UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

# FORM 10-K

(Mark One)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended DECEMBER 31, 1996

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from __________ to _________

Commission file number 1-8590

MURPHY OIL CORPORATION
(Exact name of registrant as specified in its charter)

| Delaware | 71-0361522 |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification Number) |

| 200 Peach Street, P. O. Box 7000, El Dorado, Arkansas | 71731-7000 |
|---|---|
| (Address of principal executive offices) | (Zip Code) |

Registrant's telephone number, including area code: (501) 862-6411 (until April 14, 1997)
(870) 862-6411 (after April 14, 1997)

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Name of each exchange on which registered |
|---|---|
| Common Stock, $1.00 Par Value | New York Stock Exchange<br>The Toronto Stock Exchange |
| Series A Participating Cumulative Preferred Stock Purchase Rights | New York Stock Exchange<br>The Toronto Stock Exchange |

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days. Yes X No ---.

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

Aggregate market value of the voting stock held by non-affiliates of the registrant, based on average price at February 28, 1997 as quoted by the New York Stock Exchange, was approximately $1,555,503,000.

Number of shares of Common Stock, $1.00 Par Value, outstanding at February 28, 1997, was 44,873,752.

Documents incorporated by reference:

The Registrant's definitive Proxy Statement relating to the Annual Meeting of Stockholders on May 14, 1997 (Part III)

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PART I

## ITEMS 1. AND 2. BUSINESS AND PROPERTIES.

### SUMMARY

Murphy Oil Corporation is a worldwide oil and gas exploration and production company with refining and marketing operations in the United States and the United Kingdom as well as pipeline and crude oil trading operations in Canada. As used in this report, the terms Murphy, we, our, its, and Company may refer to Murphy Oil Corporation or any one or more of its consolidated subsidiaries.

The Company was originally incorporated in Louisiana in 1950 as Murphy Corporation; reincorporated in Delaware in 1964, at which time it adopted the name Murphy Oil Corporation; and reorganized in 1983 to operate solely as a holding company of its various businesses. Its activities are classified into two business segments: (1) "Exploration and Production," and (2) "Refining, Marketing, and Transportation." Additionally, "Corporate" activities include interest income, interest expense, and overhead not allocated to either of the business segments. On December 31, 1996, Murphy completed a spin-off to its stockholders of its wholly owned farm, timber, and real estate subsidiary, Deltic Farm & Timber Co., Inc. (reincorporated in Delaware as "Deltic Timber Corporation"). On November 6, 1996, Murphy announced the signing of a Memorandum of Understanding to merge its refining and marketing interests in the United Kingdom with those of Elf Oil U.K. Limited, a wholly owned subsidiary of Elf Aquitaine of France, and Gulf Oil (Great Britain) Ltd., a wholly owned subsidiary of Chevron Corporation; but on March 13, 1997, the Company elected to withdraw from further participation in the merger negotiations.

The information appearing on pages 2 through 50 of the 1996 Annual Report to Security Holders (1996 Annual Report) is incorporated in this Annual Report on Form 10-K as Exhibit 13 and is deemed to be filed as part of this 10-K report as indicated under Items 1, 2, 3, 5, 6, 7, 8, and 14. A narrative of the graphic and image information that appears in the paper format version of Exhibit 13 on pages 2 through 50 is included in the electronic Form 10-K document as an appendix to Exhibit 13 (pages A-1 through A-8).

In addition to the following information about each business segment, data relative to Murphy's operations, properties, and industry segments, including revenues by class of products and financial information by geographic areas, are described on pages 22 through 29, 36, 43, and 46 through 47 of the 1996 Annual Report, which is filed in this 10-K report as Exhibit 13.

### EXPLORATION AND PRODUCTION

During 1996, Murphy's principal exploration and/or production activities were conducted in the United States and Ecuador by wholly owned Murphy Exploration & Production Company (Murphy Expro) and its subsidiaries; in Canada by wholly owned Murphy Oil Company Ltd. (MOCL) and its subsidiaries; and in the U.K. North Sea by wholly owned Murphy Petroleum Limited. Murphy's crude oil and natural gas liquids production in 1996 was in the United States, Canada, the U.K. North Sea, and Ecuador; its natural gas was produced and sold in the United States, Canada, the U.K. North Sea, and Spain. MOCL also has a five-percent interest in Syncrude Canada Ltd., which extracts synthetic crude oil from oil sand deposits in northern Alberta. In addition, subsidiaries of Murphy Expro conducted exploration activities in various other countries including China, Ireland, Peru, the Falkland Islands, Bangladesh, and Pakistan.

Murphy's estimated net quantities of proved oil and gas reserves and proved developed oil and gas reserves at January 1, 1994 and at December 31, 1994, 1995, and 1996 by geographic area are reported on page 45 of the 1996 Annual Report, which is filed in this 10-K report as Exhibit 13. Murphy has not filed and is not required to file any estimates of its total proved net oil or gas reserves on a recurring basis with any federal or foreign governmental regulatory authority or agency other than the U.S. Securities and Exchange Commission. Annually, Murphy reports gross reserves of properties operated in the United States to the U.S. Department of Energy; such reserves are derived from the same data from which estimated net proved reserves of such properties are determined.

Net crude oil, condensate, and gas liquids production and net natural gas sales by geographic area with weighted average sales prices for each of the five years ended December 31, 1996 are shown on page 49 of the 1996 Annual Report, which is filed in this 10-K report as Exhibit 13.

EXPLORATION AND PRODUCTION (Contd.)

Production costs in U.S. dollars per equivalent barrel produced, including natural gas volumes converted to equivalent barrels of crude oil on the basis of approximate relative energy content, are discussed on pages 24 and 25 of the 1996 Annual Report, which is filed in this 10-K report as Exhibit 13.

Supplemental disclosures about oil and gas producing activities are reported on pages 44 through 48 of the 1996 Annual Report, which is filed in this 10-K report as Exhibit 13.

At December 31, 1996, Murphy held leases, concessions, contracts, or permits on nonproducing and producing acreage as shown by country in the following table. Gross acres are those in which all or part of the working interest is owned by Murphy; net acres are the portions of the gross acres applicable to Murphy's working interest. All amounts shown are in thousands of acres.

| | Nonproducing | | Producing | | Total | |
|---|---|---|---|---|---|---|
| Country | Gross | Net | Gross | Net | Gross | Net |
| United States - Onshore | 14 | 7 | 39 | 20 | 53 | 27 |
| - Gulf of Mexico | 598 | 369 | 392 | 144 | 990 | 513 |
| - Frontier | 122 | 88 | - | - | 122 | 88 |
| Total United States | 734 | 464 | 431 | 164 | 1,165 | 628 |
| Canada - Onshore | 773 | 468 | 409 | 169 | 1,182 | 637 |
| - Offshore | 147 | 26 | - | - | 147 | 26 |
| - Oil sands | 167 | 40 | 13 | 5 | 180 | 45 |
| Total Canada | 1,087 | 534 | 422 | 174 | 1,509 | 708 |
| United Kingdom | 658 | 151 | 100 | 21 | 758 | 172 |
| Ecuador | - | - | 494 | 99 | 494 | 99 |
| China | 563 | 254 | - | - | 563 | 254 |
| Falkland Islands | 401 | 100 | - | - | 401 | 100 |
| Ireland | 650 | 162 | - | - | 650 | 162 |
| Pakistan | 9,545 | 7,850 | - | - | 9,545 | 7,850 |
| Peru | 2,486 | 2,486 | - | - | 2,486 | 2,486 |
| Spain | 89 | 16 | - | - | 89 | 16 |
| Tunisia | 165 | 42 | - | - | 165 | 42 |
| Totals | 16,378 | 12,059 | 1,447 | 458 | 17,825 | 12,517 |

Oil and gas wells producing or capable of producing at December 31, 1996 are summarized in the following table. Gross wells are those in which all or part of the working interest is owned by Murphy. Net wells are the portions of the gross wells applicable to Murphy's working interest.

| | Oil Wells | | Gas Wells | |
|---|---|---|---|---|
| Country | Gross | Net | Gross | Net |
| United States | 348 | 154.3 | 281 | 117.2 |
| Canada | 4,150 | 780.0 | 790 | 250.0 |
| United Kingdom | 83 | 11.1 | 20 | 1.5 |
| Ecuador | 37 | 7.4 | - | - |
| Totals | 4,618 | 952.8 | 1,091 | 368.7 |
| Wells included above with multiple completions and counted as one well each | 93 | 42.4 | 83 | 59.2 |

EXPLORATION AND PRODUCTION (Contd.)

Murphy's net wells drilled in the last three years are summarized in the following table.

| | United States | | Canada | | United Kingdom | | Ecuador | | Other | | Totals | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Pro-ductive | Dry | Pro-ductive | Dry | Pro-ductive | Dry | Pro-ductive | Dry | Pro-ductive | Dry | Pro-ductive | Dry |
| 1996 | | | | | | | | | | | | |
| Exploratory | 13.8 | 3.9 | 5.3 | 4.0 | - | 1.1 | - | - | .4 | - | 19.5 | 9.0 |
| Development | 4.6 | - | 70.2 | 2.5 | 1.0 | .1 | 2.2 | - | - | - | 78.0 | 2.6 |
| 1995 | | | | | | | | | | | | |
| Exploratory | 4.6 | 1.9 | 6.0 | 4.3 | .3 | .1 | - | - | - | .5 | 10.9 | 6.8 |
| Development | 2.0 | - | 25.9 | 1.6 | .8 | - | 2.8 | - | - | - | 31.5 | 1.6 |
| 1994 | | | | | | | | | | | | |
| Exploratory | 6.1 | 4.0 | 5.4 | 5.0 | .5 | .5 | - | - | - | - | 12.0 | 9.5 |
| Development | .5 | .1 | 29.8 | 1.5 | .6 | - | 2.0 | - | - | - | 32.9 | 1.6 |

Murphy's drilling wells in progress at December 31, 1996 are summarized as follows.

| | Exploratory | | Development | | Totals | |
|---|---|---|---|---|---|---|
| Country | Gross | Net | Gross | Net | Gross | Net |
| United States | 5 | 2.9 | 4 | 2.6 | 9 | 5.5 |
| Canada | - | - | 2 | 1.8 | 2 | 1.8 |
| United Kingdom | - | - | 5 | .5 | 5 | .5 |
| Ecuador | - | - | 1 | .2 | 1 | .2 |
| Totals | 5 | 2.9 | 12 | 5.1 | 17 | 8.0 |

Additional information about current exploration and production activities is reported on pages 2 through 13 of the 1996 Annual Report, which is filed in this 10-K report as Exhibit 13.

REFINING, MARKETING, AND TRANSPORTATION

Murphy Oil USA, Inc. (MOUSA), a wholly owned subsidiary, owns and operates two refineries in the United States. The refinery at Superior, Wisconsin is located on fee land. The Meraux, Louisiana refinery is located on fee land and two leases that expire in 2010 and 2021, at which times the Company has options to purchase the leased acreage at fixed prices. Murco Petroleum Limited (Murco), a wholly owned U.K. subsidiary serviced by Murphy Eastern Oil Company, has an effective 30-percent interest in a 108,000-barrel-a-day refinery at Milford Haven, Wales. Refinery capacities at December 31, 1996 are shown in the following table.

| | Meraux, Louisiana | Superior, Wisconsin | Milford Haven, Wales (Murco's 30%) | Totals |
|---|---|---|---|---|
| Crude capacity - b/sd* | 100,000 | 35,000 | 32,400 | 167,400 |
| Process capacities - b/sd* | | | | |
| Vacuum distillation | 50,000 | 20,500 | 16,500 | 87,000 |
| Catalytic cracking - fresh feed | 38,000 | 11,000 | 9,960 | 58,960 |
| Pretreating cat-reforming feeds | 22,000 | 9,000 | 5,490 | 36,490 |
| Catalytic reforming | 18,000 | 8,000 | 5,490 | 31,490 |
| Distillate hydrotreating | 15,000 | 5,800 | 20,250 | 41,050 |
| Gas oil hydrotreating | 27,500 | - | - | 27,500 |
| Solvent deasphalting | 18,000 | - | - | 18,000 |
| Isomerization | - | 2,000 | 2,250 | 4,250 |
| Production capacities - b/sd* | | | | |
| Alkylation | 8,500 | 1,500 | 1,680 | 11,680 |
| Asphalt | - | 7,500 | - | 7,500 |
| Crude oil and product storage capacities - bbls. | 4,453,000 | 2,852,000 | 2,638,000 | 9,943,000 |

*Barrels per stream day.

Murphy distributes refined products from 56 terminal locations in the United States to retail and wholesale accounts in the United States (MOUSA) and Canada (MOCL) under the brand names SPUR(R) and Murphy USA and to unbranded wholesale accounts. Ten terminals are wholly owned and operated by MOUSA, 16 are jointly owned and operated by others, and the remaining 30 are owned by others. Of the terminals wholly owned or jointly owned by MOUSA, four are marine terminals, two are supplied by truck, two are adjacent to MOUSA's refineries, and 18 are supplied by pipeline. MOUSA receives products at the terminals owned by others in exchange for deliveries from the Company's wholly owned and jointly owned terminals. At the end of 1996, refined products were marketed at wholesale and/or retail through 527 branded stations in 17 southeastern and upper-midwestern states and seven branded stations in the Thunder Bay area of Ontario, Canada.

At the end of 1996, Murco distributed refined products in the United Kingdom from the Milford Haven refinery; three wholly owned, rail-fed terminals; eight terminals owned by others where products are received in exchange for deliveries from the Company's wholly owned terminals; and 424 branded stations under the brand names MURCO and EP.

Murphy owns a 20-percent interest in a 120-mile, 165,000-barrel-a-day refined products pipeline that transports products from the Meraux refinery to two common carrier pipelines serving Murphy's marketing area in the southeastern United States. The Company also owns a 22-percent interest in a 312-mile crude oil pipeline in Montana and Wyoming with a capacity of 120,000 barrels a day and a 3.2-percent interest in LOOP Inc., which provides deep-water off-loading accommodations off the Louisiana coast for oil tankers and onshore facilities for storage of crude oil. In addition, Murphy owns 29.4 percent of a 22-mile, 300,000-barrel-a-day crude oil pipeline between LOOP storage at Clovelly, Louisiana and Alliance, Louisiana and 100 percent of a 24-mile, 200,000-barrel-a-day crude oil pipeline from Alliance to the Meraux refinery. The pipeline from Alliance to Meraux is also connected to another company's pipeline system, allowing crude oil transported by that system to be shipped to the refinery.

REFINING, MARKETING, AND TRANSPORTATION (Contd.)

At December 31, 1996, MOCL operated the following Canadian crude oil pipelines, with the ownership percentage, extent, and capacity in barrels a day of each as shown. MOCL also operated and owned all or most of several short lateral connecting pipelines.

| Name | Description | Percent | Miles | Bbls./Day | Route |
|---|---|---|---|---|---|
| Manito | Dual heavy oil | 52.5 | 101 | 50,000 | Dulwich to Kerrobert, Sask. |
| North-Sask | Dual heavy oil | 36 | 40 | 22,000 | Paradise Hill to Dulwich, Sask. |
| Cactus Lake | Dual heavy oil | 13.1 | 40 | 38,000 | Cactus Lake to Kerrobert, Sask. |
| Bodo | Dual heavy oil | 41 | 15 | 9,000 | Bodo, Alta. to Cactus Lake, Sask. |
| Milk River | Dual medium/light oil | 100 | 10.5 | 118,000 | Milk River, Alta. to U.S. border |
| Wascana | Single light oil | 100 | 108 | 45,000 | Regina, Sask. to U.S. border |
| Eyehill | Dual heavy oil | 100 | 28 | 15,000 | Eyehill to Unity, Sask. |

Additional information about current refining, marketing, and transportation activities and a statistical summary of key operating and financial indicators for each of the five years ended December 31, 1996 are reported on pages 3, 14 through 21, and 50 of the 1996 Annual Report, which is filed in this 10-K report as Exhibit 13.

EMPLOYEES

Murphy had 1,339 full-time employees at December 31, 1996.

COMPETITION AND OTHER CONDITIONS WHICH MAY AFFECT BUSINESS

Murphy operates in the oil industry and experiences intense competition from other oil and gas companies, many of which have substantially greater resources. In addition, the oil industry as a whole competes with other industries in supplying energy requirements around the world. Murphy is a net purchaser of crude oil and other refinery feedstocks and occasionally purchases refined products and may therefore be required to respond to operating and pricing policies of others, including producing country governments from whom it makes purchases. Additional information concerning current conditions of the Company's business is reported under the caption "Outlook" on page 28 of the 1996 Annual Report, which is filed in this 10-K report as Exhibit 13.

The operations and earnings of Murphy have been and continue to be affected by worldwide political developments. Many governments, including those that are members of the Organization of Petroleum Exporting Countries (OPEC), unilaterally intervene at times in the orderly market of crude oil and natural gas produced in their countries through such actions as fixing prices and determining rates of production and who may sell and buy the production. In addition, prices and availability of crude oil, natural gas, and refined products could be influenced by political unrest and by various governmental policies to restrict or increase petroleum usage and supply. Other governmental actions that could affect Murphy's operations and earnings include tax changes and regulations concerning: currency fluctuations, protection and/or remediation of the environment (See the caption "Environmental" on page 27 of the 1996 Annual Report, which is filed in this 10-K report as Exhibit 13.), preferential and discriminatory awarding of oil and gas leases, restraints and controls on imports and exports, safety, and relationships between employers and employees. Because these and other government-influenced factors too numerous to list are subject to constant changes dictated by political considerations and are often made in great haste in response to changing internal and worldwide economic conditions and to actions of other governments or specific events, it is not practical to attempt to predict the effects of such factors on Murphy's future operations and earnings.

Murphy's policy is to insure against known risks when insurance is available at costs and terms Murphy considers reasonable. Certain existing risks are insured by Murphy only through Oil Insurance Limited (OIL), which is operated as a mutual insurance company by certain participating oil companies including Murphy and was organized to insure against risks for which commercial insurance is unavailable or for which the cost of commercial insurance is prohibitive.

EXECUTIVE OFFICERS OF THE REGISTRANT

The age (at January 1, 1997), present corporate office, and length of service in office of each of the Company's executive officers and persons chosen to become executive officers are reported in the following listing. Executive officers are elected annually but may be removed from office at any time by the Board of Directors.

R. Madison Murphy - Age 39; Chairman of the Board since October 1994. Mr. Murphy had been Executive Vice President and Chief Financial and Administrative Officer, Director, and Member of the Executive Committee since 1993. Prior to that, he was Executive Vice President and Chief Financial Officer from 1992 to 1993; Vice President, Planning/Treasury, from 1991 to 1992; and Vice President, Planning, from 1988 to 1991, with additional duties as Treasurer from 1990 until August 1991.

Claiborne P. Deming - Age 42; President and Chief Executive Officer since October 1994 and Director and Member of the Executive Committee since 1993. In 1992, he became Executive Vice President and Chief Operating Officer. Mr. Deming was President of MOUSA from 1989 to 1992 and Vice President, Petroleum Operations, for Murphy from 1988 to 1989.

Steven A. Cosse - Age 49; Senior Vice President since October 1994 and General Counsel since August 1991. Mr. Cosse was elected Vice President in 1993. For the eight years prior to August 1991, he was General Counsel for Murphy Expro, at that time named Ocean Drilling & Exploration Company (ODECO), a majority-owned subsidiary of Murphy.

Herbert A. Fox Jr. - Age 62; Vice President since October 1994. Mr. Fox has also been President of MOUSA since 1992. He served with MOUSA as Vice President, Manufacturing, from 1990 to 1992 and as Manager of Crude Supply from 1973 to 1990.

Bill H. Stobaugh - Age 45; Vice President since May 1995, when he joined the Company. Prior to that, he had held various engineering, planning, and managerial positions, the most recent being with an engineering consulting firm.

Odie F. Vaughan - Age 60; Treasurer since August 1991. From 1975 through July 1991, he was with ODECO as Vice President of Taxes and Treasurer.

Ronald W. Herman - Age 59; Controller since August 1991. He was Controller of ODECO from 1977 through July 1991.

Walter K. Compton - Age 34; Secretary since December 1996. He has been an attorney with the Company since 1988 and became Manager, Law Department, in November 1996.

ITEM 3. LEGAL PROCEEDINGS.

Information related to legal proceedings contained in Note Q, page 42 of the 1996 Annual Report, which is filed in this 10-K report as Exhibit 13, is incorporated herein. Also, MOUSA, in connection with its ownership and operation of two oil refineries in the United States, is a defendant in two governmental actions that: (1) seek monetary sanctions of $100,000 or more, and (2) arise under enacted provisions that regulate the discharge of materials into the environment or have the purpose of protecting the environment. These actions individually or in the aggregate are not material to the financial condition of the Company. In addition, Murphy and its subsidiaries are engaged in a number of other legal proceedings, all of which Murphy considers routine and incidental to its business and none of which is material as defined by the rules and regulations of the U.S. Securities and Exchange Commission.

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

No matters were submitted to a vote of security holders during the fourth quarter of 1996.

PART II

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

The Company's Common Stock is traded on the New York Stock Exchange and the Toronto Stock Exchange. Other information required by this item is reported on page 29 of the 1996 Annual Report, which is filed in this 10-K report as Exhibit 13.

ITEM 6. SELECTED FINANCIAL DATA.

Information required by this item appears on page 22 of the 1996 Annual Report, which is filed in this 10-K report as Exhibit 13.

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

Information required by this item appears on pages 23 through 28 of the 1996 Annual Report, which is filed in this 10-K report as Exhibit 13.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

Information required by this item appears on pages 29 through 48 of the 1996 Annual Report, which is filed in this 10-K report as Exhibit 13.

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

None

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

Certain information regarding executive officers of the Company is included in Part I, page 8, of this 10-K report. Other information required by this item is incorporated by reference to the Registrant's definitive proxy statement for the annual meeting of stockholders on May 14, 1997, under the caption "Election of Directors."

ITEM 11. EXECUTIVE COMPENSATION.

Information required by this item is incorporated by reference to the Registrant's definitive proxy statement for the annual meeting of stockholders on May 14, 1997, under the captions "Compensation of Directors," "Executive Compensation," "Option Exercises and Fiscal Year-End Values," "Option Grants," "Compensation Committee Report for 1996," "Shareholder Return Performance Presentation," and "Retirement Plans."

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

Information required by this item is incorporated by reference to the Registrant's definitive proxy statement for the annual meeting of stockholders on May 14, 1997, under the caption "Certain Stock Ownerships."

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

Information required by this item is incorporated by reference to the Registrant's definitive proxy statement for the annual meeting of stockholders on May 14, 1997, under the caption "Compensation Committee Interlocks and Insider Participation."

PART IV

## ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K.

(a) 1. FINANCIAL STATEMENTS

The following consolidated financial statements of Murphy Oil Corporation and consolidated subsidiaries are included on the pages indicated of the 1996 Annual Report, which is filed in this 10-K report as Exhibit 13.

| | Exhibit 13 Page Nos. |
|---|---|
| Independent Auditors' Report | 30 |
| Consolidated Statements of Income | 31 |
| Consolidated Balance Sheets | 32 |
| Consolidated Statements of Cash Flows | 33 |
| Consolidated Statements of Stockholders' Equity | 34 |
| Notes to Consolidated Financial Statements | 35 through 43 |

(a) 2. FINANCIAL STATEMENT SCHEDULES

Financial statement schedules are omitted because either they are not applicable or the required information is included in the consolidated financial statements or notes thereto.

(a) 3. EXHIBITS

The Exhibit Index on page 12 of this 10-K report lists the exhibits that are hereby filed or incorporated by reference.

(b) REPORTS ON FORM 8-K

No reports on Form 8-K were filed during the quarter ended December 31, 1996.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MURPHY OIL CORPORATION

By /s/ CLAIBORNE P. DEMING Date: March 25, 1997

Claiborne P. Deming, President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below on March 25, 1997 by the following persons on behalf of the registrant and in the capacities indicated.

| | |
|---|---|
| /s/ R. MADISON MURPHY<br>R. Madison Murphy,<br>Chairman and Director | /s/ MICHAEL W. MURPHY<br>Michael W. Murphy, Director |
| /s/ CLAIBORNE P. DEMING<br>Claiborne P. Deming, President and<br>Chief Executive Officer and Director<br>(Principal Executive Officer) | /s/ WILLIAM C. NOLAN JR.<br>William C. Nolan Jr., Director |
| /s/ B. R. R. BUTLER<br>B. R. R. Butler, Director | /s/ CAROLINE G. THEUS<br>Caroline G. Theus, Director |
| /s/ GEORGE S. DEMBROSKI<br>George S. Dembroski, Director | /s/ LORNE C. WEBSTER<br>Lorne C. Webster, Director |
| /s/ H. RODES HART<br>H. Rodes Hart, Director | /s/ STEVEN A. COSSE<br>Steven A. Cosse, Senior Vice<br>President and General Counsel<br>(Principal Financial Officer) |
| /s/ VESTER T. HUGHES JR.<br>Vester T. Hughes Jr., Director | /s/ RONALD W. HERMAN<br>Ronald W. Herman, Controller<br>(Principal Accounting Officer) |
| /s/ C. H. MURPHY JR.<br>C. H. Murphy Jr., Director | |

EXHIBIT INDEX

| Exhibit No. | | Page Number or Incorporation by Reference to |
|---|---|---|
| 3.1 | Certificate of Incorporation of Murphy Oil Corporation as of September 25, 1986 | Page Ex. 3.1-1 |
| 3.2 | Bylaws of Murphy Oil Corporation at October 4, 1995 | Exhibit 3.3, Page Ex. 3.3-1, of Murphy's Annual Report on Form 10-K for the year ended December 31, 1995 |
| 4 | Instruments Defining the Rights of Security Holders. Murphy is party to several long-term debt instruments, none of which authorizes securities that exceed 10 percent of the total assets of Murphy and its subsidiaries on a consolidated basis. Pursuant to Regulation S-K, item 601(b), paragraph 4(iii)(A), Murphy agrees to furnish a copy of each such instrument to the Securities and Exchange Commission upon request. | |
| 4.1 | Rights Agreement dated as of December 6, 1989 between Murphy Oil Corporation and Harris Trust Company of New York, as Rights Agent | Exhibit 4.1, Page Ex. 4.1-0, of Murphy's Annual Report on Form 10-K for the year ended December 31, 1994 |
| 10.1 | 1987 Management Incentive Plan (adopted May 13, 1987, amended February 7, 1990 retroactive to February 3, 1988) | Exhibit 10.2, Page Ex. 10.2-0, of Murphy's Annual Report on Form 10-K for the year ended December 31, 1994 |
| 10.2 | 1992 Stock Incentive Plan | Exhibit 10.3, Page Ex. 10.3-0, of Murphy's Annual Report on Form 10-K for the year ended December 31, 1992 |
| 13 | 1996 Annual Report to Security Holders Appendix - Narrative to Graphic and Image Material | Page Ex. 13-0, report pp. 2 through 50 (Page A-1 for electronic filing only) |
| 21 | Subsidiaries of the Registrant | Page Ex. 21-1 |
| 23 | Independent Auditors' Consent | Page Ex. 23-1 |
| 27 | Financial Data Schedule for 1996 | (Electronic filing only) |
| 99.1 | Undertakings | Page Ex. 99.1-1 |
| 99.2 | Form 11-K, Annual Report for the fiscal year ended December 31, 1996 covering the Thrift Plan for Employees of Murphy Oil Corporation | To be filed as an amendment of this Annual Report on Form 10-K not later than 180 days after December 31, 1996 |
| 99.3 | Form 11-K, Annual Report for the fiscal year ended December 31, 1996 covering the Thrift Plan for Employees of Murphy Oil USA, Inc. Represented by United Steelworkers of America, AFL-CIO, Local No. 8363 | To be filed as an amendment of this Annual Report on Form 10-K not later than 180 days after December 31, 1996 |
| 99.4 | Form 11-K, Annual Report for the fiscal year ended December 31, 1996 covering the Thrift Plan for Employees of Murphy Oil USA, Inc. Represented by International Union of Operating Engineers, AFL-CIO, Local No. 305 | To be filed as an amendment of this Annual Report on Form 10-K not later than 180 days after December 31, 1996 |
| 99.5 | Form 11-K, Annual Report for the fiscal year ended December 31, 1996 covering the Thrift Plan for Hourly Employees of Deltic Farm & Timber Co., Inc. | To be filed as an amendment of this Annual Report on Form 10-K not later than 180 days after December 31, 1996 |

Exhibits other than those listed above have been omitted since they either are not required or are not applicable.

EXHIBIT 3.1

# CERTIFICATE OF INCORPORATION

# OF

# MURPHY OIL CORPORATION

AS AMENDED SEPTEMBER 25, 1986

MURPHY OIL CORPORATION, a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware, DOES HEREBY CERTIFY:

FIRST: The name of the corporation shall be MURPHY OIL CORPORATION (hereinafter called the "Company").

SECOND: The registered office of the Company in the State of Delaware is to be located in the City of Wilmington, County of New Castle. The name of its registered agent is The Corporation Trust Company, whose address is No. 100 West Tenth Street, Wilmington, Delaware 19899.

THIRD: The purpose of the corporation is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of the State of Delaware.

FOURTH: The total number of shares of stock of all classes which the Company shall have authority to issue is 80,400,000 shares, of which 400,000 shall be of the par value of $100 each, designated as "Cumulative Preferred Stock" (hereinafter in this Article Fourth called "Preferred Stock"), and 80,000,000 shall be of the par value of $1.00 each, designated as "Common Stock".

No stockholder of the Company shall by reason of his holding shares of any class have any pre-emptive or preferential right to purchase or subscribe to any shares of any class of the Company, now or hereafter to be authorized, or any notes, debentures, bonds, or other securities convertible into or carrying options or warrants to purchase shares of any class, now or hereafter to be authorized, whether or not the issuance of any such shares, or such notes, debentures, bonds or other securities, would adversely affect the dividend or voting rights of such stockholder, other than such rights, if any, as the board of directors, in its discretion from time to time may grant, and at such prices as the board of directors in its discretion may fix; and the board of directors may issue shares of any class of the Company, or any notes, debentures, bonds, or other securities convertible into or carrying options or warrants to purchase shares of any class, without offering any such shares of any class, either in whole or in part, to the existing stockholders of any class.

The following are the terms and provisions of each class of stock which the Company shall have authority to issue:

SECTION I

Cumulative Preferred Stock

(1) The Preferred Stock may be issued, from time to time, in one or more series, the shares of each series to have such designations, preferences, and relative, participating, optional or other special rights, and qualifications, limitations or restrictions thereof as are stated and expressed herein and in the resolution or resolutions providing for the issue of such series, adopted by the board of directors as hereinafter provided.

