

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECTS 8672

925 SCOMM32: AK GENERAL STOCK OWNERSHIP CORP. 1979-80 925

THE BRITISH PETROLEUM COMPANY LIMITED AND THE BP GROUP

The British Petroleum Company Limited ("BP") and its subsidiaries (collectively the "BP Group") form the largest industrial concern in the United Kingdom, the third largest outside the United States and the eighth largest in the non-communist world on the basis of 1976 gross sales proceeds.

The BP Group is one of the major integrated petroleum organizations operating internationally, being engaged in all phases of the petroleum industry, including exploration for oil and natural gas, and production, transportation, refining and marketing of petroleum, petroleum products and chemicals. Many of these activities are also carried on by the BP Group through associated companies, i.e., companies in which the BP Group's interest is 50% or less, particularly The Standard Oil Company, an Ohio corporation ("Sohio"). The BP Group's interests in the United States consist primarily of its interest in Sohio and its interest in the Trans Alaska Pipeline System ("TAPS" or the "System"). By the middle of 1978 if, as expected, the BP Group's interest in Sohio has increased to over 50%, BP will include the accounts of Sohio in its consolidated accounts. BP believes that in balance sheet terms over 40% of the BP Group's properties and operating assets attributable to BP will then be located in the United States. See "Business and Property—Interests in the United States".

Although at all times since 1914 the United Kingdom Government has held a substantial interest in BP and after completion of the sales of Ordinary Shares described herein 30.87% of the outstanding Ordinary Shares of BP will be held by the Government and 20.13% by the Bank of England (excluding Ordinary Shares held by the Bank of England's Pension Fund or by the Bank of England's nominee companies for others), BP has always been managed and operated as a private business enterprise. The United Kingdom Government has recently reaffirmed its intention to maintain its relationship with BP in a way which does not breach the traditional practice of non-intervention in the administration of BP as a commercial concern. See "Ownership of Ordinary Shares and Selling Shareholder".

BP was incorporated under the laws of England in 1909 and adopted its present name in 1954. It has its head office at Britannic House, Moor Lane, London EC2Y 9BU, England (telephone (01) 920-8000).

CAPITALIZATION OF THE BP GROUP

The following table sets forth the capitalization of the BP Group at December 31, 1976 and as adjusted to give effect to subsequent significant borrowings and repayments by the BP Group to March 31, 1977, together with movements from long-term debt to short-term debt (translation into U.S. dollars is for convenience only and has been made at the December 31, 1976 Noon Buying Rate of £1 = \$1.70).

	Outstanding Dec. 31, 1976	As Adjusted	Outstanding Dec. 31, 1976	As Adjusted
	(£ million)		(\$ million)	
Finance debts (including as of December 31, 1976 £764.3 million (\$1,299 million) subject to repayment by December 31, 1977):				
Long-term debts(1):				
The British Petroleum Company Limited:				
6% Swiss franc bonds due 1987	19.2	19.2	33	33
7½% U.S. dollar loan due 1982	8.8	8.8	15	15
7¾% U.S. dollar loan due 1983	8.9	8.9	15	15
7% U.S. dollar loan due to 1984	22.5	22.5	38	38
Sterling loans due 1983—at London interbank rate plus agreed differential	20.0	20.0	34	34
Total BP long-term debts	<u>79.4</u>	<u>79.4</u>	<u>135</u>	<u>135</u>
	Approximate Interest Rate (%)(1)			
Subsidiary companies:				
Australian dollars	7.9	10.2	17	17
Belgian francs	7.5	10.9	19	10
Canadian dollars	6.9	32.8	56	55
Deutschemarks	7.0	36.6	62	83
Dutch guilders	7.2	119.5	203	152
French francs	9.9	71.5	122	104
Sterling	6.0	6.9	12	12
Swedish kroner	5.6	15.2	26	26
Swiss francs	7.4	16.5	28	28
U.S. dollars(2)	9.6	739.5	1,257	1,310
Other currencies	6.0	6.4	10	11
Total subsidiary companies' long-term debts	<u>1,065.6</u>	<u>1,063.5</u>	<u>1,812</u>	<u>1,808</u>
Total long-term debts (secured as at December 31, 1976 £139.9 million (\$238 million))	1,145.0	1,142.9	1,947	1,943
Short-term debts and acceptances(1) (secured as at December 31, 1976 £92.8 million (\$158 million) (3))	8.0	1,078.0	1,833	1,973
Bank loans and overdrafts(1)	9.3	52.7	89	95
Total finance debts(4)	<u>2,275.7</u>	<u>2,359.4</u>	<u>3,869</u>	<u>4,011</u>
Minority stockholders' interest	<u>122.8</u>	<u>122.8</u>	<u>209</u>	<u>209</u>
Stockholders' interest:				
Authorized capital: £500 million(5)				
Issued and outstanding capital:				
8% (now 5.6% + tax credit) Cumulative First Preference Stock	7.2	7.2	12	12
9% (now 6.3% + tax credit) Cumulative Second Preference Stock	5.5	5.5	10	10
Ordinary Stock (386,070,116 units of £1 as of December 31, 1976)	386.1	386.1	656	656
	<u>398.8</u>	<u>398.8</u>	<u>678</u>	<u>678</u>
Paid in surplus	197.4	197.4	336	336
Earned surplus	2,262.2	2,262.2	3,845	3,845
Total stockholders' interest	<u>2,858.4</u>	<u>2,858.4</u>	<u>4,859</u>	<u>4,859</u>
Total capitalization	<u>5,256.9</u>	<u>5,340.6</u>	<u>8,937</u>	<u>9,079</u>

(Continued on following page)

Capitalization of the BP Group—(Continued)

This table should be read in conjunction with the BP Group's Financial Statements and the Notes thereto included elsewhere in this Prospectus, of which Note I gives information regarding the "production payment" method of financing the development of the Forties Field in the North Sea, not included above. The total amounts outstanding under the relevant agreement were:

December 31, 1976	£126.1 million and \$327.9 million
March 31, 1977	£105.0 million and \$273.0 million

Notes:

(1) Long-term debts are those, as defined by the United Kingdom Companies Act 1967, which are wholly or in part repayable in more than five years from December 31, 1976 and March 31, 1977. Short-term debts and acceptances are those repayable within five years from such dates other than bank loans and overdrafts repayable within one year from such dates. Interest rates are approximate weighted average rates at December 31, 1976.

(2) See Note J of Notes to the BP Group's Financial Statements for additional information regarding long-term debt in U.S. dollars incurred to finance the interest of the BP Group in the Trans Alaska Pipeline System.

(3) The 6% debenture stock, due through 1980, of £8.5 million (\$14 million) at December 31, 1976 and £8.3 million (\$14 million) at March 31, 1977, together with the 5% debenture stock, due through 1978, of £8.4 million (\$14 million) at December 31, 1976 and £8.4 million (\$14 million) at March 31, 1977, included in short-term debts and acceptances, are both secured *pari passu* by a floating charge on all the property and assets, present and future, of BP.

(4) Subsidiary companies' finance debts guaranteed by BP were £1,379 million (\$2,344 million) at December 31, 1976 and £1,440 million (\$2,448 million) at March 31, 1977.

(5) Includes £43,748 par value of authorized but unissued Preference Stock.

Note H of Notes to the BP Group's Financial Statements gives additional information about finance debts at December 31, 1976, those incurred in currencies other than sterling having been converted into sterling at December 31, 1976 rates of exchange.

See Note R of Notes to the BP Group's Financial Statements for information regarding leased assets.

For information concerning the capitalization of Sohio, see Sohio's Consolidated Financial Statements included elsewhere in this Prospectus.

On June 15, 1977, the City of Valdez, Alaska (the "City") announced that it plans to issue \$350 million of marine terminal revenue bonds due 2007 (the "Bonds"), guaranteed as to principal, premium, if any, and interest by BP as to 32.2% and by Sohio as to 67.8%. Issuance of the Bonds is subject to obtaining required consents, including consents from certain lenders. A Preliminary Official Statement relating to the Bonds was issued on June 21, 1977, and the public offering of the Bonds is expected to take place during the week of June 27, 1977. Subject to market conditions, it is contemplated that the City may issue additional revenue bonds in an aggregate amount sufficient, together with the Bonds, to finance all or a portion of the aggregate cost to BP Pipelines Inc., a wholly-owned subsidiary of the BP Group, and Sohio Pipe Line Company, a wholly-owned subsidiary of Sohio, of their undivided interests in a portion of the TAPS Marine Terminal being constructed in the City. Upon completion of the terminal, such aggregate cost is expected to be approximately \$675 million. The City expects to use the proceeds of the Bonds, and of any such additional revenue bonds, to make lump sum rental payments to BP Pipelines Inc. (32.2%) and Sohio Pipe Line Company (67.8%) under long-term leases of such undivided interests. The City will in turn sublease such interests, for a term equal to the term of the leases, to BP Pipelines Inc. and Sohio Pipe Line Company which will make sublease payments during the term of the subleases equal to 32.2% and 67.8%, respectively, of all amounts due in respect of principal of and premium, if any, and interest on the Bonds and any such additional bonds. BP Pipelines Inc. and Sohio Pipe Line Company each intends to use any lump sum rental payment so received from the City to repay a portion of the debt heretofore incurred by it to finance its share of the cost of the TAPS Marine Terminal.

DIVIDENDS

BP has paid dividends on its Ordinary Shares in each year since 1917. The following table sets forth dividends (translated in each case into U.S. dollars at the Noon Buying Rates on the respective dates of payment) declared to holders of Ordinary Shares in respect of each of the past five years.

	Pence per Ordinary Share			Cents per Ordinary Share		
	Interim	Final	Total	Interim	Final	Total
1972	3.500	10.950	14.450	8	28	36
1973	4.170	11.000	15.170	10	27	37
1974	5.860	11.000	16.860	14	26	40
1975	6.250	11.740	17.990	13	21	34
1976	6.875	12.914	19.789	11	22	33

For total dividends declared to holders of Ordinary Shares in respect of each of the past five years translated at the December 31, 1976 Noon Buying Rate of £1 = \$1.70, see "The British Petroleum Company Limited and Subsidiary Companies Consolidated Statement of Income".

The dividends shown are before deduction of any applicable withholding tax but net of associated tax credits arising from advance payment of corporation tax. See "Taxes". The 1972 interim dividend has been restated to show the amount which would have been declared had the change in the United Kingdom taxation of dividends discussed in Note P of Notes to the BP Group's Financial Statements been effective as to dividends declared in respect of 1972.

Interim dividends are generally paid in November and the final dividend in May of the following year. Holders of record of the American Depositary Shares offered hereby on the applicable record date will be entitled to the interim dividend in respect of the year ending December 31, 1977.

Under the Counter-Inflation Act 1973, the United Kingdom Treasury is empowered to control dividends. The relevant legislation expires on July 31, 1977, but the United Kingdom Government has announced that it will be extended for one year. Under current provisions no company incorporated in the United Kingdom whose equity capital is listed on a stock exchange in the United Kingdom is permitted (with certain limited exceptions) without the prior written consent of the United Kingdom Treasury to declare, in respect of any financial year of such company, dividends in respect of its equity capital of a total amount (inclusive of associated tax credits) which exceeds by more than 10% the total amount of such dividends (inclusive of such tax credits) declared in respect of its preceding financial year.

BP recently made application to the United Kingdom Treasury for permission to increase its total dividends for 1977 to 30 pence (equivalent to \$0.52 based on the Noon Buying Rate on June 27, 1977) per Ordinary Share, net of associated tax credits arising from advance payment of corporation tax. On June 9, 1977 BP was informed by the Treasury that BP's application could not be granted under existing dividend controls since such application did not meet any of the normal criteria for increases above the limit.

Future dividends of BP will be dependent upon any United Kingdom governmental restraints as well as the future earnings and the financial condition of the BP Group and other factors. However, BP has announced that, in the absence of unforeseen circumstances, its Directors intend to declare an interim net dividend for 1977 of 6.875 pence (equivalent to \$0.12 based on the Noon Buying Rate on June 27, 1977) per Ordinary Share for payment on November 10, 1977 and to include any increase in 1977 dividends allowed under the then current dividend controls with the final dividend for 1977 payable in May 1978. BP has also announced that it is the intention of its Board of Directors to reserve a sum equal to the difference between the 1977 dividends actually paid and those which would have been paid had the application to the United Kingdom Treasury mentioned above been granted, and that when the removal of dividend controls permits, the amount so reserved would be distributed as a special dividend to holders of Ordinary Shares.

PRICE RANGES OF ORDINARY SHARES AND AMERICAN DEPOSITARY SHARES

The principal listing of the Ordinary Shares is on the London Stock Exchange. American Depositary Shares are listed on the New York Stock Exchange.

The following table sets forth for the periods indicated (a) the highest and lowest middle market quotations for the Ordinary Shares on the London Stock Exchange, as shown by its Daily Official List, (b) the same middle market quotations translated into U.S. dollars in each case at the respective Noon Buying Rates on the dates of such quotations, and (c) the highest and lowest sale prices of the American Depositary Shares, as reported by *The Commercial and Financial Chronicle*, through January 23, 1976 on the New York Stock Exchange and thereafter on the composite tape. In the case of American Depositary Shares the prices quoted for 1972 through January 29, 1974 are for American Depositary Shares which had certificates of prior American ownership and were thus exempt from U.S. Interest Equalization Tax; such tax was reduced to zero on January 29, 1974 and ranged between 11.25% and 22.5% of the purchase price prior to such date.

	Ordinary Shares on the London Stock Exchange				American Depositary Shares on the New York Stock Exchange	
	High	Low	High	Low	High	Low
	(pounds)		(translated into U.S. dollars)		(U.S. dollars)	
1972	6.12	4.86	15.96	11.79	16	12½
1973	6.00	4.66	14.12	11.35	16½	12½
1974	5.90	1.95	13.32	4.52	14½	4½
1975: First quarter	4.26	1.86	10.37	4.35	10¾	4½
Second quarter	5.32	3.33	12.37	8.03	12¼	7¾
Third quarter	5.68	4.62	11.64	9.90	12½	9¾
Fourth quarter	5.97	5.50	12.35	11.21	12¾	10¾
1976: First quarter	6.15	5.77	11.79	11.67	12½	11
Second quarter	6.80	5.98	12.10	10.60	12½	10¾
Third quarter	6.25	5.53	10.49	9.82	11	9¾
Fourth quarter	8.05	5.70	13.69	9.43	14	9½
1977: First quarter	9.35	7.75	16.04	13.23	16¾	13¾
Second quarter (through June 27)	9.55	7.80	16.40	13.41	16¾	13½

The middle market quotation for Ordinary Shares on the London Stock Exchange, as shown by its Daily Official List, as of 3:30 P.M., London time, on June 13, 1977, the day before the announcement of the U.K. offering described under "Offering of Ordinary Shares in the United Kingdom", was £8.92 (equivalent to \$15.34 based on the Noon Buying Rate on that date). The London *Financial Times* reported a closing middle market price for Ordinary Shares on June 13, 1977 of £8.84 (equivalent to \$15.20 based on such Noon Buying Rate). The last reported sale price of the American Depositary Shares on the New York Stock Exchange on June 13, 1977 was \$15½.

The middle market quotation for Ordinary Shares on the London Stock Exchange, as shown by its Daily Official List, on June 27, 1977 was £9.30 (equivalent to \$16.00 based on the Noon Buying Rate on that date). The last reported sale price of the American Depositary Shares on the New York Stock Exchange on June 27, 1977 immediately prior to the determination of the public offering price of the American Depositary Shares offered hereby was \$16 $\frac{1}{4}$.

Market prices for the Ordinary Shares on the London Stock Exchange and in after-hours trading off such Exchange, in each case while the New York Stock Exchange is open, and the market prices for American Depositary Shares on the New York Stock Exchange closely parallel one another due to arbitrage between the two markets. The differences which exist between such prices are generally attributable to one or more of the following factors: (a) the U.S. Interest Equalization Tax in respect of the period prior to January 29, 1974, when it was reduced to zero; (b) different stamp duties or transfer taxes and different commissions payable in the two markets; (c) cable charges and the cost of issuance or surrender of American Depositary Receipts; and (d) fluctuations in the exchange rates between pounds sterling and U.S. dollars. In the above table, the U.S. dollar translations of the high and low middle market quotations for the Ordinary Shares on the London Stock Exchange and the sale prices of the American Depositary Shares on the New York Stock Exchange are not identical because of the factors referred to in the preceding sentence and a number of other factors, including: (x) the fact that highs and lows in one market may have been reached at a time when the other market was closed; (y) the fact that the highs and lows shown for the London Stock Exchange relate to middle market quotations rather than sale prices and are only for the time during which trading was being conducted on the London Stock Exchange without reference to after-hours trading in London for which no official quotations exist; and (z) differences between the Noon Buying Rates used in the translation of quotations on the London Stock Exchange and the exchange rates as between pounds sterling and U.S. dollars actually prevailing at the time of such quotations.

At the close of business on June 24, 1977 American Depositary Receipts representing 19,063,918 American Depositary Shares were outstanding.

THE BRITISH PETROLEUM COMPANY CONSOLIDATED

The consolidated statement of income in pounds sterling of The British Petroleum Company Limited and subsidiary companies for the five years ended December 31, 1976 has been examined by Whinney Murray & Co., independent auditors, whose report thereon appears elsewhere in this Prospectus. As stated in that report, there are certain differences between the accounting principles generally accepted in the United Kingdom and followed by BP and those generally accepted in the United States. The estimated adjustments which would arise from the application of the latter materially affecting the determination of net income are set forth in notes (a) and (b) to the BP Group Consolidated Statement of Income. Under United States generally accepted accounting principles, the profit on disposal of interests during 1974 and 1975 referred to in Notes E and F would have been reflected in income before extra-

	£ million, except per share amounts				
	Years ended December 31				
	1972	1973	1974	1975	1976
Sales proceeds—Note D	3,431.2	4,511.9	9,305.6	9,536.7	12,857.0
Deduct: customs duties and sales taxes	1,147.4	1,359.7	1,495.5	1,755.3	2,275.9
Net sales proceeds—Note T	2,283.8	3,152.2	7,810.1	7,781.4	10,581.1
Dividends and interest from associated companies—Note D	9.6	8.4	12.3	14.5	14.4
Other interest, royalties and miscellaneous income—Notes C and D	41.4	85.8	161.4	163.6	173.9
Net sales proceeds and other income	2,334.8	3,246.4	7,983.8	7,959.5	10,769.4
Cost of oil, ocean freight, refining and chemical manufacturing—Notes D and G	1,000.8	1,373.6	4,798.2	5,420.2	7,634.2
Distribution, selling, administrative and other expenses (includes back service pension charge—1973 £25m., 1974 £54.3m.—Note M)	436.6	548.7	670.8	719.4	909.7
Depreciation and amounts provided re exploration expenditure in non-proven areas	121.0	135.8	163.6	193.5	265.9
Interest and financing costs	62.0	79.8	111.4	149.7	233.0
Less capitalized—Note K	(16.4)	(21.7)	(32.1)	(46.6)	(57.0)
Operating and other costs	1,604.0	2,116.2	5,711.9	6,436.2	8,985.8
Income before taxes and extraordinary items	730.8	1,130.2	2,271.9	1,523.3	1,783.6
Taxes on income—Note O	669.4	824.8	1,770.8	1,374.3	1,597.7
Income applicable to minority interests	2.0	9.9	25.3	4.1	6.1
Income before extraordinary items	59.4	295.5	475.8	144.9	179.8
Extraordinary items:					
Profit on sale of production interests and properties—Notes E and F	1.9	308.0	11.6	21.3	—
Net income	61.3	603.5	487.4	166.2	179.8
Dividend requirements on preference stock	1.0	0.7	0.7	0.7	0.7
Net income applicable to ordinary stock units	60.3	602.8	486.7	165.5	179.1
Per ordinary stock unit—Note S					
Income before extraordinary items	15.2p	76.3p	123.0p	37.3p	46.4p
Extraordinary items	0.5p	79.8p	3.1p	5.5p	—
Net income	15.7p	156.1p	126.1p	42.8p	46.4p
Cash dividends declared—gross—Note P	5.000p	—	—	—	—
Cash dividends declared—net—Note P	10.950p	15.170p	16.860p	17.990p	19.789p
Average number outstanding of £1 ordinary stock units (in millions)	385	386	386	386	386
Approximate net income applicable to ordinary stock units as adjusted to accord with U.S. generally accepted accounting principles (notes (a) and (b))	18.3	602.5	483.1	55.5	53.1
Per ordinary stock unit as so adjusted (notes (a) and (b))	4.8p	156.0p	125.1p	14.4p	13.8p

The Notes to the BP Group's Financial Statements are an integral part of this Statement.

LIMITED AND SUBSIDIARY COMPANIES **STATEMENT OF INCOME**

ordinary items in these years, while advance corporation tax of £70.9 million (\$121 million) credited to income in 1976 as set forth in Note O would have been treated as an extraordinary item. This statement should be read in conjunction with the BP Group's Financial Statements and Notes included elsewhere in this Prospectus.

