affiliate, ARCO Chemical Company, consisting of benzene, ethylene, propylene, butylene, methanol and other products and services, were $263 million, $296 million and $355 million for the years ended December 31, 1993, 1992 and 1991, respectively.

6. SUPPLEMENTAL CASH FLOW INFORMATION

Supplemental cash flow information is summarized as follows:

	1993	1992	1991
	MILLIONS OF DOLLARS		
Cash paid during the year for:			
Interest	$76	$77	$72
Income taxes	$ 7	$23	$98

As of December 31, 1993, fixed assets included $16 million of non-cash additions of which $14 million related to accounts payable accruals.

7. INVENTORIES

The categories of inventory and their book values at December 31, 1993 and 1992, were as follows:

<TABLE>
<CAPTION>

	1993	1992
	MILLIONS OF DOLLARS	
Crude oil	$ 68	$ 51
Refined products	29	26
Petrochemicals	57	68
Materials and supplies	37	35
	$191	$180

For the years ended December 31, 1993, 1992 and 1991, the Company reduced cost of sales by approximately $6 million, $1 million and $6 million, respectively, associated with the reduction in LIFO inventories. The excess of the current cost of inventories over book value was approximately $56 million and $135 million at December 31, 1993 and 1992, respectively.

8. FIXED ASSETS

The components of fixed assets at December 31, 1993 and 1992, were as follows:

	1993	1992
	MILLIONS OF DOLLARS	
Manufacturing facilities and equipment	$2,516	$2,441
Land	26	26
Leased assets and improvements	3	3
	$2,545	$2,470

9. DEFERRED CHARGES AND OTHER ASSETS

Deferred charges and other assets at December 31, 1993 and 1992, was comprised of the following:

	1993	1992
	MILLIONS OF DOLLARS	
Deferred turnaround costs (Note 4)	$18	$--
Company owned life insurance	17	12
Other	18	12
	$53	$24

10. OTHER ACCRUED LIABILITIES

Other accrued liabilities at December 31, 1993 and 1992, were as follows:

	1993	1992
	MILLIONS OF DOLLARS	
Income taxes	$--	$ 5
Accrued taxes other than income	29	26
Accrued interest	11	11
Accrued payroll	20	19
Other	20	12
	$80	$73

11. LONG-TERM DEBT AND FINANCING ARRANGEMENTS

Long-term debt at December 31, 1993 and 1992, was comprised of the following:

	1993	1992
	MILLIONS OF DOLLARS	
9.95% Notes due in 1996	$150	$150
10.00% Notes due in 1999	150	150
8.25% Notes due in 1997	100	100
9.125% Notes due in 2002	100	100
Medium-Term Notes	225	254
	725	754
Less current portion	8	29
Total long-term debt	$717	$725

Aggregate maturities of long-term debt during the five years subsequent to December 31, 1993 are as follows: 1994-$8 million; 1995-$10 million; 1996-$150 million; 1997-$112 million; 1998-$32 million.

Effective July 1, 1993, LCR entered into a 364 day unsecured revolving credit facility with a group of banks with Continental Bank, N.A., as agent. Under terms of the credit facility, LCR may borrow a maximum of $100 million in the form of cash or letters of credit with interest based on prime, LIBOR or CD rates at LCR's option. The credit facility may be extended at the request of LCR upon consent of the bank group. The credit facility contains covenants that limit LCR's ability to modify certain significant contracts, dispose of assets or merge or consolidate with other entities. At December 31, 1993, no amounts were outstanding under this credit facility.

During December, 1993, the Company finalized a five year, $400 million unsecured revolving credit facility (Credit Facility) which replaced its existing $300 million credit facility which was due to expire in July, 1994. In connection with the Credit Facility, the Company paid administrative, arrangement and commitment fees totaling $3.2 million. At December 31, 1993, no amounts were outstanding under the Credit Facility.

Under the terms of the Credit Facility, the interest rate is based on Euro-Dollar or CD rates, at the Company's option, and also is dependent upon the Credit Facility utilization rate and the Company's debt ratings. The Credit Facility contains restrictive covenants regarding the incurrence of additional debt, the maintenance of certain fixed charge coverage and leverage ratios and the making of

contributions to LCR, as well as the payment of dividends to the extent that the Company's net income after January 1, 1994 generally does not exceed, over time, dividends declared or paid after that date.

The Credit Facility's debt incurrence covenant restricts the incurrence by the Company of additional debt, including debt under the Credit Facility, unless, immediately after giving effect to the additional borrowing, the ratio of earnings before depreciation, amortization, interest and income taxes, to interest expense exceeds the limits set forth in the Credit Facility. However, the debt incurrence covenant does not become applicable until the debt incurred by the Company after December 31, 1993 exceeds $75 million.

During March, 1992, the Company completed the placement of $200 million of Notes consisting of $100 million of 8.25 percent Notes due 1997 and $100 million of 9.125 percent Notes due 2002. A majority of the proceeds was used in April, 1992 to prepay amounts due under capitalized leases relating to the olefins plants, which allowed the Company to terminate the leases and acquire ownership of the plants.

The Company's Medium-Term Notes mature at various dates from 1994 to 2005 and have a weighted average interest rate at December 31, 1993 and 1992 of 9.85 percent.

The Notes due 1996 and 1999, and the Medium-Term Notes contain provisions that would allow the holders to require the Company to repurchase the debt upon the occurrence of certain events together with specified declines in public ratings on the Notes due 1996 and 1999. Certain events include acquisitions by persons other than ARCO or the Company of more than 20 percent of the Company's common stock, any merger or transfer of substantially all of the Company's assets, in connection with which the Company's common stock is changed into or exchanged for cash, securities or other property and payment of certain "special" dividends.

At December 31, 1993, the Company had letters of credit outstanding totaling $33.8 million.

Based on the borrowing rates currently available to the Company for debt with terms and average maturities similar to the Company's debt portfolio, the fair value of long-term debt is $776 million.

12. EARNINGS PER SHARE

Earnings per share were computed based on the weighted average number of shares outstanding of 80,000,000 for the years ended December 31, 1993, 1992 and 1991.

13. STOCKHOLDERS' EQUITY (DEFICIT)

Dividends--During 1993, the Company paid a regular dividend to stockholders in the amount of $.45 per share during the first and second quarters and a regular dividend to stockholders in the amount of $.225 per share during each of the remaining two quarters. During 1992, the Company paid regular quarterly dividends of $.45 per share. During 1991, the Company paid a regular dividend to stockholders in the amount of $.40 per share during the first quarter and $.45 per share during each of the remaining three quarters.

Return of Capital--During 1993, the Company paid $108 million in dividends. Total dividends paid during the year exceeded cumulative earnings and profits, as computed for federal income tax purposes. Subject to final determination by the Internal Revenue Service, 100 percent of each of the 1993 quarterly dividend payments was considered a return of capital.

Stock Options--The Company's Executive Long-Term Incentive Plan (LTI Plan), became effective November 7, 1988. The LTI Plan provides, among other things, for the granting to officers and other

key management employees of non-qualified stock options for the purchase of up to 1,295,000 shares of the Company's common stock. The number of options exercisable each year is equal to 25 percent of the number granted after each year of continuous service starting one year from the date of grant. The LTI Plan provides that the option price per share will not be less than 100 percent of the fair market value of the stock on the effective date of the grant. As of December 31, 1993, options covering 761,732 shares were outstanding under the LTI Plan of which 283,056 were exercisable at a weighted average price of $22.10 per share.