(2) Authority is hereby expressly vested in and granted to the board of directors of the Company, subject to the provisions of this Article Fourth, to authorize the issue of one or more series of Preferred Stock and with respect to each such series to fix, by resolution or resolutions providing for the issue of such series, the following:

(a) the maximum number of shares to constitute such series and the distinctive designation thereof;

(b) the annual dividend rate on the shares of such series and the date or dates from which dividends shall be accumulated as herein provided;

(c) the premium, if any, over and above the par value thereof and any accumulated dividends thereon which the holders of such shares of such series shall be entitled to receive upon the redemption thereof, which premium may vary at different redemption dates and may also be different with respect to shares redeemed through the operation of any purchase, retirement or sinking fund than with respect to shares otherwise redeemed;

(d) the premium, if any, over and above the par value thereof and any accumulated dividends thereon which the holders of such shares of such series shall be entitled to receive upon the voluntary liquidation, dissolution or winding up of the Company;

(e) whether or not the shares of such series shall be subject to the operation of a purchase, retirement or sinking fund and, if so, the extent to and manner in which such purchase, retirement or sinking fund shall be applied to the purchase or redemption of the shares of such series for retirement or for other corporate purposes and the terms and provisions relative to the operation of the said fund or funds;

(f) whether or not the shares of such series shall be convertible into or exchangeable for shares of stock of any other class or classes, or of any other series of the same class, and if so convertible or exchangeable, the price or prices or the rate or rates of conversion or exchange and the method, if any, of adjusting the same;

(g) the limitations and restrictions, if any, to be effective while any shares of such series are outstanding, upon the payment of dividends or making of other distributions, and upon the purchase, redemption or other acquisition by the Company, or any subsidiary, of the Preferred Stock, the Common Stock, or any other class or classes of stock of the Company ranking on a parity with or junior to the shares of such series either as to dividends or upon liquidation;

(h) the conditions or restrictions, if any, upon the creation of indebtedness of the Company or of any subsidiary, or upon the issue of any additional stock (including additional shares of such series or of any other series or of any other class) ranking on a parity with or prior to the shares of such series either as to dividends or upon liquidation; and

(i) any other preferences and relative, participating, optional or other special rights, or qualifications, limitations or restrictions thereof, as shall not be inconsistent with this Article Fourth.

(3) All shares of any one series of Preferred Stock shall be identical with each other in all respects, except that shares of any one series issued at different times may differ as to the dates from which dividends thereon shall be cumulative; and all series shall rank equally and be identical in all respects, except as permitted by the foregoing provisions of Paragraph (2) of this Section I of this Article Fourth.

(4) Before any dividends (other than dividends payable in Common Stock) on any class or classes of stock of the Company ranking junior to the Preferred Stock as to dividends shall be declared or paid or set apart for payment, the holders of shares of Preferred Stock of each series shall be entitled to receive cash dividends, when and as declared by the board of directors, at the annual rate, and no more, fixed in the resolution or resolutions adopted by the board of directors providing for the issue of such series, payable quarterly in each year on such dates as may be fixed in such resolution or resolutions, to holders of record on such respective dates, not exceeding 50 days preceding such dividend payment dates, as may be determined by the board of directors in advance of the payment of each particular dividend; provided, however, that the resolution or resolutions providing for the issue of each series of Preferred Stock shall fix the same dates in each year for the payment of quarterly dividends as are fixed for the payment of quarterly dividends in the resolution or resolutions providing for the issue of all other series of Preferred Stock at the time outstanding. With respect to each series of Preferred Stock such dividends shall be cumulative from the date or dates fixed in the resolution or resolutions providing for the issue of such series, which dates shall in no instance be more than 90 days before or after the date of the issuance of the particular shares of such series then to be issued. No dividends shall be declared on any series of Preferred Stock in respect of any quarter-yearly dividend period unless there shall likewise be or have been declared on all shares of Preferred Stock of each other series at the time outstanding like dividends ratably in proportion to the respective annual dividend rates fixed therefor as hereinbefore provided.

(5) In the event of any liquidation, dissolution or winding up of the Company, before any payment or distribution of the assets of the Company (whether capital or surplus) shall be made to or set apart for the holders of any class or classes of stock of the Company ranking junior to the Preferred Stock upon liquidation, the holders of shares of Preferred Stock shall be entitled to receive payment at the rate of $100 per share, plus an amount equal to all dividends (whether or not earned or declared) accumulated to the date of final distribution to such holders, and, in addition thereto, if such liquidation, dissolution or winding up be voluntary, the amount of the premium, if any, payable upon such liquidation, dissolution or winding up as fixed for the shares of the respective series; but such holders shall not be entitled to any further payment. If, upon any liquidation, dissolution or winding up of the Company, the assets of the Company, or proceeds thereof, distributable among the holders of shares of Preferred Stock shall be insufficient to pay in full the preferential amount aforesaid, then such assets, or the proceeds thereof, shall be distributed among such holders ratably in accordance with the respective amounts which would be payable on such shares if all amounts payable thereon were paid in full. For the purpose of this Paragraph (5), the voluntary sale, conveyance, lease, exchange or transfer (for cash, shares of stock, securities or other consideration) of all or substantially all the property or assets of the

Company shall be deemed a voluntary liquidation, dissolution or winding up of the Company, but a consolidation or merger of the Company with one or more other corporations (whether or not the Company is the corporation surviving such consolidation or merger) shall not be deemed to be liquidation, dissolution or winding up, voluntary or involuntary.

(6) The Company, at the option of the board of directors, may, except as provided in Paragraph (10) of this Section I of this Article Fourth, redeem at any time the whole or from time to time any part of the Preferred Stock of any series at the time outstanding, at the par value thereof, plus in every case an amount equal to all accumulated dividends with respect to each share so to be redeemed, and, in addition thereto, the amount of the premium, if any, payable upon such redemption fixed in the resolution or resolutions providing for the issue of such series (the total sum so payable on any such redemption being herein referred to as the "redemption price"). Notice of every such redemption shall be mailed at least 30 days in advance of the date designated for such redemption (herein called the "redemption date") to the holders of record of shares of Preferred Stock so to be redeemed at their respective addresses as the same shall appear on the books of the Company. In order to facilitate the redemption of any shares of Preferred Stock that may be chosen for redemption as provided in this Paragraph (6), the board of directors shall be authorized to cause the transfer books of the Company to be closed as to such shares at any time not exceeding 50 days prior to the redemption date. In case of the redemption of a part only of any series of Preferred Stock at the time outstanding, the shares of such series so to be redeemed shall be selected by lot or in such other manner as the board of directors may determine. The board of directors shall have full power and authority, subject to the limitations and provisions herein contained, to prescribe the terms and conditions upon which the Preferred Stock shall be redeemed from time to time.

(7) If said notice of redemption shall have been given as aforesaid and if, on or before the redemption date, the funds necessary for such redemption shall have been set aside by the Company, separate and apart from its other funds, in trust for the pro rata benefit of the holders of the shares so called for redemption; then, from and after the redemption date, notwithstanding that any certificate for shares of Preferred Stock so called for redemption shall not have been surrendered for cancellation, the shares represented thereby shall not be deemed outstanding, the right to receive dividends thereon shall cease to accrue from and after the redemption date and all rights of holders of the shares of Preferred Stock so called for redemption shall forthwith, after the redemption date, cease and terminate, excepting only the right to receive the redemption price therefor but without interest. Any moneys so set aside by the Company and unclaimed at the end of six years from the date fixed for such redemption shall revert to the general funds of the Company after which reversion the holders of such shares so called for redemption shall look only to the Company for payment of the redemption price, and such shares shall still not be deemed to be outstanding.

(8) If, on or before the redemption date, the Company shall deposit in trust, with a bank or trust company in the Borough of Manhattan, The City of New York, having a capital and surplus of at least $5,000,000 the funds necessary for the redemption of the shares of Preferred Stock so called for redemption, to be applied to the redemption of such shares, and if on or before such date the Company shall have given notice of redemption as aforesaid or made provision satisfactory to such bank or trust company for the timely giving thereof, then from and after the date of such

deposit all shares of Preferred Stock so called for redemption shall not be deemed to be outstanding, and all rights of the holders of such shares of Preferred Stock so called for redemption shall cease and terminate, excepting only the right to receive the redemption price therefor, but without interest, and the right to exercise on or before the date fixed for redemption privileges of conversion or exchange, if any, not theretofore otherwise expiring. Any funds so deposited, which shall not be required for such redemption because of the exercise of any such right of conversion or exchange subsequent to the date of such deposit, shall be returned to the Company. In case the holders of shares of Preferred Stock which shall have been called for redemption shall not, within one year after the redemption date, claim the amount deposited with respect to the redemption thereof, any such bank or trust company shall, upon demand, pay over to the Company such unclaimed amounts and thereupon such bank or trust company shall be relieved of all responsibility in respect thereof to such holder and such holder shall look only to the Company for the payment thereof. Any interest accrued on funds so deposited shall be paid to the Company from time to time. Any such unclaimed amounts paid over by any such bank of trust company to the Company shall, for a period terminating six years after the date fixed for redemption, be set aside and held by the Company in the manner and with the same effect as if such unclaimed amounts had been set aside under the preceding Paragraph (7) of this Section I of this Article Fourth.

(9) Shares of Preferred Stock which have been retired through the operation of purchase, retirement or sinking fund, whether by redemption, purchase or otherwise, shall, upon compliance with any applicable provisions of the General Corporation Law of the State of Delaware, have the status of authorized and unissued shares of Preferred Stock, but shall be reissued only as part of a new series of Preferred Stock to be created by resolution or resolutions of the board of directors or as part of any other series of Preferred Stock the terms of which do not prohibit such reissue, and shall not be reissued as a part of the series of which they were originally a part. Shares of Preferred Stock which have been redeemed or purchased, otherwise than through the operation of a purchase, retirement or sinking fund, or which, if convertible or exchangeable, have been converted into or exchanged for shares of stock of any other class or classes ranking junior to the Preferred Stock both as to dividends and upon liquidation, shall, upon compliance with any applicable provisions of the General Corporation Law of the State of Delaware, have the status of authorized and unissued shares of Preferred Stock and may be reissued as a part of the series of which they were originally a part (if the terms of such series do not prohibit such reissue) or as part of a new series of Preferred Stock to be created by resolution or resolutions of the board of directors or as part of any other series of Preferred Stock the terms of which do not prohibit such reissue.

(10) If at any time the Company shall have failed to pay dividends in full on the Preferred Stock, thereafter and until dividends in full, including all accumulated dividends on the Preferred Stock outstanding, shall have been declared and set apart for payment or paid, (a) the Company, without the affirmative vote or consent of the holders of at least 66 2/3% in interest of the Preferred Stock at the time outstanding, given in person or by proxy, either in writing or by resolution adopted at a special meeting called for the purpose, the holders of the Preferred Stock, regardless of series, consenting or voting (as the case may be) separately as a class, shall not redeem less than all the Preferred Stock at such time outstanding, and (b) neither the Company nor any subsidiary shall purchase any Preferred Stock except in accordance with a

purchase offer made in writing or by publication (as determined by the board of directors) to all holders of Preferred Stock of all series upon such terms as the board of directors, in their sole discretion after consideration of the respective annual dividend rates and other relative rights and preferences of the respective series, shall determine (which determination shall be final and conclusive) will result in fair and equitable treatment among the respective series; provided that (i) the Company, to meet the requirements of any purchase, retirement or sinking fund provisions with respect to any series, may use shares of such series acquired by it prior to such failure and then held by it as treasury stock and (ii) nothing shall prevent the Company from completing the purchase or redemption of shares of Preferred Stock for which a purchase contract was entered into for any purchase, retirement or sinking fund purposes, or the notice of redemption of which was initially published, prior to such default.

(11) So long as any of the Preferred Stock is outstanding, the Company will not:

(a) Without the affirmative vote or consent of the holders of at least 66 2/3% of all the Preferred Stock at the time outstanding, given in person or by proxy, either in writing or by resolution adopted at a special meeting called for the purpose, the holders of the Preferred Stock, regardless of series, consenting or voting (as the case may be) separately as a class (i) create any class or classes of stock ranking prior to the Preferred Stock, either as dividends or upon liquidation, or increase the authorized number of shares of any class or classes of stock ranking prior to the Preferred Stock either as to dividends or upon liquidation or (ii) amend, alter or repeal any of the provisions of this Article Fourth so as adversely to affect the preferences, special rights, or powers of the Preferred Stock.

(b) Without the affirmative vote or consent of the holders of at least 66 2/3% of any series of the Preferred Stock at the time outstanding, given in person or by proxy, either in writing or by resolution adopted at a special meeting called for the purpose, the holders of such series of the Preferred Stock consenting or voting (as the case may be) separately as a class, amend, alter or repeal any of the provisions of the resolution or resolutions providing for the issue of such series so as adversely to affect the preferences, special rights or powers of the Preferred Stock of such series.

(c) Without the affirmative vote or consent of the holders of at least a majority of all the Preferred Stock at the time outstanding, given in person or by proxy, either in writing or by resolution adopted at a special meeting called for the purpose, the holders of the Preferred Stock, regardless of series, consenting or voting (as the case may be) separately as a class (i) increase the authorized amount of the Preferred Stock, (ii) create any other class or classes of stock ranking on a parity with the Preferred Stock either as to dividends or upon liquidation, (iii) merge or consolidate with any other corporation, other than a wholly owned subsidiary, or (iv) voluntarily dissolve.

(12) Except as herein or by law expressly provided, the Preferred Stock shall have no right or power to vote on any question or in any proceeding or to be represented at or to receive notice of any meeting of stockholders. If, however, and whenever, at any time or times, dividends payable on the Preferred Stock shall be in default in an aggregate amount equivalent to not less than four full quarterly dividends on any series of Preferred Stock at the time outstanding, the outstanding Preferred

Stock shall have the exclusive right, voting separately as a class, to elect two directors of the Company, and the remaining directors shall be elected by the other class or classes of stock entitled to vote therefor. Whenever such right of the holders of the Preferred Stock shall have vested, such right may be exercised initially either at a special meeting of such holders of the Preferred Stock called as provided in Paragraph (13) of this Section I of this Article Fourth, or at any annual meeting of stockholders held for the purpose of electing directors, and thereafter at such annual meetings. The right of the holders of the Preferred Stock, voting separately as a class, to elect members of the board of directors of the Company as aforesaid shall continue until such time as all dividends accumulated on the Preferred Stock shall have been paid in full, at which time the right of the holders of the Preferred Stock to vote and to be represented at and to receive notice of meetings shall terminate, except as herein or by law expressly provided, subject to revesting in the event of each and every subsequent default of the character above mentioned.

(13) At any time when the special voting right shall have vested in the holders of the Preferred Stock then outstanding as provided in the preceding Paragraph (12) of this Section I of this Article Fourth, and if such right shall not already have been initially exercised, a proper officer of the Company shall, upon the written request of the holders of record of at least 10% in amount of the Preferred Stock then outstanding, regardless of series, addressed to the secretary of the Company, call a special meeting of the holders of the Preferred Stock and of any other class or classes of stock having voting power with respect thereto, for the purpose of electing directors. Such meeting shall be held at the earliest practicable date upon the notice required for annual meetings of stockholders at the place for the holding of annual meetings of stockholders of the Company. If such meeting shall not be called by the proper officer of the Company within 20 days after the personal service of such written request upon the secretary of the Company, or within 20 days after mailing the same within the United States of America, by registered mail addressed to the secretary of the Company at its principal office (such mailing to be evidenced by the registry receipt issued by the postal authorities), then the holders of record of at least 10% in amount of the Preferred Stock then outstanding, regardless of series, may designate in writing one of their number to call such meeting at the expense of the Company, and such meeting may be called by such person so designated upon the notice required for annual meetings of stockholders and shall be held at the place for the holding of annual meetings of stockholders of the Company. Any holder of Preferred Stock so designated shall have access to the stock books of the Company for the purpose of causing a meeting of stockholders to be called pursuant to these provisions. Notwithstanding the provisions of this Paragraph (13), no such special meeting shall be called during the period within 60 days immediately preceding the date fixed for the next annual meeting of stockholders.

(14) At any meeting held for the purpose of electing directors at which the holders of the Preferred Stock shall have the special right, voting separately as a class, to elect directors as provided in Paragraph (12) of this Section I of this Article Fourth, the presence, in person or by proxy, of the holders of 33 1/3% of the Preferred Stock at the time outstanding shall be required and be sufficient to constitute a quorum of such class for the election of any director by the holders of the Preferred Stock as a class. At any such meeting or adjournment thereof, (a) the absence of a quorum of the Preferred Stock shall not prevent the election of the directors to be elected by the holders of stock other than the Preferred Stock and the absence of a quorum of stock

other than the Preferred Stock shall not prevent the election of the directors to be elected by the holders of the Preferred Stock, and (b) in the absence of such quorum, either of the Preferred Stock or of stock other than the Preferred Stock, or both, a majority of the holders, present in person or by proxy, of the class or classes of stock which lack a quorum shall have power to adjourn the meeting for the election of directors whom they are entitled to elect, from time to time, without notice other than announcement at the meeting, until a quorum shall be present.

(15) The term of office of all directors in office at any time when voting power shall, as aforesaid, be vested in the holders of the Preferred Stock shall terminate upon the election of any new directors at any meeting of stockholders called for the purpose of electing directors. Upon any termination of the right of the holders of the Preferred Stock to vote for directors as herein provided, the term of office of all directors then in office shall terminate upon the election of new directors at a meeting of the other class or classes of stock of the Company then entitled to vote for directors, which meeting may be held at any time after such termination of voting right in the holders of the Preferred Stock, upon notice as above provided, and shall be called by the secretary of the Company upon written request of the holders of record of 10% of the aggregate number of outstanding shares of such other class or classes of stock then entitled to vote for directors.

(16) If in any case the amounts payable with respect to any requirements to retire shares of the Preferred Stock are not paid in full in the case of all series with respect to which such requirements exist, the number of shares to be retired in each series shall be in proportion to the respective amounts which would be payable on account of such requirements if all amounts payable were met in full.

(17) Whenever, at any time, full cumulative dividends as aforesaid for all past dividend periods and for the current dividend period shall have been paid or declared and set apart for payment on the then outstanding Preferred Stock, and after complying with all the provisions with respect to any purchase, retirement or sinking fund or funds for any one or more series of Preferred Stock, the board of directors may, subject to the provisions hereof with respect to the payment of dividends on any other class or classes of stock, declare dividends on any such other class or classes of stock ranking junior to the Preferred Stock as to dividends subject to the respective terms and provisions, if any, applying thereto, and the Preferred Stock shall not be entitled to share therein.

Upon any liquidation, dissolution or winding up of the Company, after payment shall have been made in full to the Preferred Stock as provided in Paragraph (5) of this Section I, of this Article Fourth, but not prior thereto, any other class or classes of stock ranking junior to the Preferred Stock upon liquidation shall, subject to the respective terms and provisions, if any, applying thereto, be entitled to receive any and all assets remaining to be paid or distributed, and the Preferred Stock shall not be entitled to share therein.

(18) For the purposes of this Section I of this Article Fourth or of any resolution of the board of directors providing for the issue of any series of Preferred Stock or of any certificate filed with the Secretary of State of Delaware (unless otherwise provided in any such resolution or certificate):

> (a) The amount of dividends "accumulated" on any share of Preferred Stock of any series as at any quarterly dividend date shall be deemed to be the amount of any unpaid dividends accumulated thereon to and including such quarterly dividend date, whether or not earned or declared, and the amount of

dividends "accumulated" on any share of Preferred Stock of any series as at any date other than a quarterly dividend date shall be calculated as the amount of any unpaid dividends accumulated thereon to and including the last preceding quarterly dividend date, whether or not earned or declared, plus an amount equivalent to interest on the par value of such shares at the annual dividend rate fixed for the shares of such series for the period after such last preceding quarterly dividend date to and including the date as of which the calculation is made.

(b) Any class or classes of stock of the Company shall be deemed to rank

(i) prior to the Preferred Stock either as to dividends or upon liquidation if the holders of such class or classes shall be entitled to the receipt of dividends or of amounts distributable upon liquidation, dissolution or winding up, as the case may be, in preference or priority to the holders of the Preferred Stock;

(ii) on a parity with the Preferred Stock either as to dividends or upon liquidation, whether or not the dividend rates, dividend payment dates, or redemption or liquidation prices per share thereof be different from those of the Preferred Stock, if the holders of such class or classes of stock shall be entitled to the receipt of dividends or of amounts distributable upon liquidation, dissolution or winding up, as the case may be, in proportion to their respective dividend rates or liquidation prices, without preference or priority one over the other with respect to the holders of the Preferred Stock;

(iii) junior to the Preferred Stock either as to dividends or upon liquidation if the rights of the holders of such class or classes shall be subject or subordinate to the rights of the holders of the Preferred Stock in respect of the receipt of dividends or of amounts distributable upon liquidation, dissolution or winding up, as the case may be.

(19) So long as any shares of Preferred Stock shall be outstanding, the Preferred Stock shall be deemed to rank prior to the Common Stock as to dividends and upon liquidation.

## SECTION II
## Common Stock

Except as herein or by law expressly provided, each holder of Common Stock shall have the right, to the exclusion of all other classes of stock, to one vote for each share of stock standing in the name of such holder on the books of the Company.

FIFTH: The minimum amount of capital with which the Company will commence business is $1,000.

SIXTH: The name and place of residence of each of the incorporators is as follows:

| Name | Residence |
| --- | --- |
| J. A. O'Connor, Jr. | 510 East Faulkner Street<br>El Dorado, Arkansas |
| Jerry W. Watkins | 1007 Brookwood Drive<br>El Dorado, Arkansas |
| Wilma B. Meek | Calion, Arkansas |

SEVENTH: The existence of the Company is to be perpetual.

EIGHTH: The private property of the stockholders shall not be subject to the payment of corporate debts to any extent whatsoever.

NINTH: The number of directors of the Company shall be such as from time to time shall be fixed by, or in the manner provided in, the bylaws, but shall not be less than three. Election of directors need not be by ballot unless the bylaws so provide. In furtherance, and not in limitation of the powers conferred by law, the board of directors is expressly authorized

(a) To make, alter or repeal the bylaws of the Company; to set apart out of any of the funds of the Company available for dividends a reserve or reserves for any proper purpose and to abolish any such reserve in the manner in which it was created; to authorize and cause to be executed mortgages and liens upon any part of the property of the Company provided it be less than substantially all; to determine whether any, and if any, what part, of the annual net profits of the Company or of its net assets in excess of its capital shall be declared as dividends and paid to the stockholders, and to direct and determine the use and disposition of any such annual net profits or net assets in excess of capital.

(b) By resolution passed by a majority of the whole board, to designate one or more committees, each committee to consist of two or more of the directors of the Company, which, to the extent provided in the resolution or in the bylaws of the Company, shall have and may exercise the powers of the board of directors in the management of the business and affairs of the Company, and may authorize the seal of the Company to be affixed to all papers which may require it. Such committee or committees shall have such name or names as may be stated in the bylaws of the Company or as may be determined from time to time by resolution adopted by the board of directors.

(c) When and as authorized by the affirmative vote of the holders of a majority of the stock issued and outstanding having voting power given at a stockholders' meeting duly called for that purpose, or when authorized by the written consent of the holders of a majority of the voting stock issued and outstanding, to sell, lease or exchange all of the property and assets of the Company, including its good will and its corporate franchises, upon such terms and conditions and for such consideration, which may be in whole or in part shares of stock in, and/or other securities of, any other corporation or corporations, as its board of directors shall deem expedient and for the best interests of the Company.

(d) To establish bonus, profit sharing, stock option, retirement or other types of incentive or compensation plans for the employees (including officers and directors) of the Company and to fix the amount of the annual profits to be distributed or shared and to determine the persons to participate in any such plans and the amount of their respective participations.

(e) To determine from time to time whether, and to what extent, and at what times and places, and under what conditions and regulations, the accounts and books of the Company (other than the stock ledger) or any of them, shall be open to the inspection of the stockholders.

TENTH: The stockholders and board of directors shall have power, if the bylaws so provide, to hold their meetings and to keep the books of the Company (except such as are required by the law of the State of Delaware to be kept in Delaware) and documents and papers of the Company outside the State of Delaware.

ELEVENTH: Whenever a compromise or arrangement is proposed between this corporation and its creditors or any class of them and/or between this corporation and its stockholders or any class of them, any court of equitable jurisdiction within the State of Delaware may, on the application in a summary way of this corporation or of any creditor or stockholder thereof, or on the application of any receiver or receivers appointed for this corporation under the provisions of section 291 of Title 8 of the Delaware Code or on the application of trustees in dissolution or of any receiver or receivers appointed for this corporation under the provisions of section 279 of Title 8 of the Delaware Code order a meeting of the creditors or class of creditors, and/or of the stockholders or class of stockholders of this corporation, as the case may be, to be summoned in such manner as the said court directs. If a majority in number representing three-fourths in value of the creditors or class of creditors, and/or of the stockholders or class of stockholders of this corporation, as the case may be, agree to any compromise or arrangement and to any reorganization of this corporation as consequence of such compromise or arrangement, the said compromise or arrangement and the said reorganization shall, if sanctioned by the court to which the said application has been made, be binding on all the creditors or class of creditors, and/or on all the stockholders or class of stockholders, of this corporation, as the case may be, and also on this corporation.

TWELFTH: No contract or other transaction between the Company and any other corporation and no other act of the Company with relation to any other corporation shall, in the absence of fraud, in any way be invalidated or otherwise affected by the fact that any one or more of the directors of the Company are pecuniarily or otherwise interested in, or are directors or officers of, such other corporation. Any director of the Company individually, or any firm or association of which any director may be a member, may be a party to, or may be pecuniarily or otherwise interested in, any contract or transaction of the Company, provided that the fact that he individually or as a member of such firm or association is such a party or so interested and the extent of such interest shall be disclosed or shall have been known to a majority of the whole board of directors present at any meeting of the board of directors at which action upon such contract or transaction shall be taken; and any director of the Company who is also a director or officer of such other corporation or who is such a party or so interested may be counted in determining the existence of a quorum at any meeting of the board of directors which shall authorize any such contract or transaction, and may vote thereat to authorize any such contract or transaction, with like force and effect as if he were not such director or officer of such other corporation or not so interested. Any director of the Company may vote upon any contract or other transaction between the Company and any subsidiary or affiliated corporation without regard to the fact that he is also a director of such subsidiary or affiliated corporation.

THIRTEENTH: Each officer, director, or member of any committee designated by the board of directors shall, in the performance of his duties, be fully protected in relying in good faith upon the books of account or reports made to the Company by any of its officials or by an independent certified public accountant or by an appraiser selected with reasonable care by the board of directors or by any such committee or in relying in good faith upon other records of the Company.

FOURTEENTH: A director of the Company shall not be personally liable to the Company or its stockholders for monetary damages for breach of fiduciary duty as a director, except for liability (i) for any breach of the director's duty of loyalty to the Company or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the Delaware General Corporation Law, as the same exists or hereafter may be amended, or (iv) for any transaction from which the director derived an improper personal benefit. This Article shall not eliminate or limit the liability of a director for any act or omission occurring prior to the effective date of the Amendment adding this Article to the Certificate of Incorporation. Any repeal or modification of this Article by the stockholders of the Company shall be prospective only, and shall not adversely affect any limitation on the personal liability of a director of the Company existing at the time of such repeal or modification.

FIFTEENTH: The Company hereby reserves the right to amend, alter, change or repeal any provision contained in this Certificate of Incorporation in the manner now or hereafter prescribed by law, and all rights and powers conferred herein on stockholders, directors and officers are subject to this reserved power.

LETTER TO THE SHAREHOLDERS

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[PICTURE APPEARS HERE]

"All of us at Murphy Oil know that we have an obligation to increase shareholder value by profitably finding and producing oil and gas. We also know that we must secure the shareholders' and Murphy's future by managing the Company's environmental, regulatory, and civic responsibilities in a manner that earns respect and expands options.

"We met both of those obligations in 1996, and as a result the news is good. As we move confidently into 1997, an active exploration program is under way, production is up and headed higher, while production costs are low and headed lower. In short, we are very pleased with the Company's 1996 performance and are excited about the future. I am delighted that we can share this success with all of our loyal shareholders."

Claiborne P. Deming

DEAR FELLOW SHAREHOLDER:

Murphy Oil Corporation earned $103.8 million, $2.31 a share, from continuing operating activities in 1996. When discontinued operations are included, which provides a better historical perspective, income rises to $117.8 million, $2.62 a share. Special items, primarily the sale of high-cost onshore producing properties, brought the total for the year to $137.9 million, $3.07 a share. This performance compares to $33.4 million, $.75 a share, of operating income and a net loss, after special items, of $118.6 million, $2.64 a share, in 1995. This is clearly a turnaround, but the numbers, while indicative, do not reveal the whole story. Our Company changed during 1996 and changed for the better.

Naturally, the most far-reaching event during the year was the spin-off of the Company's timber, farm, and real estate operations to Murphy's shareholders. The tremendous and surging value of our extensive southern pine forests was simply not being realized. In essence, the Company had a fine timber company hidden within its oil and gas assets. Treating shareholders as business partners, we distributed these assets so that each shareholder received a separately traded, market-valued security that can be held or sold depending upon individual preference.

Perhaps the most quietly significant event in 1996 was the continued successful evolution of our exploration efforts. Your Company exposed $109.6 million in exploratory drilling capital and only recorded $28.5 million in dry hole costs. Meaningful discoveries were made in the Gulf of Mexico at West Cameron Block 631 (60%), West Cameron Block 521 (50%), Eugene Island Block 322 (50%), and Destin Dome Block 57 (33%). In addition, the Company's second well in Block 04/36 (45%) Bohai Bay, China tested at a combined rate in excess of 6,000 barrels of oil a day from two zones. A delineation well is now drilling, and a second delineation well is planned later in 1997.

Our goal is to turn our exploration and production efforts into a "prospect-generating machine." Whereas once we were known more as a "long-ball hitter," our explorers now generate prospects across the entire risk and size spectrum--low, medium, and high. Success no longer depends upon the outcome of any one well, rather we drill a large number of exploratory wells incorporating the latest technology and thus spreading and concurrently lessening risk. The exploration program, not its component parts, becomes the investment vehicle.

Murphy has a natural advantage in this endeavor. The bulk of our drilling funds are invested in three of the premier oil and natural gas basins in the world--the U.S. Gulf of Mexico, the Canadian Western Sedimentary Basin, and the U.K. Outer Continental Shelf. The combination of prospectivity, attractive fiscal regime, and established infrastructure makes each of these areas the industry's preferred geography. No other oil and gas company in our "weight-class" has this spread and can truly call these three prolific basins "core areas," and this position is complemented by our emerging core area, offshore eastern Canada, where the Hibernia and Terra Nova projects provide opportunities for follow-on exploration. Further depth and breadth is added by an expanded international frontier program. Tranche A (25%) in the North Falklands Basin, offshore the Falkland Islands, was acquired and seismic operations are under way. Other foreign concessions are close to the signing stage.

One of the more robust production profiles in the oil and gas business provides our Company with the source for future cash flow and growth. Due to a combination of discoveries and well-timed acquisitions, our Company's production increases each year through the turn of the century. What are the sources of the new production? The bulk of the increase in 1997 comes from the aforementioned Gulf of Mexico discoveries in addition to Phase II start-up of the deepwater gas field Tahoe (30%). The counter-cyclical acquisition in 1993 of the 615-million-barrel Hibernia field (6.5%) begins paying dividends in 1998. The field starts up in the fourth quarter of 1997 and ramps up throughout 1998 before reaching its 135,000-barrel-a-day plateau in 1999. Also in 1998, two low-cost U.K. oil discoveries--Schiehallion (5.9%), West of the Shetland Islands, and Mungo/Monan (12.7%), in the Central Graben--commence production and reach plateau rates in 1999. The Terra Nova field (12%), 20 miles from Hibernia, should receive project sanction in 1997. First oil will flow no later than 2001.

Equally as important as the increase in production volume is the reduced cost of Murphy's production mix. From a 1995 base of $8.60 a barrel of combined capital and operating costs in the U.S., 1996 dropped to $7.70, and 1997 is forecast to be $6.80. Worldwide, the numbers are a bit higher because we are more of an oil company outside the U.S. and oil is more expensive to produce. Nonetheless, from a 1995 base of $9.70 a barrel, 1996 declined to $9.35, and 1997 is forecast to be $8.65. In other words, as production for our Company increases, costs are coming down.

