

ALASKA LEGISLATURE COMMITTEE FILES 1987-1988 8672

4899 HRES ELF OIL & GAS MISC.



HIGHLY CONFIDENTIAL

**DRAFT of
March 25, 1987**

SNOW

**Prepared by
Goldman, Sachs & Co.**

TABLE OF EXHIBITS

EXHIBITS

Summary of Valuation Methodology	1
Common Stock Price and Trading History	2
- Five Year Price and Volume History	
- Indexed Common Stock Price History	
- Volumes Traded at Various Prices	
Comparison of Snow to Certain Other Publicly Traded Integrated Oil and Gas Companies	3
Valuation Based on Transaction Multiples From Selected Major Oil and Gas Transactions	4
Range of Estimated Values	5
Oil and Gas Exploration and Production Valuation	6
- Prudhoe Bay Field	
- Other Alaskan Properties	
- Lower 48 and Canadian Properties	
- Probable Reserves and Unexplored Acreage	
Analysis of Master Limited Partnership of Prudhoe Bay Interest	7
Trans Alaska Pipeline System Valuation	8
Refining & Marketing System Valuation	9

PROJECT WINTER

Overview of Valuation Methodology

Factors considered in our valuation of Snow:

A. Total Company

- Past and current market prices and trading activity of Snow common stock (Exhibit 2)
- Historical and projected financial performance
- Comparison of Snow with certain other publicly traded integrated oil and gas companies (Exhibit 3)
- Comparable mergers and acquisitions in the oil and gas industry (Exhibit 4)

B. Valuation by Business Segment (Summary in Exhibit 5)

- Oil and Gas Exploration and Production (Exhibits 6 and 7)
 - discounted cash flow analyses of the oil and gas reserves
 - publicly traded master limited partnership and other vehicles
 - comparable acquisition transactions
- Trans Alaska Pipeline System (Exhibit 8)
 - discounted cash flow analyses
 - publicly traded master limited partnership and other vehicles
 - comparable acquisition transactions
- Refining & Marketing System (Exhibit 9)
 - discounted cash flow analyses
 - public market data for certain refining and marketing companies
 - comparable acquisition transactions

- **Extraction Businesses and Chemicals and Industrial Products**

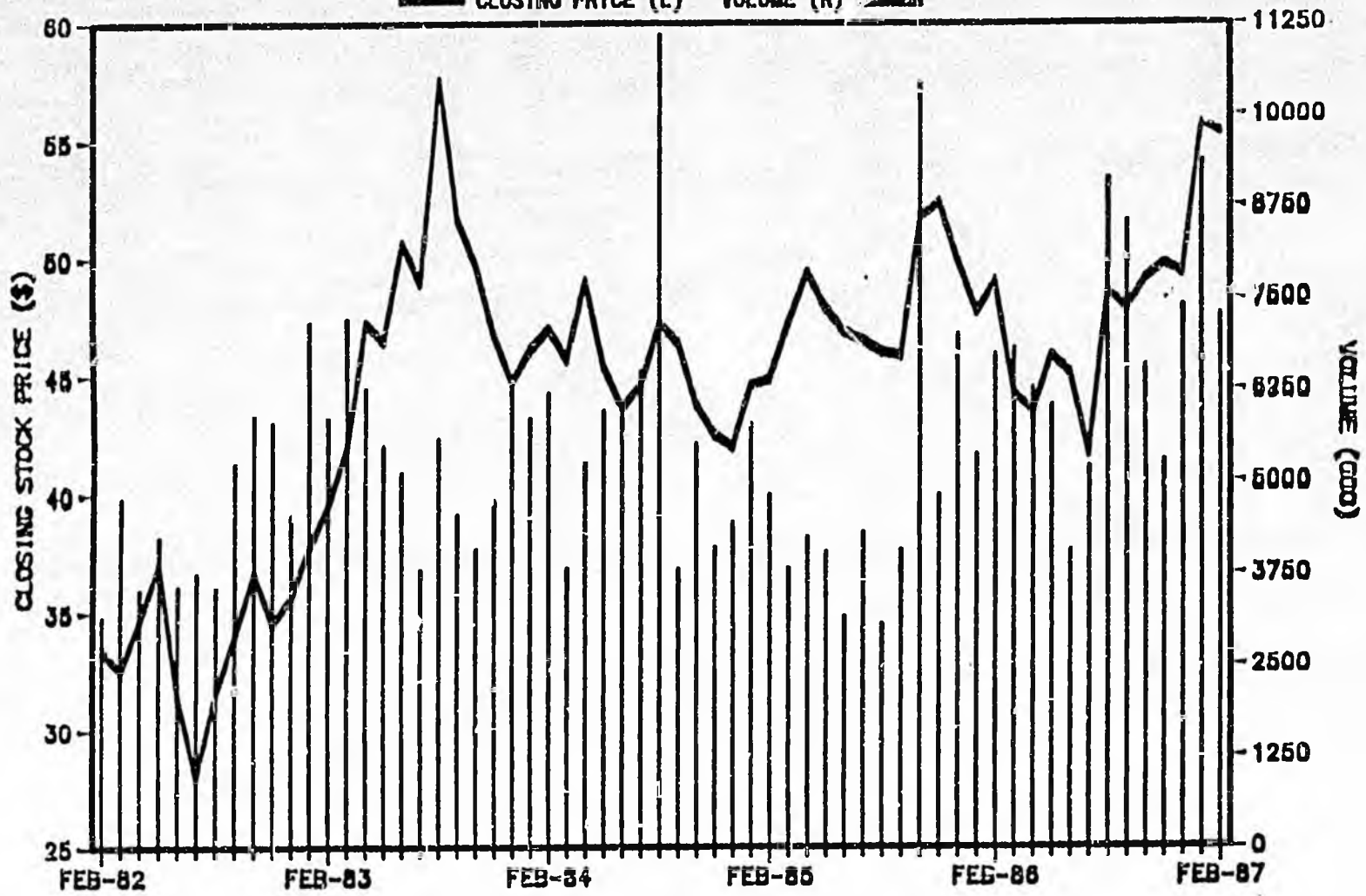
- discounted cash flow analyses
- public market valuations of comparable companies
- comparable acquisition transactions
- values potentially achievable in leveraged buyout transactions

SNOW CLOSING STOCK PRICE AND VOLUME HISTORY



LEGEND

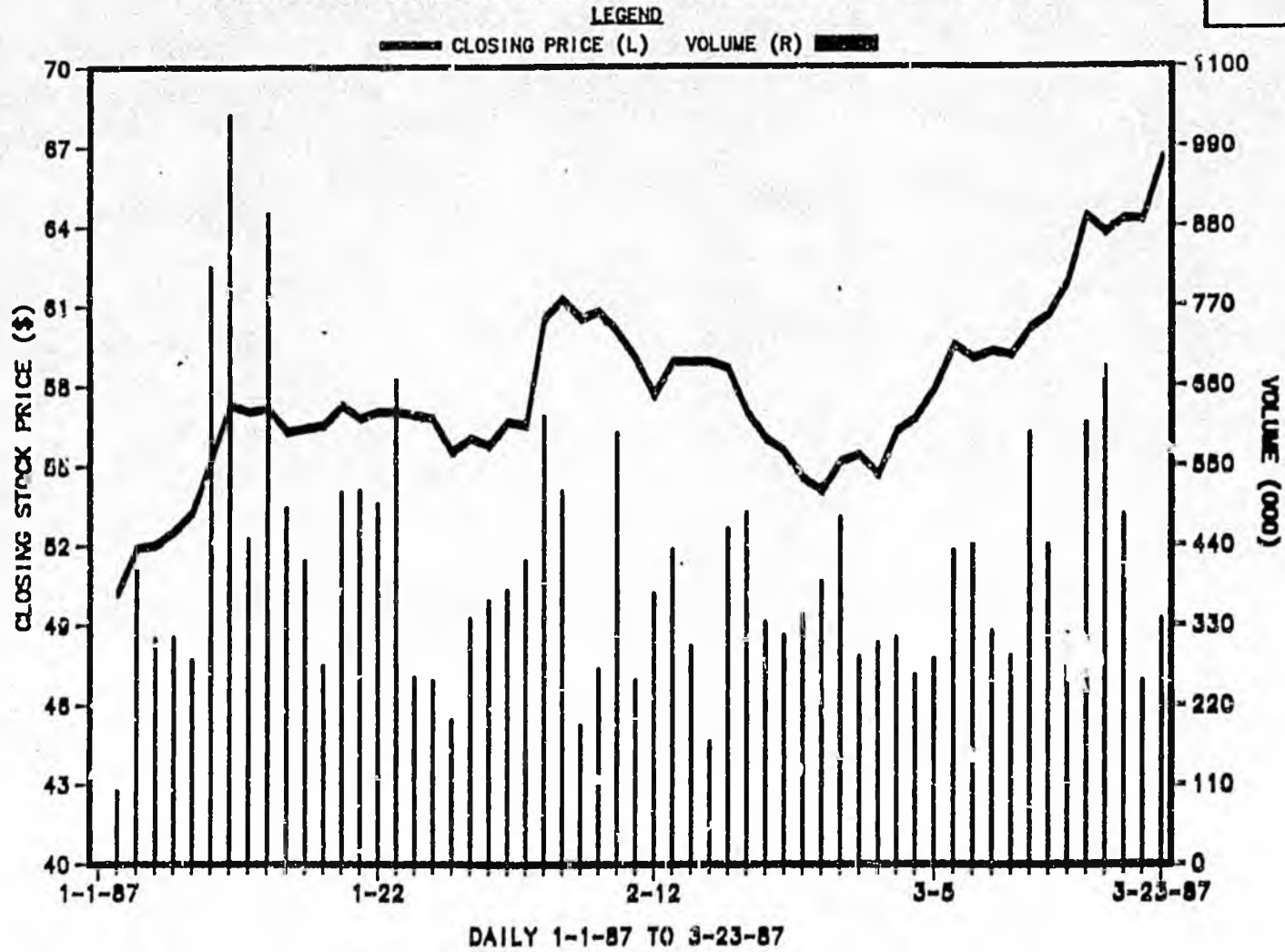
— CLOSING PRICE (L) VOLUME (R) █



MONTHLY FEB-1982 TO FEB-1987

SNOW CLOSING STOCK PRICE AND VOLUME HISTORY

Goldman
Sachs



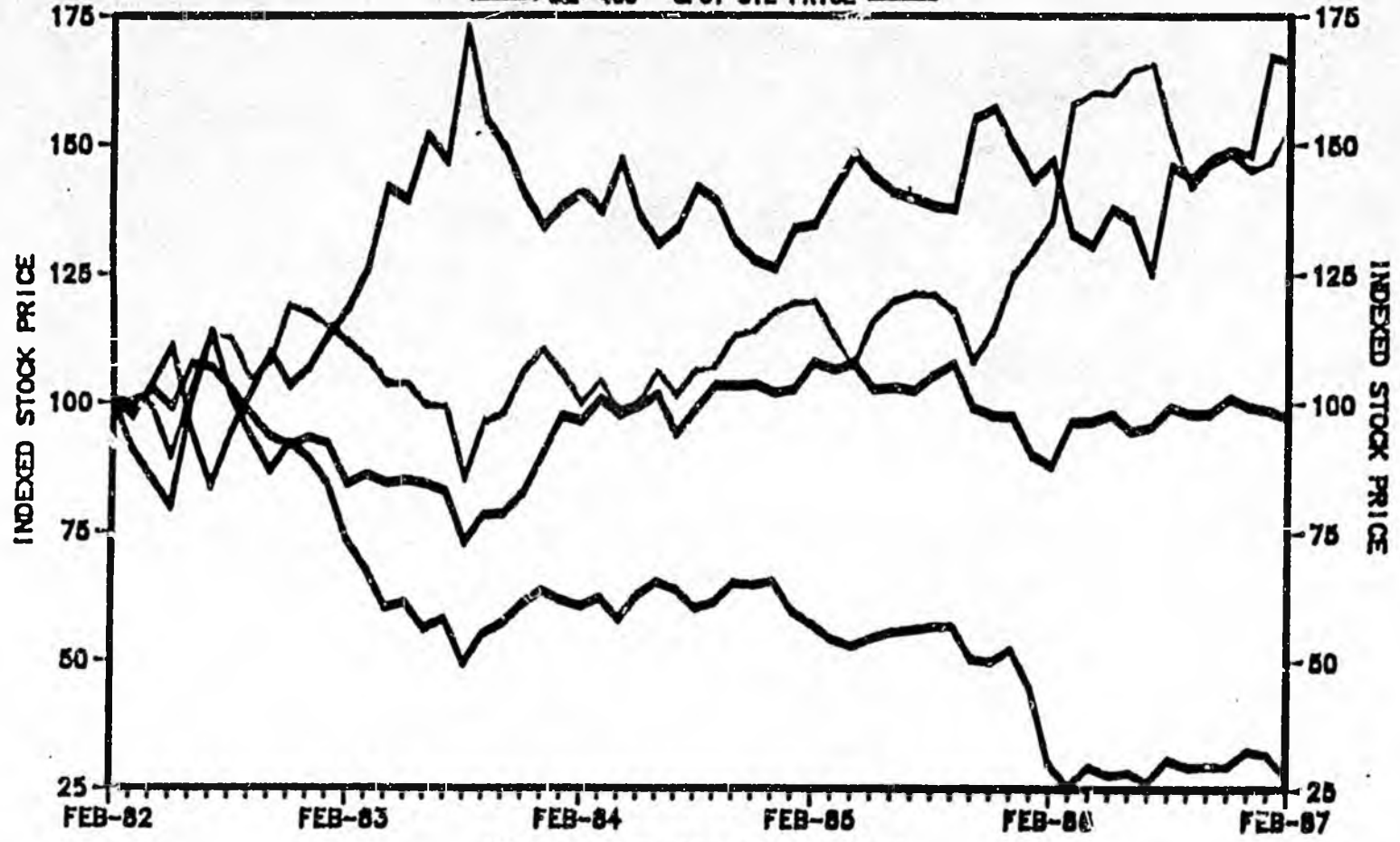
SNOW
INDEXED STOCK PRICE HISTORY
RELATIVE TO A COMPOSITE OF SELECTED MAJOR OIL COMPANIES,
THE S&P 400 AND THE WTI CRUDE SPOT PRICE



COMPOSITE: AMOCO, ARCO, SUN AND UNOCAL.

LEGEND

SNOW COMPOSITE
 S&P 400 SPOT OIL PRICE



MONTHLY FEB-1982 TO FEB-1987

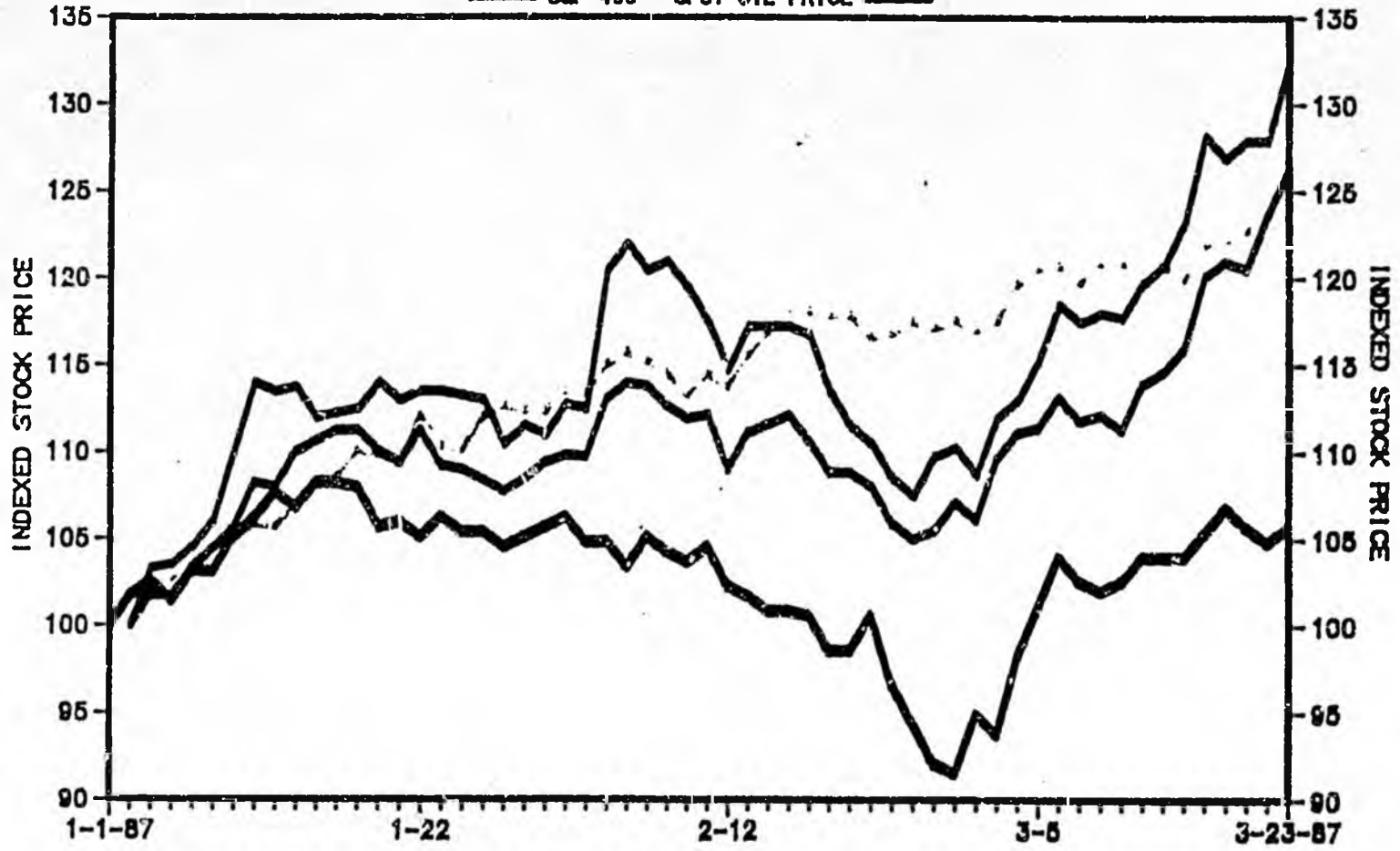
SNOW
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COMPOSITE: AMOCO, ARCO, SUN AND UNOCAL

