

ALASKA LEGISLATURE SPECIAL COMMITTEE/SUBJECT FILES 8672

2490 SCOMM 107 HOUSE SPEC. COMM. ECONOMIC DEVELOPMENT, 1997-98

long-term lease which is not scheduled to expire until 2025 and is renewable by the Company at that time. The refinery is located approximately two miles from its supply point for crude oil, the Trans-Alaska Pipeline System ("TAPS"). The North Pole Refinery's processing capability is approximately 136,000 barrels per day. At maximum crude throughput, 46,000 barrels per day of refined product can be produced. These products are jet fuel, gasoline, diesel fuel, heating oil, fuel oil, naphtha and asphalt. MAPCO markets more than 44,600 barrels per day of these refined products to Alaska, Western Canada and the Pacific Rim. MAPCO's principal market for these products in Alaska is to wholesale, commercial, industrial and governmental customers and to MAPCO's Retail Petroleum business unit operations. MAPCO's Retail Petroleum business unit operations, as described below, accounted for about 10% of the North Pole Refinery's 1997 product sales volume and 76% of the Refinery's gasoline production. In 1997, average throughput at the North Pole Refinery was 132,238 barrels per day of crude oil which resulted in the average production of 44,524 barrels per day of petroleum products compared to 132,912 barrels per day of average crude throughput and average production of 45,599 barrels per day of petroleum products in 1996. MAPCO is in the process of constructing a third crude unit at the North Pole Refinery that will produce an additional 17,000 barrels per day of refined products, including 14,000 barrels per day of jet fuel. The project is expected to be completed in the fourth quarter of 1998 at an estimated cost of \$70 million.

The North Pole Refinery's crude oil is purchased from the state of Alaska or is purchased or received on exchanges from crude oil producers. The North Pole Refinery has an agreement with the state of Alaska for the purchase of royalty oil which is scheduled to expire on December 31, 2003. The agreement provides for the purchase of up to 35,000 barrels per day (approximately 27% of the North Pole Refinery's supply) of the State's royalty share of crude oil produced from Prudhoe Bay, Alaska. These volumes, along with crude oil either purchased from crude oil producers or received under exchange agreements, are utilized as throughput in the production of products at the Refinery. Approximately 34% of the throughput is refined and sold as finished product and the remainder of the throughput is returned to the TAPS and either delivered to repay exchange obligations or sold.

MID-SOUTH SYSTEM

MAPCO's refinery in Memphis, Tennessee ("Memphis Refinery") is the only refinery in the state of Tennessee and has a throughput capacity of approximately 120,000 barrels per day. In 1997, the Memphis Refinery processed an average 110,855 barrels per day compared to 100,730 barrels per day in 1996. On July 22, 1997, MAPCO announced plans to construct a splitter at the Mid-South Refinery that will increase the refinery's capacity for propylene production from the current 2,000 barrels per day to 6,000 barrels per day of the high margin product. The refinery started production on January 19, 1998, of an incremental 2,000 barrels per day of refinery grade propylene and expects to increase production by another 2,000 barrels per day by the end of 1998.

Expenditures for this project are expected to be approximately \$20 million.

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Products produced by the Memphis Refinery are gasoline, low sulfur diesel fuel, jet fuel, K-1 kerosene, propylene, No. 6 fuel oil, propane and elemental sulfur. These products are exchanged or marketed primarily in the Mid-South region of the United States to wholesale customers, such as industrial, governmental and commercial consumers, jobbers, independent dealers, other refiner/marketers and to MAPCO's Retail Petroleum business unit. Sales to MAPCO's Retail Petroleum business unit operations accounted for about 12% of the Memphis Refinery's 1997 sales volume; the largest single customer accounted for approximately 17% of total sales. During 1997, the Memphis Refinery's gasoline sales to MAPCO's Retail Petroleum business unit were 10% of the Refinery's gasoline production.

The Memphis Refinery has access to crude oil from the Gulf Coast via common carrier pipeline and by river barges. In addition to domestic crude oil, the Memphis Refinery has the capability of receiving and processing certain foreign crudes. During 1997, the majority of the crude oil processed at the Memphis Refinery was purchased from various suppliers on a posted-plus price basis. Although this method of purchase reduces the financial effect of volatile crude oil markets, the financial results of the Refinery may be significantly impacted by changes in the market prices for crude oil and refined products. MAPCO cannot with any assurance predict the future of crude oil and product prices or their impact on the financial results of the Petroleum Refining business unit.

CRUDE OIL TRADING

MAPCO buys, sells and exchanges domestic and foreign crude oil to supply its refinery systems in Tennessee and Alaska. MAPCO purchased and sold an average of 93,676 barrels per day of refined petroleum products in 1997 compared to 35,208 barrels per day in 1996.

In July 1997, MAPCO acquired a 100% ownership interest in Lexus Oil, L.L.C. ("Lexus") which had been an unconsolidated 50%-owned entity since 1995. Lexus's principal operations include the trading of petroleum and petroleum-related products.

COMPETITIVE CONDITIONS

The petroleum industry is highly competitive in all phases from the procurement of crude oil to the refining, distribution and marketing of refined products. Many of MAPCO's competitors are large integrated oil companies, which, because of their diverse operations, strong capitalization and recognized brand names may be better able to withstand volatile industry conditions, shortages of crude oil or intense price competition.

The principal competitive forces affecting MAPCO's refining businesses are feedstock costs, refinery efficiency, refinery product mix, product distribution and marketing costs. Some of the Mid-South System's competitors in the refining business can more easily process sour crudes, and accordingly, are more flexible in the crudes which may be processed. Since MAPCO has no crude oil reserves and does not engage in crude oil exploration, it must obtain its crude oil requirements from unaffiliated sources. MAPCO believes that it will be able to obtain adequate crude oil and other feedstocks at generally competitive prices for the foreseeable future.

The Company is currently in the process of reviewing various alternatives for further increasing the flexibility of crude oil which may be processed at the Memphis Refinery as well as opportunities which the Company believes may improve its margins.

REGULATIONS AND ENVIRONMENTAL MATTERS

MAPCO's Petroleum refining business unit is subject to various federal, state and local pricing and environmental laws and regulations. It is the policy of the Petroleum Refining business unit to comply with such laws and regulations. MAPCO's refining operations are subject to regulations relating to air emissions, water discharges, waste generation, transportation, storage and disposal as well as soil and groundwater contamination which may result from spillage or discharge of petroleum and hazardous materials at its

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refineries and terminals. Groundwater monitoring and remediation are ongoing at both refineries and air and water pollution control equipment is operating at both refineries to comply with applicable regulations.

The Clean Air Act Amendments of 1990 (the "CAAA") continue to impact the Petroleum Refining business unit through a number of programs and provisions of the CAAA. The provisions include Maximum Achievable Control Technology rules which are being developed for the refining industry, controls on individual chemical substances and new operating permit rules. The provisions impact other companies in the industry in similar ways and are not expected to adversely impact the Company's competitive position.

The Petroleum Refining business unit incurred approximately \$3.0 million in capital expenditures for environmental control facilities in 1997 and has budgeted \$6.0 million in capital expenditures for environmental control facilities in 1998. Such expenditures are not deemed by the business unit to be material.

See "Legal Proceedings," Item 3 beginning on page 12 for information

concerning environmental proceedings connected with the Petroleum Refining business unit.

RETAIL PETROLEUM

MAPCO, primarily under the brand name "MAPCO Express," is engaged in the retail marketing of gasoline, diesel fuel, other petroleum products, convenience merchandise, restaurants and deli fast food items at 207 stores and interstate travel centers in eight Southeastern states and in Texas and at 25 stores in Anchorage, Fairbanks and southeastern Alaska. MAPCO Express stores represent 38 percent of the convenience store market in Alaska. Effective May 21, 1997, MAPCO acquired 19 retail convenience stores located primarily in the Nashville, Tennessee market from EZ-Serve Inc. at a cost of \$12 million. The Company has also announced a retail expansion program which will add 25 new MAPCO Express stores and travel centers in 1998. All of the motor fuel sold by MAPCO Express stores is supplied either by exchanges or directly from either the Memphis or North Pole Refineries.

Revenues in 1997 for the Retail Petroleum business unit were \$733.2 million, compared to \$714.9 million in 1996. Operating profit in 1997 was \$11.8 million, compared to \$30.3 million in 1996.

MAPCO's stores have been designed to be modern neighborhood-type facilities, attracting convenience-oriented customers with a variety of today's most widely-used products and services. Convenience merchandise and deli fast food accounted for approximately 55% of Retail Petroleum's gross margins in 1997 and 51% in 1996. The Company owns approximately one-half of the properties upon which its stores are located and leases the remainder from third parties.

COMPETITIVE CONDITIONS

The principal competitive factors affecting MAPCO's retail businesses are location, product price and quality, appearance and cleanliness of stores and brand-name identification. Competition in the convenience store industry is intense.

In targeted markets such as Memphis and Nashville, Tennessee and Anchorage, Alaska, the Company is the market leader and enjoys brand-name recognition. The Retail Petroleum business unit was named 1996 convenience store chain of the year by Convenience Store Decision magazine. The award is presented annually to a retailer that best exemplifies excellence throughout its organization. The categories which are considered in determining the recipient of the award are as follows: customer service, product quality, marketing and merchandise innovation, operating efficiency, management effectiveness, imaginative development of the convenience store concept, public service, profitability and growth.

REGULATIONS AND ENVIRONMENTAL MATTERS

MAPCO's Retail Petroleum business unit is subject to various federal, state and local environmental laws and regulations. It is the policy of MAPCO's Retail Petroleum business unit to comply with such laws and regulations. MAPCO's retail petroleum operations are subject to regulations relating to air emissions, water discharge, waste generation, transportation, storage and disposal, as well as soil and groundwater contamination-

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tion which may result from spillage or discharge of petroleum and hazardous materials at its retail outlets. Groundwater monitoring and remediation are ongoing at various MAPCO retail outlets to comply with applicable regulations.

MAPCO's Retail Petroleum business unit is also subject to federal, state and local regulations regarding petroleum underground storage tanks ("USTs"). The United States Environmental Protection Agency ("EPA") and several states in which MAPCO conducts retail operations have adopted laws requiring owners and operators of USTs used for petroleum products to register such tanks with state offices. In addition, these UST regulations have imposed new technical standards, corrective action and financial responsibility requirements relating to such tanks. The regulations establish requirements for owners and operators of USTs, including leak detection systems, corrosion protection systems, tank system repairs and replacement, tank closure and corrective action for leaking tanks. EPA regulations were issued in late 1988, with compliance being phased in over the course of a ten (10) year period.

The Retail Petroleum business unit incurred approximately \$3.6 million in capital expenditures for environmental control facilities in 1997 and has budgeted \$4.8 million in capital expenditures for environmental control facilities in 1998. Such expenditures are not deemed by the business unit to be material.

OTHER BUSINESSES

In February 1997, the Company announced the formation of two new businesses, TouchStar Technologies, L.L.C. ("TouchStar") and FleetOne, L.L.C. ("FleetOne"), designed to expand the Company's marketing efforts into mobile information management systems and bundled services for commercial fleets. Other business revenues and operating loss in 1997 were \$24.6 million and \$8.9 million, respectively. TouchStar specializes in providing information management and combines product measurement, data gathering and dispensing technology with computer hardware and customized software for a total information management solution. TouchStar offers information management systems to track operations and control inventories of energy and other products to improve distribution efficiency and customer service through the use of a mobile, hand-held computer system. In April 1997, TouchStar acquired ACS Data, Ltd., a British company that designs and manufactures hand-held computers and peripherals. In September 1997,

TouchStar opened an office in Celaya, Guanajuato, Mexico which markets liquefied petroleum gas technology equipment, under the name of Espagas, S.A. de C.V. FleetOne combines MAPCO's Retail Petroleum and Propane Marketing fleet fueling activities to provide fleet operators with motor fuel, data management and service alternatives to more effectively manage their businesses.

OTHER MATTERS

On September 10, 1996, the Company completed the disposition of the stock of its former subsidiary companies, MAPCO Coal Inc. and MC Mining Inc. and their respective subsidiaries (the "Coal segment") to Alliance Coal Corporation, a corporation formed by the Beacon Group Energy Investment Fund, L.P., a Delaware limited partnership, and related entities. The assets sold through the stock sale include one surface and six underground mining complexes located in Illinois, Kentucky, Maryland and Virginia, as well as a coal terminal on the Ohio River near Mt. Vernon, Indiana used for the transloading of coal. In connection with the sale, the Company made certain guarantees, indemnifications and representations, and retained certain liabilities; however, management does not expect these items to have a material impact on future results of operations, financial position or cash flows of the Company.

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EMPLOYEES

As of December 31, 1997, MAPCO and its business units had 6,508 employees. Of the total number of employees, 500 were employed in the Natural Gas Liquids business unit; 2,022 in the Propane Marketing business unit; 2,889 in the Retail Petroleum business unit; 555 in the Petroleum Refining business unit; 138 in the TouchStar Technologies and FleetOne businesses; and 404 in the general corporate area. Less than three percent of MAPCO's work force is unionized and covered by collective bargaining agreements. Agreements have been entered into with the Oil Chemical and Atomic Workers Union covering 183 employees in the Petroleum Refining business unit.

ITEM 2. PROPERTIES.

All the various physical properties are discussed in PART I, Item 1, Supra, pertaining to MAPCO's business.

ITEM 3. LEGAL PROCEEDINGS.

Texas Explosion Litigation

On April 7, 1992, a liquefied petroleum gas explosion occurred near an underground salt dome storage facility located near Brenham, Texas and owned by an affiliate of the Company, Seminole Pipeline Company ("Seminole"). The

Company, as well as Seminole, Mid-America Pipeline Company, MAPCO Natural Gas Liquids Inc., and other non-MAPCO entities were named as defendants in civil action lawsuits filed in state district courts located in four Texas counties. Seminole and the related MAPCO entities have settled in excess of 1,600 claims in these lawsuits. The only lawsuit remaining is the Dallmeyer case which was tried before a jury in Harris County. In Dallmeyer, the judgment rendered in March 1996 against defendants Seminole and MAPCO-related entities totaled approximately \$72 million which included nearly \$65 million of punitive damages awarded to the 21 plaintiffs.

Both plaintiffs and defendants have appealed the Dallmeyer judgment to the Court of Appeals for the Fourteenth District of Texas in Harris County. The defendants seek to have the judgment modified in many respects, including the elimination of punitive damages as well as a portion of the actual damages awarded. If the defendants prevail on appeal, it will result in an award significantly less than the judgment, or alternatively, a retrial of the case. The plaintiffs have cross appealed and seek to modify the judgment to increase the total award plus interest to exceed \$155 million. In February and March 1998, the Company entered into settlement agreements involving 12 of the 21 plaintiffs to finally resolve their claims against all defendants for an aggregate payment of \$8 million. These settlements have satisfied and reduced the judgment on appeal by approximately \$33 million.

Management believes that it has defenses of considerable merit and will vigorously litigate the Dallmeyer appeal or seek a satisfactory settlement to the Company, but is not able to predict the ultimate outcome of this matter at this time. The Company has accrued a liability representing an estimate of amounts it may incur to finally resolve all litigation and has also recorded a receivable which corresponds to the remainder of its insurance coverage to be reimbursed by its insurance carrier. Management is unable to estimate a range of loss beyond the amount accrued. Resolutions unfavorable to the Company could result in liabilities and charges materially in excess of the amount accrued.

ENVIRONMENTAL

Memphis Refinery

In 1993, the Environmental Protection Agency ("EPA"), Region IV, conducted an inspection of MAPCO Petroleum Inc.'s ("MPI") Memphis Refinery to evaluate the refinery's compliance status under the New Source Performance Standards ("NSPS") promulgated under Section 111 of 42 U.S.C. sec. 7411. Following the inspection, the EPA issued a Notice of Violation to MPI dated May 5, 1994. This notice requested that MPI respond with requested information relevant to various alleged Clean Air Act violations. MPI furnished the requested information and, during 1995 and 1996 negotiations between MPI and the EPA

resulted in a final settlement under which MPI paid the EPA a penalty of \$95,000, and, in 1997, MPI completed three Supplemental Environmental Projects. The Consent Decree was signed by the judge on March 28, 1997, and entered by the court on March 31, 1997.

North Pole Refinery

During 1993, the EPA, Region X conducted a multimedia inspection at MAPCO Alaska Petroleum Inc.'s ("MAPI") North Pole Refinery located near Fairbanks, Alaska. Following the inspection, the EPA issued two Information Requests relating to New Source Performance Standards ("NSPS"). In 1995, the U.S. Department of Justice, Environmental and Natural Resources Division also served written notice upon MAPI of civil claims under the NSPS of the Clean Air Act. The Department of Justice offered to defer litigation if MAPI would enter into settlement negotiations.

After over a year of settlement discussions, MAPI reached agreement with the Department of Justice and the EPA, Region X. Under the terms of the Consent Decree, MAPI paid a penalty of \$425,000 in December 1996, and performed two Supplemental Environmental Projects having a total cost of approximately \$397,000 in 1997.