Downstream continues to be a subpar performer. Operationally, the individual refining and marketing systems performed well in 1996, with refining units recording a composite 98-percent onstream time, but the market did not provide an adequate return on capital employed. Measures are being taken. First, however, I will review one that did not work. We announced in November 1996 a proposed merger of our U.K. downstream assets with those of Elf and Chevron into a new, independent company. Simply put, once we got "inside" the new company, we regretfully concluded that the benefits provided by the larger entity did not outweigh the advantages of our low-cost, efficient, and currently profitable system. Although realizing, after this exercise, the relative strength of our operation, I nonetheless remain convinced that the U.K. market is changed and we must change with it. Our tactical execution is altered, but not the strategy.

U.S. downstream operations, although not faced with the same intense pressure as experienced in the U.K., are similarly competing in difficult market conditions. Obviously, management is looking at all possible means to achieve an acceptable level of return on capital for this business segment. A step was taken in this direction by entering into a project to construct high-volume gasoline stations on or near Wal-Mart sites. Both Murphy and Wal-Mart intend to evaluate the project during 1997.

Murphy is focused on providing value to our shareholders both by increasing future cash flow streams from operations and taking the appropriate structural steps. The actions taken in 1996 indicate the lengths we will go to deliver on this goal. As we move confidently into 1997, an active exploration program is under way, production is up and headed higher, and production costs are low and headed lower.

On a more personal note, Director Emeritus John W. Deming, who was associated with the Company for 46 years, died in 1996. He is missed.

As always, your continued support is appreciated.

/s/ Claiborne P. Deming

Claiborne P. Deming
President and Chief Executive Officer

March 13, 1997
El Dorado, Arkansas

EXPLORATION AND PRODUCTION

## MURPHY WORLDWIDE

- Core areas are the Gulf of Mexico, Canada and the U.K.
- Increasing U.S. natural gas production--30-percent growth projected for 1997
- Increasing worldwide oil production--34,000 barrels a day added by 2000

EXPLORATION & PRODUCTION

| (Thousands of dollars) | 1996 | 1995 |
|---|---|---|
| Income contribution* | $ 101,831 | 29,506 |
| United States | 50,384 | 4,841 |
| International | 51,447 | 24,665 |
| Total assets | 1,347,425 | 1,149,433 |
| United States | 400,964 | 317,422 |
| International | 946,461 | 832,011 |
| Capital expenditures | 373,984 | 231,718 |
| United States | 184,651 | 71,186 |
| International | 189,333 | 160,532 |
| Crude oil and liquids produced - barrels a day | 53,210 | 57,015 |
| United States | 11,645 | 13,736 |
| International | 41,565 | 43,279 |
| Natural gas sold - MCF a day | 220,633 | 251,726 |
| United States | 155,017 | 189,250 |
| International | 65,616 | 62,476 |

*Before special items.

Murphy is engaged in exploration and production operations throughout the world. Operations in the U.S. are centered in the Gulf of Mexico, where the Company is a significant operator and where new production is expected to result in a 30-percent increase in U.S. natural gas production in 1997. The Company also explores for and produces light oil, heavy oil, and natural gas in western Canada, with a substantial ownership of heavy oil reserves providing an important source of the Company's growing crude oil production profile. Murphy's Canadian activities also include an interest in the world's largest synthetic crude oil operation and interests in two oil fields under development offshore eastern Canada--Hibernia and Terra Nova--that will add significant new oil production over the next several years. The Company has long been active in the U.K. North Sea, and oil production there is set to double by the end of 1998 when the Mungo/Monan and Schiehallion fields are placed on stream. The Company also has producing properties in Ecuador and conducts an ongoing exploration program in other parts of the world, with offshore China and the Falkland Islands currently among the areas of particular interest.

The Company's exploration and production activities contributed earnings before special items of $101.8 million in 1996, or 88 percent of total Company earnings from operating segments, compared to $29.5 million a year ago. The increase was due primarily to a 59-percent increase in the average sales price for U.S. natural gas to $2.60 an MCF, one of the highest in the industry, and higher crude oil prices worldwide. Partial offsets were lower crude oil and natural gas production. Production of crude oil and liquids decreased seven percent to 53,210 barrels a day, and natural gas sales declined 12 percent to 220.6 million cubic feet a day. The decline in natural gas sales was primarily in the U.S., where new production from recent discoveries is expected to boost 1997 production to over 200 million cubic feet a day. On an energy equivalent basis, the Company's 1996 production totaled 89,982 barrels a day.

The combination of increasing natural gas production and cost-reduction efforts, including a sale of 48 high-cost onshore producing properties during 1996, is expected to reduce the Company's per-barrel U.S. extraction costs (production costs and depreciation, depletion, and amortization) by 12 percent in 1997 following an 11-percent reduction in 1996.

Capital expenditures for exploration and production totaled $374 million in 1996 compared to $231.7 million in 1995, and accounted for nearly 90 percent of the Company's total capital expenditures for the year. Exploration expenditures increased 115 percent, reflecting increased activity in the Gulf of Mexico, Canada, and the U.K. Development expenditures were up 42 percent primarily due to higher levels of spending on projects that will contribute to the new production of natural gas commencing in 1997 and crude oil beginning in 1998.

Capital expenditures for exploration and production activities are budgeted to increase another eight percent in 1997, reflecting the Company's belief that this segment of our business represents the best opportunity for extraordinary growth. Murphy's exploration efforts are focused on those areas where we have established production and a technology-driven data base, and emphasize a risk-balanced program that includes prospects having the potential for significant reserve additions. The Company also has a growing international frontier program under way that seeks to identify and acquire high-interest ownership positions in quality prospects early in the exploration cycle of emerging basins.

As shown in the schedules on page 45, proved reserves of crude oil and liquids increased 1 million barrels in 1996, and natural gas reserves increased 16.6 billion cubic feet. Reserve additions in the U.S. totaled 4.5 million barrels of oil and 104.8 billion cubic feet of natural gas. Sale of reserves in the U.S. represents the onshore property disposition. In the U.K., approval to develop the Schiehallion field added 14.5 million barrels of oil. On an energy equivalent basis, Murphy's reserves totaled 337.6 million barrels at the end of 1996 compared to 333.8 million barrels at year-end 1995.

A review geographically of the Company's principal exploration and production activities is presented in the sections that follow. The Company's working interest percentage is shown, generally following the name of each field or block, and unless otherwise indicated, average daily production rates are net to the Company after deduction for royalty interests. The terms crude oil production and oil production include natural gas liquids where applicable.

[GRAPH--INCOME CONTRIBUTION--EXPLORATION AND PRODUCTION]

[GRAPH--CAPITAL EXPENDITURES--EXPLORATION AND PRODUCTION]

[GRAPH--NET HYDROCARBONS PRODUCTION]

UNITED STATES

- Highly successful 1996 exploration program
- Discoveries to boost natural gas production to record levels in 1997
- Declining cost structure

Average U.S. crude oil production totaled 11,645 barrels a day in 1996, down 15 percent from 1995, and natural gas production totaled 155 million cubic feet a day, a decrease of 18 percent from a year ago. The onshore property sale accounted for nearly all of the decline in oil production and about 20 percent of the decrease in natural gas sales. The remainder was due to normal production declines in several of the Company's older fields. New drilling in existing fields provided a partial offset.

The Gulf of Mexico is the Company's principal area of interest in the U.S., and 1996 was highlighted by successful infield drilling programs on certain producing properties and a high rate of success in exploratory drilling.

An infield drilling program based on 3-D seismic data in South Timbalier Block 63 (100%), one of the Company's principal producing properties, resulted in six well completions during 1996. Another well was completed and placed on stream shortly after year-end, and additional drilling is planned for 1997. In the Ship Shoal Block 222 field (40-44.4%), another infield drilling program based on 3-D seismic data led to drilling four successful wells during 1996, and additional drilling is also planned for 1997.

The field declines in 1996 were primarily at Ship Shoal Block 113A (100%) and Viosca Knoll Blocks 203 and 204 (66.7%). While further modest declines in these fields are likely in 1997, the Company's current projects will push 1997 U.S. natural gas production into record territory. Infield drilling programs and new production from discoveries in Mobile Block 863 (11.5%), West Cameron Block 521 (50%), and

[GULF OF MEXICO MAP]

Eugene Island Block 322 (50%) will make important contributions, but the most significant sources of the new U.S. production in the near-term are Viosca Knoll Block 783 (30%) and West Cameron Block 631 (60%).

Viosca Knoll Block 783, known as the Tahoe field, is located in 1,500 feet of water and its subsea development is being accomplished in phases. Overall performance of the first phase, which came on stream in early 1994, has been excellent, and development of the second phase commenced in the fourth quarter of 1995. A horizontal well drilled in 1995 was completed and placed on stream in August 1996. Three additional horizontal wells have been drilled and are currently being completed, with full production from the second phase expected in April 1997. Natural gas production from the field is expected to reach 40 million cubic feet a day in the second quarter of 1997 compared to eight million in 1996.

In West Cameron Block 631, a December 1995 discovery well was followed by a second discovery in early 1996. Platform construction and upgrading of an existing processing facility to handle gross natural gas production of 200 million cubic feet a day was completed by the end of 1996, and the two wells were placed on stream in February 1997. A third well to capture updip reserves and to test deeper objectives is scheduled for the first quarter of 1997, and other prospects on the block will be tested later in the year. Production from this field is expected to average over 40 million cubic feet a day by the end of the second quarter of 1997.

Production at Mobile Block 863 and West Cameron Block 521 is expected to commence in the first quarter of 1997.

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[GRAPH--NET CRUDE OIL AND NGL PRODUCTION]

[GRAPH--NATURAL GAS SALES]

Initial combined production rates are projected at 10 million cubic feet a day. Development of two gas wells drilled during 1996 in Eugene Island Block 322 was in progress in early 1997, with first production scheduled for the second quarter at a rate of 11 million cubic feet a day. An oil discovery in the adjacent Eugene Island Block 323 (50%) will require further evaluation. Additional prospects on Block 323 are also scheduled for testing in 1997.

Other exploratory drilling of interest during 1996 included a well drilled on the Destin Dome Block 56 unit (33%), which includes 11 leases covering 63,360 acres located approximately 40 miles south of Pensacola, Florida. Two wells drilled in prior years have proven an accumulation of natural gas reserves in the Norphlet formation, and 64 billion cubic feet of natural gas attributable to these wells are included in the Company's reserves. The 1996 well was drilled to further delineate the unit's reserve potential and encountered 236 feet of natural gas in excellent reservoir quality Norphlet sandstone that tested at a gross rate of 41 million cubic feet a day. Further reserve additions await approval of a development plan, which was filed in November 1996.

Successful exploratory wells were also drilled on Ship Shoal Block 239 (20%) and Vermilion Block 216 (37.5%), while unsuccessful wells were drilled on Matagorda Island Block 567 (100%) and West Cameron Block 603 (75%). Murphy participated in the two 1996 federal lease sales held in the Gulf of Mexico and acquired 75- to 100-percent interests in 20 blocks. Eight of the blocks, which cover four prospects, are in water depths ranging from 1,000 to 2,000 feet.

CANADA

. Hibernia and Terra Nova to add 20,000 barrels a day of new oil production

. Increasing heavy oil production through use of thermal technology

. Long-life production provided by ownership in Syncrude

Canada is the Company's largest source of crude oil production, and development projects under way will provide significant new production during the next several years. Murphy's Canadian oil production, which is currently all from western Canada, totaled 22,296 barrels a day in 1996, effectively unchanged from a year ago. Light oil production decreased 13 percent to 4,463 barrels a day, while heavy oil increased nine percent to 9,670 barrels a day. The increase in heavy oil production was due primarily to an aggressive drilling program in the Company-operated Cactus Lake, Lindbergh, and Senlac areas. Although gross production of synthetic crude oil was essentially the same as a year ago, net volumes to the Company were down eight percent to 8,163 barrels a day due to an increase in net profit royalties caused by higher oil prices. Natural gas production of 43 million cubic feet a day was up five percent from a year ago. The 1996 production volumes for both heavy oil and natural gas were Company records.

The Company conducted an active development program in 1996, with primary emphasis placed on heavy oil and natural gas. Development of the Company's substantial heavy oil reserve base is expected to continue to add incremental production through use of various thermal technologies. Thermal projects are yielding higher production rates per well-stream and enhanced recovery rates of reserves in place.

[MAP OF WESTERN CANADA]

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Murphy's exploration program in Canada during 1996 also focused on heavy oil and natural gas, and included seven successful heavy oil wells and six successful natural gas wells. Exploratory drilling in 1997 will include wells in the Foothills prospects of northeastern British Columbia and in the Northwest Territories.

The Company's synthetic crude oil production results from a five-percent interest in the Syncrude project, the world's largest oil sands mining and upgrading operation. This project, which is located in the province of Alberta in the Athabasca oil sands area near Fort McMurray, is Canada's largest single source of crude oil. Syncrude combines the technologies of mining, extraction, and upgrading to convert oil sands into synthetic crude oil. During 1996, the Syncrude owners approved development of the North mine, which will replace the east side of the Base mine by 1999. The increased bitumen production from the mine will support a project to increase plant capacity to 81 million barrels of synthetic crude oil a year, up from 74 million of current capacity. New technology utilizing truck and shovel mining and hydrotransport will contribute to the continuing downward trend in Syncrude's operating costs. In addition, regulatory applications were filed in 1996 to develop the new Aurora mine, which will provide a rich source of bitumen to replace the west side of the Base mine starting in 2001. This will permit further plant expansion to 94 million barrels of synthetic crude oil a year.

In addition to operations in western Canada, the Company also has interests in the two oil fields currently under development in the Jeanne d'Arc Basin off the eastern coast of Canada. Construction of production facilities for the Hibernia oil field (6.5%) continued throughout 1996. First production from this field is expected to occur in late 1997, with a seven-year peak production plateau of 135,000 gross barrels of oil a day reached in 1999. Gross recoverable reserves are estimated to be 615 million barrels. The central production facility for the Hibernia field is a Gravity Base Structure (GBS)--the first to be constructed to resist the impact of an iceberg. During 1996, construction of the GBS and hookup of the topside modules were completed. Mating of the GBS and topsides occurred in early 1997, and tow-out of the completed structure is scheduled for the summer of 1997. In June 1996, the owners of the Terra Nova oil field (12%), located approximately 20 miles southeast of Hibernia, submitted a Development Plan Application for the field. Development of the field will be accomplished through utilization of floating production system technology with "ice-avoidance" criteria, rather than the "ice-resistance" criteria used for the GBS at Hibernia. Gross recoverable reserves for Terra Nova are estimated to be between 300 and 400 million barrels of oil. Project sanction is expected in 1997, and first production could be as early as 1999, with a five-year peak production plateau of 100,000 gross barrels a day reached a year later. The Company also has a 25-percent interest in a 34,000-acre exploration license located between Hibernia and Terra Nova, and a 3-D seismic survey is planned for 1997.

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[MAP OF OFFSHORE EASTERN CANADA]

UNITED KINGDOM

. Ninian and "T" Block produce over 13,000 barrels of oil a day

. Mungo/Monan and Schiehallion fields will add another 14,000 barrels a day

The Company's U.K. operations continued to be an important source of our crude oil production during 1996, and as in Canada, development projects are under way that will result in significant new additions to the Company's production profile.

At the Ninian field (13.8%), crude oil production averaged 5,969 barrels of oil a day in 1996 compared to 6,784 barrels in 1995. Production from "T" Block (11.3%) averaged 7,056 barrels of oil a day in 1996 compared with 8,172 barrels in 1995. "T" Block is being developed in phases, and production from the second phase commenced in 1996 from two wells. A third well was being drilled at year-end, and two additional wells are planned for 1997.

The Company also produces natural gas from the Amethyst field (7.4%), and in 1996 production averaged 14.7 million cubic feet a day compared to 10.7 million in 1995. Development of a 1995 discovery in the nearby Flowers South area is planned for 1997.

The Company's new U.K. production will come from the Mungo/Monan fields (12.7%) and the Schiehallion field (5.9%), and at its peak will add over 14,000 barrels a day to the Company's crude oil production. The Mungo/Monan fields are being developed jointly with five other oil and gas fields as part of the Eastern Trough Area Project. First production is expected by mid-1998, with peak gross production estimated at 68,000 barrels of oil a day in 1999. Formal U.K. government approval for development of the Schiehallion field was received in April 1996. Construction of a floating production storage and offloading vessel began prior to sanction and was ongoing at year-end. Development drilling began in October 1996 and is planned to continue well beyond first production, which is also expected by mid-1998. Peak gross production rates in excess of 100,000 barrels of oil a day are expected in 1999.

[UNITED KINGDOM MAP]

OTHER INTERNATIONAL

- Delineation of oil fields in Ecuador completed in 1996
- Oil discovered on Block 04/36 in Bohai Bay, China
- International frontier program added new concessions

The Company had a 20-percent interest in risk-service contracts covering Block 16 and the Tivacuno field in Ecuador. At the insistence of the Ecuadoran government, the risk-service contracts have been converted into production-sharing contracts effective January 1, 1997. The risk-service contracts allowed for cost recovery before any government revenue-sharing. Under the new contracts, the government takes a share of production before any cost recovery, based on percentages that vary with the level of production. During 1996, all remaining fields in Block 16 were brought on stream, and delineation drilling of all fields is now completed. Infield drilling will continue throughout 1997. Construction at the Southern Production Facilities, which had been deferred, has resumed with completion expected in early 1998. The Company's share of production from Ecuador averaged 6,005 barrels of oil a day in 1996 compared to 5,274 barrels in 1995. Current field deliverability exceeds 40,000 barrels a day, but guaranteed export pipeline capacity is not always available for volumes exceeding 33,000 barrels a day.

In China, Murphy participated in a well that discovered oil on Block 04/36 (45%) in Bohai Bay. The well tested at a combined gross rate in excess of 6,000 barrels of oil a day from two zones below 11,000 feet. Two appraisal wells are scheduled to be drilled in 1997, the first of which was spudded in January. Seismic activity, which is currently being conducted on other structures on the block, will likely result in further exploratory drilling.

During 1996, the Company acquired a 25-percent interest in six contiguous blocks covering over 400,000 acres in an unexplored sedimentary basin north of the Falkland Islands. The work commitment consists of a 2-D seismic program, which has commenced, and the drilling of two exploratory wells. Offshore Northwest Ireland, a new 2-D seismic survey was acquired in 1996 over License 5/94 (25%), which consists of an 11-block area covering 650,000 acres. The seismic data is being evaluated to identify future exploratory drilling locations along this Atlantic Margin frontier play.

In early 1997, the Company also obtained a 35-percent working interest in two exploration permits covering 345,000 acres off the north coast of Spain, Fragata East and Fragata West. A 3-D seismic program is planned on this new acreage in 1997.

[CHINA MAP]

## REFINING, MARKETING, AND TRANSPORTATION

### MURPHY WORLDWIDE

- Operations conducted in the U.S., U.K. and Canada
- Structural change under way in the industry
- Murphy will participate where enhanced returns on assets can be obtained

REFINING, MARKETING & TRANSPORTATION

| (Thousands of dollars) | 1996 | 1995 |
|---|---|---|
| Income contribution* | $ 14,102 | 2,052 |
| United States | 1,773 | (3,767) |
| International | 12,329 | 5,819 |
| Total assets | 739,072 | 680,315 |
| United States | 503,791 | 494,577 |
| International | 235,281 | 185,738 |
| Capital expenditures | 42,880 | 53,602 |
| United States | 20,868 | 27,565 |
| International | 22,012 | 26,037 |
| Crude oil processed - barrels a day | 157,886 | 155,503 |
| United States | 126,586 | 125,157 |
| International | 31,300 | 30,346 |
| Products sold - barrels a day | 169,973 | 161,911 |
| United States | 136,104 | 130,394 |
| International | 33,869 | 31,517 |
| Average gross margin on products sold - dollars a barrel | | |
| United States | $ .25 | .46 |
| United Kingdom | 2.08 | 2.26 |

*Before special items.

Murphy has downstream operations in the United States, the United Kingdom, and Canada. In the U.S., operations are conducted in two separate regions. In the southeastern region of the U.S., generally referred to as the Gulf Coast market, a 100,000-barrel-a-day refinery at Meraux, Louisiana produces petroleum products for distribution in an 11-state marketing area that stretches from Louisiana to Virginia. Operations in the upper-Midwest include a 35,000-barrel-a-day refinery at Superior, Wisconsin and a marketing system that covers a six-state area. Operations in the U.K. include a 30-percent interest in a 108,000-barrel-a-day refinery at Milford Haven, Wales and a marketing area that covers most of England and part of southern Wales. Murphy also has ownership interests in four crude oil pipeline systems in western Canada, including two systems that supply Canadian crude oil to connecting lines at the U.S. border.

As was the case a year ago, 1996 was a difficult year for refining and marketing companies operating in the U.S. and Europe, and Murphy was no exception. In the U.S., the Company's downstream operations reported earnings of $1.8 million in 1996 compared to a loss of $3.8 million in 1995. The current year included a $9.2 million after-tax benefit related to crude oil swap agreements. Operations in the U.K. earned $6.2 million in 1996 compared to $.3 million a year ago. The earnings contribution from Canadian operations totaled $6.1 million in 1996 compared to $5.5 million in 1995.

While disappointing, the continuation of the difficult operating environment did serve to quicken the pace of structural change in the industry, as numerous consolidations and alliances were announced during 1996. Murphy participated in the change by reaching agreement with Wal-Mart Stores, Inc. (Wal-Mart) to construct service stations on property leased from Wal-Mart, exploring an innovative method of supplying gasoline to customers.

Murphy is committed to improving the return on assets deployed in downstream operations. Execution on this commitment may take the form of participation in the industry consolidation process, but most certainly will involve a continuation of our resolve to maximize the value of existing assets through cost-efficient operations while limiting further investment to available downstream cash flow.

[PICTURE APPEARS HERE]

[GRAPH--INCOME CONTRIBUTION--REFINING, MARKETING, AND TRANSPORTATION]

[GRAPH--CAPITAL EXPENDITURES--REFINING, MARKETING, AND TRANSPORTATION]

[GRAPH--REFINED PRODUCTS SOLD]

UNITED STATES

- U.S. systems operated at a high level of reliability and efficiency in 1996
- Agreement reached to construct service stations on property leased from Wal-Mart

REFINING

Through focus on reliability and safety, the Meraux refinery posted a second consecutive throughput record in 1996, processing an average of 93,929 barrels of crude oil a day, compared to 91,940 barrels a day in 1995. Crude processed through the refinery was four percent heavier and 23 percent higher in sulfur content than any previous crude slate. During 1996, most of the crude purchased for the Meraux refinery was foreign-sourced and supplied through short-term contracts and spot purchases.

The Superior refinery posted runs of 32,657 barrels of crude oil a day, down slightly from 1995, but sufficient to boost Murphy's total U.S. refining throughput to a record high of 126,586 barrels a day. The Superior refinery produced light products and asphalt by primarily running a blend of Canadian-sourced sweet, synthetic, and asphaltic crudes; the remaining crudes were from the Williston Basin.

Refining capital expenditures in the U.S. were down 42 percent from a year ago, with the primary focus shifting from environmental projects to improvements in reliability and efficiency. These efforts yielded excellent results in 1996. The principal cat cracker at Meraux operated at 98 percent of capacity for the year, and onstream efficiencies for other process units at both refineries ranged from 95 percent to 100 percent.

MARKETING

Murphy's U.S. marketing operations are conducted in 11 southeastern states and six upper-midwestern states where products are sold under the SPUR(R) and Murphy USA brands. The southeastern system is anchored by the Company's Meraux refinery, located on the Mississippi River, and includes 34 terminals, 22 of which are either wholly or jointly owned. The terminals are supplied by barge or pipeline, including a jointly owned line that connects with two common carrier pipelines. In addition, products are shipped by barge or pipeline into the wholesale cargo market. The upper-midwestern distribution system is centered around the Superior refinery and includes 20 light products terminals, two of which are wholly owned, that are supplied by pipeline. Company-owned asphalt terminals at Crookston, Minnesota and Rhinelander, Wisconsin, which are supplied by truck, complement asphalt supply at Superior. Asphalt sales strengthened in 1996, with a record volume of 1.6 million barrels

[PICTURE APPEARS HERE]

sold through Company terminals. Reflecting a dedication to safety, during 1996 the Company completed six years without a lost-time accident in terminal operations.

Products sold and the initial distribution channels utilized are presented in the following table. Included in the terminal sales volumes are 16,433 barrels a day sold through branded stations.

| (Barrels a day) | Terminals | Cargo |
| --- | --- | --- |
| Gasoline........................ | 44,261 | 18,446 |
| Kerosine........................ | 2,330 | 7,517 |
| Diesel/heating oil.............. | 23,252 | 16,129 |
| Residuals....................... | - | 15,415 |
| Asphalt......................... | 4,510 | - |
| LPG/other....................... | - | 4,498 |
| | 74,353 | 62,005 |

The Company believes that the agreement with Wal-Mart, combining retail shopping with retail gasoline sales, contributes to one-stop shopping convenience for consumers by providing a handy outlet for high-quality, value-priced gasoline. In the U.K., this concept has been highly successful and changed the way gasoline is marketed. Stations at SAM'S Club locations in Chattanooga, Tennessee and Greenville, South Carolina are open, and others are expected to be completed during 1997.

At other stations, a program to install credit card readers at gasoline dispensers and to add car wash systems is ongoing. National-brand fast food alliances with Burger King(R), Blimpie(R), and TCBY(R) are under way at several sites. The Company also continued to dispose of nonstrategic stations in 1996, but ended the year with 527 branded stations, a net addition of 13.

[UNITED STATES MAP]

UNITED KINGDOM

. Changing conditions will require restructuring of the U.K. downstream industry

REFINING

During 1996, Murphy processed an average of 31,300 barrels of crude oil a day at the jointly owned Milford Haven refinery, up three percent from 1995. The refinery utilizes North Sea crudes primarily purchased in the spot market.

Refining capital expenditures were down 32 percent from 1995. Completion of the high-pressure distillate hydrotreater project dominated capital spending in 1996. The unit, which was placed on stream in August, allows the refinery to meet regulations requiring the sulfur content of diesel fuel to be no more than .05 percent.

MARKETING

Murphy's distribution system for refined products in the U.K. includes three rail-fed terminals owned by the Company and eight terminals owned by others, where products are received in exchange for deliveries from the Company's terminals.

The U.K. retail market experienced a turbulent year in 1996. In January, the country's largest retailer began to match the pricing structure of supermarkets. An intense seven-month price war followed during which approximately 10 percent of the service stations in the U.K. closed. Murphy elected not to fully match the competition's pricing practices and emphasized profitability over market share. As a result, retail sales declined 16 percent to 6,997 barrels a day in 1996. While retail margins declined 24 percent from a year ago, cost reduction efforts allowed the Company's retail system to operate at a profit in 1996. Those efforts included closing 14 uneconomic stations during the year. Refined products in excess of

[PICTURE APPEARS HERE]

retail marketing requirements are sold in the spot market. In order to reduce exposure to spot market prices, the Company increased contract sales to customers and promoted wholesale terminal sales during 1996. The Company's three terminals continued to operate profitably during 1996.

RESTRUCTURING

During 1996, the Company participated in negotiations to merge our U.K. downstream operations with those of two other companies. Although we elected in early 1997 to withdraw from those negotiations, we continue to believe that the U.K. downstream business has undergone a fundamental change and that an adequate return on assets can best be restored through industry restructuring. Murphy will participate in the process where it makes sense to do so.

[UNITED KINGDOM MAP]

[PICTURE APPEARS HERE]

CANADA

. Expanded pipeline systems to handle increase in heavy oil production

The Company's western Canadian pipelines, which gather and transport oil through four systems, experienced a five-percent increase in total throughput in 1996. Throughput on the Murphy-operated Manito (52.5%) and Cactus Lake/Bodo (13.1%/41.3%) heavy oil systems, both connected to the Interprovincial Pipeline, were up a combined six percent, as nearby heavy oil production continued to increase. For 1996, Manito averaged 49,555 barrels a day, and Cactus Lake/Bodo averaged 34,675. In late 1996, the Company completed the 40-mile North-Sask dual pipeline (36%), which is expected to deliver an additional 10,000 barrels a day into the Manito system from areas to the north and east. The new volume required expansion of the Manito system, including a 16-mile loop in the southern segment, and new tankage at the Kerrobert terminal. Throughput on the cross-border Milk River pipeline (100%) increased by 23 percent to 82,750 barrels a day, as demand for Canadian crude continues to increase in the Billings, Montana refining area. The capacity of the Milk River line was increased in 1996 to handle up to 118,000 barrels a day. The Wascana pipeline system (100%), also a cross-border line, experienced a 38-percent

[PICTURE APPEARS HERE]

decline in throughput in 1996 to 16,150 barrels a day. The line connects to the Rocky Mountain area of the U.S., and the decline of U.S. crude production feeding that area has reversed, thereby reducing the demand for Canadian imports.

Earnings from crude oil trading were up 15 percent over 1995 due to an increase in heavy oil volumes traded. The Company also operates a fleet of trucks that transport crude oil and natural gas liquids, and earnings from these activities were up on higher volumes. Sales of refined products at the Company's seven Thunder Bay, Ontario service stations increased seven percent in 1996, but margins were squeezed by price competition in the area.

[GRAPH--CANADIAN PIPELINE THROUGHPUTS]

[WESTERN CRUDE OIL PIPELINE SYSTEMS MAP]

## SELECTED FINANCIAL INFORMATION

| (Thousands of dollars except per share data) | 1996 | 1995 | 1994 | 1993 | 1992 |
|---|---|---|---|---|---|
| **RESULTS OF OPERATIONS FOR THE YEAR/1/** | | | | | |
| Sales and other operating revenues/2/ | $2,008,450 | 1,612,500 | 1,580,962 | 1,556,281 | 1,526,672 |
| Net cash provided by continuing operations/2/ | 472,480 | 309,878 | 312,251 | 347,731 | 276,363 |
| Income (loss) from continuing operations/2/ | 125,956 | (127,919) | 89,347 | 73,453 | 54,130 |
| Income (loss) before extraordinary item and cumulative effect of changes in accounting principles/2/ | 137,855 | (118,612) | 106,628 | 86,798 | 86,616 |
| Net income (loss) | 137,855 | (118,612) | 106,628 | 102,136 | 105,565 |
| Per Common share | | | | | |
| Income (loss) from continuing operations/2/ | 2.80 | (2.85) | 1.99 | 1.64 | 1.20 |
| Income (loss) before extraordinary item and cumulative effect of changes in accounting principles/2/ | 3.07 | (2.64) | 2.37 | 1.94 | 1.93 |
| Net income (loss) | 3.07 | (2.64) | 2.37 | 2.28 | 2.35 |
| Cash dividends | 1.30 | 1.30 | 1.30 | 1.25 | 1.20 |
| Percentage return on | | | | | |
| Average stockholders' equity | 12.2 | (9.3) | 8.6 | 8.4 | 8.8 |
| Average borrowed and invested capital | 10.4 | (7.9) | 8.0 | 8.4 | 9.7 |
| Average total assets/2/ | 6.2 | (5.2) | 4.8 | 5.1 | 5.3 |
| **CAPITAL EXPENDITURES FOR THE YEAR/2/** | | | | | |
| Exploration and production | $ 373,984 | 231,718 | 286,348 | 520,086 | 138,129 |
| Refining, marketing, and transportation | 42,880 | 53,602 | 94,697 | 86,885 | 68,073 |
| Corporate | 1,192 | 1,831 | 4,876 | 4,034 | 1,477 |
| | $ 418,056 | 287,151 | 385,921 | 611,005 | 207,679 |
| **FINANCIAL CONDITION AT YEAR-END** | | | | | |
| Current ratio/2/ | 1.10 | 1.22 | 1.14 | 1.27 | 1.84 |
| Working capital/2/ | $ 56,128 | 87,388 | 61,750 | 109,666 | 354,777 |
| Net property/2/ | 1,556,830 | 1,377,455 | 1,558,716 | 1,402,448 | 943,677 |
| Total assets/2/ | 2,243,786 | 2,098,466 | 2,297,459 | 2,156,272 | 1,928,936 |
| Long-term obligations/2,3/ | 201,828 | 193,146 | 172,289 | 109,164 | 24,755 |
| Stockholders' equity | 1,027,478/4/ | 1,101,145 | 1,270,679 | 1,222,350 | 1,200,088 |
| Per share | 22.90 | 24.56 | 28.34 | 27.28 | 26.76 |
| Long-term obligations/2,3/ - percent of capital employed | 16.4 | 14.9 | 11.9 | 8.2 | 2.0 |

/1/Includes effects on income of special items in 1996, 1995, and 1994 that are detailed in Management's Discussion and Analysis, page 23. Also, special items in 1993 and 1992 resulted in increases to net income of $39,050, $.87 a share, and $59,296, $1.32 a share, respectively.
/2/Prior year amounts have been restated for discontinued operations.
/3/Includes nonrecourse debt at December 31, 1996, 1995, 1994, and 1993 of $180,957, $171,499, $122,638, and $87,509, which was 14.7 percent, 13.3 percent, 8.5 percent, and 6.6 percent, respectively, of capital employed.
/4/Reflects $172,561 charge for distribution of common stock of Deltic Timber Corporation to stockholders.