This statement is expressed in U.S. dollars at the December 31, 1976 Noon Buying Rate of £1 = \$1.70 for convenience only and should not be construed as a representation that the amounts of the pound sterling accounts represent, or have been or could be converted into, U.S. dollars at this or any other rate. The Noon Buying Rate on June 24, 1977 was £1 = \$1.72. See the third paragraph on page 2 of this Prospectus.

	\$ million, except per share amounts, translated as stated above				
	Years ended December 31				
	1972	1973	1974	1975	1976
Sales proceeds—Note D	5,833	7,670	15,818	16,212	21,857
Deduct: customs duties and sales taxes	1,950	2,312	2,541	2,984	3,869
Net sales proceeds—Note T	3,883	5,358	13,277	13,228	17,988
Dividends and interest from associated companies—Note D	16	14	21	25	24
Other interest, royalties and miscellaneous income—Notes C and D	71	146	275	278	296
Net sales proceeds and other income	3,970	5,518	13,573	13,531	18,308
Cost of oil, ocean freight, refining and chemical manufacturing—Notes D and G	1,702	2,334	8,157	9,214	12,978
Distribution, selling, administrative and other expenses (includes back service pension charge—1973 \$42m., 1974 \$92m.—Note M)	743	933	1,141	1,224	1,547
Depreciation and amounts provided re exploration expenditure in non-proven areas	206	231	279	329	452
Interest and financing costs	104	136	188	254	396
Less capitalized—Note K	(28)	(37)	(54)	(79)	(97)
Operating and other costs	2,727	3,597	9,711	10,942	15,276
Income before taxes and extraordinary items	1,243	1,921	3,862	2,589	3,032
Taxes on income—Note O	1,140	1,403	3,010	2,336	2,716
Income applicable to minority interests	3	17	43	7	10
Income before extraordinary items	100	501	809	246	306
Extraordinary items:					
Profit on sale of production interests and properties—Notes E and F	3	524	19	36	—
Net income	103	1,025	828	282	306
Dividend requirements on preference stock	2	1	1	1	1
Net income applicable to ordinary stock units	101	1,024	827	281	305
Per ordinary stock unit—Note S					
Income before extraordinary items	\$0.26	\$1.30	\$2.09	\$0.64	\$0.79
Extraordinary items	0.01	1.35	0.05	0.09	—
Net income	\$0.27	\$2.65	\$2.14	\$0.73	\$0.79
Cash dividends declared—gross—Note P	\$0.09	—	—	—	—
Cash dividends declared—net—Note P	\$0.19	\$0.26	\$0.29	\$0.31	\$0.34
Average number outstanding of £1 ordinary stock units (in millions)	385	386	386	386	386
Approximate net income applicable to ordinary stock units as adjusted to accord with U.S. generally accepted accounting principles (notes (a) and (b))	30	1,023	821	94	91
Per ordinary stock unit as so adjusted (notes (a) and (b))	\$0.08	\$2.65	\$2.13	\$0.24	\$0.23

The Notes to the BP Group's Financial Statements are an integral part of this Statement.

(a) The following are the estimated material adjustments to net income of the BP Group which would be required if generally accepted accounting principles in the United States had been applied instead of those generally accepted in the United Kingdom.

	Years ended December 31				
	1972	1973	1974	1975	1976
	(£ million, except per share amounts)				
Net income as reported	61.3	603.5	487.4	166.2	179.8
Back service pension charge—Note M	—	23.7	50.4	—	—
Currency fluctuations—note (b)	(42.0)	(11.0)	(15.0)	(110.0)	(126.0)
Deferred tax—Note A	—	(13.0)	(39.0)	—	—
Approximate net income as adjusted to accord with U.S. generally accepted accounting principles ..	19.3	603.2	483.8	56.2	53.8
Dividend requirements on preference stock	1.0	0.7	0.7	0.7	0.7
Approximate net income applicable to ordinary stock units as adjusted to accord with U.S. generally accepted accounting principles	18.3	602.5	483.1	55.5	53.1
Per ordinary stock unit	4.8p	156.0p	125.1p	14.4p	13.8p

	Years ended December 31				
	1972	1973	1974	1975	1976
	(\$ million, except per share amounts)				
Net income as reported	103	1,025	828	282	306
Back service pension charge—Note M	—	40	86	—	—
Currency fluctuations—note (b)	(71)	(19)	(26)	(187)	(214)
Deferred tax—Note A	—	(22)	(66)	—	—
Approximate net income as adjusted to accord with U.S. generally accepted accounting principles ..	32	1,024	822	95	92
Dividend requirements on preference stock	2	1	1	1	1
Approximate net income applicable to ordinary stock units as adjusted to accord with U.S. generally accepted accounting principles	30	1,023	821	94	91
Per ordinary stock unit	\$0.08	\$2.65	\$2.13	\$0.24	\$0.23

(b) In accordance with accounting principles generally accepted in the United Kingdom, all assets and liabilities in currencies other than sterling are converted into sterling at the applicable year-end rates of exchange. BP considers that this accounting principle results in a fair statement of the net income of the BP Group, especially as non-sterling borrowing is mainly related to borrowing by BP Group companies in respect of assets and trading activities which will generate the non-sterling currency necessary to effect repayment. Specifically it is expected that the U.S. dedicated financing for TAPS will be repaid out of U.S. dollar revenues generated in the United States. For information concerning the manner in which this accounting principle is reflected in the Consolidated Statement of Earned Surplus, see Note V of Notes to the BP Group's Financial Statements.

U.S. generally accepted accounting principles require that non-monetary balance sheet items in currencies other than sterling be translated at historical exchange rates and that monetary items be adjusted to applicable year-end rates, with the adjustment taken to income. Had the BP Group followed U.S. generally accepted accounting principles, it is estimated that the approximate effect on net income for each of the five years ended December 31, 1976 would have been as follows:

	Years ended December 31				
	1972	1973	1974	1975	1976
	(£ million)				
Charge to income re currency fluctuations:					
U.S. dollar dedicated finance debts	16	3	(2)	30	75
Other finance debts and other items	36	26	41	99	137
	52	29	39	129	212
Estimated reduction in charge for depreciation	(10)	(18)	(24)	(28)	(39)
Effect on inventory valuations	—	—	—	9	(47)
Approximate decrease to net income	42	11	15	110	126

	Years ended December 31				
	1972	1973	1974	1975	1976
	(\$ million)				
Charge to income re currency fluctuations:					
U.S. dollar dedicated finance debts	27	5	(3)	51	127
Other finance debts and other items	61	44	70	168	233
	88	49	67	219	360
Estimated reduction in charge for depreciation	(17)	(30)	(41)	(47)	(66)
Effect on inventory valuations	—	—	—	15	(80)
Approximate decrease to net income	71	19	26	187	214

BP MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE CONSOLIDATED STATEMENT OF INCOME

1973, 1974 and 1975

The primary factor affecting net sales proceeds, cost of oil and income before extraordinary items in the years 1973, 1974 and 1975 was the series of increases in the cost of crude oil to the BP Group in common with the rest of the oil industry. These increases resulted from increased taxation and royalties and higher prices for purchased crude oil imposed by the members of the Organization of Petroleum Exporting Countries ("OPEC") from which the BP Group was obtaining almost all its supplies of crude oil. In addition, there was increased participation in, and nationalization of, the oil industry's, including the BP Group's, interests in concessions by the OPEC members during these years. As a result the average cost of crude oil (including overseas taxation in production areas) to the BP Group increased from about \$1.60 per barrel at the beginning of 1973 to about \$3.50 per barrel at the end of 1973, \$10.50 per barrel at the end of 1974 and \$11.50 per barrel during the last quarter of 1975. The cost of oil in terms of pounds sterling per barrel more than quadrupled during 1974 as compared with 1973 and increased by an additional 22% in 1975 as compared with 1974. The volume of crude oil produced by the BP Group for its own account and purchased from OPEC members decreased by approximately 7% in 1974 from 1973 and a further approximately 23% in 1975.

As the cost of crude oil increased, the proceeds from sales of crude oil and refined products also increased, but not always at the same time or in the same amount. During the early part of 1974 market prices rapidly reflected cost increases as demand increased in response to the prospect of limited and uncertain supplies. As a result net sales proceeds increased dramatically and net income reached record levels, particularly in the first quarter when the BP Group benefited from a non-recurring inventory profit estimated at £175 million. (However, the cost to the BP Group to replace such inventories during the remainder of the year required an additional investment of about £500 million.) As the year progressed, however, the increased cost of crude oil, coupled with the onset of a worldwide recession, led to a decline in the demand for oil products for the year of about 3% in the non-communist world and over 6% in Western Europe. In consequence the results for the fourth quarter of 1974 showed a marked decline compared with the earlier three quarters in the year. By year end the increase in income before extraordinary items from 1973 could be attributed almost entirely to the non-recurring inventory profit mentioned above.

In 1975 the continuing recession and fall in demand for oil products, particularly in Western Europe, led to a further decline of about 18% in the volume of crude oil and refined products sold by the BP Group as compared with 1974 and to substantial worldwide surpluses of crude oil and tankers and excess refining capacity, particularly in Western Europe. Nevertheless, net sales proceeds of £7,781 million for 1975 were virtually the same as those for 1974 because of some overall improvement in the market prices which the BP Group was able to obtain for its products, together with translation gains arising from sales in non-sterling currencies. During 1975 the pound sterling depreciated against most other currencies, particularly the U.S. dollar, the exchange rate being £1 = \$2.35 at the beginning of 1975 and £1 = \$2.02 at the end of the year. However, margins on product sales for 1975 remained at the low level experienced during the last quarter of 1974.

Distribution, selling, administrative and other expenses increased in 1974 and in 1975 largely because of worldwide inflation although in 1974 the charge for back service pension obligations discussed in Note M of Notes to the BP Group's Financial Statements was also a significant factor. Depreciation and amounts provided for exploration expenditure in non-proven areas increased by £28 million in 1974 and by £30 million in 1975 mainly as a result of greater exploration activity and increased investment in properties and operating assets. Interest and financing costs as well as capitalized interest increased in 1974 largely as a result of higher interest rates (which had a substantial effect on interest income in that year as well) but in part due to the financing of the development of the Forties Field and in 1975 primarily because of substantial borrowings to finance the BP Group's interest in the Trans Alaska Pipeline System. The increase in taxes on income in 1974 was largely attributable to increases in taxes imposed by OPEC members on oil produced by the BP Group for its own account whereas the decline in taxes on income in 1975 mainly resulted from the decline in the total volume of crude oil produced by the BP Group for its own account in, and purchased from, OPEC members. The changes in taxes on income

in both years also reflected changes in the proportion of crude oil produced by the BP Group for its own account and that purchased from OPEC members.

1976 As Compared With 1975

The economic recovery which began in the last months of 1975 continued into 1976 but its momentum slackened in the second half of that year. The total volume of crude oil produced by the BP Group for its own account and purchased from OPEC members was about the same in 1976 as it had been in 1975. The total volume of sales of crude oil and refined products by the BP Group was also approximately the same in both those years although total sales of refined products rose by 9.7% while sales of crude oil fell by 7.3%. Moreover, neither the cost of crude oil from OPEC countries nor the prices received by the BP Group on sales of crude oil and refined products increased substantially during 1976 in terms of U.S. dollars, the currency in which crude oil is priced by OPEC and in which the BP Group makes nearly all its sales of crude oil and most of its bulk sales of refined products. However, because of the very substantial decline during 1976 in the exchange rate for the pound sterling against other currencies, particularly the U.S. dollar, which was £1=\$2.02 at the beginning of the year and £1=\$1.70 at the end of the year and reached a low of £1=\$1.57 in October 1976, net sales proceeds increased by about 36%, and the cost of oil in terms of pounds sterling per barrel increased by about 29%, in 1976 as compared with 1975. In 1976 net sales proceeds increased more rapidly than the cost of oil primarily as a result of the first full year of production from the Forties Field.

Each of the other principal items in the Consolidated Statement of Income was substantially affected by the decline in the value of the pound sterling against other currencies. Distribution, selling, administrative and other expenses were also affected materially by continuing inflation; depreciation and exploration expenditures by depreciation attributable to the BP Group's operating assets in the Forties Field which had commenced production late in 1975; and interest and financing costs as well as capitalized interest by increased borrowings to finance the BP Group's interest in TAPS. The increase in taxes on income during 1976 is mainly a result of United Kingdom taxation relating to Forties Field production.

Effect of Currency Fluctuations

With the decision of the majority of members of OPEC to seek payment for crude oil in U.S. dollars, the BP Group in common with the rest of the oil industry has increasingly become a dollar trading enterprise. Most payments to producer governments and purchase and sale transactions with other major oil companies for crude oil and refined products are effected in U.S. dollars, giving rise to no currency differences. Product sales by BP Group marketing companies worldwide are made in the appropriate currency of the country concerned. This, however, gives rise to no more currency risk than that to which multinational companies in general are exposed.

The BP Group borrows in what it considers to be the appropriate currency for particular capital projects. Usually this is the currency of the country in which the particular project is planned so far as the cost is not covered by locally generated funds. For example, because U.S. dollar receipts will be generated from the BP Group's involvement in TAPS, the borrowings to finance the BP Group's share of the cost of TAPS have almost entirely been in U.S. dollars.

Borrowings to finance working capital are usually either in U.S. dollars or sterling in accordance with the currency required for payment for crude oil.

Dividends declared are paid in sterling. See "Description of Ordinary Shares and American Depositary Receipts—American Depositary Receipts—Dividends, Other Distributions and Rights" for information concerning the conversion of dividends paid in sterling into U.S. dollars for the account of holders of American Depositary Receipts.

The BP Group's accounting policy with regard to currency fluctuations is described in Note A of Notes to the BP Group's Financial Statements.

See also "Business and Property—Crude Oil—Crude Oil Sources" for information concerning crude oil produced by the BP Group for its own account and purchased by it from governments of producing countries and others, "Business and Property—Sales and Marketing" for information concerning sales by the BP Group of crude oil and refined products, and "Business and Property—Chemicals" for information concerning the financial results of the BP Group's chemical activities. Reference is also made to "Business and Property—Certain Factors Which May Affect Business".

RESULTS OF THE BP GROUP FOR THE THREE MONTHS ENDED MARCH 31, 1977

The following table sets forth the results of the BP Group for the three months ended March 31, 1976 and March 31, 1977. This table is expressed in U.S. dollars at the December 31, 1976 Noon Buying Rate of £1 = \$1.70 for convenience only and should not be construed as a representation that the amounts of the pound sterling accounts represent, or have been or could be converted into, U.S. dollars at this or any other rate. The Noon Buying Rate on June 27, 1977 was £1 = \$1.72. Such results are unaudited but, in the opinion of BP, all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of the results for these periods have been included.

	£ million, except per share amounts		\$ million, except per share amounts	
	Three months ended March 31 (unaudited)		Three months ended March 31 (unaudited)	
	1976	1977	1976	1977
Sales proceeds	2,795.5	3,610.4	4,752	6,137
Deduct: customs duties and sales taxes	457.9	616.0	778	1,047
Net sales proceeds	2,337.6	2,994.4	3,974	5,090
Dividends and interest from associated companies	2.7	2.9	4	5
Other interest, royalties and miscellaneous income	38.0	56.3	65	96
Net sales proceeds and other income	2,378.3	3,053.6	4,043	5,191
Cost of oil, ocean freight, refining and chemical manufacturing	1,724.9	2,083.4	2,932	3,542
Distribution, selling, administrative and other expenses	196.5	249.1	334	423
Depreciation and amounts provided re exploration expenditure in non-proven areas	49.2	66.8	84	114
Interest and financing costs	46.8	65.5	80	111
Less capitalized	(11.0)	(17.7)	(19)	(30)
Operating and other costs	2,006.4	2,447.1	3,411	4,160
Income before taxes	371.9	606.5	632	1,031
Taxes on income (note (a))	349.8	513.1	595	872
Income applicable to minority interests	1.9	2.9	3	5
Net income	20.2	90.5	34	154
Dividend requirements on preference stock	0.2	0.2	—	—
Net income applicable to ordinary stock units	20.0	90.3	34	154
Per ordinary stock unit:				
Net income	5.2p	23.4p	\$ 0.09	\$ 0.40
Average number outstanding of £1 ordinary stock units (in millions)	386	386	386	386
Approximate net income (loss) applicable to ordinary stock units as adjusted to accord with U.S. generally accepted accounting principles (note (b))	(62.0)	95.3	(105)	163
Per ordinary stock unit as so adjusted (note (b))	(16.1p)	24.7p	(\$ 0.27)	\$ 0.42

(a) Taxes on income consist of the following:

	Three months ended March 31 (unaudited)	
	1976	1977
	(£ million)	
Overseas—production taxes	322.8	326.7
—other	19.0	17.8
United Kingdom (see below)	8.0	168.6
	<u>349.8</u>	<u>513.1</u>
The charge for U.K. taxation comprises:		
Corporation tax	175.5	112.0
Overseas tax relief	(157.5)	(29.0)
	<u>18.0</u>	<u>83.0</u>
Advance corporation tax	(17.2)	—
	<u>0.8</u>	<u>83.0</u>
Petroleum revenue tax	7.2	85.6
	<u>8.0</u>	<u>168.6</u>

The charges for the three months ended March 31, 1976 and 1977 include £24.2 million and £58.6 million, respectively, in respect of deferred taxation.

(b) The following are the estimated material adjustments to net income of the BP Group which would be required if generally accepted accounting principles in the United States had been applied instead of those generally accepted in the United Kingdom.

	Three months ended March 31 (unaudited)			
	1976	1977	1976	1977
	(£ million, except per share amounts)		(\$ million, except per share amounts)	
Net income as above	20.2	90.5	34	154
Currency fluctuations	(82.0)	5.0	(139)	9
Approximate net income (loss) as adjusted to accord with U.S. generally accepted accounting principles	(61.8)	95.5	(105)	163
Dividend requirements on preference stock	0.2	0.2	—	—
Approximate net income (loss) applicable to ordinary stock units as adjusted to ac- cord with U.S. generally accepted account- ing principles	(62.0)	95.3	(105)	163
Per ordinary stock unit	(16.1p)	24.7p	(\$0.27)	\$0.42

For information concerning the differences in the treatment of currency fluctuations under accounting principles generally accepted in the United Kingdom and those generally accepted in the United States, see note (b) to The British Petroleum Company Limited and Subsidiary Companies Consolidated Statement of Income. Had the BP Group followed U.S. generally accepted accounting principles with respect to currency fluctuations, it is estimated that the approximate effect on net income for the three month periods ended March 31, 1976 and 1977, respectively, would have been as follows:

	Three months ended March 31 (unaudited)			
	1976	1977	1976	1977
	(£ million)		(\$ million)	
Charge to income re currency fluctuations:				
U.S. dollar dedicated finance debts	22	(8)	37	(14)
Other finance debts and other items	43	(17)	73	(29)
	<u>65</u>	<u>(25)</u>	<u>110</u>	<u>(43)</u>
Estimated reduction in charge for depreciation ..	(8)	(10)	(14)	(17)
Effect on inventory valuations	25	30	43	51
	<u>82</u>	<u>(5)</u>	<u>139</u>	<u>(9)</u>
Approximate decrease (increase) to net income				

The net income of the BP Group for the three months ended March 31, 1977 was £90.5 million. The comparable figure for the fourth quarter of 1976 was £55.9 million and for the first quarter of 1976 was £20.2 million.

Compared with the first quarter of 1976, in the first quarter of 1977 the total volume of sales increased by 30,000 barrels per day, an increase of 0.7%. Within the total, sales of crude oil were down by 6.2% and sales of refined products and chemicals were higher by 6.3%.

The greatly improved income before taxes in the first quarter of 1977 was largely attributable to the continuing increase in production from the Forties Field which averaged 278,000 barrels per day in such quarter and to a substantial inventory profit following the rise in the cost of crude oil from OPEC countries effective January 1, 1977. During the second quarter of 1977 a riser was replaced on one of the platforms in the Forties Field, and production had to be reduced while the work proceeded. As a result, production from the Forties Field in the second quarter is expected to average about 400,000 barrels per day. Thereafter production is expected to be increased in the third and fourth quarters of 1977 to a plateau of 500,000 barrels per day by the end of the year. See "Business and Property—Crude Oil—United Kingdom Continental Shelf and Other North Sea Interests—Forties Field". The inventory profit for the first quarter of 1977 is estimated at £25 million after tax, but such profit will be considerably less in the second quarter.

In contrast with the first quarter of 1977 when sales of refined products were made mainly from inventory, net income in the second quarter will be adversely affected by the two-tier pricing system described under "Business and Property—Crude Oil—Middle East and Nigeria" and the failure to recover from the market the full increases in the cost of OPEC crude oil to the BP Group. See also "Business and Property—Sales and Marketing".