<TABLE>
<CAPTION>

<S>	NUMBER OF SHARES <C>	OPTION PRICE AVERAGE PER SHARE <C>	TOTAL <C>
Balance, December 31, 1991	373,560	$21.42	$ 8,002,196
Granted	222,290	23.00	5,112,670
Exercised	(12,115)	18.67	(226,205)
Canceled	(7,433)	22.84	(169,768)
Balance, December 31, 1992	576,302	22.07	$12,718,893
Granted	259,490	26.00	6,746,740
Exercised	(1,808)	21.01	(37,984)
Canceled	(72,252)	22.29	(1,610,782)
Balance, December 31, 1993	761,732	23.39	$17,816,867

</TABLE>

The Company's Incentive Stock Option Plan (ISO Plan) became effective January 12, 1989. The ISO Plan is a qualified plan which provides for the granting of stock options for the purchase of up to 550,000 shares of the Company's common stock. All employees of the Company who are not on the executive payroll are eligible to participate in the ISO Plan, subject to certain restrictions. Various restrictions apply as to when and to the number of stock options that may be exercised during any year. In no event, however, may a stock option be exercised prior to the first anniversary of the date the stock option was granted. As of December 31, 1993, options covering 476,665 shares were outstanding at an average exercise price of $29.35 per share. These options were held by 2,053 eligible employees. At December 31, 1993, no stock options were exercisable. The following summarizes stock option activity for the ISO Plan:

	NUMBER OF SHARES	OPTION PRICE AVERAGE PER SHARE	TOTAL
Balance, December 31, 1991	528,614	$29.06	$15,362,755
Granted	8,729	30.00	261,870
Exercised	(5,614)	19.44	(109,136)
Canceled	(27,710)	26.80	(742,649)
Balance, December 31, 1992	504,019	29.31	$14,772,840
Granted	--	--	--
Exercised	--	--	--
Canceled	(27,354)	28.59	(782,034)
Balance, December 31, 1993	476,665	29.35	$13,990,806

14. LEASES

At December 31, 1993, future minimum rental payments for operating leases with noncancelable lease terms in excess of one year were as follows:

	AMOUNT MILLIONS OF DOLLARS
1994	$ 36
1995	30
1996	22
1997	20
1998	19
Thereafter	17
Total minimum lease payments	$144

Operating lease net rental expenses for 1993, 1992 and 1991 were $43 million,

$35 million and $33 million, respectively.

15. RETIREMENT PLANS

All Lyondell and LCR employees are covered by defined benefit pension plans. Retirement benefits are based on years of service and the employee's compensation primarily during the last three years of service. The funding policy for these plans is to make periodic contributions as required by applicable regulations. Lyondell and LCR accrue pension costs based on an actuarial valuation and fund the plans through contributions to separate trust funds that are kept apart from Lyondell or LCR's funds. Lyondell and LCR also have unfunded supplemental nonqualified retirement plans which provide pension benefits for certain employees in excess of the qualified plans' limits.

The following table sets forth the funded status of Lyondell and LCR's retirement plans and the amounts recognized in the Company's consolidated balance sheet at December 31, 1993 and 1992:

<TABLE>
<CAPTION>

	1993		1992	
	PLANS WITH ASETS IN EXCESS OF ABO	PLANS WITH ABO IN EXCESS OF ASSETS	PLANS WITH ASSETS IN EXCESS OF ABO	PLANS WITH ABO IN EXCESS OF ASSETS
	MILLIONS OF DOLLARS			
<S>	<C>	<C>	<C>	<C>
Actuarial present value of benefit obligations:				
Vested benefit obligation........	$53	$21	$46	$ 2
Accumulated benefit obligation (ABO)..........................	$54	$25	$49	$ 2
Projected benefit obligation.....	$84	$42	$78	$ 4
Plan assets at fair value, primarily stocks and bonds........	62	18	69	--
Projected benefit obligation in excess of plan assets............	(22)	(24)	(9)	(4)
Unrecognized net loss.............	22	14	10	1
Prior service cost not yet recognized in pension cost........	(2)	3	(1)	--
Remaining unrecognized net asset...	(4)	--	(5)	1
Net pension liability.............	$(6)	$(7)	$(5)	$(2)

</TABLE>

The Company's net pension cost for 1993, 1992 and 1991 included the following components:

<TABLE>
<CAPTION>

	1993	1992	1991

	MILLIONS OF DOLLARS		
Service cost--benefits earned during the period	$ 5	$ 4	$ 4
Interest cost on projected benefit obligations	8	6	5
Actual (gain) loss on plan assets	(14)	(4)	(10)
Net amortization and deferral	7	(2)	5
Net periodic pension cost	$ 6	$ 4	$ 4

</TABLE>

The assumptions used as of December 31, 1993, 1992 and 1991, in determining the pension costs and pension liability shown above were as follows:

	1993	1992	1991
	PERCENT		
Discount rate	7.25	8.75	8.95
Rate of salary progression	5.00	5.00	5.00
Long-term rate of return on assets	9.50	9.50	9.50

Lyondell and LCR also maintain voluntary defined contribution Capital Accumulation and Savings plans for eligible employees. Under provisions of the plans, Lyondell and LCR contribute an amount equal to 150 percent of employee contributions up to a maximum Lyondell or LCR contribution of 6 percent of the employee's base salary for the Capital Accumulation plans and 200 percent of employee contributions up to a maximum Lyondell or LCR contribution of 2 percent of the employee's base salary for the Savings plans. Lyondell and LCR contributions to these plans totaled $8 million in 1993, $7 million in 1992 and $7 million in 1991.

16. POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

Lyondell and LCR sponsor unfunded defined benefit postretirement plans other than pensions that cover both salaried and non-salaried employees which provide medical and life insurance benefits. The postretirement health care plans are contributory while the life insurance plans are non-contributory. Currently, Lyondell and LCR pay approximately 80 percent of the cost of the health care plans, but reserve the right to modify the cost-sharing provisions at any time.

The following table sets forth the plans' separate postretirement benefit liabilities as of December 31, 1993 and 1992:

	1993		1992	
	MEDICAL	LIFE	MEDICAL	LIFE
	MILLIONS OF DOLLARS			
Accumulated postretirement benefit obligation:				
Retirees	$ (2)	$ (1)	$ (2)	
Fully eligible active plan participants	(5)	(1)	(3)	$ (1)
Other active plan participants	(37)	(6)	(23)	(4)
	(44)	(8)	(28)	(5)

Unrecognized net loss	12	2	--	--
Accrued postretirement benefit liability	$(32)	$(6)	$(28)	$(5)

</TABLE>

Net periodic postretirement benefit costs for 1993 and 1992 included the following components:

<TABLE>
<CAPTION>

	1993 MEDICAL	1993 LIFE	1992 MEDICAL	1992 LIFE
	MILLIONS OF DOLLARS			
Service cost--benefits attributed to service during the period	$ 2		$ 2	
Interest cost on accumulated postretirement benefit obligation	3	$ 1	2	$ 1
Net periodic postretirement benefit cost	$ 5	$ 1	$ 4	$ 1

</TABLE>

For measurement purposes, the assumed annual rate of increase in the per capita cost of covered health care benefits was 13 percent for 1993-1996, 9 percent for 1997-2001, and 6 percent thereafter. The health care cost trend rate assumption has a significant effect on the amounts reported. To illustrate, increasing the assumed health care cost trend rates by one percentage point in each year would increase the accumulated postretirement benefit liability as of December 31, 1993 by $10 million and the net periodic postretirement benefit cost for the year then ended by $1 million.

The accumulated postretirement benefit obligation was calculated utilizing a weighted-average discount rate of 7.25 percent and 8.75 percent at December 31, 1993 and 1992, respectively, and an average rate of salary progression of 5 percent in each year. Lyondell and LCR's current policy is to fund the postretirement health care and life insurance plans on a pay-as-you-go basis.

17. INCOME TAXES

Effective January 1, 1992, the Company changed its method of accounting for income taxes from the deferred method to the liability method required by SFAS No. 109, "Accounting for Income Taxes" (see Note 4). As permitted under the new standard, prior years' financial statements have not been restated.