[GRAPH--INCOME FROM CONTINUING OPERATIONS BEFORE SPECIAL ITEMS]

[GRAPH--NET CASH PROVIDED BY CONTINUING OPERATIONS]

[GRAPH--STOCKHOLDERS' EQUITY AT YEAR-END]

MANAGEMENT'S DISCUSSION AND ANALYSIS

RESULTS OF OPERATIONS

Consolidated net income for 1996 was $137.9 million, $3.07 a share, compared to a net loss in 1995 of $118.6 million, $2.64 a share. In 1994, the Company earned $106.6 million, $2.37 a share. As reviewed in Note B to the consolidated financial statements, on December 31, 1996 the Company completed a spin-off to its stockholders of the common stock of its farm, timber, and real estate subsidiary, and activities of this segment have been accounted for as discontinued operations. Net income for 1996 included earnings from the discontinued operations of $11.9 million, $.27 a share. Discontinued operations earned $9.3 million, $.21 a share, in 1995 and $17.3 million, $.38 a share, in 1994. Results of continuing operations for the three years ended December 31, 1996 also included certain special items that resulted in a net gain of $22.2 million, $.49 a share, in 1996; a net charge of $152 million, $3.39 a share, in 1995; and a net gain of $20.3 million, $.45 a share in 1994. The 1995 special items included an after-tax charge of $168.4 million, $3.75 a share, from a write-down of assets determined to be impaired under Statement of Financial Accounting Standards No. 121 (SFAS No. 121).

Excluding the special items, income from continuing operations totaled $103.8 million, $2.31 a share, in 1996, an increase of $79.7 million over 1995. Earnings from the Company's exploration and production operations increased $72.3 million, and income from the refining, marketing, and transportation segment improved $12.1 million. The cost of corporate activities increased $4.7 million compared to 1995. In 1995, income from continuing operations before special items was $24.1 million, $.54 a share, a decrease of $44.9 million compared to 1994. Earnings from exploration and production operations declined $15.7 million, and income from refining, marketing, and transportation was down $28.2 million. The cost of corporate activities increased $1 million compared to 1994.

In the following table, the Company's results of operations for the three years ended December 31, 1996 are presented by segment. Special items, which can obscure underlying trends of operating results and affect comparability between years, are set out separately. A review of the information presented follows the table.

| (Millions of dollars) | 1996 | 1995 | 1994 |
|---|---|---|---|
| Exploration and production | | | |
| United States | $ 50.4 | 4.8 | 18.1 |
| Canada | 27.6 | 21.7 | 15.1 |
| United Kingdom | 14.7 | 6.4 | 6.0 |
| Ecuador | 13.8 | 2.7 | (2.4) |
| Other international | (4.7) | (6.1) | 8.4 |
| | 101.8 | 29.5 | 45.2 |
| Refining, marketing, and transportation | | | |
| United States | 1.8 | (3.8) | 17.7 |
| United Kingdom | 6.2 | .3 | 5.2 |
| Canada | 6.1 | 5.5 | 7.3 |
| | 14.1 | 2.0 | 30.2 |
| Corporate | (12.1) | (7.4) | (6.4) |
| Income from continuing operations before special items | 103.8 | 24.1 | 69.0 |
| Gain on sale of U.S. onshore producing properties | 17.7 | - | - |
| Net loss from modifications to foreign crude oil contracts | (.6) | - | - |
| Refund and settlement of income tax matters | 5.1 | 13.6 | 6.4 |
| Impairment of long-lived assets | - | (168.4) | - |
| Provision for reduction-in-force | - | (4.2) | - |
| Adjustment of estimates for self-insured liabilities | - | 7.0 | - |
| Settlement of DOE matters | - | - | 13.9 |
| Income (loss) from continuing operations | 126.0 | (127.9) | 89.3 |
| Income from discontinued farm, timber, and real estate operations | 14.0 | 9.3 | 17.3 |
| Costs of spin-off transaction | (2.1) | - | - |
| Net income (loss) | $137.9 | (118.6) | 106.6 |

EXPLORATION AND PRODUCTION - Earnings from exploration and production operations before special items were $101.8 million in 1996, $29.5 million in 1995, and $45.2 million in 1994. The improvement in 1996 earnings was due to a 59-percent increase in the average sales price for U.S. natural gas and higher crude oil sales prices worldwide. A seven-percent reduction in crude oil and liquids production and a 12-percent decline in natural gas sales provided partial offsets. The decrease in 1995 was due to a 14-percent decline in the average sales price for U.S. natural gas and a 54-percent increase in exploration expenses. Partial offsets were an 11-percent increase in crude oil and liquids production and higher crude oil sales prices.

[GRAPH--INCOME CONTRIBUTION FROM CONTINUING OPERATIONS BY FUNCTION]

The results of operations for oil and gas producing activities for each of the last three years are shown by major operating area on pages 46 and 47. A summary of oil and gas revenues is presented in the following table.

| (Millions of dollars) | 1996 | 1995 | 1994 |
|---|---|---|---|
| United States | | | |
| Crude oil ................ | $ 86.1 | 82.2 | 73.7 |
| Natural gas............... | 147.1 | 112.8 | 136.1 |
| Canada | | | |
| Crude oil ................ | 81.6 | 68.3 | 54.2 |
| Natural gas............... | 17.3 | 14.5 | 19.7 |
| Synthetic oil............. | 63.3 | 55.7 | 52.7 |
| United Kingdom | | | |
| Crude oil ................ | 102.1 | 92.6 | 77.8 |
| Natural gas............... | 14.4 | 9.8 | 9.0 |
| Ecuador - crude oil.......... | 35.0 | 25.9 | 7.9 |
| Other ........................ | 7.8 | 11.3 | 17.6 |
| Total | $554.7 | 473.1 | 448.7 |

[GRAPH--RANGE OF U.S. CRUDE OIL SALES PRICES]

[GRAPH--RANGE OF U.S. NATURAL GAS SALES PRICES]

Daily production rates and weighted average sales prices are shown on page 49.

Worldwide crude oil and liquids production averaged 53,210 barrels a day in 1996, 57,015 in 1995, and 51,328 in 1994. Crude oil and liquids production in the U.S. declined 15 percent in 1996, with the reduction primarily due to the sale of onshore producing properties effective July 1, 1996. In 1995, production was up three percent compared to 1994, as new drilling more than offset normal reservoir depletion. Canadian production declined two percent in the current year compared to a seven-percent increase in 1995. Production of heavy oil increased nine percent in 1996 following a 30-percent increase in 1995, with the increases due to an accelerated program to develop the Company's heavy oil reserves. The Company's net interest in production of synthetic crude oil in Canada declined eight percent in 1996 due to an increase in the net profits royalty rate resulting from higher crude oil prices. Murphy's working interest in the gross production of the Syncrude project was essentially unchanged at approximately 10,000 barrels a day. The Company's average production from the U.K. declined 12 percent in 1996 compared to an 11-percent increase in 1995. Production from "T" Block in the North Sea was down 14 percent. In 1995, "T" Block production increased 47 percent compared to 1994, when the field was being brought up to full production. Production from the Ninian field in the North Sea declined 12 percent in 1996 following a 14-percent decrease in 1995. Production in Ecuador increased 14 percent as new fields were added during 1996. In 1995, production averaged 5,274 barrels a day compared to 1,967 in 1994, the initial year of production.

Worldwide sales of natural gas averaged 220.6 million cubic feet a day in 1996, 251.7 million in 1995, and 256.3 million in 1994. Sales of natural gas in the U.S. declined 18 percent in 1996. Sale of the onshore producing properties accounted for approximately 20 percent of the decrease, with the remainder due to reduced deliverability in certain of the Company's larger fields. Natural gas sales were at record levels in Canada, increasing five percent. Natural gas sales were up 43 percent in the U.K., but declined 33 percent in Spain, where production ceased at the end of 1996. In 1995, a three-percent decline in U.S. sales was partially offset by an eight-percent increase in Canadian sales.

As previously indicated, worldwide crude oil prices strengthened during 1996. In the U.S., Murphy's 1996 average monthly sales prices for crude oil and condensate ranged from $17.41 a barrel to $24.32, and averaged $20.31 for the year, a 22-percent increase compared to 1995. In Canada, the average sales price for light oil was $19.97 a barrel in 1996, an increase of 21 percent. Heavy oil prices averaged $14.27 a barrel, up 18 percent compared to a year ago. The average sales price for synthetic crude oil averaged $21.20 in 1996, up 23 percent. U.K. sales prices averaged $21.08 in 1996, an increase of 24 percent from a year ago. Sales prices averaged $15.96 in Ecuador, up 22 percent. In 1995, average crude oil prices were up eight percent in both the U.S. and the U.K. In Canada, average sales prices were up 13 percent for light oil, 15 percent for heavy oil, and nine percent for synthetic crude oil when compared to 1994. Sales prices in Ecuador were up eight percent in 1995.

Average monthly natural gas sales prices in the U.S. ranged from $2.01 an MCF to $3.68 during 1996. For the year, prices averaged $2.60 an MCF compared to $1.64 a year ago. The average 1996 sales price for natural gas in Canada increased 13 percent. Prices increased two percent in the U.K. and were essentially unchanged in Spain. Average natural gas sales prices in 1995 were down 14 percent in the U.S. and 32 percent in Canada. Prices in the U.K. and Spain increased four percent and 13 percent, respectively, in 1995.

Based on 1996 volumes and deducting taxes at marginal rates, each $1 a barrel and $.10 an MCF fluctuation in price would have affected annual exploration and production earnings by $11 million and $5.2 million, respectively. Consolidated net income could have been affected differently because of contrary or corollary effects on other business segments.

Production costs were $160.5 million in 1996, $167.5 million in 1995, and $162.1 million in 1994. These amounts are shown by major operating area on pages

46 and 47. Cost per equivalent barrel of production during the last three years were as follows.

| (Dollars per equivalent barrel) | 1996 | 1995 | 1994 |
|---|---|---|---|
| United States................. | $ 3.31 | 3.24 | 3.31 |
| Canada | | | |
| Excluding synthetic oil... | 3.95 | 3.55 | 3.56 |
| Synthetic oil............. | 12.72 | 12.17 | 12.09 |
| United Kingdom................ | 6.00 | 5.88 | 5.77 |
| Ecuador....................... | 4.96 | 6.01 | 8.21 |
| Worldwide - excluding synthetic oil............... | 4.09 | 3.90 | 3.94 |

The increase in the cost per equivalent barrel in the U.S. in 1996 was attributable to lower production volumes. The 1996 increase in Canada, excluding synthetic oil, was due to production mix, with light oil production declining and heavy oil increasing. The increase in the cost per equivalent barrel for Canadian synthetic oil in 1996 was due to lower net production volumes resulting from the increase in royalty barrels. Based on the Company's interest in Syncrude's gross production, per-barrel cost declined three percent in 1996. In 1996, higher per-barrel cost in the U.K. was due to lower production volumes. In 1995, the increase was due to repairs to a Ninian production platform offset in part by a favorable impact from higher "T" Block production. Cost in Ecuador decreased in each year due to higher production volumes.

Exploration expenses for each of the last three years are shown in total in the following table, and amounts are reported by major operating area on pages 46 and 47. Certain of the expenses are included in the capital expenditure totals for exploration and production activities.

| (Millions of dollars) | 1996 | 1995 | 1994 |
|---|---|---|---|
| Included in capital expenditures | | | |
| Dry hole costs............ | $28.5 | 30.9 | 16.6 |
| Geological and geophysical costs...... | 24.1 | 16.2 | 9.5 |
| Other costs............... | 7.9 | 8.0 | 5.6 |
| | 60.5 | 55.1 | 31.7 |
| Undeveloped lease amortization................ | 9.7 | 10.7 | 11.0 |
| Total | $70.2 | 65.8 | 42.7 |

[GRAPH--EXPLORATION EXPENSES]

Depreciation, depletion, and amortization related to exploration and production operations totaled $147.6 million in 1996, $182.7 million in 1995, and $161.5 million in 1994. The decrease in 1996 was partially due to lower production volumes. In addition, a write-down of assets under SFAS No. 121, which was adopted effective October 1, 1995, resulted in a reduction in depreciation, depletion, and amortization in 1996 of $12.9 million ($10.5 million after tax). Depreciation, depletion, and amortization increased in 1995 primarily due to higher production volumes partially offset by a reduction of $2.4 million ($2 million after tax) caused by the asset write-down.

REFINING, MARKETING, AND TRANSPORTATION - Earnings from refining, marketing, and transportation operations before special items were $14.1 million in 1996, $2 million in 1995, and $30.2 million in 1994. Operations in the U.S. earned $1.8 million in 1996 compared to a loss of $3.8 million in 1995. The year 1996 included a $9.2 million after-tax benefit related to crude oil swap agreements compared to a $3.9 million after-tax charge in 1995. U.S. operations earned $17.7 million in 1994. Operations in the U.K. earned $6.2 million in 1996 compared to $.3 million in 1995. Asset write-downs taken in 1995 under SFAS No. 121 resulted in reductions in depreciation, depletion, and amortization of $4.6 million ($3.1 million after tax) in 1996 and $1.5 million ($1 million after tax) in 1995. U.K. operations earned $5.2 million in 1994. Canadian operations contributed $6.1 million to 1996 earnings compared to $5.5 million in 1995 and $7.3 million in 1994.

Unit margins (sales realizations less costs of crude, other feedstocks, refining, and transportation to point of sale) averaged $.25 a barrel in the U.S. in 1996, $.46 in 1995, and $1.07 in 1994. The 1996 margin included $.14 attributable to crude oil swap agreements. U.S. product sales were up four percent in 1996 following an eight-percent increase in 1995. Margins in the U.S. continued to be under pressure throughout 1996, and for the year the average unit margin was down 46 percent following a 57-percent decline in 1995. Margins continued to be depressed at the end of 1996, and in early 1997, the Company was experiencing losses in its U.S. downstream operations.

Margins in the U.K. averaged $2.08 a barrel in 1996, $2.26 in 1995, and $2.17 in 1994. Sales of petroleum products increased eight percent following a 22-percent decline in 1995, with year-to-year changes primarily in cargo sales. As was the case in 1995, sales through the Company's branded outlets were under pressure during 1996, as competition with supermarkets continued. Unit margins have also declined in the U.K. in early 1997.

Based on sales volumes for 1996 and deducting taxes at marginal rates, each $.42 a barrel ($.01 a gallon) fluctuation in unit margins would have affected annual refining and marketing profits by $16.5 million. Consolidated net income could have been affected differently because of contrary or corollary effects on other business segments.

The improvement in earnings from purchasing, transporting, and reselling crude oil in Canada in 1996 was due to increases in crude trading volumes and margins and higher pipeline throughputs. In 1995, the effect of higher pipeline throughputs was more than offset by lower crude trading volumes and margins.

CORPORATE - This segment includes interest income and expense and corporate overhead not allocated to operating functions. The increase in the loss in 1996 was due to increases in the cost of awards under the Company's incentive plans. In 1995, the loss increased as a result of higher interest expense.

SPECIAL ITEMS - Net income for the last three years included certain special items reviewed below; the quarter in which each of the items occurred is indicated. Certain other quarterly information is presented on page 29.

. Gain on sale of U.S. onshore producing properties - An after-tax gain of $17.7 million was recorded in the third quarter of 1996 from the sale of 48 onshore producing oil and gas properties in the U.S.

[GRAPH--CAPITAL EXPENDITURES IN 1996]

- Net loss from modifications to foreign crude oil contracts - A net loss of $.6 million was recorded in the fourth quarter of 1996 resulting from modifications to contracts related to crude oil production in Ecuador and Gabon. (see Note Q to the consolidated financial statements).

- Refund and settlement of income tax matters - A gain of $5.1 million for settlement of income tax matters in Canada was recorded in the fourth quarter of 1996. A gain of $4.9 million for refund of U.S. income taxes was recorded in the third quarter of 1995. Other gains for settlement of income tax matters included $3.2 million and $3.5 million in the third and fourth quarters, respectively, of 1995 for the U.K., $2 million in the fourth quarter of 1995 for Gabon, and $6.4 million in the second quarter of 1994 for the U.K.

- Impairment of long-lived assets - An after-tax provision of $168.4 million was recorded in the fourth quarter of 1995 for the write-down of assets determined to be impaired under provisions of SFAS No. 121 (see Note C to the consolidated financial statements).

- Provision for reduction-in-force - An after-tax provision of $4.2 million was recorded in the fourth quarter of 1995 for the cost of enhanced early retirement and severance programs.

- Adjustment of estimates for self-insured liabilities - An after-tax gain of $7 million was recorded in the first quarter of 1995 from an adjustment of amounts previously reserved relating to matters for which the Company is self-insured.

- Settlement of DOE matters - An after-tax gain of $13.9 million was recorded in the third quarter of 1994 upon settlement of a dispute with the U.S. Department of Energy (DOE) concerning DOE regulations in effect from 1973 to 1981 (see Note Q to the consolidated financial statements).

The income (loss) effects of special items are summarized by segment in the following table for the three years ended December 31, 1996.

| (Millions of dollars) | 1996 | 1995* | 1994 |
|---|---|---|---|
| Exploration and production | | | |
| United States............. | $17.7 | (1.1) | - |
| Canada.................... | 5.1 | - | - |
| United Kingdom............ | - | (18.4) | 6.4 |
| Ecuador................... | (8.8) | (100.0) | - |
| Other international........ | 8.2 | (.6) | - |
| | 22.2 | (120.1) | 6.4 |
| Refining, marketing, and transportation | | | |
| United Kingdom | - | (35.6) | - |
| Corporate | - | 3.7 | 13.9 |
| Total | $22.2 | (152.0) | 20.3 |

*Includes after-tax effect of asset write-down under SFAS No. 121 as follows: exploration and production--U.S., $6; U.K., $24.2; Ecuador, $100; other international, $2.6; refining, marketing, and transportation--U.K., $35.6.

Certain of the special items had a significant effect on the Company's consolidated effective income tax rates, which were 42 percent in 1996, 14 percent in 1995, and 30 percent in 1994 (see Note G to the consolidated financial statements).

## CAPITAL EXPENDITURES

As shown in the selected financial information on page 22, capital expenditures were $418.1 million in 1996 compared to $287.2 million in 1995 and $385.9 million in 1994. These amounts included $60.5 million, $55.1 million, and $31.7 million of exploration expenditures that were expensed. Capital expenditures for exploration and production activities totaled $374 million in 1996, almost 90 percent of the Company's total capital expenditures for the year. Exploration and production capital expenditures in 1996 included $22.6 million for acquisition of undeveloped leases, $140.1 million for exploration activities, and $211.3 million for development projects. Development expenditures included $44.2 million for the Hibernia oil field, offshore Newfoundland, $25.6 million each for the Mungo/Monan and Schiehallion fields in the U.K. North Sea, and $11.7 million for oil fields in Ecuador. Exploration and production capital expenditures are shown by major operating area on pages 46 and 47. Amounts shown under "Other" in 1996 included $6.6 million for exploration costs offshore China, of which $4.8 million was for a well that discovered oil on Block 04/36 in Bohai Bay and has been capitalized pending further evaluation expected to occur in 1997.

Refining, marketing, and transportation expenditures, detailed in the following table, were $42.9 million in 1996, or 10 percent of total capital expenditures, compared to $53.6 million in 1995 and $94.7 million in 1994.

| (Millions of dollars) | 1996 | 1995 | 1994 |
|---|---|---|---|
| Refining | | | |
| United States.............. | $13.2 | 22.9 | 72.4 |
| United Kingdom............. | 12.2 | 17.9 | 2.1 |
| Total refining | 25.4 | 40.8 | 74.5 |
| Marketing | | | |
| United States.............. | 7.5 | 4.6 | 6.8 |
| United Kingdom............. | 1.3 | 4.6 | 10.1 |
| Canada..................... | - | - | .1 |
| Total marketing | 8.8 | 9.2 | 17.0 |
| Transportation | | | |
| United States.............. | .3 | .1 | 1.0 |
| Canada..................... | 8.4 | 3.5 | 2.2 |
| Total transportation | 8.7 | 3.6 | 3.2 |
| Total | $42.9 | 53.6 | 94.7 |

Refining expenditures in the U.S. were primarily for capital projects necessary to keep the refineries operating within industry standards. Refining expenditures in the U.K. included $10.6 million to complete construction of a distillate desulfurization unit commenced in

1995. Marketing expenditures included the costs of sites and new service stations, and improvements and normal replacements at existing stations and terminals.

CASH FLOWS

Cash provided by continuing operations was $472.5 million in 1996, $309.9 million in 1995, and $312.3 million in 1994. Such amounts included cash provided from special items of $14.7 million in 1995 and $5.3 million in 1994. Special items reduced cash flow in 1996 by $12.8 million. Changes in operating working capital other than cash and cash equivalents provided cash of $77.1 million in 1996, but required cash of $36.6 million in 1995 and $18.9 million in 1994. Cash provided by continuing operations was further reduced by expenditures for refinery turnarounds and abandonment of oil and gas properties totaling $10.8 million in 1996, $13.8 million in 1995, and $55.3 million in 1994. Additional borrowings under nonrecourse debt arrangements provided $23.1 million of cash in 1996, $59.5 million in 1995, and $42.8 million in 1994. Other long-term borrowings provided $28.1 million of cash in 1994.

Capital expenditures required $418.1 million of cash in 1996, $287.2 million in 1995, and $385.9 million in 1994. Other significant cash outlays during the three years included $11.4 million in 1996, $35.6 million in 1995, and $11 million in 1994 for reductions of debt. Cash used for dividends to stockholders was nearly $58.3 million each year.

FINANCIAL CONDITION

Year-end working capital totaled $56.1 million in 1996, $87.4 million in 1995, and $61.8 million in 1994. The current level of working capital does not fully reflect the Company's liquidity position, as the relatively low historical costs assigned to inventories under LIFO accounting were $120.3 million below current costs at December 31, 1996. Cash and cash equivalents at the end of 1996 totaled $109.7 million compared to $60.9 million a year ago and $68.8 million at year-end 1994.

Long-term obligations increased $8.7 million and were $201.8 million at year-end, 16 percent of total capital employed, and included $181 million of nonrecourse debt incurred in connection with acquisition and development of proved properties. Long-term obligations totaled $193.1 million at the end of 1995 compared to $172.3 million at year-end 1994. Stockholders' equity was $1 billion at the end of 1996 compared to $1.1 billion a year ago and $1.3 billion at the end of 1994. The decrease in 1996 was caused by the spin-off of the Company's farm, timber, and real estate subsidiary to stockholders at year-end. The decrease in 1995 was primarily attributable to the asset write-down upon adoption of SFAS No. 121. A summary of transactions in the equity accounts is presented on page 34.

The primary sources of the Company's liquidity are internally generated funds, access to outside financing, and working capital. The Company relies on internally generated funds to finance the major portion of its capital and other expenditures, but maintains lines of credit with banks and borrows as necessary to meet spending requirements. Current financing arrangements are set forth in Note E to the consolidated financial statements. The Company does not anticipate any problem in meeting future requirements for funds.

The Company had commitments of $243 million for capital projects in progress at December 31, 1996.

ENVIRONMENTAL

The Company's worldwide operations are subject to numerous laws and regulations intended to protect the environment and/or impose remedial obligations. In addition, the Company is involved in personal injury claims, allegedly caused by exposure to or by the release or disposal of materials manufactured or used in the Company's operations. The Company operates or has previously operated certain sites or facilities, including refineries, oil and gas fields, service stations, and terminals, for which known or potential obligations for environmental remediation exist.

Under the Company's accounting policies, liabilities for environmentally related obligations are recorded when such obligations are probable and the cost can be reasonably estimated. If there is a range of reasonably estimated costs, the most likely amount will be recorded, or if no amount is most likely, the minimum of the range. Recorded liabilities are reviewed quarterly and adjusted as needed. Actual cash expenditures often occur a number of years after recognition of the liabilities.

The Company's reserve for remedial obligations, which is included in "Deferred Credits and Other Liabilities" in the Consolidated Balance Sheets, contains certain amounts that are based on anticipated regulatory approval of proposed remediation of former refinery waste sites. If regulatory authorities require more costly alternatives than the proposed processes, future expenditures could exceed the amount reserved by up to an estimated $2 million.

The Company has received notices from the U.S. Environmental Protection Agency that it is a Potentially Responsible Party (PRP) at five Superfund sites and has been assigned responsibility by defendants at another Superfund site. The potential total cost to all parties to perform necessary remedial work at these sites is substantial; however, current information indicates that the Company is a "de minimus" party, with assigned or potentially assigned responsibility of less than two percent at all but one of the sites. At that site, the Company has not determined either its potentially assigned responsibility percentage or its potential total remedial cost. The Company has recorded a reserve of $.1 million for Superfund sites, and due to currently available information on one site and the minor percentages involved on the other sites, the Company does not expect that its related remedial costs will be material to its financial condition or its results of operations. Additional information may become known in the future that would alter this assessment, including any requirement to bear a pro rata share of costs attributable to nonparticipating PRP's or indications of additional responsibility by the Company.

Although the Company is not aware of any environmental matters that might have a material effect on its financial condition, there is the possibility that additional expenditures could be required at currently unidentified sites, and new or revised regulatory requirements could necessitate additional expenditures at known sites. Such expenditures could materially affect the results of operations in a future period.

The Company believes that certain environmentally related liabilities and prior environmental expenditures are either covered by insurance or will be recovered from other sources. The outcome of potential insurance recoveries is the subject of ongoing litigation, including the appeal of a judgment awarded the Company in 1995. Since no assurance can be given that the judgment will be upheld upon appeal or that recoveries from other sources will occur, the Company has not recognized a benefit for these potential recoveries at December 31, 1996.

The Company's refineries also incur costs to handle and dispose of hazardous wastes and other chemical substances on a recurring basis. These costs are generally expensed as incurred and amounted to $4.3 million in 1996.

In addition to remediation and other recurring expenditures, Murphy commits a significant amount of its capital expenditure program for compliance with environmental laws and regulations. Such capital expenditures were approximately $42 million in 1996 and are expected to be $35 million in 1997.

OTHER MATTERS

- Impact of Inflation - General inflation was moderate during the last three years in most countries where the Company operates; however, the Company's revenues and capital and operating costs are influenced to a larger extent by specific price changes in the oil and gas and allied industries than by changes in general inflation. Crude oil and petroleum product prices generally reflect the balance between supply and demand, with crude oil prices being particularly sensitive to OPEC production levels and/or attitudes of traders concerning supply and demand in the near future. Natural gas prices are affected by supply and demand (which to a significant extent is weather-related) and by the fact that delivery of supplies is generally restricted to specific geographical areas. The 1996 increases in crude oil and natural gas sales prices have resulted in upward pressure on amounts paid by the Company for goods and services, particularly in offshore operations.

- Proposed Merger - In late 1996, the Company entered into a Memorandum of Understanding to merge its U.K. refining and marketing operations with those of two other oil companies. On March 13, 1997, the Company elected to withdraw from further participation in the merger negotiations.

- Other - The effects of exchange rate fluctuations on net income and the Company's use of derivative financial instruments are reviewed in Notes H and M, respectively, to the consolidated financial statements.

OUTLOOK

In planning for 1997, prices for the Company's products remain uncertain. U.S. natural gas prices and worldwide crude oil prices have declined sharply in early 1997. In addition, the Company's U.S. downstream operations were incurring losses subsequent to year-end. In such an environment, constant reassessment of spending plans is required. The Company's capital expenditure budget for 1997 was prepared during the fall of 1996 and provides for expenditures of $462 million. A major portion of this amount, $402 million or 87 percent, is allocated for exploration and production. Geographically, about 37 percent of the exploration and production budget is designated for the U.S.; 29 percent for Canada, including $54 million for further development of the Hibernia and Terra Nova oil fields; 24 percent for the U.K., including $65 million for development costs related to the Schiehallion and Mungo/Monan oil fields; five percent for continuing development of oil fields in Ecuador; and the remaining five percent for other overseas operations. Refining, marketing, and transportation capital expenditures for 1997 are budgeted at $58 million, including $48 million in the U.S. and $5 million each in the U.K. and Canada. Capital and other expenditures are under constant review, and these budgeted amounts may be adjusted to reflect changes in estimated cash flow.

As reviewed in Note Q to the consolidated financial statements, forward-looking statements in this Annual Report are made in reliance upon the safe harbor provisions of the Private Securities Litigation Reform Act of 1995.

QUARTERLY INFORMATION

| (Millions of dollars except per share amounts) | First Quarter | Second Quarter | Third Quarter | Fourth Quarter | Year |
|---|---|---|---|---|---|
| | | | 1996/1/ | | |
| Sales and other operating revenues/2/................ | $415.4 | 497.1 | 525.0 | 571.0 | 2,008.5 |
| Income from continuing operations before income taxes/2/............................. | 37.5 | 40.4 | 70.5 | 68.0 | 216.4 |
| Income from continuing operations/2/................. | 20.3 | 24.8 | 40.5 | 40.4 | 126.0 |
| Income from discontinued operations/2/............... | 3.7 | 3.3 | 1.8 | 3.1 | 11.9 |
| Net income........................................... | 24.0 | 28.1 | 42.3 | 43.5 | 137.9 |
| Per Common share | | | | | |
| Income from continuing operations/2/............. | .45 | .55 | .90 | .90 | 2.80 |
| Income from discontinued operations/2/........... | .09 | .07 | .04 | .07 | .27 |
| Net income....................................... | .54 | .62 | .94 | .97 | 3.07 |
| Cash dividends................................... | .325 | .325 | .325 | .325 | 1.30 |
| Market Price | | | | | |
| High............................................. | 44 | 46 3/8 | 49 | 56 1/2 | 56 1/2 |
| Low.............................................. | 40 3/4 | 42 5/8 | 42 1/4 | 47 1/4 | 40 3/4 |
| | | | 1995/1/ | | |
| Sales and other operating revenues/2/................ | $382.0 | 424.7 | 398.1 | 407.7 | 1,612.5 |
| Income (loss) from continuing operations before income taxes/2/............................. | 17.8 | 33.3 | (1.0) | (198.8) | (148.7) |
| Income (loss) from continuing operations/2/.......... | 11.3 | 17.9 | 6.2 | (163.3) | (127.9) |
| Income from discontinued operations/2/............... | 4.7 | 2.7 | 1.4 | .5 | 9.3 |
| Net income (loss).................................... | 16.0 | 20.6 | 7.6 | (162.8) | (118.6) |
| Per Common share | | | | | |
| Income (loss) from continuing operations/2/...... | .25 | .40 | .14 | (3.64) | (2.85) |
| Income from discontinued operations/2/........... | .11 | .06 | .03 | .01 | .21 |
| Net income (loss)................................ | .36 | .46 | .17 | (3.63) | (2.64) |
| Cash dividends................................... | .325 | .325 | .325 | .325 | 1.30 |
| Market Price | | | | | |
| High............................................. | 45 3/8 | 44 3/8 | 42 3/8 | 42 1/2 | 45 3/8 |
| Low.............................................. | 40 3/8 | 40 7/8 | 38 3/8 | 37 1/2 | 37 1/2 |

/1/The effects of special gains (losses) on quarterly net income are reviewed in Management's Discussion and Analysis. Quarterly totals, in millions of dollars, and the effect per Common share of these special items are reported in the following table.

| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter | Year |
|---|---|---|---|---|---|
| 1996 | | | | | |
| Quarterly totals................................. | $ - | - | 17.7 | 4.5 | 22.2 |
| Per Common share................................. | - | - | .39 | .10 | .49 |
| 1995 | | | | | |
| Quarterly totals................................. | $7.0 | - | 8.1 | (167.1) | (152.0) |
| Per Common share................................. | .16 | - | .18 | (3.73) | (3.39) |

/2/Each quarterly period in 1995 and the first two quarters of 1996 have been restated for discontinued operations.