LEGEND

SNOW COMPOSITE
 S&P 400 SPOT OIL PRICE



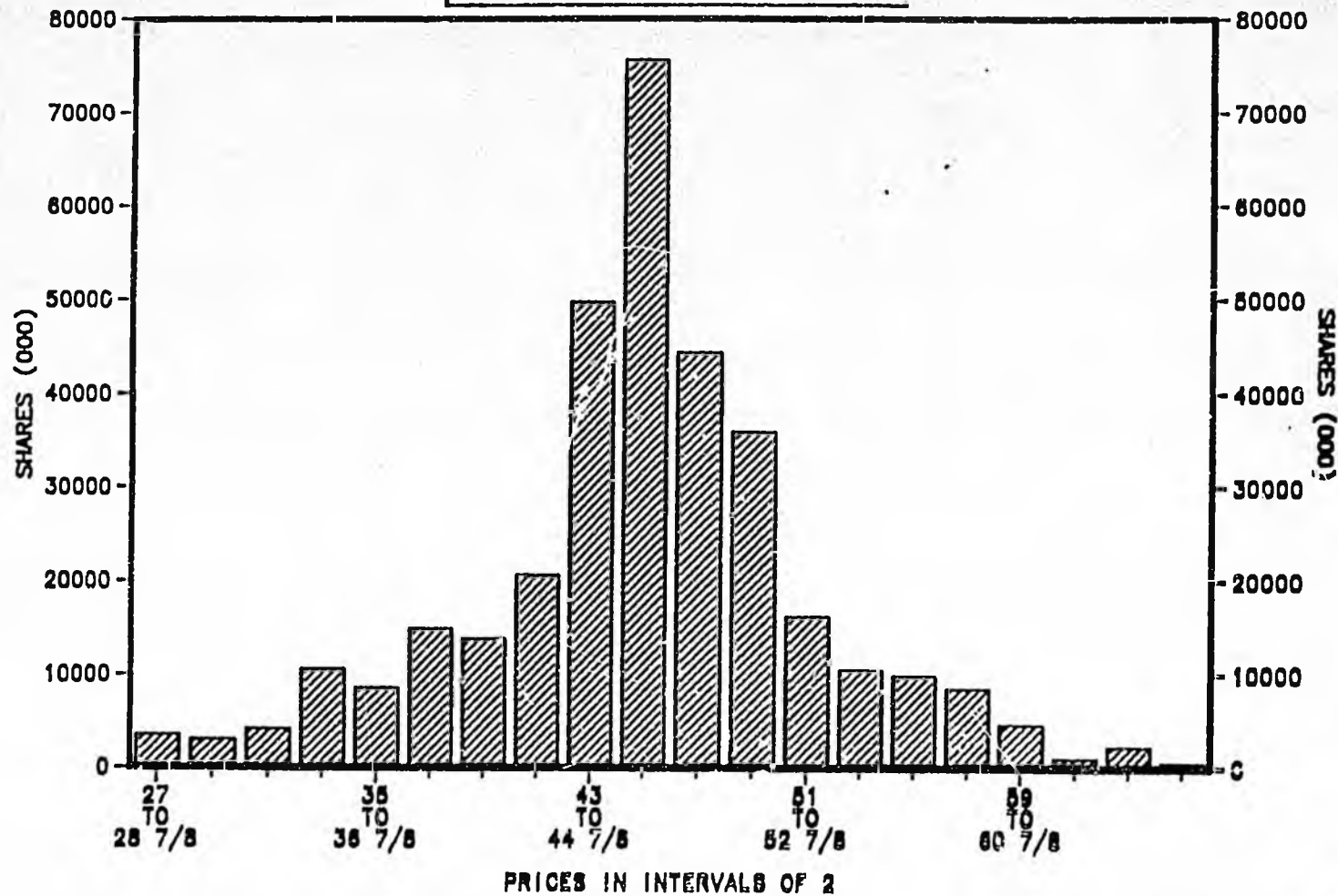
DAILY 1-1-87 TO 3-23-87

23

SNOW
COMMON SHARES TRADED AT SPECIFIC PRICES
BASED ON DAILY CLOSING PRICES FROM MAR 23 1982 TO MAR 23, 1987

**Goldman
Sachs**

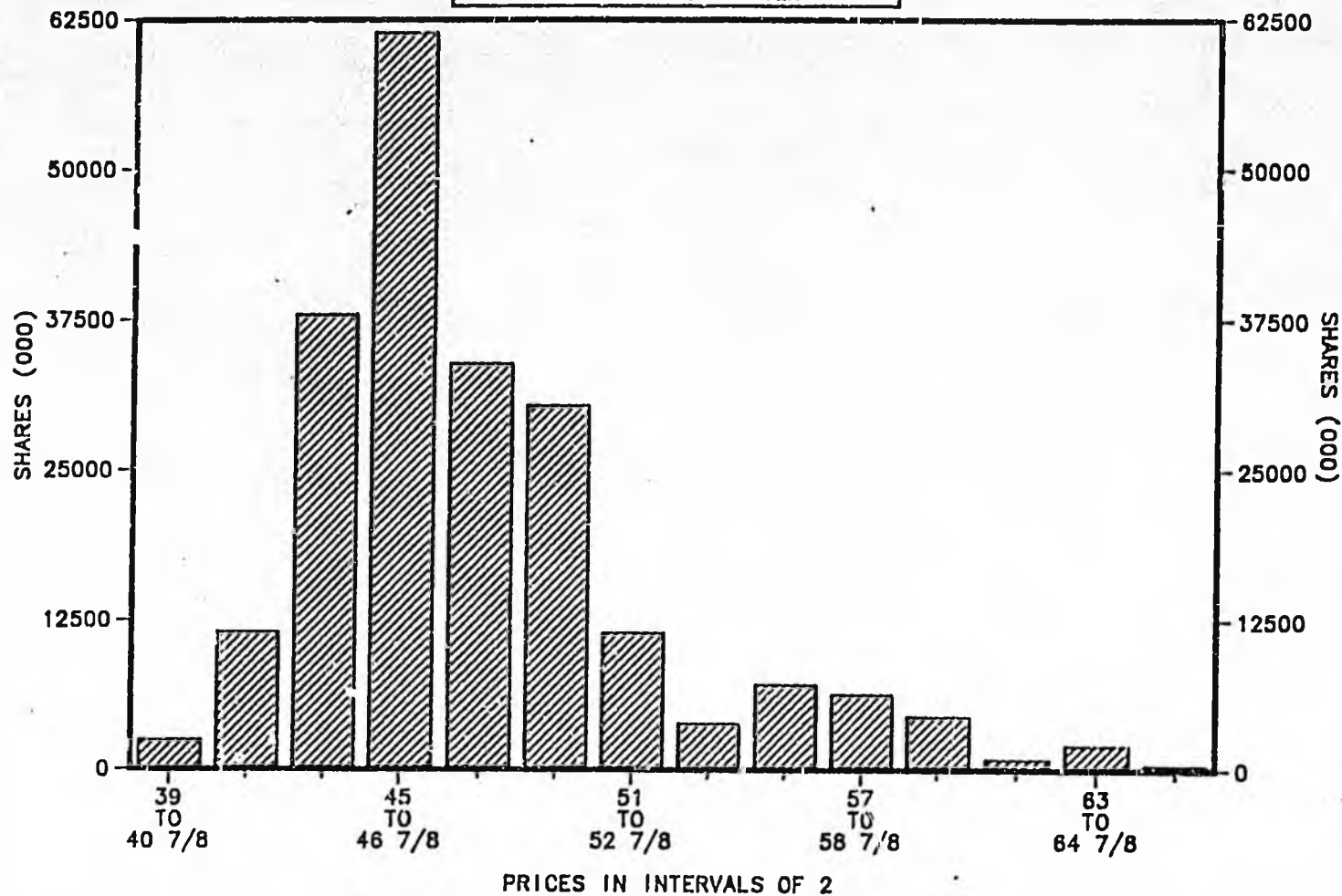
WEIGHTED AVERAGE PRICE: \$45.804
TOTAL SHARES TRADED: 335,218,8000
% OF TOTAL OUTSTANDING: 142.7%
% OF FLOAT: 320.6%



SNOW
COMMON SHARES TRADED AT SPECIFIC PRICES
BASED ON DAILY CLOSING PRICES FROM MAR 23, 1984 TO MAR 23, 1987



WEIGHTED AVERAGE PRICE: \$47.856
 TOTAL SHARES TRADED: 213,500,600
 % OF TOTAL OUTSTANDING: 91.0%
 % OF FLOAT: 204.2%



SNOW
COMMON SHARES TRADED AT SPECIFIC PRICES
BASED ON DAILY CLOSING PRICES FROM MAR 23, 1986 TO MAR 23, 1987

**Goldman
Sachs**

WEIGHTED AVERAGE PRICE: \$49.763
TOTAL SHARES TRADED: 83,122,200
% OF TOTAL OUTSTANDING: 35.4%
% OF FLOAT: 79.5%

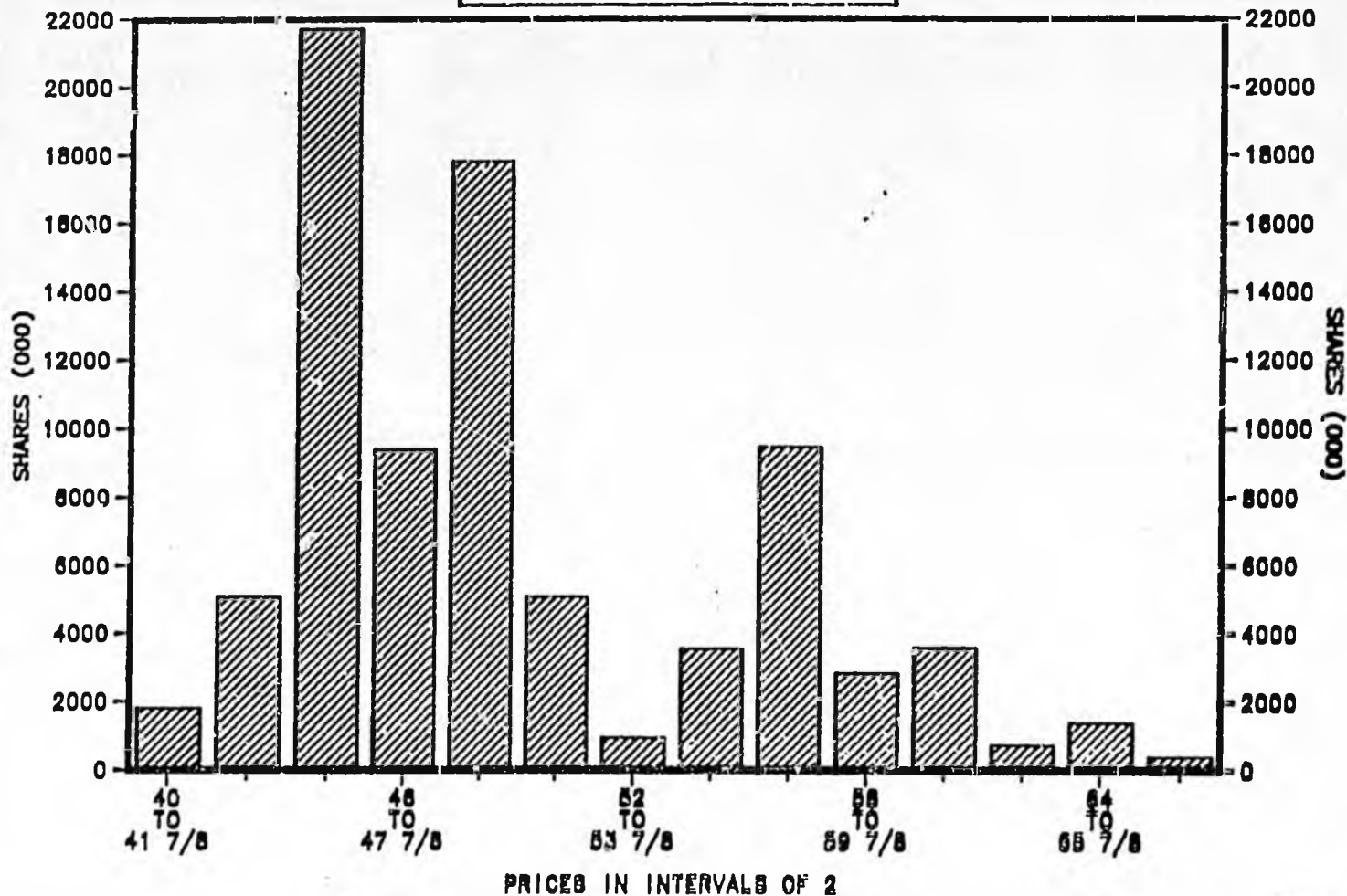


EXHIBIT 3

**COMPARISON OF SELECTED OIL AND GAS COMPANIES
SUMMARY**

	SNOW	AMOCO CORP	ATLANTIC RICHFIELD CO	SUN CO INC	UNOCAL CORP
Capitalization (\$MM)					
Aggregate Values (MM)	<u>09/30/86</u>	<u>12/31/86</u>	<u>12/31/86</u>	<u>09/30/86</u>	<u>09/30/86</u>
Short-Term Debt	\$ 295.0	\$ 410.0	\$ 1,746.0	\$ 869.0	\$ 95.0
Long-Term Debt	4,048.0	3,320.0	6,969.0	1,626.0	5,382.0
Preferred Stock	0.0	0.0	2.0	1.0	0.0
Common Equity	<u>7,152.0</u>	<u>11,324.0</u>	<u>5,257.0</u>	<u>5,292.0</u>	<u>1,659.0</u>
Total Capitalization	\$11,495.0	\$15,054.0	\$13,974.0	\$7,788.0	\$7,136.0
Cash & Equivalents	917.0	441.0	2,307.0	1,951.0	380.0
Deferred Taxes	2,027.0	3,997.0	3,562.0	2,063.0	1,688.0
Book Value (\$/Share)	\$30.47	\$44.05	\$28.85	\$49.14	\$14.26
Percentages					
Short-Term Debt	2.6%	2.7%	12.5%	11.2%	1.3%
Long-Term Debt	35.2	22.1	49.9	20.9	75.4
Preferred Stock	0.0	0.0	0.0	0.0	0.0
Common Equity	<u>62.2</u>	<u>75.2</u>	<u>37.6</u>	<u>68.0</u>	<u>23.2</u>
Total Capitalization	100.0%	100.0%	100.0%	100.0%	100.0%
Market Data	<u>03/23/87</u>	<u>03/23/87</u>	<u>03/23/87</u>	<u>03/23/87</u>	<u>03/23/87</u>
Market Capitalization (MM)	\$15,606.6	\$21,579.5	\$14,001.1	\$7,257.1	\$4,259.7
Price Per Share	\$ 66.50	\$ 83.88	\$ 78.88	\$ 67.38	\$ 36.63
Price Range (Latest 12 Months)					
High	\$66.75	\$84.00	\$79.88	\$67.50	\$37.00
Low	40.25	54.50	45.25	44.13	15.63
Common Shares Outstanding (M)	234,685.0	257,282.0	177,510.0	107,712.0	116,305.0
Dividend	\$2.80	\$3.30	\$4.00	\$3.00	\$1.00
Dividend Yield	4.2%	3.9%	5.1%	4.5%	2.7%
Latest Fiscal Year	<u>12/31/85</u>	<u>12/31/86</u>	<u>12/31/86</u>	<u>12/31/85</u>	<u>12/31/85</u>
Oper Income: Aggregate (MM)	\$3,333.0	\$1,588.0	\$1,303.0	\$1,062.0	\$1,133.0
Per Common Share	\$ 14.18	\$ 6.18	\$ 7.15	\$ 9.54	\$ 8.22
Net Income: Aggregate (MM)	\$1,322.0	\$ 747.0	\$ 615.0	\$ 802.0	\$ 325.0
Per Common Share	\$ 5.63	\$ 2.91	\$ 3.38	\$ 7.20	\$ 2.36
Cash Flow: Aggregate (MM)	\$3,571.0	\$3,369.0	\$3,550.0	\$1,758.0	\$1,836.0
Per Common Share	\$ 15.20	\$ 13.10	\$ 19.48	\$ 15.79	\$ 13.32
Market Price/Oper Income	4.7X	13.6X	11.0X	7.0X	4.5X
Market Price/Net Income	11.8X	28.9X	23.4X	9.4X	15.5X
Market Price/Cash Flow	4.4X	6.4X	4.0X	4.3X	2.7X
Market Price/Book Value	1.9X	1.9X	2.7X	1.4X	3.1X
Latest 12 Months	<u>09/30/86</u>	<u>12/31/86</u>	<u>12/31/86</u>	<u>09/30/86</u>	<u>09/30/86</u>
Oper Income: Aggregate (MM)	\$ 932.0	\$1,588.0	\$1,303.0	\$ 844.0	\$ 666.0
Per Common Share	\$ 3.97	\$ 6.18	\$ 7.15	\$ 7.84	\$ 5.73
Net Income: Aggregate (MM)	\$1,225.0	\$ 747.0	\$ 615.0	\$ 753.0	\$ (8.0)
Per Common Share	\$ 5.22	\$ 2.91	\$ 3.38	\$ 6.99	\$ (0.07)
Cash Flow: Aggregate (MM)	\$3,451.0	\$3,369.0	\$3,550.0	\$1,325.0	\$1,564.0
Per Common Share	\$ 14.70	\$ 13.10	\$ 19.48	\$ 12.30	\$ 13.45
Market Price/Oper Income	16.7X	13.6X	11.0X	8.6X	6.4X
Market Price/Net Income	12.7X	28.9X	23.4X	9.6X	(532.5X)
Market Price/Cash Flow	4.5X	6.4X	4.0X	5.5X	2.7X
Market Price/Book Value	2.7X	1.9X	2.7X	1.4X	2.6X
Accounting Method	SE	SE	SE	SE	SE
Worldwide Reserves (Geo. Dist.)	<u>12/31/85</u>	<u>12/31/86</u>	<u>12/31/85</u>	<u>12/31/85</u>	<u>12/31/85</u>
United States	100.0%	65.4%	92.1%	82.1%	75.7%
Canada	0.0	10.9	0.0	7.9	0.0
North Sea & Europe	0.0	6.7	0.0	0.0	2.3
Other	0.0	16.9	7.9	9.9	22.0
Total	100.0%	100.0%	100.0%	100.0%	

CORRECTION

**THIS DOCUMENT
HAS BEEN REPHOTOGRAPHED
TO ASSURE LEGIBILITY**

**COMPARISON OF SELECTED OIL AND GAS COMPANIES
SUMMARY**

	SUNCO	AMOCO CORP	ATLANTIC RICHFIELD CO	SUN CO INC	UNOCAL CORP
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Total Capitalization	\$11,495.0	\$15,054.0	\$13,974.0	\$7,788.0	\$7,136.0
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Per Common Share	\$ 5.22	\$ 2.91	\$ 3.38	\$ 6.99	\$ 2.67
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Accounting Method	SE	SE	SE	SE	SE
Worldwide Reserves (Geo. Dist.)	<u>12/31/85</u>	<u>12/31/86</u>	<u>12/31/85</u>	<u>12/31/85</u>	<u>12/31/85</u>
United States	100.0%	65.4%	92.1%	82.1%	75.7%
Canada	0.0	10.9	0.0	2.9	0.0
North Sea & Europe	0.0	6.7	0.0	0.0	2.3
Other	0.0	16.9	7.9	9.9	22.0
Total	100.0%	100.0%	100.0%	100.0%	100.0%

**COMPARISON OF SELECTED OIL AND GAS COMPANIES
SUMMARY**

	BNOW	AMOCO CORP	ATLANTIC RICHFIELD CO	BUN CO INC	UNOCAL CORP
Proved Reserves	<u>12/31/85</u>	<u>12/31/86</u>	<u>12/31/85</u>	<u>12/31/85</u>	<u>12/31/85</u>
Oil (MM Bbl)	2,647.8	2,424.0	2,931.0	848.0	887.0
% NEB	74.6%	55.8%	76.8%	88.1%	53.4%
% Developed	73.1%	93.1%	70.4%	74.1%	79.0%
Gas (Bcf)	7,219.0	15,375.0	7,065.0	3,174.0	6,189.0
% NEB	25.4%	41.2%	23.2%	31.9%	36.6%
% Developed	7.3%	91.2%	70.7%	73.1%	66.4%
Total Proved Reserves (MM) (8/1 NEB)	3,550.2	4,345.8	3,844.1	1,244.8	1,660.6
% Change from Last Year	(5.9%)	(6.8%)	(21.0%)	(7.2%)	2.1%
(10/1 NEB)	3,349.7	3,761.5	3,637.5	1,125.4	1,505.9
% Change from Last Year	(6.4%)	(7.5%)	(18.3%)	(2.5%)	2.3%
Production					
Oil (MM Bbl)	262.3	294.0	260.0	82.0	101.0
% NEB	96.8%	70.1%	72.3%	70.8%	66.6%
Gas (Bcf)	69.7	1,004.0	576.0	270.0	405.0
% NEB	3.2%	29.9%	21.7%	29.2%	33.4%
Total Production (MM) (8/1 NEB)	271.0	419.5	332.0	115.8	151.6
% Change from Last Year	13.3%	(3.7%)	0.1%	(5.0%)	3.8%
(10/1 NEB)	269.3	394.4	317.6	109.0	141.5
% Change from Last Year	13.3%	(3.8%)	0.0%	(4.3%)	4.1%
Reserve Life Data (Years)					
Oil	10.1	8.2	11.3	10.3	8.8
Gas	103.6	15.3	12.3	11.8	15.3
(8/1 NEB)	13.1	10.4	11.5	10.8	11.0
(10/1 NEB)	12.5	10.0	11.5	10.7	10.6
Domes. Avg. Sales Price (Latest Fis. Yr)					
\$ per Bbl (Oil)	21.78	14.61	19.9%	25.70	23.31
\$ per Mcf (Gas)	1.76	2.23	2.52	2.47	2.21
Market Value Ratios					
Market Cap/Tot Prvd Res. (\$/NEB)	4.40	4.97	3.67	5.83	2.57
Std Measure of Prvd Res. (MM)	\$ 9,100.0	\$12,191.0	\$12,100.0	\$5,041.0	\$ 6,464.0
Market Cap/Std. Measure of Res.	171.5%	177.0%	115.7%	244.0%	65.9%
Adjusted Net Worth (FY End) (MM)	\$11,949.0	\$12,347.0	\$ 8,171.0	\$6,370.3	N/A
Market Cap/Adjusted Net Worth	130.6%	174.8%	174.5%	174.5%	N/A
Pre-Tax Disc. FNR (SEC #) (MM)	\$15,909.9	\$18,171.5	\$21,625.5	\$9,039.0	\$11,691.2
Market Cap/SEC Number	98.1%	118.8%	64.7%	80.3%	36.4%
SEC % Change from Last Year's	(13.2%)	(46.4%)	0.7%	(8.0%)	6.3%
Herold Report Valuation	<u>12/31/85</u>	<u>12/31/85</u>	<u>12/31/85</u>	<u>12/31/85</u>	<u>12/31/85</u>
Asset Value (MM) (Herold)	10,629.0	23,592.0	12,214.0	8,174.0	4,957.0
Market Cap/Asset Val (Herold)	146.8%	91.5%	114.6%	88.8%	65.9%
Debt Ratios (Latest Fis. Yr.)					
Prvd. Reserves/3M of Total Debt (8/1 NEB)	958.2	1,165.1	437.7	458.3	288.3
(10/1 NEB)	909.5	1,062.1	417.4	429.1	261.4
SEC Number/Total Debt	4.3X	4.9X	2.5X	3.3X	2.0X
Std. Measure of Reserves/Total Debt	2.5X	3.3X	1.4X	1.8X	1.1X
Long-Term Debt/Adjusted Net Worth	27.7%	26.9%	85.3%	29.0%	N/A
Total Debt/Adjusted Net Worth	31.0%	10.2%	106.7%	42.9%	N/A
Cash Flow/Total Debt	96.4%	90.3%	60.7%	64.7%	31.9%
Average Cost of Debt (Latest 12 Mos.)	7.80	11.93	7.90	5.20	10.50
Current Credit Ratings (S&P/Mdy/D&P)	AA-/A1/5	AAA/Aaa/1	AA-/A2/7	AA/Aaa/6	BBB-/Baa3/9
Domestic Exploration Information					
Latest Fiscal Year E&D Costs (MM)	\$1,605.0	\$1,491.0	\$2,246.0	\$718.0	\$689.0
as a % of Latest Year's Cash Flow	44.9%	44.3%	63.3%	40.8%	37.5%
3 Year Domestic Reserve Additions	632.4	616.3	N/A	242.1	250.8
as a % of Domestic Production	85.4%	90.4%	N/A	76.7%	81.1%
3 Year Avg. Domestic Finding Costs	\$ 7.37	\$ 9.86	N/A	\$ 8.72	\$ 6.89
Latest Year Domestic Finding Costs	\$ 37.30	\$ 17.46	N/A	\$ 7.04	\$ 8.13
Herold Report Domestic Finding Costs	\$ 8.57	\$ 8.20	\$ 6.59	\$ 7.75	\$ 8.06
Latest Year NEBs added/NEBs prod.	15.9%	39.2%	N/A	101.1%	83.0%
Domestic Net Undeveloped Acreage (M)	4,282.0	16,273.0	15,366.0	4,672.0	3,262.0