During 1993, the Company increased its provision for deferred income taxes by $3 million due to an increase in the federal corporate income tax rate from 34 percent to 35 percent effective January 1, 1993. Significant components of the Company's provision for income taxes attributable to continuing operations follows:

<TABLE>
<CAPTION>

LIABILITY DEFERRED

	METHOD 1993	METHOD 1992	METHOD 1991
	MILLIONS OF DOLLARS		
Current			
Federal	$ 5	$ 6	$ 89
State	--	1	10
Total current	5	7	99
Deferred			
Federal	2	4	17
State	5	(2)	1
Total deferred	7	2	18
	$12	$ 9	$117

</TABLE>

Prior to the change in accounting methods, the components of the Company's provision for deferred income taxes for the year ended December 31, 1991 were as follows (millions of dollars):

Depreciation and amortization	$19
Other	(1)
	$18

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax liabilities and assets as of December 31, 1993 and 1992 are as follows:

	1993	1992
	MILLIONS OF DOLLARS	
Deferred tax liabilities:		
Tax over book depreciation	$126	$106
Change in accounting method for turnarounds	6	--
LIFO inventory	8	3
Total deferred tax liabilities	140	109
Deferred tax assets:		

OPEB obligation	13	12
Environmental and other long-term liabilities	12	10
Alternative minimum tax credit receivable	7	2
Other	11	6
Total deferred tax assets	43	30
Net deferred tax liabilities	$ 97	$ 79

</TABLE>

Pretax income from continuing operations for the years ended December 31, 1993, 1992 and 1991 was taxed under domestic jurisdictions only.

The reconciliation of income tax attributable to continuing operations computed at the U.S. federal statutory tax rates to the Company's effective tax rates follows:

<TABLE>
<CAPTION>

DESCRIPTION	LIABILITY METHOD 1993	LIABILITY METHOD 1992	DEFERRED METHOD 1991
<S>	<C>	<C>	<C>
U.S. statutory income tax rates	35.0%	34.0%	34.0%
State income taxes, net of federal	19.3	(1.5)	2.3
Company owned life insurance	3.8	(2.1)	--
Deferred tax liability rate change	15.6	--	--
Other, net	(0.6)	(3.1)	(1.7)
Effective income tax rate	73.1%	27.3%	34.6%

</TABLE>

18. COMMITMENTS AND CONTINGENCIES

The Company has various purchase commitments for materials, supplies and services incident to the ordinary conduct of business. In the aggregate, such commitments are not at prices in excess of current market.

In connection with the transfer of assets and liabilities from ARCO to the Company, the Company agreed to assume certain liabilities arising out of the operation of the Company's integrated petrochemical and petroleum processing business prior to July 1, 1988. In connection with the transfer of such liabilities, the Company and ARCO entered into an agreement (Cross-Indemnity Agreement) whereby the Company has agreed to defend and indemnify ARCO against certain uninsured claims and liabilities which ARCO may incur relating to the operation of the business of the Company prior to July 1, 1988, including certain liabilities which may arise out of pending and future lawsuits.

ARCO indemnified the Company under the Cross-Indemnity Agreement with respect to other claims or liabilities and other matters of litigation not related to the assets or business included in the consolidated financial statements. ARCO has also indemnified the Company for all federal taxes which might be assessed upon audit of the operations of the Company included in the consolidated financial statements prior to January 12, 1989, and for all state and local taxes for the period prior to July 1, 1988.

In addition to lawsuits for which the Company has indemnified ARCO, the Company is also subject to various lawsuits and proceedings. Subject to the uncertainty inherent in all litigation, management believes the resolution of these proceedings will not have a material adverse effect upon the Company's operations.

The Company's policy is to be in compliance with all applicable environmental laws. The Company is subject to extensive environmental laws and regulations concerning emissions to the air, discharges to surface and subsurface waters and the generation, handling, storage, transportation, treatment and disposal of waste materials. Some of these laws and regulations are subject to varying and conflicting interpretations. In addition, the Company cannot accurately predict future developments, such as increasingly strict requirements of environmental laws, inspection and enforcement policies and compliance costs therefrom which might affect the handling, manufacture, use, emission or disposal of products, other materials or hazardous and non-hazardous waste.

Subject to the terms of the Cross-Indemnity Agreement, the Company is currently contributing funds to the cleanup of two waste sites (French Ltd. and Brio, both of which are located near Houston, Texas) under the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) as amended and the Superfund Amendments and Reauthorization Act of 1986. The Company is also subject to certain assessment and remedial actions at the Refinery under the Resource Conservation and Recovery Act (RCRA). In addition, the Company has negotiated an order with the Texas Water Commission, now the Texas Natural Resource Conservation Commission (TNRCC), for assessment and remediation of groundwater and soil contamination at the Refinery.

The Company has accrued $24 million related to future CERCLA, RCRA and TNRCC assessment and remediation costs, of which $7 million is included in current liabilities while the remaining amounts are expected to be incurred over the next three to seven years. However, it is possible that new information about the sites for which the reserve has been established, or future developments such as involvement in other CERCLA, RCRA, TNRCC or other comparable state law investigations could require the Company to reassess its potential exposure related to environmental matters.

In the opinion of management, any liability arising from these matters will not have a material adverse effect on the consolidated financial condition of the Company, although the resolution in any reporting period of one or more of these matters could have a material impact on the Company's results of operations for that period.

19. SEGMENT INFORMATION

As discussed in Note 3, the refining operations of the Company were contributed to LCR effective July 1, 1993. Prior to July 1, 1993, the petrochemical and refining operations of the Company were considered to be a single segment due to the integrated nature of their operations. However, these operations are now considered to be separate segments due to the formation of LCR and the related separate management and operations of that entity.

The Petrochemical segment consists of olefins, including ethylene, propylene, butadiene, butylenes and specialty products; polyolefins, including polypropylene and low density polyethylene; aromatics produced at the Channelview Complex, including benzene and toluene; methanol and refinery blending stocks.

The refining segment is primarily composed of the LCR venture (see Note 3) and consists of refined petroleum products, including gasoline, heating oil and jet fuel; aromatics produced at the Refinery, including benzene, toluene, paraxylene and orthoxylene; lubricants; olefins feedstocks and crude oil resales. Crude oil resales consist of revenues from the resale of previously purchased crude oil and from locational exchanges of crude oil that are settled on a cash basis. Crude oil exchanges and resales facilitate the operation of the Company's petroleum processing business by allowing the Company to optimize the crude oil feedstock mix in response to market conditions and refinery maintenance turnarounds and also to reduce transportation costs. Crude oil resales amounted to $401 million, $893 million and $1,308 million for years ended December 31, 1993, 1992 and 1991, respectively.

Consolidated sales to CITGO totaled $864 million in 1993, $282 million in 1992 and $181 million in 1991. No other customer accounted for 10 percent or more of consolidated sales.

Summarized below is the segment data for the Company which includes certain pro forma adjustments necessary to present the petrochemical and refining operations as individual segments for periods prior to the formation of LCR. These adjustments relate principally to allocations of costs and expenses between the two segments and are based on current operating agreements between the Company and LCR. Intersegment sales between petrochemical and refining segments include olefins feedstocks produced at the Refinery and gasoline and fuel oil blending stocks produced at the Channelview Complex and were made at prices based on current market values.