Market prices of Common Stock are as quoted on the New York Stock Exchange. There were 4,093 stockholders of record at December 31, 1996.

## REPORT OF MANAGEMENT

Preparation and integrity of the accompanying consolidated financial statements and other financial data are the responsibility of management. The statements were prepared in conformity with generally accepted accounting principles appropriate in the circumstances and include some amounts based on informed estimates and judgments, with consideration given to materiality.

Management is also responsible for maintaining a system of internal accounting controls designed to provide reasonable, but not absolute, assurance that financial information is objective and reliable by ensuring that all transactions are properly recorded in the Company's accounts and records, written policies and procedures are followed, and assets are safeguarded. The system is also supported by careful selection and training of qualified personnel. When establishing and maintaining such a system, judgment is required to weigh relative costs against expected benefits. Effectiveness of the controls is monitored by the Company's audit staff, which independently and systematically evaluates and formally reports on the adequacy and effectiveness of components of the system.

Our independent auditors, KPMG Peat Marwick LLP, have audited the consolidated financial statements. Their audit was conducted in accordance with generally accepted auditing standards and provides an independent opinion about the fair presentation of the consolidated financial statements. When performing their audit, KPMG Peat Marwick LLP considers the Company's internal control structure to the extent they deem necessary to issue their opinion on the financial statements. The Board of Directors appoints the independent auditors; ratification of the appointment is solicited annually from the shareholders.

Annually the Board of Directors appoints an Audit Committee to perform an oversight role for the financial statements. This Committee is composed solely of directors who are not employees of the Company. The Committee meets periodically with representatives of management, the Company's audit staff, and the independent auditors to review the Company's internal controls, the quality of its financial reporting, and the scope and results of audits. The independent auditors and the Company's audit staff have unrestricted access to the Committee, without management's presence, to discuss audit findings and other financial matters.

## INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
Murphy Oil Corporation:

We have audited the accompanying consolidated balance sheets of Murphy Oil Corporation and Consolidated Subsidiaries as of December 31, 1996 and 1995, and the related consolidated statements of income, stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 1996. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Murphy Oil Corporation and Consolidated Subsidiaries as of December 31, 1996 and 1995, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1996, in conformity with generally accepted accounting principles.

As discussed in Note C to the consolidated financial statements, in 1995 the Company adopted the provisions of Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of.

KPMG PEAT MARWICK LLP

Shreveport, Louisiana
March 4, 1997

CONSOLIDATED STATEMENTS OF INCOME

(Thousands of dollars except per share amounts)

| Years Ended December 31 | 1996 | 1995* | 1994* |
|---|---|---|---|
| REVENUES | | | |
| Sales | $1,916,599 | 1,571,929 | 1,540,550 |
| Other operating revenues | 91,851 | 40,571 | 40,412 |
| Interest, income from equity companies, and other nonoperating revenues | 13,726 | 19,280 | 29,754 |
| Total revenues | 2,022,176 | 1,631,780 | 1,610,716 |
| COSTS AND EXPENSES | | | |
| Crude oil, products, and related operating expenses | 1,483,914 | 1,218,083 | 1,179,826 |
| Exploration expenses, including undeveloped lease amortization | 70,206 | 65,755 | 42,741 |
| Selling and general expenses | 66,402 | 63,788 | 62,884 |
| Depreciation, depletion, and amortization | 182,381 | 221,871 | 194,999 |
| Impairment of long-lived assets | - | 198,988 | - |
| Provision for reduction-in-force | - | 6,610 | - |
| Interest expense | 13,120 | 14,428 | 12,398 |
| Interest capitalized | (10,202) | (9,015) | (9,842) |
| Total costs and expenses | 1,805,821 | 1,780,508 | 1,483,006 |
| Income (loss) from continuing operations before income taxes | 216,355 | (148,728) | 127,710 |
| Federal and state income taxes (benefits) | 43,860 | (6,233) | 25,627 |
| Foreign income taxes (benefits) | 46,539 | (14,576) | 12,736 |
| Income (loss) from continuing operations | 125,956 | (127,919) | 89,347 |
| DISCONTINUED FARM, TIMBER, AND REAL ESTATE OPERATIONS | | | |
| Income from discontinued operations | 13,999 | 9,307 | 17,281 |
| Costs of spin-off transaction | (2,100) | - | - |
| Total discontinued operations | 11,899 | 9,307 | 17,281 |
| NET INCOME (LOSS) | $ 137,855 | (118,612) | 106,628 |
| PER COMMON SHARE | | | |
| Continuing operations | $ 2.80 | (2.85) | 1.99 |
| Discontinued operations | .27 | .21 | .38 |
| Net income (loss) | $ 3.07 | (2.64) | 2.37 |
| Average Common shares outstanding | 44,977,110 | 44,866,699 | 44,882,182 |

*Restated for discontinued operations.

See notes to consolidated financial statements, page 35.

CONSOLIDATED BALANCE SHEETS

| (Thousands of dollars) December 31 | 1996 | 1995* |
|---|---|---|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | $ 109,707 | 60,853 |
| Accounts receivable, less allowance for doubtful accounts of $15,267 in 1996 and $5,766 in 1995 | 319,661 | 230,208 |
| Inventories | | |
| Crude oil and raw materials | 42,811 | 52,417 |
| Finished products | 44,310 | 61,433 |
| Materials and supplies | 44,234 | 40,063 |
| Prepaid expenses | 29,820 | 28,141 |
| Deferred income taxes | 19,626 | 17,392 |
| Total current assets | 610,169 | 490,507 |
| Property, plant, and equipment, at cost less accumulated depreciation, depletion, and amortization of $2,573,606 in 1996 and $2,647,143 in 1995 | 1,556,830 | 1,377,455 |
| Deferred charges and other assets | 76,787 | 85,764 |
| Net investment in discontinued operations | - | 144,740 |
| | $2,243,786 | 2,098,466 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities | | |
| Current maturities of long-term obligations | $ 13,635 | 10,632 |
| Accounts payable | 406,583 | 288,935 |
| Withholdings and collections due governmental agencies | 45,640 | 35,626 |
| Other accrued liabilities | 50,790 | 46,678 |
| Income taxes | 37,393 | 21,248 |
| Total current liabilities | 554,041 | 403,119 |
| Notes payable and capitalized lease obligations | 20,871 | 21,647 |
| Nonrecourse debt of a subsidiary | 180,957 | 171,499 |
| Deferred income taxes | 127,319 | 103,549 |
| Reserve for dismantlement costs | 152,528 | 144,893 |
| Reserve for major repairs | 29,776 | 11,417 |
| Deferred credits and other liabilities | 150,816 | 141,197 |
| Stockholders' equity | | |
| Cumulative Preferred Stock, par $100, authorized 400,000 shares, none issued | - | - |
| Common Stock, par $1.00, authorized 80,000,000 shares, issued 48,775,314 shares | 48,775 | 48,775 |
| Capital in excess of par value | 509,008 | 507,758 |
| Retained earnings | 550,699 | 643,699 |
| Currency translation adjustments | 22,573 | 4,568 |
| Unamortized restricted stock awards | (1,298) | (592) |
| Treasury stock | (102,279) | (103,063) |
| Total stockholders' equity | 1,027,478 | 1,101,145 |
| | $2,243,786 | 2,098,466 |

*Restated for discontinued operations.

See notes to consolidated financial statements, page 35.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Thousands of dollars)

| Years Ended December 31 | 1996 | 1995* | 1994* |
|---|---|---|---|
| OPERATING ACTIVITIES | | | |
| Income (loss) from continuing operations | $125,956 | (127,919) | 89,347 |
| Adjustments to reconcile above income (loss) to net cash provided by operating activities | | | |
| Depreciation, depletion, and amortization | 182,381 | 221,871 | 194,999 |
| Impairment of long-lived assets | - | 198,988 | - |
| Provisions for major repairs | 24,797 | 25,375 | 22,571 |
| Expenditures for major repairs and dismantlement costs | (10,839) | (13,820) | (55,284) |
| Exploratory expenditures charged against income | 60,532 | 55,055 | 31,696 |
| Amortization of undeveloped leases | 9,674 | 10,700 | 11,045 |
| Deferred and noncurrent income tax charges (credits) | 28,464 | (46,961) | 21,259 |
| Pretax gains from disposition of assets | (34,369) | (3,136) | (916) |
| Other - net | 5,889 | 17,201 | (1,058) |
| | 392,485 | 337,354 | 313,659 |
| (Increase) decrease in operating working capital other than cash and cash equivalents | 77,111 | (36,609) | (18,877) |
| Net recoveries on insurance claim to repair hurricane damage | - | 7,619 | 14,673 |
| Other adjustments related to continuing operations | 2,884 | 1,514 | 2,796 |
| Net cash provided by continuing operations | 472,480 | 309,878 | 312,251 |
| Net cash provided by discontinued operations | 18,158 | 13,061 | 24,931 |
| Net cash provided by operating activities | 490,638 | 322,939 | 337,182 |
| INVESTING ACTIVITIES | | | |
| Capital expenditures requiring cash | (418,056) | (287,151) | (385,921) |
| Proceeds from sale of property, plant, and equipment | 55,536 | 8,281 | 4,417 |
| Other continuing operations - net | (1,128) | (10,158) | (17,375) |
| Investing activities of discontinued operations | (17,402) | (8,596) | (10,313) |
| Net cash required by investing activities | (381,050) | (297,624) | (409,192) |
| FINANCING ACTIVITIES | | | |
| Additions to notes payable and capitalized lease obligations | - | - | 28,076 |
| Reductions of notes payable and capitalized lease obligations | (776) | (28,004) | (3,336) |
| Additions to nonrecourse debt of a subsidiary | 23,089 | 59,489 | 42,793 |
| Reduction of nonrecourse debt of a subsidiary | (10,628) | (7,604) | (7,614) |
| Cash dividends paid | (58,294) | (58,257) | (58,232) |
| Net cash provided (required) by financing activities | (46,609) | (34,376) | 1,687 |
| Effect of exchange rate changes on cash and cash equivalents | 2,277 | 201 | 242 |
| Net increase (decrease) in cash and cash equivalents | 65,256 | (8,860) | (70,081) |
| (Increase) decrease applicable to discontinued operations | (16,402) | 913 | 82 |
| Net increase (decrease) in cash and cash equivalents of continuing operations | 48,854 | (7,947) | (69,999) |
| Cash and cash equivalents of continuing operations at January 1 | 60,853 | 68,800 | 138,799 |
| Cash and cash equivalents of continuing operations at December 31 | $109,707 | 60,853 | 68,800 |

*Restated for discontinued operations.

See notes to consolidated financial statements, page 35.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

| (Thousands of dollars) | | | |
|---|---|---|---|
| Years Ended December 31 | 1996 | 1995 | 1994 |
| CUMULATIVE PREFERRED STOCK - par $100, authorized 400,000 shares, none issued | $ - | - | - |
| COMMON STOCK - par $1.00, authorized 80,000,000 shares, issued 48,775,314 shares at beginning and end of year | 48,775 | 48,775 | 48,775 |
| CAPITAL IN EXCESS OF PAR VALUE | | | |
| Balance at beginning of year | 507,758 | 507,797 | 507,292 |
| Exercise and surrender of stock options | 450 | 40 | 226 |
| Restricted stock transactions | 800 | (79) | 279 |
| Capital in excess of par value at end of year | 509,008 | 507,758 | 507,797 |
| RETAINED EARNINGS | | | |
| Balance at beginning of year | 643,699 | 820,568 | 772,172 |
| Net income (loss) for the year | 137,855 | (118,612) | 106,628 |
| Distribution of common stock of Deltic Timber Corporation to stockholders | (172,561) | - | - |
| Cash dividends - $1.30 a share | (58,294) | (58,257) | (58,232) |
| Retained earnings at end of year | 550,699 | 643,699 | 820,568 |
| CURRENCY TRANSLATION ADJUSTMENTS | | | |
| Balance at beginning of year | 4,568 | (2,403) | (1,514) |
| Translation gains (losses) during the year | 18,005 | 6,971 | (889) |
| Currency translation adjustments at end of year | 22,573 | 4,568 | (2,403) |
| UNAMORTIZED RESTRICTED STOCK AWARDS | | | |
| Balance at beginning of year | (592) | (993) | (660) |
| Stock awards | (1,023) | - | (800) |
| Amortization, forfeitures, and changes in price of Common Stock | 317 | 401 | 467 |
| Unamortized restricted stock awards at end of year | (1,298) | (592) | (993) |
| TREASURY STOCK | | | |
| Balance at beginning of year | (103,063) | (103,065) | (103,715) |
| Exercise and surrender of stock options | 543 | 67 | 308 |
| Awarded restricted stock, net of forfeitures | 241 | (65) | 342 |
| Treasury stock at end of year - 3,912,971 shares of Common Stock in 1996, 3,942,800 shares in 1995, and 3,942,868 shares in 1994, at cost | (102,279) | (103,063) | (103,065) |
| TOTAL STOCKHOLDERS' EQUITY | $1,027,478 | 1,101,145 | 1,270,679 |

See notes to consolidated financial statements, page 35.

## NOTE A - SIGNIFICANT ACCOUNTING POLICIES

Nature of Business - Murphy Oil Corporation is an international oil and gas company that conducts business through various operating subsidiaries. Oil and natural gas is produced in the U.S., Canada, the U.K. North Sea, and Ecuador. The Company also conducts exploration activities in numerous countries and has an interest in a Canadian synthetic crude oil operation, the world's largest. The Company operates two oil refineries in the U.S. and shares ownership in a U.K. refinery. Murphy markets petroleum products under various brand names in the U.S., the U.K., and Canada and trades and transports crude oil in Canada.

Principles of Consolidation - The consolidated financial statements include the accounts of Murphy Oil Corporation and all majority-owned subsidiaries. Investments in affiliates in which the Company has 20- to 50-percent ownership are accounted for by the equity method. Other investments are generally carried at cost. All significant intercompany accounts and transactions have been eliminated.

Cash Equivalents - Short-term investments (which include government securities or other securities with government securities as collateral) that have a maturity of three months or less from the date of purchase are classified as cash equivalents.

Inventories - Inventories of crude oil and refined products are generally valued at cost applied on a last-in, first-out (LIFO) basis, which in the aggregate is lower than market. Materials and supplies are valued at the lower of average cost or estimated value.

Property, Plant, and Equipment - The Company uses the successful efforts method of accounting for exploration and development expenditures. Leasehold acquisition costs are capitalized. When proved reserves are found on an undeveloped property, leasehold cost is reclassified to proved properties. Significant undeveloped leases are reviewed periodically, and a valuation allowance is provided for any estimated decline in value. Cost of all other undeveloped leases is amortized over the estimated average holding period of the leases. Costs of exploratory drilling are initially capitalized, but if proved reserves are not found, the costs are subsequently expensed. All other exploratory costs are charged to expense as incurred. Development costs are capitalized, including the cost of unsuccessful development wells.

In 1995 the Company adopted Statement of Financial Accounting Standards (SFAS) No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of. Under SFAS No. 121, oil and gas properties are evaluated by field for potential impairment; other long-lived assets are evaluated on a specific asset basis or in groups of similar assets, as applicable. An impairment is recognized when the undiscounted estimated future net cash flows of an evaluated asset are less than the carrying value of the asset. Previously, worldwide undiscounted future net cash flows for oil and gas properties were compared annually to net capitalized cost of proved properties to determine if an impairment had occurred. As warranted by events, significant, high-cost properties were assessed for permanent impairment based on discounted future net cash flows.

Depreciation and depletion of producing oil and gas properties are provided under the unit-of-production method. Developed reserves are used to compute unit rates for unamortized development costs, and proved reserves are used for unamortized leasehold costs. Estimated dismantlement, abandonment, and site restoration costs, net of salvage value, are considered in determining depreciation and depletion. Depreciation of refining and marketing facilities is calculated using the composite straight-line method. Other properties are depreciated by individual unit based on the straight-line method.

Gains and losses on disposals or retirements that are significant or include an entire depreciable or depletable property unit are included in income. Costs of dismantling oil and gas production facilities and site restoration are charged against the related reserve. All other dispositions, retirements, or abandonments are reflected in accumulated depreciation, depletion, and amortization.

Provisions are made for refinery turnarounds by monthly charges to expense. Costs incurred are charged against the reserve. All other maintenance and repair costs are charged to expense. Renewals and betterments are capitalized.

Environmental Liabilities - A provision for environmentally related obligations is recorded by a charge to expense when it is determined that the Company's liability for an environmental assessment and/or cleanup is probable and the cost can be reasonably estimated. Related expenditures are charged against the reserve. Environmental remediation liabilities have not been discounted to reflect the time value of future expected payments. Environmental expenditures that have future economic benefit are capitalized.

Income Taxes - The Company uses the asset and liability method of accounting for income taxes. Under this method, the provision for income taxes includes amounts currently payable and amounts deferred as tax assets and liabilities based on differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities and measured using the enacted tax rates that are assumed will be in effect when the differences reverse. Provision for petroleum revenue taxes payable to the U.K. government is based on the estimated effective tax rate over the life of certain U.K. properties.

Foreign Currency Translation - Local currency is the functional currency used for recording operations in Canada and Spain and the majority of activities in the U.K. The U.S. dollar is the functional currency used to record all other operations. Gains or losses that result from translating accounts from foreign functional currencies into U.S. dollars are included in "Currency Translation Adjustments" in "Stockholders' Equity." Gains or losses that result from specific transactions in a currency other than the functional currency are included in income.

Derivatives - Financial instruments (generally crude oil swaps) that reduce the financial exposure of U.S. refinery operations to unfavorable market movements related to anticipated crude oil purchases are accounted for as hedges. Gains and losses on these contracts are included in costs in the periods that the hedged oil purchases occur. A loss is recognized if the estimated cost of the future crude purchases, including settlement costs of these contracts, exceeds the estimated net realizable value of the related finished products. Foreign exchange contracts that reduce the financial exposure to fluctuations in foreign currency exchange rates are accounted for as hedges. These contracts, which relate to existing obligations or commitments, generally involve the exchange of one currency for another at a future date. Gains and losses are recognized in income or as adjustments to the carrying amounts when the hedged transactions occur.

Excise Taxes on Refined Products - Taxes collected on the sales of refined products and remitted to governmental agencies are not included in revenues or costs and expenses.

Net Income per Common Share - This amount is computed by dividing net income for each reporting period by the weighted average number of Common and Common equivalent (stock options when dilutive) shares outstanding during the period.

Use of Estimates - In the preparation of financial statements of the Company in conformity with generally accepted accounting principles, management has made a number of estimates and assumptions related to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses. Actual results may differ from the estimates.

NOTE B - DISCONTINUED OPERATIONS

On December 31, 1996, Murphy completed a tax-free spin-off to its stockholders of all the common stock of its wholly owned farm, timber, and real estate subsidiary Deltic Farm & Timber Co, Inc. (reincorporated as "Deltic Timber Corporation"). The spin-off resulted in a net charge of $172,561,000 to "Retained Earnings" in 1996. As a result of the transaction, activities of the farm, timber, and real estate segment have been accounted for as discontinued operations, with prior periods restated to conform to the 1996 presentation. Selected operating results for these activities, presented as net amounts in the Consolidated Statements of Income, were as follows.

| (Thousands of dollars except per share amounts) | 1996 | 1995 | 1994 |
|---|---|---|---|
| Revenues | $87,746 | 79,433 | 88,447 |
| Income tax provisions | 8,878 | 5,394 | 11,909 |
| Income from operations | 13,999 | 9,307 | 17,281 |
| Costs of spin-off transaction | (2,100) | - | - |
| Income from operations per share | .31 | .21 | .38 |
| Costs of spin-off transaction per share | (.04) | - | - |

Components of net assets of discontinued farm, timber, and real estate activities, presented as a net amount in the Consolidated Balance Sheet at December 31, 1995, were as follows.

| (Thousands of dollars) | 1995 |
|---|---|
| Current assets | $ 29,612 |
| Property and equipment - net | 109,777 |
| Other noncurrent assets | 25,998 |
| Current liabilities | (12,491) |
| Noncurrent liabilities | (8,156) |
| Net investment in discontinued operations | $144,740 |

NOTE C - ACCOUNTING CHANGE

Effective October 1, 1995, the Company adopted SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of. The effects of this accounting change were a reduction in the carrying value of property, plant, and equipment by $198,988,000 and an after-tax reduction of income by $168,367,000, $3.75 a share. The asset impairments resulted from management's expectation of a continuation into the foreseeable future of the low-price environment for crude oil, natural gas, and petroleum products that confronted the oil and gas industry throughout most of 1995. The carrying values for assets determined to be impaired were adjusted to fair values based on estimated future net cash flows for such assets, discounted at a market rate of interest. Properties determined to be impaired were certain oil and gas assets (Ecuadoran fields; two U.K. North Sea fields; four U.S. fields, primarily in the Gulf of Mexico; and a Spanish property) and U.K. refining and marketing assets.

NOTE D - PROPERTY, PLANT, AND EQUIPMENT

| (Thousands of dollars) | Investment December 31, 1996 | Investment December 31, 1995 |
|---|---|---|

| | Cost | Net | Cost/1/ | Net/1/ |
|---|---|---|---|---|
| Exploration and production.......... | $3,215,266 | 1,139,324/2/ | 3,163,843 | 975,801/2/ |
| Refining............. | 639,152 | 264,588 | 601,869 | 257,497 |
| Marketing............. | 169,905 | 96,506 | 160,234 | 92,734 |
| Transportation........ | 75,582 | 39,715 | 67,258 | 34,315 |
| Corporate and other... | 30,531 | 16,697 | 31,394 | 17,108 |
| | $4,130,436 | 1,556,830 | 4,024,598 | 1,377,455 |

/1/ Restated for discontinued operations.
/2/ Includes $17,989 in 1996 and $17,239 in 1995 related to administrative assets and support equipment.

The Company leases land, service stations, and other facilities under operating leases. Future minimum rental commitments under noncancelable operating leases are not material. Commitments for capital expenditures were approximately $243,000,000 at December 31, 1996.

NOTE E - FINANCING ARRANGEMENTS

At December 31, 1996, the Company had committed credit facilities with two major banks totaling an equivalent US $200,000,000 for a combination of U.S. dollar and Canadian dollar borrowings. In addition, the Company had a committed facility of US $114,496,000 with another major bank that is only subject to drawdown based on the availability of loan guarantees from the Canadian government. Depending upon the credit facility, borrowings bear interest at prime or various cost of fund options. Facility fees are due at varying rates on certain of the commitments. The facilities expire at dates ranging from 1997 through 1999. At December 31, 1996 and 1995, U.S. dollar and Canadian dollar commercial paper totaling an equivalent US $114,496,000 and US $110,296,000, supported by a bank credit facility, was classified as long-term nonrecourse debt. In addition, the Company had lines of credit with banks at December 31, 1996, totaling an equivalent US $160,432,000 for a combination of U.S. dollar and Canadian dollar borrowings. No amounts were outstanding at December 31, 1996, and these lines could be withdrawn at any time.

At year-end 1996, the Company had a shelf registration on file with the Securities and Exchange Commission that would permit the offer and sale of $250,000,000 in debt securities. No securities had been issued as of December 31, 1996.

NOTE F - LONG-TERM OBLIGATIONS

| (Thousands of dollars) | | |
|---|---|---|
| December 31 | 1996 | 1995 |
| Notes payable to bank, 10.1%, due 2004 | $ 20,000 | 20,000 |
| Capitalized lease obligations due 1997-2021; 6%, 8% | 875 | 1,651 |
| Nonrecourse debt of a subsidiary | | |
| Guaranteed credit facility with bank | | |
| Commercial paper, 2.80% to 5.46%, $45,096 payable in Canadian dollars, supported by credit facility, due 1998..... | 114,496 | 110,296 |
| Loan payable to Canadian government, interest-free, due 1999-2008, payable in Canadian dollars. | 37,944 | 19,055 |
| Promissory note, 6.25%, due 1997-1998, payable in Canadian dollars...................... | 42,148 | 52,776 |
| Subtotal | 194,588 | 182,127 |
| Total.................................. | 215,463 | 203,778 |
| Current maturities.................................. | (13,635) | (10,632) |
| Total long-term obligations | $201,828 | 193,146 |

*Restated for discontinued operations.

Amounts becoming due for the four years after 1997 are: 1998, $28,521,000; 1999, $3,799,000; 2000, $3,799,000; and 2001, $12,556,000.

The nonrecourse guaranteed credit facility was arranged to finance expenditures for the Hibernia oil field. Subject to certain conditions and limitations, the Canadian government has unconditionally guaranteed repayment of amounts drawn under/supported by the credit facility to lenders that possess qualifying Participation Certificates. The Company has obtained the maximum borrowing available under the Primary Guarantee Facility at December 31, 1996. The Company also has other loan guarantee commitments from the Canadian government. The amount guaranteed declines quarterly beginning the earlier of January 1, 2002 or two years after cumulative production reaches 25 million barrels; no guaranteed financing is available after January 1, 2016. A guarantee fee of .5 percent is payable annually in arrears to the Canadian government. Since the Company intends to refinance outstanding debt under the guaranteed credit facility, the debt is not reflected as becoming due in 1998.

The 6.25-percent promissory note of Cdn $55,970,000 (US $42,148,000 at a hedged exchange rate) is payable to the province of Alberta and is secured by a debenture, which mortgages the Company's interest in the Syncrude project and its production therefrom. The province's right to recover the principal and interest on the note is limited to the mortgaged property and funds available from that production.

NOTE G - INCOME TAXES

The components of income (loss) from continuing operations before income taxes and income tax expense (benefit) were as follows.

| (Thousands of dollars) | 1996 | 1995/1/ | 1994/1/ |
|---|---|---|---|
| Income (loss) from continuing operations before income taxes | | | |
| United States...................... | $104,888 | (5,574) | 76,505 |
| Foreign............................ | 111,467 | (143,154) | 51,205 |
| | $216,355 | (148,728) | 127,710 |
| Income tax expense (benefit) | | | |

| | | | |
|---|---|---|---|
| Continuing operations | | | |
| Federal - Current/2/.......... | $ 16,445 | 5,619 | (3,952) |
| Deferred............ | 15,837 | (20,800) | 23,593 |
| Noncurrent.......... | 8,762 | 9,008 | 3,708 |
| | 41,044 | (6,173) | 23,349 |
| State - Current | 2,816 | (60) | 2,278 |
| Foreign - Current............. | 46,130 | 22,929 | 15,398 |
| Deferred............ | 4,095 | (19,580) | 183 |
| Noncurrent.......... | (3,686) | (17,925) | (2,845) |
| | 46,539 | (14,576) | 12,736 |
| Total continuing operations. | 90,399 | (20,809) | 38,363 |
| Discontinued operations............ | 8,878 | 5,394 | 11,909 |
| | $ 99,277 | (15,415) | 50,272 |

/1/Restated for discontinued operations.
/2/Net of benefits of $1,035 in 1996, $4,273 in 1995, and $1,923 in 1994 for alternative minimum tax credit.

Noncurrent taxes relate to petroleum revenue taxes payable to the U.K. government ($2,774,000 and $6,330,000 at December 31, 1996 and 1995 and classified in the Consolidated Balance Sheets as "Deferred Credits and Other Liabilities") and to matters not resolved with various taxing authorities. The significant components of deferred income tax expense (benefit) attributable to income (loss) from continuing operations before income taxes for the years ended December 31, 1996, 1995, and 1994 were as follows.

| (Thousands of dollars) | 1996 | 1995* | 1994* |
|---|---|---|---|
| Deferred tax expense (exclusive of the effects of the component listed below on deferred tax assets and liabilities at the beginning of each year)....... | $17,754 | (36,053) | 23,794 |
| Estimated tax credit carryforward (increase) decrease.................. | 2,178 | (4,327) | (18) |
| Total deferred tax expense (benefit) | $19,932 | (40,380) | 23,776 |

*Restated for discontinued operations.

Following is a reconciliation of the U.S. statutory income tax rate to the Company's effective rates on income (loss) from continuing operations before income taxes.

| | 1996 | 1995* | 1994* |
|---|---|---|---|
| U.S. statutory income tax rate | 35% | (35)% | 35% |
| Foreign asset impairment with no tax benefit. | - | 24 | - |
| Foreign income subject to foreign taxes at greater than U.S. statutory rate. | 7 | 7 | 3 |
| Refund and settlement of foreign taxes | (1) | (5) | (5) |
| Refund and settlement of U.S. taxes | - | (5) | (3) |
| State income taxes | 1 | - | 1 |
| Other, net | - | - | (1) |
| Effective income tax rates | 42% | (14)% | 30% |

*Restated for discontinued operations.

An analysis of the Company's deferred tax assets and deferred tax liabilities at December 31, 1996 and 1995 showing the tax effects of significant temporary differences follows.

| (Thousands of dollars) | 1996 | 1995/1/ |
|---|---|---|
| Deferred tax assets | | |
| Property and leasehold costs | $ 58,185 | 60,540 |
| Reserves for dismantlements and major repairs | 60,404 | 52,766 |
| Federal alternative minimum tax credit carryforward/2/ | 6,065 | 8,243 |
| Postretirement and other employee benefits.. | 20,486 | 17,413 |
| Other deferred tax assets | 30,524 | 30,082 |
| Total gross deferred tax assets | 175,664 | 169,044 |
| Less valuation allowance | (33,609) | (34,597) |
| Net deferred tax assets | 142,055 | 134,447 |
| Deferred tax liabilities | | |
| Property, plant, and equipment | (43,198) | (49,071) |
| Accumulated depreciation, depletion, and amortization | (184,445) | (147,018) |
| Other deferred tax liabilities | (22,105) | (24,928) |
| Total gross deferred tax liabilities | (249,748) | (221,017) |
| Net deferred tax liabilities | $(107,693) | (86,570) |

/1/Restated for discontinued operations.
/2/Available to reduce future U.S. federal income taxes over an indefinite period.

In management's judgment, the net deferred tax assets in the preceding table will more likely than not be realized as reductions of future taxable income or by utilizing available tax planning strategies. The valuation allowance for deferred tax assets decreased $988,000 in 1996 after decreasing $4,718,000 in 1995; the change in each year offset the change in certain deferred tax assets. Any subsequent reductions of the valuation allowance will be reported as reductions of income tax expense assuming no offsetting change in the deferred tax asset.