**COMPARISON OF SELECTED OIL AND GAS COMPANIES
COMPANY RANKING**

	ENOW	High Value For Companies in This Report	Low Value For Companies in This Report	Median For Companies in This Report	Mean For Companies in This Report	ENOW Rank
Capitalization (MM)						
Aggregate Values (MM)	<u>09/30/88</u>					
Short Term Debt	\$ 295.0	\$1,746.0	\$95.0	\$410.0	\$403.0	2
Long Term Debt	4,048.0	6,969.0	1,626.0	6,048.0	4,269.0	3
Preferred Stock	0.0	2.0	0.0	0.0	0.0	3
Common Equity	<u>7,132.0</u>	<u>11,324.0</u>	<u>1,659.0</u>	<u>5,292.0</u>	<u>6,136.0</u>	2
Total Capitalization	\$11,495.0	\$15,034.0	\$7,336.0	\$11,495.0	\$11,000.0	3
Cash & Equivalents	\$17.0	2,397.0	300.0	\$17.0	1,217.2	3
Deferred Taxes	2,027.0	3,997.0	1,000.0	2,063.0	2,667.4	2
Book Value (\$/Share)	\$30.47	\$49.1	\$14.3	\$39.5	\$33.4	3
Percentages						
Short-Term Debt (%)	2.6%	12.5%	1.3%	2.7%	6.1%	2
Long-Term Debt (%)	35.2	75.4	20.9	35.2	49.7	3
Preferred Stock (%)	0.0	0.0	0.0	0.0	0.0	3
Common Equity (%)	<u>62.2</u>	<u>75.2</u>	<u>23.2</u>	<u>42.2</u>	<u>53.3</u>	3
Total Capitalization	100.0%	100.0%	100.0%	100.0%	100.0%	1
Market Data						
Market Capitalization (MM)	<u>02/23/87</u>	\$15,006.4	\$21,579.5	\$4,259.7	\$14,001.1	2
Dividend Yield	4.2%	5.1%	2.7%	4.2%	4.1%	3
Latest Fiscal Year						
Net Oper Income Aggregate (MM)	<u>12/31/87</u>	\$3,333.0	\$3,333.0	\$1,062.0	\$1,303.0	1
Per Common Share	\$ 14.18	\$ 14.18	\$ 6.18	\$ 8.22	\$ 9.05	1
Net Income Aggregate (MM)	\$1,322.0	\$1,322.0	\$ 325.0	\$ 747.0	\$ 742.2	1
Per Common Share	\$ 5.63	\$ 5.63	\$ 2.36	\$ 4.29	\$ 4.29	2
Cash Flow, Aggregate (MM)	\$3,573.0	\$3,573.0	\$1,750.0	\$3,369.0	\$2,816.0	1
Per Common Share	\$ 15.20	\$ 15.40	\$ 13.10	\$ 15.20	\$ 15.30	3
Market Pkts/Oper Income	4.7X	13.4X	4.5X	7.0X	8.2X	4
Market Pkts/Net Income	11.0X	28.9X	9.4X	15.5X	17.0X	4
Market Pkts/Cash Flow	4.4X	6.4X	2.7X	4.4X	4.4X	2
Market Pkts/Book Value	1.0X	3.1X	1.4X	1.9X	2.2X	3
Latest 12 Months						
Net Oper Income Aggregate (MM)	<u>01/30/88</u>	\$ 832.0	\$1,588.0	\$ 666.0	\$ 932.0	3
Per Common Share	\$ 3.97	\$ 7.80	\$ 3.97	\$ 6.18	\$ 6.17	3
Net Income, Aggregate (MM)	\$1,225.0	\$1,225.0	\$ 8.0	\$ 747.0	\$ 666.4	1
Per Common Share	\$ 5.21	\$ 6.99	\$ 0.07	\$ 3.30	\$ 3.60	2
Cash Flow, Aggregate (MM)	\$3,451.0	\$3,550.0	\$1,325.0	\$3,369.0	\$2,651.3	2
Per Common Share	\$ 14.70	\$ 19.40	\$ 12.30	\$ 13.45	\$ 14.51	2
Market Pkts/Oper Income	16.7X	16.7X	6.4X	11.0X	11.3X	1
Market Pkts/Net Income	12.7X	28.9X	(532.5X)	12.7X	(91.6X)	3
Market Pkts/Cash Flow	4.8X	6.4X	2.7X	4.3X	4.4X	3
Market Pkts/Book Value	2.7X	2.7X	1.4X	2.2X	2.2X	3
Worldwide Reserves (Geop. Dist.)						
United States	<u>12/31/85</u>	100.0%	100.0%	45.4%	82.1%	1
Canada	0.0	10.9	0.0	0.0	3.0	3
North Sea & Europe	0.0	6.7	0.0	0.0	1.0	3
Other	0.0	22.0	0.0	0.0	11.4	5
Total	100.0%	100.0%	100.0%	100.0%	100.0%	1
Proved Reserves						
Oil (MM Bbl)	<u>12/31/85</u>	2,031.0	2,031.0	648.0	2,424.0	2
% NED	74.0%	76.0%	53.1%	68.1%	85.7%	3
% Developed	73.1%	73.1%	70.4%	74.1%	72.5%	4
Gas (Bbl)	7,219.0	13,375.0	3,174.0	7,965.0	7,804.4	2
% NED	25.4%	46.6%	23.2%	31.3%	31.3%	4
% Developed	7.5%	91.2%	7.5%	70.7%	61.2%	5
Total Proved Reserves (MM)	3,550.2	4,345.9	1,244.0	3,550.2	2,823.1	3
(\$/1 NED)	(5.0%)	2.1%	(21.0%)	(6.9%)	(6.0%)	3
% Change from Last Year	3,369.7	3,961.5	1,165.4	3,369.7	2,728.0	3
(\$/1 NED)	(6.4%)	2.3%	(10.3%)	(6.4%)	(6.3%)	3
Production						
Oil (MM Bbl)	262.3	294.0	82.0	260.0	199.9	2
% NED	98.0%	96.0%	66.6%	78.0%	76.5%	1
Gas (Mcf)	69.7	1,004.0	69.7	485.0	468.0	5
% NED	3.2%	31.4%	3.2%	29.2%	23.5%	5
Total Production (MM)	271.0	410.5	115.0	271.0	250.0	3
(\$/1 NED)	13.3%	13.3%	(5.0%)	0.1%	1.1%	1
% Change from Last Year	289.3	389.4	109.4	269.3	264.4	1
(\$/1 NED)	13.3%	13.3%	(6.3%)	0.0%	1.0%	1

**COMPARISON OF SELECTED OIL AND GAS COMPANIES
COMPANY RANKING**

	SNOW	High Value For Companies In This Report	Low Value For Companies In This Report	Median For Companies In This Report	Mean For Companies In This Report	SNOW Rank
<u>Reserve Life Data (Years)</u>						
Oil	10.1	11.3	8.2	10.1	9.7	3
Gas	103.0	103.0	11.0	15.3	31.6	1
(8/1 NEB)	13.1	13.1	10.4	11.0	11.3	1
(10/1 NEB)	12.5	12.5	10.0	10.7	11.1	1
<u>Domestic Average Sales Prices (Latest Fy. Yr.)</u>						
\$ per BM (Oil)	21.78	25.70	18.61	21.78	21.08	3
\$ per Mcf (Gas)	1.76	2.52	1.76	2.23	2.24	8
<u>Market Value Ratios</u>						
Market Cap/Total Provd Res. (\$/NEB)	4.00	5.03	2.57	4.00	4.20	3
Std Measure of Provd Res. (MM)	\$ 9,100.0	\$12,191.0	\$5,001.0	\$ 9,100.0	\$ 8,979.2	3
Market Cap/Std Measure of Res.	171.5%	177.0%	65.9%	144.0%	134.8%	2
Adjusted Net Worth (FY End) (MM)	\$18,040.0	\$12,347.0	\$6,330.3	\$10,060.0	\$ 9,699.3	2
Market Cap/Adjusted Net Worth	130.0%	174.0%	110.0%	151.0%	147.0%	3
Pre-Tax Div. PNR (SEC #) (MM)	\$15,000.0	\$21,625.5	\$9,039.0	\$15,000.0	\$15,207.1	3
Market Cap/SEC Number	98.1%	118.0%	36.4%	80.3%	79.7%	2
SEC % Change from Last Year's	(13.2%)	6.3%	(46.4%)	(8.0%)	(12.1%)	4
<u>Herold Report Valuation</u>						
	<u>12/31/85</u>					
Asset Value (MM) (Herold)	10,629.0	23,592.0	4,957.0	10,629.0	11,913.2	3
Market Cap/Asset Val (Herold)	146.8%	106.0%	85.9%	91.5%	105.5%	1
<u>Debt Ratios (Latest Fy. Yr.)</u>						
Provd Reserves/\$M Total Debt						
(6/1 NEB)	858.2	1,165.1	288.3	458.3	661.5	2
(8/1 NEB)	888.5	1,062.1	261.4	429.1	615.9	2
SEC Number/Total Debt	4.3X	4.9X	2.0X	3.3X	3.4X	2
Std Measure of Reserves/Total Debt	2.5X	3.3X	1.1X	1.9X	2.0X	2
Long-Term Debt/Adjusted Net Worth	27.2%	85.3%	26.9%	28.3%	42.2%	3
Total Debt/Adjusted Net Worth	31.0%	106.7%	30.2%	37.8%	52.7%	2
Cash Flow/Total Debt	96.4%	96.4%	31.9%	64.7%	64.0%	1
Average Cost of Debt	7.00	11.93	5.20	7.98	8.67	2
<u>Domestic Exploration Information</u>						
Latest Fiscal Year E&D Costs (MM)	\$1,605.0	\$2,246.0	\$689.0	\$1,491.0	\$1,349.8	2
as a % of Latest Year's Cash Flow	44.9%	61.3%	37.5%	44.3%	46.2%	2
3 Year Domestic Reserve Additions	632.4	632.4	212.1	433.5	435.4	1
as a % of Domestic Production	85.4%	80.4%	76.7%	83.2%	83.4%	2
3 Year Avg Domestic Finding Costs	\$ 7.37	\$ 6.89	\$ 9.26	\$ 8.05	\$ 8.21	3
Latest Year Domestic Finding Costs	\$ 37.30	\$ 7.04	\$37.30	\$ 12.00	\$ 17.40	1
Herold Report Domestic Finding Costs	\$ 8.57	\$ 8.57	\$ 6.59	\$ 8.06	\$ 7.83	3
Latest Year NEBs added/NEBs prod	15.7%	101.1%	15.9%	61.1%	59.8%	4
Domestic Net Undeveloped Acreage (M)	4,202.0	16,273.0	3,262.0	4,472.0	8,771.0	4

PROJECT WINTER

**Implied Valuation of Snow Based on
Transaction Multiples from Selected Oil and Gas Transactions (a)**
(Dollars in millions except per share amounts)

	<u>Dupont/ Conoco</u>	<u>U.S. Steel/ Marathon</u>	<u>Occidental/ Cities Service</u>	<u>Phillips/GAO Co. of TX</u>	<u>Texaco/ Getty</u>	<u>Chevron/ Gulf</u>	<u>Mobil/ Superior</u>	<u>Royal Dutch Shell/ Shell Oil (b)</u>
Closing Date	8/81	3/82	12/82	3/83	2/84	5/84	9/84	7/85
Snow Net Income - \$499 (c)								
Multiple of Net Income	8.8x	18.0x	16.5x	20.6x	14.9x	13.6x	23.7x	11.4x
Snow - Per Share	\$18.58	\$37.74	\$34.57	\$43.14	\$31.34	\$28.55	\$49.69	\$23.86
Snow Cash Flow - \$2,328 (d)								
Multiple of Funds Flow	4.8x	7.5x	4.2x	5.2x	5.8x	5.0x	7.1x	5.1x
Snow - Per Share	\$47.20	\$73.59	\$41.27	\$51.33	\$56.76	\$48.52	\$69.04	\$50.25
Snow Est. PV of FNR (SEC) - \$4,290 (e)								
Price/SEC Value	1.0x	0.8x	0.9x	1.0x	1.1x	1.1x	1.0x	0.8x
Snow - Per Share	\$17.43	\$14.45	\$15.66	\$17.83	\$20.28	\$19.02	\$20.28	\$15.15
Snow Herold Value (5/66) - \$16,629								
Premium over Herold Value -	(43.3)%	(48.6)%	(46.2)%	(15.4)%	(16.4)%	(32.5)%	(2.3)%	(12.9)%
Snow - Per Share	\$25.35	\$22.95	\$24.04	\$37.81	\$37.36	\$30.18	\$43.65	\$38.92
Snow BOE - 2,510 MMBBL (f)								
Consideration Per Barrel	\$3.71	\$3.55	\$4.94	\$6.63	\$4.22	\$4.45	\$5.62	\$5.28
Snow - Per Share	\$39.18	\$37.49	\$52.19	\$69.99	\$44.50	\$47.00	\$59.37	\$55.72
Snow Long-term Debt - \$3,276								
Consideration plus LTD per Barrel of Oil Equivalent	\$4.68	\$4.59	\$6.48	\$6.63	\$4.69	\$5.22	\$6.72	\$6.54
Snow - Per Share	\$5.61	\$34.66	\$54.61	\$56.19	\$35.72	\$41.31	\$57.14	\$55.24
West Texas Intermediate Price on Closing Date (g)	\$35.00	\$35.10	\$33.50	\$30.00	\$30.00	\$30.00	\$30.00	\$27.50
Average of Implied Values	\$30.53	\$36.81	\$37.06	\$46.05	\$37.66	\$35.78	\$49.86	\$39.86
Average of All Implied Values	\$39.20							
Median of All Implied Values	\$37.36(h)							

(a) Per share amounts based on 237,863,359 fully diluted shares as of 12/31/86.

(b) Acquisition of minority interest of 50.5%. Multiples are calculated using aggregate consideration for the entire company derived from the price per share of \$58 paid for the minority interest.

(c) From 1986 Snow Annual Report.

(d) Defined as net income from continuing operations plus non-cash charges as reported in Snow's 1987 Operating Plan.

(e) From 1986 Snow Annual Report calculated using year end 1986 oil and gas prices.

(f) Snow's proved reserves as of 12/31/86, excluding Alaskan natural gas. Other natural gas converted to crude oil on basis of 6 Mcf = 1 barrel.

(g) The current price of West Texas Intermediate crude is approximately \$18.50 per barrel.

(h) Average of the two mid-sample values.

EXHIBIT 5

PROJECT WINTER

The following table provides a range of estimated potential values for Snow in the acquisition market derived by valuing the principal assets of Snow with methodologies and assumptions which we believe would be used by potential acquirors under current market conditions. The valuation assumes a purchase of all of the outstanding shares of Snow by a purchaser which does not subsequently elect to allocate its purchase price to the assets of Snow in order to increase the depreciable or depletable tax bases of such assets. The purchaser foregoes any tax benefits from such a writeup and assumes carryover tax bases in the assets. Neither the purchaser nor Snow would incur any corporate level capital gains or recapture taxes in such a transaction. Based on information available to us, we believe that under the provisions of the Tax Reform Act of 1986, the corporate level taxes payable upon any write-up would exceed the increases in value arising therefrom.

In addition to reviewing publicly available information regarding Snow in the preparation of our valuation, we reviewed certain non-public information regarding Snow which was supplied to us by Blizzard. Such non-public information included certain internal planning documents, memoranda and financial forecasts prepared by the management of Snow regarding its business operations.

The valuation of Snow's oil and gas assets was prepared using certain information supplied to us by Blizzard including estimates of future oil and gas production, operating costs, capital expenditures for future development, abandonment costs, royalty costs and federal, state and local taxes. For purposes of our valuation, we have relied upon such information. Blizzard requested that we use our independent judgment as to the appropriate oil and gas price scenario for our valuation. The oil and gas price scenario used in connection with our valuation is based on our current assessment of assumptions being used by prospective purchasers of oil and gas reserves in the acquisition market. A \$1 per barrel increase or decrease in our oil price assumption for such scenario has the effect of increasing or decreasing the value of Snow's proved oil and gas reserves by an amount equivalent to approximately \$4 per share.

For purposes of valuing Snow's interest in the Trans Alaska Pipeline System ("TAPS"), we have made the assumption that TAPS is operated as a profit center and any tariff paid by Snow to transport oil through TAPS is deducted as an operating cost in our valuation of its oil and gas reserves and included as income for purposes of valuing TAPS.

PROJECT WINTER

Range of Estimated Values (Dollars in millions)

	<u>Low</u>	<u>High</u>
Oil and Gas Exploration and Production (a) (b)	\$7.150	\$9.150
Pipeline Interests (c)	2.300	2.500
Refining & Marketing	2.100	2.600
Extractive Businesses	1.200	1.350
Chemicals and Industrial Products	400	500
Estimated Proceeds from Asset Sales Currently in Progress (d)	300	400
Other (e)	(954)	(754)
Net Debt Position (f)	<u>(3,217)</u>	<u>(3,217)</u>
Total Value	<u>\$9,279</u>	<u>\$12,529</u>
Per Share (g)	<u>\$39.01</u>	<u>\$52.67</u>

- (a) Based on an oil price scenario which assumes a West Texas Intermediate price of \$17 per barrel in 1987, \$18 per barrel in 1988 and \$19 per barrel in 1989, increasing 5% per year thereafter. See Exhibit 6 for estimated present values of proved reserves at various discount rates. Includes valuation of probable reserves and unexplored acreage. Also see Exhibit 6 for detail on assumptions for such reserves and acreage.
- (b) Lower 48 offshore proved reserves (for which no estimates of oil and gas production, operating costs, capital expenditures and abandonment costs were available from Blizzard) have not been analyzed in the same manner as the other proved reserves. The range presented for oil and gas reserves includes an estimated value of \$150 million for the offshore Lower 48 reserves utilizing analyses similar to those used in valuing the probable reserves. In addition, the reserve values have been reduced by \$100 million and \$125 million, respectively, for the estimated present value of future dividends to be paid on preferred stock owned by Blizzard in a subsidiary of Snow (the "NPRI Preferred Stock"), which dividends are effectively equal to a net profits royalty interest in certain Alaskan production.
- (c) Includes Snow's interest in TAPS, Kuparuk and wholly- and partially-owned pipelines in the Lower 43 States.
- (d) Estimated after-tax proceeds of asset sales provided by Blizzard.
- (e) Capitalized cost of corporate overhead not allocated to the business segments valued separately, reduced by the proceeds of assumed exercise of employee stock options. Yearly overhead cost has been supplied by Blizzard.
- (f) Net debt represents the excess of all liabilities over all assets not allocated to the business segments valued separately above. Long term debt and certain other liabilities were adjusted to estimated present value from historic book value in this calculation.
- (g) Based on 237,863,359 common shares and equivalents as of 12/31/86 (assumes exercise of 3,150,714 options existing at 12/31/86 plus the common share equivalents associated with the 1,000 shares of special stock held by Blizzard).

PROJECT WINTER

Estimates of Additional Values Potentially Achievable Through Various Corporate Restructuring Scenarios (a) (Dollars in millions)

	<u>Potential Increase in Value over High Range Endpoint</u>	<u>Incremental Value Per Share</u>
Publicly Traded Master Limited Partnership (Prudhoe Bay Field Interest Only) (b) (c)	\$800 - \$1,400	\$3.36 - \$5.89
Publicly Traded Leveraged Limited Partnership Recapitalization for Snow's Interest in TAPS (b)	0 - 0	0.00 - 0.00
Tax-Free Spinoff to Shareholders of Refining & Marketing System (b)	100 - 600	0.42 - 2.52
Potential Value of Unrealized Capital Loss (d)	510 - 680	2.14 - 2.86
Other (e)(f)	<u>NA</u>	<u>NA</u>
TOTAL	\$1,410 - \$2,680	\$5.93 - \$11.27

- (a) Potential increase is net of estimated corporate level taxes incurred, if any, as a result of each transaction.
- (b) There may be certain operating, financial and legal/regulatory impediments to carrying out each of these restructuring scenarios. See Exhibits 7, 8 and 9, respectively.
- (c) The range of increased value for the MLP reflects only the allocation of taxes between capital gains and ordinary income and assumes full realization of the estimated \$12.0 billion trading value. If the trading value were to be less than \$12.0 billion due to certain factors, the range of increased values would be lower than those presented. See Exhibit 7 for further details.
- (d) Value is derived from the available offset to capital gains taxes incurred in forming the MLP on Prudhoe Bay or the leveraged limited partnership recapitalization for Snow's interest in TAPS. Amount of gross unrealized capital loss has been provided by Blizzard.
- (e) Given the limited information available to us, we are unable to determine the potential additional value, if any, which may be attributable to (i) proceeds potentially available to Snow on termination of the Snow employee benefit plans, (ii) the potential value of real estate in excess of costs of relocation, (iii) claims by Snow for U.S. federal income tax refunds for years ending prior to 1986, or (iv) the potential value of certain recent oil and gas discoveries not otherwise addressed in our analysis of proved and probable reserves.
- (f) In light of insufficient information, the foregoing analysis does not reflect the potential for material additional expense or liability in certain areas, including (i) additional overhead costs; (ii) excess costs associated with repairs, disposals or abandonments in connection with the operation of natural resource businesses; (iii) the pending redetermination of condensate reserves in Prudhoe Bay from the oil-derived category to the gas-derived category in which Snow has a significantly lower share; (iv) drilling obligations not currently accrued; and (v) other contingent liabilities.

EXHIBIT 6

PROJECT WINTER

Summary Present Value Analysis of After-tax Cash Flows from Proved Oil and Gas Reserves (Dollars in millions)

	Nominal After Tax Rate of Return						
	<u>7.0%</u>	<u>8.0%</u>	<u>9.0%</u>	<u>10.0%</u>	<u>11.0%</u>	<u>12.0%</u>	<u>13.0%</u>
Prudhoe Bay	\$7.108	\$6.618	\$6.184	\$5.799	\$5.455	\$5.148	\$4.871
Other Alaska	788	718	654	597	545	497	454
Lower 48 Onshore (a)	<u>463</u>	<u>438</u>	<u>417</u>	<u>396</u>	<u>378</u>	<u>360</u>	<u>345</u>
Total (b)	<u>\$8.359</u>	<u>\$7.774</u>	<u>\$7.255</u>	<u>\$6.792</u>	<u>\$6.378</u>	<u>\$6.005</u>	<u>\$5.670</u>

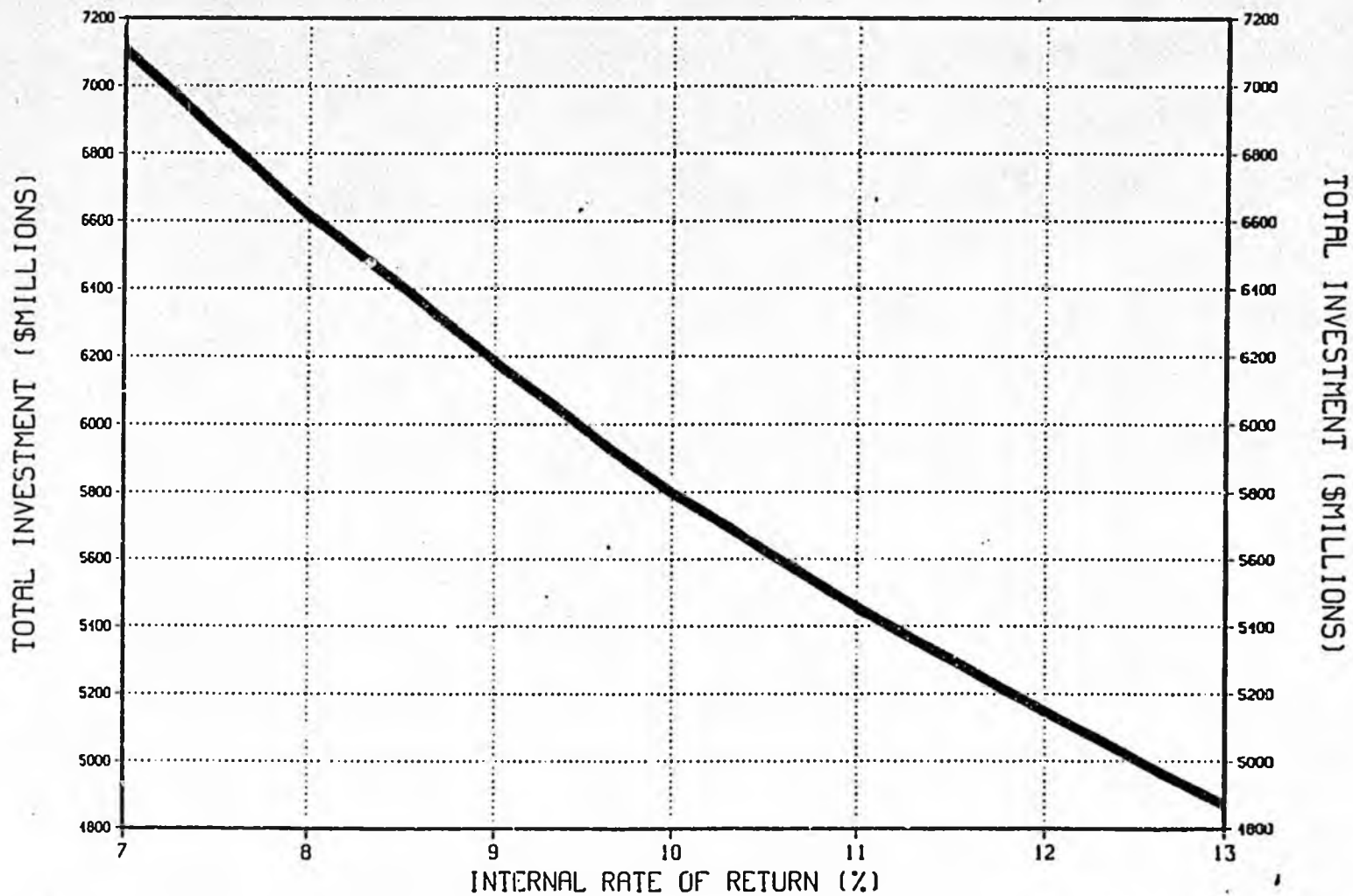
(a) Does not include any value for the Lower 48 offshore reserves, for which no estimates of oil and gas production, operating costs, capital expenditures and abandonment costs were available from Blizzard. The range of values for oil and gas reserves presented in Exhibit 5 includes an estimated value of \$150 million for the Lower 48 offshore reserves utilizing analyses similar to those used in valuing the probable reserves. In addition, these values have not been reduced for the estimated present-value of the future dividends to be paid on the NPRI Preferred Stock. The low and high values for oil and gas exploration and production in Exhibit 5 have been reduced by \$100 million and \$125 million, respectively, for such present value.