<TABLE>
<CAPTION>

	PETROCHEMICAL SEGMENT	REFINING SEGMENT	UNALLOCATED	ELIMINATIONS	CONSOLIDATED
			MILLIONS OF DOLLARS		
<S>	<C>	<C>	<C>	<C>	<C>
1993					
Sales and other operating revenues:					
Customers.............	$1,326	$2,524			$3,850
Intersegment..........	180	237		$(417)	--
	1,506	2,761		(417)	3,850
Cost of sales...........	1,412	2,632		(417)	3,627
Selling, general and administrative expenses...............	37	48	$ 45	--	130
Operating income........	$ 57	$ 81	$(45)	$ --	$ 93
Depreciation and amortization expense...	$ 44	$ 13	$ 1		$ 58
Capital expenditures....	$ 14	$ 54	$ 1		$ 69

Identifiable assets.....	$ 688	$ 514	$ 68	$ (39)	$1,231
1992					
Sales and other operating revenues:					
Customers.............	$1,409	$3,400			$4,809
Intersegment..........	266	334		$(600)	--
	1,675	3,734		(600)	4,809
Cost of sales...........	1,536	3,642		(600)	4,578
Selling, general and administrative expenses...............	37	43	$ 47	--	127
Operating income........	$ 102	$ 49	$(47)	$ --	$ 104
Depreciation and amortization expense...	$ 33	$ 5	$ 1		$ 39
Capital expenditures....	$ 43	$ 53	$ 1		$ 97
Identifiable assets.....	$ 716	$ 346	$153		$1,215
1991					
Sales and other operating revenues:					
Customers.............	$1,666	$4,069			$5,735
Intersegment..........	293	455		$(748)	--
	1,959	4,524		(748)	5,735
Cost of sales...........	1,711	4,247		(748)	5,210
Selling, general and administrative expenses...............	35	42	$ 49	--	126
Operating income........	$ 213	$ 235	$(49)	$ --	$ 399
Depreciation and amortization expense...	$ 34	$ 4	$ 1		$ 39
Capital expenditures....	$ 21	$ 21	$ 1		$ 43
Identifiable assets.....	$ 754	$ 390	$335		$1,479

</TABLE>

20. UNAUDITED QUARTERLY RESULTS

<TABLE>
<CAPTION>

	QUARTER ENDED			
	MARCH 31	JUNE 30	SEPTEMBER 30	DECEMBER 31

<S> <C> <C> <C> <C>

	MILLIONS OF DOLLARS EXCEPT PER SHARE AMOUNTS			
1993(*)				
Sales and other operating revenues.	$1,065	$1,080	$ 885	$ 820
Operating income..................	7	5	38	43
Income (loss) before income taxes and cumulative effect of accounting changes................	(10)	(14)	18	22
Income (loss) before cumulative effect of accounting changes......	(8)	(11)	9	14
Cumulative effect of accounting changes, net of tax..............	22	--	--	--
Net income (loss)..................	14	(11)	9	14
Earnings (loss) per share before cumulative effect of accounting changes...........................	(.09)	(.14)	.12	.17
Earnings (loss) per share..........	.18	(.14)	.12	.17
1992(*)				
Sales and other operating revenues.	$1,029	$1,221	$1,336	$1,223
Operating income (loss)...........	(5)	33	33	43
Income (loss) before income taxes and cumulative effect of accounting changes................	(22)	15	17	25
Income (loss) before cumulative effect of accounting changes......	(14)	10	12	18
Cumulative effect of accounting changes, net of tax..............	(10)	--	--	--
Net income (loss)..................	(24)	10	12	18
Earnings (loss) per share before cumulative effect of accounting changes...........................	(.17)	.13	.15	.22
Earnings (loss) per share..........	(.29)	.13	.15	.22

</TABLE>

- --------

(*) The 1992 quarterly results have been restated to reflect the adoption during the fourth quarter of 1992, of accounting changes which were effective January 1, 1992. In addition, the first two quarters of 1993 and all four quarters of 1992 include certain pro forma adjustments necessary to present the petrochemical and refining operations as individual segments for periods prior to the formation of LCR effective July 1, 1993.

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

To the Stockholders and Board of Directors
of Lyondell Petrochemical Company

We have reviewed the accompanying condensed consolidated balance sheet of Lyondell Petrochemical Company as of June 30, 1994, the related condensed consolidated statement of income for the three-month and six-month periods ended June 30, 1994 and 1993 and the related condensed consolidated statement of cash flows for the six-month periods ended June 30, 1994 and 1993. These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying condensed consolidated financial statements for them to be in conformity with generally accepted accounting principles.

We have previously audited, in accordance with generally accepted auditing standards, the consolidated balance sheet as of December 31, 1993, and the related consolidated statements of income and accumulated deficit, and cash flows for the year then ended; and in our report dated February 11,1994, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 1993, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

Coopers & Lybrand

Houston, Texas
July 25, 1994

LYONDELL PETROCHEMICAL COMPANY

CONSOLIDATED STATEMENT OF INCOME
(UNAUDITED)

<TABLE>
<CAPTION>

	FOR THE THREE MONTHS ENDED JUNE 30,		FOR THE SIX MONTHS ENDED JUNE 30,	
	1994	1993	1994	1993
	MILLIONS OF DOLLARS EXCEPT PER SHARE AMOUNTS			
<S>	<C>	<C>	<C>	<C>
SALES AND OTHER OPERATING REVENUES:				
Unrelated parties............................	$818	$1,003	$1,573	$1,999
Related parties..............................	82	77	151	146
	900	1,080	1,724	2,145
OPERATING COSTS AND EXPENSES:				
Cost of sales:				
Unrelated parties..........................	727	970	1,409	1,933
Related parties............................	67	70	121	136
Selling, general and administrative expenses.	35	35	69	64
	829	1,075	1,599	2,133
Operating income.............................	71	5	125	12
Interest expense...............................	(19)	(19)	(37)	(37)
Interest income................................	1	--	2	1
Minority interest in LYONDELL-CITGO Refining Company Ltd.................................	(2)	--	(5)	--

Income (loss) before income taxes and cumulative effect of accounting changes.....	51	(14)	85	(24)
Income tax provision (benefit)................	19	(3)	31	(5)
INCOME (LOSS) BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGES.........................	32	(11)	54	(19)
Cumulative effect on prior years of accounting changes....................................	--	--	--	22
NET INCOME (LOSS)...........................	$ 32	$ (11)	$ 54	$ 3
EARNINGS (LOSS) PER SHARE:				
Income (loss) before cumulative effect of accounting changes.........................	$.40	$ (.14)	$ .68	$ (.23)
Cumulative effect on prior years of accounting changes.........................	--	--	--	.27
Net income (loss)...........................	$.40	$ (.14)	$ .68	$ .04

</TABLE>

See notes to consolidated financial statements--unaudited.

LYONDELL PETROCHEMICAL COMPANY

CONSOLIDATED BALANCE SHEET
(UNAUDITED)

<TABLE>
<CAPTION>

ASSETS	JUNE 30, 1994	DECEMBER 31, 1993
	MILLIONS OF DOLLARS	
<S>	<C>	<C>
Current assets:		
Cash and cash equivalents............................	$ 35	$ 40
Restricted cash and cash equivalents (Note 3)..........	45	73
Short-term investments (Note 3)........................	12	6
Accounts receivable:		
Trade...	220	179
Related parties.....................................	32	25
Inventories...	184	191
Prepaid expenses and other current assets.............	14	9
Total current assets................................	542	523
Fixed assets:		
Property, plant and equipment.........................	2,629	2,545
Less accumulated depreciation and amortization.........	1,913	1,890
	716	655
Deferred charges and other assets......................	50	53
Total assets...	$1,308	$1,231

<CAPTION>

LIABILITIES AND STOCKHOLDERS' DEFICIT

<S> <C> <C>

Current liabilities:		
Accounts payable:		
Trade	$ 249	$ 203
Related parties	2	4
Notes payable	--	4
Current maturities of long-term debt	10	8
Other accrued liabilities	67	80
Total current liabilities	328	299
Long-term debt	707	717
Other liabilities and deferred credits	86	78
Deferred income taxes	101	101
Commitments and contingencies (Note 6)		
Minority interest	156	124
Stockholders' equity (deficit):		
Common stock, $1 par value, 250,000,000 shares authorized, 80,000,000 issued and outstanding	80	80
Additional paid-in capital	158	158
Accumulated deficit	(308)	(326)
Total stockholders' deficit	(70)	(88)
Total liabilities and stockholders' deficit	$1,308	$1,231

</TABLE>

See notes to consolidated financial statements--unaudited.