The Company has not recorded a deferred tax liability of $9,075,000 related to undistributed earnings of certain foreign subsidiaries at December 31, 1996, because the earnings are considered permanently invested.

Income tax returns are subject to audit by the Internal Revenue Service and tax authorities of other countries. In 1996, 1995, and 1994, the Company recorded benefits to income of $5,120,000, $13,603,000, and $6,365,000, respectively, from settlement of various U.S. and foreign tax issues related to prior years. The Company believes that adequate accruals have been made for unsettled issues.

NOTE H - CURRENCY TRANSLATION

Cumulative translation gains and losses are included in "Stockholders' Equity." At December 31, 1996, components of the net cumulative gain of $22,573,000 were gains (losses) of $42,388,000 for pounds sterling, $(21,143,000) for Canadian dollars, and $1,328,000 for all other currencies. Comparability of net income was not significantly affected by exchange rate fluctuations in 1996, 1995, or 1994.

NOTE I - STOCKHOLDER RIGHTS PLAN

The Company has a Stockholder Rights Plan, which provides for each Common stockholder to receive a dividend of one Right for each share of the Company's Common Stock held. The Rights will expire on December 6, 1999, unless earlier redeemed or exchanged. The Rights will detach from the Common Stock and become exercisable following a specified period of time, subject to extension, after the date of the first public announcement that a person or group of affiliated or associated persons (other than certain persons) has become the beneficial owner of 15 percent or more of the Company's Common Stock. The Rights have certain antitakeover effects and will cause substantial dilution to a person or group that attempts to acquire the Company without conditioning the offer on a substantial number of Rights being acquired. The Rights are not intended to prevent a takeover, but rather are designed to enhance the ability of the Board of Directors to negotiate with an acquiror on behalf of all shareholders. Other terms of the Rights are set forth in, and the foregoing description is qualified in its entirety by, the Rights Agreement between the Company and Harris Trust Company of New York, as Rights Agent.

NOTE J - INCENTIVE PLANS

The Company's 1992 Stock Incentive Plan (the Plan) permits annual awards of shares of the Company's Common Stock to executives and other key employees. Under the Plan, the Executive Compensation and Nominating Committee (the Committee) is authorized to grant: (1) stock options (nonqualified or incentive), (2) stock appreciation rights (SAR), and (3) restricted stock awards. Total annual shares granted may not exceed .5 percent of shares outstanding at the end of the preceding year; any allowed shares not granted may be awarded in future years. The Company applies APB Opinion No. 25 to account for stock-based compensation plans. Accordingly, costs of options and restricted stock are accrued over the vesting/performance periods and adjusted for subsequent changes in fair market value of the shares. Compensation cost charged against income for stock-based compensation was $5,566,000 in 1996, $222,000 in 1995, and $1,457,000 in 1994, and there were no significant modifications of outstanding awards in the last three years. Had compensation cost of the Company's stock-based compensation plans been determined based on the fair value of the instruments at the grant dates using the provisions of SFAS No. 123, the Company's net income and earnings per share would be the following pro forma amounts.

| (Thousands of dollars except per share data) | | 1996 | 1995 |
|---|---|---|---|
| Net income | - As reported................ | $137,855 | (118,612) |
| | Pro forma.................. | 138,570 | (118,979) |
| Earnings per share | - As reported................ | $ 3.07 | (2.64) |
| | Pro forma.................. | 3.08 | (2.65) |

. Stock options - For each option granted under the Plan, The Committee fixes the option price at no less than fair market value on the date of the grant and fixes the option term, not to exceed 10 years from date of grant. Each option granted to date has been for 10 years and nonqualified, with an option price no less than the fair market value on the grant date, and each grantee is permitted to surrender options for equivalent value of stock at the date of surrender. One half of each grant may be exercised or surrendered after two years and the remainder after three years.

For the pro forma net income calculation in the preceding table, the fair value of each option on the date of grant was estimated using the Black-Scholes option-pricing model and the following assumptions for awards in 1996 and 1995, respectively: dividend yields of 3.20 percent and 3.04 percent; expected volatility of 17.64 percent and 19.76 percent; risk-free interest rates of 5.26 percent and 7.45 percent; and expected lives of five years. Using these assumptions, the weighted-average grant-date fair values per share of options granted in 1996 and 1995 were $7.27 and $10.21, respectively.

Changes in options outstanding, including shares issued under a prior plan, were as follows.

| | Number of Shares | Average Exercise Price |
|---|---|---|
| Outstanding January 1, 1994.................... | 377,017 | $36.72 |
| Granted....................................... | 69,500 | 39.94 |
| Surrendered................................... | (54,950) | 34.86 |
| Forfeited/expired............................. | (51,837) | 41.18 |
| Outstanding December 31, 1994.................. | 339,730 | 37.00 |
| Granted....................................... | 142,000 | 43.94 |
| Surrendered................................... | (33,250) | 35.86 |
| Forfeited/expired............................. | (23,250) | 39.20 |
| Outstanding December 31, 1995.................. | 425,230 | 39.28 |
| Granted....................................... | 168,000 | 42.44 |
| Surrendered................................... | (105,006) | 36.47 |
| Forfeited..................................... | (47,625) | 42.82 |
| Outstanding December 31, 1996 | 440,599 | 40.77 |
| Exercisable December 31, 1994.................. | 147,480 | $36.32 |
| Exercisable December 31, 1995.................. | 198,355 | 36.31 |
| Exercisable December 31, 1996.................. | 153,223 | 36.92 |

Additional information about stock options outstanding at December 31, 1996 follows.

| | Options Outstanding | | | Options Exercisable | |
|---|---|---|---|---|---|
| Range of Exercise Prices | No. of Options | Avg. Life in Years | Avg. Price | No. of Options | Avg. Price |
| $27.13 to $40.00 | 169,099 | 5.6 | $37.14 | 145,223 | $36.68 |
| $41.00 to $43.94 | 271,500 | 8.5 | 43.04 | 8,000 | 41.30 |
| $27.13 to $43.94 | 440,599 | 7.4 | $40.77 | 153,223 | $36.92 |

. SAR - SAR may be granted in conjunction with or independent of stock options; the Committee determines when SAR may be exercised and the price. No SAR have been granted.

. Restricted stock - Shares of restricted stock were granted in 1992, 1994, and 1996, with vesting for each grant contingent upon the Company's achieving specific financial objectives at the end of a five-year performance period. Additional shares may be awarded if objectives are exceeded, but the grant may be forfeited if objectives are not met. During the performance period, the grantee may vote and receive dividends on the shares, but shares are subject to transfer restrictions and are all or partially forfeited if a grantee terminates, depending upon the reason. The grantee may be reimbursed by the Company for personal income tax liability on the value of stock awarded. For the pro forma net income calculation, the fair value per share of restricted stock granted in 1996 was $42.44, the grant-date market price of the stock. On December 31, 1996, the performance period ended for shares granted in 1992; based on financial objectives achieved, 50 percent of eligible shares granted in 1992 were awarded and the remaining shares were forfeited.

Changes in restricted stock outstanding were as follows.

| (Number of shares) | 1996 | 1995 | 1994 |
|---|---|---|---|
| Balance at beginning of year | 38,011 | 40,511 | 27,511 |
| Granted | 24,250 | - | 20,000 |
| Awarded | (10,563) | - | - |
| Forfeited | (15,186) | (2,500) | (7,000) |
| Balance at end of year | 36,512 | 38,011 | 40,511 |

. Cash awards - The Company has an Incentive Compensation Plan that provides for annual cash awards to officers, directors, and key employees based on actual results for a year compared to financial performance objectives established at the beginning of that year. The Plan is administered by the Committee. Provisions of $3,100,000, $400,000, and $1,200,000 were recorded in 1996, 1995, and 1994, respectively, in anticipation of future awards.

NOTE K - EMPLOYEE AND RETIREE BENEFITS

Retirement Plans - The Company has noncontributory defined benefit retirement plans that cover substantially all employees. Benefits are based on years of service and final-pay or career-average-pay formulas as defined by the plans. The Company also has a nonqualified supplemental plan for directors and supplemental plans that provide benefits to employees whose defined benefits under their retirement plan formula cannot be fully funded because of statutory limitations on the amount of benefits that may be paid from qualified plans. As part of a reduction-in-force program, special termination benefits were offered certain U.S. employees in 1995; a curtailment gain resulted from reduced future service cost for employees accepting the offer.

Retirement expense (credit) and its components for 1996, 1995, and 1994 are shown in the following table.

U.S. Plans

| (Thousands of dollars) | 1996 | 1995 | 1994 |
|---|---|---|---|
| Service cost - benefits earned during the year | $ 3,191 | 3,266 | 3,736 |
| Interest accrued on benefits earned in prior years | 11,609 | 10,984 | 10,465 |
| Actual return on plan assets | (21,641) | (32,876) | (3,761) |
| Net amortization and deferral | 4,739 | 18,456 | (10,900) |
| Retirement expense reduction* | (2,102) | (170) | (460) |
| Special termination benefits | - | 7,005 | - |
| Curtailment gain | - | (2,494) | - |
| Net retirement expense (credit) | $(2,102) | 4,341 | (460) |

*Major assumptions were discount rates of 7.00% for 1996, 7.50% for 1995, and 6.75% for 1994 and assumed long-term rate of return on plan assets of 8.50% for each year.

Net retirement expense (credit) included in "Income from Discontinued Operations" in the Consolidated Statements of Income was $(69,000) in 1996, $(12,000) in 1995, and $(3,000) in 1994.

Non-U.S. Plans

| (Thousands of dollars) | 1996 | 1995 | 1994 |
|---|---|---|---|
| Service cost - benefits earned during the year | $1,528 | 1,482 | 1,537 |
| Interest accrued on benefits earned in prior years | 2,620 | 2,173 | 2,404 |
| Actual return on plan assets | (5,011) | (3,652) | (894) |
| Net amortization and deferral | 910 | 811 | (2,323) |
| Retirement expense* | $ 47 | 814 | 724 |

*Major assumptions were discount rates of 7.50%-9.50% in 1996 and 1995, and 6.50%-7.50% in 1994 and assumed long-term rates of return on plan assets of 7.50%-9.50% in 1996 and 1995, and 6.50%-7.50% in 1994.

Amounts contributed to U.S. funded plans are actuarially determined and are at least the minimum required by the Employee Retirement Income Security Act of 1974. Amounts contributed to non-U.S. plans are based on local laws. The supplemental plans are unfunded, and accumulated benefits exceeded assets in one funded plan in 1995. Accumulated benefits in excess of assets in these plans were $5,501,000 in 1996 and $5,906,000 in 1995; these amounts have been netted in the following table, which sets forth the combined funded status of plans and amounts recognized in the Consolidated Balance Sheets.

| | U.S. Plans | | Non-U.S. Plans | |
|---|---|---|---|---|
| (Thousands of dollars) | 1996 | 1995 | 1996 | 1995 |
| Present value of accumulated benefits based on years of service, applicable pay formula, and present pay levels | | | | |
| Vested | $138,428 | 142,238 | 27,991 | 24,060 |
| Nonvested | 5,494 | 7,023 | 120 | 188 |
| Accumulated benefit obligation/1/ | 143,922 | 149,261 | 28,111 | 24,248 |
| Provision for future pay increases | 15,592 | 17,514 | 6,298 | 6,645 |
| Projected benefit obligation/1/ | 159,514 | 166,775 | 34,409 | 30,893 |
| Plan assets - at market value/2/ | 185,355 | 181,791 | 44,935 | 38,574 |
| Plan assets in excess of projected benefit obligation | 25,841 | 15,016 | 10,526 | 7,681 |
| Unrecognized net asset from transition to SFAS No. 87/3/ | (13,529) | (15,667) | (2,143) | (2,268) |
| Unrecognized net loss (gain) from unfavorable (favorable) actuarial experience | (4,740) | 7,302 | (14,612) | (11,417) |
| Unrecognized prior service cost | 1,421 | 1,861 | 2,718 | 2,655 |
| Additional minimum liability | (360) | (474) | - | - |
| Prepaid (accrued) retirement cost | $ 8,633 | 8,038 | (3,511) | (3,349) |

/1/Major assumptions for U.S. plans were discount rates of 7.50% for 1996 and 7.00% for 1995 and future pay rate increases of 4.60% for 1996 and 1995. Major assumptions for non-U.S. plans were discount rates of 7.50%-9.50% for 1996 and 1995 and future pay rate increases of 6.00%-7.00% for 1996 and 1995.

/2/Primarily includes listed stocks and bonds, government securities, U.S. agency bonds, corporate bonds, and group annuity contracts.

/3/Being amortized over periods of 14 to 19.2 years.

Prepaid retirement cost of $1,299,000 was included in "Net Investment in Discontinued Operations" in the Consolidated Balance Sheet at December 31, 1995.

Thrift Plans - Most employees of the Company in the U.S. and Canada may participate in thrift plans by allotting up to a specified percentage of their base pay. The Company matches contributions at a stated percentage of each employee's allotment based on length of participation in the plans. Company contributions to these plans were $2,784,000 in 1996, $2,952,000 in 1995, and $2,707,000 in 1994, including $190,000 in 1996, $157,000 in 1995, and $144,000 in 1994 that were included in "Income from Discontinued Operations" in the Consolidated Statements of Income.

Postretirement Benefits - In the U.S., the Company sponsors plans that provide health care benefits and life insurance benefits for most retired employees. Costs are accrued for these plans during the service lives of covered employees. Retirees contribute a portion of the self-funded cost of health care benefits; the Company contributes the remainder. The Company pays premiums for life insurance coverage, arranged through an insurance company. The health care plan is funded on a pay-as-you-go basis. The Company has the right to modify the benefits and/or cost-sharing provisions.

Based on actuarial computations, postretirement expense and its components for 1996, 1995, and 1994 were as follows.

| (Thousands of dollars) | 1996 | 1995 | 1994 |
|---|---|---|---|
| Service cost.............................. | $ 714 | 548 | 895 |
| Amortization of net actuarial loss........ | 17 | 476 | 347 |
| Interest cost............................. | 2,175 | 2,706 | 2,733 |
| Postretirement expense | $2,906 | 3,730 | 3,975 |

Postretirement expense included in "Income from Discontinued Operations" in the Consolidated Statements of Income was $433,000 in 1996, $466,000 in 1995, and $485,000 in 1994.

A summary follows of postretirement benefit obligations recorded at December 31, 1996 and 1995. Calculation of the amount of accumulated unfunded postretirement benefit obligations (APBO) was based on discount rates of 7.50 percent and 7.00 percent in 1996 and 1995.

| (Thousands of dollars) | 1996 | 1995 |
|---|---|---|
| APBO - Retirees.................................... | $18,450 | 27,595 |
| Fully eligible active participants.......... | 2,680 | 2,443 |
| Other active participants................... | 7,931 | 8,622 |
| Total unfunded APBO............ | 29,061 | 38,660 |
| Unrecognized net actuarial loss.................... | 611 | (7,765) |
| Accrued APBO obligations | $29,672 | 30,895 |

Accrued APBO obligations were included in "Deferred Credits and Other Liabilities" in the Consolidated Balance Sheets except for $3,352,000 included in "Net Investment in Discontinued Operations" at December 31, 1995. The decrease in accrued APBO obligations at December 31, 1996, was due to the spin-off of Deltic Timber Corporation.

In determining the APBO at December 31, 1996, health care inflation cost was assumed to increase at an annual rate of 7.5 percent, gradually decreasing to 4.5 percent in 2002 and thereafter. A one-percent increase in the assumed health care cost trend would increase the 1996 postretirement benefit expense by 8.2 percent and the APBO at December 31, 1996 by 6.5 percent.

NOTE L - SUPPLEMENTAL CASH FLOW DISCLOSURES

Cash income taxes paid, net of refunds, were $43,051,000, $24,638,000, and $29,999,000 in 1996, 1995, and 1994. Interest paid, net of amounts capitalized, was $1,659,000, $5,434,000, and $1,873,000 in 1996, 1995, and 1994.

(Increases) decreases in noncash operating working capital for each of the three years ended December 31, 1996 were:

| (Thousands of dollars) | 1996 | 1995* | 1994* |
|---|---|---|---|
| Accounts receivable..................... | $(89,453) | 7,203 | (51,356) |
| Inventories............................. | 22,558 | (18,192) | 240 |
| Prepaid expenses........................ | (1,679) | 7,131 | (288) |
| Deferred income tax assets.............. | (2,234) | (2,551) | 3,538 |
| Accounts payable and accrued liabilities | 131,774 | (23,987) | 29,994 |
| Current income tax liabilities.......... | 16,145 | (6,213) | (1,005) |
| | $ 77,111 | (36,609) | (18,877) |

*Restated for discontinued operations.

NOTE M - DERIVATIVE FINANCIAL INSTRUMENTS

The Company utilizes derivative transactions on a limited basis to manage well-defined risks related to commodity prices and foreign currency exchange rates. The Company does not hold any derivatives for trading purposes.

Occasionally, the Company uses derivative agreements to reduce the financial exposure of its U.S. refinery operations to unfavorable market movements related to anticipated crude oil purchases. Under each agreement, the Company receives or pays a cash settlement at maturity based on the differential between the agreement price and an actual future crude oil price. At December 31, 1996, the Company had swap agreements that mature in 1997 for 1,500,000 barrels at prices ranging from $19.33 to $19.95 a barrel.

The Company has foreign exchange contracts to manage certain foreign exchange risks. At December 31, 1996, the Company had hedging contracts to buy Cdn $55,970,000, fixing the U.S. dollar costs for certain Canadian dollar nonrecourse debt. The Company also had a hedging contract to sell

US $12,000,000, fixing the Canadian dollar revenues from the sale of Canadian crude in U.S. dollars.

NOTE N - FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table presents the carrying amounts and estimated fair values of financial instruments held by the Company at December 31, 1996 and 1995. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties. The table excludes cash and cash equivalents, trade accounts receivable, investments and noncurrent receivables, trade accounts payable, and accrued expenses, all of which had fair values approximating carrying amounts.

| | 1996 | | 1995* | |
|---|---|---|---|---|
| (Thousands of dollars) | Carrying or Notional Amount | Estimated Fair Value | Carrying or Notional Amount | Estimated Fair Value |
| Financial liabilities | | | | |
| Long-term obligations including current maturities | $(215,463) | (203,848) | (203,778) | (199,265) |
| Off-balance-sheet exposures | | | | |
| Crude oil swaps | - | 6,166 | - | (7,965) |
| Financial guarantees and letters of credit | (38,800) | (38,800) | (41,000) | (41,000) |

*Restated for discontinued operations.

The carrying amounts of financial liabilities in the preceding table are included in the Consolidated Balance Sheets under "Current Maturities of Long-Term Obligations," "Notes Payable and Capitalized Lease Obligations," and "Nonrecourse Debt of a Subsidiary." The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value.

. Long-term obligations including current maturities - The fair value is estimated based on current rates offered the Company for debt of the same maturities.

. Crude oil swaps - The fair value is an estimate of the amount, based on quotes from brokers, that the Company would receive (pay) at the reporting date to cancel the contracts. The estimated fair value of crude oil swap contracts at December 31, 1995 was fully reserved in the Consolidated Balance Sheet as a part of "Deferred Credits and Other Liabilities."

. Financial guarantees and letters of credit - The fair value is based on the estimated cost to settle these obligations.

NOTE O - CONCENTRATION OF CREDIT RISKS

The Company's primary credit risk is from trade accounts receivable. These receivables arise mainly from sales of crude oil, natural gas, and petroleum products to a large number of customers in the U.S., Canada, and the U.K. The credit history and financial condition of potential customers are reviewed before credit is extended, security may be obtained then or later, routine follow-up evaluations are made, and an allowance for doubtful accounts is maintained, generally based upon a risk evaluation of specific customers. The Company also has certain off-balance-sheet financial instruments (see Note N to the consolidated financial statements). The Company controls the credit risks on these instruments through credit approvals and monitoring procedures and believes such risks are minimal, as counterparties to the transactions generally are major financial institutions. At December 31, 1996, the Company had no significant concentration of credit risk outside the oil and gas industry.

NOTE P - OTHER FINANCIAL INFORMATION

Inventories valued at cost under the LIFO method totaled $63,783,000 and $94,779,000 at December 31, 1996 and 1995, respectively. These amounts were $120,290,000 and $70,040,000, respectively, less than such inventories would have been valued using the FIFO method. Net gains (losses) from foreign currency transactions were $(175,000) in 1996, $82,000 in 1995, and $51,000 in 1994.

NOTE Q - CONTINGENCIES

The Company's operations and earnings have been and may be affected by various forms of governmental action both in the U.S. and throughout the world. Examples of such governmental action include, but are by no means limited to: tax increases and retroactive tax claims; restrictions on production; import and export controls; price controls; currency controls; allocation of supplies of crude oil and petroleum products and other goods; expropriation of property; restrictions and preferences affecting issuance of oil and gas or mineral leases; laws and regulations intended for the protection and/or remediation of the environment; promotion of safety; and laws and regulations affecting the Company's relationships with employees, suppliers, customers, stockholders, and others. Because governmental actions are often motivated by political considerations, may be taken without full consideration of their consequences, and may be taken in response to actions of other governments, it is not practical to attempt to predict the likelihood of such actions, the form the actions may take, or the effect such actions may have on the Company.

DOE Matters - In 1994 the Company and the U.S. Department of Energy (DOE) entered into a Consent Order that settled the last remaining issues related to DOE regulations that were in effect from 1973 to 1981. The settlement resulted in a $21,034,000 benefit ($13,871,000 after tax), which was recorded in "Interest, Income from Equity Companies, and Other Nonoperating Revenues" in the Consolidated Statement of Income for 1994.

Foreign Crude Oil Contracts - In August 1996, the Ecuadoran government notified the Company that its contractual arrangement for production of crude oil in Ecuador must be modified to give the government a larger share of future oil revenues. As a result, the Company's risk-service contract was replaced by a production-sharing contract effective January 1, 1997. While the state oil company, PetroEcuador, has acknowledged that amounts are owed under the former contract and has indicated its intention to pay, the Company considered the circumstances surrounding the contract replacement and recorded an $8,876,000 provision for doubtful accounts at December 31, 1996. The Company believes that it will ultimately realize the net receivable of $13,976,000 at December 31, 1996, but only $2,700,000 of this amount had been collected through February 1997.

In late 1996, the Company negotiated a settlement of abandonment obligations with other joint owners of former oil properties in Gabon. As a result of this settlement, the Company recorded a net gain of $8,201,000 in 1996 to adjust for the dismantlement reserve no longer required.

Environmental Matters - The Company's environmental contingencies are reviewed in Management's Discussion and Analysis under the section entitled "Environmental" on page 27.

Forward-Looking Statements - Certain statements in this Annual Report, including statements of the Company's expectations, intentions, plans, and beliefs, are forward-looking statements that are dependent on certain events, risks, and uncertainties that may be outside of the Company's control. These forward-looking statements are made in reliance upon the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Actual results and developments could differ materially from those expressed or implied by such statements due to a number of factors including those described in the context of such forward-looking statements as well as those contained in the Company's January 15, 1997 Form 8-K on file with the U.S. Securities and Exchange Commission.

Other Matters - The Company and its subsidiaries are engaged in a number of other legal proceedings, all of which the Company considers routine and incidental to its business and none of which is considered material. In the normal course of its business activities, the Company is required under certain contracts with various governmental authorities and others to provide letters of credit that may be drawn upon if the Company fails to perform under those contracts. At December 31, 1996, the Company had contingent liabilities of $21,600,000 on outstanding letters of credit and $17,200,000 under certain financial guarantees.

NOTE R - BUSINESS SEGMENTS

Information about business segments and geographic operations is summarized in the following tables. Excise taxes on petroleum products of $550,116,000, $521,250,000, and $524,464,000 for the years 1996, 1995, and 1994 were excluded from revenues and costs and expenses. Intracompany and affiliated company transfers are at market prices. Companies accounted for by the equity method are primarily engaged in the transportation of crude oil and petroleum products.

| (Thousands of dollars) | 1996 | 1995/1,2/ | 1994/1/ |
|---|---|---|---|
| REVENUES FOR THE YEAR | | | |
| Exploration and production | | | |
| United States.................... | $ 265,223 | 205,604 | 215,533 |
| Canada........................... | 167,258 | 139,133 | 127,122 |
| United Kingdom................... | 130,989 | 110,789 | 90,312 |
| Ecuador.......................... | 34,977 | 26,096 | 7,905 |
| Other international.............. | 8,799 | 11,885 | 16,860 |
| | 607,246 | 493,507 | 457,732 |
| Refining, marketing, and transportation | | | |
| United States.................... | 1,267,029 | 1,010,967 | 908,705 |
| Canada........................... | 24,627 | 22,589 | 26,885 |
| United Kingdom................... | 317,941 | 254,746 | 306,297 |
| | 1,609,597 | 1,288,302 | 1,241,887 |
| | 2,216,843 | 1,781,809 | 1,699,619 |
| Intrasegment transfers elimination.. | (208,393) | (169,309) | (118,657) |
| Total operating revenues...... | 2,008,450 | 1,612,500 | 1,580,962 |
| Corporate........................... | 13,726 | 19,280 | 29,754 |
| | $2,022,176 | 1,631,780 | 1,610,716 |
| OPERATING INCOME (LOSS) FOR THE YEAR | | | |
| Exploration and production.......... | $ 205,734 | (97,583) | 68,386 |
| Refining, marketing, and transportation.................... | 23,361 | (42,670) | 50,642 |
| Operating income (loss)....... | 229,095 | (140,253) | 119,028 |
| Nonoperating (charges) credits | | | |
| Income of equity companies....... | 1,286 | 1,348 | 1,129 |
| Income taxes..................... | (90,399) | 20,809 | (38,363) |
| Corporate revenues (expenses) - net................ | (14,026) | (9,823) | 7,553 |
| Income from discontinued operations...................... | 11,899 | 9,307 | 17,281 |
| Net income (loss) | $ 137,855 | (118,612) | 106,628 |
| NET INCOME (LOSS) FOR THE YEAR | | | |
| Exploration and production | | | |
| United States.................... | $ 68,063 | 3,755 | 18,128 |
| Canada........................... | 32,747 | 21,669 | 15,097 |
| United Kingdom................... | 14,729 | (11,934) | 12,409 |
| Ecuador.......................... | 4,874 | (97,320) | (2,392) |
| Other international.............. | 3,542 | (6,755) | 8,376 |
| | 123,955 | (90,585) | 51,618 |
| Refining, marketing, and transportation | | | |
| United States.................... | 1,773 | (3,767) | 17,674 |
| Canada........................... | 6,143 | 5,544 | 7,298 |
| United Kingdom................... | 6,186 | (35,294) | 5,231 |
| | 14,102 | (33,517) | 30,203 |
| Corporate | (12,101) | (3,817) | 7,526 |
| Income (loss) from continuing operations...................... | 125,956 | (127,919) | 89,347 |
| Income from discontinued operations. | 11,899 | 9,307 | 17,281 |
| | $ 137,855 | (118,612) | 106,628 |
| ASSETS AT YEAR-END | | | |
| Exploration and production | | | |
| United States.................... | $ 400,964 | 317,422 | 386,830 |
| Canada........................... | 552,745 | 502,830 | 415,318 |
| United Kingdom................... | 307,016 | 248,493 | 320,143 |
| Ecuador.......................... | 72,462 | 64,406 | 147,643 |
| Other international.............. | 14,238 | 16,282 | 22,468 |
| | 1,347,425 | 1,149,433 | 1,292,402 |
| Refining, marketing, and transportation | | | |
| United States.................... | 503,791 | 494,577 | 500,467 |
| Canada........................... | 83,497 | 56,786 | 55,578 |

| | | | |
|---|---|---|---|
| United Kingdom.................. | 151,784 | 128,952 | 156,884 |
| | 739,072 | 680,315 | 712,929 |
| Corporate | 157,289 | 123,978 | 148,676 |
| Net investment in discontinued operations......................... | - | 144,740 | 143,452 |
| | $2,243,786 | 2,098,466 | 2,297,459 |
| ADDITIONS TO PROPERTY, PLANT, AND EQUIPMENT FOR THE YEAR | | | |
| Exploration and production | | | |
| United States.................... | $ 149,739 | 36,064 | 59,847 |
| Canada........................... | 91,610 | 93,612 | 105,355 |
| United Kingdom................... | 55,929 | 27,527 | 29,063 |
| Ecuador.......................... | 11,732 | 17,553 | 52,808 |
| Other international............. | 4,442 | 1,907 | 7,579 |
| | 313,452 | 176,663 | 254,652 |
| Refining, marketing, and transportation | | | |
| United States.................... | 20,868 | 27,565 | 80,272 |
| Canada........................... | 8,468 | 3,561 | 2,234 |
| United Kingdom................... | 13,544 | 22,476 | 12,191 |
| | 42,880 | 53,602 | 94,697 |
| Corporate | 1,192 | 1,831 | 4,876 |
| | $ 357,524 | 232,096 | 354,225 |
| DEPRECIATION, DEPLETION, AND AMORTIZATION EXPENSE FOR THE YEAR | | | |
| Exploration and production | | | |
| United States.................... | $ 60,560 | 89,669 | 93,057 |
| Canada........................... | 30,768 | 26,707 | 25,088 |
| United Kingdom................... | 40,768 | 50,426 | 38,601 |
| Ecuador.......................... | 8,945 | 10,728 | 3,808 |
| Other international............. | 6,581 | 5,195 | 946 |
| | 147,622 | 182,725 | 161,500 |
| Refining, marketing, and transportation | | | |
| United States.................... | 26,443 | 25,862 | 19,928 |
| Canada........................... | 1,637 | 1,549 | 1,573 |
| United Kingdom................... | 3,767 | 9,062 | 9,589 |
| | 31,847 | 36,473 | 31,090 |
| Corporate | 2,912 | 2,673 | 2,409 |
| | $ 182,381 | 221,871 | 194,999 |

/1/ Restated for discontinued operations.

/2/ As set forth in Note C to the consolidated financial statements, the effects from adoption of SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of, were:

Operating income (loss) - a loss of $198,988, $150,301 related to exploration and production and $48,687 to refining, marketing, and transportation.

Net income (loss) - a loss of $168,367, $132,798 related to exploration and production ($5,986 United States, $24,197 United Kingdom, $100,000 Ecuador, and $2,615 other international) and $35,569 related to refining, marketing, and transportation - United Kingdom.

## SUPPLEMENTAL OIL AND GAS INFORMATION (UNAUDITED)

The following schedules are presented in accordance with Statement of Financial Accounting Standards No. 69 (SFAS No. 69), Disclosures about Oil and Gas Producing Activities. The schedules provide users with a common base for preparing estimates of future cash flows and comparing reserves among companies. Additional background information follows concerning four of the schedules.

### SCHEDULES 1 AND 2 - ESTIMATED NET PROVED OIL AND NATURAL GAS RESERVES

Reserves of crude oil, condensate, and natural gas liquids and natural gas are estimated by the Company's engineers and adjusted to reflect contractual arrangements and royalty rates in effect at each year-end. Many assumptions and judgmental decisions are required to estimate reserves. Quantities reported are considered reasonable, but are subject to future revisions, some of which may be substantial, as additional information becomes available. Such additional knowledge may result from: reservoir performance, new geological and geophysical data, additional drilling, technological advancements, price changes, and other economic factors.

Regulations of the U.S. Securities and Exchange Commission define proved reserves as those volumes of crude oil, condensate, and natural gas liquids and natural gas that geological and engineering data demonstrate with reasonable certainty are recoverable from known reservoirs under existing economic and operating conditions. Proved developed reserves are volumes expected to be recovered through existing wells with existing equipment and operating methods. Proved undeveloped reserves are volumes expected to be recovered as a result of additional investments for drilling new wells on acreage offsetting productive units, recompleting existing wells, and/or installing facilities to collect and transport volumes produced.