SEC TRADING INVESTIGATION

After the announcement of the proposed merger with The Williams Companies Inc., the Company received inquiries from the Securities and Exchange Commission and the New York Stock Exchange concerning pre-announcement trading in the Company's securities. The Company is cooperating with the investigations. It has made partial responses to the inquiries, including information concerning transfers by certain Company employees into a fund invested exclusively in MAPCO stock which is part of the Company's 401(k) plan for salaried employees.

GENERAL

The Company and its business units are involved in various other lawsuits, claims and regulatory proceedings incidental to their businesses. In the opinion of management, the outcome of such matters will not have a material adverse effect on the Company's business, consolidated financial position, results of operations or cash flows.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

No matters were submitted to a vote of security holders during the fourth quarter of 1997.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

Information regarding the market for MAPCO's common equity and related stockholder matters is set forth herein at page 31.

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ITEM 6. SELECTED FINANCIAL DATA.

The following table contains selected financial data for the years indicated, restated to reflect discontinued operations and a two-for-one stock split effected in the form of a stock dividend from shares held as treasury stock, both occurring in 1996 (in millions, except per share data):

<TABLE>
<CAPTION>

	YEAR ENDED DECEMBER 31,				
	1997 (A)	1996	1995	1994 (G)	1993
	-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>	<C>
INCOME STATEMENT DATA:					
Sales and Operating Revenues.....	\$3,847.5	\$3,353.1	\$2,856.6	\$2,663.8	\$2,300.9
Income from Continuing Operations.....	\$ 104.5 (C)	\$ 130.2 (D)	\$ 64.2 (E)	\$ 50.2 (F)	\$ 91.8
Income (Loss) from Discontinued Operations (B).....	\$ (6.3)	\$ (32.7)	\$ 10.5	\$ 28.9	\$ 35.2
Cumulative Effect of Change in Accounting Principle.....	\$ (1.3)	--	--	--	--
Net Income.....	\$ 96.9	\$ 97.5	\$ 74.7	\$ 79.1	\$ 127.0
PER SHARE DATA: (H)					
Basic Earnings per Common Share:					
Income from continuing operations.....	\$ 1.91	\$ 2.27	\$ 1.08	\$.84	\$ 1.53
Income (loss) from discontinued operations.....	\$ (.12)	\$ (.57)	\$.18	\$.48	\$.59
Cumulative effect of change in accounting principle.....	\$ (.02)	--	--	--	--
Net income.....	\$ 1.77	\$ 1.70	\$ 1.26	\$ 1.32	\$ 2.12
Diluted Earnings per Common Share:					
Income from continuing operations.....	\$ 1.88	\$ 2.26	\$ 1.08	\$.83	\$ 1.52
Income (loss) from discontinued operations.....	\$ (.12)	\$ (.57)	\$.17	\$.48	\$.58
Cumulative effect of change in accounting principle.....	\$ (.02)	--	--	--	--
Net income.....	\$ 1.74	\$ 1.69	\$ 1.25	\$ 1.31	\$ 2.10
Pro Forma amounts assuming retroactive application of accounting change:					
Income from continuing operations.....	\$ 103.8	\$ 129.6	\$ 64.2	\$ 50.2	\$ 91.8

Net Income.....	\$ 97.5	\$ 96.9	\$ 74.7	\$ 79.1	\$ 127.0
Cash Dividends Declared per Common Share.....	\$ 0.60	\$ 0.525	\$ 0.50	\$ 0.50	\$ 0.50
BALANCE SHEET DATA: (J) (K)					
Property, plant and equipment -- net.....	\$1,481.2	\$1,356.9	\$1,312.0	\$1,200.6	\$1,092.6
Total Assets.....	\$2,407.7	\$2,170.7	\$2,282.7	\$2,115.6	\$1,912.8
Long-term Debt (excluding current maturities).....	\$ 786.2	\$ 608.4	\$ 801.0	\$ 720.9	\$ 585.5
Stockholders' Equity.....	\$ 670.7(I)	\$ 603.6(I)	\$ 642.3	\$ 622.6	\$ 574.3
RATIO OF EARNINGS TO FIXED CHARGES(L).....	3.7	4.4	2.6	2.4	3.8

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- (A) On November 24, 1997, MAPCO Inc. and The Williams Companies, Inc. ("Williams") announced that they had entered into a definitive merger agreement, as amended as of January 25, 1998, in which MAPCO will become a wholly-owned subsidiary of Williams in a non-taxable, stock-for-stock transaction which is expected to be accounted for as a pooling of interest under Accounting Principles Board Opinion No. 16. See Note 2 of the Notes to Consolidated Financial Statements for additional information.
- (B) In June 1996, the Company concluded that it would sell substantially all of its Coal business to Alliance Coal Corporation ("Alliance"), a corporation formed by Beacon Group Energy Investment Fund L.P. and related entities. The transaction was completed on September 10, 1996, with an effective date of July 31, 1996. The selected historical consolidated financial data have been prepared to present operating results of the operations sold to

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Alliance as discontinued operations. For additional information, see Note 3 of the Notes to Consolidated Financial Statements.

- (C) Effective January 1, 1997, MAPCO sold its interest in the natural gas liquids and condensate in the West Panhandle field to Westpan NGL Company, a subsidiary of MESA Operating Company, for \$66.0 million. The Company recognized a gain of \$66.0 million on the transaction in the first quarter of 1997 as MAPCO had no book value in the interest sold. Income from continuing operations included \$39.5 million from this transaction. See Note 4 of Notes to Consolidated Financial Statements for additional information.
- (D) In January 1996, the Company signed an agreement to sell its Thermogas Iowa propane and liquid fertilizer assets as well as its remaining liquid fertilizer assets in Arkansas, Illinois, Indiana, Minnesota, Ohio and Wisconsin to CENEX, Inc. ("CENEX"). The sale of assets to CENEX was

completed on March 29, 1996. Income from continuing operations included \$12.8 million (\$20.8 million pre-tax) from this transaction. See Note 4 of Notes to Consolidated Financial Statements for additional information.

- (E) Income from continuing operations in 1995 includes a charge for severance and early retirements associated with reorganizations of \$6.5 million (\$10.3 million pre-tax). See Note 13 of Notes to Consolidated Financial Statements for additional information.
- (F) Income from continuing operations in 1994 includes a charge of \$44.0 million (\$68.7 million pre-tax) related to the settlement of a long-standing dispute with the State of Alaska relative to its royalty oil purchase agreements.
- (G) On September 1, 1994, MAPCO completed the acquisition of certain assets of Emro Propane Company. The purchase price included a \$186 million cash payment and the transfer to Emro Marketing Company of the retail convenience store assets of MAPCO Florida Inc.
- (H) On September 30, 1996, a two-for-one stock split effected in the form of a stock dividend from shares held as treasury stock was distributed. Earnings Per Common Share and Cash Dividends Declared per Common Share have been restated for the effect of the stock split. Actual Cash Dividends declared per share were \$1.00 in years 1993 through 1995. In 1997, MAPCO adopted FAS 128 which changed the presentation of per share amounts from prior years. All per share amounts have been restated for the effect of this change.
- (I) In the fourth quarter of 1996, equity put options that entitle the holder, upon exercise, to sell shares of Common Stock to the Company at a specified price, were sold in a series of private placements. At December 31, 1997 and 1996, Stockholders' Equity was reduced by \$12.3 million and \$16.7 million, respectively, as a result of the unexpired equity put options. All of the outstanding options at December 31, 1997, expired out-of-the-money during January and February 1998. The Company does not expect to issue any further equity put options.
- (J) The Company, and three of its subsidiaries, have been named as defendants in civil action lawsuits in four Texas counties. The suits are associated with a liquefied petroleum gas explosion that occurred on April 7, 1992. See Note 16 of Notes to Consolidated Financial Statements for additional information.
- (K) During 1997, 1996, 1995, 1994 and 1993, MAPCO purchased a total of 1,589,354; 2,578,212; 1,163,200; 296,932; and 203,898 shares, respectively, of its common stock on the open market at a cost of \$50.2 million, \$98.3 million, \$31.1 million, \$8.7 million, and \$6.2 million, respectively. On September 30, 1996, 28,674,812 treasury shares were distributed to stockholders in the form of a two-for-one stock dividend. (All share

amounts have been restated to reflect this stock dividend). In the third quarter of 1996, the Board of Directors approved a 7.0 million share stock repurchase plan, representing 12% of the post-split common stock outstanding. As of December 31, 1997, 3,789,606 shares had been purchased under this authorization for \$117.9 million and there were 8,405,267 shares of common stock in the treasury. In November 1997, in connection with the announcement of the Company's planned merger with The Williams Company, MAPCO suspended further purchases of treasury stock.

- (L) For purposes of the ratio of earnings to fixed charges amounts, (i) earnings consist of income from continuing operations before fixed charges, minority interest expense and income taxes for MAPCO and its majority-owned subsidiaries; and (ii) fixed charges consist of interest and debt expense on all indebtedness (without reduction of interest capitalized) and that portion of rental payments on operating leases estimated to represent an interest factor.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Management's Discussion and Analysis may contain forward-looking statements, including, without limitation, statements relating to the Company's plans, strategies, objectives and expectations and are made pursuant to the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. Any such forward-looking statements involve known and unknown risks and uncertainties and the Company's actual results may differ materially from those forward-looking statements. The Company does not undertake to update, revise or correct any of the forward-looking information contained in this document. Readers are cautioned that such forward-looking statements should be read in connection with the Company's disclosures under the heading "CAUTIONARY STATEMENT FOR THE PURPOSES OF THE 'SAFE HARBOR' PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995" on page 1.

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

The following discussion and analysis of MAPCO Inc.'s ("MAPCO" or the "Company") financial condition, results of operations and cash flow should be read in conjunction with the financial statements and segment information presented on pages through of this report.

FINANCIAL CONDITION

CASH GENERATION (USAGE)

Cash generation (usage) was as follows (in millions):

<TABLE>
<CAPTION>

	YEAR ENDED DECEMBER 31,		
	1997	1996	1995
<S>	<C>	<C>	<C>
Net cash provided by continuing operations.....	\$ 69	\$ 241	\$ 167
Net cash provided by discontinued operations.....	--	22	63
Net cash provided by operating activities.....	69	263	230
Net cash provided by (used in) investing activities.....	(240)	114	(244)
Net cash provided by (used in) financing activities.....	107	(305)	17
Cash generation (usage).....	\$ (64)	\$ 72	\$ 3
	=====	=====	=====

</TABLE>

The decrease in cash provided by continuing operations in 1997 was primarily due to reduced operating profit, increased working capital requirements and the payment of \$33 million for non-compete agreements entered into with executive officers. The increase in funds provided by continuing operations in 1996 was primarily attributable to increased income by all of MAPCO's business units.

The decrease in cash provided by discontinued operations in 1996 primarily reflects lower income by the Coal operations due to the sale of those operations at the end of July 1996.

Capital expenditures and acquisitions in 1997 were \$238 million, of which \$69 million were for capital items necessary to maintain existing operations. Significant capital expenditures and acquisitions in 1997 included: \$39 million for the acquisition (which includes the exchange of \$18 million of MAPCO common stock plus \$21 million in cash) of various propane marketing businesses, \$12 million for the acquisition of 19 convenience stores from EZ-Serve Inc., \$11 million for the acquisition of ACS Data LTD., \$7 million for the acquisition of the assets of Gas Supply Inc., \$28 million to build or remodel convenience stores and travel centers, \$21 million for the addition of a propylene splitter, expansion of the alkalization unit, replacement of the fluid catalytic cracker blower and an additional storage tank at the Mid-South Refinery, \$17 million to build new plants and implement a new computer system in the Propane Marketing business unit and \$6 million for the new gasoline and jet fuel expansion projects at the Alaska Refinery. The proceeds from net assets held for sale includes the \$66.0 million received from the sale of MAPCO's interests in the West Panhandle field. Expenditures in 1997 for investments in unconsolidated affiliates were \$71 million, which

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included \$59 million for Discovery (net of \$68 million of MAPCO's portion of Discovery's financing proceeds), \$5 million for the Alliance Pipeline investment and \$6 million for the Rio Grande Pipeline venture.

Capital expenditures and acquisitions in 1996 were \$157 million, of which \$50 million were for capital items necessary to maintain continuing operations. Included in the \$157 million was \$22 million for capital expenditures for the discontinued coal operations. Capital expenditures in 1996 also included \$12 million for a saturated gas plant expansion at the Memphis Refinery, \$9 million for a gasoline expansion project at the North Pole Refinery, \$6 million for the acquisition of a propane company in Colorado, \$5 million for expansion of the Memphis crude line, \$4 million for the expansion of the Hobbs Station in west Texas and \$4 million for environmental projects. MAPCO also expended \$23 million in 1996 for its investment in the Rio Grande Pipeline joint venture. Cash from investing activities in 1996 included \$236 million received from the sale of the Coal segment to Alliance Coal Corporation, a corporation formed by The Beacon Group Energy Investment Fund L.P. ("Beacon") and \$43 million from the sale of Thermogas Company's Iowa propane and liquid fertilizer assets to CENEX Inc. ("CENEX").

Capital expenditures and acquisitions in 1995 were \$251 million, of which \$50 million was for capital items necessary to maintain continuing operations. Capital expenditures in 1995 included \$82 million for the expansion of the Rocky Mountain Pipeline System, \$30 million for capital improvements at the Memphis Refinery, \$11 million for the acquisition of 27 retail gasoline/convenience stores in the Nashville, Tennessee, market area, \$33 million for the discontinued Coal operations and \$16 million for environmental projects.

Cash from financing activities in 1997 included the use of \$50 million in cash to purchase 1.6 million shares of treasury stock, \$33 million to pay cash dividends and \$30 million in payments on long-term debt. In the first quarter of 1997, MAPCO issued \$100 million of senior subordinated notes with a coupon rate of 7.25% that are due in 2009 and \$100 million of senior subordinated debentures with a coupon rate of 7.70% that are due in 2027.

Cash from financing activities in 1996 included the use of \$161 million in cash to reduce variable-rate borrowings, \$98 million to purchase 2.6 million shares of treasury stock, \$30 million for cash dividends and \$21 million to reduce long-term debt. Part of the proceeds from the sale of the Coal segment were used to pay down debt.

Cash from financing activities in 1995 included \$105 million of borrowings of variable-rate debt, \$31 million to purchase treasury stock, \$30 million for cash dividends and \$27 million to reduce long-term debt.

Various loan agreements contain restrictive covenants which, among other things, limit the payment of advances or dividends by two of Natural Gas Liquids' ("NGL") subsidiaries to MAPCO. At December 31, 1997, \$250 million of net assets were restricted by such provisions, which included \$60 million of restricted net assets associated with the Discovery joint venture. At December 31, 1996, \$190 million of net assets were restricted by such provisions.

LIQUIDITY AND CAPITAL RESOURCES

MAPCO's primary sources of liquidity are its cash and cash equivalents, internal cash generation, and external financing, including its long-term leasing arrangement. At December 31, 1997, MAPCO's cash and cash equivalents were \$41 million compared to \$105 million at December 31, 1996.

MAPCO's external financing sources include its bank credit agreements, its uncommitted bank credit lines, its ability to issue public or private debt, including commercial paper, and its leasing arrangement. MAPCO's bank credit agreements represent a total committed line of credit of \$400 million which expires in March 2002. The bank credit agreement serves as a back-up for outstanding commercial paper and for borrowings against bank money market lines. As of December 31, 1997 and 1996, no borrowings were outstanding under the bank credit agreement.

In 1996, the Company entered into a long-term lease arrangement to accommodate the acquisition and construction of certain assets. Leases, which will be entered into under the master lease arrangement, will be

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for seven year terms. Rent payable under the lease is based on the amounts spent for acquisition or construction of assets and the lessor's cost of funds. After the non-cancelable lease term, the arrangement may be extended by agreement of the parties, or the Company may purchase or arrange for the sale of the assets. As of December 31, 1997, all of the \$100 million commitment remained available under the lease.

In 1990, MAPCO filed a shelf registration statement with the Securities and Exchange Commission ("SEC") providing for the issuance of up to \$400 million of debt securities. As of December 31, 1997, MAPCO had outstanding \$264 million of Medium Term Notes issued pursuant to this registration. The remaining amount of debt securities authorized under this registration was deregistered during 1997. On January 31, 1997, MAPCO filed a shelf registration with the SEC providing for the issuance of up to \$500 million of debt and equity securities. The Company issued \$200 million of medium and long-term notes under that registration during the first quarter of 1997. The proceeds from that debt issuance were used for general corporate purposes, including working capital, capital expenditures,

reduction of other debt and acquisitions.

The Company was a party to various interest rate swap agreements with financial institutions which effectively changed the Company's interest rate exposure from variable rates to fixed rates on \$100 million of debt. In the first quarter of 1997, the Company recognized a \$4.3 million gain upon termination of the interest rate swap agreements, which was done concurrently with the pay-off of the related debt.