LYONDELL PETROCHEMICAL COMPANY

CONSOLIDATED STATEMENT OF CASH FLOWS
(UNAUDITED)

<TABLE>
<CAPTION>

	FOR THE SIX MONTHS ENDED JUNE 30,	
	1994	1993
	MILLIONS OF DOLLARS	
<S>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 54	$ 3
Adjustments to reconcile net income to net cash provided by operating activities:		
Cumulative effect of accounting changes, net of tax	--	(22)
Depreciation and amortization	29	28
Deferred taxes	4	1
Net change in accounts receivable, inventories and accounts payable	(2)	34
Net change in other working capital accounts	(22)	(17)
Minority interest	5	--
Other	4	10

Net cash provided by operating activities	72	37
CASH FLOWS FROM INVESTING ACTIVITIES:		
Minority owner contribution	28	--
Additions to fixed assets	(79)	(28)
Purchases of short-term investments	(19)	--
Proceeds from sales of short-term investments	13	13
Net cash used in investing activities	(57)	(15)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net repayments of short-term debt	(4)	--
Repayments of long-term debt	(8)	(29)
Dividends paid	(36)	(72)
Net cash used in financing activities	(48)	(101)
DECREASE IN CASH, RESTRICTED CASH AND CASH EQUIVALENTS	(33)	(79)
Cash, restricted cash and cash equivalents at beginning of period	113	108
Cash, restricted cash and cash equivalents at end of period	$ 80	$ 29

</TABLE>

See notes to consolidated financial statements--unaudited.

LYONDELL PETROCHEMICAL COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--UNAUDITED

1. BASIS OF PREPARATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments, consisting only of normal, recurring adjustments considered necessary for a fair presentation, have been included. For further information, refer to the consolidated financial statements and notes thereto for the year ended December 31, 1993 included in the Lyondell Petrochemical Company (Company) 1993 Annual Report and the Annual Report on Form 10-K pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. The year-end condensed balance sheet data was derived from audited financial statements but does not include all disclosures required by generally accepted accounting principles. Certain amounts from prior periods have been reclassified to conform to current period presentation.

2. ACCOUNTING CHANGES

In May 1993 the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities" (Statement). The Company adopted the provisions of the Statement for investments held as of or acquired after January 1, 1994. In accordance with the Statement, prior period financial statements have not been restated to reflect the change in accounting principle. The effect of adopting the Statement had no impact on income.

In the first quarter of 1993, effective January 1, 1993, the Company changed its method of accounting for the cost of repairs and maintenance incurred in connection with turnarounds of major units at its manufacturing facilities. Under the new method, turnaround costs exceeding $5 million are deferred and amortized on a straight-line basis until the next planned turnaround, generally four to six years. In prior years, all turnaround costs were expensed as incurred. The Company believes that the new method of accounting is preferable in that it provides for a better matching of turnaround costs with future product revenues. The cumulative effect of this accounting change for years prior to 1993 resulted in a benefit of $33 million ($22 million or $.27 per share after income taxes), and was included in first quarter 1993 income.

3. RESTRICTED FUNDS

As of June 30, 1994 and December 31, 1993, cash in the amount of $45 million and $73 million, respectively, was restricted for use in connection with LYONDELL-CITGO Refining Company Ltd. (LCR) capital projects, including the Refinery upgrade project, and other expenditures as determined by the LCR owners. At June 30, 1994 and December 31, 1993, in addition to restricted cash, all short-term investments were restricted for use in connection with LCR capital projects, including the Refinery upgrade project, and other expenditures as determined by the LCR owners.

Presented below is a reconciliation of changes in restricted funds, including amounts classified as short-term investments, for the six-month period ended June 30, 1994:

<TABLE>

<S>	<C>
Restricted-cash, cash equivalents and short-term investments at December 31, 1993	$ 79
Minority owner investments:	
Contributions	28
Reinvestments	6
Additions to fixed assets:	
Refinery upgrade project	(28)
Refining segment-other	(28)
Restricted-cash, cash equivalents and short-term investments at June 30, 1994	$ 57

</TABLE>

4. INVESTMENTS

As of June 30,1994, the Company held approximately $84 million of investments in debt securities composed primarily of commercial paper, including $72 million classified as cash equivalents. As of January 1, 1994, the Company held approximately $70 million of investments in debt securities composed primarily of commercial paper, including $64 million classified as cash equivalents. The cost of securities held at June 30, 1994 and January 1, 1994 approximated their estimated fair value and were classified as available-for-sale.

The Company realized no gains or losses on sales of securities during the six-month period ended June 30, 1994. All securities held by the Company as of June 30, 1994 have remaining maturities of less than one year. At June 30, 1994 and December 31, 1993, in addition to restricted cash, all short-term investments were restricted for use in connection with LCR capital projects, including the Refinery upgrade project, and other expenditures as determined by the LCR owners.

5. INVENTORIES

The categories of inventory and their book values at June 30, 1994 and December 31, 1993 were:

	1994	1993
	MILLIONS OF DOLLARS	
Crude oil	$ 46	$ 68
Refined products	23	29
Petrochemicals	75	57
Materials and supplies	40	37
	$184	$191

6. COMMITMENTS AND CONTINGENCIES

The Company has various purchase commitments for materials, supplies and services incident to the ordinary conduct of business. In the aggregate, such commitments are not at prices in excess of current market.

In connection with the transfer of assets and liabilities from ARCO to the Company, the Company agreed to assume certain liabilities arising out of the operation of the Company's integrated petrochemical and petroleum processing business prior to July 1, 1988. In connection with the transfer of such liabilities, the Company and ARCO entered into an agreement (Cross-Indemnity Agreement) whereby the Company has agreed to defend and indemnify ARCO against certain uninsured claims and liabilities which ARCO may incur relating to the operation of the business of the Company prior to July 1, 1988, including certain liabilities which may arise out of pending and future lawsuits.

ARCO indemnified the Company under the Cross-Indemnity Agreement with respect to other claims or liabilities and other matters of litigation not related to the assets or business included in the consolidated financial statements. ARCO has also indemnified the Company for all federal taxes which might be assessed upon audit of the operations of the Company included in the consolidated financial statements prior to January 12, 1989, and for all state and local taxes for the period prior to July 1, 1988.

In addition to lawsuits for which the Company has indemnified ARCO, the Company is also subject to various lawsuits and proceedings. Subject to the uncertainty inherent in all litigation, management

believes the resolution of these proceedings will not have a material adverse effect upon the Company's operations.

The Company's policy is to be in compliance with all applicable environmental laws. The Company is subject to extensive environmental laws and regulations concerning emissions to the air, discharges to surface and subsurface waters and the generation, handling, storage, transportation, treatment and disposal of waste materials. Some of these laws and regulations are subject to varying and conflicting interpretations. In addition, the Company cannot accurately predict future developments, such as increasingly strict requirements of environmental laws, inspection and enforcement policies and compliance costs therefrom which might affect the handling, manufacture, use, emission or disposal of products, other materials or hazardous and non-hazardous waste.

Subject to the terms of the Cross-Indemnity Agreement, the Company is currently contributing funds to ARCO for the cleanup of two waste sites (French Ltd. and Brio, both of which are located near Houston, Texas) under the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) as amended and the Superfund Amendments and Reauthorization Act of 1986. The Company is also subject to certain assessment and remedial actions at the Refinery under the Resource Conservation and Recovery Act (RCRA). In addition, the Company has negotiated an order with the Texas Natural Resource Conservation Commission (TNRCC), formerly the Texas Water Commission, for assessment and remediation of groundwater and soil contamination at the Refinery.

The Company has accrued $19 million related to future CERCLA, RCRA and TNRCC assessment and remediation costs, of which $2 million is included in current liabilities while the remaining amounts are expected to be incurred over the next three to seven years. However, it is possible that new information about the sites for which the reserve has been established, or future developments such as involvement in other CERCLA, RCRA, TNRCC or other comparable state law investigations, could require the Company to reassess its potential exposure related to environmental matters.

From April 1993 to June 1994, two process waste water streams at the Channelview Complex were not in compliance with applicable Benzene National Emissions Standards for Hazardous Air Pollutants (NESHAPS) regulations. After learning that these streams were not controlled in accordance with the Benzene NESHAPS regulations, Company employees determined that the streams did not create a discernible impact on health or safety and achieved compliance with the regulations. The Company estimates that it will incur approximately $1 million in capital costs in connection with these waste water streams to achieve on-going compliance with the Benzene NESHAPS regulations. The Company notified the TNRCC and the EPA that the two streams were not controlled in accordance with the Benzene NESHAPS regulations. On June 6, 1994, the Company received a Notice of Violation from the TNRCC regarding the two streams. In an initial enforcement conference the TNRCC has indicated that it intends to proceed with an administrative enforcement action, and the Company expects that the TNRCC will impose an administrative fine.