Production quantities shown are net volumes withdrawn from reservoirs. These may differ from quantities sold due to inventory changes and, especially in the case of natural gas, volumes consumed for fuel and/or shrinkage from extraction of natural gas liquids. Such differences were insignificant for crude oil and liquids, but amounted to approximately 1.5 billion cubic feet in 1996, .5 billion in 1995, and .7 billion in 1994 for natural gas.

The Company has no proved reserves attributable to either long-term supply agreements with foreign governments or investees accounted for by the equity method.

Synthetic oil reserves in Canada are attributable to the Syncrude project, using an estimated average gross production rate through the year 2025 of 202,400 barrels a day less estimated net profit royalty. Proved reserves could change if the future average production rate varies from the estimated rate or the operating permit is extended.

### SCHEDULE 4 - RESULTS OF OPERATIONS FOR OIL AND GAS PRODUCING ACTIVITIES

Results of operations from exploration and production activities by geographic area are reported on this schedule as if these activities were a separate corporate entity rather than part of an operation that also refines crude oil and sells refined products. Results of oil and gas producing activities include certain special items that are reviewed in Management's Discussion and Analysis (see page 25), and should be considered in conjunction with the Company's overall performance.

### SCHEDULE 6 - STANDARDIZED MEASURE OF DISCOUNTED FUTURE NET CASH FLOWS RELATING TO PROVED OIL AND GAS RESERVES

SFAS No. 69 requires calculation of future net cash flows using a 10-percent annual discount factor and year-end (1996 and 1995) prices, costs, and statutory tax rates, except for known future changes such as contracted prices and legislated tax rates. Future net cash flows from the Company's interest in synthetic oil are excluded.

The reported value of proved reserves is not necessarily indicative of either fair market value or present value of future cash flows because prices, costs, and governmental policies do not remain static; appropriate discount rates may vary; and extensive judgment is required to estimate the timing of production. Other logical assumptions would likely have resulted in significantly different amounts. Average crude oil prices at year-end 1996 used for this calculation were $24.64 a barrel for the U.S., $21.90 for Canadian light, $12.95 for Canadian heavy, $23.35 for Hibernia, $24.06 for the U.K., and $18.10 for Ecuador. Average natural gas prices were $3.69 an MCF for the U.S., $1.92 for Canada, and $2.46 for the U.K. Oil and natural gas prices have declined sharply in early 1997.

Schedule 6 also presents the principal reasons for change in the standardized measure of discounted future net cash flows for each of the three years ended December 31, 1996.

[GRAPH--ESTIMATED NET PROVED OIL RESERVES]

[GRAPH--ESTIMATED NET PROVED NATURAL GAS RESERVES]

[GRAPH--ESTIMATED NET PROVED HYDROCARBON RESERVES]

SCHEDULE 1 - ESTIMATED NET PROVED OIL RESERVES

| (Millions of barrels) | Crude Oil, Condensate, and Natural Gas Liquids United States | Canada* | United Kingdom | Ecuador | Gabon | Total | Synthetic Oil-- Canada | Total |
|---|---|---|---|---|---|---|---|---|
| PROVED | | | | | | | | |
| January 1, 1994 | 20.0 | 36.4 | 26.7 | 33.6 | 1.9 | 118.6 | 83.8 | 202.4 |
| Revisions of previous estimates | 4.3 | 2.8 | (2.5) | 2.1 | (1.5) | 5.2 | 18.3 | 23.5 |
| Purchases | - | .5 | 5.2 | - | - | 5.7 | - | 5.7 |
| Extensions and discoveries | 5.1 | 2.7 | - | - | - | 7.8 | - | 7.8 |
| Production | (4.9) | (4.5) | (4.9) | (.7) | (.4) | (15.4) | (3.3) | (18.7) |
| Sales | - | (.4) | - | - | - | (.4) | - | (.4) |
| December 31, 1994 | 24.5 | 37.5 | 24.5 | 35.0 | - | 121.5 | 98.8 | 220.3 |
| Revisions of previous estimates | 3.9 | - | .7 | (3.5) | - | 1.1 | .7 | 1.8 |
| Purchases | .2 | 2.0 | - | - | - | 2.2 | - | 2.2 |
| Extensions and discoveries | 1.0 | 3.6 | 20.3 | - | - | 24.9 | - | 24.9 |
| Production | (5.0) | (5.1) | (5.5) | (1.9) | - | (17.5) | (3.3) | (20.8) |
| Sales | - | (1.7) | - | - | - | (1.7) | - | (1.7) |
| December 31, 1995 | 24.6 | 36.3 | 40.0 | 29.6 | - | 130.5 | 96.2 | 226.7 |
| Revisions of previous estimates | .5 | .6 | .2 | - | - | 1.3 | 3.2 | 4.5 |
| Extensions and discoveries | 4.0 | 3.8 | 14.6 | - | - | 22.4 | - | 22.4 |
| Production | (4.3) | (5.2) | (4.8) | (2.2) | - | (16.5) | (3.0) | (19.5) |
| Sales | (6.1) | (.3) | - | - | - | (6.4) | - | (6.4) |
| December 31, 1996 | 18.7 | 35.2 | 50.0 | 27.4 | - | 131.3 | 96.4 | 227.7 |
| PROVED DEVELOPED | | | | | | | | |
| January 1, 1994 | 13.2 | 22.4 | 20.8 | - | 1.9 | 58.3 | 83.8 | 142.1 |
| December 31, 1994 | 15.2 | 23.6 | 19.2 | 3.8 | - | 61.8 | 80.5 | 142.3 |
| December 31, 1995 | 21.3 | 22.4 | 19.5 | 7.8 | - | 71.0 | 69.9 | 140.9 |
| December 31, 1996 | 16.3 | 21.4 | 16.8 | 10.1 | - | 64.6 | 66.9 | 131.5 |

*Excludes 24.7 million barrels of crude oil to be added to proved reserves as development of the Hibernia oil field proceeds.

SCHEDULE 2 - ESTIMATED NET PROVED NATURAL GAS RESERVES

| (Billions of cubic feet) | United States | Canada | United Kingdom | Spain | Total |
|---|---|---|---|---|---|
| PROVED | | | | | |
| January 1, 1994 | 429.0 | 182.7 | 31.2 | 10.6 | 653.5 |
| Revisions of previous estimates | 20.2 | (2.9) | 2.1 | 1.2 | 20.6 |
| Purchases | - | .5 | - | - | .5 |
| Extensions and discoveries | 53.2 | 11.0 | - | - | 64.2 |
| Production | (72.1) | (13.8) | (3.7) | (4.6) | (94.2) |
| Sales | (.2) | (.8) | - | - | (1.0) |
| December 31, 1994 | 430.1 | 176.7 | 29.6 | 7.2 | 643.6 |
| Revisions of previous estimates | 3.8 | (5.2) | 1.9 | .6 | 1.1 |
| Purchases | 2.8 | 5.8 | - | - | 8.6 |
| Extensions and discoveries | 64.1 | 2.0 | 19.8 | - | 85.9 |
| Production | (69.3) | (15.2) | (3.9) | (4.0) | (92.4) |
| Sales | - | (4.0) | - | - | (4.0) |
| December 31, 1995 | 431.5 | 160.1 | 47.4 | 3.8 | 642.8 |
| Revisions of previous estimates | 19.8 | (5.1) | 2.1 | (1.2) | 15.6 |
| Extensions and discoveries | 85.0 | 15.6 | - | - | 100.6 |
| Production | (58.3) | (15.8) | (5.6) | (2.6) | (82.3) |
| Sales | (13.6) | (3.7) | - | - | (17.3) |
| December 31, 1996 | 464.4 | 151.1 | 43.9 | - | 659.4 |
| PROVED DEVELOPED | | | | | |
| January 1, 1994 | 239.1 | 158.0 | 28.1 | 10.6 | 435.8 |
| December 31, 1994 | 221.6 | 165.0 | 29.6 | 7.2 | 423.4 |
| December 31, 1995 | 229.0 | 150.0 | 27.6 | 3.8 | 410.4 |
| December 31, 1996 | 291.1 | 146.0 | 25.4 | - | 462.5 |

SCHEDULE 3 - COSTS INCURRED IN OIL AND GAS PROPERTY ACQUISITION, EXPLORATION, AND DEVELOPMENT ACTIVITIES

| | 1996 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| (Millions of dollars) | United States | Canada | United Kingdom | Ecuador | Other | Subtotal | Synthetic Oil--Canada | Total |
| Property acquisition costs | | | | | | | | |
| Unproved | $ 16.9 | 5.7 | - | - | - | 22.6 | - | 22.6 |
| Proved | - | - | - | - | - | - | - | - |
| Total acquisition costs | 16.9 | 5.7 | - | - | - | 22.6 | - | 22.6 |
| Exploration costs | 107.7 | 10.3 | 13.2 | - | 8.9 | 140.1 | - | 140.1 |
| Development costs | 60.1 | 75.7 | 56.1 | 11.7 | - | 203.6 | 7.7 | 211.3 |
| Total capital expenditures | 184.7 | 91.7 | 69.3 | 11.7 | 8.9 | 366.3 | 7.7 | 374.0 |
| Charged to expense | | | | | | | | |
| Dry hole expense | 17.3 | 1.7 | 9.5 | - | - | 28.5 | - | 28.5 |
| Geophysical and other costs | 17.6 | 6.1 | 3.9 | - | 4.4 | 32.0 | - | 32.0 |
| Total charged to expense | 34.9 | 7.8 | 13.4 | - | 4.4 | 60.5 | - | 60.5 |
| Expenditures capitalized | $149.8 | 83.9 | 55.9 | 11.7 | 4.5 | 305.8 | 7.7 | 313.5 |

Schedule 4 - Results of Operations for Oil and Gas Producing Activities

| | 1996 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| (Millions of dollars) | United States | Canada | United Kingdom | Ecuador | Other | Subtotal | Synthetic Oil--Canada | Total |
| Revenues | | | | | | | | |
| Crude oil and natural gas liquids | | | | | | | | |
| Transfers to consolidated operations | $ 71.8 | 57.6 | 34.4 | - | - | 163.8 | 44.6 | 208.4 |
| Sales to unaffiliated enterprises | 14.3 | 24.0 | 67.7 | 35.0 | - | 141.0 | 18.7 | 159.7 |
| Natural gas | 147.1 | 17.3 | 14.4 | - | 7.8 | 186.6 | - | 186.6 |
| Total oil and gas revenues | 233.2 | 98.9 | 116.5 | 35.0 | 7.8 | 491.4 | 63.3 | 554.7 |
| Other operating revenues | 32.0/1/ | 5.0 | 14.5 | - | 1.0 | 52.5 | - | 52.5 |
| Total revenues | 265.2 | 103.9 | 131.0 | 35.0 | 8.8 | 543.9 | 63.3 | 607.2 |
| Costs and deductions | | | | | | | | |
| Production costs | 45.4 | 30.8 | 34.7 | 10.9 | .7 | 122.5 | 38.0 | 160.5 |
| Exploration expenses | 34.9 | 7.8 | 13.4 | - | 4.4 | 60.5 | - | 60.5 |
| Undeveloped lease amortization | 6.5 | 3.0 | .1 | - | .1 | 9.7 | - | 9.7 |
| Depreciation, depletion, and amortization | 60.5 | 25.2 | 40.8 | 8.9 | 6.6 | 142.0 | 5.6 | 147.6 |
| Impairment of long-lived assets | - | - | - | - | - | - | - | - |
| Selling and general expenses | 12.7 | 5.2 | 3.0 | .2 | 1.3 | 22.4 | .1 | 22.5 |
| (Gain) loss from modifications to foreign crude oil contracts | - | - | - | 8.8 | (8.2) | .6 | - | .6 |
| Total costs and deductions | 160.0 | 72.0 | 92.0 | 28.8 | 4.9 | 357.7 | 43.7 | 401.4 |
| | 105.2 | 31.9 | 39.0 | 6.2 | 3.9 | 186.2 | 19.6 | 205.8 |
| Income tax provisions (benefits) | 37.1 | 11.3 | 24.3 | 1.2 | .4 | 74.3 | 7.5 | 81.8 |
| Results of operations/2/ | $ 68.1 | 20.6 | 14.7 | 5.0 | 3.5 | 111.9 | 12.1 | 124.0 |

/1/Includes pretax gain of $27.9 on sale of onshore properties.
/2/Excludes corporate overhead and interest.

SCHEDULE 3 - COSTS INCURRED IN OIL AND GAS PROPERTY ACQUISITION, EXPLORATION, AND DEVELOPMENT ACTIVITIES

| | 1995 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| (Millions of dollars) | United States | Canada | United King-dom | Ecua-dor | Other | Sub-total | Synthetic Oil--Canada | Total |
| Property acquisition costs | | | | | | | | |
| Unproved | $ 7.0 | 3.0 | .1 | - | .2 | 10.3 | - | 10.3 |
| Proved | 2.5 | 4.7 | - | - | - | 7.2 | - | 7.2 |
| Total acquisition costs | 9.5 | 7.7 | .1 | - | .2 | 17.5 | - | 17.5 |
| Exploration costs | 41.7 | 7.5 | 6.8 | - | 9.3 | 65.3 | - | 65.3 |
| Development costs | 20.0 | 76.8 | 25.6 | 17.6 | 1.6 | 141.6 | 7.3 | 148.9 |
| Total capital expenditures | 71.2 | 92.0 | 32.5 | 17.6 | 11.1 | 224.4 | 7.3 | 231.7 |
| Charged to expense | | | | | | | | |
| Dry hole expense | 25.9 | 2.9 | .7 | - | 1.4 | 30.9 | - | 30.9 |
| Geophysical and other costs | 9.2 | 2.9 | 4.3 | - | 7.8 | 24.2 | - | 24.2 |
| Total charged to expense | 35.1 | 5.8 | 5.0 | - | 9.2 | 55.1 | - | 55.1 |
| Expenditures capitalized | $ 36.1 | 86.2 | 27.5 | 17.6 | 1.9 | 169.3 | 7.3 | 176.6 |

SCHEDULE 4 - RESULTS OF OPERATIONS FOR OIL AND GAS PRODUCING ACTIVITIES

| | 1995 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| (Millions of dollars) | United States | Canada | United King-dom | Ecua-dor | Other | Sub-total | Synthetic Oil--Canada | Total |
| Revenues | | | | | | | | |
| Crude oil and natural gas liquids | | | | | | | | |
| Transfers to consolidated operations | $ 67.8 | 45.7 | 20.9 | - | - | 134.4 | 34.9 | 169.3 |
| Sales to unaffiliated enterprises | 14.4 | 22.6 | 71.7 | 25.9 | - | 134.6 | 20.8 | 155.4 |
| Natural gas | 112.8 | 14.5 | 9.8 | - | 11.3 | 148.4 | - | 148.4 |
| Total oil and gas revenues | 195.0 | 82.8 | 102.4 | 25.9 | 11.3 | 417.4 | 55.7 | 473.1 |
| Other operating revenues | 10.6 | - | 8.4 | .2 | .6 | 19.8 | .6 | 20.4 |
| Total revenues | 205.6 | 82.8 | 110.8 | 26.1 | 11.9 | 437.2 | 56.3 | 493.5 |
| Costs and deductions | | | | | | | | |
| Production costs | 53.5 | 27.0 | 36.1 | 11.6 | .1 | 128.3 | 39.2 | 167.5 |
| Exploration expenses | 35.1 | 5.8 | 5.0 | - | 9.2 | 55.1 | - | 55.1 |
| Undeveloped lease amortization | 6.9 | 2.3 | - | - | 1.5 | 10.7 | - | 10.7 |
| Depreciation, depletion, and amortization | 89.7 | 21.9 | 50.4 | 10.7 | 5.3 | 178.0 | 4.7 | 182.7 |
| Impairment of long-lived assets | 9.2 | - | 38.5 | 100.0 | 2.6 | 150.3 | - | 150.3 |
| Selling and general expenses | 14.1 | 5.6 | 3.5 | .1 | 1.4 | 24.7 | .1 | 24.8 |
| (Gain) loss from modifications to foreign crude oil contracts | - | - | - | - | - | - | - | - |
| Total costs and deductions | 208.5 | 62.6 | 133.5 | 122.4 | 20.1 | 547.1 | 44.0 | 591.1 |
| | (2.9) | 20.2 | (22.7) | (96.3) | (8.2) | (109.9) | 12.3 | (97.6) |
| Income tax provisions (benefits) | (6.6) | 6.3 | (10.8) | 1.0 | (1.4) | (11.5) | 4.5 | (7.0) |
| Results of operations/2/ | $ 3.7 | 13.9 | (11.9) | (97.3) | (6.8) | (98.4) | 7.8 | (90.6) |

SCHEDULE 3 - COSTS INCURRED IN OIL AND GAS PROPERTY ACQUISITION, EXPLORATION, AND DEVELOPMENT ACTIVITIES

| | 1994 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| (Millions of dollars) | United States | Canada | United King-dom | Ecua-dor | Other | Sub-total | Synthetic Oil--Canada | Total |
| Property acquisition costs | | | | | | | | |
| Unproved | $ 6.8 | 2.5 | - | - | - | 9.3 | - | 9.3 |
| Proved | - | 22.2 | 4.4 | - | - | 26.6 | - | 26.6 |
| Total acquisition costs | 6.8 | 24.7 | 4.4 | - | - | 35.9 | - | 35.9 |
| Exploration costs | 49.2 | 11.7 | 11.6 | - | 4.4 | 76.9 | - | 76.9 |
| Development costs | 23.4 | 68.7 | 18.2 | 52.8 | 5.1 | 168.2 | 5.3 | 173.5 |
| Total capital expenditures | 79.4 | 105.1 | 34.2 | 52.8 | 9.5 | 281.0 | 5.3 | 286.3 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Charged to expense | | | | | | | | |
| Dry hole expense | 11.4 | 2.4 | 2.8 | - | - | 16.6 | - | 16.6 |
| Geophysical and other costs | 8.2 | 2.6 | 2.4 | - | 1.9 | 15.1 | - | 15.1 |
| Total charged to expense | 19.6 | 5.0 | 5.2 | - | 1.9 | 31.7 | - | 31.7 |
| Expenditures capitalized | $ 59.8 | 100.1 | 29.0 | 52.8 | 7.6 | 249.3 | 5.3 | 254.6 |

SCHEDULE 4 - RESULTS OF OPERATIONS FOR OIL AND GAS PRODUCING ACTIVITIES

| | 1994 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| (Millions of dollars) | United States | Canada | United King-dom | Ecua-dor | Other | Sub-total | Synthetic Oil--Canada | Total |
| Revenues | | | | | | | | |
| Crude oil and natural gas liquids | | | | | | | | |
| Transfers to consolidated operations | $ 60.3 | 27.7 | - | - | - | 88.0 | 30.6 | 118.6 |
| Sales to unaffiliated enterprises | 13.4 | 26.5 | 77.8 | 7.9 | 5.9 | 131.5 | 22.1 | 153.6 |
| Natural gas | 136.1 | 19.7 | 9.0 | - | 11.7 | 176.5 | - | 176.5 |
| Total oil and gas revenues | 209.8 | 73.9 | 86.8 | 7.9 | 17.6 | 396.0 | 52.7 | 448.7 |
| Other operating revenues | 5.7 | .5 | 3.5 | - | (.7) | 9.0 | - | 9.0 |
| Total revenues | 215.5 | 74.4 | 90.3 | 7.9 | 16.9 | 405.0 | 52.7 | 457.7 |
| Costs and deductions | | | | | | | | |
| Production costs | 55.5 | 24.3 | 32.1 | 5.9 | 4.3 | 122.1 | 40.0 | 162.1 |
| Exploration expenses | 19.6 | 5.0 | 5.2 | - | 1.9 | 31.7 | - | 31.7 |
| Undeveloped lease amortization | 8.2 | 2.8 | - | - | - | 11.0 | - | 11.0 |
| Depreciation, depletion, and amortization | 93.1 | 19.9 | 38.5 | 3.8 | 1.0 | 156.3 | 5.2 | 161.5 |
| Impairment of long-lived assets | - | - | - | - | - | - | - | - |
| Selling and general expenses | 13.8 | 4.6 | 3.1 | .1 | 1.3 | 22.9 | .1 | 23.0 |
| (Gain) loss from modifications to foreign crude oil contracts | - | - | - | - | - | - | - | - |
| Total costs and deductions | 190.2 | 56.6 | 78.9 | 9.8 | 8.5 | 344.0 | 45.3 | 389.3 |
| | 25.3 | 17.8 | 11.4 | (1.9) | 8.4 | 61.0 | 7.4 | 68.4 |
| Income tax provisions (benefits) | 7.2 | 7.8 | (1.0) | .5 | - | 14.5 | 2.3 | 16.8 |
| Results of operations/2/ | $ 18.1 | 10.0 | 12.4 | (2.4) | 8.4 | 46.5 | 5.1 | 51.6 |

/2/Excludes corporate overhead and interest.

SCHEDULE 5 - CAPITALIZED COSTS RELATING TO OIL AND GAS PRODUCING ACTIVITIES

| (Millions of dollars) | United States | Canada | United Kingdom | Ecuador | Other | Subtotal | Synthetic Oil-- Canada | Total |
|---|---|---|---|---|---|---|---|---|
| December 31, 1996 | | | | | | | | |
| Unproved oil and gas properties...... | $ 86.2 | 33.4 | 1.8 | - | 8.7 | 130.1 | - | 130.1 |
| Proved oil and gas properties........ | 1,384.1 | 659.5/1/ | 703.5 | 178.8 | - | 2,925.9 | 126.5 | 3,052.4 |
| Gross capitalized costs........ | 1,470.3 | 692.9 | 705.3 | 178.8 | 8.7 | 3,056.0 | 126.5 | 3,182.5 |
| Accumulated depreciation, depletion, and amortization | | | | | | | | |
| Unproved oil and gas properties.. | (45.3) | (16.8) | (.9) | - | (3.9) | (66.9) | - | (66.9) |
| Proved oil and gas properties/2/. | (1,102.4) | (264.1) | (490.6) | (123.5) | - | (1,980.6) | (13.7) | (1,994.3) |
| Net capitalized costs | $ 322.6 | 412.0 | 213.8 | 55.3 | 4.8 | 1,008.5 | 112.8 | 1,121.3 |
| December 31, 1995 | | | | | | | | |
| Unproved oil and gas properties...... | $ 88.5 | 28.8 | 7.9 | - | 4.0 | 129.2 | - | 129.2 |
| Proved oil and gas properties........ | 1,405.9 | 599.5/1/ | 582.4 | 167.1 | 122.9 | 2,877.8 | 119.3 | 2,997.1 |
| Gross capitalized costs........ | 1,494.4 | 628.3 | 590.3 | 167.1 | 126.9 | 3,007.0 | 119.3 | 3,126.3 |
| Accumulated depreciation, depletion, and amortization | | | | | | | | |
| Unproved oil and gas properties.. | (55.3) | (15.7) | (.8) | - | (3.8) | (75.6) | - | (75.6) |
| Proved oil and gas properties/2/. | (1,186.2) | (254.0) | (412.5) | (114.5) | (116.2) | (2,083.4) | (8.8) | (2,092.2) |
| Net capitalized costs | $ 252.9 | 358.6 | 177.0 | 52.6 | 6.9 | 848.0 | 110.5 | 958.5 |

/1/ Includes costs of $212.4 in 1996 and $166.2 in 1995 related to oil fields under development offshore Newfoundland.
/2/ Does not include reserve for dismantlement costs of $152.5 in 1996 and $144.9 in 1995.

SCHEDULE 6 - STANDARDIZED MEASURE OF DISCOUNTED FUTURE NET CASH FLOWS RELATING TO PROVED OIL AND GAS RESERVES/1/

| (Millions of dollars) | United States | Canada/2/ | United Kingdom | Ecuador | Other | Total |
|---|---|---|---|---|---|---|
| December 31, 1996 | | | | | | |
| Future cash inflows........................................... | $2,218.3 | 960.7 | 1,270.3 | 495.2 | - | 4,944.5 |
| Future development costs...................................... | (158.1) | (112.3) | (153.4) | (52.4) | - | (476.2) |
| Future production and abandonment costs........................ | (349.6) | (286.5) | (399.3) | (243.2) | - | (1,278.6) |
| Future income taxes........................................... | (551.7) | (119.1) | (203.2) | (68.8) | - | (942.8) |
| Future net cash flows................................... | 1,158.9 | 442.8 | 514.4 | 130.8 | - | 2,246.9 |
| 10% annual discount for estimated timing of cash flows......... | (346.3) | (164.7) | (166.5) | (48.4) | - | (725.9) |
| Standardized measure of discounted future net cash flows | $ 812.6 | 278.1 | 347.9 | 82.4 | - | 1,521.0 |
| December 31, 1995 | | | | | | |
| Future cash inflows........................................... | $1,525.3 | 691.2 | 824.3 | 391.2 | 10.4 | 3,442.4 |
| Future development costs...................................... | (191.5) | (156.2) | (112.1) | (57.3) | - | (517.1) |
| Future production and abandonment costs........................ | (402.9) | (281.3) | (303.0) | (139.0) | (2.3) | (1,128.5) |
| Future income taxes........................................... | (281.4) | (43.1) | (100.5) | (13.9) | (1.0) | (439.9) |
| Future net cash flows................................... | 649.5 | 210.6 | 308.7 | 181.0 | 7.1 | 1,356.9 |
| 10% annual discount for estimated timing of cash flows......... | (222.0) | (100.7) | (91.1) | (89.7) | .2 | (503.3) |
| Standardized measure of discounted future net cash flows | $ 427.5 | 109.9 | 217.6 | 91.3 | 7.3 | 853.6 |

/1/ Excludes discounted future net cash flows from synthetic oil of $168.6 at December 31, 1996.
/2/ Excludes future net cash flows attributable to 24.7 million barrels of crude oil to be added to proved reserves as development of the Hibernia oil field proceeds.

Following are the principal sources of change in the standardized measure of discounted future net cash flows for the years shown.

| (Millions of dollars) | 1996 | 1995 | 1994 |
|---|---|---|---|
| Net changes in prices, production costs, and development costs.......... | $ 643.2 | 81.3 | (225.7) |
| Sales and transfers of oil and gas produced, net of production costs.... | (324.9) | (226.2) | (161.1) |
| Net change due to extensions and discoveries........................... | 450.8 | 298.1 | 86.1 |
| Net change due to purchases and sales of proved reserves................ | (121.4) | 7.5 | 35.9 |

| | | | |
|---|---|---|---|
| Development costs incurred | 201.5 | 132.8 | 173.9 |
| Accretion of discount | 115.6 | 76.1 | 73.3 |
| Revisions of previous quantity estimates | 54.8 | 25.4 | 46.3 |
| Net change in income taxes | (352.2) | (153.0) | 53.6 |
| Net increase | 667.4 | 242.0 | 82.3 |
| Standardized measure at January 1 | 853.6 | 611.6 | 529.3 |
| Standardized measure at December 31 | $1,521.0 | 853.6 | 611.6 |

STATISTICAL SUMMARY

| | 1996 | 1995 | 1994 | 1993 | 1992 |
|---|---|---|---|---|---|
| EXPLORATION AND PRODUCTION | | | | | |
| Net crude oil and condensate production - barrels a day | | | | | |
| United States | 10,614 | 12,772 | 12,503 | 12,864 | 12,586 |
| Canada - light oil | 3,774 | 4,417 | 4,775 | 4,546 | 3,972 |
| heavy oil | 9,670 | 8,864 | 6,840 | 7,449 | 5,366 |
| synthetic oil | 8,163 | 8,832 | 9,065 | - | - |
| United Kingdom | 12,918 | 14,588 | 13,389 | 6,342 | 5,931 |
| Ecuador | 6,005 | 5,274 | 1,967 | - | - |
| Other international | - | 117 | 1,038 | 1,550 | 1,350 |
| Net natural gas liquids production - barrels a day | | | | | |
| United States | 1,031 | 964 | 852 | 863 | 768 |
| Canada | 689 | 740 | 748 | 697 | 847 |
| United Kingdom | 346 | 447 | 151 | - | - |
| Total | 53,210 | 57,015 | 51,328 | 34,311 | 30,820 |
| Net natural gas sold - thousands of cubic feet a day | | | | | |
| United States | 155,017 | 189,250 | 195,555 | 215,471 | 188,068 |
| Canada | 43,031 | 40,907 | 37,945 | 36,792 | 30,328 |
| United Kingdom | 15,247 | 10,671 | 10,138 | 13,074 | 12,802 |
| Spain | 7,338 | 10,898 | 12,620 | 9,571 | 19,402 |
| Total | 220,633 | 251,726 | 256,258 | 274,908 | 250,600 |
| Total hydrocarbons produced - equivalent barrels/1/ a day | 89,982 | 98,969 | 94,038 | 80,129 | 72,587 |
| Estimated net hydrocarbon reserves - million equivalent barrels/1,2/ | 337.6 | 333.8 | 327.6 | 311.3 | 210.2 |
| Weighted average sales prices/3/ | | | | | |
| Crude oil and condensate - dollars a barrel | | | | | |
| United States | $20.31 | 16.61 | 15.36 | 16.60 | 18.85 |
| Canada/4/ - light oil | 19.97 | 16.45 | 14.61 | 15.01 | 16.69 |
| heavy oil | 14.27 | 12.10 | 10.56 | 9.84 | 11.02 |
| synthetic oil | 21.20 | 17.28 | 15.92 | - | - |
| United Kingdom | 21.08 | 16.96 | 15.77 | 16.63 | 18.86 |
| Ecuador | 15.96 | 13.03 | 12.07 | - | - |
| Other international | - | 15.12 | 14.80 | 14.14 | 18.85 |
| Natural gas liquids - dollars a barrel | | | | | |
| United States | 17.00 | 12.62 | 12.19 | 13.36 | 14.71 |
| Canada/4/ | 13.69 | 9.70 | 9.21 | 9.59 | 9.74 |
| United Kingdom | 18.54 | 13.99 | 12.16 | - | - |
| Natural gas - dollars a thousand cubic feet | | | | | |
| United States | 2.60 | 1.64 | 1.91 | 2.10 | 1.75 |
| Canada/4/ | 1.10 | .97 | 1.42 | 1.22 | 1.01 |
| United Kingdom/4/ | 2.58 | 2.53 | 2.43 | 2.31 | 2.86 |
| Spain/4/ | 2.89 | 2.88 | 2.55 | 2.64 | 2.58 |
| Net wells completed | | | | | |
| Oil wells - United States | 3.7 | 3.0 | 2.6 | 3.0 | 4.9 |
| Canada | 41.6 | 29.6 | 20.7 | 24.3 | 19.1 |
| Other | 3.6 | 3.7 | 2.7 | 2.0 | .3 |
| Gas wells - United States | 14.7 | 3.6 | 4.0 | 8.5 | 5.1 |
| Canada | 33.9 | 2.3 | 14.5 | 4.1 | 2.4 |
| Other | - | .2 | .4 | - | .5 |
| Dry holes - United States | 3.9 | 1.9 | 4.1 | 6.5 | 5.2 |
| Canada | 6.5 | 5.9 | 6.5 | 6.9 | 2.6 |
| Other | 1.2 | .6 | .5 | .6 | 2.0 |
| Total | 109.1 | 50.8 | 56.0 | 55.9 | 42.1 |

/1/ Natural gas converted on an energy equivalent basis of 6:1.
/2/ At December 31.
/3/ Includes intracompany and affiliated company transfers at market prices.
/4/ U.S. dollar equivalent.

| | 1996 | 1995 | 1994 | 1993 | 1992 |
|---|---|---|---|---|---|
| REFINING | | | | | |
| Crude capacity* of refineries - barrels per stream day | 167,400 | 167,400 | 167,400 | 167,400 | 167,400 |
| Inputs/yields at refineries - barrels a day | | | | | |
| Crude - Meraux, Louisiana | 93,929 | 91,940 | 78,252 | 78,732 | 80,842 |
| Superior, Wisconsin | 32,657 | 33,217 | 30,592 | 30,358 | 26,207 |
| Milford Haven, Wales | 31,300 | 30,346 | 32,038 | 27,991 | 24,245 |
| Other feedstocks | 6,315 | 8,280 | 8,731 | 10,350 | 12,857 |
| Total inputs | 164,201 | 163,783 | 149,613 | 147,431 | 144,151 |
| Gasoline | 69,658 | 73,964 | 67,746 | 66,460 | 67,710 |
| Kerosine | 14,965 | 15,113 | 16,989 | 16,024 | 13,338 |
| Diesel and home heating oils | 43,514 | 39,351 | 35,553 | 34,356 | 32,848 |
| Residuals | 19,756 | 19,641 | 15,444 | 16,441 | 18,474 |
| Asphalt, LPG, and other | 12,513 | 10,158 | 10,077 | 9,627 | 7,133 |
| Fuel and loss | 3,795 | 5,556 | 3,804 | 4,523 | 4,648 |
| Total yields | 164,201 | 163,783 | 149,613 | 147,431 | 144,151 |
| Average cost of crude inputs to refineries - dollars a barrel | | | | | |
| United States | $ 21.05 | 17.34 | 15.81 | 16.81 | 18.93 |
| United Kingdom | 21.66 | 17.59 | 16.32 | 17.44 | 19.84 |
| MARKETING | | | | | |
| Products sold - barrels a day | | | | | |
| United States - Gasoline | 62,476 | 63,364 | 60,327 | 61,577 | 59,128 |
| Kerosine | 9,831 | 9,945 | 11,911 | 11,682 | 10,855 |
| Diesel and home heating oils | 39,374 | 33,495 | 30,172 | 29,252 | 26,446 |
| Residuals | 15,415 | 14,775 | 10,454 | 11,812 | 12,339 |
| Asphalt, LPG, and other | 9,008 | 8,815 | 7,754 | 6,519 | 5,611 |
| | 136,104 | 130,394 | 120,618 | 120,842 | 114,379 |
| United Kingdom - Gasoline | 13,919 | 14,277 | 16,601 | 13,270 | 13,549 |
| Kerosine | 4,353 | 4,387 | 6,044 | 4,660 | 2,724 |
| Diesel and home heating oils | 8,981 | 6,647 | 9,200 | 7,525 | 7,112 |
| Residuals | 4,351 | 4,993 | 5,157 | 5,068 | 6,245 |
| LPG and other | 2,011 | 930 | 3,264 | 1,996 | 1,861 |
| | 33,615 | 31,234 | 40,266 | 32,519 | 31,491 |
| Canada | 254 | 283 | 246 | 234 | 172 |
| Total products sold | 169,973 | 161,911 | 161,130 | 153,595 | 146,042 |
| Average gross margin on products sold - dollars a barrel | | | | | |
| United States | $ .25 | .46 | 1.07 | .82 | .48 |
| United Kingdom | 2.08 | 2.26 | 2.17 | 3.08 | 2.67 |
| Branded retail outlets* | | | | | |
| United States | 527 | 514 | 588 | 606 | 643 |
| United Kingdom | 424 | 465 | 470 | 428 | 391 |
| Canada | 7 | 7 | 8 | 8 | 7 |
| TRANSPORTATION | | | | | |
| Pipeline throughputs of crude oil - barrels a day - Canada | 183,130 | 173,720 | 159,517 | 151,722 | 118,050 |
| STOCKHOLDER AND EMPLOYEE DATA | | | | | |
| Common shares outstanding* (thousands) | 44,862 | 44,833 | 44,832 | 44,808 | 44,844 |
| Number of stockholders of record* | 4,093 | 4,873 | 4,778 | 5,265 | 6,522 |
| Number of employees* | 1,339 | 1,794 | 1,767 | 1,803 | 1,787 |
| Average number of employees | 1,679 | 1,786 | 1,778 | 1,787 | 1,857 |
| Salaries, wages, and benefits (thousands) | $95,583 | 96,035 | 93,216 | 90,734 | 92,486 |

*At December 31.