Cost of oil, ocean freight, refining and chemical manufacturing for the first quarter of 1977 increased as compared with the same period of 1976 as a result not only of higher prices for OPEC crude oil (see "Business and Property—Crude Oil"), but also the depreciation of the pound sterling against other currencies, particularly the U.S. dollar. The exchange rate for the pound sterling against the U.S. dollar averaged approximately £1=\$2.00 in the first quarter of 1976 as compared with £1=\$1.71 in the first quarter of 1977. The increase in distribution, selling, administrative and other expenses in the first quarter of 1977 as compared with the same period of 1976 was due to continuing worldwide inflation as well as the depreciation of the pound sterling. Depreciation and exploration expenditure, interest and financing costs, capitalized interest and taxes on income increased primarily for the same reasons as those set forth above under "BP Management's Discussion and Analysis of the Consolidated Statement of Income—1976 As Compared With 1975".

The results for the three months ended March 31, 1977 are not necessarily indicative of the results that will be achieved for the entire year.

Reference is made to Note CC of Notes to the BP Group's Financial Statements.

For information concerning the results of Sohio for the three months ended March 31, 1977, see "Operating Results of Sohio for the Three Months Ended March 31, 1977" on page F-41.

BUSINESS AND PROPERTY

The following is a description of the business and property of the BP Group. Information with respect to the BP Group's interests in the United States, which consist primarily of its interest in Sohio and its interest in TAPS, is set forth under "Interests in the United States".

Crude Oil

Since 1971, and particularly since the Middle East conflict of 1973, the members of OPEC have taken a number of actions which have created substantial uncertainties as to the future availability of crude oil to the international oil companies, including BP, from OPEC members and which have substantially increased the cost of such oil. These actions have included increased government participation in, and nationalization of, concessions, unilateral increases in prices and royalty rates, direct sales of crude oil by OPEC members to purchasers other than the international oil companies, increased taxes payable to OPEC members, embargoes and restrictions on production. Primarily as a result of such increased government participation in, and nationalization of, concessions in OPEC countries in which the BP Group had interests, the net proved reserves of crude oil (including condensate and natural gas liquids) owned by the BP Group through its interests in such concessions have been reduced from 66,057 million barrels at December 31, 1971 to 3,378 million barrels at December 31, 1976, and the average cost to the BP Group of crude oil (including overseas taxation in production areas) produced for its own account in, or purchased from, OPEC countries increased from approximately \$1.60 per barrel at the beginning of 1973 to approximately \$11.50 per barrel at the end of 1976 and approximately \$12.60 per barrel in the first quarter of 1977. Because of increased direct sales of crude oil by OPEC members, coupled with a decline in oil demand in Western Europe, the total amount of crude oil which the BP Group has produced for its own account in or purchased from OPEC countries has declined in each year since 1973.

As a result of these developments, the BP Group's exploration and development activities outside of OPEC countries, particularly on the United Kingdom Continental Shelf and, directly and through Sohio, in Alaska, have become increasingly important. Approximately one-third of the BP Group's total proved reserves of crude oil (including condensate and natural gas liquids) at December 31, 1976 were located on the United Kingdom Continental Shelf. BP expects that approximately 14% of the crude oil produced for its own account or purchased by it from others during 1977 will be produced from such reserves. Commercial production from Sohio's Prudhoe Bay Field reserves is expected to commence in the third quarter of this year. When such production reaches 450,000 net barrels per day and is sustained for 90 days, and as a result the BP Group's interest in Sohio exceeds 50%, the BP Group's proved reserves of crude oil in non-OPEC countries are expected to be approximately 55% of its total proved reserves, and non-OPEC sources are expected to account for approximately 21% of the daily average number of barrels of crude oil produced by the BP Group for its own account or purchased by it from others. See "Interests in the United States—Interest in Sohio".

The table below sets forth estimates of the BP Group's proved reserves of crude oil (including condensate and natural gas liquids) as of December 31, 1976. For information with respect to the BP Group's right to purchase crude oil, see "Middle East and Nigeria". The figures in the table include only the BP Group's interests in the various reservoirs and have been calculated on a basis which differs from that used in previous U.S. presentations as a result of new regulations of the Securities and Exchange Commission adopted in June 1976. The amounts shown as gross reserves include crude oil which may be taken by others as royalties in kind. The amounts shown as net reserves exclude such crude oil.

ESTIMATED PROVED RESERVES OF CRUDE OIL (1)

	Developed				Undeveloped		Total	
	Producing		Non-Producing		Gross	Net	Gross	Net
	Gross	Net	Gross	Net				
	(millions of barrels)							
Abu Dhabi(2)	1,634	1,307	333	266	794	635	2,761	2,208
United Kingdom(3)	1,274	1,071	—	—	825	722	2,049	1,793
Nigeria	716	573	360	288	386	309	1,462	1,170
Canada	60	38	—	—	—	—	60	38
Australia and New Zealand ...	7	6	3	3	113	102	123	111
	<u>3,641</u>	<u>2,995</u>	<u>696</u>	<u>557</u>	<u>2,118</u>	<u>1,768</u>	<u>6,455</u>	<u>5,320</u>

(1) For definitions of "proved reserves", "proved developed reserves", "producing reserves", "non-producing reserves" and "proved undeveloped reserves", see "Certain Definitions".

(2) Excludes an estimated 1,525 gross (1,220 net) million barrels of reserves which are expected to be obtained through the application of pressure maintenance projects.

(3) Includes an estimated 643 gross (563 net) million barrels in proved developed producing reserves and 262 gross (229 net) million barrels in proved undeveloped reserves which are expected to be obtained through the application of an integrated pressure maintenance project currently in operation in the Forties Field, but excludes an estimated 298 gross (261 net) million barrels of reserves expected to be obtained through the application of such projects in other fields.

The only crude oil reserve estimate filed with, or included in any reports to, United States federal or foreign governmental authorities or agencies by the BP Group since January 1, 1976 was an estimate of the crude oil reserves of the Forties Field filed with United Kingdom Department of Energy. Such estimate was the same as that included in the total reserve figures set forth above for the United Kingdom.

The following table shows by source, for the periods indicated, the amounts of crude oil (including condensate and natural gas liquids) either produced by the BP Group for its own account (including crude oil produced by the BP Group subject to options on the part of others to take royalties in kind or in cash, which royalties were in fact taken in cash) or purchased by it from governments of producing countries and others.

CRUDE OIL SOURCES

	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>
	(thousands of barrels per day)				
Iran					
Produced	1,780	470	—	—	—
Purchased	—	1,510	2,000	1,700	1,760
Kuwait					
Produced	1,480	1,320	520	80	—
Purchased	—	—	520	480	480
Nigeria					
Produced	580	460	350	270	280
Purchased	—	160	310	210	140
Abu Dhabi					
Produced	420	300	160	150	150
Purchased	—	100	180	170	130
Iraq					
Produced	240	170	210	140	—
Purchased	—	50	30	—	—
United Kingdom					
Produced	—	—	—	20	180
Purchased	—	—	—	—	—
Other					
Produced	100	80	50	40	30
Purchased	240	160	110	180	390
Total	<u>4,840</u>	<u>4,780</u>	<u>4,440</u>	<u>3,440</u>	<u>3,540</u>

The BP Group has estimated for internal planning purposes that the total quantity of crude oil (including condensate and natural gas liquids) available to it in 1977, whether produced by it for its own account or purchased by it from others, will be substantially the same as in 1976. In 1977 the BP Group expects to produce an average of somewhat more than 400,000 barrels per day in the United Kingdom and to purchase about 80,000 barrels per day from the government of Iraq, but to purchase correspondingly smaller amounts from governments of other producing countries and other sources.

UNITED KINGDOM CONTINENTAL SHELF AND OTHER NORTH SEA INTERESTS

The BP Group's total capital expenditures on the United Kingdom Continental Shelf from 1963 through 1976 have exceeded £945 million and in 1976 its development and production expenditures on the United Kingdom Continental Shelf amounted to £224 million (equivalent to \$1,607 million and \$381 million, respectively, at the December 31, 1976 Noon Buying Rate of £1 = \$1.70).

U.K. Licenses. On the United Kingdom Continental Shelf, including the licenses covering the fields described below, the BP Group holds 13 licenses covering 32 blocks with a total area of 2,295 square miles and, together with other companies, interests in an additional 16 licenses covering 32 blocks with a total area of 2,119 square miles (834 net square miles). Early in 1977 the BP Group, together with The British National Oil Corporation ("BNOC") as a 51% participant in all cases and with other companies in some cases, was awarded additional licenses on the United Kingdom Continental Shelf covering 13 blocks with a total area of 984 square miles (432 net square miles) subject to

reaching an operating agreement with BNOC and agreements with the United Kingdom Department of Energy on work programs. BNOC, a corporation wholly owned by the United Kingdom Government, has the power to engage in all phases of the petroleum industry.

Licenses on the United Kingdom Continental Shelf are awarded on the basis of demonstrated ability to explore and develop oil and gas fields, financial capacity and contribution to the United Kingdom economy. Generally bonus payments are not required although work programs for exploration and drilling are agreed upon. Licenses may be forfeited for, among other things, failure to fulfill such programs.

Forties Field. Production from the Forties Field in the United Kingdom sector of the North Sea began in September 1975. Production during the first quarter of 1977 was from three offshore platforms and averaged 378,000 barrels per day. Production from a fourth platform began in April 1977. By the end of 1977 total production from the field is expected to increase to a plateau of approximately 500,000 barrels per day, a rate equivalent to approximately one-fourth of the United Kingdom's estimated daily 1977 crude oil requirements. The BP Group believes that the configuration of the field will permit this rate of production to be maintained for about three years and that it will decline thereafter. At the end of 1976 an integrated pressure maintenance project was implemented and during the first quarter of 1977 approximately 39,000 barrels of water per day were injected into the reservoir.

The Forties Field, which is almost entirely located in a licensed area some 110 miles east-northeast of Aberdeen, Scotland, in which the BP Group has a 100% interest, is estimated to contain remaining gross reserves of some 1.7 billion barrels of crude oil after production of 103 million barrels through March 31, 1977. A 105-mile, 32-inch pipeline links the field to a landfall north of Aberdeen and from there a 129-mile, 36-inch pipeline connects the field to a BP Group refinery located near Edinburgh. See Note 1 of Notes to the BP Group's Financial Statements for a description of the financing arrangements for the development of the Forties Field.

Ninian Field. The BP Group is also developing, in conjunction with other companies, the Ninian Field in the United Kingdom sector of the North Sea. Although there has been no agreement among holders of interests in the field to operate it as a unit, the BP Group's share of gross crude oil reserves in this field is estimated to be about 160 million barrels, reflecting a one-seventh to one-fifth interest in the field. Production will take place from three platforms, the first of which was installed in May 1977; the second is scheduled for installation later this year or early next year and the third in 1979. Production drilling will commence in early 1978 and production is planned to average approximately 35,000 barrels per day in 1978 increasing to approximately 320,000 barrels per day in 1981. A 110-mile pipeline to transport the oil from the field to a sea loading terminal in the Shetland Islands has been completed. Construction of the terminal, which will also serve other North Sea oil fields, has begun, and it is scheduled to commence operations on a limited scale in 1978. The BP Group is responsible for the construction of both the pipeline and the terminal. The BP Group's share of the cost of the development of the field, the pipeline and the terminal through 1980 (excluding capitalized interest) is currently estimated at the equivalent of approximately \$340 million, of which the equivalent of approximately \$120 million had been expended through March 31, 1977.

Magnus Field. In 1974 the BP Group announced the discovery of an oil field, subsequently named the Magnus Field, which is located approximately 100 miles northeast of the Shetland Islands in the United Kingdom sector of the North Sea in a licensed area in which the BP Group has a 100% interest. The field is complex geologically and is in water with depths of about 600 feet. In April 1977 the BP Group announced that it expected to proceed with development of the field (probably by means of a single platform), which it then estimated to contain gross crude oil reserves of approximately 400 million barrels which might be expected to be produced at a peak rate of approximately 100,000 barrels per day beginning in the early 1980s.

Other Activities in the United Kingdom Sector of the North Sea. In 1974 the BP Group discovered the Andrew Field which lies partly in a licensed area in which the BP Group has a 100% interest. The BP Group is continuing to study whether or not this field can be developed commercially.

Since 1974 the BP Group has also encountered oil in six other exploration wells in the United Kingdom sector of the North Sea, four of which were joint wells with other companies. The accumulations are not expected to be large and will require further appraisal before any assessment of their commercial significance can be made. During 1976 the BP Group drilled or participated in partnership with others in the drilling of 14 gross exploration and appraisal wells (11.41 net wells) in the United Kingdom sector of the North Sea.

In addition, the BP Group is actively seeking to acquire interests in existing North Sea licenses on a "farm-in" basis. It has already acquired rights to earn interests in several licenses in the United Kingdom sector in return for reimbursing the sellers for portions of expenditures already made and agreeing to pay certain of the costs of drilling wells or to carry out work programs in the licensed areas.

Participation Agreement with the U.K. Government. United Kingdom Government policy has for some time been to achieve majority State participation in United Kingdom offshore commercial oil fields in such a way that the licensees are financially no worse off. On June 1, 1977 BP and two of its subsidiaries entered into a Participation Agreement with the United Kingdom Secretary of State for Energy and BNOC in implementation of the Memorandum of Principles initialled by such parties on June 28, 1976 in pursuance of that policy. The principal terms of the Participation Agreement and related agreements provide that:

(a) BNOC is to acquire from the BP Group, and hold in trust for the BP Group's benefit, 51% of the BP Group's interests in the production licenses for the Forties Field, the Ninian Field and any other offshore commercial oil fields lying in areas licensed on or before June 28, 1976 (whether such interests were held by the BP Group at that date or are acquired by it thereafter), subject to the right of the BP Group to utilize its interests, including interests assigned to BNOC, for financing purposes. The BP Group will remain the beneficial owner of the interests assigned and of any oil produced and will continue to be responsible for development and production costs and royalty and tax payments.

(b) BNOC is granted certain rights to obtain information with respect to each oil field in question and to acquire a vote in the relevant oil field committee or, in the absence of such a committee, to join with the BP Group management team concerned.

(c) BNOC is granted an option for the life of each commercial oil field to buy at international market prices up to 51% of the BP Group's crude oil derived from such field, after any Government royalty taken in kind has been deducted. BNOC is also granted an option to purchase on terms to be agreed 51% of certain natural gas liquids produced by the BP Group on the United Kingdom Continental Shelf.

(d) Pursuant to a crude oil cross-purchase arrangement:

(i) From January 1, 1979 through 1989, BNOC will be required to resell to the BP Group United Kingdom offshore crude oil of a quality comparable to that purchased from the BP Group pursuant to the option described in (c), subject to BNOC's option to retain crude oil so purchased in a quantity equal to up to 12% in 1979 and 1980, 16% in 1981 and 1982 and 12.75% in 1983 through 1989 of the total production from each field. In 1977 and 1978 all oil purchased pursuant to the option described in (c) is to be resold by BNOC to the BP Group and, for the years 1982 through 1989, BNOC is deemed to have exercised in full not only its option described in (c), but also its option to retain crude oil so purchased described in the preceding sentence.

(ii) From January 1, 1979 through 1989, the BP Group will be required to sell to BNOC a quantity of non-United Kingdom crude oil (based on Middle East crude qualities) having a value equal to that sold by BNOC to the BP Group pursuant to (i). (The quantities of oil required to be sold by BNOC to the BP Group may be reduced if the United Kingdom Secretary of State for Energy so directs BNOC in accordance with his statutory powers, in which case the BP Group may elect not to deliver to BNOC non-United Kingdom oil to the extent of such reduction.)

(e) The BP Group's United Kingdom refining and marketing company, BP Oil Limited, undertakes, through 1981, to train BNOC employees in refining, distribution and marketing

operations in the United Kingdom, to allow BNOC to be represented at meetings of its managers dealing with such operations, and to "seek to establish a long-term basis for co-operation" with BNOC in such operations.

The Board of Directors of BP is satisfied that these agreements reflect the Government's policy that participation should leave licensees financially no worse off, inasmuch as (i) the BP Group will remain the beneficial owner of the interests assigned to BNOC and of the oil produced therefrom, while continuing to be responsible for development and production costs, (ii) the crude oil cross-purchase arrangements are in general expected to provide for the availability to the BP Group of quantities of United Kingdom Continental Shelf crude oil which will be sufficient for the BP Group's projected requirements and (iii) purchases and sales of crude oil between the BP Group and BNOC are to be at international market prices.

The Petroleum and Submarine Pipe-Lines Act 1975 gives to the Secretary of State for Energy the authority to control the rate of development of United Kingdom oil fields. The Government has, however, stated that no delays will be imposed on the development of fields discovered before the end of 1975, and that no cuts will be made in production from such fields before 1982 or until four years from the start of production, whichever is the later. In addition, the Secretary of State for Energy has wide regulatory powers over the installation, use and tariffs of submarine pipelines and the construction or expansion of refining capacity in the United Kingdom.

Norwegian Sector of the North Sea. In the Norwegian sector of the North Sea a significant oil discovery was made on a block covered by a license in which the BP Group has a 57.5% interest which it acquired in June 1976. Two appraisal wells are scheduled for 1977 on this structure, one of which is now being drilled.

Other North Sea Interests. In the North Sea, outside the United Kingdom Continental Shelf, the BP Group increased its offshore drilling activity during 1976, participating in 10 gross exploration wells (3.03 net wells) in Norwegian, Dutch and German waters. During 1976 the BP Group also acquired interests in eight licenses covering a total area of 2,505 square miles (650 net square miles) in the Dutch sector of the North Sea.

MIDDLE EAST AND NIGERIA

The BP Group's only significant remaining equity interests in these areas are a 22½% interest in concessions in Nigeria which expire from 1990 to 2008 (with provisions for renewals) and 9½% and 14¾% interests, respectively, in onshore and offshore concessions in Abu Dhabi expiring in 2014 and 2018, respectively. At December 31, 1976 the net proved reserves covered by the BP Group's interests in these concessions aggregated 3,378 million barrels. The BP Group was informed by the government of Abu Dhabi in 1974 that it intended to nationalize the BP Group's remaining interest in that country. However, the BP Group has since been informed by the government that it does not intend to take such a step in the foreseeable future. Nevertheless, the Middle East and Nigeria collectively remain the BP Group's largest source of crude oil because of the high volume of purchases made by it from producing countries in these areas.

The BP Group has a 40% interest and Sohio has a 0.4% interest in a consortium of international oil companies which entered into an agreement with the Iranian government in 1973 obligating it to sell to the members of the consortium for a period of 20 years all oil produced in Iran from certain properties formerly operated by the consortium, except oil needed for internal consumption and certain specified quantities of oil (increasing from 200,000 barrels per day in 1973 to 1,500,000 barrels per day in 1981) to be exported by Iran. Under the agreement Iran is assured of receiving prices for its crude oil no less favorable than those received from two or more consortium members by any other oil producing country in the Gulf area. Talks took place in early 1976 between Iran and the consortium in respect of a possible modification of the 1973 agreement, and such talks are expected to be resumed later this year. The quantities of and price differentials for oil to be lifted by the members of the consortium and advances by them of capital for operations under the 1973 agreement (which advances were set by Iran in 1973 at 40% of the annual capital needed, but which have not been made since June 1975) are central issues in these continuing discussions. Of the BP Group's total crude oil produced and purchased in 1976, approximately 50% was purchased pursuant to the agreement with Iran.

The BP Group also purchases crude oil from the Kuwait government pursuant to an agreement between them entered into in 1975 providing for the sale to the BP Group of an average of approximately 450,000 barrels per day during the period from January 1, 1976 to March 31, 1980. In addition, the BP Group has a long-term purchase arrangement with the government of Nigeria pursuant to which the BP Group is to purchase approximately 150,000 barrels per day in 1977 and approximately 100,000 barrels per day in 1978 and subsequent years. The BP Group also has a contract with the government of Abu Dhabi to purchase approximately 88,000 barrels per day in 1977, one with the government of Iraq to purchase approximately 80,000 barrels per day in 1977 and one with the government of Qatar to purchase approximately 30,000 barrels per day in each of the five years ending June 30, 1981. Prices under these contracts are generally fixed quarterly based on prevailing OPEC prices.

At a meeting held in mid-December 1976, all OPEC members except Saudi Arabia and the United Arab Emirates (which include Abu Dhabi) decided to increase the price of their crude oil by approximately 10% on January 1, 1977 and by a further approximately 5% on July 1, 1977 so that their price for the marker crude oil would be increased to \$12.70 per barrel on January 1, 1977 and to \$13.30 per barrel on July 1, 1977. Saudi Arabia and the United Arab Emirates elected to increase the price of their crude oil by 5% with effect from January 1, 1977, bringing their price for the marker crude oil to \$12.09 per barrel. OPEC will reconsider its pricing policy for the second half of 1977 at a meeting to be held in Stockholm commencing on July 12, 1977. The BP Group is unable to predict the eventual outcome of the current two-tier price system. Because about 90% of the BP Group's OPEC crude oil comes from countries which increased their prices by 10%, the BP Group is at a substantial competitive disadvantage as compared with other major oil companies which obtain a lower percentage of their crude oil from such sources, and will continue to be so for as long as the present price system remains in effect.