In the third quarter of 1996, the Company announced a four-point plan approved by the Board of Directors, which included the repurchase of up to 7.0 million shares, or twelve percent of post-split outstanding stock, a twenty percent dividend increase and a two-for-one stock split. The two-for-one stock split, effected in the form of a stock dividend from shares held as treasury stock, was distributed on September 30, 1996, to shareholders of record on September 16, 1996. As of December 31, 1997, 3.8 million shares have been repurchased under this authorization for \$118 million. The share repurchase program was suspended on December 4, 1997, by a resolution of MAPCO's Board of Directors which rescinded all previous authority to purchase shares of the Company's common stock. This action was taken in conjunction with the announcement of MAPCO's pending merger with the Williams Company.

During 1997, the Company sold or extended equity put options on 1.2 million shares of MAPCO's common stock with strike prices ranging from \$29 to \$32 5/8 per share. During 1996, the Company sold equity put options on 0.6 million shares of MAPCO's common stock with strike prices ranging from \$29 to \$32 1/2 per share. As of December 31, 1997 and 1996, equity put options on 0.4 million and 0.6 million shares, respectively, remained outstanding. All of the options outstanding at December 31, 1997, expired out-of-the-money during January and February 1998. MAPCO has no plans to issue further equity put options. MAPCO's Board of Directors had given Management the authorization to issue put options on up to 1.5 million shares of MAPCO's common stock.

On March 29, 1996, the Company sold its Iowa thermogas propane and fertilizer assets and its remaining liquid fertilizer assets in Arkansas, Illinois, Indiana, Ohio, Minnesota and Wisconsin to CENEX. The transaction resulted in proceeds of \$43 million which were used primarily for capital expenditures, share repurchases and general corporate purposes.

In July 1996, the Company signed an agreement with Beacon to sell substantially all of the net assets of the Coal business. That transaction was finalized on September 10, 1996. Total proceeds from the transaction of \$236 million were used to pay down debt.

Effective January 1, 1997, MAPCO sold its interest in the natural gas liquids and condensate in the West Panhandle field to Westpan NGL Company, a subsidiary of MESA Operating Company, for \$66 million. The Company recognized a gain of \$66 million on the transaction in the first quarter of 1997 as MAPCO had

no book value in the interest sold. As part of the sales agreement, MAPCO was released from its liability for its share of prior natural gas liquids over-takes.

Effective January 1, 1997, MAPCO acquired the assets of Gas Supply, Inc. ("Gas Supply"), an independent wholesale propane company based in Minneapolis, Minnesota, for approximately \$7 million, plus working capital. The acquisition has been used to expand MAPCO's current wholesale propane marketing

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activities under the trade name "Gas Supply." MAPCO also acquired Gas Supply's related product sales, a construction company, a 40,000-barrel storage facility and a rail car and truck terminal in Rosemont, Minnesota.

In April 1997, MAPCO acquired ACS Data, Ltd. ("ACS"), a company with headquarters in Manchester, England, at a cost of approximately \$11 million. ACS designs and manufactures hand-held computers and peripherals.

Effective May 21, 1997, MAPCO acquired 19 retail convenience stores located primarily in the Nashville, Tennessee market from EZ-Serve Inc. at a cost of \$12 million.

On April 30, 1997, MAPCO purchased a 5% ownership in the Alliance pipeline project. The Alliance pipeline will construct a 1,900 mile, 36-inch diameter, natural gas pipeline transmission system to carry natural gas and natural gas liquids from western Canada to the Midwestern United States for marketing throughout North America. Alliance's delivery points near Chicago include a natural gas liquids extraction facility proposed by Aux Sable Liquids Products LP, which is adjacent to the northern end of MAPCO's 10,000 mile NGL pipeline network. Construction of the pipeline is expected to begin in the second quarter of 1998 with completion anticipated by year-end 1999.

During 1997, MAPCO acquired nineteen propane companies at a cost of approximately \$39 million. These companies, with combined sales during 1996 of over 35 million gallons of propane and other related products, have market areas in Alabama, Arkansas, Indiana, Minnesota, Missouri, North Carolina, Oklahoma and South Dakota.

In July 1997, MAPCO announced plans to construct a splitter at the Mid-South Refinery that would increase the refinery's capacity for propylene production from 2,000 barrels per day to 6,000 barrels per day of the high-margin product. The refinery started production on January 19, 1998, of an incremental 2,000 barrels per day of refinery grade propylene and expects to increase production by another 2,000 barrels per day by the end of 1998. Expenditures for this project were \$7 million in 1997 and total costs are expected to be approximately \$20 million.

In 1997 MAPCO announced plans to construct a third crude unit at the Alaska Refinery that will produce an additional 17,000 barrels per day of refined products, including 14,000 barrels per day of jet fuel. The project is expected to be completed in the fourth quarter of 1998 at a cost of \$70 million.

In July 1997, MAPCO acquired a 100% ownership interest in LEXAS OIL, LLC, which had previously been an unconsolidated 50%-owned entity since January 1, 1995.

On August 1, 1997, MAPCO announced that it had reached an understanding with Enterprise Products Company ("Enterprise") to form a joint venture for the development of a natural gas liquids transportation and distribution system. It is anticipated this system will be capable of distributing product from key NGL sources in southern Louisiana with direct connections to major NGL markets, including the Louisiana river markets, Lake Charles, Louisiana and Mont Belvieu, Texas. The joint venture will be a limited liability company in which MAPCO and Enterprise will each have a 50 percent interest.

On September 5, 1997, MAPCO announced the opening of its new office under the name of Espagas, S.A. de C.V. ("Espagas") in Celaya, Guanajuato, Mexico and has future plans to open an additional office in Mexico City. Espagas markets liquefied gas (LPG) technology equipment as a part of MAPCO's TouchStar Technologies LLC.

In September 1997, MAPCO launched a new company, Thermogas Energy, LLC, that will form joint ventures with rural electric cooperatives and municipal utilities to market and distribute propane. As of December 31, 1997, Thermogas Energy, LLC, had completed joint ventures with two rural cooperatives in the state of Kentucky.

On November 24, 1997, MAPCO Inc. and The Williams Companies, Inc. announced that they had entered into a definitive merger agreement in which MAPCO will become a wholly-owned subsidiary of The Williams Companies, Inc. in a non-taxable, stock-for-stock transaction which is expected to be accounted for

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as a pooling of interest under Accounting Principles Board Opinion No. 16. See Note 2 to the Consolidated Financial Statements for additional details.

Construction for the gas gathering system for the Discovery project has been completed and gas deliveries began in December 1997. The project's gas processing plant and fractionator are under construction and both are expected to be fully operational by July 1998.

Capital expenditures in 1998 are currently expected to be about \$190 million, which includes \$93 million of operating necessities and \$97 million for

expansion projects. MAPCO expects to utilize cash from operations and short-term funding sources, proceeds from the sale of assets as needed and, if needed, proceeds from additional borrowings from the shelf registration statement filed with SEC in 1997 to meet anticipated 1998 capital expenditures. MAPCO's long-term liquidity is expected to increase since cash from operations is anticipated to exceed currently projected capital expenditures, environmental projects, debt service and dividends. MAPCO anticipates that future excess internal cash generation will be used primarily for debt reduction and to fund new capital projects.

MAPCO's existing debt and credit agreements contain covenants which limit the amount of additional indebtedness the Company can incur. Management believes, however, that MAPCO has sufficient capacity to fund its anticipated needs.

INFLATION

During the past five years, MAPCO has benefitted from the relatively low rates of inflation experienced in the United States. However, MAPCO's operating costs are influenced to a greater extent by specific price changes in oil and gas and related industries than by changes in general inflation. Crude, refined product and natural gas liquids prices are particularly sensitive to OPEC production levels and/or the attitudes of traders concerning the supply and demand balance in the near future. These costs could increase with a possible adverse effect on MAPCO's profitability. Although every effort will be made to do so, it is possible that MAPCO, like many other companies, may not be able to adjust its sales prices to maintain parity with inflation-driven operating costs.

OTHER

MAPCO has completed an internal assessment of the applications, engineering systems, technical infrastructure, imbedded systems and other components in regard to the year 2000. During 1997, the Company expensed \$1 million of costs associated with modifying MAPCO's internal-use software and hardware for the year 2000 and the projected total costs that will be expensed during 1998 through the year 2000 is expected to be approximately \$10 million. In addition, the Company has replaced or is replacing six major applications, including its financial accounting system, pipeline operations system, propane operations system, retail petroleum store reporting system, materials and management system and payroll and human resources system, whose costs are being capitalized. The Company has capitalized \$27 million associated with these systems and the total amount which the Company expects to capitalize will be approximately \$65 million. The Company expects to have its remediation efforts completed by the end of 1999, and does not expect any material impact on its results of operations, liquidity or financial position due to incomplete or untimely resolution of the year 2000 issue.

MAPCO is continuing its review of the potential costs or consequences of incomplete or untimely resolution of the year 2000 issue by other entities. The Company is not able, at this time, to determine what impact incomplete or untimely resolution of the year 2000 issue by other entities could have. At this time, the Company has no reason to believe that this issue could materially impact MAPCO's financial position, liquidity or results of operations.

MAPCO maintains property and liability insurance at limits believed to be sufficient to cover estimated potential risks. Losses up to deductible amounts of the various coverages would not have a material effect on MAPCO's financial position, liquidity or results of operations.

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RESULTS OF OPERATIONS

MAPCO's results of operations were significantly influenced by the following major 1997 events:

- The November 1997 announcement of and pending merger with The Williams Company, Inc.
- Sale of the Company's natural gas liquids and condensate interests in the West Panhandle field ("Westpan sale"), which was effective January 1, 1997.
- Warmer-than-normal weather patterns throughout the fall and winter months of 1997.
- The operations of several start-up companies and the implementation of a number of growth initiatives.

INCOME STATEMENT

1997 Results Compared to 1996

Income from continuing operations was \$105 million in 1997 compared to \$130 million in 1996. Excluding a \$40 million (\$66 million pre-tax) gain on the Westpan sale from 1997 and a \$13 million gain (\$21 million pre-tax) on the sale of propane and fertilizer assets in 1996 to CENEX ("CENEX sale"), income from continuing operations decreased \$52 million, or 44%, from 1996.

Net income in 1997 was \$97 million which included a \$6 million loss on disposal of the Coal operations and a \$1 million charge for a cumulative effect of a change in accounting principle. The loss on disposal of Coal operations, net of income taxes, was \$6 million and includes liabilities recorded in association with certain guarantees made pursuant to the sale of the Coal

business in 1996. Net income in 1996 was \$98 million which included \$15 million of income from the discontinued Coal operations and a \$47 million loss on the disposal of the Coal operations. A discussion of the discontinued Coal operations is contained in Note 3 to the consolidated financial statements.

Diluted earnings per common share from continuing operations, excluding the impact of the Westpan sale from 1997 and the gain on Cenex sale from 1996 results, were \$1.17 in 1997 compared to \$2.04 in 1996. Diluted weighted average common shares outstanding in 1997 were 55.6 million compared to 57.6 million in 1996.

Sales and operating revenues by business unit were as follows (in millions):

<TABLE>
<CAPTION>

	YEAR ENDED DECEMBER 31,	
	1997	1996
<S>	<C>	<C>
Natural Gas Liquids.....	\$ 751	\$ 716
Propane Marketing.....	413	430
Petroleum Refining.....	2,309	1,813
Retail Petroleum.....	733	715
Other.....	25	--
Eliminations.....	(383)	(321)
	-----	-----
	\$3,848	\$3,353
	=====	=====

</TABLE>

Natural Gas Liquids sales and operating revenues increased \$35 million principally due to increased trading sales and pipeline revenues, partially offset by lower Westpan revenues. Trading sales from the Canada operations increased \$53 million as those operations had only four months of activity in 1996. Other trading sales decreased \$13 million reflecting significantly lower NGL prices in the current year. Pipeline revenues increased \$3 million principally due to new plant connections and new customer transportation agreements, partially offset by lower propane heating revenues which were negatively impacted by a poor crop-drying season and above normal temperatures in 1997 compared to colder temperatures in 1996. Revenues decreased \$10 million due to the January 1997 sale of MAPCO's interest in West Panhandle field. Of the \$35 million

increase in NGL's sales and operating revenues, \$68 was attributable to increased volumes, partially offset by \$33 million decrease in sales attributable to lower prices.

Propane Marketing sales and operating revenues decreased \$17 million. Excluding the impact of the CENEX sale from 1996 operating results, revenues increased \$7 million as wholesale sales increased \$21 million, partially offset by a \$13 million decrease in retail sales. The increase in wholesale sales reflects the impact of additional volumes from the acquisition of Gas Supply in January 1997. The decrease in retail sales was due to decreased volumes and slightly lower prices. Although volume increases were realized from the nineteen acquisitions completed during 1997, these increases were more than offset by decreased demand as a result of unusually warm temperatures throughout Propane Marketing's market areas. Of the \$7 million overall increase in Propane Marketing's sales, \$8 million was attributable to increased volumes, partially offset by a \$1 million decrease in sales attributable to reduced sales prices.

Petroleum Refining sales and operating revenues increased \$496 million, primarily due to increased volumes at the Mid-South Refinery. The increase in sales principally reflects increased demand for petroleum products, aggressive marketing in the Memphis and Ohio River Valley areas and the inclusion of Texas Oil operations, which prior to July 1997 were unconsolidated. Total Mid-South Refinery sales volumes increased 68 thousand barrels per day, of which 9 thousand barrels per day were supplied through increased production at the refinery and 59 thousand barrels per day through increased purchases of refined product. Sales volumes at the Alaska Refinery increased 4% over 1996 levels, despite the negative impact of fourth quarter 1997 events, which included sharp declines in West Coast prices and the Asian financial crisis. Of the \$496 million increase in Petroleum Refining sales, \$631 million was attributable to increased volumes, partially offset by a \$135 million decrease in sales attributable to lower prices.

Retail Petroleum sales and operating revenues increased \$18 million as increased gasoline and merchandise sales were partially offset by decreased diesel sales. Gasoline sales increased \$11 million due to a 13 million gallon increase in sales volumes, primarily attributable to the May 1997 EZ-Serve acquisition, partially offset by the impact of an average 2 cent per gallon decrease in pump prices. Diesel sales decreased \$15 million due to a 10 million gallon decrease in volumes and an average 2 cent per gallon decrease in pump prices. The decrease in diesel sales volumes was due to the absence of the Rising Fawn travel center and the discontinuation of the Fuelman operations. The Rising Fawn travel center, which burned during 1996, has been rebuilt and was re-opened on December 1, 1997. The Fuelman operations were discontinued because of the start-up of MAPCO's FleetOne business. Merchandise sales increased \$22 million due to the increased store count from the EZ-Serve acquisition and an overall increase in per store merchandise sales.

Other sales and operating revenues include FleetOne and TouchStar revenues.

FleetOne had revenues of \$16 million principally from the sale of fuel from unattended fueling sites. TouchStar had revenues of \$9 million, primarily from ACS Data Ltd. which was acquired in April 1997.

Outside purchases and operating expenses by business unit are provided below (in millions):

<TABLE>
<CAPTION>

YEAR ENDED DECEMBER 31,				
1997		1996		
OUTSIDE PURCHASES	OPERATING EXPENSES	OUTSIDE PURCHASES	OPERATING EXPENSES	
<C>	<C>	<C>	<C>	
Natural Gas Liquids.....	\$ 465	\$125	\$ 401	\$138
Propane Marketing.....	180	91	235	72
Petroleum Refining.....	2,054	113	1,617	97
Retail Petroleum.....	334	106	320	85
Other.....	17	11	--	--
	-----	-----	-----	-----
	\$3,050	\$446	\$2,573	\$392
	=====	=====	=====	=====

</TABLE>

Natural Gas Liquids outside purchases increased \$64 million because of increased trading purchases. Purchases by the Canadian operations, which had only four months of operations in 1996, increased \$52 million. Other trading purchases increased \$12 million principally due to increased volumes. Operating

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expenses decreased \$13 million primarily because of the absence of Westpan operating expenses, which were \$13 million in 1996. Transportation costs were essentially unchanged as increased power costs, reflecting increased pipeline product movements and higher natural gas prices, were offset by lower property taxes and other costs.

Propane Marketing outside purchases decreased \$55 million. Excluding the impact of the CENEX transaction from 1996 purchases, outside purchases decreased \$38 million, primarily due to decreased amounts for propane products. Average wholesale propane costs decreased 11 cents per gallon which reduced outside purchases by \$59 million. Purchased propane volumes increased 50 million gallons, or \$19 million, partially offsetting the impact of lower prices. Operating expenses increased \$19 million; however, excluding the operating

expenses related to the assets sold to CENEX, operating expenses increased \$23 million. This increase primarily reflects increased salary and wages associated with acquisitions and growth initiatives during 1997 and increased supplies, bad debt, environmental and other costs.

Petroleum Refining outside purchases increased \$437 million as increased purchases by the Mid-South Refinery were partially offset by reduced purchases by the Alaska Refinery. Mid-South purchases increased \$446 million and were attributable to increased purchases of crude, reflecting the increased throughput volumes, increased purchases of refined products and the inclusion of Lexas Oil purchases. The Alaska Refinery purchases decreased \$9 million reflecting a 379 thousand barrel decrease in throughput which reduced overall crude purchases. Operating expenses increased \$16 million due to increased costs by both the Mid-South and Alaska Refineries. Mid-South's operating expenses increased \$5 million, primarily due to increased crude throughput. Crude throughput at the Mid-South Refinery increased 10% and operating expenses increased 8% over 1996. Alaska's operating expenses increased \$11 million due to planned increases in maintenance activities, including a mini-turnaround on the Sufolane unit and maintenance on the crude tanks and heat exchangers, increased environmental costs and increased bonus, pension and other benefit costs.