MURPHY OIL CORPORATION - CIK 0000717423

Appendix to Electronically Filed Exhibit 13
(1996 Annual Report to Security Holders, Which is Incorporated in This Form 10-K)
Providing a Narrative of Graphic and Image Material Appearing on Pages 2 Through 50 of Paper Format

| Exhibit 13 Page No. | Map Narrative |
|---|---|
| 6 | Gulf of Mexico - The locations and areal extent of acreage leased by the Company in the Gulf of Mexico (offshore Texas, Louisiana, Mississippi, Alabama, and Florida) are shown. Additionally, each lease is categorized as either: (1) producing or under development; (2) nonproducing; or (3) nonproducing--acquired in 1996. |
| 9 | Western Canada - The locations and areal extent of acreage leased by the Company in British Columbia, Alberta, Saskatchewan, and Manitoba are shown. Specific areas of production are identified by type of production--natural gas, light oil, heavy oil, and oil sands. Additionally, nonproducing acreage held by the Company is identified. |
| 11 | Offshore Eastern Canada - The locations of the Hibernia and Terra Nova oil fields, in the North Atlantic Ocean east of Newfoundland in which the Company holds interests, are shown. Also depicted is the Company's exploration license in the Jeanne d'Arc Basin, midway between the Hibernia and Terra Nova fields. |
| 12 | United Kingdom - The locations and areal extent of producing and nonproducing acreage under license by the Company are shown in the U.K. sector of the North Sea, the West of Shetlands area of the Atlantic Ocean, and offshore Northwest Ireland. Blocks on which the Company has significant oil and/or natural gas production, or significant ongoing development projects, are specifically identified. |
| 13 | China - The location and areal extent of jointly owned Block 04/36 in Bohai Bay, offshore Northeast China, are shown. Identified areas include the Block 04/36 discovery area (including locations for the discovery well and two appraisal wells planned for 1997), other exploration prospects on Block 04/36, and nearby onshore production of other companies. |
| 17 | United States - The locations of the Company's refineries in Superior, Wisconsin and Meraux, Louisiana are shown along with depictions of the predominant routes and means of moving crude oil to the refineries, the routes and means of moving finished products from the refineries into marketing areas, the terminal facilities used to store and/or distribute products to wholesalers and consumers, and the areal extent of the Company's marketing territories in 11 states in the Southeast and six states in the upper-Midwest. |

| Exhibit 13 Page No. | Map Narrative (Continued) |
| --- | --- |
| 19 | United Kingdom - The Company's jointly owned refinery in Milford Haven, Wales is shown along with depictions of the normal route and means of moving crude oil to the refinery, the routes and means of moving finished products from the refinery into U.K. marketing areas, the locations of terminal facilities used to store and/or distribute products to wholesalers and consumers, and the areal extent of the Company's marketing territory, which covers most of England and southern Wales. |
| 21 | Western Crude Oil Pipeline Systems - The locations are shown in southern Alberta and Saskatchewan of major Canadian crude oil pipelines and two pipeline systems that are partially owned and operated by the Company and deliver heavy oil into one of the major pipelines. In addition, the locations are shown of: (a) two Company-owned pipelines that transport crude oil to the U.S. border for further movement to refining centers in Montana, Wyoming, and Colorado through pipelines owned by others; and (b) a partially owned pipeline system in Montana and Wyoming. |
| | **Picture Narrative** |
| 2 | Claiborne P. Deming, President and Chief Executive Officer of Murphy Oil Corporation, is pictured. |
| 7 | A picture of the West Cameron Block 631 production platform located in 325 feet of water in the Gulf of Mexico 125 miles south of Cameron, Louisiana is shown. The Company began producing natural gas from this field in February 1997, and net production will amount to over 40 million cubic feet a day by mid-1997. |
| 8 | A jack-up drilling rig is pictured drilling a successful well on Destin Dome Block 57 in the Gulf of Mexico in 1996. The well tested at a gross rate of 41 million cubic feet of natural gas a day. A plan of development for the Destin Dome Block 56 unit was filed with the Minerals Management Service in 1996. |
| 10 | A picture of three drilling rigs is shown in the Cactus Lake heavy oil field in Saskatchewan. The rigs were used to drill horizontal wells that allow oil production of two to ten times that of vertical wells. Thermal processes (steam injection) will further enhance heavy oil production from this and nearby heavy oil fields in 1997. |
| 10 | A night view is shown of the processing and upgrading facility at Syncrude Canada Ltd. near Fort McMurray, Alberta. This plant's capacity will be increased to 81 million barrels of synthetic crude oil production a year by the time the new North mine becomes operational in 1999. |

| Exhibit 13 Page No. | Picture Narrative (Contd.) |
|---|---|
| 11 | Two pictures are shown of the components of the Hibernia floating production facility that were mated in early 1997. One picture shows the topsides module, and the other shows the floating Gravity Base Structure. The mated facility will be towed to the production site during the summer in anticipation of first oil production by the end of 1997. |
| 15 | A view is shown of the Murphy USA gasoline station built in 1996 near a SAM'S Club store in Chattanooga, Tennessee. Several more Murphy USA stations will be opened in 1997 on land leased from Wal-Mart in the Company's southeastern marketing area. |
| 16 | A view is shown from the eastern edge of the Company's 100,000 -barrel-a-day refinery at Meraux, Louisiana; the refinery established a record for crude oil processed per day in 1996, primarily due to high onstream rates for the refinery's principal units. |
| 18 | A view is shown of the completed high-pressure distillate hydrotreater unit at the 30-percent owned Milford Haven, Wales refinery. The hydrotreater unit enables the refinery to meet new specifications for low-sulfur diesel fuel sold in the U.K. market. |
| 19 | A recently redeveloped station in Cross Hands, Wales is depicted; this station is one of 126 Company-owned stations operating in the U.K. at the end of 1996. |
| 20 | Construction of the new 40-mile North-Sask dual pipeline is shown. The pipeline provides the Company an additional source of heavy oil for the Manito pipeline system, and also allows more consistent and economical transportation of the Company's heavy oil production from the Tangleflags field. |

Graph Narrative

5 INCOME CONTRIBUTION* - EXPLORATION AND PRODUCTION
Scale - 0 to 120 (millions of dollars).

| | 1992 | 1993 | 1994 | 1995 | 1996 |
|---|---|---|---|---|---|
| Income* | 35.9 | 36.9 | 45.2 | 29.5 | 101.8 |

*Before special items.
This is a vertical bar graph with each year's value printed above the appropriate bar.

| Exhibit 13 Page No. | Graph Narrative (Continued) |
|---|---|

5 CAPITAL EXPENDITURES - EXPLORATION AND PRODUCTION

Scale - 0 to 600 (millions of dollars).

| | 1992 | 1993 | 1994 | 1995 | 1996 |
|---|---|---|---|---|---|
| Proved Property Acquisitions (top) | 13.9 | 259.7 | 26.6 | 7.2 | - |
| Development Costs | 36.8 | 195.8 | 173.5 | 148.9 | 211.3 |
| Exploration Costs (bottom) | 87.4 | 64.6 | 86.2 | 75.6 | 162.7 |
| Totals | 138.1 | 520.1 | 286.3 | 231.7 | 374.0 |

This is a stacked vertical bar graph with each year's total printed above the appropriate bar.

5 NET HYDROCARBONS PRODUCTION

Scale 0 to 120 (thousands of barrels a day on an energy equivalent basis).

| | 1992 | 1993 | 1994 | 1995 | 1996 |
|---|---|---|---|---|---|
| Other International (top) | 4.6 | 3.2 | 5.1 | 7.2 | 7.2 |
| United Kingdom | 8.1 | 8.5 | 15.2 | 16.8 | 15.8 |
| Canada | 15.2 | 18.8 | 27.8 | 29.7 | 29.5 |
| United States (bottom) | 44.7 | 49.6 | 45.9 | 45.3 | 37.5 |
| Totals | 72.6 | 80.1 | 94.0 | 99.0 | 90.0 |

This is a stacked vertical bar graph with each year's total printed above the appropriate bar.

8 CRUDE OIL AND NGL PRODUCTION

Scale 0 to 70 (thousands of barrels a day).

| | 1992 | 1993 | 1994 | 1995 | 1996 |
|---|---|---|---|---|---|
| Other International (top) | 1.3 | 1.6 | 3.0 | 5.4 | 6.0 |
| United Kingdom | 5.9 | 6.3 | 13.5 | 15.0 | 13.3 |
| Canada - Synthetic Oil | - | - | 9.1 | 8.9 | 8.2 |
| Canada - Other Oil | 10.2 | 12.7 | 12.4 | 14.0 | 14.1 |
| United States (bottom) | 13.4 | 13.7 | 13.3 | 13.7 | 11.6 |
| Totals | 30.8 | 34.3 | 51.3 | 57.0 | 53.2 |

This is a stacked vertical bar graph with each year's total printed above the appropriate bar.

8 NATURAL GAS SALES

Scale 0 to 320 (millions of cubic feet a day).

| | 1992 | 1993 | 1994 | 1995 | 1996 |
|---|---|---|---|---|---|
| Spain (top) | 19.4 | 9.5 | 12.6 | 10.9 | 7.3 |
| United Kingdom | 12.8 | 13.1 | 10.1 | 10.7 | 15.3 |
| Canada | 30.3 | 36.8 | 38.0 | 40.9 | 43.0 |
| United States (bottom) | 188.1 | 215.5 | 195.6 | 189.2 | 155.0 |
| Totals | 250.6 | 274.9 | 256.3 | 251.7 | 220.6 |

This is a stacked vertical bar graph with each year's total printed above the appropriate bar.

| Exhibit 13 Page No. | Graph Narrative (Continued) |
|---|---|

15 INCOME CONTRIBUTION* - REFINING, MARKETING, AND TRANSPORTATION

Scale 0 to 40 (millions of dollars).

| | 1992 | 1993 | 1994 | 1995 | 1996 |
|---|---|---|---|---|---|
| Income* | 8.0 | 31.5 | 30.2 | 2.0 | 14.1 |

*Before special items.

This is a vertical bar graph with each year's value printed above the appropriate bar.

15 CAPITAL EXPENDITURES - REFINING, MARKETING, AND TRANSPORTATION

Scale 0 to 120 (millions of dollars).

| | 1992 | 1993 | 1994 | 1995 | 1996 |
|---|---|---|---|---|---|
| Transportation (top) | 6.0 | 3.6 | 3.2 | 3.5 | 8.7 |
| Marketing | 14.1 | 16.9 | 17.0 | 9.2 | 8.8 |
| Refining (bottom) | 48.0 | 66.4 | 74.5 | 40.9 | 25.4 |
| Totals | 68.1 | 86.9 | 94.7 | 53.6 | 42.9 |

This is a stacked vertical bar graph with each year's total printed above the appropriate bar.

15 REFINED PRODUCTS SOLD

Scale 0 to 200 (thousands of barrels a day).

| | 1992 | 1993 | 1994 | 1995 | 1996 |
|---|---|---|---|---|---|
| United Kingdom (top) | 31.5 | 32.5 | 40.3 | 31.2 | 33.6 |
| United States (bottom) | 114.5 | 121.1 | 120.8 | 130.7 | 136.4 |
| Totals | 146.0 | 153.6 | 161.1 | 161.9 | 170.0 |

This is a stacked vertical bar graph with each year's total printed above the appropriate bar.

21 CANADIAN PIPELINE THROUGHPUTS

Scale 0 to 200 (thousands of barrels a day).

| | 1992 | 1993 | 1994 | 1995 | 1996 |
|---|---|---|---|---|---|
| Throughputs | 118.1 | 151.7 | 159.5 | 173.7 | 183.1 |

This is a vertical bar graph with each year's value printed above the appropriate bar.

22 INCOME FROM CONTINUING OPERATIONS BEFORE SPECIAL ITEMS

Scale 0 to 120 (millions of dollars).

| | 1992 | 1993 | 1994 | 1995 | 1996 |
|---|---|---|---|---|---|
| Income Before Special Items | 46.3 | 63.1 | 69.0 | 24.1 | 103.8 |

This is a vertical bar graph with each year's value printed above the appropriate bar.

| Exhibit 13 Page No. | Graph Narrative (Continued) |
|---|---|
| 22 | NET CASH PROVIDED BY CONTINUING OPERATIONS<br>Scale 0 to 525 (millions of dollars). |

| | 1992 | 1993 | 1994 | 1995 | 1996 |
|---|---|---|---|---|---|
| Cash Provided | 276.4 | 347.7 | 312.3 | 309.9 | 472.5 |

This is a vertical bar graph with each year's value printed above the appropriate bar.

22 STOCKHOLDERS' EQUITY AT YEAR-END
Scale 0 to 1,500 (millions of dollars).

| | 1992 | 1993 | 1994 | 1995 | 1996 |
|---|---|---|---|---|---|
| Stockholders' Equity | 1,200 | 1,222 | 1,271 | 1,101 | 1,027* |

*Reflects distribution of common stock of Deltic Timber Corporation.

This is a vertical bar graph with each year's value printed above the appropriate bar.

23 INCOME CONTRIBUTION FROM CONTINUING OPERATIONS BY FUNCTION*
Scale 0 to 140 (millions of dollars).

| | 1994 | 1995 | 1996 |
|---|---|---|---|
| Refining, Marketing, and Transportation | 30.2 | 2.0 | 14.1 |
| Exploration and Production (bottom) | 45.2 | 29.5 | 101.8 |
| Totals | 75.4 | 31.5 | 115.9 |

*Excludes Corporate and special items.

This is a stacked vertical bar graph with the value for each element printed within or beside the element.

24 RANGE OF U.S. CRUDE OIL SALES PRICES
Scale 10 to 28 (dollars a barrel).

| | 1994 | 1995 | 1996 |
|---|---|---|---|
| High Monthly Crude Oil Price (top of bar) | 17.58 | 18.06 | 24.32 |
| Average Crude Oil Price (colored line) | 15.36 | 16.61 | 20.31 |
| Low Monthly Crude Oil Price (bottom of bar) | 12.71 | 15.42 | 17.41 |

This is a floating vertical bar graph with a contrasting-color line between the top and bottom each year and highs printed above bars, averages printed above colored lines, and lows printed below bars.

24 RANGE OF U.S. NATURAL GAS SALES PRICES
Scale 1.00 to 4.00 (dollars a thousand cubic feet).

| | 1994 | 1995 | 1996 |
|---|---|---|---|
| High Monthly Natural Gas Price (top of bar) | 2.40 | 2.45 | 3.68 |
| Average Natural Gas Price (colored line) | 1.91 | 1.64 | 2.60 |
| Low Monthly Natural Gas Price (bottom of bar) | 1.42 | 1.39 | 2.01 |

This is a floating vertical bar graph with a contrasting-color line between the top and bottom each year and highs printed above bars, averages printed above colored lines, and lows printed below bars.

| Exhibit 13 Page No. | Graph Narrative (Continued) |
|---|---|
| 25 | EXPLORATION EXPENSES |

Scale 0 to 80 (millions of dollars).

| | 1994 | 1995 | 1996 |
|---|---|---|---|
| Undeveloped Lease Amortization (top) | 11.0 | 10.7 | 9.7 |
| Geological, Geophysical, and Other Costs | 15.1 | 24.2 | 32.0 |
| Dry Hole Costs (bottom) | 16.6 | 30.9 | 28.5 |
| Totals | 42.7 | 65.8 | 70.2 |

This is a stacked vertical bar graph with each year's total printed above the appropriate bar.

26 CAPITAL EXPENDITURES IN 1996

(millions of dollars).

Corporate - $1.2 (top)
Refining, Marketing, and Transportation - $42.9
Exploration and Production - $374 (bottom)

This is a stacked vertical bar graph with "Total - $418.1" printed below graph.

44 ESTIMATED NET PROVED OIL RESERVES

Scale 0 to 250 (millions of barrels).

| | 1992 | 1993 | 1994 | 1995 | 1996 |
|---|---|---|---|---|---|
| Other International (top) | 37.4 | 35.5 | 35.0 | 29.6 | 27.4 |
| United Kingdom | 13.1 | 26.7 | 24.5 | 40.0 | 50.0 |
| Canada | 22.3 | 120.2 | 136.3 | 132.5 | 131.6 |
| United States (bottom) | 23.2 | 20.0 | 24.5 | 24.6 | 18.7 |
| Totals | 96.0 | 202.4 | 220.3 | 226.7 | 227.7 |

This is a stacked vertical bar graph with each year's total printed above the appropriate bar.

44 ESTIMATED NET PROVED NATURAL GAS RESERVES

Scale 0 to 800 (billions of cubic feet).

| | 1992 | 1993 | 1994 | 1995 | 1996 |
|---|---|---|---|---|---|
| Spain (top) | 4.1 | 10.6 | 7.2 | 3.8 | - |
| United Kingdom | 35.4 | 31.2 | 29.6 | 47.4 | 43.9 |
| Canada | 200.4 | 182.7 | 176.7 | 160.1 | 151.1 |
| United States (bottom) | 445.4 | 429.0 | 430.1 | 431.5 | 464.4 |
| Totals | 685.3 | 653.5 | 643.6 | 642.8 | 659.4 |

This is a stacked vertical bar graph with each year's total printed above the appropriate bar.

Appendix to Electronically Filed Exhibit 13 (Contd.)

| Exhibit 13 Page No. | Graph Narrative (Continued) |
|---|---|
| 44 | ESTIMATED NET PROVED HYDROCARBON RESERVES<br>Scale 0 to 400 (millions of barrels on an energy equivalent basis). |

| | 1992 | 1993 | 1994 | 1995 | 1996 |
|---|---|---|---|---|---|
| Other International (top) | 38.1 | 37.2 | 36.2 | 30.2 | 27.4 |
| United Kingdom | 19.0 | 31.9 | 29.4 | 47.9 | 57.3 |
| Canada | 55.7 | 150.7 | 165.8 | 159.2 | 156.8 |
| United States (bottom) | 97.4 | 91.5 | 96.2 | 96.5 | 96.1 |
| Totals | 210.2 | 311.3 | 327.6 | 333.8 | 337.6 |

This is a stacked vertical bar graph with each year's total printed above the appropriate bar.

EXHIBIT 21

MURPHY OIL CORPORATION

SUBSIDIARIES OF THE REGISTRANT AS OF DECEMBER 31, 1996

| Name of Company | State or Other Jurisdiction of Incorporation | Percentage of Voting Securities Owned by Immediate Parent |
|---|---|---|
| MURPHY OIL CORPORATION (REGISTRANT) | | |
| A. El Dorado Engineering Inc. | Delaware | 100.0 |
| 1. El Dorado Contractors Inc. | Delaware | 100.0 |
| B. Murphy Eastern Oil Company | Delaware | 100.0 |
| C. Murphy Exploration & Production Company (formerly Ocean Drilling & Exploration Company) | Delaware | 100.0 |
| 1. Canam Offshore A. G. (Switzerland) | Switzerland | 100.0 |
| 2. Canam Offshore Limited | Bahamas | 100.0 |
| a. Odeco Drilling Limited | Bahamas | 100.0 |
| b. Rimrock Offshore Limited | Bahamas | 100.0 |
| 3. El Dorado Exploration, S.A. | Delaware | 100.0 |
| 4. Mentor Holding Corporation | Delaware | 100.0 |
| a. Mentor Excess and Surplus Lines Insurance Company | Delaware | 100.0 |
| b. Mentor Insurance and Reinsurance Company | Louisiana | 100.0 |
| c. Mentor Insurance Limited | Bermuda | 99.993 |
| (1) Mentor Insurance Company (U.K.) Limited | England | 100.0 |
| (2) Mentor Underwriting Agents (U.K.) Limited | England | 100.0 |
| 5. MEPCO Venezuela, Ltd. | Bahamas | 100.0 |
| 6. Murphy Building Corporation | Delaware | 100.0 |
| 7. Murphy Denmark Oil Company | Delaware | 100.0 |
| 8. Murphy Ecuador Oil Company Ltd. | Bermuda | 100.0 |
| 9. Murphy Equatorial Guinea Oil Company | Delaware | 100.0 |
| 10. Murphy France Oil Company | Delaware | 100.0 |
| 11. Murphy Indus Energy Ltd. | Bahamas | 100.0 |
| 12. Murphy Ireland Oil Company | Delaware | 100.0 |
| 13. Murphy Italy Oil Company | Delaware | 100.0 |
| 14. Murphy New Zealand Oil Company | Delaware | 100.0 |
| 15. Murphy Overseas Ventures Inc. | Delaware | 100.0 |
| 16. Murphy Pacific Rim, Ltd. | Bahamas | 100.0 |
| 17. Murphy Pakistan Oil Company | Delaware | 100.0 |
| 18. Murphy Peru Oil Company, S.A. | Panama | 100.0 |
| 19. Murphy Somali Oil Company | Delaware | 100.0 |
| 20. Murphy-Spain Oil Company | Delaware | 100.0 |
| 21. Murphy Western Oil Company | Delaware | 100.0 |
| 22. Murphy Yemen Oil Company | Delaware | 100.0 |
| 23. Norske Murphy Oil Company | Delaware | 100.0 |
| 24. Norske Ocean Exploration Company | Delaware | 100.0 |
| 25. Ocean Exploration Company | Delaware | 100.0 |
| 26. Ocean France Oil Company | Delaware | 100.0 |
| 27. Ocean Gabon Oil Company | Delaware | 100.0 |
| 28. Ocean International Finance Corporation | Delaware | 100.0 |
| 29. Ocean Spain Oil Company | Delaware | 100.0 |
| 30. Odeco Gabon Oil Company | Delaware | 100.0 |
| 31. Odeco International Corporation | Panama | 100.0 |
| 32. Odeco Italy Oil Company | Delaware | 100.0 |
| 33. Sub Sea Offshore (M) Sdn. Bhd. | Malaysia | 60.0 |

MURPHY OIL CORPORATION

SUBSIDIARIES OF THE REGISTRANT AS OF DECEMBER 31, 1996 (CONTD.)

| Name of Company | State or Other Jurisdiction of Incorporation | Percentage of Voting Securities Owned by Immediate Parent |
|---|---|---|
| MURPHY OIL CORPORATION (REGISTRANT) - Contd. | | |
| D. Murphy Oil Company, Ltd. | Canada | 100.0 |
| 1. 340236 Alberta Ltd. | Canada | 100.0 |
| 2. Manito Pipelines Ltd. | Canada | 52.5 |
| 3. Murphy Atlantic Offshore Oil Company Ltd. | Canada | 100.0 |
| 4. Wascana Pipe Line Ltd. | Canada | 100.0 |
| E. Murphy Oil USA, Inc. | Delaware | 100.0 |
| 1. Arkansas Oil Company | Delaware | 100.0 |
| 2. Murphy Gas Gathering Inc. | Delaware | 100.0 |
| 3. Murphy Latin America Refining & Marketing, Inc. | Delaware | 100.0 |
| 4. Murphy LOOP, Inc. | Delaware | 100.0 |
| 5. Murphy Oil Trading Company (Eastern) | Delaware | 100.0 |
| 6. Spur Oil Corporation | Delaware | 100.0 |
| F. Murphy Ventures Corporation | Delaware | 100.0 |
| G. New Murphy Oil (UK) Corporation | Delaware | 100.0 |
| 1. Murphy Petroleum Limited | England | 100.0 |
| a. Murco Petroleum Limited | England | 100.0 |
| (1) Alnery No. 166 Ltd. | England | 100.0 |
| (2) European Petroleum Distributors Ltd. | England | 100.0 |
| (3) H. Hartley (Doncaster) Ltd. | England | 100.0 |
| (4) Murco Petroleum (Ireland) Ltd. | Ireland | 100.0 |

EXHIBIT 23

# INDEPENDENT AUDITORS' CONSENT

The Board of Directors
Murphy Oil Corporation:

We consent to incorporation by reference in the Registration Statements (Nos. 2-82818, 2-86749, and 2-86760) on Form S-8 and (No. 33-55161) on Form S-3 of Murphy Oil Corporation of our report dated March 4, 1997, relating to the consolidated balance sheets of Murphy Oil Corporation and Consolidated Subsidiaries as of December 31, 1996 and 1995, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 1996, which report is included in the December 31, 1996, annual report on Form 10-K of Murphy Oil Corporation. Our report refers to changes in 1995 in the method of accounting for the impairment of long-lived assets and for long-lived assets to be disposed of.

KPMG PEAT MARWICK LLP

Shreveport, Louisiana
March 25, 1997

5

THIS FINANCIAL DATA SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE AUDITED CONSOLIDATED BALANCE SHEET AT DECEMBER 31, 1996, AND THE AUDITED CONSOLIDATED STATEMENT OF INCOME FOR THE YEAR ENDED DECEMBER 31, 1996, OF MURPHY OIL CORPORATION AND CONSOLIDATED SUBSIDIARIES AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1000

YEAR
DEC-31-1996
DEC-31-1996
109,707
0
334,928
15,267
131,355
610,169
4,130,436
2,573,606
2,243,786
554,041
201,828
48,775
0
0
978,703
2,243,786
1,916,599
2,022,176
1,666,295
1,666,295
70,206
0
2,918
216,355
90,399
125,956
11,899
0
0
137,855
3.07
3.07

# UNDERTAKINGS

To be incorporated by reference into Form S-8 Registration Statements No. 2-82818, 2-86749 and 2-86760, and Form S-3 Registration Statement No. 33-55161.

The undersigned registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(i) To include any prospectus required by section 10(a)(3) of the Securities Act of 1933;

(ii) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represents a fundamental change in the information set forth in the registration statement;

(iii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement;

(2) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

The undersigned registrant hereby undertakes that, for purposes of determining any liability under the Securities Act of 1933, each filing of the registrant's annual report pursuant to section 13(a) or section 15(d) of the Securities Exchange Act of 1934 (and, where applicable, each filing of an employee benefit plan's annual report pursuant to section 15(d) of the Securities Exchange Act of 1934) that is incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

The undersigned registrant hereby undertakes:

(1) To deliver or cause to be delivered with the prospectus to each employee to whom the prospectus is sent or given a copy of the registrant's annual report to stockholders for its last fiscal year, unless such employee otherwise has received a copy of such report, in

which case the registrant shall state in the prospectus that it will promptly furnish, without charge, a copy of such report on written request of the employee. If the last fiscal year of the registrant has ended within 120 days prior to the use of the prospectus, the annual report of the registrant for the preceding fiscal year may be so delivered, but within such 120 day period the annual report for the last fiscal year will be furnished to each such employee.

(2) To transmit or cause to be transmitted to all employees participating in the plan who do not otherwise receive such material as stockholders of the registrant, at the time and in the manner such material is sent to its stockholders, copies of all reports, proxy statements and other communications distributed to its stockholders generally.

Where interests in a plan are registered herewith, the undersigned registrant and plan hereby undertake to transmit or cause to be transmitted promptly, without charge, to any participant in the plan who makes a written request, a copy of the then latest annual report of the plan filed pursuant to section 15(d) of the Securities Exchange Act of 1934 (Form 11-K). If such report is filed separately on Form 11-K, such form shall be delivered upon written request. If such report is filed as a part of the registrant's annual report on Form 10-K, that entire report (excluding exhibits) shall be delivered upon written request. If such report is filed as a part of the registrant's annual report to stockholders delivered pursuant to paragraph (1) or (2) of this undertaking, additional delivery shall not be required.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.