In the opinion of management, any liability arising from these matters will not have a material adverse effect on the consolidated financial condition of the Company, although the resolution in any reporting period of one or more of the matters discussed in this note could have a material impact on the Company's results of operations for that period.

7. DIVIDENDS

On June 15, 1994, the Company paid a regular quarterly dividend of $0.225 per share to stockholders of record on May 20, 1994. Additionally, on July 22, 1994, the Board of Directors declared a regular quarterly dividend of $0.225 per share of common stock payable September 15, 1994 to stockholders of record on August 12, 1994.

8. EARNINGS PER SHARE

Earnings per share for all periods presented are computed based on the weighted average number of shares outstanding for the periods, which was 80,000,000 shares.

9. SUBSEQUENT EVENT

Effective July 1, 1994, LCR elected to replace its $100 million revolving credit facility with a $70 million revolving credit facility with substantially similar terms. No amounts were outstanding under the previous credit facility as of June 30, 1994. The new credit facility may be extended at the request of LCR upon consent of the bank group.

10. SEGMENT INFORMATION

Summarized below is the segment data for the Company which includes certain pro forma adjustments necessary to present the petrochemical and refining operations as individual segments for periods prior to the commencement of LCR operations on July 1, 1993. These adjustments relate principally to allocations of costs and expenses between the two segments and are based on current agreements between the Company and LCR. The refining segment is primarily composed of LCR operations. Intersegment sales between petrochemical and refining segments include olefins feedstocks produced at the Refinery and gasoline blending stocks produced at the Channelview Complex and were made at prices that are based on current market values.

<TABLE>
<CAPTION>

	THREE MONTHS ENDED JUNE 30, 1994	THREE MONTHS ENDED JUNE 30, 1993	SIX MONTHS ENDED JUNE 30, 1994	SIX MONTHS ENDED JUNE 30, 1993
	(MILLIONS OF DOLLARS)			
<S>	<C>	<C>	<C>	<C>
Sales and other operating revenues:				
Petrochemical segment	$ 439	$ 400	$ 823	$ 790
Refining segment	570	789	1,105	1,603
Intersegment sales	(109)	(109)	(204)	(248)
	$ 900	$ 1,080	$ 1,724	$ 2,145
Cost of sales:				
Petrochemical segment	$ 362	$ 393	$ 697	$ 762
Refining segment	541	756	1,037	1,555
Intersegment purchases	(109)	(109)	(204)	(248)
	$ 794	$ 1,040	$ 1,530	$ 2,069
Selling, general and administrative expense:				
Petrochemical segment	$ 9	$ 9	$ 19	$ 18
Refining segment	14	12	27	22
Unallocated	12	14	23	24
	$ 35	$ 35	$ 69	$ 64
Operating income:				
Petrochemical segment	$ 68	$ (2)	$ 107	$ 10
Refining segment	15	21	41	26
Unallocated	(12)	(14)	(23)	(24)

	$ 71	$ 5	$ 125	$ 12

</TABLE>

Summarized below are intersegment sales for the two segments.

<TABLE>
<CAPTION>

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	1994	1993	1994	1993
	(MILLIONS OF DOLLARS)			
<S>	<C>	<C>	<C>	<C>
Petrochemical segment	$ 53	$ 44	$ 97	$110
Refining segment	56	65	107	138
	$109	$109	$204	$248

</TABLE>

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35,000,000 SHARES

LOGO Lyondell Petrochemical Company

COMMON STOCK
(PAR VALUE $1.00 PER SHARE)

PROSPECTUS

PAGE WHERE GRAPHIC APPEARS	DESCRIPTION OF GRAPHIC OR CROSS-REFERENCE
TX]33	PLANT INTEGRATION CHART This graph illustrates the integration of the Company's two petrochemical manufacturing facilities and LCR's Refinery. It identifies the primary feedstocks and primary products for each of the three facilities and identifies (i) the refinery products used as olefins feedstocks; (ii) the Channelview Complex olefins by-products used at the Refinery; and (iii) the Channelview Complex olefins products used as feedstocks for the production of polyolefins at the Bayport Facility.

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35,000,000 EXCHANGEABLE NOTES

ATLANTIC RICHFIELD COMPANY

9% EXCHANGEABLE NOTES

DUE SEPTEMBER 15, 1997

[LOGO OF ARCO]

GOLDMAN, SACHS & CO.

MERRILL LYNCH & CO.

SALOMON BROTHERS INC

REPRESENTATIVES OF THE UNDERWRITERS

[ALTERNATE PAGE FOR INTERNATIONAL PROPSECTUS]

35,000,000 EXCHANGEABLE NOTES

ATLANTIC RICHFIELD COMPANY

[LOGO OF ARCO]

9% EXCHANGEABLE NOTES DUE SEPTEMBER 15, 1997
(SUBJECT TO EXCHANGE INTO SHARES OF COMMON STOCK, PAR VALUE $1.00 PER SHARE, OF LYONDELL PETROCHEMICAL COMPANY)

Of the 35,000,000 Exchangeable Notes offered, 5,000,000 Exchangeable Notes are being offered hereby in an international offering outside the United States and 30,000,000 Exchangeable Notes are being offered in a concurrent United States offering. The initial public offering price and the aggregate underwriting discount per Exchangeable Note will be identical for both offerings. See "Underwriting."

The principal amount of each of the 9% Exchangeable Notes due September 15, 1997 of Atlantic Richfield Company ("ARCO") being offered hereby will be $24.75 (the closing price of the common stock, par value $1.00 per share, of Lyondell Petrochemical Company on August 1, 1994, as reported on the New York Stock Exchange Composite Tape) (the "Initial Price"). The Exchangeable Notes will mature on September 15, 1997. Interest on the Exchangeable Notes, at the rate of 9% of the principal amount per annum, is payable quarterly in arrears on March 15, June 15, September 15 and December 15, beginning September 15, 1994. Exchangeable Notes are not subject to redemption or any sinking fund prior to maturity.

At maturity (including as a result of acceleration or otherwise), the principal amount of each Exchangeable Note will be mandatorily exchanged by ARCO into a number of shares of Lyondell Common Stock (or, at ARCO's option, cash with an equal value) at the Exchange Rate. The Exchange Rate is equal to, subject to certain adjustments, (a) if the Maturity Price per share of Lyondell Common Stock is greater than or equal to $27.72 per share of Lyondell Common Stock (the "Threshold Appreciation Price"), .8929 shares of Lyondell Common Stock per Exchangeable Note, (b) if the Maturity Price is less than the Threshold Appreciation Price but is greater than the Initial Price, a fractional share of Lyondell Common Stock per Exchangeable Note so that the value thereof at the Maturity Price equals the Initial Price and (c) if the Maturity Price is less than or equal to the Initial Price, one share of Lyondell Common Stock per Exchangeable Note. The "Maturity Price" means the average Closing Price per share of Lyondell Common Stock on the 20 Trading Days immediately prior to maturity. Accordingly, holders of the Exchangeable Notes will not necessarily receive an amount equal to the principal amount thereof. The Exchangeable Notes will be unsecured obligations of ARCO ranking pari passu with all of its other unsecured and unsubordinated indebtedness. Lyondell will have no obligations with respect to the Exchangeable Notes. See "Description of the Exchangeable Notes."

Attached hereto as Appendix A and included as part of this Prospectus is a prospectus of Lyondell covering the shares of Lyondell Common Stock which may be received by a holder of Exchangeable Notes at maturity. The Lyondell prospectus relates to an aggregate of 39,921,400 shares of Lyondell Common Stock.

PROSPECTIVE INVESTORS ARE ADVISED TO CONSIDER CAREFULLY THE INFORMATION CONTAINED UNDER "SPECIAL CONSIDERATIONS RELATING TO EXCHANGEABLE NOTES."