Natural Gas

The table below sets forth estimates of the BP Group's proved natural gas reserves as of December 31, 1976. The figures in the table include only the BP Group's interests in the various reservoirs. The amounts shown as gross reserves include natural gas which can be taken by others as royalties in kind. The amounts shown as net reserves exclude such natural gas.

ESTIMATED PROVED RESERVES OF NATURAL GAS(1)

	Developed				Undeveloped		Total	
	Producing		Non-Producing					
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
	(billions of cubic feet)							
United Kingdom	1,184	1,036	—	—	282	247	1,466	1,283
Australia and New Zealand	171	154	59	53	3,857	3,424	4,087	3,631
Germany	71	71	34	34	114	114	219	219
Canada	438	280	203	130	106	68	747	478
Total	1,864	1,541	296	217	4,359	3,853	6,519	5,611

(1) For definitions of "proved reserves", "proved developed reserves", "producing reserves", "non-producing reserves" and "proved undeveloped reserves", see "Certain Definitions". Reserves of natural gas in Nigeria have not been included in the above table because commercial recoverability depends upon agreement with the Nigerian government and others upon the construction and operation of the gas liquefaction plant referred to below.

The BP Group's production of natural gas in 1976 averaged approximately 350 million cubic feet per day, primarily from its 100% interest in the West Sole Field in the North Sea, its interest in Canadian gas fields and its 37.5% interest in the Kapuni Field in New Zealand. Proceeds from sales of natural gas in 1976 were the equivalent of approximately \$46 million. The BP Group estimates that the amount of gas produced from its proved reserves in 1977 will be slightly greater than it was in 1976.

The BP Group has an 18.75% interest in the Maui natural gas field, in waters 23 miles west of New Zealand. This field is estimated to contain proved undeveloped reserves of approximately 6.1

trillion cubic feet of natural gas and 250 million barrels of natural gas liquids. The first offshore production platform was installed in January 1976, and production is expected to begin in late 1978.

The BP Group also has a 16.7% interest in five discoveries of natural gas made off the northwest coast of Australia. These discoveries are estimated to contain proved undeveloped reserves aggregating approximately 15 trillion cubic feet of natural gas. The BP Group and other parties having interests in the discoveries, in conjunction with the Australian government, are formulating plans to bring certain of these discoveries into production.

The BP Group has a 16 1/3 % interest in a company which has been formed to construct a liquified gas plant on Das Island, offshore Abu Dhabi. This plant, which has an input capacity of 550 million cubic feet per day of natural gas, commenced production in April 1977. The BP Group also has a 20% interest in a company which was recently formed to study the economic viability, and to develop plans for the construction and operation of, a gas liquefaction plant at Bonny, Nigeria with an input capacity of approximately one billion cubic feet per day of natural gas.

Transportation

Sea Transportation. At December 31, 1976 the BP Group and its associated companies outside the United States owned or had on bareboat charter a total of 78 ships aggregating about 7.6 million deadweight tons. At that date the BP Group and such associated companies also had under long-term charters (i.e., for more than one year) 63 ships aggregating about 8.1 million deadweight tons. The following table shows the changes that have taken place in the BP Group's fleet (which term as used herein includes ships owned or on bareboat charter or under long-term charters by associated companies outside the United States) over the past five years.

THE BP GROUP'S FLEET

As at December 31

	1972	1973	1974	1975	1976
Number of vessels owned or on bareboat charter:					
Up to 25,000 dwt	43	37	38	39	33
25,000 to 80,000 dwt	53	47	52	32	20
80,000 to 160,000 dwt	3	3	3	3	—
160,000 dwt and above	8	12	20	23	25
	<u>107</u>	<u>99</u>	<u>113</u>	<u>97</u>	<u>78</u>
In millions of deadweight tons	<u>5.3</u>	<u>5.9</u>	<u>8.1</u>	<u>8.0</u>	<u>7.6</u>
Number of vessels under long-term charter:					
Up to 25,000 dwt	62	44	25	17	9
25,000 to 80,000 dwt	90	78	17	21	17
80,000 to 160,000 dwt	22	19	11	6	9
160,000 dwt and above	30	34	33	31	28
	<u>204</u>	<u>175</u>	<u>86</u>	<u>75</u>	<u>63</u>
In millions of deadweight tons	<u>14.2</u>	<u>14.0</u>	<u>9.9</u>	<u>9.2</u>	<u>8.1</u>
Total number of vessels in the BP Group's fleet	<u>311</u>	<u>274</u>	<u>199</u>	<u>172</u>	<u>141</u>
Total in millions of deadweight tons	<u>19.5</u>	<u>19.9</u>	<u>18.0</u>	<u>17.2</u>	<u>15.7</u>

World tanker tonnage continued to exceed demand substantially in 1976, and at December 31, 1976 eight ships in the BP Group's fleet were laid up, one of which is a new very large crude

carrier due to commence service later this year and seven of which are older products carriers. One products carrier has since been sold and the others are expected to be. Additional reductions in the capacity of the BP Group's fleet resulted principally from slow steaming by its larger ships but also from some short-term chartering out of products carriers. All the larger ships in the BP Group's fleet are expected to continue to operate at less than full speeds throughout 1977. Charters of five products carriers and five medium size crude carriers will expire in 1977. Neither the BP Group nor any of its associated companies (except Sohio) has any new ships on order at the present time.

The BP Group and the Stolt-Nielsen Group have recently signed a letter of intent, subject to the approval of the Stolt-Nielsen shareholders and BP's Board of Directors, which provides for the BP Group's advancing \$50 million to Stolt Tankers and Terminals (Holdings) S.A. ("STT"), which advance may at the option of the BP Group be converted after January 1, 1978 into a 50% equity interest in STT. STT, the ship owning, trading and storage terminal company of the Stolt-Nielsen Group, owns or operates 27 chemical and vegetable oil tankers and has 12 additional such tankers on order ranging in size from 23,000 deadweight tons to 37,000 deadweight tons.

Pipelines. The BP Group has interests in many of the major crude oil and product pipeline systems in Western Europe which serve the BP Group's principal inland refining and marketing areas. Such European pipelines include the South-European Pipeline (6%), the Trans-Alpine Pipeline (11%), the Adria-Wien Pipeline (7.5%), the Nord-West Pipeline (25%), the Rotterdam-Antwerp Pipeline (28%) and the Rhein-Main Pipeline (31%).

Refining

At December 31, 1976 the BP Group had 14 wholly-owned refineries and majority holdings in five refineries in which it has 100% processing availability. The net aggregate rated crude oil distillation capacity of these 19 refineries, most of which are located in Western Europe, was approximately 2,370,000 barrels per day. These refineries operated at an average of approximately 70% of available capacity during 1976 as compared with approximately 60% in 1975. On May 1, 1977 the BP Group transferred the ownership of its wholly-owned refinery in Aden (which had a rated crude oil distillation capacity of 150,000 barrels per day) to the South Yemen government. In addition, the BP Group is part owner of 18 other refineries in which its share of the net aggregate rated crude oil distillation capacity amounts to approximately 402,000 barrels per day.

The following table sets forth, by area and for the periods indicated, the approximate quantities of crude oil processed for the BP Group's account (i) in its wholly and partly owned refineries outside the United States and (ii) by other refiners under processing agreements.

CRUDE OIL REFINED

	1972	1973	1974	1975	1976
	(thousands of barrels per day)				
United Kingdom	460	480	420	340	420
France	340	340	320	260	280
Germany	280	280	280	240	260
Netherlands	280	280	260	180	260
Other European countries	360	300	240	180	220
Africa and Middle East	340	240	180	100	80
Canada	80	80	80	100	100
Far East and Australasia	140	160	160	160	160
	<u>2,280</u>	<u>2,160</u>	<u>1,940</u>	<u>1,560</u>	<u>1,780</u>
For the BP Group by other refiners under processing agreements	120	180	160	160	120
	<u>2,400</u>	<u>2,340</u>	<u>2,100</u>	<u>1,720</u>	<u>1,900</u>

In view of the substantial excess refinery capacity currently existing in Western Europe, the BP Group's capital expenditures for refineries in 1976 were, and those to be made in the next few years are expected to continue to be, primarily made to reduce the amount of energy used and to modify or extend existing refineries in order to increase their capacity to produce the lighter, higher value petroleum products for which demand in Western Europe is growing.

Sales and Marketing

The BP Group markets its refined products in Western Europe, most of Africa, Canada, Australasia and parts of the Middle and Far East through various subsidiary companies. Until December 31, 1975 the BP Group's principal product marketing operations in the United Kingdom were conducted through a company in which the BP Group had a 40% equity interest and the Royal Dutch/Shell Group a 60% equity interest. Since that time BP products have been marketed in the United Kingdom exclusively by BP Oil Limited, a wholly-owned subsidiary of BP. In East Africa, marketing is carried on by companies in which the BP Group and the Royal Dutch/Shell Group have equal shares of that part of the equity, usually 50%, not held by the government concerned. In 1976 approximately 75% of the BP Group's product sales were made in Western Europe.

The refined products sold by the BP Group include motor and aviation gasolines, jet fuels, kerosenes, heating oils, diesel fuels, fuel oils, asphalts and a full range of automotive and industrial lubricants and greases. Throughout the world the BP Group's principal trademark consists of the letters "BP" in yellow surrounded by a green shield.

The BP Group, one of the world's principal suppliers of oil products for ships, has bunkering arrangements available at more than 300 ports on world shipping routes. It also operates an extensive aviation fuelling service.

After the substantial increase in crude oil prices imposed by OPEC in 1973, world demand for oil did not grow at the rates previously projected. In fact, in Western Europe such demand declined and has not yet returned to the levels reached in 1973. The resulting worldwide excess of tanker tonnage and, in particular, the substantial excess refinery capacity in Western Europe, as well as increased competition from other fuels and a relatively low level of economic activity, has led to substantial price competition in the European market and to margins in certain European countries, including Germany and France, which have been insufficient since mid-1974 for the BP Group to generate any return on its related transportation, refining and distribution facilities. These conditions are continuing. In addition, the two-tier pricing system introduced by OPEC on January 1, 1977 which is discussed above under "Crude Oil—Middle East and Nigeria" is having a substantial adverse impact on the BP Group's marketing operations in Western Europe because, although prices for refined products in Western Europe have increased by approximately 5% since January 1, 1977, about 90% of the crude oil obtained by the BP Group from OPEC sources is from OPEC members who have raised their prices by 10%. The volume of sales of refined products by the BP Group in Western Europe increased by approximately 13% in 1976 as compared with 1975, in part as a result of some increases in demand for heating oils and to a lesser extent motor gasolines and fuel oils. The volume of sales of refined products outside Western Europe in 1976 was about the same as in 1975, but profit margins on such sales improved.

In addition to sales of refined products, the BP Group sells substantial quantities of crude oil. In 1976 such sales of crude oil accounted for approximately 45% of the total amount of crude oil either sold by the BP Group or used by it in its own operations. Most crude oil sales are under contracts of varying durations with large purchasers under which prices are negotiated quarterly. In 1976 the two largest purchasers, Exxon Corporation and Petrofina S.A., accounted for about 24% and 15%, respectively, and the ten largest purchasers accounted for about 73% by volume of crude oil sales. The present contract with Exxon, which was signed in September 1976, is terminable by either party on any June 30 or December 31 on not less than six months' notice. BP and Petrofina have agreed on the principal terms of a contract which will replace with effect from January 1, 1976 their previous contract, which has been terminated. The new contract, the details of which are being negotiated, will extend through 1982.

The volume of sales of crude oil has been falling since 1973 largely as a result of the increasing volume of direct sales by OPEC countries made possible by the increase in their participation in, or nationalization of, the concessions within their borders which has taken place since then. Such direct sales have also put increased pressure on the profit margins realizable by the BP Group on its crude oil sales. The decline in crude oil sales by the BP Group in 1976 was to some extent offset by increased purchases by customers near the end of the year in anticipation of OPEC price increases and by sales of crude oil from the Forties Field.

The following table sets forth the BP Group's product and crude oil sales for the periods indicated, including the BP Group's sales to associated companies.

PRODUCT AND CRUDE OIL SALES

	1972	1973	1974	1975	1976
	(thousands of barrels per day)				
Products (including chemicals):					
United Kingdom	340	360	360	300	300
France	300	280	260	240	280
Germany	320	340	300	260	280
Other European countries	660	580	460	400	480
Africa and Middle East	120	120	100	100	120
Asia and Australasia	180	160	180	180	160
North and South America	120	120	100	100	100
	<u>2,040</u>	<u>1,960</u>	<u>1,760</u>	<u>1,580</u>	<u>1,720</u>
International bulk trade and bunkers .	260	240	200	180	200
Total Products	2,300	2,200	1,960	1,760	1,920
Crude Oil	2,380	2,400	2,240	1,700	1,580
	<u><u>4,680</u></u>	<u><u>4,600</u></u>	<u><u>4,200</u></u>	<u><u>3,460</u></u>	<u><u>3,500</u></u>

Chemicals

The BP Group through both subsidiary and associated companies in six countries is a major manufacturer of chemicals including ethylene, propylene, butadiene, ethanol, acetic acid and plastics, including polyethylene, polypropylene and polyvinyl chloride.

The principal subsidiary operation is in the United Kingdom, where the BP Group manufactures a wide range of chemicals and plastics, most of which are derived from petroleum feedstocks obtained from BP Group refineries. A new ethylene plant, in which the BP Group has a 50% interest, is under construction near Teesside, England; when this plant is completed, which is expected to occur about mid-1978, it will increase the BP Group's United Kingdom ethylene capacity by 275,000 tons per year to approximately 1,000,000 tons per year. A pipeline, which will link this new plant to the BP Group's chemical plants at Grangemouth, Scotland, is expected to be completed this year. Construction at Grangemouth of a benzene plant with a capacity of 275,000 tons per year and of a Rigidex high density polyethylene plant with a capacity of 59,000 tons per year is scheduled to be completed in 1978. During 1976 construction started on a 165,000 tons per year acetic acid plant at Hull, England. When this plant is completed the BP Group's acetic acid capacity will be 408,000 tons per year, the largest of any company in Western Europe. In addition, through a subsidiary, the BP Group is engaged in the manufacture of chemicals in Australia.

The principal associated companies in the chemicals field in which the BP Group has interests are in Germany and France. In Germany the BP Group has a 50% interest in Erdolchemie G.m.b.H., and in France it has a 30% net interest in Naphtachimie S.A. The BP Group also has a 25% interest in a company which operates an ethylene pipeline system linking major petrochemical centers in Germany, The Netherlands and Belgium and interests in other associated companies which manufacture chemicals in South Africa, the United Kingdom, Germany, France and India.

Chemical sales by the BP Group increased from the equivalent of approximately \$559 million in 1975, a level which reflected the world-wide recession during that year, to the equivalent of approximately \$842 million in 1976, an increase of 51%, although the volume of sales in terms of tons increased by only 14% from 1975 to 1976. Income before United Kingdom taxation and interest from chemical operations of the BP Group and dividends received from associated companies (except Sohio) which have chemical operations, increased from the equivalent of approximately \$50 million in 1975 to the equivalent of approximately \$83 million in 1976. Increases in the dollar amount and tonnage of chemical sales in 1976 were largely attributable to increases in economic activity in Western Europe during the year. In 1976 the BP Group's chemical plants operated at approximately 81% of effective capacity compared with a level of 62% in 1975. Since the last quarter of 1976, chemical sales by the BP Group have levelled off in line with economic activity in Western Europe.

Coal

A summary of the estimated merchantable coal reserves of BP associated companies outside the United States by geographical area as of December 31, 1976 is given below. A brief description of the properties follows the summary.

SUMMARY OF ESTIMATED MERCHANTABLE COAL RESERVES(1)
(in thousands of short tons(2))

Geographical Area	Utilization(3)	Assigned(4)	Unassigned(5)	Total
Australia	93.5% metallurgical 6.5% steam	183,747	91,471	275,218
South Africa	100.0% steam	86,152	—	86,152

- (1) "Merchantable" coal is recoverable coal believed to be of sufficient grade and thickness so located that it can be mined at a profit in substantial quantities by judicious methods under normal conditions in the industry.
- (2) Short tons consist of 2,000 pounds each.
- (3) "Metallurgical" coal (also known as coking coal) is coal suitable for metallurgical use because of its coking qualities and chemical characteristics. "Steam" coal is coal not suitable as metallurgical coal because of its non-coking characteristics. It is primarily used for the generation of electric power.
- (4) Assigned reserves represent merchantable coal which can be mined on the basis of current mining practices and techniques through the use of mines currently in existence or under construction.
- (5) Unassigned reserves represent merchantable coal which would require additional mine facilities for extraction. The extent to which these unassigned reserves will actually be mined depends on future economic and environmental conditions.

Australia. The BP Group acquired a 50% interest in Clutha Development Pty. Ltd. ("Clutha") as of January 1, 1977 for the equivalent of approximately \$183 million payable over three years, plus up to the equivalent of an additional \$17 million if Clutha's profits during the three years ending December 31, 1979 exceed specified levels. In 1976 Clutha's revenues were the equivalent of approximately \$196 million. Of Clutha's assigned coal reserves approximately 10% can be mined from surface mines and 90% can be extracted from deep mines.

Metallurgical coal mined in the Burragorang and Hunter Valleys of New South Wales which is sold under contract to iron and steel producers in Japan and South Korea accounts for over 95% of Clutha's current annual production of some 6.4 million merchantable tons. The balance is steam coal which is mined in the western coal field of New South Wales and sold as steam coal to a local power station.

All of Clutha's merchantable reserves are of a quality which will meet the existing contract specifications, including those for sulphur content, and all are owned by the Commonwealth of Australia and mined under the terms of mining leases with the State of New South Wales.

South Africa. All of the BP Group's South African reserves are assigned to Ermelo Mines which is a joint venture in which the BP Group has a one-third interest. General Mining and Finance Cor-

poration, a South African mining concern with substantial gold and coal mining interests, is the manager of the joint venture, and a wholly-owned subsidiary of Compagnie Francaise des Petroles, another international oil company, is the third partner.

All of the Ermelo Mines' reserves are located in the coal field in the eastern part of the Transvaal Province and will be extracted from deep mines which are currently under construction. As of June 1, 1977 three shafts had been sunk to encounter the coal seam and development work in the seam is under way. Full scale production at a rate of some 3 million tons per annum is planned to commence in 1979.

All the coal reserves of Ermelo Mines are steam coal with an average sulphur content of some one percent after beneficiation by washing. Sales contracts for the planned level of production are currently being negotiated with European electric utilities.

Nutrition

Since the beginning of 1975 the BP Group has become one of the European Economic Community's largest producers of specialized animal feeds through the acquisition of four companies which currently produce at the rate of 350,000 tons per year. Sales of animal feeds by the BP Group aggregated the equivalent of approximately \$160 million in 1976.

The BP Group also has a 50% interest in a recently constructed plant in Sardinia designed to produce 100,000 tons per year of animal feed protein from petroleum sources by a BP Group process. The plant commenced operations in December 1976 in order to produce a small quantity of animal feed protein for testing, but operations were suspended in February 1977 at the request of the Italian government pending the completion of further tests regarding the safety of the product and possible modifications of the plant to eliminate alleged environmental hazards. At December 31, 1976 the BP Group's share of the cost of this plant was equivalent to approximately \$30 million.

New Activities

A minerals department was established last year by the BP Group initially to investigate the opportunities for uranium and metals exploration. A minority interest has been acquired in an international consortium examining deep sea mining prospects in the Pacific Ocean.

The BP Group's offshore service company activities have been extended in the field of underwater survey. The BP Group is continuing to explore opportunities with other companies interested and active in underwater technology.

Research

The BP Group maintains research staffs at a research center and three factory-based laboratories in the United Kingdom, as well as research facilities in Germany and France. About 650 professional research scientists and engineers are employed by the BP Group in the United Kingdom. Research is concentrated in the areas of offshore oil, alternative energy sources, petroleum refining and marketing and petroleum chemicals. A number of processes and products developed by the BP Group are licensed to others throughout the world. Research and development expenditures were the equivalent of approximately \$25 million in 1972, \$29 million in 1973, \$34 million in 1974, \$43 million in 1975 and \$43 million in 1976.

Environmental Protection

For many years the BP Group has been engaged in a continuing program to develop effective measures for the protection of the environment. These programs have been directed, among other things, at reducing sulphur levels in heavy fuel oil and gas oil, reducing lead levels in motor gasolines, developing more effective methods of containing and recovering spillage at sea, improving the quality of effluents discharged from the BP Group's refineries and chemical plants, and installing monitoring equipment at a number of the BP Group's facilities. The BP Group's internal procedures also ensure that the environmental aspects of all new developments are fully taken into account before approval for capital expenditure is given.