Retail Petroleum outside purchases increased \$14 million due to increased purchases of gasoline and merchandise, which were partially offset by decreased purchases of diesel fuel. Purchases of gasoline increased \$14 million, reflecting the 13 million gallon increase in gasoline sales for the year. Diesel purchases decreased \$15 million due to the decreased sales volumes combined with a 3 cent per gallon decrease in wholesale prices. Merchandise purchases increased \$17 million to meet the increase in overall merchandise sales for the year. Operating expenses increased \$21 million. Increases in salaries and wages, benefits, advertising, professional services and environmental costs accounted for most of the increase. These increases were the result of the increased store count from the EZ-Serve acquisition, and increased per store expenses associated with the implementation of strategic growth initiatives.

Other outside purchases of \$17 million included fuel purchases by FleetOne and purchases of computer products for resale by TouchStar. Operating expenses of \$11 million included the operating costs for ACS Data Ltd, which was acquired during 1997 and start-up costs for FleetOne and TouchStar. FleetOne's start-up costs included termination of Fuelman agreement, consulting charges associated with marketing and business development, software development costs and expenses related to the start-up of operations in Mexico. Start-up expenses for TouchStar included Espagas, TouchStar's new Mexican operations and other salaries and consulting fees.

Selling, general and administrative ("SG&A") expenses increased \$34 million principally due to higher costs in Corporate, Propane Marketing and Petroleum Refining. Corporate's SG&A expense increase was principally the result of increased labor and associated costs reflecting an increase in number of

employees over 1996. Also included in the increase was \$2 million for merger-related expenses and establishing, in August 1996, the Marketing and Business Development department to develop new business opportunities for the Company and increased outside services, legal and travel expenses. The increase in Propane Marketing's SG&A expenses reflects increased salary, benefit, travel and outside services costs associated with the acquisitions and market expansion programs conducted during the year. Petroleum Refining's SG&A increase reflects increased salary, benefit and outside services costs, primarily related to reorganization costs at the Mid-South Refinery, and increased salary, benefit and travel costs at the Alaska Refinery.

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Interest and debt expense decreased \$5 million. Capitalized interest, primarily associated with the Discovery Project, increased \$6 million over the same period in 1997. Otherwise, decreased interest on commercial paper and the ESOP loan were offset by increased interest expense on the 12-year and 30-year bonds issued during the first quarter of 1997.

The \$66 million gain on the sale of net assets held for sale in 1997 reflects the gain on sale of MAPCO's interest in the liquids and condensate in the West Panhandle field in the first quarter of 1997. The \$21 million gain in 1996 was a gain on sale of the fertilizer and Iowa propane assets to CENEX.

Other income in 1997 included \$4 million for the gain on the termination of interest rate swap agreements, which was partially offset by a \$3 million additional accrual associated with the Texas explosion litigation (see Note 16 to the Consolidated Financial Statements). Other income in 1996 included \$2 million for interest received from the Beacon Investment Group associated with the sale of the Coal segment, a \$4 million gain on the sale of two corporate airplanes and a \$1 million gain on the sale of an in-house developed business consulting concept, partially offset by \$1 million of expenses for Coal operations and other charges.

MAPCO's effective tax rate for 1997 was 40.2% compared to 38.6% in 1996. The primary reason for the increase in the effective rate was the absence of coal depletion during 1997. The difference between the statutory Federal income tax rate of 35% and the effective tax rate for 1997 and 1996 was due to state income taxes, adjustments to prior year accruals and depletion expense related to the coal operations.

1996 Results Compared to 1995

Income from continuing operations was \$130 million in 1996 compared to \$64 million in 1995. Excluding a \$13 million (\$21 million pre-tax) gain on the sale of assets to CENEX from 1996 results, income from continuing operations increased \$53 million, or 83%, over 1995. Income from continuing operations in

1995 was reduced \$6 million (\$10 million pre-tax) for reorganization charges.

Net income in 1996 was \$98 million which included \$15 million of income from the discontinued Coal operations and a \$47 million loss on the disposal of the coal operations. A discussion of the discontinued Coal operations is contained in Note 3 to the consolidated financial statements. Net income in 1995 was \$75 million and included \$11 million of income from discontinued operations.

Income from discontinued operations was reduced \$19 million (\$30 million pre-tax) in 1995 from the impact of applying SFAS No. 121.

Diluted earnings per common share from continuing operations, excluding the gain on sale of assets CENEX, were \$2.04 in 1996 compared to \$1.08 in 1995. Diluted earnings per common share from net income were \$1.69 in 1996 compared to \$1.25 in 1995. Diluted weighted average common shares outstanding in 1996 were 57.6 million compared to 59.7 million in 1995.

Sales and operating revenues by business unit were as follows (in millions):

<TABLE>
<CAPTION>

	YEAR ENDED DECEMBER 31,	
	1996	1995
<S>	<C>	<C>
Natural Gas Liquids.....	\$ 716	\$ 550
Propane Marketing.....	430	338
Petroleum Refining.....	1,813	1,574
Retail Petroleum.....	715	631
Eliminations.....	(321)	(236)
	-----	-----
	\$3,353	\$2,857
	=====	=====

</TABLE>

Sales and operating revenues increased \$496 million in 1996, due to increased sales by all of the operating units.

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Natural Gas Liquids sales and operating revenues increased \$166 million principally due to increased trading and pipeline revenues. Trading sales increased \$130 million as market prices increased over 11 cents per gallon on slightly higher volumes. Pipeline revenues increased \$42 million principally due to increased volumes from the Four Corners Pipeline loop project completed in

the first quarter of 1996, increased movements of demethanized mix from Rocky Mountain origins to the Gulf Coast and increased movements of propane to the heating markets in the Midwest. Eagle Oil revenues decreased \$5 million as those operations were phased out in January 1996. Overall, \$116 million of the sales increase was attributable to higher prices and \$50 million due to increased volumes.

Propane Marketing sales and operating revenues increased \$92 million, despite the divestiture of Propane Marketing's liquid fertilizer and Iowa propane operations during 1996. Excluding the divested Iowa operations, Retail Marketing's sales increased \$126 million. This increase was primarily attributable to increased retail, wholesale and spot propane sales which were partially offset by lower fertilizer sales. Retail propane sales increased \$66 million as increased demand due to colder weather resulted in a 39 million gallon increase in retail propane volumes combined with a 17% increase in average retail prices. Wholesale and spot propane sales increased \$66 million due to increased prices. Fertilizer sales decreased \$8 million reflecting the divestiture of those operations during 1996. Overall, \$54 million of Propane Marketing's sales increase was attributable to higher prices and \$72 million due to increased volumes.

Petroleum Refining's sales and operating revenues increased \$239 million due to increased production and sales volumes at the Memphis and North Pole Refineries, as well as higher sales prices at the North Pole Refinery. Production at the Memphis Refinery increased 19,512 barrels per day and total barrels sold increased by 25,741 barrels per day. The increase in sales volumes was partially offset by lower average refined product sales prices of \$2.95 per barrel. Production at the North Pole Refinery increased 3,753 barrels per day, total barrels sold increased 5,124 barrels per day and average refined product sales prices increased \$3.62 per barrel. The \$239 million sales increase was attributable to a \$329 million increase in volumes, partially offset by a \$90 million decrease in average sales prices.

Retail Petroleum's sales and operating revenues increased \$84 million because both fuel and merchandise sales increased. Gasoline sales increased \$29 million primarily due to a \$0.13 per gallon increase in average pump prices which more than offset the impact of a 5 million gallon decrease in gasoline volumes sold. Diesel sales increased \$39 million as average pump prices increased \$0.14 per gallon and volumes increased by almost 18 million gallons. Merchandise sales increased \$16 million due primarily to increased volumes. Overall, \$56 million of Retail Petroleum's sales increase was attributable to higher prices and \$28 million to increased volumes.

Outside purchases and operating expenses by business unit are provided below (in millions):

<TABLE>
<CAPTION>

	YEAR ENDED DECEMBER 31,			
	1996		1995	
	OUTSIDE PURCHASES	OPERATING EXPENSES	OUTSIDE PURCHASES	OPERATING EXPENSES
<S>	<C>	<C>	<C>	<C>
Natural Gas Liquids.....	\$ 401	\$138	\$ 292	\$114
Propane Marketing.....	235	72	172	69
Petroleum Refining.....	1,617	97	1,408	96
Retail Petroleum.....	320	85	315	84
	-----	-----	-----	-----
	\$2,573	\$392	\$2,187	\$363
	=====	=====	=====	=====

</TABLE>

Natural Gas Liquids outside purchases increased \$109 million. The increase was principally due to increased trading purchases caused by higher market prices, partially offset by decreased Eagle Oil purchases. Operating expenses increased \$24 million primarily because of increased power costs and Westpan expenses. Power costs increased due to increased pipeline product movements and higher natural gas prices. Westpan operating expenses increased due to accruals for severance and other costs associated with the closure of the Bivins gas plant.

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Propane Marketing outside purchases increased \$63 million; however, excluding the divested Iowa operations, the increase in outside purchases was \$69 million. The increase was attributable to the additional purchases required to meet the increase in retail, wholesale and spot sales volumes and higher wholesale propane prices. These increases were partially offset by lower fertilizer purchases due to the divestiture of that product line during 1996. Operating expenses increased \$3 million; however, excluding the Iowa operating expenses from the totals, operating expenses increased \$10 million due to general increases in various expense categories that were related to the increased sales volumes.

Petroleum Refining outside purchases increased \$209 million because of the increased volume of crude purchases associated with the increased production at the refineries, higher average crude prices and increased volumes of refined products purchased. Operating expenses increased \$1 million principally due to costs associated with the increased crude throughput.

Retail Petroleum outside purchases increased \$5 million, principally due to additional merchandise purchases to meet increased demand. Product purchases

from the Petroleum Refining business unit, which are not reflected in the above tables due to eliminations, increased \$63 million due to higher gasoline and diesel prices and increased diesel volumes. Operating expenses increased \$1 million.

Selling, general and administrative expenses increased \$9 million principally due to higher salary and benefit costs associated with restructuring MAPCO's operations from segments into the business units and establishing a Business Development department, in January 1996, whose purpose is to develop new business opportunities.

The \$10 million reorganization charge in 1995 related to reorganizations in the Natural Gas Liquids and Propane Marketing business units and in Corporate. See Note 13 in the consolidated financial statements for additional information.

The \$21 million gain on sale of net assets held for disposal related to the Iowa propane and liquid fertilizer assets sold to CENEX in March 1996. See Note 4 in the consolidated financial statements for additional information.

Other income in 1996 included \$2 million for interest received from the Beacon Investment Group associated with the sale of the Coal segment, a \$4 million gain on the sale of two corporate airplanes and a \$1 million gain on the sale of an in-house developed business consulting concept, partially offset by \$1 million of expenses for Coal operations and other charges.

MAPCO's effective tax rate for 1996 was 38.6% compared to 37.2% in 1995. The increase in the effective tax rate was primarily attributable to the fact that 1995 included a full year of depletion expense while 1996 included only a partial year. The difference between the statutory Federal income tax rate of 35% and the effective tax rate for 1996 and 1995 was due to state income taxes, adjustments to prior year accruals and depletion expense.

OPERATING PROFIT

1997 RESULTS COMPARED TO 1996

Operating profit by business unit was as follows (in millions):

<TABLE>
<CAPTION>

	YEAR ENDED DECEMBER 31,	
	1997	1996
<S>	<C>	<C>
Natural Gas Liquids.....	\$183	\$137
Propane Marketing.....	(6)	65

Petroleum Refining.....	97	64
Retail Petroleum.....	12	30
Other.....	(9)	--
	----	----
	\$277	\$296
	====	====

</TABLE>

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Natural Gas Liquids Results

Excluding the \$66 million gain on the Westpan sale from current year results, operating profit decreased \$20 million. The Westpan operations generated \$18 million of operating profit in 1996 which accounts for most of the decrease. Operating profit in 1997 was reduced \$5 million for additional charges associated with the Texas explosion litigation (see Note 16 to the Consolidated Financial Statements).

Propane Marketing Results

Propane Marketing's results in 1996 include a \$21 million gain on the sale of assets to CENEX. Excluding this gain and the profit from the operations associated with the assets sold from 1996, operating profit was \$41 million in 1996. The \$47 million decrease in operating profit from 1996 primarily reflects increased operating, general and administrative and depreciation expense. Operating expenses increased primarily due to increased salary and wages associated with acquisitions and growth initiatives during 1997 and increased supplies, bad debt, environmental and other costs. The increase in Propane Marketing's general and administrative expenses reflects increased salary benefit, travel and outside services costs associated with the acquisitions and market expansion programs conducted during the year. The increase in depreciation costs reflect the increase in capital equipment spending and acquisitions in 1997.

Petroleum Refining Results

Petroleum Refining's operating profit increased \$33 million as margins on processed barrels sold and total sales volumes increased at both the Mid-South and the Alaska Refineries. Increased operating, general and administrative and depreciation costs partially offset the favorable impact of increased margins and volumes.

Retail Petroleum Results

Retail Petroleum's operating profit decreased \$18 million. Gasoline gross profit decreased \$3 million as decreased margins more than offset the impact of

increased sales gallons. Diesel gross profit was unchanged as increased margins offset the impact of lower sales gallons. Merchandise gross profit increased \$5 million due to significantly higher sales volumes, with margins decreasing only slightly from 1996. Total expenses increased \$20 million due to increases in salaries and wages, benefits, advertising, professional services and environmental costs resulting from the increased store count from the EZ-Serve acquisition, and increased per store expenses associated with the implementation of strategic growth initiatives.

Other Results

FleetOne's operating loss in 1997 was \$7 million which included a \$3 million charge associated with the termination of the Fuelman franchise, \$1 million for software development fees and \$3 million of other start-up costs. TouchStar's operating loss of \$2 million included operating profit of \$1 million by ACS Data Ltd., offset by \$3 million of operating losses, primarily due to start-up costs by Espagas and Clean Fuel Technologies.

1996 RESULTS COMPARED TO 1995

Operating profit by business unit was as follows (in millions):

<TABLE>
<CAPTION>

	YEAR ENDED DECEMBER 31,	
	1996	1995
	----	----
<S>	<C>	<C>
Natural Gas Liquids.....	\$137	\$104
Propane Marketing.....	65	35
Petroleum Refining.....	64	36
Retail Petroleum.....	30	13
	----	----
	\$296	\$188
	====	====

</TABLE>

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Natural Gas Liquids Results

The \$33 million increase in operating profit was primarily attributable to increased pipeline profits. Pipeline revenues increased substantially over 1995 due to additional volumes from the completion of the Four Corners loop project and because ethane recoveries and shipments to Gulf Coast destinations were

strong all year. Pipeline revenues and operating profit in 1995 were adversely affected by lower demethanized mix shipments created by low ethane prices on the Gulf Coast.

Propane Marketing Results

The gain on sale of assets to CENEX accounts for \$21 million of the \$30 million operating profit increase. Excluding the CENEX gain and the operating profit associated with these operations, operating profit increased \$15 million. This improvement resulted from the increase in home heating and agricultural propane sales caused by colder-than-normal weather and a strong crop drying season. In addition, wholesale profits increased primarily because of increased margins which resulted primarily from higher product sales prices.

Petroleum Refining

The \$28 million operating profit increase primarily reflects increased profits at the Memphis refinery. Profits at the Memphis Refinery increased \$33 million as crude throughput increased 24%, total barrels sold increased 23% and margins improved 17% over 1995. The margin increase was due to higher average crude costs decreasing more than the decrease in average product sales prices. The production gains were attributable to capital improvements made to the refinery during a major turnaround in the spring of 1995. Production was negatively impacted in 1995 as the Memphis Refinery was shut-down for 4 weeks to complete the scheduled turnaround. Operating profit at the North Pole Refinery decreased \$5 million as a 9% increase in production was more than offset by lower margins. Margins decreased 15% from 1995 primarily because of higher crude costs.

Retail Petroleum

Operating profit increased \$17 million primarily due to increased merchandise profits as both sales volumes and margins improved over 1995. Merchandise sales increased \$15 million and margins improved 3.6% over 1995 which resulted in a \$12 million increase in merchandise profits. Profits on gasoline sales increased \$2 million as higher gasoline margins more than offset the impact of lower sales volumes. Profits on diesel sales increased \$1 million as sales volumes increased 18 million gallons and margins remained essentially unchanged.

ENVIRONMENTAL ISSUES

Estimated liabilities for environmental costs, primarily in the Petroleum Refining and Retail Petroleum business units, have been determined independently of any potential claims for recovery. Estimated liabilities for environmental matters were \$24 million and \$28 million as of December 31, 1997, and 1996, respectively. Receivables recorded in connection with laws permitting reimbursement by the states of certain expenses associated with underground

storage tank containment problems and repairs were \$13 million and \$15 million at December 31, 1997 and 1996, respectively.