For a discussion of certain United States federal income tax consequences for holders of Exchangeable Notes, see "Certain United States Federal Income Tax Considerations."

The Lyondell Common Stock is listed on the New York Stock Exchange ("NYSE") under the symbol LYO.

The Exchangeable Notes have been approved for listing on the NYSE under the symbol "LYX."

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

<TABLE>
<CAPTION>

<S>	PRICE TO PUBLIC (1) <C>	UNDERWRITING DISCOUNT (2) <C>	PROCEEDS TO ARCO (1) (3) <C>
Per Exchangeable Note....................	$24.75	$0.75	$24.00
Total (4)................................	$866,250,000	$26,250,000	$840,000,000

</TABLE>

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(1) Plus accrued interest, if any, from August 8, 1994.
(2) ARCO and the Company have agreed to indemnify the Underwriters against certain liabilities, including liabilities under the Securities Act of 1933.
(3) Before deducting expenses payable by ARCO estimated to be $3,500,000.

(4) ARCO has granted the Underwriters an option, exercisable within 30 days from the date hereof, to purchase up to an additional 4,921,400 Exchangeable Notes at the Price to Public, less Underwriting Discount, for the purpose of covering over-allotments, if any. If the Underwriters exercise such option in full, the total Price to Public, Underwriting Discount, and Proceeds to ARCO will be $988,054,650, $29,941,050 and $958,113,600, respectively. See "Underwriting."

The Exchangeable Notes are offered subject to receipt and acceptance by the International Underwriters, to prior sale and to their right to reject any order in whole or in part and to withdraw, cancel or modify the offer without notice. It is expected that certificates for the Exchangeable Notes will be ready for delivery in New York, New York, on or about August 8, 1994.

GOLDMAN SACHS INTERNATIONAL
MERRILL LYNCH INTERNATIONAL LIMITED
SALOMON BROTHERS INTERNATIONAL LIMITED

The date of this Prospectus is August 1, 1994.

[ALTERNATE PAGE FOR INTERNATIONAL PROSPECTUS]

AVAILABLE INFORMATION

ARCO is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports with the Securities and Exchange Commission (the "Commission"). Reports, proxy statements, and other information filed by ARCO with the Commission pursuant to the informational requirements of the Exchange Act can be inspected and copied at the public reference facilities maintained by the Commission at Room 1024, Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549, Seven World Trade Center, 13th Floor, New York, New York 10048 and Chicago Regional Office, Northwestern Atrium Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661-2511. Copies of such material can also be obtained upon written request addressed to the Securities and Exchange Commission, Public Reference Section, Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549 at prescribed rates. Such reports, proxy statements and other information can also be inspected at the offices of the New York Stock Exchange, on which one or more of ARCO's securities are listed.

DOCUMENTS INCORPORATED BY REFERENCE

ARCO incorporates herein by this reference the following documents filed pursuant to the Exchange Act, which also have been filed with the Commission (File No. 1-1196):

(a) ARCO's Annual Report on Form 10-K for the year ended December 31, 1993;

(b) ARCO's Current Reports on Form 8-K dated March 28, 1994 and July 25, 1994; and

(c) ARCO's Report on Form 10-Q for the quarterly period ended March 31, 1994.

All documents filed by ARCO pursuant to Sections 13(a), 13(c), 13(d), 14 and 15(d) of the Exchange Act after the date hereof and prior to the termination of the offering of the Exchangeable Notes offered hereby (collectively with the documents referenced above the " '34 Act Reports") shall be deemed to be incorporated by reference herein and to be a part hereof from the date of filing of such documents.

ARCO WILL FURNISH WITHOUT CHARGE TO EACH PERSON, INCLUDING ANY BENEFICIAL OWNER, TO WHOM THIS PROSPECTUS IS DELIVERED, UPON WRITTEN OR ORAL REQUEST OF SUCH PERSON, A COPY OF ANY AND ALL OF THE '34 ACT REPORTS INCORPORATED HEREIN BY REFERENCE (NOT INCLUDING EXHIBITS TO SUCH REPORTS, UNLESS SUCH EXHIBITS ARE SPECIFICALLY INCORPORATED BY REFERENCE INTO SUCH REPORTS) AND ANY OTHER DOCUMENTS SPECIFICALLY IDENTIFIED HEREIN AS INCORPORATED BY REFERENCE INTO THE REGISTRATION STATEMENT TO WHICH THIS PROSPECTUS RELATES, OR INTO ANOTHER '34 ACT REPORT OF ARCO. REQUESTS SHOULD BE ADDRESSED TO: JUNE WORTH, SECURITIES REGULATION COORDINATOR, ATLANTIC RICHFIELD COMPANY, 515 SOUTH FLOWER STREET, LOS ANGELES, CALIFORNIA 90071 (TELEPHONE: 213-486-1450).

ANY STATEMENT CONTAINED IN A DOCUMENT ALL OR A PORTION OF WHICH IS INCORPORATED OR DEEMED TO BE INCORPORATED BY REFERENCE HEREIN SHALL BE DEEMED TO BE MODIFIED OR SUPERSEDED FOR PURPOSES OF THIS PROSPECTUS TO THE EXTENT THAT A STATEMENT CONTAINED HEREIN OR IN ANY OTHER SUBSEQUENTLY FILED DOCUMENT WHICH ALSO IS OR IS DEEMED TO BE INCORPORATED BY REFERENCE HEREIN MODIFIES OR

SUPERSEDES SUCH STATEMENT. ANY STATEMENT SO MODIFIED SHALL NOT BE DEEMED TO CONSTITUTE A PART OF THIS PROSPECTUS EXCEPT AS SO MODIFIED, AND ANY STATEMENT SO SUPERSEDED SHALL NOT BE DEEMED TO CONSTITUTE PART OF THIS PROSPECTUS.

THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY THE EXCHANGEABLE NOTES IN ANY JURISDICTION IN WHICH SUCH OFFER OR SOLICITATION IS UNLAWFUL. THERE ARE RESTRICTIONS ON THE OFFER AND SALE OF THE EXCHANGEABLE NOTES IN THE UNITED KINGDOM. ALL APPLICABLE PROVISIONS OF THE FINANCIAL SERVICES ACT 1986 AND THE COMPANIES ACT 1985 WITH RESPECT TO ANYTHING DONE BY ANY PERSON IN RELATION TO THE EXCHANGEABLE NOTES, IN, FROM OR OTHERWISE INVOLVING THE UNITED KINGDOM MUST BE COMPLIED WITH. SEE "UNDERWRITING."

IN THIS PROSPECTUS, REFERENCE TO "DOLLARS", "U.S.$" AND "$" ARE TO UNITED STATES DOLLARS.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE EXCHANGEABLE NOTES AND THE LYONDELL COMMON STOCK AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH TRANSACTIONS MAY BE EFFECTED ON THE NEW YORK STOCK EXCHANGE OR OTHERWISE. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

[ALTERNATE PAGE FOR INTERNATIONAL PROSPECTUS]

BACKUP WITHHOLDING AND INFORMATION REPORTING

A holder of the Exchangeable Notes may be subject to information reporting and to backup withholding at a rate of 31 percent of certain amounts paid to the holder unless such holder provides proof of an applicable exemption or a correct taxpayer identification number, and otherwise complies with applicable requirements of the backup withholding rules. Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules will be refunded or credited against such holder's United States federal income tax liability, provided that required information is furnished to the IRS.