Employees

At December 31, 1976 the BP Group had approximately 78,000 employees, approximately 32,000 of whom were located in the United Kingdom.

Capital Expenditures

The capital expenditures of the BP Group, including its share of capital expenditures of associated companies (other than Sohio), were as follows for the years indicated.

CAPITAL EXPENDITURES

	1972	1973	1974	1975	1976	Total 1972-1976
	(£ million)					
Expenditures by BP Group Companies:						
Production and Exploration ..	73.8	139.1	338.2	535.8	609.9	1,696.8
Tankers	33.1	73.5	59.3	9.8	12.2	187.9
Refineries	27.6	37.7	25.1	31.9	30.8	153.1
Marketing	42.6	42.5	58.5	61.4	108.0	313.0
Chemicals	29.5	7.4	11.3	29.8	46.9	124.9
Total	206.6	300.2	492.4	668.7	807.8	2,475.7
Retirements and Other Deductions ..	66.0	239.1	96.7	135.9	137.5	675.2
BP Group Share of Expenditures by Associated Companies (other than Sohio):						
Production and Exploration ..	57.9	38.1	36.6	52.4	68.8	253.8
Refineries	19.1	19.9	38.6	24.2	30.7	132.5
Marketing	24.7	20.0	23.0	28.7	19.3	115.7
Chemicals	16.4	6.3	9.0	15.2	49.7	96.6
Total	118.1	84.3	107.2	120.5	168.5	598.6

(\$ million, translated for convenience only at the December 31, 1976 Noon Buying Rate £1 = \$1.70)

	1972	1973	1974	1975	1976	Total 1972-1976
Expenditures by BP Group Companies:						
Production and Exploration ..	126	236	576	912	1,038	2,888
Tankers	56	126	100	17	20	319
Refineries	48	64	43	54	52	261
Marketing	72	72	100	104	184	532
Chemicals	50	12	19	50	79	210
Total	352	510	838	1,137	1,373	4,210
Retirements and Other Deductions ..	112	406	164	231	233	1,146
BP Group Share of Expenditure by Associated Companies (other than Sohio):						
Production and Exploration ..	98	65	62	89	117	431
Refineries	32	35	66	41	52	226
Marketing	42	33	39	49	32	195
Chemicals	28	12	15	26	86	167
Total	200	145	182	205	287	1,019

It is currently expected that the BP Group's capital expenditure program for 1977 and 1978 (excluding Sohio) will be at a level substantially the same in terms of 1976 dollars as that of 1976 although because of inflation and currency fluctuations the amounts actually expended will increase. The largest single category of expenditures in 1977 and 1978 will continue to be for production and exploration, mainly in the North Sea and decreasingly for TAPS. There are also increased expenditures planned for chemical projects, particularly in the United Kingdom, and for modifications of existing refineries throughout Western Europe during these years. Estimated expenditures for 1977 include the cost of the investment in Clutha Development Pty. Ltd. referred to under "Coal".

Funds generated internally by the BP Group provided a substantial proportion of the finance required to meet capital expenditures and other needs during the five years 1972-1976 and are expected to continue to do so in 1977 and 1978.

For information regarding the BP Group's estimated construction expenditures for TAPS, see "Interests in the United States—Interest in TAPS".

Interests in the United States

INTEREST IN SOHIO

On January 1, 1970, the BP Group acquired 1,000 shares of Special Stock of Sohio in exchange for the BP Group's principal operating subsidiary in the United States. As a result of this acquisition, Sohio acquired leases presently covering 135,313 net acres on the North Slope of Alaska, including 96,396 net acres in the Prudhoe Bay Field, as well as marketing, refining and transportation properties which had originally been acquired by the BP Group from Atlantic Richfield Company ("ARCO") in 1969. The Sohio Special Stock is pledged as collateral to secure notes issued to ARCO by a wholly owned BP Group subsidiary in connection with the acquisition of these properties. See Note C of Notes to the BP Group's Financial Statements. Pursuant to the agreement under which the Sohio Special Stock was issued, the BP Group has the right to purchase up to 54% of any Common Stock issued by Sohio for cash (with certain exceptions), and on October 9, 1975 it acquired for \$68 per share 1,080,000 (54%) of the 2,000,000 shares of Common Stock sold by Sohio on that day.

The Sohio Special Stock at present entitles the BP Group to all the rights of a holder of 8,932,000 shares of Common Stock of Sohio, which, together with the additional 1,080,000 shares of Sohio Common Stock, gives the BP Group the equivalent of an approximate 26% Common Stock interest in Sohio. The share equivalent of the Sohio Special Stock will rise with increases in the "sustainable net production" (defined below) of crude oil from Sohio's Prudhoe Bay leases. BP's interest in Sohio will increase to the equivalent of an approximate 34% Common Stock interest when sustainable net production from such leases reaches 200,000 barrels per day, and will increase in agreed steps thereafter to a maximum of approximately 54% when such production reaches 600,000 barrels per day. When sustainable net production from such leases reaches 450,000 barrels per day, BP's interest in Sohio is expected to exceed 50%. The final interest in Sohio represented by the Sohio Special Stock will be determined on or before January 1, 1984, according to the highest rate of sustainable net production achieved at any time before that date. "Sustainable net production" means the daily average over any period of 90 consecutive days of crude oil produced and saved which is delivered to pipeline or tanker for refining, sale or exchange, and for use, in the United States or Canada, net of the 12½% royalty interest of the State of Alaska.

Following is a description of the business of Sohio.

Reserves and Production. On November 1, 1976, DeGolyer and MacNaughton, independent petroleum engineers, estimated the proved ultimate recoverable reserves of the entire Prudhoe Oil Pool and its associated gas cap at 9.2 billion barrels of crude oil, 500 million barrels of condensate, 8.5 trillion cubic feet of solution gas and 16.9 trillion cubic feet of gas cap gas. For these purposes, the term "Prudhoe Oil Pool and its associated gas cap" includes the Sag River sandstone, the Shublik Formation and the Sadlerochit Formation, which together comprise the main reservoir in the Prudhoe Bay Field.

In order to maximize ultimate recovery of the oil and gas reserves, the holders of interests in the main reservoir in the Prudhoe Bay Field have agreed effective April 1, 1977 to operate the field as a unit. Such holders have signed a unit agreement and a unit operating agreement which establish separate production participations in the oil rim (which contains the crude oil and solution gas) and the gas cap (which contains the condensate and gas cap gas). The agreements provide that Sohio will have production participations of approximately 53.155% in the oil rim and 14.818% in the gas cap, in each case before deduction of the royalty interest of the State of Alaska described below and the interests of the BP Group described under "Business and Property—Interests in the United States—Other Interests in the United States".

Under the unit operating agreement, the obligations of participants in production from the gas cap to contribute costs allocated to the gas cap will be in proportion to their respective production participations in the gas cap. However, Sohio's cost obligation, as a participant in production from the oil rim, for investment costs allocated to the oil rim will be slightly less than its production participation in the oil rim during the first ten years of oil production. Thereafter, all investment costs allocated to the oil rim will be shared by the oil rim participants on the basis of their respective production participations, as will any operating and maintenance costs allocated to the oil rim during all periods of production.

For the purpose of development and operation, the Prudhoe Bay Field has been divided into two areas of approximately equal size. BP Alaska Inc. ("BP Alaska"), a wholly-owned subsidiary of BP, is the operator of the western portion and ARCO is the operator of the eastern portion of the field. Prior to unitization of the field, the cost of the initial phase of development of the western portion of the field was borne by Sohio, together with a share of the cost of the construction of a power station and a gas compression plant which will service the entire field. Equalization of pre-unitization costs will be accomplished through a reduction in future development expenditures by Sohio of approximately \$57.5 million. Through December 31, 1976 Sohio had expended approximately \$1,351 million for initial Prudhoe Bay Field development, and Sohio expects to expend approximately \$430 million for such development in 1977 (after giving effect to the reduction described in the preceding sentence).

Provision is made in the unit operating agreement for the possibility that from time to time a participant might not be able to take in kind or otherwise dispose of its full entitlement to the crude oil and condensate production capability level of the reservoir (defined as the maximum efficient rate of production or the design capacity of pipelines servicing the Prudhoe Bay Field, whichever is less). Any participant who at any time fails to take in kind or otherwise dispose of its full entitlement is obligated to maintain a standing offer to sell, at a price not greater than fair market value, to any other participant or any third party any oil not so taken or otherwise disposed of by such participant. The unit operating agreement provides for an initial period during which Sohio may take, on a cumulative basis, up to ten million barrels less than its full entitlement (lesser cumulative amounts are applicable to other participants). Once a participant reaches its cumulative amount, if it is still unable to take in kind or otherwise dispose of its full entitlement, it has the right at any time thereafter to cause the unit operator to adjust the level of total production from the reservoir to a level at which the quantity of crude oil and condensate delivered to such participant is equal to its full production participation in the reduced level of total production. Notwithstanding the foregoing, each participant always has the right to take at least 80% of its full entitlement. In general, a participant may recoup at any time any production from the field to which it was entitled but did not in fact take or otherwise dispose of, out of spare production capacity (if any) or, if not enough spare capacity is available, out of up to 10% of production. See "Projected West Coast Crude Oil Surplus and Proposed West Coast-Midcontinent Pipeline System".

Production facilities capable of handling at least 600,000 barrels per day of crude oil output are ready for operation, and such facilities capable of handling 1,200,000 barrels per day are scheduled to be operational in the third quarter of 1977. During 1978 and 1979 the capacity of the production facilities will be increased to 1,500,000 barrels per day. Any increase in production would require an

expansion of TAPS to a capacity of more than the 1,200,000 barrels per day currently being constructed. Commercial production of Prudhoe Bay oil is expected to commence in the third quarter of 1977. Until a gas pipeline is available, produced gas will be reinjected into the reservoir. A production plan for gas which calls for production to commence at a rate of 2 billion cubic feet per day as soon as gas pipeline facilities are available has been agreed upon by the participants and approved by the State of Alaska. It is anticipated that such pipeline facilities will not be available for at least five years.

The State of Alaska has a 12½% royalty interest in Sohio's Alaskan production. This interest entitles the State either to take in kind 12½% of Sohio's Alaskan production or to receive an amount of cash equivalent to 12½% of the price or value at the wellhead of all such production.

The State of Alaska has a severance tax which was increased in May 1977 to the higher of (a) a specified amount per barrel of oil produced, subject to adjustment in the future based on the value of crude oil produced in Alaska and the general level of prices in Alaska and elsewhere in the United States, or (b) a percentage of the gross wellhead price of oil produced. Such specified amount and such percentage are each related to the average rate of production per well for a field; in the case of the Prudhoe Bay Field, it is estimated that, once commercial production begins, for the next two to three years (a) such specified amount will be approximately \$0.76 per barrel and (b) such percentage will be approximately 11.7%. The State of Alaska has also imposed a tax on oil reserves on the North Slope for 1976 and 1977 which will be creditable against future severance taxes. Sohio's reserves tax payment was approximately \$121 million in 1976, and Sohio has been assessed approximately \$141 million in 1977. The State also imposes an annual ad valorem tax at a rate of 20 mills (two cents) per dollar of assessed valuation on all oil and gas exploration, production and pipeline equipment. In addition, the North Slope Borough has imposed taxes on certain other assets within the Borough at a rate per annum for 1977 aggregating 7.5 mills (0.75 cents) per dollar of assessed valuation.

Several bills were introduced for consideration by the 1977 session of the Alaskan Legislature prior to its adjournment. If enacted, these bills would have substantially increased ad valorem taxes and taxes on receipts or profits derived from Alaskan oil production. Various proposals for substantial increases in the effective rates of corporate income taxes were also introduced. Certain of these bills, if enacted, would have had a material adverse impact on Sohio. Sohio and BP are unable to predict whether any similar proposals will be reintroduced in the future or whether any such proposals might be enacted.

For information concerning advance sales by Sohio of crude oil from its Prudhoe Bay reserves, see Note F of Notes to Sohio's Consolidated Financial Statements.

In April 1973, a Federal court held that the Alaskan Native Claims Settlement Act extinguished, as of the date of its enactment in December 1971, all aboriginal titles claimed by Alaskan natives to certain lands, including Alaskan North Slope lands. However, the court interpreted the Act as not extinguishing certain causes of action for trespasses which may have occurred prior to its enactment. In October 1975, the United States Department of Justice, acting for certain Alaskan natives, filed a suit charging numerous defendants, including subsidiaries of Sohio and BP, with trespasses on lands on the North Slope of Alaska as to which such natives were alleged to have had aboriginal title prior to the passage of the Act. A native association intervened as an additional plaintiff. The plaintiffs sought an unspecified amount of damages. On June 3, 1977, the court granted the defendants' motion to dismiss the suit on the ground that all aboriginal claims were extinguished by the Alaskan Native Claims Settlement Act. It is expected that the plaintiffs will appeal this decision.

Exclusive of reserves under its Alaskan leases described above, as of December 31, 1976 Sohio had estimated net proved reserves (after deducting royalties, quantities estimated to be required to extinguish production payments, and other interests) of approximately 66 million barrels of crude oil, condensate and natural gas liquids, of which 57 million barrels are developed reserves, and approximately 250 billion cubic feet of natural gas, of which 234 billion cubic feet are developed reserves. All of such reserves are located in the contiguous 48 states.

As of December 31, 1976, Sohio's production was being obtained from approximately 1,567 net (10,071 gross) oil wells and 185 net (544 gross) gas wells located in 16 states and Federal offshore properties. At the end of 1976, Sohio held producing leases amounting to approximately 188,000 net (1,284,000 gross) acres. In addition, exclusive of its Alaskan interests, it held non-producing leaseholds on approximately 307,000 net (598,000 gross) acres in the United States. Sohio's net domestic production of crude oil, condensate and natural gas liquids, after deduction of royalties and interests of others, averaged 25,479 barrels per day in 1976, or about 5.7% of its refinery capacity. In addition, Sohio owns a 5/12th of 1% interest in the Iranian consortium which is further described under "Business and Property—Crude Oil—Middle East and Nigeria". Sohio's Iranian liftings averaged 16,448 barrels per day in 1976, or about 3.7% of its refinery capacity. Sohio's net domestic production of natural gas, after deduction of royalties and interests of others, averaged approximately 79 million cubic feet per day in 1976.

In 1976 Sohio purchased an average of approximately 55,700 barrels per day of crude oil from other domestic producers and approximately 277,600 barrels per day from foreign producers including the BP Group. Sohio's principal sources of foreign crude oil are the Middle East, North Africa and West Africa. In addition, Sohio purchased an average of approximately 46,200 barrels per day under the Federal domestic crude oil allocation program. See "U.S. Regulation".

Projected West Coast Crude Oil Surplus and Proposed West Coast-Midcontinent Pipeline System. The principal market for North Slope crude oil will be the West Coast of the United States, where Sohio projects a probable surplus of crude oil with the commencement of North Slope production. Although the extent of the surplus is difficult to estimate precisely, Sohio estimates that operation of TAPS at its initial design capacity of 1,200,000 barrels per day in late 1977 and 1978 would result in a surplus of crude oil available to the West Coast market in the range of 300,000 to 600,000 barrels per day; and Sohio believes that such a surplus would most likely be in the higher end of this range. In view of the expected West Coast surplus, the restriction upon the export of North Slope crude oil contained in the Federal law which authorized the construction of TAPS and the anticipated shortage of crude oil in the midwestern states, a number of proposals have been made for facilities to transport Alaskan and other crude oil from the West Coast to other United States markets. Since Sohio does not own refining and marketing assets on the West Coast, it expects that it will be required to transport a disproportionate amount of any such surplus to other markets. Any marine shipment of crude oil from the West Coast to other United States markets would result in additional transportation cost and would, under current statutory requirements, be required to be in "Jones Act" tankers or in certain other U.S. flag tankers which have been approved for such trade under regulations of the United States Department of Commerce Maritime Administration (described below under "Tankers"). Sohio currently expects that sufficient capacity in such tankers will not be available until mid-1978 to ship all of the potential West Coast surplus through the Panama Canal to other United States markets.

Under the foregoing circumstances, and unless the restriction upon the export of North Slope crude oil or the requirements for marine shipment in Jones Act and other eligible U.S. flag tankers should be waived or modified, it is expected that Sohio will not be in a position until mid-1978 to take or otherwise dispose of its full entitlement of Prudhoe Bay crude oil production at a Prudhoe Bay production level of 1,200,000 barrels per day (approximately 637,860 gross barrels per day). In such a case, pursuant to the provisions of the unit operating agreement described under "Reserves and Production" above, Prudhoe Bay crude oil production might be reduced to a level of less than 1,200,000 barrels per day until mid-1978.

In order to provide efficient transportation of the expected surplus crude oil to other markets, Sohio is pursuing the development of a pipeline system from the West Coast to Midland, Texas. Sohio has reached preliminary agreements with the owners of existing gas transmission pipelines covering the major portion of such distance for conversion and lease of such gas pipelines to Sohio and others for use as a crude oil pipeline. The "abandonment" from natural gas transmission service and the

conversion of certain of these facilities and subsequent lease thereof by Sohio and others are subject, among other things, to receipt of necessary approvals from the Federal Power Commission and the California Public Utilities Commission. In addition, approximately 250 miles of new pipeline would be needed to complete a pipeline system from proposed terminal facilities at Long Beach, California to Midland, Texas, where it would connect with existing pipeline networks. Application has been made to the Bureau of Land Management of the United States Department of the Interior for a right-of-way permit across certain Federal lands in the State of California which would be used for a portion of the route.

The required environmental impact reports for the West Coast-Midcontinent pipeline system were approved and issued by the Department of the Interior and the State of California in May and June 1977. Hearings have been held by the Federal Power Commission on the "abandonment" application. The California Air Resources Board has indicated opposition to the proposed Long Beach terminal facilities based upon concerns relating to the impact of such facilities on the quality of air in the Long Beach area. Any terminal facilities in California would also be subject to approvals by the California Coastal Zone Conservation Commission and would be governed by state laws controlling development of the California coastal zone.

The time period required to obtain all of the necessary permits and approvals to proceed with construction of the project cannot be accurately determined at this time. Sohio expects that the pipeline could commence operations at an initial capacity of 350,000 barrels per day within 18 to 20 months after receipt of the necessary approvals. The initial capacity of the pipeline could be expanded to 500,000 barrels per day approximately five months after commencement of commercial operations.

Sohio expects that ownership of the West Coast-Midcontinent pipeline and terminal facilities will be shared with other companies having similar interests in transporting crude oil from the West Coast into the midcontinent area. On June 20, 1977 Exxon Pipeline Company terminated its 20% participation in the pre-construction phase (design, engineering and obtaining of permits) of such system because of what it considered to be unreasonable air quality requirements being proposed by authorities in California. Sohio's ultimate percentage of ownership, the cost and the future of this project are uncertain at this time. With utilization of the leased gas pipeline facilities, an estimated initial investment by the participants of approximately \$475 million (not including interest costs during construction or the capitalized value of the leased pipeline) would be required to provide a crude oil transportation system with a throughput capacity of 500,000 barrels per day from Long Beach, California to Midland, Texas. If such facilities were expanded to provide for a capacity of 1,000,000 barrels per day, additional capital investments estimated at approximately \$300 million would be required.

Tankers. The tankers required to transport Alaskan crude oil to domestic ports will be subject to the Merchant Marine Act of 1920 (the "Jones Act") which requires that cargo transported between domestic ports be carried in ships built and registered in the United States, owned and operated by United States citizens, manned by United States crews and, except to the extent permitted under Maritime Administration regulations, free of Federal subsidies. On June 24, 1977, the Maritime Administration issued regulations prescribing the circumstances under which owners or bareboat charterers of U.S. flag tankers built with Federal construction subsidies may apply for eligibility to transport, on an interim basis, Alaskan crude oil to the Panama Canal. The Jones Act requirements will also necessitate Sohio's chartering rather than owning such tankers since companies with more than 25% foreign ownership are not considered to be United States citizens for purposes of such Act. The cost of building and operating Jones Act and other U.S. flag tankers is substantially higher than that of foreign flag tankers.

Approximately 1,400,000 deadweight tons of Jones Act and other eligible U.S. flag tankers would be required to transport from the port of Valdez to the West Coast the gross amount of Alaskan crude oil to which Sohio will be entitled at a Prudhoe Bay production level of 1,200,000 barrels per day. Sohio currently has two Jones Act tankers aggregating 160,000 deadweight tons on long-term charter and has reached an agreement whereby another company will provide three Jones Act tankers aggregating 280,000 deadweight tons under a contract of affreightment for a term of three years during the

initial years of Prudhoe Bay production. Sohio also holds contracts for the construction of six Jones Act tankers totaling 900,000 deadweight tons for delivery from mid-1977 through mid-1978. Sohio has entered into letters of intent with a company under which such company will operate four of the tankers which are currently under construction. Sohio expects to assign the construction contracts for these four vessels to a United States bank acting as trustee for investors who are United States citizens and who will provide the equity portion of the financing for the vessels under leveraged leasing arrangements and will time charter the vessels to Sohio. A commitment, subject to various conditions, has been received from the Maritime Administration to guarantee the debt portion of the financing for these four vessels under Title XI of the Merchant Marine Act of 1936. Sohio expects that the other two of the six tankers under construction will be financed, chartered and operated in a similar manner.