OTHER MATTERS

Natural Gas Liquids

In November 1995, Mid-America Pipeline, Amoco Pipeline and Navajo Pipeline announced the formation of a joint venture under the name, Rio Grande Pipeline Company ("Rio Grande"). Rio Grande, which began operations in the first quarter of 1997, transport NGLs from Mid-America Pipeline's Hobbs Station in Texas and other Mid-America Pipeline origins to the Pemex Gas y Petroquimica Basica's ("PEMEX") Mendex terminal in Ciudad Juarez, Mexico. The Mexican customer purchasing the NGLs is

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PMI Trading Company. Rio Grande is the first pipeline to carry NGL shipments across the United States/ Mexico border.

Effective January 1, 1997, MAPCO sold its interest in the natural gas liquids and condensate in the West Panhandle field to Westpan NGL Company, a subsidiary of MESA Operating Company, for \$66 million. Since 1991, MAPCO's West Panhandle field gas supplier took more than its percentage ownership share of the field's production. The cumulative effect of this acceleration in gas taken resulted in the Westpan operations having a 31 billion cubic feet and \$30 million over-take position at December 31, 1996. As part of the sale agreement with Westpan NGL Company, MAPCO was released from its liability for its share of prior NGL over-takes.

In February 1997, MAPCO Energy L.L.C., a Delaware limited liability company wholly-owned by MAPCO ("MAPCO Energy"), formed two joint ventures with Texaco Exploration and Production Inc. ("Texaco") under the name Discovery Producer Services, L.L.C. and Discovery Gas Transmission, L.L.C. ("Discovery"), which owns and operates the Discovery Project. MAPCO Energy and Texaco each own 50% of the joint ventures and Texaco is the operator. Construction of a 150-mile natural gas pipeline of varying diameters between 12 inches and 30 inches from off-shore discovery wells in the Gulf of Mexico to gas processing and fractionation facilities in southern Louisiana has been completed with first deliveries of gas from the pipeline in December 1997. The joint venture is currently in the process of constructing a cryogenic gas processing plant with a capacity of approximately 600 million cubic feet of gas per day near Larose, Louisiana, and the expansion of a natural gas liquids fractionator in Paradis, Louisiana. Both the fractionator and the cryogenic gas processing plant are expected to be operational by mid-1998.

On April 7, 1992, a liquefied petroleum gas explosion occurred near an

underground salt dome storage facility near Brenham, Texas and owned by an affiliate of the Company, Seminole Pipeline Company. The matter was investigated by the National Transportation Safety Board and the Texas Railroad Commission. A discussion of this matter and its effect on MAPCO is contained in Note 16 to the consolidated financial statements.

Propane Marketing

In March 1996, Thermogas Company divested its Iowa propane and liquid fertilizer assets to CENEX Inc. The transaction, which was completed on March 31, 1996, also involved the sale to CENEX Inc. of the remaining Thermogas liquid fertilizer assets in Arkansas, Illinois, Indiana, Minnesota, Ohio and Wisconsin. Sales and operating revenues for the assets involved in this transaction were \$24 million and \$69 million in 1996 and 1995, respectively, and operating profit was estimated to be \$2 million in 1996 and \$7 million in 1995.

On January 6, 1997, Propane Marketing announced that, effective January 1, 1997, it had acquired Gas Supply, Inc., an independent wholesale propane company based in Minneapolis, Minnesota. The acquisition will be used to expand MAPCO's current wholesale propane marketing activities under the trade name, Gas Supply. Gas Supply, Inc., marketed approximately 120 million gallons of propane to the Central and Northeastern United States in 1996. Gas Supply also has related product sales, a construction company, a 40,000-barrel storage facility and a rail car and truck terminal in Rosemont, Minnesota.

Other

In September 1996, MAPCO announced the formation of a new company, MAPCO Canada Energy Inc., with headquarters in Calgary, Alberta. The new company's mission is to develop strategic business opportunities related to the production and transportation of natural gas liquids and petroleum products.

On February 4, 1997, MAPCO announced the formation of two new businesses, InfiNet Solutions, LLC, whose name was changed during 1997 to TouchStar Technologies L.L.C. ("TouchStar"), and MAPCO Fleet Systems, whose name was changed during 1997 to FleetOne L.L.C., to expand the Company into mobile information management systems and bundled services for commercial fleets. FleetOne's operations include providing fleet operators with motor fuel, data management and service alternatives. TouchStar's operations

include offering information management systems to track operations and control inventories of energy and other products to improve distribution efficiency and customer service. New technology in the form of a mobile, hand-held computer system has been designed to improve record keeping and distribution routing.

MAPCO Coal's wholly-owned subsidiary, Webster County Coal Corporation, owned and operated the Retiki Coal Mine. The Retiki mine operated under a cost-plus management fee contract with Big Rivers Electric Corporation ("Big Rivers") whereby the production from the Retiki mine was sold exclusively to Big Rivers. In January of 1995, Webster County Coal Corporation entered into a Partial Settlement Agreement with Big Rivers that closed the Retiki mine. Webster County Coal Corporation and Big Rivers have litigated the payment responsibility for certain costs, associated with the operation of the Retiki mine, which Big Rivers had disputed. The trial was conducted in late 1995. Before a verdict was rendered, Big Rivers filed for Chapter 11 bankruptcy protection. As part of a plan of reorganization, most of the major creditors agreed to settle their claims with Big Rivers. MAPCO Equities Inc., a wholly-owned subsidiary of MAPCO and successor to Webster County Coal Corporation's interest in the litigation with Big Rivers, also agreed with Big Rivers to settle its claim for \$6 million. Big Rivers' plan of reorganization (which included this agreed settlement of MAPCO Equities Inc.'s claim) was confirmed by the Bankruptcy Court on June 9, 1997, subject to a number of conditions, one of which called for Big Rivers to file for and obtain approval of its future rates for electricity in Kentucky. That rate filing has been made and hearings before the Kentucky Public Service Commission have been held, but a decision is still pending. Pacific Corp. appealed the Bankruptcy Court's confirmation order, and that appeal is also pending.

In 1996 the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 125, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. The provisions of SFAS No. 125 require an entity to recognize the financial and servicing assets it controls and the liabilities it has incurred under the financial components approach, and distinguishes transfers of financial assets that are sales from financial assets that are secured borrowings. SFAS No. 125 also establishes new accounting requirements for pledged collateral. The adoption of certain provisions of SFAS No. 125 were delayed from 1997 to 1998 by the issuance of SFAS No. 127, Deferral of the Effective Date of Certain Provisions of FASB Statement No. 125. The Company will adopt the applicable provisions of SFAS No. 125 in 1998. The Company does not expect such adoption to have a material impact on its current results of operations, financial position, or cash flows.

In 1997 the FASB issued SFAS No. 130, Reporting Comprehensive Income. The provision of SFAS No. 130 establish new rules for the reporting and display of comprehensive income and its components in a full set of general-purpose financial statements. The new rules require that all items that are recognized under accounting standards as components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. The Company will adopt SFAS in 1998 and does not expect that such adoption will have a material impact on results of operations, financial position or cash flows.

In 1997, the FASB issued SFAS No. 131, Disclosures About Segments of an Enterprise and Related Information. The provisions of SFAS No. 131 require public companies to use a management approach to determining their operating segments. This management approach model defines operating segments as revenue-producing components of the enterprise for which separate financial information is produced internally and are subject to evaluation by the chief operating decision maker in deciding how to allocate resources to segments. SFAS No. 131 also expands the financial and descriptive information disclosures relative to the identified operating segments. MAPCO will adopt SFAS in 1998 and does not expect that such adoption will have a material impact on results of operations, financial position or cash flows.

In February 1998, the FASB issued SFAS No. 132, Employers' Disclosures about Pensions and Other Postretirement Benefits. The provisions of SFAS No. 132 require an entity to revise disclosures about pension and other postretirement benefit plans. The statement does not change the measurement or recognition of those plans. It standardizes the disclosure requirements for pensions and other postretirement benefits to the extent practicable. The statement also requires additional information on changes in the benefit obligations and fair values of plan assets that will facilitate financial analysis and eliminates certain disclosures that are no

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longer useful. The Company will adopt the applicable provisions of SFAS No. 132 in 1998. The Company does not expect such adoption to have a material impact on its results of operations, financial position or cash flows.

GENERAL MANAGEMENT DISCUSSION

The consolidated financial statements were prepared by management who is responsible for their integrity and objectivity. These financial statements, which include amounts based on management's best estimates and judgments, were prepared in accordance with generally accepted accounting principles. The consolidated financial statements were independently audited by Deloitte & Touche LLP, whose report appears on page F-1.

MAPCO maintains a system of internal controls that is designed to provide reasonable assurance that financial records are accurate, assets are protected, and consolidated financial statements are stated fairly. This system is supported by the selection and training of qualified personnel, management oversight, proper division of responsibilities, the dissemination of written policies and procedures, and an internal audit program to monitor the system's effectiveness. Management believes the present system of internal controls effectively provides the assurances described above.

The Board of Directors, through its Audit Committee, composed of Directors

not employed by the Company, monitors management's financial reporting responsibilities. The Audit Committee meets periodically with representatives of management, internal audit, and Deloitte & Touche LLP, to discuss specific accounting, reporting, internal control, and regulatory compliance matters. Deloitte & Touche LLP and the Company's internal auditors have unlimited access to members of the Audit Committee.

Approximately 15% of MAPCO stockholders participate in the voluntary Dividend Investment Plan whereby cash dividends are used to purchase additional MAPCO common stock. This service is free, and is administered by the Harris Trust Company of New York. Stockholders with questions about their accounts should contact the Harris Bank, Dividend Reinvestment, P.O. Box A-3309, Chicago, Illinois 60690-9939 or call Harris Bank at (312) 461-2731.

During 1997, MAPCO declared quarterly dividends of \$0.15 per share. During the first three quarters of 1996, MAPCO declared quarterly dividends of \$0.125 per share and in the fourth quarter of 1996, increased the dividend to \$0.15 per share. During 1995, MAPCO declared quarterly dividends of \$0.125 per share. Dividends were payable in March, June, September, and December. The annual dividend in 1997 was \$0.60 per share and in 1996 and 1995, the annual dividend was \$0.525 per share and \$0.50 per share (as restated for the stock split, effected in the form of a stock dividend from shares held as treasury stock, in 1996), respectively.

MAPCO common stock is traded on the New York, Chicago, and Pacific Stock Exchanges under the symbol MDA. MAPCO had 5,319 stockholders of record on December 31, 1997.

The high and low closing prices of MAPCO common stock on the New York Stock Exchange during the quarterly periods of 1997 and 1996 (as restated for the 1996 stock split) were as follows:

<TABLE>
<CAPTION>

QUARTER	1997		1996	
	HIGH	LOW	HIGH	LOW
<S>	<C>	<C>	<C>	<C>
First.....	\$34.25	\$31.00	\$28.69	\$26.69
Second.....	32.13	28.88	29.63	27.88
Third.....	32.94	29.50	29.81	26.81
Fourth.....	46.25	32.13	34.75	29.75

</TABLE>

The closing price of MAPCO's common stock on the New York Stock Exchange on December 31, 1997 was \$46.25 and on February 13, 1998 was \$52.19.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The consolidated financial statements of MAPCO Inc., together with the report thereon of Deloitte & Touche LLP dated January 27, 1998 (February 26, 1998, as to Notes 2 and 16) and the supplementary financial data specified by Item 302 of Regulation S-K are set forth on pages F-1 through F-28 hereof. See Item 14 for Index.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

(a) Directors of the Registrant

The Board of Directors is divided into three classes with the term of office of the Directors of each class ending in different years. The Class I, II and III Directors are to serve until the Annual Meeting of Stockholders in 1998, 1999 and 2000, respectively, or until their successors are elected. There are currently no vacancies on the Board of Directors.

The following tabulation provides information as to each Director of the Company.

<TABLE>
<CAPTION>

DIRECTOR -----	CLASS -----
<S>	<C>
Donald L. Mellish, 70.....	I
Anchorage, Alaska. Director since June 1981. Chairman of the Executive Committee since 1985 and a Director of National Bancorp of Alaska, Inc. since 1964.	
Robert L. Parker, 74.....	I
Tulsa, Oklahoma. Director since May 1986. Chairman of the Board of Parker Drilling Company, an international oil and gas drilling company. Presently, a Director of Bank of Oklahoma Financial Corporation, Clayton Williams Energy, Inc., Norwest Bank of Texas (Kerrville), Southern Methodist University, St. Francis Hospital (Chairman) and the Development Board of Texas University.	

James E. Barnes, 64..... II
 Tulsa, Oklahoma. Director, Chairman of the Board,
 President and Chief Executive Officer of the Company since
 September, 1995. Director, Chairman of the Board and Chief
 Executive Officer of the Company from December 1991 to
 September 1995. Director, Chairman of the Board, President
 and Chief Executive Officer of the Company from May 1986
 to December 1991. Director, President and Chief Executive
 Officer of the Company from February 1984 to May 1986.
 Advisory, non-voting Director, Senior Executive Vice
 President and Chief Operating Officer of the Company from
 June 1983 to February 1984. Presently a Director of Bank
 of Oklahoma Financial Corporation, SBC Communications Inc.
 and Kansas City Southern Industries, Inc.

Harry A. Fischer, Jr., 71..... II
 Glenview, Illinois. Director since May 1986. Chairman
 since January 1988, Chairman, President and Chief
 Executive Officer from November 1985 to January 1988, and
 President and Chief Executive Officer from November 1980
 to November 1985 of Daubert Industries, Inc., a
 manufacturer of chemically treated papers, coatings, rust
 and corrosion prevention chemicals, adhesives, sealants
 and masking tape products. Formerly a Director of Lee
 Enterprises, Incorporated.

</TABLE>

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<TABLE>

<CAPTION>

DIRECTOR

CLASS

<S>

<C>

Frank T. MacInnis, 51..... II
 Norwalk, Connecticut. Director since May 1996. Chairman of
 the Board, President and Chief Executive Officer of EMCOR
 Group, Inc., one of the world's largest electrical and
 mechanical construction groups. Formerly Chairman of the
 Board, President and Chief Executive Officer of Comstock
 Group, Inc., a nationwide electrical contracting company
 (1989 -- 1994). Presently Chairman of the Board of ComNet
 Communications, Inc. and a Director of PORTEC, Inc.

II

Samuel F. Segnar, 70..... II
 Houston, Texas. Director since September, 1989. Retired
 Chairman and Chief Executive Officer of ENRON Corporation;
 Formerly Chairman of the Board of Collecting Bank, N.A.,
 Houston and Vista Chemical Co. (1986-1988). Presently a

II

Director of Textron, Inc., Seagull Energy Corporation, Gulf States Utilities Company and serves on the Advisory Board of Pilko & Associates and the National Advisory Board of First Commercial Bank; Owner, Sam F. Segnar Interests, a company involved in construction, development and heavy equipment businesses.

Donald Paul Hodel, 62..... III
Chesapeake, Virginia. Director since September, 1990. Presently President of the Christian Coalition, a grass roots voter education organization and Managing Director of Summit Group International Ltd. and Summit Energy Group, an energy and natural resources consulting firm; Director of Columbia Energy Group.

Malcolm T. Hopkins, 69..... III
Asheville, North Carolina. Director since May 1986. Retired October 1984 as Vice Chairman and Chief Financial Officer, St. Regis Corporation, a diversified, multi-national forest products company, that also had insurance, oil and gas and chemical operations. Presently a private investor and a Director of Columbia Energy Group, Metropolitan Series Fund, Inc., State Street Research and Management Company, EMCOR Group Inc., and U.S. Home Corporation.

Frank A. McPherson, 64..... III
Oklahoma City, Oklahoma. Director since 1997. Served as Chairman of the Board and Chief Executive Officer of Kerr-McGee Corp., from May 1983 until his retirement on February 1997; Presently Director of Tri-Continental Corporation, Seligman Quality Fund, Inc., Seligman Select Municipal Fund, Inc., Seligman Group of Mutual Funds, Kimberly-Clark Corp., and Bank of Oklahoma Financial Corporation; Member of the Board of Trustees of the Oklahoma Nature Conservancy, Southwest Region Board of Trustees of the Boys and Girls Clubs of America and President of the Oklahoma Foundation for Excellence in Education.

John L. Whitmire, 57..... III
Houston, Texas. Director since 1997. Chairman of the Board and Chief Executive Officer of Union Texas Petroleum Holdings, Inc. since January 1996; Executive Vice President -- Worldwide Exploration and Production from January 1994 to January 1996 and Senior Vice President -- Worldwide Exploration and Production from December 1991 to January 1994 for Phillips Petroleum Company; Presently Director of the American Petroleum Institute and the National Audubon Society.

</TABLE>

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(b) Executive Officers of the Registrant

The following tabulation provides information as to each executive officer of MAPCO. Unless otherwise indicated, such persons have held their respective principal occupations stated therein for more than five years.