(b) We were unable to determine the impact of two factors on the present value of the after-tax cash flows from the proved oil and gas reserves:

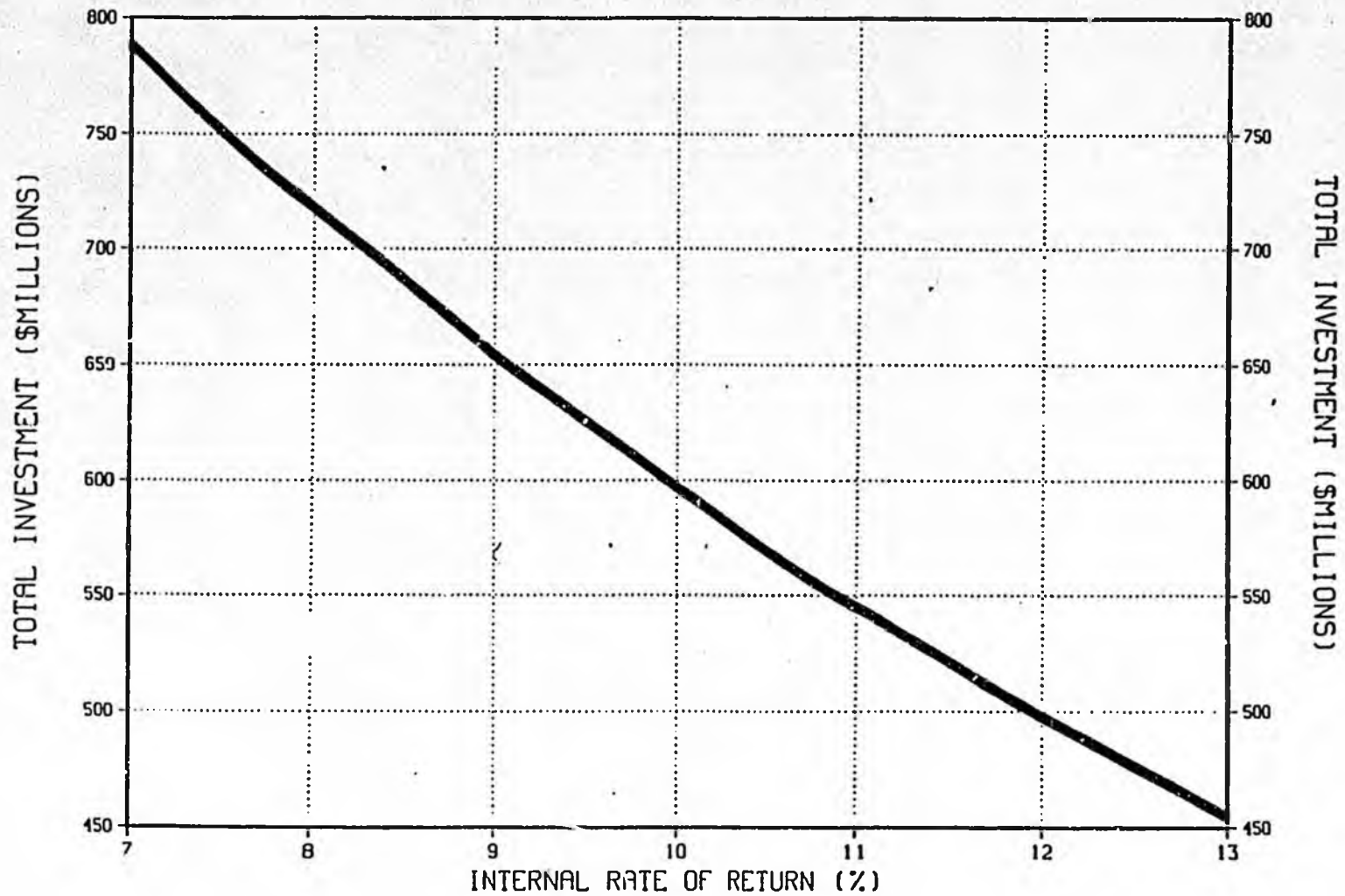
1. When the total proved reserves, as reported to Blizzard by Snow, are compared to their respective decline curves, as estimated by Blizzard, to provide a schedule of future production, we noted that such reserves are fully produced by the year 2010. Normal reserve decline characteristics suggest that a portion of the oil and gas reserves would be produced after 2010. In order to produce all reserves by 2010, our analysis assumed that the rate of production is higher than that for a more conventional reserve production profile. As a result, the present values in the table above are higher than those which would result if a portion of the reserves were produced in periods beyond the year 2010, in accordance with normal reserve decline patterns.
2. We have been unable to estimate the amount or timing of the utilization of the depletable and depreciable tax bases for the reserves and associated equipment; accordingly, the present values set forth above assume such tax bases are zero. To the extent such bases exist, such present values would increase by the present values of the reduction in taxes on oil and gas income arising from the depletion and depreciation deductions available in future years. In our analysis of a Master Limited Partnership for Snow's interest in the Prudhoe Bay Field, we have assumed at Blizzard's direction an aggregate tax basis thereof of \$2 billion. See Exhibit 7.

We have made certain estimates of the effect of both foregoing uncertainties under various assumptions which indicate that the net effect on present values is probably minimal.

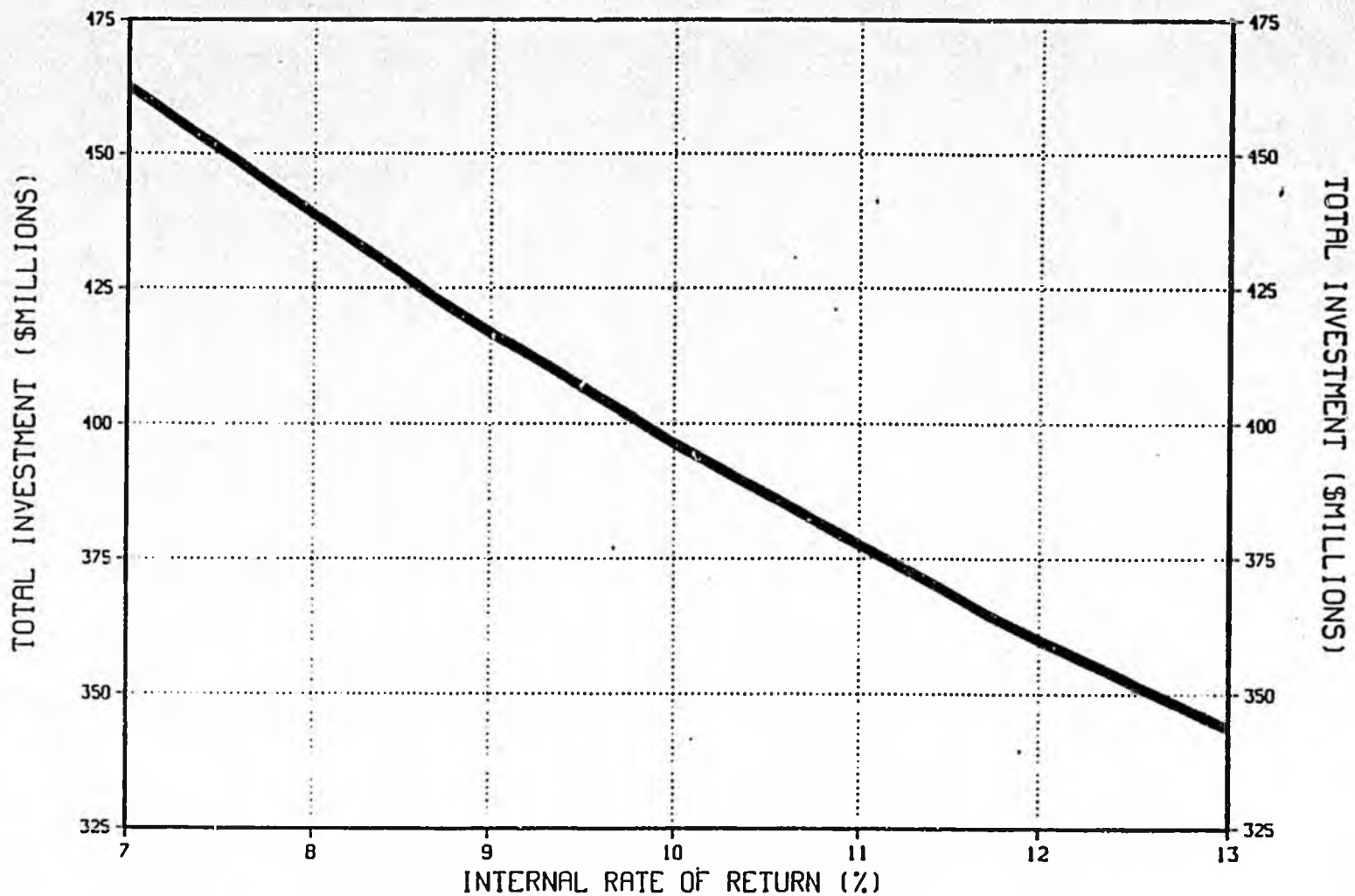
PROJECT WINTER
TOTAL PROVED RESERVE VALUATION
PRUDHOE BAY - \$17 CASE
AS OF 1/1/87



PROJECT WINTER
TOTAL PROVED RESERVE VALUATION
OTHER ALASKA \$17 CASE
AS OF 1/1/87



PROJECT WINTER
TOTAL PROVED RESERVE VALUATION
LOWER 48 STATES ONSHORE - \$17 CASE
AS OF 1/1/87



PROJECT WINTER

Valuation Analysis of Probable Reserves and Unexplored Acreage (Dollars in millions)

I. Probable Reserves

	Estimated Value	
	Low	High
<u>Prudhoe Bay</u>	\$300	\$1,000
<ul style="list-style-type: none"> • Current recovery rate of approximately 41% to 42% could be increased to 52% in higher oil price environment • Potentially 1 billion additional barrels net to Snow's interest • Because of current oil economics, the current value may be minimal 		
<u>Other Alaska</u>	\$100	\$200
<ul style="list-style-type: none"> • Low recovery rates at Lisburne may be improved, although only in higher oil price environment • Probable reserves at Niakuk of up to 50 million barrels although not currently economic • Endicott and Kuparuk may have additional reserves although they have little present value • Snow may have a potential advantage in bidding on acreage in the Alaskan National Wildlife Refuge, if such area is allowed to be explored and developed. We have estimated that such advantage has relatively little present value. 		
<u>Lower 48 and Canada</u>	\$200	\$400
<ul style="list-style-type: none"> • Mobile Bay has had recent additions and has indicated probables • Anadarko Basin has substantial gas reserves of up to 200 bcf • New gas discovery relating to Canadian Hunter may have meaningful value. 		
Total for Probable Reserves	<u>\$600</u>	<u>\$1,600</u>

II. Unexplored Acreage

	Acreage (Thousands)	Estimated Value	
		Low	High
Alaska	70	\$25	\$50
Lower 48 - Onshore	1,090	40	90
Lower 48 - Offshore	<u>370</u>	<u>60</u>	<u>135</u>
Total for Unexplored Acreage	<u>1,530</u>	<u>\$125</u>	<u>\$275</u>
Total for Probable Reserves and Unexplored Acreage		<u>\$725</u>	<u>\$1,875</u>

EXHIBIT 7

45

PROJECT WINTER

Analysis of Master Limited Partnership of Snow's Interest in the Prudhoe Bay Field (Dollars in millions)

I. Valuation Criteria

- The Master Limited Partnership ("MLP") market for oil and gas properties is primarily a yield oriented market with valuation in such market derived as a function of the amount of distributable cash flow that is perceived to be sustainable over time, reserve lives, amounts and types of reserves, finding costs, leverage and other factors. The Prudhoe Bay Field ("Prudhoe Bay") currently is forecast by Blizzard to experience a significant decline in production over the next five to ten years and therefore will probably generate a declining level of annual cash flow in the absence of substantial future increases in the price of oil.
- In the current environment, those oil and gas MLPs similar to a potential Prudhoe Bay MLP generally trade in the public market at current yields of approximately 7% to 16%, discretionary cash flow multiples of 10x to 12x, adjusted values per barrel of oil equivalent ("BOE") of \$6.00 to \$7.50 and total capitalization to adjusted year end 1985 SEC value ratios of 80% to 120%. See Tables I to V for additional details.
- Based on our oil price scenario and production data supplied by Blizzard, the 1987 estimated distributable cash flow for Prudhoe Bay is approximately \$1.3 billion. The table below summarizes potential theoretical capitalized values for a Prudhoe Bay MLP based on those multiples which we believe most appropriate for such an MLP.

<u>Valuation Criteria</u>	<u>Public MLP Range</u>		<u>Estimated Prudhoe Bay MLP Data</u>	<u>Prudhoe Bay Implied Capitalized Value</u>	
	<u>Low</u>	<u>High</u>		<u>Low</u>	<u>High</u>
Current Yield (%)	9%	11%	\$1,300	\$11,816	\$14,444
Cash Flow Multiples	9	11	1,300	11,700	14,300
Value per BOE	\$5.50	\$7.00	2,023(a)	11,126	14,161
Total Capitalization/ Adjusted Year End 1985 SEC Value	80%	100%	\$13,520(b)	10,816	13,520
				<u>Implied Capitalized Value</u>	
	High			\$14,444	
	Mean			12,736	
	Median (c)			12,669	
	Low			10,816	

- (a) Millions of barrels of oil equivalent after deducting barrels of oil associated with existing royalty interests. For cash flow purposes, however, royalty is deducted as an expense rather than against actual barrels. North Slope gas reserves are not included.
- (b) Calculated assuming that Prudhoe Bay represents approximately 85% of 1985 year end SEC Value based on reserve barrels and our valuation of reserves.
- (c) Average of the two mid-sample values.

- The following table shows implied capitalized values for an MLP of Snow's interest in Prudhoe Bay based on various sustainable distributable cash flow and current yield assumptions, since the market's perception of such sustainable level is meaningful.

Current Yield	Sustainable Distributable Cash Flow			
	\$ 900	\$1,000	\$1,100	\$1,200
9%	\$10,000	\$11,111	\$12,222	\$13,333
10%	9,000	10,000	11,000	12,000
11%	8,182	9,091	10,000	10,909

II. Analysis of MLP Spinoff

- A spinoff of MLP units to the shareholders of Snow would be a taxable transaction to Snow. Consequently, Snow would pay some combination of capital gains and recapture taxes as if the assets included in the MLP had been sold to a third party. Assuming an implied capitalized value of \$12.0 billion for the MLP and a tax basis of \$2 billion for the assets contributed to the MLP, \$10.0 billion of gain would be subject to tax at some combination of capital gains and ordinary income tax rates. Using 1987 corporate capital gains and ordinary income tax rates of 34% and 40%, respectively, the tax liability would be between \$3.4 billion and \$4.0 billion. These taxes payable by Snow would reduce the value of the MLP to Snow shareholders to a range of \$8.0 to \$8.6 billion, which would be approximately \$0.8 to \$1.4 billion greater than our high end total value for Prudhoe Bay proved and probable reserves.
- The effect of the Prudhoe Bay decline curve on annual distributable cash to unitholders may cause investors to require a higher current yield than is the case with other similar MLPs, which would in turn lower the actual market value of the Prudhoe Bay MLP. To the extent the actual valuation was lower than the implied capitalized value of \$12.0 billion, the after tax value to Snow's shareholders also would be lower.
- Since tax exempt shareholders of Snow may not wish to hold MLP units distributed to them because of tax filing requirements and because holding such units could create unrelated business taxable income, a substantial amount of selling pressure by such institutions could reduce the market value of the MLP for some period of time. Institutions hold approximately 23.3% of the outstanding shares of Snow. Assuming 80% of those institutions are tax exempt, approximately 18.6% of the value of the MLP or \$2.2 billion of MLP units could be for sale in the market shortly after creation of the MLP. In addition, shareholders other than tax-exempt institutions may sell units which would contribute to the short-term downward pressure on the market value of the MLP. This selling pressure by institutions and others may drive the value of the MLP down by as much as 10% to 15% until such time as the units could be absorbed by other investors. It is unclear how much market demand exists to absorb this amount of selling pressure without an increase in yield.
- In addition, the total market capitalization of the Prudhoe Bay MLP in public hands following a spinoff to shareholders would be several times greater than that of any other existing MLP, which may cause the Prudhoe Bay MLP to trade at some modest discount to theoretical value for a sustained period of time. We

are assuming for purposes of this analysis that essentially no such discount would exist and that Snow shareholders could sell MLP units in the market at their pro rata share of theoretical value.

- Finally, while the creation and spinoff of the Prudhoe Bay MLP to Snow shareholders may be an option open to Snow, there is no assurance that such a step would be a viable or attractive alternative to a prospective purchaser of Snow, including Blizzard. In addition, there may be legal or other impediments to the formation and distribution of a Prudhoe Bay MLP.
- We are ignoring, for purposes of this analysis, the potential tax consequences to Snow shareholders of the receipt of units in the Prudhoe Bay MLP in the spinoff.

III. Analysis of an Initial Public Offering of a Prudhoe Bay MLP

- Another approach to creating value through an MLP would be for Snow to contribute its interest in Prudhoe Bay to an MLP and then sell a portion of the MLP in an initial public offering. We believe initial public offering of MLP units of at most approximately \$500 million could be accomplished in today's market. This approach would have the effect of establishing a value for Snow's interest in Prudhoe Bay and would raise some amount of cash for Snow.
- This is also a taxable transaction to Snow to the extent of the value represented by the units sold. Additional sales of units would also generate similar taxes. The redistribution pressure in the spinoff scenario would not be present in an initial public offering because the units in the MLP would be sold to new investors. However, only a small portion of the total MLP value could be realized in cash because of the limited size of the public offering market for MLP units.
- An initial public offering of an MLP holding Snow's interest in Prudhoe Bay would benefit Snow shareholders only to the extent that the creation of the MLP and Snow's majority ownership in the MLP increased Snow's stock price. Experience in similar transactions demonstrates that this is not a guaranteed result. Although in some cases the announcement of such a transaction has caused a temporary modest increase in the parent's stock price, there has been no predictable positive long-term impact. We have assumed for purposes of this analysis that units in the MLP retained by Snow (or new units) would not be distributed regularly to shareholders in the future in order to increase Snow's effective common stock dividend.

PROJECT WINTER

Table I. Master Limited Partnerships Cash Flow and Distributions 1986-87E
(Dollars per unit)

	1986E			1987E			Price as of 23-Mar-87	Estimated 1987 Cash Flow Multiple	Implied Yield Based on Distribution
	Cash Flow	Distribution	Distr./ Cash Flow	Estimated Cash Flow(a)	Distribution	Distr./ Cash Flow			
Diamond Shamrock Offshore Partners	\$1.70	\$2.60 (fixed)	165%	\$1.55	\$2.80 (fixed)	181%	\$16.750	10.8x	16.7%
Enserch Exploration Partners (a)	1.30E	2.40 (fixed)	185	1.15	1.20 (fixed)	104	17.375	15.1	6.9
Mesa Limited Partnership (c)	1.30	2.00	154	0.80	2.00E	250	16.75	20.9	11.9
Sun Energy Partnership	1.70	1.75	103	1.00	2.00	125	19.50	12.2	10.3
Union Exploration Partners	1.75	1.88 (d)	107	1.90	1.73 (d)	96	20.00	11.1	8.7

(a) Based on average price for West Texas Intermediate of \$17.50 per barrel.

(b) Distribution reduced to \$1.20 at year end.

(c) Cash flow from operations excluding take or pay gas settlement and all other extraordinary items including trading profits.

(d) Distribution is equal to cash flow with a three month lag period.

PROJECT WINTER

Table II. Master Limited Partnerships Implied Value of Reserves per BOE as of December 31, 1985 (a)
 (Dollars in millions except per unit price and implied value of reserves)

	Unit Price as of <u>23-Mar-87</u>	Estimated Units Outstanding as of <u>31-Dec-86</u>	Market Capitalization	Debt(b)	Adjusted Market Capitalization	Total Reserves BOE as of <u>31-Dec-85</u> (MMBOE)	Implied Value of Reserves per BOE	Implied Value of Reserves per MCF Equivalent
Diamond Shamrock Offshore Partners	\$16.750	50.5	\$ 846	(\$44)	\$ 802	48.6	\$16.50	\$2.75
Enserch Exploration Partners	17.375	55.3	1,656	78	1,734	187.9	9.23	1.54
Mesa Limited Partnership (c)	16.75	158.9	2,662	652(d)	3,314	425.9(e)	7.78	1.30
Sun Energy Partners	19.50	300.0	5,850	1,087	6,937	1,149.7	6.03	1.01
Union Exploration Partners	20.00	237.4	4,748	206	4,954	675.2	7.34	1.22

(a) BOE = Barrel of oil equivalent; 1 barrel of oil per 6 mcf of gas.