Sohio has chartered 17 additional tankers for Jones Act service aggregating 1,170,000 deadweight tons for periods of from one to three years beginning in 1977 and early 1978. Sohio has obtained the use of these 17 additional tankers on a short-term basis primarily in order to transport a portion of its share of the anticipated West Coast surplus of crude oil through the Panama Canal. Certain of such tankers may also be utilized to transport crude oil from Valdez to the West Coast. If the West Coast surplus is in the higher end of the projected range, Sohio believes that there will be insufficient capacity in Jones Act and other eligible U.S. flag tankers to transport all of such surplus through the Panama Canal until mid-1978. The impact upon Sohio of any such insufficiency cannot be accurately assessed at the present time.

Sohio currently utilizes foreign flag tankers to transport foreign crude oil to East Coast and Gulf Coast ports of the United States. These operations are carried out primarily under various contractual arrangements with remaining terms of from one to twelve years that provide approximately 1,250,000 deadweight tons of tanker capacity.

Existing Pipeline Systems. In addition to its interests in TAPS, Sohio currently owns and operates crude oil and petroleum product pipelines located in 12 states. These pipeline systems consist of approximately 1,500 miles of crude oil gathering lines and 1,250 miles of crude oil and product trunk lines. Sohio also has direct or indirect interests in various pipelines which operate large-diameter lines and provide Sohio with a means to transport to its Ohio refineries domestic crude oil from southwestern producing areas and foreign crude oil landed on the Gulf Coast. Sohio also owns interests in certain refined products pipelines which serve its marketing areas.

Refining. Sohio currently owns and operates three refineries with an aggregate rated capacity of 449,000 barrels of crude oil per calendar day. Locations of these refineries and their rated crude oil capacities are: Toledo, Ohio—120,000 barrels per day; Marcus Hook, Pennsylvania—161,000 barrels per day and Lima, Ohio—168,000 barrels per day. During 1976, crude oil processed at Sohio refineries averaged approximately 405,000 barrels per day.

Petroleum Marketing. Sohio is, and for many years has been, the leading marketer of gasoline and other refined petroleum products in Ohio, under the trade name "Sohio". Sohio also markets such products under the trade name "Boron" through its wholly-owned subsidiary, BP Oil Inc., principally in central and western Pennsylvania and southeastern Michigan, and to a limited extent in areas of Kentucky, West Virginia and Indiana adjacent to Ohio. In addition, BP Oil Inc. markets refined petroleum products under the trade names "BP" and "Wm. Penn" through retail outlets in the New England and mid-Atlantic areas of the country. During 1976, petroleum products sold by Sohio averaged approximately 402,500 barrels per day and petroleum sales and operating revenue aggregated approximately \$2,444 million. See also Notes P and W of Notes to Sohio's Consolidated Financial Statements.

Chemicals and Plastics. Sohio's chemicals and plastics operations are conducted by Vistron Corporation, a wholly owned subsidiary. Vistron's operations include agricultural chemicals, industrial chemicals and fabricated plastics. Products manufactured by Vistron include acrylonitrile and associated by-products, acrylamide, polyester resins, Barex 210 resin and Catalyst 41, which is used in the production of acrylonitrile. These products are used by Vistron in manufacturing its line of industrial and consumer products or are sold to other manufacturers. Vistron also manufactures and sells

ammonia, nitric acid, liquid ammonium nitrate, urea, carbon dioxide and nitrogen solutions and it markets potash, phosphates, pesticides and seed corn. In 1976, Sohio's chemicals and plastics sales and operating revenues aggregated approximately \$318 million.

The United States Food and Drug Administration ("FDA") recently stated that it has suspended the issuance of approvals of the use of acrylonitrile in beverage bottles. In addition, Vistron is currently participating in an FDA hearing which could result in restrictions or prohibitions on the use of acrylonitrile in such bottles. Recent private studies have indicated that continued exposure to acrylonitrile at low levels may cause long-term detrimental health effects. Sohio expects continued regulatory action directed at controlling the use and manufacture of acrylonitrile.

Coal Production, Marketing and Reserves. Sohio, through its Old Ben Coal Company division ("Old Ben") of Sohio Petroleum Company, a wholly-owned subsidiary, produces and markets bituminous coal, approximately 60% of which is produced from underground mines and the balance from surface mines. In 1976, Old Ben produced about 9.7 million tons of bituminous coal, and coal sales and operating revenue aggregated approximately \$149 million. Approximately 75% of Old Ben's sales is steam coal, which is generally sold to the electric utility industry on the basis of its b.t.u. or heating content. The remainder of Old Ben's coal is metallurgical coal, which is sold principally to iron and steel producers for its coking characteristics and its low ash and sulphur content. Approximately 67% of Old Ben's production is committed under long-term contracts, and the balance is sold under annual or spot arrangements. If proposed or adopted governmental regulations restricting sulfur dioxide emissions prohibit the use of high-sulfur coal, there can be no assurance that all of Old Ben's long-term sales contracts will be enforceable.

Old Ben produces coal from six mines located in Illinois, Indiana and Virginia. All these mines produce steam coal, and three also produce metallurgical coal. Old Ben is adding two deep mines located in Illinois, the first of which is scheduled to begin operation in the third quarter of 1977. The cost of developing these two mines and the accompanying coal preparation plant is estimated at approximately \$90 million. It is anticipated that the two new deep mines will reach their total production capacity of 4.5 million tons of steam coal per year by 1981. Old Ben has entered into two agreements which provide for an aggregate of up to \$101.7 million of advance payments for the development of new facilities, repayable solely from the proceeds of the sale of coal production from these facilities.

Old Ben controls, by means of fee ownership or lease, bituminous coal estimated at 844 million recoverable tons. Of this total, 276 million tons are reserves assigned to active mines and 178 million tons are unassigned reserves. Assigned reserves represent recoverable coal which can be mined on the basis of current mining practices and techniques through the use of mines currently in existence or under construction. Unassigned reserves represent recoverable coal which would require additional mine facilities for extraction. The balance of 390 million tons represents an estimate of coal upon which Old Ben has not conducted engineering or economic feasibility studies necessary to determine the conditions under which the coal can be extracted on a commercial basis; however, this estimate is based on test data and other information comparable to that used in establishing estimates of unassigned reserves.

On the basis of the test data relating to thickness, quality and extent of particular coal seams as evaluated by Old Ben's engineers, Old Ben estimates that approximately 83% of its recoverable reserves is of a quality suitable only for steam purposes.

Research, Patents and Licensing. Sohio conducts a program of research and development directed towards the invention and improvement of petroleum, chemical and plastics products and processes and also toward the improvement of environmental controls for its operating facilities. Research expenditures were approximately \$10.5 million in 1976.

Sohio owns patents in the petroleum, chemical and plastics fields which it uses and which it has also licensed to others. Sohio's royalty revenue, the major portion of which is from the sale of licenses of

its acrylonitrile process (under which income is recognized at the time of sale), has declined from approximately \$41 million in 1974 and \$23 million in 1975 to \$5 million in 1976.

Other Activities. Sohio has a 50% interest in an underground uranium ore mine and processing mill in New Mexico, which commenced operations in 1976. Scheduled production levels have not yet been achieved; however, the mine and mill are expected ultimately to produce approximately one million pounds of uranium concentrates per year. The uranium reserves, estimated in 1975 at approximately 4.2 million tons with an average grade of .186% of uranium oxide, are expected to be sufficient to maintain production for approximately 12 to 15 years. A significant portion of the production from this complex will be sold under long-term contracts.

Sohio has been involved for many years in the development of technologies for production of shale oil and has acquired interests in oil shale properties in Colorado and Utah. Under existing cost and price conditions, the production of oil from shale is not economically feasible.

Sohio owns a 49% interest in Hospitality Motor Inns, Inc., which operates a number of motor inns in Ohio and neighboring states under the name Hospitality Motor Inns, a number of interstate highway restaurants using, as franchisee, the name Dutch Pantry and a vending business.

U.S. Regulation. Sohio's petroleum operations in the United States are subject to regulatory control by the Federal Energy Administration ("FEA") under the Emergency Petroleum Allocation Act of 1973, as amended by the Energy Policy and Conservation Act of 1975 and the Energy Conservation and Production Act of 1976. FEA regulations are directed, among other purposes, at implementing Congress' determination that domestic crude oil prices should generally remain below prices for imported crude oil. Accordingly, the FEA has established a system of price controls on crude oil and certain refined petroleum products and programs of domestic crude oil allocation and crude oil cost equalization.

Under the pricing program, domestic crude oil is classified as "lower tier", "upper tier" or "stripper well". The FEA sets ceiling prices for the first two classes as long as the actual composite price of all domestic crude oil (based on a weighted average of first sale prices) is lower than the statutory composite price which, being originally equal to \$7.66 per barrel, is adjusted upward at a maximum rate of about 10% annually. Due to a determination that actual composite prices in early 1976 were in excess of statutory composite prices, the FEA froze prices, effective July 1, 1976, and announced two price rollbacks on "upper tier" oil which aggregated 65 cents per barrel and are to be in effect through July 1977. Further pricing actions by the FEA cannot be predicted at this time.

The domestic crude oil allocation program is designed to correct possible imbalances in the supply of domestic crude oil between integrated and non-integrated refiners by means of a system of purchase allotments.

The cost equalization (entitlements) program is designed to avoid competitive disadvantages among refiners which would otherwise stem from the fact that the lower costs of price-controlled domestic crude oil are not shared equally among the different regions of the country and the different segments of the refining industry. Under the program, the FEA makes a notional allocation of domestic crude oil supplies among refiners, and on the basis of such allocation, a refiner processing "lower tier" oil in excess of its "quota" must purchase the right (called an "entitlement") to process it from a refiner processing such oil in quantities below its "quota". Sohio earned \$221 million before taxes during 1976 by selling entitlements to other refiners.

On April 30, 1977, the FEA issued a notice of proposed rule-making in which it set forth its proposals for the treatment of Alaska North Slope crude oil under the price control and cost equalization programs. The FEA proposed that the wellhead price of Alaska North Slope crude oil be controlled at the ceiling price for comparable "upper tier" oil and be treated as imported oil for purposes of the cost equalization program, which treatment would result in the incurrence of no entitlements obligations

by refiners processing such oil. Public hearings on such proposals were held in late May, and it is expected that the FEA will issue an implementing order in the near future.

The FEA has been conducting a continuing audit of Sohio's records relating to costs and prices. Sohio and the FEA have several disputes relating to regulations issued by the FEA, including certain crude oil cost accounting and product pricing procedures. Sohio believes that it has complied in all material respects with all properly adopted regulations and it is contesting the FEA positions. Should the FEA positions be sustained, remedial action (prospective and/or retroactive), including prohibitions against the recovery of certain increased costs which would otherwise be recoverable by increasing prices, or refunds to customers, could be ordered and penalties could be assessed. While Sohio does not expect that any single item currently in dispute will have a material impact upon the results of Sohio's operations, if several of the possible penalties and remedies were to be sustained, there could be a material impact on the future results of operations of Sohio. However, Sohio does not believe that a final resolution of these matters will have a material impact on its financial position.

The President has recently announced a national energy program which includes, among other things, proposals for taxes on domestic crude oil production, changes in energy pricing and coal usage and re-organization and consolidation of several Federal agencies. Many of the President's proposals will require implementing legislation from Congress. At this time Sohio and BP cannot predict what effect, if any, these proposals, if enacted, may have on their operations in the United States.

A number of bills have been introduced in the U.S. Congress and in state legislatures which, if enacted, would seriously affect companies in the petroleum industry. One of these bills, which was passed by the Senate in the last session of Congress and has been reintroduced, would require all major integrated petroleum companies (referred to in a Senate Committee report as including "BP-Sohio") to divest themselves within five years of domestic and foreign assets in all but one of the following areas: (i) petroleum production, (ii) petroleum transportation by pipeline and (iii) petroleum refining and marketing. If such a bill were to become law, it would have a material adverse effect on Sohio and might require changes in BP's relationships with Sohio. Other proposed legislation would provide various additional regulatory measures and would prohibit a company's involvement in the development of any other energy sources so long as it is involved in the development of crude oil and natural gas.

The U.S. Federal Trade Commission is conducting an investigation of the operations of several oil companies, including Sohio, in the western United States and Alaska. Sohio has received requests for certain information, including information relating to its Prudhoe Bay leases and TAPS, and has complied with such requests.

Environmental Controls. Federal, state and local laws and regulations relating to protection of the environment affect Sohio in many areas. Expenditures are being made in order to comply with these regulations. At the present time, Sohio is a party to a number of administrative and judicial environmental proceedings. Sohio does not believe that such environmental proceedings will have a material effect on its business or financial condition.

Capital Expenditures. Sohio's capital expenditures (including capitalized interest) in 1976 aggregated approximately \$1,052 million for TAPS, \$532 million for development of the Prudhoe Bay Field and \$115 million for other purposes. In addition, Sohio made progress payments for the construction of Alaskan tankers aggregating approximately \$94 million in 1976. Although the timing and amounts of capital expenditures for future years cannot be precisely determined at this time, Sohio estimates that its capital expenditures for 1977 will aggregate approximately \$95 million, excluding expenditures for TAPS (see "Interest in TAPS"), Prudhoe Bay Field development costs (see "Reserves and Production") and other facilities to transport Prudhoe Bay oil to market (see "Projected West Coast Crude Oil Surplus and Proposed West Coast-Midcontinent Pipeline System"). Progress payments for the construction of Alaskan tankers are expected to amount to approximately \$264 million in 1977. Sohio anticipates financing its capital expenditures through internally generated funds, borrowings, the sale of securities or the sale of assets.

The documents relating to the joint debt financing by Sohio and BP described in Note J of Notes to the BP Group's Financial Statements contain certain restrictions and covenants. The financial covenants, as amended, limit Sohio's borrowing ability to a maximum of \$5,000 million for expenditures for the production and transportation to market of its Prudhoe Bay crude oil. This amount, together with other permitted borrowings, internally generated funds and possibly the sale of equity, should, in Sohio's opinion, be sufficient to finance its share of these projects at current cost estimates and to provide some allowance for contingencies above such cost estimates. If the cost of these projects should substantially exceed current estimates, or if internally generated funds should be significantly less than anticipated, without modification of these covenants Sohio would be required to sell equity, to sell assets or to reduce its obligations with respect to expenditures for the production and transportation of Prudhoe Bay crude oil. Through March 31, 1977, Sohio had incurred indebtedness (as defined in the covenants) in the aggregate amount of approximately \$3,401 million to finance expenditures for the production and transportation of its Prudhoe Bay crude oil. Also, through March 31, 1977, Sohio had applied internally generated funds and proceeds from the sale of equity securities aggregating approximately \$847 million to finance such expenditures and had incurred \$275 million of indebtedness, which is exempt from the \$5,000 million limitation referred to above, for financing the State of Alaska tax on Prudhoe Bay reserves.

INTEREST IN TAPS

A wholly-owned BP Group subsidiary, BP Pipelines Inc. ("BP Pipelines"), owns a 15.84% undivided interest in TAPS, which consists of a 48-inch crude oil pipeline, running approximately 800 miles from Prudhoe Bay to the ice-free port of Valdez on Alaska's southern coast, and a tank farm and marine terminal at Valdez. The System has an initial design capacity of 1,200,000 barrels per day and is designed to be capable of expansion to a throughput capacity of 2,000,000 barrels per day. Sohio Pipe Line Company ("Sohio Pipe Line"), a wholly-owned subsidiary of Sohio, owns a 33.34% undivided interest in TAPS.

In addition to BP Pipelines and Sohio Pipe Line, six other companies hold undivided interests in TAPS. Under the undivided interest form of ownership, each participant owns its percentage share of the System as its exclusive property and is required to contribute its corresponding share of the total cost of the System. Each of the non-affiliated TAPS participants has agreed to utilize its share of the System as an independent common carrier, separately publishing tariffs and receiving tenders for shipments through its portion of the capacity of the System. The TAPS owners formed Alyeska Pipeline Service Company ("Alyeska") to serve as their agent and contractor in the design, construction and operation of TAPS. Alyeska has no direct or indirect ownership interest in the System.

In connection with the decision by the TAPS participants to construct the System initially with a design capacity expanded from 600,000 barrels per day to 1,200,000 barrels per day, and in light of the substantial increase in the estimated cost of TAPS since the pipeline was planned in 1969, BP and Sohio entered into an agreement effective as of July 8, 1974 (the "July 1974 Agreement") pursuant to which BP Pipelines acquired its 15.84% undivided interest in TAPS from Sohio Pipe Line in order to facilitate the financing of TAPS. The July 1974 Agreement contemplated that BP Pipelines would lease its 15.84% interest in TAPS to Sohio Pipe Line, but it has been decided that for the time being no such lease will be entered into and that BP Pipelines will hold its interest in the System as a separate common carrier. The July 1974 Agreement further provides that if such a lease is not entered into, then so long as TAPS design capacity is 1,200,000 barrels per day, Sohio and BP will each tender its oil production which is available for shipment through TAPS to BP Pipelines and to Sohio Pipe Line in proportion to their respective ownership interests in TAPS. The tariffs charged by Sohio Pipe Line and BP Pipelines may not be significantly higher than the highest tariff charged by a third party in respect of TAPS (except that neither BP Pipelines nor Sohio Pipe Line shall be obligated to post a tariff that does not currently compensate it for normal debt service and normal operating costs). If TAPS is expanded beyond

1,200,000 barrels per day design capacity and BP Pipelines elects not to acquire any additional capacity, Sohio will continue to cause to be tendered to BP Pipelines the amount of oil which it had tendered prior to expansion, subject to reduction under certain circumstances.

The July 1974 Agreement also provides for reciprocal and preferential rights to purchase any undivided interest in TAPS that either Sohio Pipe Line or BP Pipelines may wish to transfer to a third party. It further provides that if Sohio Pipe Line or BP Pipelines proposes to transfer any undivided interest in TAPS to a third party, in connection with any sale or exchange of North Slope crude oil to or with such third party, the other will have the right to transfer one-half of the aggregate TAPS interest to be so transferred.

As of June 12, 1977, construction of the System was estimated to be approximately 98% complete. At such time, construction of the pipeline and pump stations was virtually complete and work on the Valdez terminal was estimated to be approximately 93.5% complete. Facilities capable of transporting 600,000 barrels per day are ready for operation, and construction of the System to its initial design capacity of 1,200,000 barrels per day is on schedule for completion later in 1977. Crude oil was introduced into the pipeline at Prudhoe Bay on June 20, 1977. Commercial operations are expected to commence in the third quarter of 1977.

Alyeska continuously reviews its estimates of the cost of the various components of the System, and its overall estimate is subject to change as construction proceeds. On June 16, 1977, Alyeska delivered to the TAPS owners a budget reflecting a capital cost for TAPS with an initial design capacity of 1,200,000 barrels per day of approximately \$8,020 million, consisting of \$7,777 million of capitalized construction costs and \$243 million of costs associated with final testing and preparation for use of the System incurred prior to an assumed September 1, 1977 start-up. Such budget does not include interest costs incurred during the construction period. Based on such budget, BP's and Sohio's shares of the capital costs for TAPS (including interest costs during the construction period) would be approximately \$1,487 million and \$3,170 million, respectively. Of these amounts approximately \$1,346 million and \$2,852 million, respectively, had been expended as of May 31, 1977.

The Departments of the Interior and Transportation are conducting investigations of the welding on TAPS. BP believes that all necessary remedial work on the welds has been accomplished. If substantial additional re-auditing of field welds or further remedial work should be required by government authorities, increased costs and delay in the completion of construction of segments of the System and reductions in levels of commercial operations could result.

In March 1976, Alyeska revised its preliminary estimate of the cost to expand the System to a capacity of 1,600,000 barrels per day from approximately \$490 million to approximately \$675 million. Alyeska previously had estimated that the cost to expand the System from 1,200,000 to 2,000,000 barrels per day would be approximately \$850 million, and a current estimate of such an expansion would most likely be higher.