<TABLE>
<CAPTION>

NAME	AGE	POSITIONS AND OFFICES PRESENTLY HELD WITH REGISTRANT	YEAR FIRST BECAME OFFICER
----	---	-----	-----
<S>	<C>	<C>	<C>
James E. Barnes.....	64	Chairman of the Board, President and Chief Executive Officer	1983
Philip W. Baxter.....	49	Executive Vice President and Chief Financial Officer	1985
Robert G. Sachse.....	50	Executive Vice President and Chief Operating Officer	1993
David W. Bowman.....	57	Senior Vice President, General Counsel and Secretary	1987
Douglas H. Rinke.....	51	Senior Vice President -- Human Resources	1996
Peter A. Fasullo.....	45	Vice President, Business Development and Strategic Planning	1997
Gordon E. Schaechterle, Jr.....	43	Vice President, Controller and Tax Counsel	1994
Donald R. Wellendorf.....	45	Vice President, Treasurer and Investor Relations	1994

</TABLE>

Each of the executive officers named above are elected annually by the directors of MAPCO and serve at the directors' discretion. Each individual named above, other than Mr. Fasullo, has been an officer or employee of MAPCO for at least the past five years. Prior to his employment with MAPCO, from July of 1996 to August of 1997, Mr. Fasullo was Senior Vice-President of Corporate Development of Valero Energy Corp. Prior to that, from October of 1991 to July of 1996, Mr. Fasullo was Senior Vice President of Planning and Development for Valero Natural Gas Company.

There are no family relationships between or among any of the above-named persons or between or among any of the above-named persons and any directors of MAPCO.

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ITEM 11. EXECUTIVE COMPENSATION.

The following table sets forth the total compensation paid or accrued by the Company for services provided during the fiscal years ended December 31, 1997, 1996 and 1995 to the Chief Executive Officer and the four other most highly compensated executive officers and one individual who ceased to be an executive officer of the Company in 1997 but whose compensation would have placed him in this group (the "named Executive Officers").

SUMMARY COMPENSATION TABLE

<TABLE>

<CAPTION>

NAME AND PRINCIPAL POSITION	ANNUAL COMPENSATION			LONG-TERM COMPENSATION AWARDS			
	YEAR	SALARY (\$)	BONUS (\$)	AWARDS			ALL COMPE (\$)
				RESTRICTED STOCK AWARDS (\$)	RESTRICTED STOCK AWARD (\$) (1)	AWARDS SECURITIES UNDERLYING OPTIONS (#) (2)	
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
James E. Barnes	1997	824,167	1,250,000		0	818,409	27,4
Chairman of the Board,	1996	795,000	1,590,000		0	200,000	
President & CEO	1995	795,000	0		0	280,000	
Robert G. Sachse	1997	320,833	347,700		462,500	157,864	7,7
Executive Vice President, COO	1996	260,917	500,000		0	127,812	
	1995	233,000	0		0	68,000	
Philip W. Baxter	1997	280,833	301,340		462,500	161,109	7,4
Executive Vice President, CFO	1996	236,666	450,000		0	150,119	
	1995	188,000	0		0	54,918	
David W. Bowman	1997	253,000	217,960		0	95,839	3,8
Senior Vice President,	1996	249,667	350,000		0	64,618	
General Counsel & Secretary	1995	249,000	0		0	60,000	
Douglas H. Rinke	1997	177,042	155,000		92,500	33,056	2,0
Senior Vice President,	1996	141,333	162,000		0	39,092	
Human Resources	1995	131,500	0		0	11,032	
Jack D. Maynard	1997	232,000	125,000		0	80,205	3,9
Vice President	1996	226,750	300,000		0	64,767	
	1995	209,333	0		0	52,000	

</TABLE>

(1) As a result of significant increases in job responsibilities, restricted

shares were granted to certain key employees including Messrs. Sachse, Baxter and Rinke. The value of the restricted shares was calculated using the composite NYSE closing price on December 31, 1997 of \$46.25. Dividends are paid on restricted shares in the same manner as the Company's issued and outstanding shares. If the merger with Williams is consummated, restricted shares will vest immediately.

- (2) Under the 1989 Stock Incentive Plan, MAPCO has a replacement option feature providing for additional options to restore the potential future appreciation of any outstanding shares actually used to exercise an option, as well as shares forfeited for tax withholding ("Replacement Option"). Replacement Options are granted only in connection with stock-for-stock exchanges where an optionee exercises vested stock options with already owned stock of the Company. The Replacement Option which is received by the optionee is equal to the number of shares used to exercise the original options plus those shares forfeited for tax withholding. Replacement Options have terms substantially similar to the original option, including the same expiration date, except they have an exercise price per share equal to the fair market value of a share of common stock on the date the Replacement Option is granted. Replacement Options are not exercisable for at least six months from the date of grant for those granted prior to January 22, 1992 and twelve months for those granted on and after January 22, 1992. By recapturing the potential for future appreciation through the Replacement Options, key management is provided with the incentive to acquire shares rather than hold options until the end of the exercise period. Replacement Options are granted only to the extent existing shares held by the employee are exchanged to exercise options and accordingly, the total number of options granted never exceeds shareholder approved limits under the

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stock option plans. The CEO has set stock ownership targets for each key member of management including the named Executive Officers. The Replacement Option program has encouraged stock option exercises and helped to increase stock ownership of key management.

- (3) All Other Compensation includes Company matching contributions to the MAPCO Inc. and Subsidiaries Profit Sharing and Savings Plan ("PSSP") and compensation paid to or on behalf of the named Executive Officers participating in the Long-term Investment Savings Plan ("LISP"), a non-qualified defined contribution plan. Company matching contributions to the PSSP for 1997 on behalf of Messrs. Barnes, Sachse, Baxter, Bowman, Rinke and Maynard were \$53,891, \$26,915, \$25,406, \$23,469, \$21,075 and \$22,520, respectively. The LISP was terminated and all but a residual amount of the account balances were paid out as compensation to Messrs. Barnes, Sachse, Baxter, Bowman, Rinke and Maynard in the amount of \$288,812, \$22,885, \$28,715, \$38,858, \$2,633 and \$50,550, respectively in 1997. In 1998, in

connection with the termination of the LISP, residual account balances were paid as compensation to Messrs. Barnes, Sachse, Baxter, Bowman, Rinke and Maynard in the amount of \$17,614, \$955, \$1,532, \$1,644, \$99 and \$2,476, respectively.

- (4) Messrs. Barnes, Sachse, Baxter, Bowman, Rinke and Maynard each received lump sum Non-Compete Agreement payments of \$17,380,000, \$5,150,000, \$5,150,000, \$1,625,000, \$860,000, \$1,865,000, respectively. Messrs. Barnes, Sachse, Baxter, Bowman, Rinke and Maynard received a lump sum Supplemental Executive Retirement Plan ("SERP") payment of \$3,058,285, \$358,650, \$341,528, \$354,130, \$137,656, \$358,394, respectively. Mr. Barnes also received a lump sum payment of \$2,912,130 representing the benefit accrued through 1997 pursuant to a Supplemental Retirement Agreement ("SRA") as more fully described under the Pension Plan section. Messrs. Barnes, Sachse, Baxter, Bowman, Rinke and Maynard received a lump sum vacation benefit payment of \$67,270, \$26,923, \$33,183, \$22,253, \$16,671, \$16,139, respectively. In the event that Messrs. Barnes, Sachse, Baxter, Bowman, Rinke and Maynard would not be employed after the potential merger in 1998 with Williams, he would receive a lump sum severance payment of \$3,687,597, \$2,141,245, \$1,915,313, \$1,833,699, \$1,039,668, \$1,618,500, respectively.

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The following table contains information concerning the grant of stock options during fiscal year 1997 to the named Executive Officers.

OPTION GRANTS IN LAST FISCAL YEAR

<TABLE>

<CAPTION>

		INDIVIDUAL GRANTS				

		% OF				GRANT DATE VALUE
	NUMBER OF	TOTAL				-----
	SECURITIES	OPTIONS				
	OPTIONS	GRANTED TO		PRICE	EXPIRATION	PRESENT VALUE
NAME	GRANTED (#) (1)	EMPLOYEES		(\$ / SHARE)	DATE (2)	(\$) (3)
----	-----	-----		-----	-----	-----
<S>	<C>	<C>		<C>	<C>	<C>
James E. Barnes.....	300,000	8.1%		31.8125	9/22/07	4,540,943
	220,000	5.9%		33.3750	1/27/07	3,558,007
	23,863	0.6%		43.0625	1/23/01	354,381
	22,105	0.6%		43.0625	2/24/99	328,274
	86,139	2.3%		43.0625	1/22/02	1,279,220
	22,618	0.6%		43.0625	2/24/99	335,892
	15,652	0.4%		43.0625	1/30/00	232,442

	28,855	0.8%	43.0625	2/2/03	428,516
	22,034	0.6%	43.0625	2/24/99	327,219
	15,397	0.4%	43.0625	1/30/00	228,655
	22,342	0.6%	43.0625	1/23/01	331,793
	16,167	0.4%	43.0625	1/30/00	240,090
	23,237	0.6%	43.0625	1/23/01	345,085
Robert G. Sachse.....	130,000	3.5%	31.8125	9/22/07	1,967,742
	8,933	0.2%	43.0000	1/22/02	133,823
	5,062	0.1%	43.0000	2/2/03	75,832
	1,989	0.1%	43.0000	2/24/99	29,797
	2,039	0.1%	43.0000	2/24/99	30,546
	3,018	0.1%	43.0000	1/30/00	45,212
	4,157	0.1%	43.0000	1/23/01	62,275
	2,160	0.1%	43.0000	1/23/01	32,358
	121	0.0%	43.0000	2/24/99	1,813
	385	0.0%	33.7500	2/2/03	4,551
Philip W. Baxter.....	130,000	3.5%	31.8125	9/22/07	1,967,742
	5,383	0.1%	43.0000	2/2/03	80,641
	5,255	0.1%	43.0000	1/22/02	78,724
	2,144	0.1%	43.0000	2/24/99	32,119
	2,240	0.1%	43.0000	1/23/01	33,557
	2,630	0.1%	43.0000	1/22/02	39,399
	4,362	0.1%	43.0000	1/23/01	65,346
	3,046	0.1%	43.0000	1/30/00	45,631
	4,349	0.1%	43.0000	2/24/99	65,151
	312	0.0%	43.0000	2/24/99	4,674
	1,388	0.0%	43.0000	1/30/00	20,793
David W. Bowman.....	18,000	0.5%	31.8125	9/22/07	272,456
	35,000	0.9%	33.3750	1/27/07	566,045
	21,733	0.6%	43.7500	1/22/02	327,902
	4,928	0.1%	43.7500	2/24/99	74,352
	6,259	0.2%	43.7500	1/23/01	94,434
	6,146	0.2%	43.7500	1/23/01	92,729
	3,773	0.1%	43.7500	1/30/00	56,926
Douglas H. Rinke.....	17,000	0.5%	31.8125	9/22/07	257,320
	496	0.0%	43.5625	2/24/99	7,451

</TABLE>

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<TABLE>
<CAPTION>

INDIVIDUAL GRANTS

NUMBER OF	% OF TOTAL OPTIONS	GRANT DATE VALUE
-----------	--------------------------	------------------

NAME	SECURITIES OPTIONS GRANTED (#) (1)	GRANTED TO EMPLOYEES IN 1997	PRICE (\$/SHARE)	EXPIRATION DATE (2)	PRESENT VALUE (\$) (3)
<S>	<C>	<C>	<C>	<C>	<C>
	1,625	0.0%	43.5625	1/22/02	24,413
	875	0.0%	43.5625	1/30/00	13,145
	420	0.0%	43.5625	1/23/01	6,310
	1,349	0.0%	32.5000	2/24/99	15,486
	2,233	0.1%	32.5000	2/2/03	25,633
	2,112	0.1%	32.5000	2/24/99	24,244
	770	0.0%	32.5000	2/24/99	8,839
	2,502	0.1%	32.5000	1/30/00	28,721
	3,674	0.1%	32.5000	1/23/01	42,175
Jack D. Maynard.....	15,000	0.4%	31.8125	9/22/07	227,046
	35,000	0.9%	33.3750	1/27/07	566,045
	4,803	0.1%	42.6250	1/23/01	70,603
	2,433	0.1%	42.6250	2/24/99	35,765
	4,930	0.1%	43.0000	1/23/01	73,855
	1,782	0.0%	43.0000	1/30/00	26,696
	1,658	0.0%	43.0000	1/30/00	24,838
	2,357	0.1%	43.0000	2/24/99	35,310
	5,864	0.2%	43.1250	2/2/03	87,962
	6,378	0.2%	43.1250	1/22/02	95,672

</TABLE>

- (1) The number of securities shown in bold faced type and to the left of the Options Granted column for each named Executive Officer denotes original grants made by the Compensation Committee which become exercisable in one-third increments over years two, three and four of the option.
- (2) Original grants made by the Compensation Committee expire ten (10) years from the grant date. Replacement Options have the same expiration date as the original options they have replaced. Replacement Options are denoted by indented lines in the chart. See Footnote 2 under the Summary Compensation Table for additional information regarding Replacement Options.
- (3) In accordance with Securities and Exchange Commission rules, the Black-Scholes option pricing model was chosen to estimate the grant date present value of the options set forth in this table. The Company's use of this model should not be construed as an endorsement of its accuracy at valuing options. All stock option valuation models, including the Black-Scholes model, require a prediction about the future movement of the stock price. The following assumptions were made for purposes of calculating the Grant Date Present Value: for all original grants the option term is assumed to be three years after vesting, interest rates of 6.08% to 6.41%,

volatility of 29.52% calculated by using daily stock prices for the calendar year 1997, and a dividend yield between 1.80% to 1.89% per share. The following assumptions were made for purposes of calculating the Grant Date Present Value for all Replacement Options: the option term is assumed to be three years after vesting, interest rates of 5.71% to 6.16%, volatility of 29.52% calculated by using daily stock prices for the calendar year 1997, and a dividend yield between 1.37% and 1.85% per share. The real value of the options in this table depends upon the actual performance of the Company's stock during the applicable period.

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The following table contains information concerning aggregated stock option exercises during 1997 by the named Executive Officers.

AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR
AND FISCAL YEAR-END OPTION VALUES

<TABLE>
<CAPTION>

NAME ----	NUMBER OF SECURITIES UNDERLYING OPTIONS EXERCISED (#) (1) -----	VALUE REALIZED (\$) (2) -----	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT FY-END (#) EXERCISABLE/ UNEXERCISABLE -----	VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AT FY-END (\$) (3) EXERCISABLE/ UNEXERCISABLE -----
<S>	<C>	<C>	<C>	<C>
James E. Barnes.....	540,396	7,452,625	50,000/ 1,357,075	987,500/ 17,969,207
Robert G. Sachse.....	51,506	622,803	11,333/ 350,530	223,827/ 5,487,147
Philip W. Baxter.....	44,489	498,846	10,000/ 339,775	197,500/ 5,227,757
David W. Bowman.....	119,378	1,791,325	10,000/ 215,839	197,500/ 3,014,473
Douglas H. Rinke.....	34,616	277,568	0/ 81,722	0/ 1,315,721
Jack D. Maynard.....	77,377	843,253	9,333/ 184,205	184,327/ 2,674,037

</TABLE>

(1) Includes shares forfeited for the named Executive Officer's state and

federal tax withholding obligations and shares tendered in payment of the option exercise prices.

- (2) Includes value of shares forfeited by the named Executive Officer for state and federal tax withholding obligations.
- (3) The value of the unexercised in-the-money options was calculated using the composite NYSE closing price on December 31, 1997 of \$46.25.

PENSION PLAN

The pension plan, in which all eligible employees, including Executive Officers, participate, does not require or permit employees to make contributions. Contributions to the pension plan in respect of any person are not and cannot be separately or individually calculated.

PENSION TABLE -- ANNUAL BENEFIT PAYABLE AT NORMAL RETIREMENT AGE

<TABLE> <CAPTION> AVERAGE ANNUAL COMPENSATION		YEARS OF SERVICE					
		10	15	20	25	30	35
<C>		<C>	<C>	<C>	<C>	<C>	<C>
\$ 100,000		\$ 17,477	\$ 26,215	\$ 34,953	\$ 43,692	\$ 52,430	\$ 61,168
\$ 250,000		46,727	70,090	93,453	116,817	140,180	163,543
\$ 500,000		95,477	143,215	190,953	238,692	286,430	334,168
\$1,000,000		192,977	289,465	385,953	482,442	578,930	675,418
\$1,250,000		241,727	362,590	483,453	604,317	725,180	846,043
\$1,500,000		290,477	435,715	580,953	726,192	871,430	1,016,668
\$1,750,000		339,227	508,840	678,453	848,067	1,017,680	1,187,293
\$2,000,000		387,977	581,965	775,953	969,942	1,163,930	1,357,918

</TABLE>

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The Pension Table above shows approximate total retirement benefits (expressed as an annual straight-life annuity) based on employment with the Company for an employee covered by the qualified and non-qualified retirement plans. "Average annual compensation" is determined with reference to the base salary and bonus compensation of the named Executive Officers disclosed in the Summary Compensation Table above, except as described below for Mr. Barnes. Average annual compensation levels are the average base salary and bonus compensation for the three highest consecutive years of the 10 years immediately before retirement date. The normal retirement date is at age 65, 66 or 67, depending upon the participant's birth year. The benefit amounts listed in the

table are not subject to reduction for Social Security benefits or on any other basis except as noted below.