(b) Net of working capital as of September 30, 1986.

(c) Information includes the acquisition of Pioneer Corp. and the liquidation of Mesa Petroleum Co. Also included is the estimated effect of the offering of preference "A" units in 1986.

(d) Debt less estimated working capital after the issuance of 23 million preference "A" units and the liquidation of Mesa Petroleum Corporation.

(e) Includes the acquisition of Pioneer Corp.

PROJECT WINTER

Table III. Master Limited Partnerships Estimated Adjusted SEC Value of Future Net Revenues as of December 31, 1985 and Estimated 1986
 (Dollars in millions except per unit amounts)

	Approximate Market Capitalization	Approximate Market Value of Public Float(a)	Unit Price as of 11-Mar-87	SEC Value as of 31-Dec-85(b)	Net Debt as of Year End 1985(c)	1985 SEC Value Net of Debt	Price as a Percentage of 1985 Adjusted SEC Value	Estimated 1986 Adjusted SEC Value Net of Debt (d)	Estimated Units Outstanding for 1986	Price as a Percentage of Estimated 1986 Adjusted SEC Value	Reserve LMs
Diamond Shamrock Offshore Partners	\$ 846	\$ 838	\$16.75	\$ 500	\$ (35)	\$ 624	140%	\$ 383	50.5	221%	62
Enbridge Exploration Partners	1,656	207.0	17.375	1,836	57	1,379	120	956	95.3	172	123
Mesa Limited Partnership	2,662	2,291.4	16.75	2,436(e)	1,072(f)	1,464	100	1,260	158.0	211	136
Son Energy Partners	5,850	156.0	18.50	6,744	741	6,003	126	3,633	300.0	161	104
Holon Exploration Partners	4,748	266.4	20.00	4,612	202	4,410	108	3,253	237.4	166	154

- (a) Where information is not available, may include only market value of units originally offered to the public.
 (b) The SEC value is the estimated net present value of future net revenues discounted at 10%.
 (c) Net of working capital.
 (d) To calculate the estimated 1986 adjusted SEC value, we assumed a \$15 crude oil price scenario (supplied by Goldman Sachs Research) and developed the following table of adjustment factors to be applied against the respective 1985 SEC values. The choice of adjustment factor for each MLP was based on its respective reserve lms (See Table IV):

MLP Reserve LMs	Adjustment Factor
5 yrs.	58.04%
6	57.50
7	65.00
10	70.00
13	73.00
15	75.00
18	70.00

- (e) Proforma as of June 30, 1986 to reflect the acquisition of Pioneer Corporation.
 (f) Amount reflects the acquisition of Pioneer Corp., the issuance of 23 million preference "A" units and the liquidation of Mesa Petroleum Co.

PROJECT WINTER

**Table IV. Master Limited Partnerships
Reserve Life as of December 31, 1985
(Years)**

	<u>BOE</u>	<u>Oil</u>	<u>Gas</u>
Diamond Shamrock Offshore Partners	6.2	7.6	5.7
Enserch Exploration Partners	12.3	8.1	13.1
Mesa Limited Partnership (a)	13.6	10.8	14.5
Sun Energy Partners	10.4	10.0	11.0
Union Exploration Partners	15.4	10.2	19.4

(a) Reflects the acquisition of Pioneer Corp.

PROJECT WINTER

**Table V. Master Limited Partnerships
Implied Finding Costs 1982-1985 (a)
(Dollars per BOE)**

	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>Weighted Average 1982-85</u>
Diamond Shamrock Offshore Partners	N.A.	\$22.99	\$10.64	\$22.20	\$18.25
Enserch Exploration Partners	\$11.14	8.84	3.99	4.58	5.34
Mesa Limited Partnership	N.A.	12.60	6.75	20.32	10.52
Sun Energy Partners	12.12	14.98	9.93	7.15	10.30
Union Exploration Partners	30.57	9.24	33.60	10.16	12.50(b)

- (a) We believe the oil and gas industry average implied finding cost for 1982-85 is approximately \$10 per BOE.
- (b) Estimate of Goldman Sachs Research. The years 1982 and 1984 include larger than usual acquisitions of unproven properties.

PROJECT WINTER

Valuation Analysis of Trans Alaska Pipeline System

I. Valuation Approaches

- Discounted Cash Flow Analysis
- Divestiture Value in the Acquisition Market
- Recapitalization Values

II. Valuation Criteria

- Our valuation of Snow's interest in TAPS utilizes the current forecast of the production profile of Prudhoe Bay supplied to us by Blizzard. The profile anticipates declining production from Prudhoe. Tariff revenues for TAPS are determined by the volume of oil transported from Prudhoe Bay. Consequently, TAPS' annual tariff revenues and cash flows are projected to decline over time.
- The valuation of pipeline assets such as TAPS is primarily a function of the amount of the annual cash flow that is generated over time and the sustainability and predictability of those cash flows. Differences in values result mainly from differences in the required rate of return of the corresponding lender or purchaser/investor. For example, acquisition market buyers generally require a higher rate of return than public market or private limited partnership investors. Consequently, the public or private limited partnership markets may place a higher valuation on TAPS, to the extent TAPS may be recapitalized to access these markets.
- Our analysis assumes the recapitalization of TAPS in a leveraged partnership form where leverage is maximized through placement of serial senior secured debt (subject to adequate coverage of debt service and other factors). Lenders generally require lower rates of return than equity investors given the fixed income nature of the obligation they hold and their senior position in the capital structure. Limited partnership interests are placed either publicly or privately in amounts such that residual cash flow to such interests (net of debt service and capital expenditures) would provide after tax rates of return in excess of 9% on a cash-on-cash basis. These returns make no assumption as to the terminal value of the interest, if any, after the debt is retired. The public market currently requires 9% to 11% current yields on the limited partnership interests of similar types of assets, although in most cases these limited partnerships are less leveraged than the structure assumed in our analysis presented below.

III. Valuation Summary

- The value of Snow's interest in TAPS included in Exhibit 5 is in the range of \$2.1 billion to \$2.3 billion (based on a discounted cash flow analysis - see Table I). Although a sale of Snow's interest in TAPS in the acquisition market probably would achieve higher values, we believe that the after-tax proceeds to Snow of such a sale would be less than \$2.1 to \$2.3 billion.

- If TAPS were structured as a leveraged recapitalization with debt maturities that match the cash flows, as described above, potential values of up to \$3.1 billion before taxes might be achievable. However, as the table below sets forth, such a transaction would incur substantial corporate taxes.

Leveraged Recapitalization
(Dollars in millions)

Proceeds to Snow from Partnership:	
Debt	\$2,940
MLP Interest	160
Total Proceeds	<u>\$3,100</u>
Estimated Corporate Taxes	925(a)
Net Proceeds	<u>\$2,175</u>

- (a) Assumes a tax basis for Snow's interest in TAPS assets of \$600 million for Snow's interest in the assets of TAPS and a blended corporate tax rate of 37%, which reflects an equal weighting of 1987 capital gains and ordinary income tax rates.

IV. Certain Potential Structural and Financial Impediments to a Leveraged Recapitalization

- Rights of first refusal held by other companies holding interests in TAPS
- Consent of at least a two-thirds majority ownership interest in TAPS
- Potential assignment of the benefit of Snow Prudhoe Bay production throughput agreement to new recapitalized entity
- Recapitalization structured to be deemed a sale for cash
- Existing debt covenants, if any, including throughput and other requirements
- State and Federal right of way considerations
- Potential dismantlement and environmental restoration obligations
- Existing depreciable tax basis and corporate taxes due when partnership is formed

V. Conclusion

- A leveraged recapitalization of TAPS does not appear to add incremental value over that shown in Exhibit 5 for TAPS, except to the extent that such a transaction could utilize a portion of the available capital loss shown therein.

PROJECT WINTER

**Table 1. Summary of Discounted Cash Flow
Analysis for Trans Alaska Pipeline System
(Dollars in millions)**

<u>Nominal Discount Rate</u>	<u>Net Present Value</u>
8%	\$2.337
9	2.267
10	2.200
11	2.138
12	2.079
13	2.023
14	1.970

The discounted cash flow model was constructed by Blizzard. Certain assumptions in the model were provided by Blizzard and reviewed by us, including assumptions as to throughput, tariffs and taxes.

Future throughput assumptions were derived by Blizzard from figures provided by Snow. Future tariffs have been assumed to be approximately \$4.00 per barrel. Blizzard assumed a carried forward tax basis of \$600 million for Snow's share of TAPS. Capital expenditure assumptions are from the Snow Development Plan, grown by Blizzard under the assumption that capital expenditures are increased every three years.

EXHIBIT 9

58

PROJECT WINTER

Refinery & Marketing System Valuation

In determining our value range for Snow's Refining & Marketing System of \$2.1 to \$2.6 billion presented in Exhibit 5, we have considered, among other things, certain statistics regarding recent acquisitions of large refining and marketing systems shown in Table I, a discounted cash flow analysis shown in Table II, current conditions in the oil and gas industry, the number of potential acquirors and the size of transaction indicated for Snow's Refinery & Marketing System.

In preparing our estimate of the public market value for Snow's Refining & Marketing System, we have assumed that the shares of a corporation holding the refining and marketing operations of Snow would be distributed to Snow shareholders. Such a distribution should not result in a tax liability for Snow or its shareholders and our valuation assumes this result.

Based on available public information on Ashland Oil Inc. and Diamond Shamrock R&M Inc. presented in Table III, we believe that the fully distributed market value of Snow's Refining & Marketing System would be in the range of \$2.7 to \$3.2 billion (see Table IV). This range represents an incremental value of \$100 to \$600 million over the high range value presented in Exhibit 5.

In arriving at our valuation, we have not considered certain operational and financial impediments which may be inherent in such a spinoff and which may arise in its separation from its present status as part of an integrated oil company.

PROJECT WINTER

Table I: Refinery Acquisition Statistics
(Dollars in millions)

<u>Date</u>	<u>Acquirer/Acquired</u>	<u>Consideration</u>	<u>Capacity of Acquired Refinery (MBPD)</u>	<u>Consideration/Capacity Barrel</u>
11/80	MAPCO/Earth Resources	\$395	68	\$5,812
9/81	APEX/Clark Oil	531	135	3,939
11/81	KOCH/Sun Co. Refinery	265	57	4,649
8/83	Southland/CITGO Petroleum	834	330	2,526
12/84	Standard Oil/Alliance Assets	740	200	3,700
9/85	Atlantic Petroleum/ARCO Eastern Region	420	96	4,370
9/86	Petroleos de Venezuela/50% of CITGO Petroleum	290	330	1,757(a)

Implied Value of Snow's R&M System (b)

Low Value (\$1,757)	\$1,152
Mean Value (\$3,822)	2,507
Median Value (\$3,939)	2,584
High Value (\$5,812)	3,812
Alliance Value (\$3,700)	2,427

(a) Calculated using implied value for total company of \$580.

(b) Based on a system capacity of 656 MBPD.

PROJECT WINTER

**Table II: Summary of Discounted Cash Flow
Analysis for Snow Refining & Marketing System**
(Dollars in millions)

<u>Nominal Discount Rate</u>	<u>Net Present Value</u>
8%	\$2.977
9	2.780
10	2.600
11	2.435
12	2.285
13	2.148
14	2.022

The discounted cash flow model was constructed by Blizzard. Certain assumptions in the model were provided by Blizzard and reviewed by us:

	<u>Refinery Capacity (MBPD)</u>	<u>1986 Refining Margins Per Barrel</u>
Alliance	200	\$1.50
Ohio	288	0.60
Pennsylvania	<u>168</u>	0.50
Total/Weighted Avg.	<u>656</u>	\$0.85

Refining margins are assumed to grow with inflation at 4% per year. Product volume sales are grown at approximately 1% per year until they reach the refining system capacity of 656 MBPD and are held constant thereafter. Marketing margins, as supplied by Blizzard, are assumed to be \$1.50 per barrel and inflate at 4% per year.

The present values shown above were calculated using ten years of cash flows with an assumed terminal value of the Refining & Marketing System of ten times net income at the end of the tenth year.

PROJECT WINTER

**Table III: Public Market Valuation of
Refining & Marketing Businesses**
(Dollars in millions except where noted)

I. ASHLAND OIL, INC.

Market Capitalization (3/23/87):	\$2.074	(32.541MM shares @ \$63.75)
Short and Long-Term Debt:	794	
Total Capitalization	<u>\$2.868</u>	

<u>A. Public Market Multiple Valuation</u>	<u>Ashland Corporate Multiple</u>	<u>Ashland R & M 1986 Results</u>	<u>Implied Value of Ashland R&M Segment</u>
Total Cap./Operating Income (1986: \$473)	6.1x	\$ 326	\$1.989
Total Cap./Operating Cash Flow (1986: \$714)	4.0x	425	1.700
Market Cap./Net Income (1986: \$209)	9.9x	176(a)	1.742
Market Cap./Net Cash Flow (1986: \$496)	4.2x	275	1.155

<u>B. Physical Capacity and Volumes Valuation</u>	<u>Low</u>	<u>Mean</u>	<u>Median (b)</u>	<u>High</u>
Ashland R&M Implied Valuation	\$1.155	\$1.647	\$1.721	\$1.989
Implied Refinery Capacity Value (c)(\$1/BPD)	\$3.235	\$4.612	\$4.821	\$5.571
Implied Throughput Value (d) (\$1/BPD)	3.587	5.115	5.345	6.177
Implied Product Sales Volume Value (e) (\$1/BPD)	3.113	4.439	4.639	5.361

II. DIAMOND SHAMROCK R&M INC.

Diamond Shamrock recently announced its intention to spin off its refining and marketing operations to its shareholders. A preliminary Form S-10 has been filed with the SEC for Diamond Shamrock R&M Inc. ("DSRM"), which will hold such operations. As of March 23, 1987, there has been no established trading price for the shares of DSRM. Goldman Sachs Investment Research has published a report that estimates a future market value of about \$18.00 per share. The estimate is based on an average annual operating cash flow for DSRM in the range of \$115 - \$130 million and a 3.5 times cash flow multiple which yields a total market capitalization of \$403 - \$455 million or \$17.68 - \$19.96 per share. The estimated DSRM cash flow multiple is less than the 4.0x multiple for Ashland in the public market.

Based on the relative system sizes of DSRM (135 MBPD), Ashland (357 MBPD) and Snow's Refining and Marketing System (656 MBPD) and the perceived quality of their respective operations, we believe that the public market valuation of Ashland rather than that of DSRM would give a better indication as to the potential public market valuation of Snow's Refining and Marketing System should it be spun off to Snow's shareholders in a tax-free distribution.

- (a) Operating income tax-effected using a 46% tax rate.
- (b) Average of the two middle of the range values.
- (c) 357 MBPD in 1986.
- (d) 322 MBPD in 1986.
- (e) 371 MBPD in 1986.

PROJECT WINTER

**Table IV: Snow Refining and Marketing System:
Implied Public Market Valuation**
(Dollars in millions except where noted)

	<u>Ashland Corporate Multiple</u>	<u>Snow R&M 1986 Results (a)</u>	<u>Implied Value of Snow R&M System</u>
I. <u>Public Market Multiple Valuation</u>			
Total Capitalization/Operating Income	6.1x	\$436	\$2,660
Total Capitalization/Operating Cash Flow	4.0	545(b)	2,180
Market Capitalization/Net Income	9.9	235(c)	2,327
Market Capitalization/Net Cash Flow	4.2	344(d)	1,445
Average of Implied Values			\$2,153
	<u>Ashland R&M (e)</u>	<u>Snow R&M Capacity/Volume Data</u>	<u>Implied Value of R&M System</u>
II. <u>Physical Capacity and Volumes Valuation</u>			
A. <u>Refining Capacity Value</u>			
Mean	\$4,612	656 MBPD	\$3,025
Median	\$4,825	656 MBPD	\$3,165
B. <u>Throughput Value</u>			
Mean	\$5,115	622 MBPD	\$3,182
Median	\$5,345	622 MBPD	\$3,325
C. <u>Product Sales Volume Value</u>			
Mean	\$4,439	630 MBPD(f)	\$2,797
Median	\$4,639	630 MBPD(f)	\$2,923
 Average of Capacity, Throughput and Product Sales Volume Implied Values			 \$3,070

- (a) From projections provided by Blizzard.
 (b) Operating income plus non-cash charges of \$109 million.
 (c) Operating income using a 46% tax rate.
 (d) Net income plus \$109 million in non-cash charges.
 (e) Ashland R&M capacity and volumes values in this column are in \$/BPD.
 (f) Estimated from historical performance.

EXHIBIT (g)

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14D-1

Tender Offer Statement Pursuant to
Section 14(d) (1) of the Securities Exchange Act of 1934

THE STANDARD OIL COMPANY
(Name of Subject Company)

BP NORTH AMERICA INC.
(Bidder)

COMMON STOCK, WITHOUT PAR VALUE
(Title of Class of Securities)

0008537341
(CUSIP Number of Class of Securities)

George H. Hagle
BP North America Inc.
620 Fifth Avenue
New York, New York 10020
(212) 887-9300

(Name, Address and Telephone Number of Person Authorized to
Receive Notices and Communications on Behalf of Bidder)

Copies to:

Benjamin F. Stapleton
Sullivan & Cromwell
125 Broad Street
New York, New York 10004
(212) 558-4000

K.J.M. Walder
The British Petroleum
Company p.l.c
Britannic House, Moor Lane
London EC2Y 9BU
England
(01) 920-8000

Calculation of Filing Fee

Transaction valuation	Amount of filing fee
\$7,341,167,120*	\$1,468,233.42**

* up to 104,873,816 shares at \$70 per share

** 1/50th of 1% of Transaction Valuation

[] Check box if any part of the fee is offset as provided by Rule 0-11(a)(2) and identify the filing with which the offsetting fee was previously paid. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

Amount Previously Paid: _____

Form or Registration No.: _____

Filing Party: _____

Date Filed: _____

This Schedule 14D-1 relates to the offer by BP North America Inc., a Delaware corporation (the "Purchaser") and an indirect wholly-owned subsidiary of The British Petroleum Company p.l.c., a company organized under the laws of England ("BP"), to purchase any and all of the outstanding shares of Common Stock, without par value, of The Standard Oil Company, an Ohio corporation, at \$70 per share, net to the seller in cash, upon the terms and subject to the conditions set forth in the Offer to Purchase dated April 1, 1987 (the "Offer to Purchase") and the related Letter of Transmittal, copies of which are annexed hereto as Exhibits (a) (1) and (a) (2), respectively.

Item 1. Security and Subject Company.

(a) The name of the subject company is The Standard Oil Company, an Ohio corporation (the "Company"), and the address of its principal executive offices is 200 Public Square, Cleveland, Ohio 44114.

(b) The class of securities to which this statement relates is the Common Stock, without par value, of the Company. The information set forth under the caption "INTRODUCTION" in the Offer to Purchase is incorporated herein by reference.

(c) The information set forth under the caption "MARKET PRICES OF AND DIVIDENDS ON SHARES" in the Offer to Purchase is incorporated herein by reference.

Item 2. Identity and Background.

(a)-(d); (g) The information set forth under the captions "INTRODUCTION" and "PARENT GROUP AND THE PURCHASER" in the Offer to Purchase is incorporated herein by reference.

(e); (f) During the last five years, neither the Purchaser nor any person controlling the Purchaser, nor, to the best knowledge of the Purchaser, any of the directors or executive officers of the Purchaser or BP, has been

convicted in a criminal proceeding (excluding traffic violations or similar misdemeanors) or was a party to a civil proceeding of a judicial or administrative body of competent jurisdiction and as a result of such proceeding was or is subject to a judgment, decree or final order enjoining future violations of, or prohibiting activities subject to, federal or state securities laws or finding any violation of such laws.

Item 3. Past Contracts, Transactions or Negotiations with the Subject Company.

(a)-(b) The information set forth under the captions "SPECIAL FACTORS -- Background of the Offer", "SPECIAL FACTORS -- Plans for the Company After the Offer", "SPECIAL FACTORS -- Fairness of the Offer", "THE COMPANY -- Projections" and "THE COMPANY -- Certain Relationships with BP" in the Offer to Purchase is incorporated herein by reference.

Item 4. Source and Amount of Funds or Other Consideration.

(a)-(c) The information set forth under the caption "THE TENDER OFFER -- Source and Amount of Funds" in the Offer to Purchase is incorporated herein by reference.

Item 5. Purpose of the Tender Offer and Plans or Proposals of the Bidder.

(a)-(g) The information set forth under the captions "SPECIAL FACTORS -- Purpose, Structure and Benefits of the Offer", "SPECIAL FACTORS -- Reasons for the Offer", "SPECIAL FACTORS -- Plans for the Company After the Offer", "SPECIAL FACTORS -- Fairness of the Offer" and "SPECIAL FACTORS -- Certain Effects of the Offer" in the Offer to Purchase is incorporated herein by reference.

Item 6. Interest in Securities of the Subject Company.

(a)-(b) The information set forth under the captions "INTRODUCTION" and "THE COMPANY -- Certain Relationships with BP" in the Offer to Purchase, and the information set forth in Schedule I thereto, is incorporated herein by reference.

Item 7. Contracts, Arrangements, Understandings or Relationships with Respect to the Subject Company's Securities.

The information set forth under the captions "SPECIAL FACTORS -- Background of the Offer" and "THE COMPANY -- Certain Relationships with BP" in the Offer to Purchase, and the information set forth in Schedule I thereto, is incorporated herein by reference.

Item 8. Persons Retained, Employed or to be Compensated.

The information set forth under the captions "SPECIAL FACTORS -- The Financial Advisors" and "THE TENDER OFFER -- Fees and Expenses" in the Offer to Purchase is incorporated herein by reference.

Item 9. Financial Statements of Certain Bidders.

The financial statements annexed hereto as Exhibit (g) are incorporated herein by reference.

Item 10. Additional Information.

(a) The information set forth in Schedule I to the Offer to Purchase is incorporated herein by reference.

(b)-(c) The information set forth under the caption "THE TENDER OFFER -- Certain Legal Matters" in the Offer to Purchase is incorporated herein by reference.

(d) Not applicable.

(e) The information set forth under the caption "SPECIAL FACTORS -- Litigation Relating to the Offer" in the Offer to Purchase is incorporated herein by reference.