U.S. REGULATION OF PIPELINE CARRIERS

Interstate Commerce Act. The Interstate Commerce Act gives the Interstate Commerce Commission ("ICC") jurisdiction over common carriers engaged in the pipeline transportation of oil in interstate and foreign commerce. The Act requires such carriers to file tariffs with the ICC showing all rates, charges, classifications, regulations and practices between all points on their systems, and prohibits them from collecting any different compensation for transportation from that specified in their tariffs. Under the Act their rates, charges and classifications must be just and reasonable and must not subject any shipper, locality or territory to any undue or unreasonable prejudice or disadvantage. A carrier's pipeline revenues at a particular rate level are considered by the ICC to be reasonable if they do not exceed the level necessary to cover operating expenses and income taxes and provide a proper

rate of return on the valuation of pipeline properties owned or used by such carrier. The method of valuation currently utilized by the ICC takes into account original cost, cost of reproduction new, cost of reproduction new less depreciation, and other elements of value. See "Pipeline Consent Decree" below. Upon the filing of a tariff, if the ICC, either on the basis of a protest by a third party or on its own motion, believes that a hearing concerning the lawfulness of the tariff is warranted, it may institute an investigation and schedule a hearing. Pending the hearing and decision, the ICC may suspend the operation of the tariff for as long as seven months. If the ICC, at the conclusion of a hearing, finds that a rate is unjust or unreasonable, unjustly discriminating, unduly preferential or prejudicial, or otherwise in violation of the Act, it may order the carrier to cease and desist from charging the rate, and may prescribe a just, reasonable and lawful rate for the future. Any person injured by the carrier's having maintained an unlawful rate may file a complaint seeking reparations or damages from the carrier.

BP Pipelines has recently filed with the ICC a tariff which specifies a rate of \$6.35 per barrel for the transportation of crude oil from Prudhoe Bay to Valdez. The comparable rate appearing in the tariff filed by Sohio Pipe Line with the ICC is \$6.16 per barrel. To date other companies with interests in TAPS have filed with the ICC tariffs specifying rates ranging from \$6.04 per barrel to \$6.44 per barrel.

The Department of Justice, the State of Alaska, the Bureau of Investigations and Enforcement of the ICC and an Alaskan native corporation have filed protests challenging the reasonableness of the tariffs which have been posted by individual TAPS owners, including BP Pipelines and Sohio Pipe Line, and seeking the suspension of such tariffs and the substitution of substantially lower interim rates. BP Pipelines and Sohio Pipe Line are responding to these protests. The ICC has scheduled oral argument for June 27, 1977, and has indicated that it expects to render a decision on the protests on June 29, 1977. Alyeska is now filling the pipeline, but commercial transportation of crude oil through TAPS cannot commence until tariffs are in effect.

In 1974 the ICC instituted a rule-making proceeding for the purpose of determining whether any modification is required in the methodology for computing valuation or in certain reporting and record-keeping requirements applicable to common carrier pipelines. In 1975, the ICC ordered a broadening of that proceeding to include an examination of the proper rate of return for pipeline transportation of crude petroleum and petroleum products. In February 1976, the ICC instituted an investigation concerning possible violations of Section 7 of the Clayton Act involving petroleum pipeline ownership to which all common carrier pipelines subject to Part I of the Interstate Commerce Act were made respondents. Statements and arguments are currently being filed in this proceeding by interested parties.

Pipeline Consent Decree. A Consent Decree was entered on December 23, 1941 in an action brought in the District Court of the United States for the District of Columbia by the United States against most of the principal common carrier pipeline companies then engaged in interstate commerce and their shipper-owners, including Sohio Pipe Line and Sohio. By the terms of the Consent Decree, Sohio Pipe Line and other defendant common carrier pipelines, as well as any common carrier pipeline some or all of the stock of which is owned by any such defendant, were prohibited from paying or crediting, directly or indirectly, to any shipper-owner in any calendar year, commencing as of January 1, 1942, any earnings, dividends, other sums of money or other valuable consideration derived from transportation or other common carrier services which in the aggregate exceed such shipper-owner's share of 7% of the valuation of the carrier's pipeline property owned and used for common carrier purposes. Such valuation is the latest final valuation of such property made by the ICC adjusted for subsequent additions, betterments, retirements and depreciation, computed as of the end of the preceding year but excluding the value of any common carrier property acquired with such excess earnings.

Pipeline Valuation Proceedings. The ICC and the Alaska Pipeline Commission are each conducting an investigation to secure information for the use of the respective agencies in establishing valuations required by statute. The General Accounting Office is also conducting an investigation into the origins

and effects of costs of construction of TAPS in excess of original cost estimates. Neither the results of the investigations nor their impact on Sohio and BP is known at this time.

OTHER INTERESTS IN THE UNITED STATES

Through BP Alaska, the BP Group has retained a royalty interest equal to 75% of the net profits from oil and gas production from Sohio's Prudhoe Bay leases multiplied by a fraction, of which the numerator is the number of net barrels per day of crude oil production from Sohio's Prudhoe Bay leases between 600,000 net barrels per day (or the highest rate of sustainable net production, if less, achieved prior to January 1, 1978) and 1,050,000 net barrels per day and the denominator is the total number of net barrels per day of crude oil production from such leases. If sustainable net production from such leases does not reach 600,000 net barrels per day prior to January 1, 1978, the common stock of BP Alaska will be transferred to Sohio and the BP Group will retain the preferred stock of BP Alaska which will be entitled to dividends in an amount equal to BP Alaska's net profits from oil and gas production from Sohio's Prudhoe Bay leases multiplied by a fraction, of which the numerator is the number of net barrels per day of crude oil production from Sohio's Prudhoe Bay leases between 600,000 net barrels per day (or the highest rate of sustainable net production, if less, achieved prior to January 1, 1984) and 1,050,000 net barrels per day and the denominator is the excess of the total number of net barrels per day of crude oil production from such leases over the highest rate of sustainable net production from such leases achieved prior to January 1, 1978. Assuming, solely for purposes of illustration, that the highest rate of sustainable net production from Sohio's Prudhoe Bay leases achieved prior to January 1, 1978 is 450,000 net barrels per day, and that sustainable net production from such leases reaches 600,000 net barrels per day prior to January 1, 1984, then once the latter level has been reached, the preferred stock of BP Alaska will be entitled to dividends in an amount equal to BP Alaska's net profits from oil and gas production from Sohio's Prudhoe Bay leases multiplied by the following respective fractions: at sustainable net production of 650,000 barrels per day, one-fourth; at 750,000 barrels per day, one-half; and at 850,000 barrels per day, five-eighths; and in each case the remainder of the net profits of BP Alaska will accrue to the benefit of Sohio as the owner of BP Alaska's common stock.

The BP Group also holds leases on approximately 109,000 net (373,000 gross) acres on the North Slope outside of Prudhoe Bay.

The BP Group is a party to a series of agreements with Northern Natural Gas Company ("Northern") under which Northern has the right to purchase up to three trillion cubic feet of gas attributable to the BP Group's net profits royalty interest and other leases on the North Slope of Alaska referred to above. Northern has agreed to make a prepayment to the BP Group of \$30 million in five equal installments during the period 1974 through 1978, the first four of which have been paid. In addition, Northern has agreed to commit up to \$20 million during the years 1972 through 1981 to finance the BP Group's exploration activities in certain other areas of the United States in return for which it will have the right to purchase all the gas discovered as a result of such exploration. Northern will be entitled to recover up to \$16 million of the \$20 million from any commercial discovery that may be made prior to December 31, 1981 on leases acquired in these other areas.

Certain Factors Which May Affect Business

The oil industry is highly competitive. There is competition within the industry and also with other industries in supplying the energy and fuel needs for commerce, industry and individuals.

The operations of the BP Group have been and may be in the future from time to time affected by political developments and local laws and regulations, such as nationalization of concessions, restrictions on production, embargoes, changes in taxes, royalties and other amounts payable to governments or governmental agencies, expropriation of property, cancellation of contract rights, unilateral price

increases by oil producing countries, changes in the proportions in which the BP Group is able to produce for its own account and purchase oil, the relative cost of produced and purchased oil, price controls, environmental protection controls and fluctuations in currency exchange rates. Most of the BP Group's crude oil is purchased in U.S. dollars from the oil producing countries and nearly all its crude oil sales are also in U.S. dollars. Product trade is in a multiplicity of other currencies affording no more currency risk to the BP Group than in the case of multinational companies in general. The timing, implications and overall effect of any of the foregoing events upon the BP Group vary from country to country and are not predictable.

United Kingdom legislation could affect the level of investment in and control exercised by BP over its operations outside the United Kingdom. Consent is required from the United Kingdom Treasury, under legislation designed to prevent avoidance of taxes, for the transfer of business operations from a United Kingdom resident to a non-United Kingdom resident and certain alterations of the corporate structure of established operations outside the United Kingdom, and from the Bank of England, for exchange control purposes, for transactions involving foreign currency or securities. Under this legislation the discretion entrusted to the Treasury and the Bank of England, respectively, regarding consents with respect to the foreign aspects of the BP Group's operations and the criteria employed (i.e., benefits likely to accrue to the United Kingdom economy and balance of payments) effectively give the Government considerable control; however, the BP Group's business outside the United Kingdom has not been inhibited by these controls.

During recent years the rate of inflation in the United Kingdom has been at a higher level than the average in other major industrial countries. In 1972, retail prices in the United Kingdom rose by over 7% and in 1973 by over 9%; thereafter retail prices rose by 16% in 1974, by over 24% in 1975 and by over 16% in 1976. Retail prices rose in the first four months of 1977 by about 16% compared with the first four months of 1976. These high rates of inflation have led the United Kingdom Government to impose controls on prices and dividends and to seek to exercise a restraining influence on wage and salary incomes in agreement with the Trades Union Congress.

The Government's aim as announced by the Chancellor of the Exchequer in his budget statement on March 29, 1977 is to reduce inflation to single figures by the second quarter of next year.

Recent levels of inflation and consequent counter-inflationary policies of the United Kingdom Government have affected the business of the BP Group to a limited extent because of the international nature of the BP Group's operations, but its dividends have been restricted as discussed under "Dividends".

The Chairman of BP in the 1976 Annual Report stated: "I recognize the short-term need for pay restraint in the United Kingdom in the effort to reduce inflation, and the difficulties associated with any major change of policy on the direct taxation of earnings. But in the long run we and other British companies cannot hold our own against our foreign competitors unless we can adequately and effectively reward those who contribute their skill and initiative to success, at whatever level and wherever they work within the organisation".

About 15% of the BP Group's oil and chemical product sales are made within the United Kingdom. In the past, United Kingdom price controls have delayed the recovery of cost increases from time to time, but this is no longer a constraint in practice.

See also "U.S. Regulation" under "Interests in the United States—Interest in Sohio".

Other Matters

Following the investigation by BP into political contributions in Italy, which resulted in the disclosure in April 1976 that the BP Group had contributed approximately £800,000 to Italian political parties in the years 1969-1973, BP expanded its Group-wide investigation into political contributions and questionable payments to government officials. The inquiry covered more than 140 companies of the BP Group operating in more than 70 countries.

In addition to such Italian contributions (of which approximately £493,000 and £10,000 were made in 1972 and 1973, respectively), the investigation revealed the following for the four years ended December 31, 1975:

Political contributions aggregating approximately £139,000 were made in six countries. In each of such countries political contributions by corporations are legal. All such contributions were properly recorded in the books of the subsidiaries involved except that in one country a £66,000 contribution, which was made in January 1972 and approved by a former Managing Director, was paid to a publication affiliated with a political party and, at the request of the recipient, was booked as being for advertising and sales promotion.

Off-the-books funds, all of which have been closed, were maintained in four countries. Funds in such accounts aggregated approximately £126,000, of which approximately £56,000 was paid to minor government officials. The remaining funds were used to reimburse employees for expenditures incurred abroad by them in excess of their foreign currency allowances; to pay commissions to employees of customers without the customers' knowledge; to pay rent on an employee's apartment, pursuant to a request by the landlord; to purchase property; and to pay commissions to salesmen. Other payments to minor government officials and employees of customers without the customers' knowledge aggregated approximately £25,000. These payments, which were derived from internally generated funds, were booked as commissions or distribution expenses, except for two payments aggregating £2,600 which were booked respectively as "repairs" and "car hire". The payments to government officials consisted of payments to customs officials in order to get them to perform duties which they were otherwise obligated to perform, to tax officials to settle tax claims on bases considered by the subsidiary concerned to be fair and appropriate and to employees of state-owned businesses to provide incentives for the promotion of the sale of products of the BP Group. The sales to such state-owned businesses and to other customers in respect of which employees received payments without their employers' knowledge were less than 1/50th of 1% of the BP Group's consolidated sales proceeds in each of the years concerned. The existence of each fund (and the payments to government officials therefrom) was known to two executives who served as the regional director for the region covering the four countries during the period in which the funds were maintained. A former Managing Director and his successor, who is an incumbent Managing Director, also knew of the existence of the funds. The payments of approximately £25,000 to government officials and employees of customers which were not made from such funds were not known to any Managing Directors.

Payments were made by a subsidiary which is not engaged in the BP Group's oil operations to an agent named Assem Etablissement which apparently rendered no services. The payments, which were made in connection with a contract with a Middle Eastern government, aggregated approximately £283,000 through March 31, 1977, are made pursuant to an agency agreement entered into by the subsidiary in 1972 and constitute 10% of the payments to such subsidiary under the contract with such government. The total contract price is £3,752,000, of which approximately £2,825,000 has been received by the subsidiary. Because the entering into of the agency agreement with the agent appears to have been a condition to the subsidiary's obtaining the contract and because the agent has not rendered any services, the BP subsidiary does not intend to make any commission payments to this agent in the future, unless it receives an opinion of counsel qualified to practice in the jurisdiction whose laws govern the agency agreement, advising it that it is legally obligated to do so. The individual agent referred to in the next paragraph also receives commissions at the rate of 10% of the payments to the subsidiary under the government contract referred to in this paragraph.

In the same country, the same BP subsidiary has two other agents. A person who BP believes is a government official in that country is a controlling stockholder of one of the agents and may have received portions of the commissions paid to the other agent, an individual. BP further believes that such person's interest in the commission payments is maintained with the knowledge and consent of the government of that country. Accordingly, BP does not believe that the retention

of these agents, both of which have rendered services to the BP subsidiary, is improper or illegal. Commissions in which such person is believed to have an interest and which are paid in respect of a contract in which he appears to have participated in the decision to award the contract to the BP subsidiary aggregate approximately £258,000, of which approximately £226,000 has been paid. The commission rates for the corporate agent have ranged from 5% to 33% and the commission rates for the individual agent have ranged from 3% to 20%. The maximum commissions payable to the agents in respect of any one contract aggregate 40%. The commissions paid to such agents in the years 1972-1976 aggregate less than 1/50th of 1% of the BP Group's consolidated operating and other costs during those years. The contract with the corporate agent is dated May 6, 1974 and is for an initial period of ten years, being thereafter subject to automatic renewal unless terminated by either party. The contract states that the agent will be the subsidiary's sole agent in six Middle Eastern countries. The agency may be extended to other territories by agreement. While the contract provides for commissions at the rate of 20% of the value of all contracts awarded to the BP subsidiary for projects in the contract territories (30% of the value of spare parts, maintenance and repair work), the contract recognizes that the parties may negotiate different rates, which has occurred in respect of three of the last four contracts obtained by the BP subsidiary. The current contract with the individual agent is dated July 31, 1976 and is for a period of three years. The agency covers three Middle Eastern countries, two of which are also within the scope of the agreement with the corporate agent. The individual agent is due to receive commissions equal to 3% of amounts received by the BP subsidiary pursuant to contracts entered into by the subsidiary in the agent's territory. Examples of services rendered by both agents are: arranging introductions with potential customers (principally government officials), directing the BP subsidiary towards potential areas of profitable business, seeking out and advising on new business opportunities, negotiating with potential clients, obtaining visas for the BP subsidiary's employees, advising or negotiating with government entities and officials with regard to legal and financial matters and providing secretarial services and translation services. Because the amounts of the commissions and the payment thereof to these agents are not believed to be illegal or improper, this subsidiary will continue to make such payments to these agents as they become due. All payments made to these agents and the agent referred to in the preceding paragraph were approved by the Board of the subsidiary involved and were booked as commissions or consulting fees. The payments received in the years 1972-1976 by the BP subsidiary under contracts with government entities which have been obtained with the assistance of one or more of such agents have aggregated less than 1/20th of 1% of the BP Group's consolidated sales proceeds for that period.

A BP subsidiary paid a portion of the expenses which another company said it had incurred when leading negotiations with two other Middle Eastern governments. Payments were made by reimbursing the lead company through a reduction in 1974 of an amount owing to the BP subsidiary by the lead company and by the payment in 1975 to the Swiss bank accounts of two Liechtenstein companies designated by the lead company. The negotiations arose in connection with joint ventures to which the lead company, other companies and the BP Group were parties. The lead company has refused to give BP any details of such expenses. Therefore, BP does not know whether the lead company actually incurred the expenses or whether it received any services in return for such expenses. The lead company has informed BP that the incurrence of the expenses was approved by officials of the government which has primary jurisdiction over its operations. The negotiations related to the availability and price of oil. In one country they resulted in oil which had not been available to the companies being made available and in the other country they resulted in oil being made available at realistic prices. The expenses paid by the BP subsidiary constituted less than 1/50th of 1% of the BP Group's consolidated operating and other costs in the years in which they were paid. The payments were properly accounted for in the books of the BP subsidiary as costs of oil. The payments in connection with one transaction were approved by a former Managing Director. The payments in connection with the other transaction were approved by an incumbent Managing Director and were known to a person who is now a Managing Director.

At a meeting held on May 4, 1976, the Board of Directors of BP approved a set of guidelines reaffirming the policies of the BP Group with respect to political contributions, payments to government officials and other matters. These guidelines prohibit among other things use of Group funds or assets for unlawful or improper purposes, payments to government officials whether made directly or indirectly, off-the-books funds and false entries on the books, and permit political contributions by non-United Kingdom subsidiaries only under closely controlled circumstances, namely where they are legal under local law, approved by the board of directors of the company concerned, of modest amount and properly recorded in the books.

BP has also instituted procedures which are designed to detect any non-compliance with the guidelines. The compliance procedures indicated that in 1976 no contributions or payments were made, and no accounting procedures were followed, which were in violation of BP's policies, except that approximately £5,000 was paid to employees of state-owned businesses. Such payments have been terminated. BP does not believe that compliance with the guidelines has had a material effect on its financial position, results of operations or overall business.

No political contributions, payments to government officials or payments to employees of customers were made, and no off-the-book funds were maintained, in the United Kingdom or the United States. None of the transactions referred to herein was improperly reflected in tax returns filed in the United Kingdom or the United States by any member of the BP Group.

Following an announcement by the United Kingdom Government on April 8, 1977, the United Kingdom Foreign Secretary has set up an enquiry to conduct an investigation on his behalf under the United Kingdom 1968 Southern Rhodesia Sanctions Order into allegations of evasion of sanctions by major oil companies, including BP.

OWNERSHIP OF ORDINARY SHARES AND SELLING SHAREHOLDER

The following table sets forth certain information as of May 31, 1977 concerning the United Kingdom Government and the Bank of England which are the only persons who own of record or are known by BP to own beneficially more than 10% of its outstanding Ordinary Shares.

Name	No. of Ordinary Shares Owned	Percent of Class	No. of Ordinary Shares To Be Sold	No. of Ordinary Shares To Be Retained	Percent of Class
United Kingdom Government(1)	186,092,307	48.15%	66,785,591(2)	119,306,716	30.87%
Bank of England(3) ..	77,817,507	20.13%	—	77,817,507	20.13%

- (1) All Ordinary Shares are held beneficially and, except for qualifying shares of directors appointed by the United Kingdom Government, of record.
- (2) See "Offering of Ordinary Shares in the United Kingdom" and "Underwriters".
- (3) All Ordinary Shares are held beneficially but none of record. In addition, at May 31, 1977 the Bank of England's Pension Fund held of record 248,000 Ordinary Shares and the Bank's nominee companies held of record 1,620,300 Ordinary Shares on behalf of others.

The above mentioned 77,817,507 Ordinary Shares held by the Bank of England (the "Bank") were acquired by it on January 23, 1975 from The Burmah Oil Company, Limited ("Burmah"). The validity of this acquisition is currently the subject of litigation in the United Kingdom, essentially on the grounds that such 77,817,507 Ordinary Shares were, in the circumstances of the acquisition, unfairly and/or inequitably acquired by the Bank. Burmah is seeking an order that such Ordinary Shares be transferred back to Burmah against repayment to the Bank of the purchase price of £178,980,266 less any dividends received. The Bank has entered a defense to these proceedings and is of the opinion that Burmah's claim will not succeed. At the time of the transaction between Burmah and the Bank,

assurances were given to the Panel on Take-overs and Mergers (the "Panel") (a) by an undertaking from the Bank that it would not exercise the votes attaching to the Ordinary Shares so acquired so long as the Bank and the United Kingdom Government taken together held 30% or more of the voting rights and (b) by a statement on behalf of the Government that, while the Bank held any part of such Ordinary Shares and its undertaking remained in force, the Government would not exercise a greater proportionate voting power in relation to other BP shareholders than it could have exercised prior to the transaction. The reason for these undertakings was to obtain from the Panel a ruling, which the Panel issued on January 23, 1975, that the Bank would not be obligated under the City Code on Take-overs and Mergers to offer to purchase the Ordinary Shares of BP held by its public shareholders.