At December 31, 1997, Messrs. Barnes, Sachse, Baxter, Bowman, Rinke and Maynard, were credited with 14.58, 15.93, 18.18, 10.72, 17.41 and 16.83 years of service, respectively. In addition, Mr. Barnes is, pursuant to a separate retirement agreement, credited with additional service equal to service earned with his prior employer (26 years). Such service is applied with reference to a modified base salary and bonus compensation at the Company which reflects only 50% of his promotion pay increases and bonus compensation. This additional retirement benefit is reduced by the retirement benefit earned by Mr. Barnes at his prior employer.

EMPLOYMENT CONTINUATION AGREEMENTS

The Company has entered into Employment Continuation Agreements (the "Agreements") with seven (7) of its Executive Officers (the "Officers"), including Messrs. Barnes, Sachse, Baxter, Bowman, Rinke and Maynard, which were amended in November, 1997.

Agreements similar to the Agreements have been in effect since prior to December 31, 1989. The Agreements were generally automatically extended on January 1, 1998, and will continue to automatically extend each January 1 thereafter unless, not later than October 1 of the preceding year, the Company shall have given notice that it does not wish to extend the Agreement and provided that if a Change in Control (as defined below) occurs, the Agreements shall automatically continue for twenty-four months beyond the month in which such Change in Control occurred. Under each Agreement, the Officer is obligated to remain in the Company's employ for the earliest of (a) nine months following the occurrence of a Potential Change in Control, (b) the date of a Change in Control, (c) the date the Officer terminates his employment by reason of Death, Disability or Retirement, or (d) the termination by the Company of the Officer's employment. The proposed merger between the Company and Williams will constitute a Change of Control for purposes of the Agreements.

For purposes of the Agreements, a "Change in Control" shall be deemed to have occurred if (i) any "person," as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") (other than the Company, any trustee or other fiduciary holding securities under an employee benefit plan of the Company, or any corporation owned, directly or indirectly, by the stockholders of the Company in substantially the same proportion as their ownership of stock of the Company), is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing 25% or more of the combined voting power of the Company's then outstanding securities eligible to vote; or (ii) during any period of two consecutive years (not including any period prior to the execution of the Agreement), individuals who at the beginning of such period constitute the Board, and any new director (other than

a director designated by a person who has entered into an agreement with the Company to effect a transaction described in clause (i), (ii) or (iv) of this Paragraph) whose election by the Board or nomination for election by the Company's stockholders was approved by a vote of at least two-thirds (2/3) of the directors then still in office who either were directors at the beginning of the period or whose election or nomination for election was previously so approved (hereinafter referred to as "Continuing Directors"), cease for any reason to constitute at least a majority thereof; or (iii) the stockholders of the Company approve a merger or consolidation of the Company with any other corporation, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into

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voting securities of the surviving entity) in combination with the ownership of any trustee or other fiduciary holding securities under an employee benefit plan of the Company, more than 75% of the combined voting power of the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation; provided, however, that a merger or consolidation effected to implement a recapitalization of the Company (or similar transaction) in which no "person" (as hereinabove defined) acquires more than 50% of the combined voting power of the Company's then outstanding securities shall not constitute a Change in Control of the Company; or (iv) the stockholders of the Company approve a plan of complete liquidation of the Company or an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets (or any transaction having a similar effect).

For purposes of the Agreements, a "Potential Change in Control" shall be deemed to have occurred if (i) the Company enters into an agreement, the consummation of which would result in the occurrence of a Change in Control; (ii) any person (including the Company) publicly announces an intention to take or to consider taking actions which if consummated would constitute a Change in Control; or (iii) any person other than a trustee or other fiduciary holding securities under an employee benefit plan of the Company (or a corporation owned, directly or indirectly by the stockholders of the Company in substantially the same proportion as their ownership of stock of the Company), who is or becomes the beneficial owner, directly or indirectly, of securities of the corporation representing 10% or more of the combined voting power of the Company's then outstanding securities, increases such person's beneficial ownership of such securities by 5% or more over the percentage so owned by such person on the date hereof; or (iv) the Board of Directors of the Company adopts a resolution to the effect that, for purposes of the Agreement, a Potential Change in Control has occurred.

If, within three (3) years following a Change in Control, an Officer's

employment is terminated by the Company (other than for cause, as defined in the Agreements, or on account of the Officer's Death, or Disability) or by the Officer for other than Good Reason as defined in the Agreement, the Company will pay the Officer a single sum severance payment equal to the product of a specified multiple of the sum of (i) the Officer's then current annual salary, plus (ii) the highest annual incentive compensation payment for the current calendar year or any of the last three (3) years, plus (iii) awards paid under the Company's Performance Bonus Plan or any successor thereto. The multiple ranges from one and one-half times (in the case of Mr. Barnes) to three times in the case of other Officers (including Mr. Bowman and Mr. Rinke).

In addition, for a period equivalent to the period for which severance is payable (e.g., eighteen months for Mr. Barnes, thirty months for Messrs. Baxter and Sachse, and thirty-six months for Messrs. Bowman and Rinke), the Company shall provide the Officer with benefits substantially similar to those which the Officer was receiving or entitled to receive under the Company's life, disability, accident and group health insurance plans or any similar plans in which the Officer was participating immediately prior to the date of termination at a cost to the Officer which is no greater than that cost to the Officer in effect at the date of termination.

The Company has also agreed to pay the Officer an additional amount ("Gross-Up Payment") such that the net amount retained by the Officer upon the payments provided under the Agreement, after deduction of federal, state and local income tax and any tax imposed by Section 4999 of the Internal Revenue Code of 1986, as amended, shall be equal to the Severance Payment. The Company has also agreed to pay all reasonable and appropriate legal fees and expenses incurred by the Officer as a result of the Officer's qualifying termination (including all such fees and expenses, if any, reasonably incurred in contesting or disputing by arbitration or otherwise, any such termination or in seeking to obtain or enforce any right or benefit provided by the Agreement or in connection with any tax audit or proceeding to the extent attributable to the application of Section 4999 of the Internal Revenue Code of 1986, as amended, (the "Code"), to any payment or benefit provided under the Agreement).

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COMPENSATION OF THE BOARD

Employee directors are not compensated for services as a director. Non-employee directors ("Outside Directors") receive an annual retainer of \$25,000 and, with the exception of director Donald L. Mellish, a fee of \$1,000 for attendance at each Board or Committee meeting. Because Mr. Mellish routinely travels to Board or Committee meetings from outside the contiguous 48 states, he receives double the Board or Committee meeting attendance fee of \$1,000; provided, however, if the Board and Committee meetings are held jointly, only his Board attendance fee is doubled. The Audit and Compensation Committee

Chairmen receive additional annual compensation of \$4,000 and the Governance and Finance Committee Chairmen receive annual compensation of \$3,000 in addition to Committee attendance fees. The Company also reimburses its Directors for travel, lodging and related expenses incurred in attending Board and Committee meetings and provides each Outside Director with \$100,000 in life insurance benefits and \$250,000 in accidental death and dismemberment insurance benefits.

Outside Directors whose service began prior to January 1, 1996 are eligible to participate in the 1986 Retirement Plan for Non-Employee Directors (the "Director Retirement Plan"). Under the Director Retirement Plan, an Outside Director who has completed at least five years of service as a member of the Board of Directors and retires from the Board after attaining age 70 will receive a benefit for life equal to the annual retainer fee payable to an Outside Director at the time of his retirement. An Outside Director who has not attained age 70 at the time he leaves the Board, but who has completed at least five years of service as a member of the Board, will generally receive a benefit equal to the annual retainer fee then payable to an Outside Director for the lesser of (i) the number of years during which the Outside Director served as a member of the Board or (ii) ten years. Upon the occurrence of a Change in Control (as defined in the Employment Continuation Agreements for executive officers described above), all Outside Directors will be entitled to receive a benefit under such plan, regardless of the length of Board membership. Such benefit will be equal to the annual retainer fee then payable to an Outside Director during his lifetime for a period equal to the greater of (i) the number of years during which the Outside Director served as a member of the Board or (ii) ten years.

Each Outside Director will receive an immediately exercisable option having a ten-year term to purchase 2,000 shares of the Company's common stock on the later of the first business day following the annual meeting of the Company's Stockholders or June 1 and shall have an option price equal to the fair market value of a share of the Company's common stock on the date of grant. Such options were granted to all Outside Directors then in office at the date of the annual meeting of shareholders in 1997, but no such options will be granted if the Williams Merger is consummated.

In January 1996, the Company adopted the MAPCO Inc. Outside Director Phantom Stock Plan (the "Phantom Plan"), effective as of January 1, 1996. All Outside Directors are eligible to participate in the Phantom Plan. Under the Phantom Plan, on June 1 of each year, each Outside Director of the Company will receive "phantom" shares of the Company's common stock ("Phantom Stock") equal to one-half of the amount of the then current Annual Retainer. In addition, an Outside Director may elect to have all or a part of the Annual Retainer Fee payable by the Company converted to Phantom Stock. The shares held as Phantom Stock are adjusted for cash dividends, stock dividends, stock splits, mergers and other changes in capitalization of the Company.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

(a) Common Stock Ownership of Directors and Executive Officers

The following table shows information concerning beneficial ownership of the Company's common stock by all Directors and by the Company's Chief Executive Officer, each of the Company's four other most highly compensated executive officers for 1997 (the "named Executive Officers") and all Directors and Executive Officers as a group. In 1994, the Board reviewed the policy-making functions of the Company's officers and redefined which officers would be included as Executive Officers (those officers with reporting responsibilities under Section 16 of the Securities and Exchange Act of 1934, as amended). As a result of this and subsequent reviews, the Board has specifically designated the Chairman, all Executive Vice Presidents, all Senior Vice

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Presidents, the Vice President, Business Development and Strategic Planning, the Vice President, Controller and Tax Counsel, and the Vice President, Treasurer and Investor Relations of the Company as Executive Officers. The persons named below have sole voting and investment power with respect to all shares of common stock owned by them, unless otherwise noted.

<TABLE>
<CAPTION>

DIRECTOR OR NAMED EXECUTIVE OFFICER -----	NUMBER OF SHARES OF COMMON STOCK BENEFICIALLY OWNED DIRECTLY OR INDIRECTLY ON FEBRUARY 16, 1998 -----	PERCENT OF CLASS -----
<S>	<C>	<C>
Donald L. Mellish.....	47,000 (3)	(1)
Robert L. Parker.....	32,800 (3)	(1)
James E. Barnes.....	685,491 (2)	1.6%
Harry A. Fischer, Jr.....	32,000 (3)	(1)
Frank T. MacInnis.....	5,000 (3)	(1)
Samuel F. Segnar.....	30,000 (3)	(1)
Malcolm T. Hopkins.....	35,500 (3)	(1)
Donald Paul Hodel.....	24,200 (3) (4)	(1)
Frank A. McPherson.....	2,000	(1)
John L. Whitmire.....	2,000	(1)
Robert G. Sachse.....	66,951 (2)	(1)
Philip W. Baxter.....	70,287 (2)	(1)
David W. Bowman.....	143,604 (2)	(1)
Douglas H. Rinke.....	34,489 (2)	(1)
Jack D. Maynard.....	58,432 (2)	(1)
	-----	---

All Directors and Executive Officers as a group (18)

persons) 1,331,095 (2) (3) 2.7%

</TABLE>

-
- (1) Does not exceed one percent.
- (2) Includes options for the Company's common stock that may be exercised within 60 days by Messrs. Barnes (132,667), Sachse (27,051), Baxter (14,667), Bowman (30,000), Maynard, (25,333), Rinke (5,067) and by all Executive Officers and Directors as a group (428,271), excluding any options that will become exercisable upon shareholder approval of the Williams Merger. Also includes shares of the Company's Common Stock that are allocated as of December 31, 1997 under the MAPCO Inc. & Subsidiaries Profit Sharing and Savings Plan (Mr. Barnes 5,097 shares, Mr. Sachse 4,271 shares, Mr. Baxter 4,312 shares, Mr. Bowman 9,955 shares, Mr. Maynard 4,521 shares, and Mr. Rinke 3,649 shares).
- (3) Includes options for the Company's common stock that may be exercised within 60 days by all non-employee Directors under the 1989 Outside Directors Stock Option Plan and includes shares held in the dividend reinvestment plan of MAPCO Inc. Fractional shares held in the dividend reinvestment plan have been rounded.
- (4) Includes 200 shares held by spouse.

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(b) Other Ownership of MAPCO Common Stock

According to information from Schedule 13G filings as of February 18, 1998, the following table lists the Stockholders known to the Company to be beneficial holders of more than five percent of the outstanding common stock of the Company:

<TABLE>

<CAPTION>

NAME & ADDRESS OF BENEFICIAL OWNER -----	AMOUNT & NATURE OF BENEFICIAL OWNERSHIP -----	PERCENT OF CLASS -----
<S> Sanford C. Bernstein & Co. Inc..... 0	<C> 5,247,659 (1)	<C> 9.6%

<PAGE>

FORWARD-LOOKING STATEMENTS

Statements in this Quarterly Report on Form 10-Q, including those contained in the foregoing discussion and other items herein, concerning the Company which are (a) projections of revenues, earnings, earnings per share, capital expenditures or other financial items, (b) statements of plans and objectives for future operations, (c) statements of future economic performance, or (d) statements of assumptions or estimates underlying or supporting the foregoing are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. The ultimate accuracy of forward-looking statements is subject to a wide range of business risks and changes in circumstances, and actual results and outcomes often differ from expectations. Any number of important factors could cause actual results to differ materially from those in the forward-looking statements herein, including the following: the timing and extent of changes in commodity prices and underlying demand and availability of crude oil and other refinery feedstocks, refined products, and natural gas; actions of our customers and competitors; changes in the cost or availability of third-party vessels, pipelines and other means of transporting feedstocks and products; state and federal environmental, economic, safety and other policies and regulations, any changes therein, and any legal or regulatory delays or other factors beyond the Company's control; execution of planned capital projects; weather conditions affecting the Company's operations or the areas in which the Company's products are marketed; future well performance; the extent of Tesoro's success in acquiring oil and gas properties and in discovering, developing and producing reserves; political developments in foreign countries; the conditions of the capital markets and equity markets during the periods covered by the forward-looking statements; earthquakes or other natural disasters affecting operations; adverse rulings, judgments, or settlements in litigation or other legal matters, including unexpected environmental remediation costs in excess of any reserves; and adverse changes in the credit ratings assigned to the Company's trade credit. For more information with respect to the foregoing, see the Company's Annual Report on Form 10-K. The Company undertakes no obligation to publicly release the result of any revisions to any such forward-looking statements that may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

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PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

As previously reported, on June 21, 1997, the Company received a letter from the Office of the Attorney General of the State of Alaska ("State")

alleging that Kenai Pipe Line Company ("KPL"), a wholly-owned subsidiary of the Company, failed to follow the terms of its Oil Discharge Prevention and Contingency Plan ("Contingency Plan"), which allegation arose out of the State's investigation of a December 5, 1995 spill into the Cook Inlet from KPL's facility. The Company has settled all claims with the State by agreeing to (i) pay \$70,000 to the State as a civil penalty and to reimburse the State for its costs; (ii) contribute \$10,000 to the Cook Inlet Regional Citizens Advisory Council to conduct additional operational oversight of KPL's Contingency Plan; and (iii) complete a pollution prevention project at KPL's facility with an estimated cost of \$50,000 by December 31, 1998.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

See the Exhibit Index immediately preceding the exhibits filed herewith.

(b) Reports on Form 8-K

No reports on Form 8-K have been filed during the quarter for which this report is filed.

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<PAGE>

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

TESORO PETROLEUM CORPORATION
REGISTRANT

Date: November 14, 1997

/s/

BRUCE A. SMITH
Bruce A. Smith
Chairman of the Board of Directors,
President and Chief Executive Officer

Date: November 14, 1997

/s/

DON E. BEERE
Don E. Beere
Vice President, Controller
(Chief Accounting Officer)

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EXHIBIT INDEX

EXHIBIT
NUMBER

- 4.1 First Amendment to Amended and Restated Credit Agreement ("Credit Facility") among the Company and Banque Paribas, individually, as an Issuing Bank and as Administrative Agent ("Banque Paribas"), The Bank of Nova Scotia, individually and as Documentation Agent ("Bank of Nova Scotia"), and other financial institution parties thereto, effective as of March 21, 1997.
- 4.2 Second Amendment to Credit Facility among the Company, Banque Paribas, Bank of Nova Scotia and other financial institution parties thereto, effective as of March 31, 1997.
- 4.3 Third Amendment to Credit Facility among the Company, Banque Paribas, Bank of Nova Scotia and other financial institution parties thereto, effective as of September 15, 1997.
- 27 Financial Data Schedule.