(f) Additional information is set forth in the Offer to Purchase, which is, in its entirety, incorporated herein by reference.

Item 11.

Material to be filed as Exhibits.

- (a) (1) Offer to Purchase.
- (a) (2) Letter of Transmittal relating to the Offer to Purchase.
- (a) (3) Form of letter, dated April 1, 1987, from Goldman, Sachs & Co. to brokers, dealers, commercial banks, trust companies and other nominees.
- (a) (4) Form of letter to be sent by brokers, dealers, commercial banks, trust companies and other nominees to their clients.
- (a) (5) Form of newspaper advertisement, dated April 1, 1987.
- (a) (6) Notice of Guaranteed Delivery.
- (a) (7) IRS Guidelines for Certification of Taxpayer Identification Number on Substitute Form W-9.
- (a) (8) Press Release dated March 26, 1987.
- (a) (9) Press Release dated April 1, 1987.
- (b) Facility Agreement among BPI and the Purchaser, as Borrowers, BP, as Guarantor, the Banks to be named therein and Morgan Guaranty Trust Company of New York, as Agent and Tender Agent.
- (c) Agreement, dated August 7, 1969, among BP, British Petroleum (Overzee) N.V. and the Company.

- (g) Consolidated Financial Statements of BP and its subsidiaries, as excerpted from BP's Report on 6-k for the month of March, 1987 filed with the Securities and Exchange Commission.
- (h) Shareholders' Class Action Complaint for Preliminary and Injunctive Relief filed in the Court of Common Pleas, Cuyahoga County, Ohio on March 26, 1987.

SIGNATURE

After due inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

Dated:

BP NORTH AMERICA INC.

By /s/ George H. Hagle
Title: Vice President and
General Counsel

EXHIBIT INDEX

<u>Exhibit</u>	<u>Description</u>	<u>Page</u>
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EXHIBIT (a)(1)

**Offer to Purchase for Cash
Any and All of the Outstanding Shares of Common Stock
of**

The Standard Oil Company

at

\$70 Net Per Share

by

BP North America Inc.

an indirect wholly-owned subsidiary of

The British Petroleum Company p.l.c.

**THE OFFER AND WITHDRAWAL RIGHTS WILL EXPIRE AT 12:00 MIDNIGHT,
NEW YORK CITY TIME, ON TUESDAY, APRIL 28, 1987, UNLESS EXTENDED.**

**THE OFFER IS NOT CONDITIONED UPON ANY MINIMUM NUMBER
OF SHARES BEING TENDERED.**

IMPORTANT

Any shareholder desiring to tender all or any portion of his Shares should either (1) complete and sign the Letter of Transmittal or a facsimile thereof, have his signature thereon guaranteed if required by Instruction 1 of the Letter of Transmittal and mail or deliver the Letter of Transmittal or such facsimile with his certificate(s) evidencing Shares and any other required documents to the Depositary or tender such Shares pursuant to the procedure for book-entry tender set forth under "THE TENDER OFFER—Procedure for Tendering Shares", or (2) request his broker, dealer, commercial bank, trust company or other nominee to effect the transaction for him. Shareholders having Shares registered in the name of a broker, dealer, commercial bank, trust company or other nominee must contact such broker, dealer, commercial bank, trust company or other nominee if they desire to tender their Shares so registered.

A shareholder who desires to tender Shares and whose certificates for such Shares are not immediately available, or who cannot comply with the procedure for book-entry tender on a timely basis, should tender such Shares by following the procedures for guaranteed delivery set forth under "THE TENDER OFFER—Procedure for Tendering Shares".

Questions and requests for assistance may be directed to the Information Agent or the Dealer Managers at their respective addresses and telephone numbers set forth on the back cover of this Offer to Purchase. Requests for additional copies of this Offer to Purchase and the Letter of Transmittal may be directed to the Information Agent or to brokers, dealers, commercial banks or trust companies.

THIS TRANSACTION HAS NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION NOR HAS THE COMMISSION PASSED UPON THE FAIRNESS OR MERITS OF SUCH TRANSACTION NOR UPON THE ACCURACY OR ADEQUACY OF THE INFORMATION CONTAINED IN THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS UNLAWFUL.

The Dealer Managers for the Offer are:

Goldman, Sachs & Co.

April 1, 1987

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
SPECIAL FACTORS	1
Background of the Offer	1
Purpose, Structure and Benefits of the Offer	4
Reasons for the Offer	6
Plans for the Company After the Offer	7
Fairness of the Offer	7
The Financial Advisors	14
Position of the Company with Respect to the Offer.	15
Certain Effects of the Offer	15
Federal Income Tax Consequences to Shareholders	16
Litigation Relating to the Offer	16
MARKET PRICES OF AND DIVIDENDS ON SHARES.....	17
THE COMPANY	17
THE BP GROUP AND THE PURCHASER	23
THE TENDER OFFER.....	24
1. Terms of the Offer.....	24
2. Acceptance for Payment and Payment for Shares.	25
3. Procedure for Tendering Shares	25
4. Withdrawal Rights.....	27
5. Source and Amount of Funds.....	28
6. Certain Legal Matters	28
7. Extension of the Offer; Termination; Amendment.....	29
8. Certain Conditions of the Offer.....	30
9. Dividends and Distributions	32
10. Fees and Expenses	32
11. Miscellaneous.....	33
Schedule I. Directors and Executive Officers of The British Petroleum Com- pany p.l.c. and Certain Related Companies	I-1
Schedule II. Section 1701.85 of the Ohio General Corporation Law	II-1

To the Holders of Shares of Common Stock
of The Standard Oil Company:

INTRODUCTION

BP North America Inc., a Delaware corporation (the "Purchaser") and an indirect wholly-owned subsidiary of The British Petroleum Company p.l.c., a company organized under the laws of England ("BP"), hereby offers to purchase any and all of the outstanding shares of Common Stock, without par value ("Shares"), of The Standard Oil Company, an Ohio corporation (the "Company"), at \$70 per Share, net to the seller in cash, upon the terms and subject to the conditions set forth in this Offer to Purchase and the related Letter of Transmittal (which together constitute the "Offer"). BP and its subsidiaries are herein referred to as either "BP" or the "BP Group". Tendering shareholders will not be obligated to pay brokerage fees or commissions or, except as provided in Instruction 6 to the Letter of Transmittal, transfer taxes with respect to the purchase of Shares pursuant to the Offer. The Purchaser will pay all charges and expenses of The Chase Manhattan Bank, N.A., the Depository, and D.F. King & Co., Inc., the Information Agent, in connection with the Offer.

The Offer is not conditioned upon any minimum number of Shares being tendered. The Offer is conditioned, among other things, upon its approval by a resolution passed on a show of hands by a majority of the shareholders present and voting or, if a poll is called for, by a majority of the votes cast, at a meeting of the shareholders of BP to be convened for April 22, 1987.

According to the Company, as of March 25, 1987, there were outstanding 109,193,816 Shares, 40,388 shares of 3¾% Cumulative Preferred Stock, Series A, par value \$100.00 per share (the "Preferred Stock"), and 1,000 shares of Special Stock, without par value (the "Special Stock"). The Offer is not being made for the Preferred Stock but if, as described in the following paragraph, the Purchaser effects a merger of the Company, it is expected that the Preferred Stock will be redeemed. See "SPECIAL FACTORS—Purpose, Structure and Benefits of the Offer". According to the Company, as of March 27, 1987, there were options outstanding to purchase 2,512,325 Shares, at exercise prices ranging from \$15.63 to \$52.00 per Share, pursuant to the Company's employee stock option plans. BP, through its direct wholly-owned subsidiary BP International Limited ("BPI"), owns all the Special Stock (equivalent to 125,840,000 Shares) and 4,320,000 Shares, constituting an aggregate of 130,160,000 Shares and Share-equivalents, or approximately 55.4% of the outstanding Shares and Share-equivalents.

If the Purchaser acquires approximately 60 million or more Shares pursuant to the Offer or otherwise (so that the Purchaser and its affiliates would own at least 80% of the then outstanding Shares and Share-equivalents), the Purchaser intends to effect a merger of a wholly-owned subsidiary of the Purchaser into the Company, pursuant to which the Company would become a direct wholly-owned subsidiary of the Purchaser and an indirect wholly-owned subsidiary of BP and the remaining holders of Shares, other than the Purchaser and holders of Shares who perfect their dissenters' rights under Ohio law, would become entitled to receive \$70 in cash per Share. *Dissenters' rights will not be available with respect to Shares sold pursuant to the Offer. See "SPECIAL FACTORS —Purpose, Structure and Benefits of the Offer".*

SPECIAL FACTORS

Background of the Offer. On January 1, 1970, the Company acquired from a wholly-owned subsidiary of BP all of the outstanding capital stock of a corporation which owned the Company's present interest in the Prudhoe Bay area on the Alaskan North Slope, retail gasoline outlets in 16 states, two refineries and related pipeline and terminal facilities, in exchange for 1,000 shares of Special Stock. The Special Stock initially provided the BP Group with rights (including voting

rights) equivalent to an approximate 25% common stock interest in the Company, except that the Special Stock did not initially bear dividends. The rights attaching to the Special Stock were capable of increasing to the equivalent in all respects of an approximate 54% common stock interest in the Company, depending on the future levels of sustainable crude oil production at Prudhoe Bay. By June 16, 1978, sustainable crude oil production from Prudhoe Bay had reached a level such that the rights attaching to the Special Stock reached the maximum Share-equivalency and, together with other Shares then held by a wholly-owned subsidiary of BP, became equivalent in all respects (including dividend rights) to an approximate 54% common stock interest at that time. BP has maintained its ownership of a majority of the outstanding Shares and Share-equivalents from that date to the present.

The agreement pursuant to which the Special Stock was issued provides that so long as BP or any company controlled by BP owns all of the Special Stock, the Company will use its best efforts to cause at least two persons nominated by BP to be members of the Board of Directors of the Company. Pursuant to the agreement, initially two persons nominated by BP were elected to the Company's Board. Since 1972, at least three nominees of BP have been members of the Company's Board.

BP has regularly reviewed its investment in the Company because of its significance. In the summer of 1985, because of BP's increasing concern over the Company's performance, BP commenced a study of the possibility of acquiring the Shares not then owned by BP or of changing the Company's management. BP did not then hold discussions with the Company concerning the acquisition of such Shares. Due primarily to the continuing decline in oil prices, BP determined in mid-February 1986 not to pursue the acquisition of the minority Shares further at that time.

However, contemporaneously with this determination and because of BP's continuing concern over the Company's performance, BP proposed several changes in the Company's management in a letter, dated February 20, 1986, from BP's Chairman to certain members of the Company's Board of Directors (the "Board"). In that letter, BP's Chairman noted the Company's continuously declining net income over the preceding five years and pointed out that "some \$14 billion of capital investment has been made, of which half has produced no return." Following discussions regarding BP's proposals among members of the Board and BP's management, the Board announced on February 27, 1986 major changes in the Company's management. Effective April 1, 1986, Robert B. Horton, formerly a Managing Director of BP and a member of the Board since 1983, replaced Alton W. Whitehouse, Jr. as Chairman of the Board and Chief Executive Officer, and Frank E. Mosler, formerly Executive Vice President of the Company, replaced John R. Miller as the Company's President and Chief Operating Officer.

At the Company's 1986 Annual Meeting of Shareholders, E. John P. Browne, formerly Group Treasurer of BP and Chief Executive of BP Finance International, was elected to the Board and J. Colin E. Webster, formerly President of the Purchaser, was re-elected as a member of the Board. The Board then elected Mr. Browne as Executive Vice President and Chief Financial Officer of the Company and Mr. Webster as Executive Vice President of the Company. Messrs. Horton, Browne and Webster resigned their respective positions with BP or the Purchaser upon assuming their duties with the Company.

In commenting on the proposed changes at the time they were announced, BP's Chairman said: "This is a critical time for the oil industry and especially for Standard Oil. BP believes it is also an appropriate time to strengthen Standard Oil's management to cope with the difficult environment ahead. We are making available three top people from BP, each with a proven track record, to ensure that Standard Oil has the best possible professional leadership, to maximize returns for all Standard Oil shareholders."

In conjunction with these management changes, Basil R.R. Butler, Ian G.S. Hartigan and Kenneth R. Kemp, none of whom had previously served on the Board, were nominated for election as directors by the Board at BP's request and were elected at the Company's 1986 Annual Meeting of Shareholders.

The six directors on the Board at February 27, 1986 who were not members of the Company's management or nominees of BP (namely Elizabeth E. Balley, Dewitt W. Buchanan, Jr., Douglas D. Danforth, William J. De Lancey, John J. Hangen and Charles F. Knight) have continued to serve as directors, and were re-elected at the Company's 1986 Annual Meeting of Shareholders. Messrs. Whitehouse and Miller were not re-nominated for election as directors.

At the time of these management changes, BP publicly announced that it then had "no current intention of making an offer for the minority shares." However, oil prices began to steady during the fall of 1986 and industry confidence in medium-term oil price stability generally increased. In light of these developments, in late November 1986, BP's management began to study actively the possibility of making an offer for the minority Shares. BP and the Purchaser have now decided to make the Offer for the reasons set forth under "Reasons for the Offer" below.

On March 5, 1987, Sir Peter Walters, Chairman of BP, telephoned Douglas D. Danforth, chairman of a Special Committee of the Board composed of all independent directors of the Company which was established in 1986 and charged with monitoring the relationship between BP and the Company, to request that Mr. Danforth give BP's Chairman an opportunity to address the directors of the Company on March 9 or 10. Later the same day, BP's Chairman telephoned George J. Dunn, Vice President and General Counsel of the Company and secretary of the Special Committee, to advise him of his conversation with Mr. Danforth and to request his assistance in arranging the meeting. Messrs. Danforth and Dunn arranged such a meeting for March 9, 1987.

On the evening of March 8, 1987, BP's Chairman met with Mr. Danforth and Charles F. Knight, another member of the Special Committee, to inform them of the reason he had asked to meet with the directors and to outline the presentation he planned to make at that meeting.

The following persons were present at the March 9th meeting: BP's Chairman; D.A.G. Simon, a Managing Director of BP; K.J.M. Walder, Legal Adviser to the BP Group; Peter G. Sachs, a partner of Goldman, Sachs & Co. ("Goldman Sachs"); Frank E. Mosler, President and Chief Operating Officer of the Company; Mr. Dunn; and all directors of the Company not employed by BP or the Company other than Joseph T. Gorman, who joined the Board in 1987, and Mr. De Lancey. At that meeting, BP's Chairman stated that BP was giving serious consideration to the possibility of making a tender offer for the minority Shares. He said that BP was not at that time in a position to make an offer, but that BP had retained Goldman Sachs to assist BP in a valuation of the Company. He informed those present that BP was advising them of BP's position in order to give them sufficient time to prepare their response to any possible offer and expressed his hope that it would be possible to convince the Board that the offer, if made, would be in the interests of the Company's shareholders and that it should be supported by the Board. BP's Chairman also explained the reasons why BP was considering making an offer for the minority Shares at this time (as discussed under "Reasons for the Offer" below) and stated that he hoped that the Board would be able to respond should BP's board of directors decide to proceed with an offer, which decision could be reached as early as March 20, 1987.

BP's Chairman outlined BP's intentions for the Company assuming a successful offer, which are set forth under "Plans for the Company After the Offer" below. He then stated that BP and Goldman Sachs believed that the Shares were currently fully valued in the market (which had closed on the prior trading day at \$59.50 per Share).

Mr. Sachs then made a presentation in which he reviewed the work which Goldman Sachs had completed to date and discussed their preliminary analysis, the final version of which is discussed below.

BP's representatives then left the room to allow the directors to discuss the situation. When they were asked to return, Mr. Danforth informed them that the Special Committee had decided to retain The First Boston Corporation ("First Boston") as its independent financial advisor and to retain independent counsel for advice with respect to any offer which might be made.

During the course of the March 9th meeting there was a general discussion of various matters related to a possible offer, including the tax treatment of an offer to shareholders, the impact of an offer on employee benefit and stock option plans and the time periods applicable to an offer. At the meeting, BP's Chairman indicated that following a merger he might desire to have the members of the Board act as advisory directors for the Purchaser.

On March 13, 1987, Mr. Danforth informed BP's Chairman that the Special Committee would require more time to consider the Company's position than would be possible if a decision on whether to proceed with an offer were made on or around March 20 (as BP's Chairman had suggested as a possibility at the March 9th meeting), and asked that such a decision be postponed by approximately one week. Thereafter, there were additional phone conversations between Mr. Danforth and BP's Chairman concerning the possible timing of any offer and of the Company's 1987 Annual Meeting of Shareholders, and on the evening of March 25, 1987, BP's Chairman informed Mr. Danforth of BP's decision to proceed with the Offer.

On March 26, 1987, the Purchaser provided drafts of the Offer to Purchase to the Company and to the counsel and financial advisor of the Special Committee and requested that the Company review it for accuracy and completeness, including the need to provide any non-public information which would be considered material by a holder of Shares in making a decision whether or not to tender Shares pursuant to the Offer. On March 30, 1987, counsel to the Special Committee. In a letter to the Purchaser's counsel, while noting that the Company would provide BP with any information it would like, stated that neither the Special Committee nor the Company was in a position to assume responsibility for BP's disclosure obligations and therefore, the letter provided no comments on the draft Offer to Purchase. The letter also reiterated an earlier statement by Mr. Danforth to BP's Chairman in a telephone conversation that BP's proceeding by tender offer did not allow the Special Committee sufficient time to review BP's offer fully and Mr. Danforth's requests previously made at the same time, that commencement of the Offer be postponed and BP proceed by merger proposal and that the Special Committee be given one to two months to evaluate the price offered. On March 31, 1987, Mr. Dunn on behalf of the Company, in a letter to the Purchaser's counsel, pointed out certain information in the draft Offer to Purchase which was either inaccurate with respect to the Company or which the Company considered competitively sensitive, while declining to state whether the Company considered such competitively sensitive information material to a decision to tender. The comments made in such letter have been reflected in the Offer to Purchase. On April 1, 1987, the Purchaser's counsel, by letter to counsel of the Special Committee, reaffirmed BP's decision to proceed by tender offer.

For information concerning certain relationships between the BP Group and the Company, see "THE COMPANY—Certain Relationships with BP".

Purpose, Structure and Benefits of the Offer. The purpose of the Offer is for the Purchaser to acquire as many additional Shares as possible pursuant to the terms and conditions of the Offer as a first step in acquiring all the minority Shares. Upon completion of the Offer, if approximately 60 million or more Shares are purchased pursuant to the Offer (so that the Purchaser and its affiliates would own at least 80% of the outstanding Shares and Share-equivalents), BP presently intends to cause BPI to transfer the Special Stock and the Shares held by it to the Purchaser and subsequently to cause the Purchaser to acquire any remaining Shares not owned by it by means of a merger of a wholly-owned subsidiary of the Purchaser into the Company, pursuant to which each outstanding Share not then owned by the Purchaser or holders who perfect their dissenters' rights under Ohio law would be converted into the right to receive \$70 in cash (a "Merger"). If a Merger is effected, it is presently contemplated that the Preferred Stock would be redeemed by the Company at the redemption price of \$100 per Share. It is intended that each holder of an employee stock option, whether or not then exercisable, would be entitled in connection with a Merger to receive in cash the difference between the exercise price under the option and \$70, multiplied by the number of Shares subject to option.

If fewer than approximately 60 million Shares are purchased pursuant to the Offer, the Purchaser presently intends, subject to many factors, including the number of Shares purchased pursuant to the Offer, the availability of Shares at prices acceptable to the Purchaser, future conditions in the oil and securities markets, results and prospects of the Company's and the BP Group's businesses, general economic conditions and the status of any pending litigation, to acquire sufficient additional Shares to bring the ownership of the Purchaser and its affiliates to at least 80% of the outstanding Shares and Share-equivalents and thereafter to effect a Merger. Such purchases may be effected through privately negotiated or open market purchases, subsequent tender offers or by any other means BP deems advisable and may be at prices more or less than \$70 per Share. Unless the Purchaser acquires sufficient Shares to bring the ownership of the Purchaser and its affiliates to at least 80% of the outstanding Shares and Share-equivalents, it is not presently contemplated that a Merger would be proposed.

While the Purchaser presently intends to effect a Merger if it purchases pursuant to the Offer or otherwise approximately 60 million or more Shares, a Merger could be delayed or abandoned or its terms amended, depending on many of the same factors set forth above which could affect the acquisition of additional Shares by the Purchaser following the Offer.

Under the Company's Articles of Incorporation, a vote of at least 80% of the outstanding Shares, Share-equivalents and Preferred Stock, voting together as a single class, would be required to approve a Merger. If the Purchaser purchases approximately 60 million or more Shares pursuant to the Offer or otherwise, the Purchaser and its affiliates would have the power to approve a Merger without the consent of any other shareholders. However, a vote would have to be taken at a shareholders meeting called for that purpose and an information statement disclosing certain information relating to the Company and the transaction would have to be distributed to shareholders at least 20 days before the meeting, unless the Purchaser effects a "short-form" Merger, *i.e.*, a Merger without a shareholders meeting or a shareholder vote which would not necessitate the distribution of an information statement. Under Ohio law, the Purchaser could effect a short-form Merger if it owns at least 90% of each class of capital stock of the Company. Accordingly, in order to do so, the Purchaser would have to acquire approximately 96.2 million or more Shares pursuant to the Offer or otherwise, have transferred to it the Special Stock and Shares held by BPI, and cause the Company to redeem the Preferred Stock. The Purchaser intends to effect a short-form Merger if it acquires approximately 96.2 million or more Shares pursuant to the Offer or otherwise.

Under Ohio law, a Merger, whether or not it is short-form, must be approved by the Board. At the present time the Purchaser and its affiliates have sufficient voting power to remove and elect at least a majority of the Board at any annual or special meeting of shareholders and, upon not less than seven nor more than sixty days' notice to shareholders, to call a special meeting of shareholders.