UNDERWRITING

Subject to the terms and conditions of the Underwriting Agreement, ARCO has agreed to sell to each of the International Underwriters named below, and each of such International Underwriters, for whom Goldman Sachs International, Merrill Lynch International Limited and Salomon Brothers International Limited are acting as representatives, has severally agreed to purchase from ARCO, the respective number of Exchangeable Notes set forth opposite its name below:

<TABLE>
<CAPTION>

UNDERWRITER	NUMBER OF EXCHANGEABLE NOTES
<S>	<C>
Goldman Sachs International	1,148,000
Merrill Lynch International Limited	1,146,000
Salomon Brothers International Limited	1,146,000
Deutsche Bank AG London	200,000
Societe Generale	200,000
Swiss Bank Corporation	200,000

UBS Limited	200,000
S.G. Warburg Securities Ltd.	200,000
ABN AMRO Bank N.V.	40,000
Barclays de Zoete Wedd Limited	40,000
BMO Nesbitt Thomson Ltd.	40,000
BNP Capital Markets Limited	40,000
CS First Boston Limited	40,000
Dresdner Bank Aktiengesellschaft	40,000
Robert Fleming & Co. Limited	40,000
NatWest Securities Limited	40,000
Nikko Europe Plc	40,000
N M Rothschild & Sons Limited	40,000
J.Henry Schroder Wagg & Co. Limited	40,000
ScotiaMcLeod Inc.	40,000
The Toronto-Dominion Bank	40,000
Westdeutsche Landesbank Girozentrale	40,000
Total	5,000,000

</TABLE>

Under the terms and conditions of the Underwriting Agreement, the International Underwriters are committed to take and pay for all of the Exchangeable Notes offered hereby, if any are taken.

The International Underwriters propose to offer the Exchangeable Notes in part directly to the public at the initial public offering price set forth on the cover page of the ARCO Prospectus, and in part to certain securities dealers at such price less a concession of $0.45 per Exchangeable Note. The International Underwriters may allow, and each of such dealers may reallow, a concession not exceeding $0.10 per Exchangeable Note to certain dealers and brokers. After the Exchangeable Notes are released for sale to the public, the offering price and the other selling terms may from time to time be varied by the representatives.

[ALTERNATE PAGE FOR INTERNATIONAL PROSPECTUS]

ARCO has entered into an underwriting agreement (the "U.S. Underwriting Agreement") with the underwriters of the U.S. Offering (the "U.S. Underwriters") providing for the concurrent offer and sale of 30,000,000 Exchangeable Notes in an offering in the United States. The initial public offering price and underwriting discount per Exchangeable Note for the two offerings are identical. The closing of the offering made hereby is a condition to the closing of the U.S. Offering, and vice versa. The representatives of the U.S. Underwriters are Goldman Sachs & Co., Merrill Lynch, Pierce, Fenner & Smith Incorporated and Salomon Brothers Inc.

Pursuant to an Agreement between the U.S. and International Underwriting Syndicates (the "Agreement Between") relating to the two offerings, each of the International Underwriters named herein has agreed that, as a part of the distribution of the Exchangeable Notes offered hereby and subject to certain exceptions, it will (i) not, directly or indirectly, offer, sell or deliver Exchangeable Notes (a) in the United States of America (including the States and the District of Columbia), its territories, its possessions and other areas subject to its jurisdiction (the "United States") or to any U.S. persons, which term shall mean, for purposes of this paragraph: (x) any individual who is a resident of the United States or (y) any corporation, partnership or other entity organized in or under the laws of the United States or any political subdivision thereof and whose office most directly involved with the purchase is located in the United States, or (b) to any person whom it believes intends to reoffer, resell or deliver the Exchangeable Notes in the United States or to any U.S. persons, and (ii) cause any dealer to whom it may sell such Exchangeable Notes at any concession to agree to observe a similar restriction. Each of the U.S. Underwriters has agreed pursuant to the Agreement Between that, as a part of the U.S. Offering and subject to certain exceptions, it will offer, sell or deliver the Exchangeable Notes, directly or indirectly, only in the United States and to U.S. persons.

Pursuant to the Agreement Between, sales may be made between the International Underwriters and the U.S. Underwriters of such number of Exchangeable Notes as may be mutually agreed. The price of any Exchangeable Notes so sold shall be the initial public offering price, less than an amount not greater than the selling concession.

ARCO has granted the International Underwriters an option exercisable for 30 days after the date of this Prospectus to purchase up to an aggregate of 750,000 additional Exchangeable Notes to cover over-allotments, if any. If the International Underwriters exercise their over-allotment option, the International Underwriters have severally agreed, subject to certain conditions, to purchase approximately the same percentage thereof that the number of Exchangeable Notes to be purchased by each of them, as shown in the foregoing table, bears to the 5,000,000 Exchangeable Notes offered. The International Underwriters may exercise such option only to cover over-allotments in connection with the sale of the 5,000,000 Exchangeable Notes offered. ARCO has granted the U.S. Underwriters an option exercisable for 30 days to purchase up to an aggregate of 4,171,400 additional Exchangeable Notes, solely to cover over-allotments, at the initial public offering price less the underwriting discount, as set forth on the cover page of the Prospectus.

ARCO and Lyondell have agreed that during the period beginning from the date of the ARCO Prospectus and continuing to and including the date 120 days after the date of the ARCO Prospectus, subject to certain exceptions set forth in the Underwriting Agreement and the U.S. Underwriting Agreement, they will not offer, sell, contract to sell or otherwise dispose of any shares of Common Stock of Lyondell or securities convertible into Common Stock of Lyondell without the prior written consent of the representatives.

The Exchangeable Notes will be a new issue of securities with no established trading market. The representatives have advised ARCO that they intend to make a market in the Exchangeable Notes but will not be obligated to do so and may discontinue any market making at any time without notice. No assurance can be given as to the liquidity of the trading market for the Exchangeable Notes.

[ALTERNATE PAGE FOR INTERNATIONAL PROSPECTUS]

Each International Underwriter has agreed that (i) it has not offered or sold, and it will not offer or sell, in the United Kingdom, by means of any document, any Exchangeable Notes other than to persons whose ordinary business it is to buy or sell shares or debentures, whether as principal or agent, or in circumstances which do not constitute an offer to the public within the meaning of the Companies Act 1985 of Great Britain, (ii) it has complied, and will comply, with all applicable provisions of the Financial Services Act of 1986 of Great Britain with respect to anything done by it in connection with the offering of the Exchangeable Notes in, from or otherwise involving the United Kingdom, and (iii) it will issue or pass on to any person in the United Kingdom any document in connection with such offering only to a person who is of a kind described in Article 9(3) of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1988 of Great Britain or is a person to whom the document may otherwise lawfully be issued or passed on.

ARCO and Lyondell have agreed to indemnify the several Underwriters against certain liabilities, including liabilities under the Securities Act of 1933.

EXPERTS

The consolidated financial statements of ARCO, appearing in ARCO's Annual Report on Form 10-K for the year ended December 31, 1993, have been audited by Coopers & Lybrand, independent accountants, as set forth in their report included therein, and are incorporated by reference herein in reliance upon such report and upon the authority of such Firm as experts in accounting and auditing.

LEGAL OPINIONS

The legality of the Exchangeable Notes registered hereby has been passed upon for ARCO by Ronald C. Redcay, Esq., Acting General Counsel of Atlantic Richfield Company, 515 South Flower Street, Los Angeles, California 90071. Certain other legal matters related to the Exchangeable Notes offered hereby will be passed upon for ARCO by Diane A. Ward, Esq., Senior Counsel, Securities & Finance, of Atlantic Richfield Company, 515 South Flower Street, Los Angeles, CA 90071. As of July 1, 1994, Mr. Redcay owned 7,646 options to purchase shares of Common Stock of ARCO and Ms. Ward owned 547 options to purchase shares, and 706 shares of Common Stock of ARCO all held pursuant to ARCO's employee benefit plans. The legality of the Exchangeable Notes offered hereby will be passed upon for the Underwriters by Cravath, Swaine & Moore, New York, New York. Cravath, Swaine & Moore provides legal services to ARCO from time to time and is currently doing so on certain matters relating to ARCO's investment in Lyondell.

[ALTERNATE PAGE FOR INTERNATIONAL PROSPECTUS]

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ATLANTIC RICHFIELD COMPANY

9% EXCHANGEABLE NOTES

DUE SEPTEMBER 15, 1997

[LOGO OF ARCO]

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MERRILL LYNCH INTERNATIONAL LIMITED

SALOMON BROTHERS INTERNATIONAL LIMITED

REPRESENTATIVES OF THE UNDERWRITERS