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<DESCRIPTION>FIRST AMENDMENT TO CREDIT AGREEMENT
<TEXT>

FIRST AMENDMENT TO
AMENDED AND RESTATED CREDIT AGREEMENT

Among

TESORO PETROLEUM CORPORATION
as the Company

and

BANQUE PARIBAS
Individually, as an Issuing Bank and as Administrative Agent,

THE BANK OF NOVA SCOTIA
Individually and as Documentation Agent

and

THE FINANCIAL INSTITUTIONS
NOW OR HEREAFTER PARTIES HERETO

Effective as of March 21, 1997

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FIRST AMENDMENT AND SUPPLEMENT TO
CREDIT AGREEMENT

This FIRST AMENDMENT AND SUPPLEMENT TO CREDIT AGREEMENT (this "First Amendment") executed effective as of March 21, 1997 (the "Effective Date"), is by and among TESORO PETROLEUM CORPORATION, a Delaware corporation (the "Company"); BANQUE PARIBAS, individually, as an Issuing Bank and as Administrative Agent, THE BANK OF NOVA SCOTIA, individually and as Documentation Agent, and each of the lenders that is a signatory hereto or which becomes a party hereto as provided in Section 9.07 (individually, a "Lender" and, collectively, the "Lenders").

W I T N E S S E T H:

WHEREAS, the Company, the Administrative Agent, the Documentation Agent, the Issuing Bank and the Lenders are parties to that certain Amended and Restated Credit Agreement dated as of June 7, 1996 (the "Credit Agreement"), pursuant to which the Lenders agreed to make loans and issue Letters of Credit to and for the account of the Company; and

WHEREAS, the Company, the Guarantors, the Administrative Agent, the Documentation Agent, and the Lenders desire to amend the Credit Agreement in the particulars hereinafter provided;

NOW, THEREFORE, in consideration of the premises and the mutual covenants herein contained, the parties hereto agree as follows:

ARTICLE I. DEFINITIONS

Section 1.01 Terms Defined Above. As used in this First Amendment, each of the terms "Company", "Credit Agreement", "Effective Date", "First Amendment", and "Lenders" shall have the meaning assigned to such term hereinabove.

Section 1.02 Terms Defined in Credit Agreement. Each term defined in the Credit Agreement and used herein without definition shall have the meaning assigned to such term in the Credit Agreement, unless expressly provided to the contrary.

Section 1.03 Other Definitional Provisions.

(a) The words "hereby", "herein", "hereinafter", "hereof", "hereto" and "hereunder" when used in this First Amendment shall refer to this First Amendment as a whole and not to any particular Article, Section, subsection or provision of this First Amendment.

(b) Section, subsection and Exhibit references herein are to such Sections, subsections and Exhibits to this First Amendment unless otherwise specified.

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ARTICLE II. AMENDMENTS TO CREDIT AGREEMENT

The Company, the Administrative Agent, the Documentation Agent, the Issuing Bank and the Lenders agree that the Credit Agreement is hereby amended, effective as of the Effective Date, in the following particulars.

Section 2.01 Amendments and Supplements to Definitions.

(a) The definition of "Agreement" in Section 1.01 of the Credit Agreement is hereby amended to mean the Credit Agreement, as amended by this First Amendment and as the same may from time to time be further amended, supplemented or modified.

(b) Section 1.01 of the Credit Agreement is hereby further amended and supplemented by adding the following new definition where alphabetically appropriate, which read in their entirety as follows:

"First Amendment" shall mean that certain First Amendment to Amended and Restated Credit Agreement dated as of March 21, 1997, by and among the Company, the Administrative Agent, the Documentation Agent, the Issuing Bank and the Lenders.

Section 2.02 Amendments to Article VI. Section 6.09(e) of the Credit Agreement is hereby amended in its entirety to read as follows:

"(e) routine loans or advances to employees made in the ordinary course of business not to exceed (A) \$1,500,000 at any one time outstanding to any one employee and (B) \$5,000,000 in the aggregate;"

ARTICLE III. CONDITIONS

The enforceability of this First Amendment against the Administrative Agent, the Documentation Agent, the Issuing Bank and the Lenders is subject to the satisfaction of the following conditions precedent:

Section 3.01 Loan Documents. The Administrative Agent shall have received multiple original counterparts, as requested by the Administrative Agent, of this First Amendment executed and delivered by a duly authorized officer of the Company, each of the Guarantors, the Administrative Agent, the Documentation Agent, each Issuing Bank and each Lender, as applicable;

Section 3.02 Corporate Proceedings of Loan Parties. The Administrative Agent shall have received multiple copies, as requested by the Administrative Agent, of the resolutions, in form and substance reasonably satisfactory to the Administrative Agent, of the Boards of Directors of the

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Company and the Guarantors, authorizing the execution, delivery and performance of this First Amendment, each such copy being attached to an original certificate of the Secretary or an Assistant Secretary of the Company or the Guarantors, as applicable, dated as of the Effective Date, certifying (i) that the resolutions attached thereto are true, correct and complete copies of resolutions duly adopted by written consents or at meetings of the Boards of Directors, (ii) that such resolutions constitute all resolutions adopted with respect to the transactions contemplated hereby, (iii) that such resolutions have not been amended, modified, revoked or rescinded as of the Effective Date, (iv) that the respective articles of incorporation and bylaws of the Company and the Guarantors have not been amended or otherwise modified since the effective date of the Credit Agreement, except pursuant to any amendments attached thereto, and (v) as to the incumbency and signature of the officers of the Company or the Guarantors, as applicable, executing this First Amendment.

Section 3.03 Representations and Warranties. Except as affected by the transactions contemplated in the Credit Agreement and this First Amendment, each of the representations and warranties made by the Company and the Guarantors in or pursuant to the Financing Documents, including the Credit Agreement, shall be true and correct in all material respects as of the Effective Date, as if made on and as of such date.

Section 3.04 No Default. No Default or Event of Default shall have occurred and be continuing as of the Effective Date.

Section 3.05 Security Instruments. All of the Security Instruments (subject to any partial releases thereof) shall be in full force and effect and provide to the Administrative Agent the security intended thereby to secure the Indebtedness.

Section 3.06 Other Instruments or Documents. The Administrative Agent or any Lender or counsel to the Administrative Agent shall receive such other instruments or documents as they may reasonably request.

ARTICLE IV. MISCELLANEOUS

Section 4.01 Adoption, Ratification and Confirmation of Credit Agreement. Each of the Company, the Guarantors, the Administrative Agent, the Documentation Agent, the Issuing Bank and the Lenders does hereby adopt, ratify and confirm the Credit Agreement, as amended hereby, and acknowledges and agrees that the Credit Agreement, as amended hereby, is and remains in full force and effect.

Section 4.02 Ratification and Affirmation of Guaranty. Each of the Guarantors hereby expressly (i) acknowledges the terms of this First Amendment, (ii) ratifies and affirms its obligations under the Second Amended and Restated Guaranty Agreement dated as of January 28, 1997, in favor of the Administrative Agent, the Documentation Agent, the Issuing Bank and the Lenders, as amended, supplemented or otherwise modified ("Guaranty Agreement"), (iii) acknowledges, renews and extends its continued liability under the Guaranty Agreement and agrees that such Guaranty

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Agreement remains in full force and effect; and (iv) guarantees to the Administrative Agent, the Documentation Agent, each Issuing Bank and each Lender to promptly pay when due all amounts owing or to be owing by it under the Guaranty Agreement pursuant to the terms and conditions thereof.

Section 4.03 Successors and Assigns. This First Amendment shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns permitted pursuant to the Credit Agreement.

Section 4.04 Counterparts. This First Amendment may be executed by one or more of the parties hereto in any number of separate counterparts, and all of such counterparts taken together shall be deemed to constitute one and the same instrument and shall be enforceable as of the Effective Date upon the execution of one or more counterparts hereof by the Company, the Guarantors, the Administrative Agent, the Documentation Agent, the Issuing Bank and the Lenders. In this regard, each of the parties hereto acknowledges that a counterpart of this First Amendment containing a set of counterpart execution pages reflecting the execution of each party hereto shall be sufficient to reflect the execution

of this First Amendment by each necessary party hereto and shall constitute one instrument.

Section 4.05 Number and Gender. Whenever the context requires, reference herein made to the single number shall be understood to include the plural; and likewise, the plural shall be understood to include the singular. Words denoting sex shall be construed to include the masculine, feminine and neuter, when such construction is appropriate; and specific enumeration shall not exclude the general but shall be construed as cumulative. Definitions of terms defined in the singular or plural shall be equally applicable to the plural or singular, as the case may be, unless otherwise indicated.

Section 4.06 Entire Agreement. This First Amendment constitutes the entire agreement among the parties hereto with respect to the subject hereof. All prior understandings, statements and agreements, whether written or oral, relating to the subject hereof are superseded by this First Amendment.

Section 4.07 Invalidity. In the event that any one or more of the provisions contained in this First Amendment shall for any reason be held invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision of this First Amendment.

Section 4.08 Titles of Articles, Sections and Subsections. All titles or headings to Articles, Sections, subsections or other divisions of this First Amendment or the exhibits hereto, if any, are only for the convenience of the parties and shall not be construed to have any effect or meaning with respect to the other content of such Articles, Sections, subsections, other divisions or exhibits, such other content being controlling as the agreement among the parties hereto.

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Section 4.09 Governing Law. This First Amendment and the rights and obligations of the parties hereunder and under the Credit Agreement shall be governed by and construed in accordance with the laws of the State of Texas and the United States of America.

THIS FIRST AMENDMENT, THE CREDIT AGREEMENT, AS AMENDED AND SUPPLEMENTED HEREBY, THE NOTES, AND THE OTHER FINANCING DOCUMENTS CONSTITUTE A WRITTEN LOAN AGREEMENT AND REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES.

THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

[SIGNATURES BEGIN NEXT PAGE]

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IN WITNESS WHEREOF, the parties hereto have caused this First Amendment to be duly executed and delivered by their proper and duly authorized officers as of the Effective Date.

COMPANY:

TESORO PETROLEUM CORPORATION

By: /s/ G. A. Wright
Name: G. A. Wright
Title: Vice President and Treasurer

ADMINISTRATIVE AGENT,
ISSUING BANK AND LENDER:

BANQUE PARIBAS, individually, as an Issuing
Bank and as Administrative Agent

By: /s/ B. Malone
Name: Brian Malone
Title: Vice President

By: /s/ Barton D. Schouest
Name: Barton D. Schouest
Title: Group Vice President

DOCUMENTATION AGENT,
ISSUING BANK AND LENDER:

THE BANK OF NOVA SCOTIA

By: /s/ F.C.H. Ashby
Name: F.C.H. Ashby
Title: Senior Manager
Loan Operations

LENDERS:

BANK OF SCOTLAND

By: /s/ Annie Chin Tat
Name: Annie Chin Tat
Title: Assistant Vice President

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CHRISTIANIA BANK OG KREDITKASSE

By: /s/ Williams S. Phillips
Name: Williams S. Phillips
Title: Vice President

By: /s/ Peter M. Dodge
Name: Peter M. Dodge
Title: First Vice President

THE FIRST NATIONAL BANK OF CHICAGO,
Individually and as an Issuing Bank

By: /s/ George R. Schanz
Name: George R. Schanz
Title: Vice President

FIRST UNION NATIONAL BANK OF NORTH
CAROLINA

By: /s/ Michael J. Kolosowsky
Name: Michael J. Kolosowsky
Title: Vice President

NATIONAL BANK OF CANADA

By: /s/ Larry L. Sears
Name: Larry L. Sears
Title: Group Vice President

By: /s/ Doug G. Clark
Name: Doug G. Clark
Title: Vice President

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THE FROST NATIONAL BANK

By: /s/ Jennifer A. Crabtree
Name: Jennifer A. Crabtree
Title: Associate Relationship Manager

DEN NORSKE BANK ASA

By: /s/ Morten Bjornsen
Name: Morten Bjornsen
Title: Senior Vice President

By: /s/ J. Morten Kreutz
Name: J. Morten Kreutz
Title: Vice President

GUARANTORS:

TESORO ALASKA PETROLEUM COMPANY
TESORO EXPLORATION AND PRODUCTION
COMPANY
TESORO PETROLEUM COMPANIES, INC.
DIGICOMP, INC.
TESORO TECHNOLOGY PARTNERS COMPANY
INTERIOR FUELS COMPANY
TESORO ALASKA PIPELINE COMPANY
TESORO NORTHSTORE COMPANY
TESORO REFINING, MARKETING & SUPPLY
COMPANY
TESORO NATURAL GAS COMPANY
TESORO BOLIVIA PETROLEUM COMPANY
TESORO VOSTOK COMPANY
KENAI PIPE LINE COMPANY
TESORO MARINE SERVICES COMPANY
TESORO COASTWIDE SERVICES COMPANY
COASTWIDE MARINE SERVICES, INC.

By: /s/ G. A. Wright
Name: G. A. Wright
Title: Vice President and Treasurer

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TESORO GAS RESOURCES COMPANY, INC.
TESORO FINANCIAL SERVICES HOLDING COMPANY

By: /s/ J. B. Fabian
Name: J. B. Fabian
Title: President

VICTORY FINANCE COMPANY

By: /s/ David W. Dupert
Name: David W. Dupert
Title: President

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TESORO E&P COMPANY, L.P.

By: TESORO EXPLORATION AND PRODUCTION
COMPANY, as its general partner

By: /s/ G. A. Wright
G. A. Wright
Vice President and Treasurer

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<TYPE>EX-4.2

<SEQUENCE>3

<DESCRIPTION>SECOND AMENDMENT TO CREDIT AGREEMENT

<TEXT>

SECOND AMENDMENT TO
AMENDED AND RESTATED CREDIT AGREEMENT

Among

TESORO PETROLEUM CORPORATION

as the Company

and

BANQUE PARIBAS

Individually, as an Issuing Bank and as Administrative Agent,

THE BANK OF NOVA SCOTIA

Individually and as Documentation Agent

and

THE FINANCIAL INSTITUTIONS
NOW OR HEREAFTER PARTIES HERETO

Effective as of March 31, 1997

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SECOND AMENDMENT AND SUPPLEMENT TO
CREDIT AGREEMENT

This SECOND AMENDMENT AND SUPPLEMENT TO CREDIT AGREEMENT (the "Second Amendment") executed effective as of March 31, 1997 (the "Effective Date"), is by and among TESORO PETROLEUM CORPORATION, a Delaware corporation (the "Company"); BANQUE PARIBAS, individually, as an Issuing Bank and as Administrative Agent, THE BANK OF NOVA SCOTIA, individually and as Documentation Agent, and each of the lenders that is a signatory hereto or which becomes a party hereto as provided in Section 9.07 (individually, a "Lender" and, collectively, the "Lenders").

W I T N E S S E T H:

WHEREAS, the Company, the Administrative Agent, the Documentation Agent, the Issuing Bank and the Lenders are parties to that certain Amended and Restated Credit Agreement dated as of June 7, 1996, as amended by First Amendment to Amended and Restated Credit Agreement dated as of March 21, 1997 (the "Credit Agreement"), pursuant to which the Lenders agreed to make loans and issue Letters of Credit to and for the account of the Company; and

WHEREAS, the Company, the Guarantors, the Administrative Agent, the Documentation Agent, and the Lenders desire to amend the Credit Agreement in the particulars hereinafter provided;

NOW, THEREFORE, in consideration of the premises and the mutual covenants herein contained, the parties hereto agree as follows:

ARTICLE I. DEFINITIONS

Section 1.01 Terms Defined Above. As used in this Second Amendment, each of the terms "Company", "Credit Agreement", "Effective Date", "Second

Amendment", and "Lenders" shall have the meaning assigned to such term hereinabove.

Section 1.02 Terms Defined in Credit Agreement. Each term defined in the Credit Agreement and used herein without definition shall have the meaning assigned to such term in the Credit Agreement, unless expressly provided to the contrary.

Section 1.03 Other Definitional Provisions.

(a) The words "hereby", "herein", "hereinafter", "hereof", "hereto" and "hereunder" when used in this Second Amendment shall refer to this Second Amendment as a whole and not to any particular Article, Section, subsection or provision of this Second Amendment.

(b) Section, subsection and Exhibit references herein are to such Sections, subsections and Exhibits to this Second Amendment unless otherwise specified.

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ARTICLE II. AMENDMENTS TO CREDIT AGREEMENT

The Company, the Administrative Agent, the Documentation Agent, the Issuing Bank and the Lenders agree that the Credit Agreement is hereby amended, effective as of the Effective Date, in the following particulars.

Section 2.01 Amendments and Supplements to Definitions.

(a) The definition of "Agreement" in Section 1.01 of the Credit Agreement is hereby amended to mean the Credit Agreement, as amended by this Second Amendment and as the same may from time to time be further amended, supplemented or modified.

(b) Section 1.01 of the Credit Agreement is hereby further amended and supplemented by adding the following new definition where alphabetically appropriate, which reads in its entirety as follows:

"Second Amendment" shall mean that certain Second Amendment to Amended and Restated Credit Agreement dated as of March 31, 1997, by and among the Company, the Administrative Agent, the Documentation Agent, the Issuing Bank and the Lenders.

Section 2.02 Amendments to Article V. Section 5.15(e) of the Credit Agreement is hereby amended in its entirety to read as follows:

"(e) Engineering Reports. Promptly after December 31st and June 30th