If a Merger is consummated, each shareholder of the Company who does not vote his Shares in favor of it will have, if he complies with the statutory procedures, certain rights under Ohio law to demand payment of the fair cash value of such Shares. Such rights, if perfected, would result in an agreement on or a judicial determination of the fair cash value required to be paid in cash by the Company for such Shares. "Fair cash value" is defined under Section 1701.85 of the Ohio General Corporation Law ("Section 1701.85") to mean the amount that a willing seller, under no compulsion to sell, would be willing to accept, and that a willing buyer, under no compulsion to purchase, would be willing to pay, but, under Section 1701.85, such amount could not be in excess of the amount demanded by the shareholder as explained below and would exclude any appreciation or depreciation in market value resulting from a Merger. The fair cash value per Share could be more or less than the amount paid per Share pursuant to the Offer and a Merger. To perfect dissenters' rights under Section 1701.85, a dissenting shareholder must not have voted his Shares in favor of a Merger and is required, within 10 days after the meeting of shareholders approving a Merger (or, in the case of a short-form Merger, within 20 days after written notice of approval of a Merger is sent to

him), to deliver to the Company a written demand of payment of the fair cash value of such Shares stating his address, the number and class of such Shares, and the amount claimed as the fair cash value of such Shares. Thereafter a dissenting shareholder would have the rights and be subject to the procedures set forth in Section 1701.85, set forth in its entirety in Schedule II hereto. The foregoing description of dissenters' rights under the Ohio General Corporation Law is qualified in its entirety by reference to Schedule II, which is incorporated herein by reference. *Dissenters' rights would only arise in connection with the consummation of a Merger and not by virtue of the Offer or the purchase of Shares pursuant thereto.*

The primary benefit of the Offer to the Company's shareholders, other than the Purchaser and its affiliates, is that they are being afforded an opportunity to sell all their Shares at a price which, in the opinion of BP and the Purchaser, is fair to such holders and fully reflects the value of the Company. However, shareholders who do sell their Shares will cease to have any equity interest in the Company and to participate in its earnings and any future growth.

To the best knowledge of the Purchaser, each person listed on Schedule I hereto who owns Shares intends to tender his Shares pursuant to the Offer.

As a result of the Offer, the interest of the BP Group in the Company's net book value and net income will increase to the extent of the number of Shares acquired in the Offer. If a Merger is consummated, the BP Group's common equity interest in the Company would increase to 100% and the BP Group would be entitled to all benefits resulting from that interest, including all income generated by the Company's operations and any future increase in the Company's value.

Reasons for the Offer. BP's investment in the Company represents its largest single asset, yet because the BP Group does not own the entire common equity interest in the Company, the Company is required by law to be managed by the Board in the best interests of all the Company's shareholders rather than just BP and its shareholders, and BP, as a majority shareholder, has certain legal duties to the minority shareholders of the Company. Because each decision made by BP which could affect the Company must be made with a view to its effect on the Company's minority shareholders, BP's flexibility in dealing with this major asset and its existing and potential North American operations is materially restricted. If the Company were wholly-owned by BP, decisions regarding the Company's operations and the utilization of the Company's substantial cash flow could be made without possible limitations arising out of the existence of a minority interest. At the present time, BP's only cash return on its investment in the Company is the dividends received on the BP Group's Shares and Share-equivalents. Because the United States is an area of strategic importance for BP and because the sale of the Shares and Share-equivalents held by BPI, at present market levels, would result in very substantial United States federal income taxes for BPI, BP has no intention of disposing of its investment in the Company. Accordingly, BP reached the conclusion that in order to eliminate the foregoing constraints and limitations and to realize the full value and potential of its current approximately 55.4% equity interest in the Company, it should make the Offer.

While the foregoing are BP's principal reasons for the Offer, BP believes that, given the Purchaser's existing and growing activities in the United States in businesses which are similar or complementary to the Company's businesses, BP may be able to achieve certain operating benefits by integrating some of the Purchaser's operations and those of the Company. Moreover, the interest costs on borrowing incurred in connection with the acquisition of additional Shares may be offset against the future pre-tax income of the Purchaser and its consolidated subsidiaries, which would, assuming the Purchaser were to own at least 80% of the Shares and Share-equivalents, include the income of the Company; the Purchaser's after tax cost of borrowing would therefore be reduced by a percentage equal to the marginal tax rates that will be applicable to the Purchaser and its subsidiaries from time to time. See "THE TENDER OFFER—Source and Amount of Funds".

The Purchaser is making the Offer at this time for the following reasons: (I) BP now considers that oil prices are likely to remain within price ranges sufficient to justify making the investment; (II) as a result of the management changes made in 1986 and the subsequent operations of the Company, BP feels confident that the Company can operate successfully even in a lower oil price environment; and (III) BP's own financial position together with the fact of declining interest rates in the United States over recent years facilitate the financing of the Offer.

Plans for the Company After the Offer. BP anticipates that the Company's headquarters will remain in Cleveland and the corporate headquarters of the BP Group's United States operations will be moved there. BP does not currently plan to replace the Company's management personnel and anticipates that few redundancies will arise in the Company's operating subsidiaries or corporate headquarters as a result of the Offer and a Merger. BP intends that the Company's employees will continue to receive compensation and benefits which, in the aggregate, are not materially less favorable than those presently received. Except for the Company's plans to sell certain assets as set forth below, following completion of the Offer and, if consummated, a Merger, BP currently intends to continue the operation of all the Company's business segments.

It is intended that the BP Group's existing worldwide management principles, consisting of a system of international management reporting relationships within business segments, will be applied to the Company. BP's management has begun and intends to continue a study, in which it will involve the Company's management, on how best to organize and integrate the activities of the Purchaser and the Company and to implement the foregoing management principles. As a result of such study, BP may decide to make changes in the management structure and operations of the Company. Following a Merger, BP presently intends to involve American representatives, which could include present members of the Board, in the BP Group's United States operations, but the Board may consist solely of employees of the BP Group (including the Company).

Except for the possible redemption of the Preferred Stock discussed under "Purpose, Structure and Benefits of the Offer", neither the Purchaser nor BP has any plan or proposal regarding activities or transactions which are to occur after the Offer and prior to a Merger which would relate to or result in any material change in the present dividend rate or policy or capitalization of the Company. As discussed under "Fairness of the Offer", the Company has indicated to BP that it is considering the restructuring and sale of the common stock of a subsidiary of the Company, which sale may be to BP and which could occur prior to a Merger. BP and the Company have from time to time internally considered and jointly discussed the possibility of selling or distributing to the Company's shareholders all or a portion of its interest in Prudhoe Bay or in the Trans Alaska Pipeline System ("TAPS"), either directly or through an alternate structure, such as a master limited partnership or a royalty trust. Any such sale or distribution involves certain contractual, regulatory, tax, structural, market and other constraints and uncertainties. Neither BP nor the Purchaser has any current intention to sell or distribute any significant assets of the Company or to merge the Company with any other corporation (other than by a Merger), although they do intend to continue to study the feasibility and desirability of selling limited partnership or similar interests in a portion of the Company's interests in Prudhoe Bay and/or TAPS. Decisions as to future dispositions or acquisitions of assets by the Company would be made based on normal business considerations. The Company has previously announced its intention to sell certain of the businesses of its Industrial Products division, and BP understands that the Company is considering selling part of a group of properties which include precious metals operations.

Fairness of the Offer. BP and the Purchaser believe that the price per Share offered hereby is fair to the Company's shareholders. In reaching this conclusion, BP and the Purchaser considered primarily internal valuations of the Company prepared by BP based in part on certain non-public information concerning the Company.

BP's valuations were performed under six different oil price scenarios and assumed, for purposes of the discounted cash flow analyses, a discount rate of 7% over inflation which was assumed to be 4% per annum over the long term. The results were as follows:

BP's VALUATIONS OF THE COMPANY

	\$10-\$15/ bbl(a)	\$15/bbl(b)	\$15-\$20/ bbl(c)	\$18/bbl(b)	\$20/bbl(b)	\$20-\$25/ bbl(d)
(In millions, except per Share amounts)						
Oil and Gas Exploration and Production(e)	\$ 3,516	\$ 5,630	\$ 6,706	\$ 8,635	\$10,620	\$11,718
Pipeline Interests(f)	2,325	2,325	2,325	2,325	2,325	2,325
Refining and Marketing(g) . .	2,670	2,600	2,600	2,540	2,490	2,490
Non-Petroleum Extractive Businesses(g)	1,335	1,335	1,335	1,335	1,335	1,335
Chemicals and Industrial Products(g)	455	455	455	455	455	455
Other(h)	(618)	(718)	(718)	(768)	(818)	(818)
Net Debt(i)	(3,217)	(3,217)	(3,217)	(3,217)	(3,217)	(3,217)
Total Value	<u>\$ 6,466</u>	<u>\$ 8,410</u>	<u>\$ 9,486</u>	<u>\$11,305</u>	<u>\$13,190</u>	<u>\$14,228</u>
Per Share(j)	<u>\$ 27.18</u>	<u>\$ 35.36</u>	<u>\$ 39.88</u>	<u>\$ 47.53</u>	<u>\$ 55.45</u>	<u>\$ 60.07</u>

- (a) Price level for North Sea Brent crude oil assumed to be constant at \$10 per barrel through the year 1989, then constant at \$15 per barrel thereafter, in each case in 1987 dollars.
- (b) Price level for North Sea Brent crude oil assumed to be constant at the level indicated in 1987 dollars.
- (c) Price level for North Sea Brent crude oil assumed to be constant at \$15 per barrel through the year 1991, then rising at approximately \$0.55 per barrel each year to \$20 per barrel by the year 2000 and holding constant thereafter, in each case in 1987 dollars.
- (d) Price level for North Sea Brent crude oil assumed to be constant at \$20 per barrel through the year 1991, then rising at approximately \$0.55 per barrel each year to \$25 per barrel by the year 2000 and holding constant thereafter, in each case in 1987 dollars.
- (e) Valuations were principally based on estimates of future cash flow from the Company's reserves, computed primarily from:
- (i) data on proved reserves at January 1, 1987 provided to BP by the Company;
 - (ii) estimates of probable reserves derived from, among other things, data provided to BP by the Company; and
 - (iii) BP's estimates of the production profiles for the Company's various properties.

In certain limited instances, value was estimated not on a discounted cash flow basis but rather on the basis of value per barrel of oil equivalent and/or data provided by the Company with respect to values. In addition, there was an assessment of the value of the Company's undeveloped acreage.

Proved and probable reserve levels used by BP in its valuations were as follows:

Reserves net of royalty	
(millions of barrels of oil equivalent)	
Proved Reserves	2,536
Probable Reserves under the \$18 per Barrel Case	489
Total Reserves under the \$18 per Barrel Case	3,025

BP's valuations reflect the fact that the extent of economically viable probable reserves varies depending on oil prices, but in no case were the amounts used in the valuations below 350 million barrels of oil equivalent. These figures did not include an allowance for discoveries through future exploration, the value of which is reflected in the valuation of undeveloped acreage. Despite limited information available at this time, BP's valuation reflects a value for the Company's exploration venture in western Canada, which the Company believes to be promising. For the reasons set forth following Goldman Sachs' analysis, these valuations do not include any value for natural gas reserves on the Alaskan North Slope and include only a nominal value for the Company's potential involvement in any development in the Alaskan National Wildlife Refuge.

- (f) Valuations were based on estimates of future cash flows from the Company's 33.34% interest in TAPS. Values were also ascribed to its 10% interest in the Kuparuk pipeline and its wholly- and partially-owned pipelines in the lower 48 States ("Lower 48").
- (g) Valuations were based on estimates of future cash flows. In addition, BP considered information provided by Goldman Sachs with respect to values in the acquisition, leveraged buy-out and securities markets.
- (h) Consists of (A) (i) estimated after tax proceeds from asset sales currently in progress or envisaged and (ii) assumed proceeds from exercises of outstanding employee stock options less (B) an estimate of the present value of (i) the future cost of Company overhead, not allocated to the business segments separately valued, and (ii) future dividends to be paid to BPI on preferred stock owned by BPI in a subsidiary of the Company (the "NPRI Preferred Stock"), which dividends are determined by reference to production from Prudhoe Bay. See "THE COMPANY". Goldman Sachs have provided the methodology of the computation of the capitalized cost of corporate overhead.
- (i) Net debt represents the excess of all liabilities over all assets not allocated to the business segments. Long-term debt and certain other liabilities were adjusted to estimated present value from historic book value in this calculation.
- (j) Based upon 234,712,645 Shares and Share-equivalents outstanding at December 31, 1986 plus exercise of the options outstanding at that date to purchase 3,150,714 Shares.

Although future oil price trends are very uncertain, BP considers a price in the region of \$18 per barrel for North Sea Brent crude oil to be the appropriate planning assumption while OPEC maintains its quota arrangement to support price stability. Between January 1, 1987 and March 30, 1987, the spot price for North Sea Brent crude oil ranged from \$15.95 per barrel to \$18.82 per barrel, with an average price over such period of \$17.87 per barrel.

Any valuation of the Company is highly dependent on estimates of future oil prices. A change of \$1 per barrel in the average price of oil during a year will change annual net income of the Company, according to the Company's 1987 Operating Plan (the "Operating Plan"), by between \$125 million and \$150 million. BP estimates that if there were a \$1 per barrel change in the starting oil price assumptions used in the valuations, the effect of which were sustained over the valuation period, it would result in a change in the stated valuations of the Company by approximately \$4 per Share. Due to the many uncontrollable factors that affect oil prices, future oil prices could vary widely from those considered by BP, in which case BP's valuations of the Company would change accordingly. See "THE COMPANY" for a description of certain information contained in the Operating Plan and the Company's five-year Development Plan (the "Development Plan").

The foregoing table does not reflect any increase in values which might be obtained by selling or distributing to the Company's shareholders all or a portion of the Company's interest in Prudhoe Bay or TAPS, either directly or through a master limited partnership or other alternate structure, or any of the other financial alternatives described below, including utilization of the Company's potential unrealized capital loss, which in the aggregate Goldman Sachs believed might add value in excess of that attributed to the Company in Goldman Sachs' acquisition analysis of the Company. BP and the Purchaser decided to make the Offer at a price which exceeds the values reflected in the foregoing table and in Goldman Sachs' analysis for the reasons set forth above under "Reasons for the Offer".

In contemplation of the Offer, BP retained Goldman Sachs to assist in BP's evaluation of the Company and to provide the analysis set forth below, which analysis BP and the Purchaser also considered in reaching the conclusion that the Offer is fair to holders of Shares. Goldman Sachs were requested to review BP's internal valuations, the Operating Plan, the Development Plan and other data relating to the Company which was supplied by BP, as well as published financial and market information, to advise with respect to certain alternative means of valuation of the Company and its several businesses and to provide advice as to potential market reaction to the Offer. Goldman Sachs were not requested to provide any opinion as to the fairness of the Offer to BP and its shareholders or to the minority shareholders of the Company or to perform any independent examination or investigation of the Company's businesses or assets. Accordingly, Goldman Sachs did not attempt to verify the accuracy or completeness of any of the information supplied by BP or obtained through other sources, nor did Goldman Sachs conduct any discussions with, or obtain any information from, any officers or employees of the Company in connection with their advice to BP and the Purchaser. Because of the limited number of BP employees involved in BP's valuation process prior to March 26, 1987, the date on which BP and the Purchaser announced their intention to make the Offer, Goldman Sachs did not have complete access to information concerning the Company contained within the BP Group although, because information received by BP from the Company is generally monitored, BP believes that all information available to BP which could materially affect the valuation of the Company was provided to Goldman Sachs.

On March 25, 1987, Goldman Sachs advised BP that, based upon the then current conditions and the assumptions described below and assuming the accuracy and completeness of the information supplied by BP and publicly available information concerning the Company, it was the view of Goldman Sachs that the values of the Company's principal businesses in the acquisition market fell within the ranges shown in the following table. The ranges of values for the Company's businesses were derived by applying methodologies and assumptions which Goldman Sachs believed would be used by potential acquirors under then current market conditions. The analysis assumes a purchase of all of the outstanding Shares of the Company by a purchaser which does not subsequently elect to allocate its purchase price to the assets of the Company in order to increase the depreciable or depletable tax bases of such assets. In such a case a purchaser would forego any tax benefits from such a write-up and assume a carryover tax basis in the assets acquired; at the same time, the Company would not incur any corporate level capital gains or recapture taxes.

SUMMARY OF RANGE OF VALUES

(In millions, except per Share amounts)

	<u>Low</u>	<u>High</u>
Oil and Gas Exploration and Production (a)	\$7,150	\$ 9,150
Pipeline Interests (b).....	2,300	2,500
Refining and Marketing.....	2,100	2,600
Non-Petroleum Extractive Businesses.....	1,200	1,350
Chemicals and Industrial Products	400	500
Estimated Proceeds from Asset Sales (c)	300	400
Other (d)	(954)	(754)
Net Debt Position (e)	<u>(3,217)</u>	<u>(3,217)</u>
 Total Value	 <u>\$9,279</u>	 <u>\$12,529</u>
Per Share (f)	\$39.01	\$ 52.67

(a) The value for offshore Lower 48 proved reserves (for which no estimates of oil and gas production, operating costs, capital expenditures and abandonment costs were available from BP) was set at \$150 million utilizing analyses similar to those used in valuing the probable reserves, rather than a discounted cash flow analysis. The low and high values in the table have been reduced by \$100 and \$125 million, respectively, for an estimate of the present value of the future dividends to be paid on the NPRI Preferred Stock. In addition, Goldman Sachs were unable to determine the impact of two factors on the present value of the after-tax cash flows from the proved oil and gas reserves:

1. When the total proved reserves, as reported to BP by the Company, are compared to their respective decline curves, as estimated by BP to provide a schedule of future production, Goldman Sachs noted that such reserves are fully produced by the year 2010. Normal reserve decline characteristics suggest that a portion of the oil and gas reserves would be produced after 2010. In order to produce all reserves by 2010, the decline curve supplied by BP assumes a rate of production that is higher than would be the case for a more conventional reserve production profile. As a result, the present values in the table above are higher than those which would result if a portion of the reserves were produced beyond the year 2010, in accordance with normal reserve decline patterns.

2. In the absence of definitive information, Goldman Sachs have been unable to estimate the amount or timing of the utilization of the depletable and depreciable tax bases for the reserves and associated equipment; accordingly, the present values set forth above assume such tax bases are zero. To the extent such bases exist, such present values of such reserves would increase by the present values of the reduction in taxes on oil and gas income arising from the depletion and depreciation deductions available in future years.

Goldman Sachs have made certain estimates of the effect of both foregoing uncertainties under various assumptions which indicate that, assuming an aggregate \$2 billion tax basis for all oil and gas properties, the net effect of these two factors on the present value of such reserves is probably minimal. In Goldman Sachs' analysis of a master limited partnership for the Company's interest in Prudhoe Bay which is discussed below, Goldman Sachs have assumed on BP's advice an aggregate tax basis thereof of \$2 billion.

(b) Includes the Company's interest in TAPS, the Kuparuk pipeline and wholly- and partially-owned pipelines in the Lower 48.

(c) Estimated after tax proceeds of assets sales currently in progress or envisaged provided by BP.

(d) Capitalized cost of corporate overhead not allocated to the business segments valued separately above reduced by the proceeds of assumed exercise of employee stock options. BP has provided the estimate of yearly overhead cost used in performing this calculation.

(e) Net debt represents the excess of all liabilities over all assets not allocated to the business segments. Long-term debt and certain other liabilities were adjusted to estimated present value from historic book value in this calculation.

(f) Based on 234,712,645 Shares and Share-equivalents outstanding as of December 31, 1986 plus exercise of the options then outstanding to purchase 3,150,714 Shares.

As noted above, the value of the Company is extremely sensitive to assumptions as to future oil prices. In connection with their analysis, Goldman Sachs were requested by BP to exercise their independent judgment as to the appropriate oil price assumptions to make in this regard. Accordingly, the reserve valuations included in the Goldman Sachs analysis reflect Goldman Sachs' assessment of the oil price and rate of return scenarios likely to be utilized at the time the analysis was prepared by prospective purchasers in evaluating oil and gas properties for purchase in the acquisition market. Assumptions made in this context may differ from the oil price assumptions used by securities analysts (including those at Goldman Sachs) in estimating earnings of oil and gas companies over the next year or two for the purpose of formulating recommendations as to the purchase or sale of securities.

The Goldman Sachs analysis set forth above assumes West Texas Intermediate crude oil prices of \$17, \$18 and \$19 per barrel, in nominal terms, in years 1987, 1988 and 1989, respectively, escalating 5% per year thereafter. If oil prices were to vary from this scenario, the range of values for the Company as a whole set forth in the table above could be materially affected.

The oil price scenarios used by BP and Goldman Sachs in their analyses are based on North Sea Brent crude oil ("Brent") and West Texas Intermediate crude oil ("WTI"), respectively. Each has used the crude oil market with which it is most familiar for generating its oil price scenario. Although the price differential between Brent and WTI varies, Brent and WTI generally trade in their markets at prices close to one another. Historically, Brent has traded at prices which are below WTI prices and generally such differential has been small. Alaskan North Slope crude oil sold on the Gulf Coast ("ANS Gulf Coast"), which is the type of crude oil which the Company uses for planning purposes, generally trades in its market at a modest discount below WTI and Brent prices.

The foregoing analysis of the Company reflects Goldman Sachs' judgment as to values in the acquisition market. Goldman Sachs also considered several alternatives with respect to the Company's interest in Prudhoe Bay, including a production payment financing and a master limited partnership ("MLP") which might be sold to the public or spun off to shareholders. Goldman Sachs advised BP that they believed that the greatest potential additional value above that shown in the table with respect to Prudhoe Bay might be achieved by spinning off to shareholders units of an MLP holding the Company's interest in such asset. However, Goldman Sachs advised BP that because of a variety of factors, including the unique characteristics of Prudhoe Bay production, the size of any such transaction relative to other similar MLPs, the probability that tax-exempt institutional holders might not wish to hold MLP units and possible structural impediments, they believed that there were significant uncertainties as to the ability of the Company to realize the potential additional value. In addition, any such additional value is difficult to determine in the absence of information relating to the Company's tax basis in Prudhoe Bay and, hence, the amount of taxes which would be payable by the Company in such a spinoff, and the unavailability to Goldman Sachs of certain additional information relating to Prudhoe Bay.

Goldman Sachs also considered a number of different alternatives relating to the Company's interest in TAPS, including the possibility of the creation of an MLP and a leveraged recapitalization in partnership form. Goldman Sachs advised BP that a leveraged recapitalization in partnership form appeared to be the most favorable of these alternatives, but that this alternative was unlikely to

create increased value above that shown in the table due to the estimated amount of taxes which would be payable by the Company in connection with such a transaction, based on the tax basis assumptions provided by BP, and that such a transaction might not be feasible in light of significant contractual, regulatory and other impediments.

Goldman Sachs also considered the possibility of a tax-free spinoff of the Company's refining and marketing operations to shareholders. Goldman Sachs advised BP that there was some uncertainty as to the additional value which might be created by such a transaction due to the availability of few comparable publicly traded entities, the cyclical character of such business, and the absence of complete information regarding the Company's current operations. Because refining and marketing operations have recently provided a cushion against down-swings in exploration and production earnings, BP and Goldman Sachs recognize that it might be imprudent for the Company to separate its refining and marketing operations from its exploration and production operations.

Goldman Sachs also considered separately the value of a potential unrealized capital loss of the Company but did not include the value of this potential tax loss in their acquisition analysis because it cannot be utilized until the Company realizes the loss and uses it to offset a recognized capital gain for U.S. federal income tax purposes. In March 1987, the Company indicated to BP that it is considering a restructuring and subsequent sale of the common stock of a subsidiary of the Company which, if effected, would enable the Company to utilize the benefit of such potential capital loss, provided that such loss were in fact realized.

Goldman Sachs advised BP that if all of the foregoing transactions were consummated notwithstanding the uncertainties outlined above and if the potential unrealized capital loss were in fact realized, under current conditions in the petroleum and securities markets the aggregate additional value in excess of the high end of the range of values for the entire Company shown in the table above which could be generated from these transactions would be in the range of approximately \$1,410—\$2,680 million, or approximately \$5.93—\$11.27 per Share.

Goldman Sachs further advised BP that, in light of insufficient information, the foregoing analysis does not reflect the potential for material additional expense or liability in certain areas, including (i) additional overhead costs; (ii) excess costs associated with repairs, disposals or abandonments relating to the operation of the Company's natural resource businesses; (iii) pending redetermination of condensate reserves in Prudhoe Bay from the oil-derived category to the gas-derived category in which the Company has a significantly lower share; (iv) drilling obligations not currently accrued; and (v) any other contingent liabilities.

A copy of Goldman Sachs' written report has been filed by the Purchaser as an Exhibit to its Rule 13e-3 Transaction Statement on Schedule 13E-3 filed with the Securities and Exchange Commission ("SEC") in connection with the Offer and may be examined and copied at the office of the SEC in Washington, D.C. as set forth under "THE COMPANY—Available Information". In addition, such report is available for inspection and copying at the principal executive offices of the Purchaser during its regular business hours by any interested holder of Shares or his representative who has been so designated in writing.

For information concerning Goldman Sachs' relationships with the Company and with BP, see "The Financial Advisors" below.

It should be noted that neither BP's nor Goldman Sachs' analysis of the Company places any value on natural gas reserves on the Alaskan North Slope because of the time delay inherent in any development of such reserves. Moreover, the value of natural gas is a function of oil prices and, at the range of energy prices considered by BP and Goldman Sachs, the costs of recovering and transmitting to market these gas reserves is likely to exceed their realizable market value. Additionally, BP and Goldman Sachs placed only a nominal value on the Company's potential involvement in any development in the Alaskan National Wildlife Refuge, as there can be no assurance that such area will be opened to drilling and development, that economically recoverable

quantities of hydrocarbons will be discovered and developed or that the Company will participate in any such activities. Finally, due to the lack of sufficient information to permit a valuation, BP and Goldman Sachs placed no value on any excess assets in the Company's pension plans which might revert to the Company upon their termination, any net value arising from a sale of the Company's headquarters building at a price exceeding the cost of relocating and providing office space for the employees located there and claims by the Company for U.S. federal income tax refunds for years ended prior to 1986.

In addition to BP's valuations, Goldman Sachs' analysis and certain non-public information concerning the Company, BP and the Purchaser considered, among other things, historical market prices of the Shares, comparisons of the Company's stock market performance and operating performance with those of other United States publicly-held integrated oil and gas companies, information concerning the Company's financial condition, the fact that BP beneficially owns approximately 55.4% of the outstanding Shares and Share-equivalents, and prices paid in other merger and acquisition transactions involving integrated oil and gas companies.

BP's internal valuations and Goldman Sachs' analysis referred to above were the most important factors considered by BP and the Purchaser in determining that the price per Share offered in the Offer was fair to the holders of Shares; BP and the Purchaser have not found it practicable to assign relative weights to each of the other factors considered by them as described above.

BP has not obtained from any outside party an opinion as to the fairness of the Offer to BP and its shareholders or to the minority shareholders of the Company. The Offer is not structured so that approval of at least a majority of the unaffiliated shareholders of the Company is required; however, in order for a Merger to be effected, more than a majority of the minority shareholders must have sold their Shares to the Purchaser pursuant to the Offer or otherwise or voted in favor of the Merger.

The Financial Advisors. In selecting Goldman Sachs to act as its financial advisors in connection with the Offer, BP considered primarily Goldman Sachs' reputation and experience in investment banking and mergers and acquisitions, as well as their experience with the oil and gas industry. Goldman Sachs have from time to time provided financial advice and other services to the BP Group and to the Company.

In the fall of 1985, Goldman Sachs reviewed at the request of the Company certain financial alternatives available to the Company to maximize value to holders of Shares, assuming the Company had no controlling shareholder. In connection with their review, Goldman Sachs were furnished certain non-public information about the Company, including, among other things, production estimates for Prudhoe Bay, separate financial statements for TAPS and a ten-year strategic plan prepared by the Company which projected net income for the Company on various price assumptions. The projections then deemed by Goldman Sachs to be the most reasonable were based on the assumption that the price of oil ranged from \$28 per barrel in 1987 to \$47.35 per barrel, in nominal terms, in 1995 and showed net income ranging from \$2,002 million in 1987 to \$3,270 million in 1995. Goldman Sachs were not requested to perform any independent examination or investigation of the Company's businesses or assets and did not attempt to verify any of the information supplied by the Company. In the course of this review, Goldman Sachs prepared analyses with respect to potential write-downs of asset values, common stock repurchase programs, increases in the Company's dividends, leveraged buyouts, sales to third parties and spinoffs to the Company's shareholders of certain of the Company's businesses as well as master limited partnerships for certain of the Company's oil and gas and coal reserves. Based on the information made available by the Company, certain of the foregoing analyses, the then current price of oil, the prevailing treatment of such actions under the then current tax laws and rates of return then prevailing in the acquisition market, Goldman Sachs prepared a preliminary liquidation analysis of the Company which showed an estimated aggregate after tax liquidation value of the Company in the range of \$12,783 million to \$19,283 million, or approximately \$54.51 to \$82.23 per Share on a fully diluted basis. At the time Goldman Sachs performed this preliminary liquidation analysis, the price

of oil (as evidenced by the spot price for WTI) ranged from approximately \$28.70 per barrel to \$30.80 per barrel. In light of intervening changes in oil prices and United States federal tax laws as well as the economic environment in general, Goldman Sachs believe that this estimated range of values is no longer reasonable.

Since March 1985, Goldman Sachs have received approximately \$500,000 and approximately \$900,000 from the BP Group (excluding the Company) and the Company, respectively, as compensation for investment banking services, including the underwriting of the Company's Swiss Franc Notes in February 1987. As of March 31, 1987, Goldman Sachs beneficially owned 40,000 Ordinary Shares of BP, had a net long position in June options for 39,800 Shares, and had net short positions of American Depositary Receipts representing 60,400 Ordinary Shares of BP and 26,800 Shares, which positions were incurred in the ordinary course of its trading activities prior to March 26, 1987.

BP and the Purchaser have agreed to pay Goldman Sachs, as compensation for their services as Dealer Managers and as financial advisors in connection with the Offer, a minimum fee of \$1,000,000, which will be credited against a fee of \$0.08 per Share acquired by the Purchaser pursuant to the Offer or a Merger. If in excess of approximately 60 million Shares are purchased pursuant to the Offer, it will be assumed for purposes of these arrangements that all outstanding Shares have been acquired by the Purchaser. In addition, BP and the Purchaser have agreed to reimburse Goldman Sachs for their reasonable out-of-pocket expenses, including the fees and expenses of their counsel, in connection with the Offer, and have agreed to indemnify Goldman Sachs against certain liabilities and expenses in connection with the Offer, including liabilities under the federal securities laws.

Position of the Company with Respect to the Offer. Following the announcement of the Offer by BP and the Purchaser on March 26, 1987, the Company announced that the proposed tender offer was being referred to the Special Committee, which would consider the Offer in due course.

Certain Effects of the Offer. The purchase of Shares pursuant to the Offer will reduce the number of Shares that might otherwise trade publicly and the number of holders of Shares and could adversely affect the liquidity and market value of the remaining Shares held by the public.

Depending upon the number of Shares purchased pursuant to the Offer, the Shares may no longer meet the requirements for continued listing on the New York Stock Exchange (the "NYSE"), although, in view of the number of Shares currently outstanding and the current number of holders of record of Shares, this result appears unlikely unless and until a Merger occurs. The NYSE's published guidelines indicate that it would consider delisting the Shares if, among other things, the number of record holders of 100 or more Shares should fall below 1,200, the number of publicly-held Shares (exclusive of holdings of officers and directors of the Company and members of their immediate families and other concentrated holdings of 10% or more) should fall below 600,000 or the aggregate market value of the publicly-held Shares should fall below \$5 million. According to the published guidelines of the Midwest Stock Exchange (the "MSE"), it would consider delisting the Shares if, among other things, the number of publicly-held Shares (exclusive of management and other concentrated holdings) is less than 100,000 or there are fewer than 500 record holders. According to the Company, as of February 23, 1987 there were approximately 52,400 holders of record of Shares.

Even if the NYSE and MSE were to delist the Shares as a result of the Offer, it is possible that such Shares would continue to trade in the over-the-counter market and that price quotations would be reported through the National Association of Securities Dealers' Automated Quotation System, Inc. ("NASDAQ") or other sources. The extent of the public market for the Shares and the

availability of such quotations would, however, depend upon the number of holders of such Shares remaining at such time, the interest in maintaining a market in such Shares on the part of securities firms, the possible termination of registration of such Shares under the Securities Exchange Act of 1934 (the "Exchange Act") as described below, and other factors.

The Shares are presently "margin securities" as that term is defined under the rules of the Board of Governors of the Federal Reserve System, which has the effect, among other things, of allowing brokers to extend credit on the collateral of such Shares. Depending upon factors similar to those above regarding listing and market quotations, the Shares might no longer constitute "margin securities" and, therefore, could no longer be used as collateral for margin loans made by brokers.

The Shares are currently registered under the Exchange Act. Such registration of the Shares may be terminated upon application by the Company to the SEC if the Shares are not listed on a national securities exchange and if there are fewer than 300 record holders of the Shares. Termination of registration of the Shares under the Exchange Act would reduce the information required to be furnished by the Company to holders of Shares and would render inapplicable to the Company certain provisions of the Exchange Act, including requirements that the Company furnish shareholders with proxy materials regarding meetings of shareholders of the Company, requirements that the Company's officers, directors and 10% shareholders file certain reports concerning ownership of the Company's securities and provisions that any profit by such officers, directors and 10% shareholders through purchases and sales of the Company's equity securities within any six-month period may be recaptured by the Company. Termination of registration of the Shares under the Exchange Act could also deprive affiliates and any holders of "restricted securities" of the Company of their ability to dispose of their securities pursuant to Rule 144 promulgated under the Securities Act of 1933, as amended. In addition, if the Shares were de-registered, they would no longer be eligible for NASDAQ reporting or constitute "margin securities". Even if the Shares are de-registered, however, the Exchange Act requirement that the Company file periodic reports would remain applicable as long as any of the Company's debt securities which are presently listed on the NYSE and registered under the Exchange Act remain so.

See "Purpose, Structure and Benefits of the Offer" for the effect of the Offer and a Merger on the interest of the Purchaser and its affiliates in the Company's net book value and net income.

Federal Income Tax Consequences to Shareholders. The receipt of cash pursuant to the Offer or a Merger will be a taxable transaction for federal income tax purposes and may also be a taxable transaction under applicable state, local and other tax laws. A shareholder will recognize gain or loss equal to the difference between such shareholder's adjusted tax basis in the Shares surrendered and the cash received therefor. Such gain or loss will be capital gain or loss if the Shares are capital assets in the hands of the shareholder and will be long-term if the holding period of the Shares is more than six months on the date the Purchaser accepts such Shares for payment pursuant to the Offer or on the date of a Merger, as the case may be.

THE FEDERAL INCOME TAX CONSEQUENCES SET FORTH ABOVE ARE FOR GENERAL INFORMATION ONLY AND ARE BASED UPON PRESENT LAW. EACH SHAREHOLDER IS URGED TO CONSULT HIS OWN TAX ADVISOR TO DETERMINE THE PARTICULAR TAX EFFECTS TO HIM OF THE OFFER OR A MERGER, INCLUDING THE APPLICATION AND EFFECT OF STATE, LOCAL AND OTHER TAX LAWS AND THE POSSIBLE EFFECTS OF CHANGES IN FEDERAL OR OTHER TAX LAWS. THE FOREGOING DISCUSSION MAY NOT BE APPLICABLE WITH RESPECT TO SHARES RECEIVED PURSUANT TO THE EXERCISE OF EMPLOYEE STOCK OPTIONS OR OTHERWISE AS COMPENSATION.

Litigation Relating to the Offer. On March 26, 1987, the day the Offer was announced, three shareholders of the Company brought a purported class action against the Company, BP, the Purchaser, BPI and eight directors of the Company in the Ohio Court of Common Pleas in Cleveland, alleging that the Offer and a Merger constitutes a fraud on the Company's shareholders other than the BP Group in that \$70 per share is a grossly inadequate and unfair price. The BP Group regards the action as baseless.

MARKET PRICES OF AND DIVIDENDS ON SHARES

The Shares are principally traded and listed on the NYSE and the MSE. The following table sets forth the high and low sales prices on the NYSE Composite Tape and the dividends paid per Share for the calendar quarters indicated:

	Sales		Dividends
	High	Low	
1985:			
First Quarter	\$48¼	\$39¾	\$.70
Second Quarter	50¾	45¾	.70
Third Quarter	48	42¼	.70
Fourth Quarter	55¾	45½	.70
1986:			
First Quarter	\$51¾	\$43	\$.70
Second Quarter	48	42¾	.70
Third Quarter	51¾	40¼	.70
Fourth Quarter	51¾	45¾	.70
1987:			
First Quarter	\$49¼	\$72¼	\$.70

On March 25, 1987, the last full day of trading prior to the announcement of the Purchaser's intention to make the Offer, the reported closing sales price per Share on the NYSE Composite Tape was \$64¾. On March 31, 1987, the last full day of trading prior to the commencement of the Offer, the reported closing sales price per Share on the NYSE Composite Tape was \$70¼. *Shareholders are urged to obtain a current market quotation for the Shares.*

THE COMPANY

Except as otherwise noted, the following information with respect to the Company was taken from the Company's publicly available information.

The Company and its subsidiaries are engaged in all phases of the petroleum business primarily in the United States, including the exploration for and production of crude oil and natural gas and the transportation, refining and marketing of crude oil and petroleum products. In addition, the Company is a major producer and marketer of copper, gold, silver and coal and a leading supplier of refractories, copper and brass mill products and process systems and equipment. The Company also manufactures and markets certain chemical products and products produced from ilmenite. The Company was incorporated in Ohio in 1870 and has its principal offices at 200 Public Square, Cleveland, Ohio 44114 (telephone (216) 586-4141).

The Company's oil and gas reserves and production facilities are located primarily in Alaska; its principal copper reserves and facilities are located in Utah; its principal coal reserves and mines are located in Illinois, Indiana, Kentucky and Pennsylvania; and its ilmenite mine and processing facilities are located in Quebec, Canada.

In 1986, the Company's petroleum businesses accounted for approximately 80% of the Company's revenues and substantially all of the Company's income before unusual items, interest, income taxes and an extraordinary item. Of the approximately 726,600 net barrels per day of crude oil and natural gas liquids produced by the Company in 1986, approximately 680,700 net barrels per day were attributable to production from Prudhoe Bay.

Historical Summary Financial Information. The following information concerning the Company and its subsidiaries for the five years ended December 31, 1986 has been derived from the Company's 1985 and 1986 Annual Reports. The summary below is qualified by reference to such documents and all the financial information and related notes contained therein.

THE STANDARD OIL COMPANY AND SUBSIDIARIES
SUMMARY CONSOLIDATED FINANCIAL INFORMATION

	Years ended December 31,				
	1982	1983	1984	1985	1986
	(Dollars in millions, except per Share amounts)				
Sales and operating revenue	\$13,113	\$11,490	\$11,692	\$13,002	\$9,219
Excise taxes	377	468	559	816	803
Income before unusual items, interest, income taxes and extraordinary item	3,697	3,046	3,038	2,874	713
Unusual items and extraordinary item ..	—	(137)	(90)	(1,699)	(1,113)
Net Income (loss)	1,879	1,512	1,488	308	(345)
Cash provided from operations	3,091	2,946	3,183	3,474	1,804
Capital expenditures	2,708	2,298	2,329	2,484	1,618
Total assets	16,016	16,362	17,487	17,508	15,955
Shareholders' equity	7,221	8,094	8,390	8,018	7,020
Long-term debt and capital lease obligations	4,192	3,850	3,577	3,305	3,276
Per Share or Share-equivalent					
Income before unusual items, interest, income taxes and extraordinary item	15.03	12.38	12.56	12.23	3.03
Unusual items and extraordinary item	—	(0.56)	(0.37)	(7.23)	(4.74)
Net Income (loss)	7.63	6.14	6.14	1.31	(1.47)
Shareholders' equity	29.35	32.90	34.67	34.12	29.87
Cash dividends	2.55	2.60	2.65	2.80	2.80
Ratio of earnings to fixed charges	5.3	5.7	6.0	2.6	*
Ratio of debt to borrowed and invested capital	34%	30%	27%	27%	27%

* Earnings for 1986 were inadequate to cover fixed charges. The amount of the deficiency in total adjusted earnings was \$679 million.

Projections. The Company does not, as a matter of course, make public projections as to its future performance or earnings. However, the Company has provided BP with the Company's Development Plan and Operating Plan, the former of which includes five-year projections of financial performance and the latter of which contains 1987 projections materially more favorable than those contained in the Development Plan.

The projected data in the table below, extracted from the Development Plan which was prepared in October 1986, is based upon the assumptions described below. The Development Plan noted that

over the five year period, the Company would generate excess cash totalling \$2.2 billion while retiring debt of \$1.4 billion; accordingly, if profitable opportunities to utilize the cash generated were not identified, the equity base would need to be reduced either by Share repurchases or increases in dividends.

Development Plan

	1987	1988	1989	1990	1991
	(Dollars in millions, except per Share amounts)				
Cash Generation					
Net Income	\$ 831	\$ 845	\$ 900	\$ 900	\$ 965
Non-Cash Charges	1,600	1,640	1,600	1,650	1,675
Divestitures	350	50	—	—	—
Total	2,610	2,535	2,500	2,550	2,640
Capital Expenditures	1,585	1,295	1,320	1,345	1,035
Cash Flow After Mandatory Debt Retirement.....	960	425	215	240	470
Earnings Per Share	2.80	3.60	3.85	3.85	4.10
Liquid Resources.....	1,550	1,760	2,100	2,460	3,040
Return on Borrowed and Invested Capital.....	7.2%	9.5%	10.3%	10.4%	11.3%
Net Debt/Capital Ratio*	29%	24%	19%	14%	5%

* Ratio of total debt less surplus financial assets to total debt less surplus financial assets plus shareholders' equity. Surplus financial assets are cash and marketable securities greater than \$200 million.

In preparing the projections, the following assumptions, among others, were used:

1. Price per barrel of oil was assumed to be \$15 for the entire period, adjusted for inflation at an assumed rate of 4% per annum. The Company also prepared five-year projections assuming a \$20 per barrel (inflation adjusted) oil price for the entire period and assuming a scenario in which oil prices are at \$10 per barrel (inflation adjusted) for three years and then \$15 per barrel (inflation adjusted) for the next two years. In the former case, net income for the years 1987 to 1991 would be, in millions, \$1,335, \$1,680, \$1,720, \$1,720 and \$1,820, respectively, and in the latter case, net income for such years would be, in millions, \$(60), \$70, \$145, \$875 and \$890, respectively.
2. In light of the United States federal tax law changes which took effect at the beginning of 1987, the following main assumptions were adopted: effective combined state and federal tax rate of 42% for 1987 and 36% in 1988 to 1991; no investment tax credit for assets placed in service after January 1, 1986 (except for transition rule affected properties); and continuation of laws in effect in 1986 for depreciation and depletion.
3. General United States inflation is assumed to be 4% per annum, although not all business expenses are assumed to escalate at this level. Most notably, oil and gas exploration and production operating and capital expenses are assumed to increase at 2% per annum nominal during the period, due to deflation of prices as a result of oversupply of goods and services in the service and construction industry.
4. Financial projections have assumed maintenance of the Company's current dividend.

Shortly after preparation of the Development Plan in October 1986, the Company prepared the Operating Plan, which contains updated financial projections for 1987 based upon information unavailable at the time the Development Plan was prepared. The financial highlights of the Operating Plan are as follows:

1987 Operating Plan

(Dollars in millions, except per Share amounts)

Operating Income.....	\$1,541
Net Income.....	787
Earnings per Share.....	3.35
Capital Expenditures.....	1,574
Total Funds Generated.....	1,184
Borrowed and Invested Capital—Year-End.....	13,843
Liquid Resources—Year-End.....	1,777
Return on Average Capital Employed.....	6.5%
Net Debt/Capital Ratio*.....	25.8%

* Ratio of total debt less liquid resources to total debt less liquid resources plus shareholders' equity.

The 1987 projections contained in the Operating Plan are materially more favorable than the projections for 1987 earlier forecasted by the Development Plan, in part because certain assumptions, different from the assumptions made in the Development Plan, were made in preparation of the Operating Plan. It was assumed that the price of ANS Gulf Coast will average \$14.90 per barrel in 1987, which is \$0.25 per barrel higher than was assumed in the Development Plan, and that inflation would be 3% during 1987, as compared to the 4% assumed in the Development Plan. The \$389 million improvement in operating income from the \$1,152 million projected in the Development Plan is a result of: the higher operating income due to the increase in the price of Alaskan North Slope crude oil (\$55 million), lower marine transportation costs (\$90 million), an improved West Coast price (\$45 million), increased Prudhoe Bay production (\$30 million), lower production costs (\$60 million) and other factors (\$109 million).

The key targets outlined in the Operating Plan include:

- (a) capital expenditure will be kept at or below about \$1,575 million;
- (b) crude oil production and refinery runs will be increased by 4% over 1986's level;
- (c) exploration capital and expense will be kept at no more than \$283 million, some \$60 million less than 1986;
- (d) a federal tax refund of about \$830 million, resulting from ordinary losses arising from 1986 operating results, the abandonment of exploration leases, and the sale, at a tax loss, of coal properties in 1986, will be received in May 1987;
- (e) restructuring plans, started in 1986, will be completed by the sale of the Industrial Products division and the reorganizations of Kennecott staff and Standard Oil Chemicals Company;
- (f) corporate overheads will be reduced to \$68 million, a 6% real decline from the 1986 level;
- (g) a borrowing program of \$500 million of long-term debt will be completed;
- (h) a thorough examination of probable acquisition targets in exploration and downstream petroleum will be conducted. No funds were included in the Operating Plan for any acquisition;