The United Kingdom Government has announced its intention to acquire the Bank's holdings of Ordinary Shares of BP in due course and thus increase the Government's holdings to 197,124,223 units (51%). The restrictions set forth in the preceding paragraph will remain in force until such acquisition, but the Panel has accepted that thereafter the Government will be free to vote the 51% shareholding which it then expects to have. The Panel will not require the Government to make an offer to purchase the Ordinary Shares held by the public. In its discussions with the Panel the Bank referred to the fact that the Government holding of Ordinary Shares had exceeded 50% for long periods in the past and to the restraint with which the Government had traditionally approached the use of its voting power. The Bank informed the Panel that it was authorized by the Government to say that it is the Government's intention to maintain its relationship with BP in a way which does not breach the traditional practice of non-intervention in the administration of BP as a commercial concern. See "Management".

The Bank was incorporated in 1694 under Royal Charter. It is responsible for the management of the note issue, and is the banker to the United Kingdom Government on whose behalf it manages the national debt and foreign exchange reserves and administers the exchange control rules. As central reserve bank of the country, the Bank keeps accounts for the principal British banks, who maintain with it a proportion of their cash resources, and for many overseas central banks.

As from March 1, 1946 the entire capital stock of the Bank was transferred to a nominee of the United Kingdom Treasury (The Solicitor for the Affairs of Her Majesty's Treasury) under the provisions of the Bank of England Act 1946. The stock carries no voting rights. Under the Act the Governor, Deputy Governor and sixteen Directors are appointed by the Crown. The Governor and Deputy Governor are each appointed for a term of five years and the Directors for terms of four years. Not more than four Directors may be employed to give their exclusive services to the Bank.

The Act empowers the United Kingdom Treasury to give from time to time such directions to the Bank as, after consultation with the Governor, they think necessary in the public interest. No such direction has ever been given. Subject to any such directions, the management of the Bank expressly resides in the Court of Directors.

In the ordinary course of its business, the BP Group has transactions with various agencies and instrumentalities of the United Kingdom Government. The following table sets forth information with respect to sales to such agencies during the years indicated.

	Refined Products		Natural Gas	
	(thousands of barrels)	(thousands of U.S. dollars)	(millions of cubic feet)	(thousands of U.S. dollars)
1974	9,146	\$101,922	60,684	\$12,402
1975	8,807	\$112,509	60,233	\$12,473
1976	8,188	\$136,182	65,393	\$15,101

See also "Business and Property—Crude Oil—United Kingdom Continental Shelf and Other North Sea Interests—Participation Agreement with the United Kingdom Government".

All Directors and the Secretary and Legal Adviser of BP as a group own less than 1% of the outstanding Ordinary Shares of BP.

MANAGEMENT

The business of BP is managed by a Board of Directors of not fewer than three and not more than 16 in number. Each Director must be a British subject. At present there are 14 Directors in office of whom six are Managing Directors and two are Directors appointed by the United Kingdom Government pursuant to the Articles of Association of BP.

The present Directors and the Secretary of BP are as follows:

<u>Name</u>	<u>Age</u>	<u>Title</u>	<u>Director Since</u>
Sir David Steel	60	Chairman and Managing Director	May 1965
M. M. Pennell	61	Deputy Chairman and Managing Director	April 1972
R. W. Adam	54	Managing Director	January 1975
C. C. F. Laidlaw	54	Managing Director	October 1972
J. W. R. Sutcliffe	53	Managing Director	November 1975
P. I. Walters	46	Managing Director	February 1973
Sir Lindsay Alexander	56	Director	January 1975
The Lord Elworthy	66	Director	May 1971
The Lord Greenhill of Harrow	63	Director*	November 1973
The Earl of Inchcape	59	Director	April 1965
T. Jackson	52	Director*	March 1975
Sir James Menter	55	Director	March 1976
Sir Alastair Pilkington	57	Director	March 1976
M. J. Verey	64	Director	July 1974
D. A. G. Sarre	50	Secretary and Legal Adviser	

* Appointed by the United Kingdom Government.

The Managing Directors, who are the principal executive officers of BP, are not required to stand for re-election once elected by the shareholders. Each of the Managing Directors has a service contract with BP which is terminable by either party on 12 months' notice. Each of the Directors appointed by the United Kingdom Government is subject to removal from office at any time by the Government. The Directors other than the Managing Directors and the Government-appointed Directors are subject to retirement by rotation, one-third retiring and being eligible for re-election by the shareholders each year. It is expected that Lord Elworthy and the Earl of Inchcape will retire by rotation in 1978, Sir James Menter and Sir Alastair Pilkington in 1979 and Sir Lindsay Alexander and Mr. M. J. Verey in 1980.

All the above named Managing Directors have been actively engaged in the business of the BP Group for the past five years and substantially all their business careers. Sir David Steel was Deputy Chairman until he became Chairman with effect from November 29, 1975. At that time, Mr. Pennell became Deputy Chairman. Sir Lindsay Alexander is Chairman of Ocean Transport & Trading Limited and a Director of Lloyds Bank Limited. Lord Elworthy is a Marshal of the Royal Air Force and a director of Plessey Limited and National Bank of New Zealand Limited. Lord Greenhill of Harrow was formerly Permanent Under-Secretary of State and Head of the Diplomatic Service and is a Governor of the British Broadcasting Corporation and a Director of British Leyland Limited, B. A. T. Industries Limited, Hawker Siddeley Group Limited and S. G. Warburg & Co. Ltd., one of the under-

writers of the Ordinary Shares offered in the United Kingdom. The Earl of Inchcape is Chairman of Inchcape and Company Limited and of The Peninsular and Oriental Steam Navigation Company. Mr. Jackson is General Secretary of the Union of Post Office Workers, a member of the General Council of the Trades Union Congress and a former Governor of the British Broadcasting Corporation. Sir James Menter is Principal of Queen Mary College, University of London, a Director of Tube Investments Limited, and a member of the Board of British Steel Corporation. Sir Alastair Pilkington is Chairman of Pilkington Brothers Limited and a Director of the Bank of England. Mr. Verey is a former Director and Chairman of Schroders Limited, the parent of one of the underwriters of the Ordinary Shares offered in the United Kingdom, Chairman of The Charities Official Investment Fund and a Director of The Boots Company Limited and Commercial Union Assurance Co. Ltd.

A Director appointed by the United Kingdom Government has the right, under BP's Articles of Association, to veto any resolution of the Directors or of any Committee appointed by the Directors. The United Kingdom Government has never since such right was conferred intervened in the administration of BP as a commercial concern, and the right to veto a resolution has never been used. If such right were to be exercised, the other Directors, or a majority of them, would have the right to submit the proposed resolution to the United Kingdom Government, and the United Kingdom Government would decide whether or not the resolution should be implemented.

Remuneration

The aggregate remuneration of the Directors and the Secretary and Legal Adviser for the year 1976 was £408,000. The following table shows the number of Directors whose remuneration in 1976 was within the ranges stated:

<u>Remuneration</u>	<u>Number of Directors</u>
£87,501-£90,000	1
£62,501-£65,000	1
£47,501-£50,000	4

There were no other persons who were Directors in 1976 whose remuneration exceeded the equivalent of \$40,000.

BP's Managing Directors are all members of a non-contributory Pension Scheme established for BP's salaried staff by a separate trustee company to which contributions are made by BP based on actuarial advice. Members of the Pension Scheme are entitled on retirement to benefits calculated at the rate of one-sixtieth of the final pensionable salary for each year of pensionable service (as defined in the Pension Scheme). Assuming that the present Managing Directors continue in office until normal retirement age and at their present pensionable salaries, without commutation of pensions, the aggregate annual benefits to which the Managing Directors as a group would be entitled on retirement would be approximately £250,000 (\$425,000). Pensions and commutations of pensions to Directors and former Directors and their dependents in 1976 amounted to £660,000 (\$1,122,000).

For information with respect to BP's executive loan plan, see Note X of Notes to the BP Group's Financial Statements.

BP has no outstanding stock options. A Canadian subsidiary (approximately 66% owned) had at December 31, 1976 outstanding stock options covering 302,000 shares. On June 27, 1977 the closing price of that subsidiary's stock was Can. \$13¾ per share. None of the optionees is a Director of BP.

In the ordinary course of its business the BP Group has transactions with various organizations with which certain of its Directors are associated. Mr. Verey, a Director of BP, was until May 1977 a Director and Chairman of Schroders Limited, of which a subsidiary is a participant in one of the BP Group's revolving credit facilities. The total amount available under the facility is £91.55 million (\$156 million),

of which such subsidiary's share is 4.6%. Such subsidiary also participates in the sterling portion of the Forties Field financing described in Note I of Notes to the BP Group's Financial Statements, of which its share is 1.1%. The amount outstanding under this arrangement at March 31, 1977 was £105.0 million and \$273.0 million. Sir Lindsay Alexander, a Director of BP, is Chairman of Ocean Trading & Transport Limited, which has a contract to bareboat charter from the BP Group through 1996 four 20,000 deadweight ton cargo liners which are under construction and scheduled for delivery in 1977. Over the period of the charter the BP Group will receive an aggregate of £85 million (\$144 million) in charter hire.

DESCRIPTION OF ORDINARY SHARES AND AMERICAN DEPOSITARY RECEIPTS

The following statement includes a summary of certain provisions of BP's Articles of Association, as presently in effect, and of the Deposit Agreement between BP, Morgan Guaranty Trust Company of New York, as Depositary, and the holders from time to time of the American Depositary Receipts. The following summaries of certain terms of the Articles of Association and Deposit Agreement do not purport to be complete and are qualified in their entirety by reference to the full Articles of Association and Deposit Agreement which have been filed as exhibits to the Registration Statement of which this Prospectus is a part.

Ordinary Shares

Dividends. Holders of Ordinary Shares of BP are entitled to receive such dividends as may be declared, upon the recommendation of the Board of Directors, by the shareholders at a General Meeting. The Board may, when in its opinion the position of BP permits, pay interim dividends. Dividends are payable only out of net income remaining after payment of dividends on the Preference Stock. Since 1973, the United Kingdom Government has imposed restrictions on the amount of dividends which United Kingdom companies could pay. See "Dividends".

Voting Rights. Voting at a General Meeting is by show of hands unless, before or on making known the result, voting by reference to the amount of stock held by each shareholder who is represented is demanded ("a poll") in accordance with the Articles of Association. If voting is by show of hands, only shareholders personally present are entitled to vote and they have one vote each. On a poll every member who is present in person, or by proxy, shall have one vote for every five Preference Shares and two votes for every Ordinary Share held by him. Holders of Ordinary Shares do not have cumulative voting rights.

Liquidation Rights. In the event of liquidation of BP, after payment of all liabilities the holders of First and Second Preference Stock would be entitled to a sum equal to the capital paid up on such stock plus an amount in respect of accrued and unpaid dividends and a premium equal to the higher of (i) 10% of the capital paid up on the Preference Stock or (ii) the excess of the average market price over par value of such stock on the London Stock Exchange during the previous six months. The remaining assets would be divided among the holders of Ordinary Shares in proportion to the sums paid up on their shareholdings.

Miscellaneous. Holders of Ordinary Shares have no preemptive rights under the Articles of Association, but BP has given an undertaking to the London Stock Exchange that, in the absence of exceptional circumstances, it will obtain the consent of the equity shareholders at a General Meeting prior to the issue of equity capital for cash to other than the equity shareholders of BP. All the presently outstanding Ordinary Shares are fully paid and non-assessable. Certificates representing Ordinary Shares are issued in registered form. BP acts as its own transfer agent and registrar.

American Depositary Receipts

American Depositary Receipts evidencing American Depositary Shares are issuable by Morgan Guaranty Trust Company of New York, as depositary ("Depositary"), pursuant to the Deposit Agreement. Each American Depositary Share represents one £1 unit of Ordinary Stock (or evidence of rights to receive such Stock) deposited with the London office of the Depositary (the "Custodian"). ADRs may represent any number of American Depositary Shares up to and including 100 Shares or, in the discretion of BP, any number of American Depositary Shares in excess of 100 which is a multiple of 100.

BP has been advised that, for purposes of obtaining any available credits under the United States Internal Revenue Code of 1954 for United Kingdom taxes related to dividends paid on Ordinary Shares and for United Kingdom capital transfer taxes in respect of Ordinary Shares, as discussed below, the holders of American Depositary Receipts have an interest in the underlying Ordinary Shares.

Deposit and Withdrawal of Shares. The Depositary has agreed that, upon deposit with the Custodian in London of Ordinary Shares or evidence of the right to receive such Shares and subject to the terms of the Deposit Agreement, it will execute and deliver at its corporate trust office, which is presently located at 23 Wall Street, New York, N. Y. 10015 (telephone (212) 483-2323), to the persons specified by the depositor, an ADR or ADRs for the number of American Depositary Shares issuable in respect of such deposit.

Upon surrender of ADRs at the corporate trust office of the Depositary, and upon payment of the charges provided in the Deposit Agreement, the ADR holders are entitled to delivery at the office of the Custodian in London or at the corporate trust office of the Depositary of the Ordinary Shares of BP and any other property at the time represented by the surrendered ADRs. The forwarding of stock certificates and any other property for such delivery at the corporate trust office of the Depositary in New York City is at the risk and expense of the ADR holder.

Dividends, Other Distributions and Rights. The Depositary is required, to the extent that in its judgment it can convert the foreign currency on a reasonable basis into U.S. dollars and transfer the dollars to the United States, to convert into U.S. dollars all cash dividends and other cash distributions which it receives on the underlying Ordinary Shares and to distribute the amount thus received to the holders of ADRs in proportion to the number of American Depositary Shares representing such Ordinary Shares held by them, respectively. The amount distributed will be reduced by any amounts required to be withheld by BP or the Depositary on account of taxes. If the Depositary determines that in its judgment any foreign currency received by it cannot be so converted and transferred, the Depositary may distribute the foreign currency received by it or in its discretion hold such foreign currency for the respective accounts of the ADR holders entitled to receive the same.

If a distribution by BP consists of a dividend in, or free distribution of, Ordinary Shares, the Depositary may with BP's approval, and shall if BP shall so request, distribute to the holders of outstanding ADRs, in proportion to their holdings, additional ADRs for an aggregate number of American Depositary Shares representing the amount of Ordinary Shares received as such dividend or free distribution. If additional ADRs are not so distributed, each American Depositary Share shall thenceforth also represent the additional Ordinary Shares distributed upon the Ordinary Shares represented thereby.

In the event that BP shall offer or cause to be offered to the holders of Ordinary Shares any rights to subscribe for additional Ordinary Shares or any rights of any nature, the Depositary will either (a) make such rights available to holders of ADRs by means of warrants or otherwise, if lawful and feasible, or (b) if making such rights available is not lawful or not feasible, or if the rights represented by such warrants or other instruments are not exercised and appear to be about to lapse, sell such rights or warrants or other instruments at public or private sale, at such place or places and upon such terms as the Depositary may deem proper, and allocate the proceeds of such sales for account of the holders of ADRs

otherwise entitled thereto upon an averaged or other practicable basis without regard to any distinctions among such holders because of exchange restrictions, or the date of delivery of any ADR or ADRs, or otherwise.

Record Dates. Whenever any cash dividend or other cash distribution shall become payable or any distribution other than cash shall be made, or whenever rights shall be issued, with respect to the Ordinary Shares, or whenever the Depositary shall receive notice of any meeting of holders of Ordinary Shares, the Depositary will fix a record date for the determination of the holders of ADRs who shall be entitled to receive such dividend, distribution or rights, or the net proceeds of the sale thereof, or to give instructions for the exercise of voting rights at any such meeting, subject to the provisions of the Deposit Agreement.

Voting of the Underlying Ordinary Shares. Upon receipt of notice of any meeting of holders of Ordinary Shares of BP, the Depositary has agreed that, as soon as practicable thereafter, it will mail the information contained in such notice of meeting to the record holders of ADRs. The record holders of ADRs at the close of business on the date specified by the Depositary are entitled under the Deposit Agreement to instruct the Depositary as to the exercise of the voting rights, if any, pertaining to the units of Ordinary Shares of the Company represented by their respective American Depositary Shares. The Depositary has agreed that it will endeavour, in so far as practicable, to vote the units of Ordinary Shares of BP represented by such ADRs in accordance with such instructions. The Depositary has agreed not to vote the units of Ordinary Shares of the Company so represented unless it has received such instructions from the record holders of ADRs.

Amendment and Termination of the Deposit Agreement. The ADRs and the Deposit Agreement may at any time be amended by agreement between BP and the Depositary. Any amendment which imposes or increases any fees or charges (other than the fees of the Depositary for the execution and delivery of ADRs and taxes or other governmental charges), or which otherwise prejudices any substantial right of ADR holders, will not take effect as to outstanding ADRs until the expiration of three months after notice of such amendment has been given to the record holders of outstanding ADRs. In no event may any amendment impair the right of any ADR holder to surrender his ADR and receive therefor the underlying Ordinary Shares and any other property represented thereby.

Whenever so directed by BP, the Depositary has agreed to terminate the Deposit Agreement by mailing notice of such termination to the record holders of all ADRs then outstanding at least 30 days prior to the date fixed in such notice for such termination. The Depositary may likewise terminate the Deposit Agreement at any time 60 days after the Depositary shall have delivered to BP a notice of its election to resign and a successor Depositary shall not have been appointed and accepted its appointment. If any ADRs remain outstanding after the date of termination, the Depositary thereafter will discontinue the registration of transfers of ADRs, will suspend the distribution of dividends to the holders thereof and will not give any further notices or perform any further acts under the Deposit Agreement, except the collection of dividends and other distributions pertaining to the underlying Ordinary Shares and any other property, the sale of rights and the delivery of underlying Ordinary Shares, together with any dividends or other distributions received with respect thereto and the net proceeds of the sale of any rights or other property, in exchange for surrendered ADRs. At any time after the expiration of two years from the date of termination, the Depositary may sell the underlying Ordinary Shares and any other property and hold the net proceeds for the pro rata benefit of the holders of ADRs which have not theretofore been surrendered.

Charges of Depositary. The Depositary will charge the party to whom ADRs are delivered against deposits, and the party surrendering ADRs for delivery of Ordinary Shares of the Company or

other underlying securities, \$5.00 for each 100 American Depositary Shares (or portion thereof) represented by the ADRs issued or surrendered. BP will pay all other charges of the Depositary, including charges for issuance of ADRs payable as a dividend or distribution or in connection with a rights offering to shareholders, except for taxes and other governmental charges, any applicable transfer or registration fees on deposit of Ordinary Shares, certain cable, radio and delivery charges and such expenses as are incidental to the conversion of foreign currency into dollars.

General. Neither the Depositary nor BP will be liable to the holders of ADRs if prevented or delayed by law or any circumstances beyond its control in performing its obligations under the Deposit Agreement. The obligations of BP and the Depositary under the Deposit Agreement are expressly limited to performing in good faith their respective duties specified therein.

The ADRs are transferable on the books of the Depositary; provided, however, that the Depositary may close the transfer books, at any time or from time to time, when deemed expedient by it in connection with the performance of its duties. As a condition precedent to the execution and delivery, registration of transfer, split-up, combination or surrender of any ADR or withdrawal of Ordinary Shares, the Depositary or the Custodian may require payment of a sum sufficient to reimburse it for any tax or other governmental charge and any stock transfer or registration fee with respect thereto and payment of any applicable fees payable by the holders of ADRs. The Depositary may refuse to execute and deliver ADRs, register the transfer of any ADR or make any distribution of, or related to, Ordinary Shares until it has received such proof of citizenship, residence, exchange control approval or other information as it may deem necessary or proper. The execution and delivery, transfers and surrenders of ADRs generally may be suspended, during any period when the transfer books of the Depositary and BP are closed, if any such action is deemed necessary or advisable by the Depositary or BP at any time or from time to time.

TAXES

Income Tax

BP is required when paying a dividend to account to the United Kingdom Inland Revenue for an advance payment of corporation tax ("ACT"). The current rate is 35/65ths of the cash paid to shareholders or 35% of the sum of the dividend and the ACT.

An individual shareholder resident in the United Kingdom is for United Kingdom income tax purposes treated as having taxable income equal to the sum of the dividend paid to him and the ACT paid to the Inland Revenue in respect of his dividend, but is allowed a tax credit, which may result in a refund, equal to the ACT.

Under the existing tax convention of April 16, 1945, as amended, between the United Kingdom and the United States, ACT in respect of dividends paid to United States resident shareholders, including ADR holders, is not refundable, but dividends paid to such shareholders are not subject to United Kingdom withholding tax. In the opinion of Sullivan & Cromwell, BP's United States counsel, (1) a dividend paid by BP to a United States resident shareholder is for Federal income tax purposes includible in the shareholder's gross income and is not eligible for the \$100 dividends received exclusion allowed to individuals or the 85% dividends received deduction allowed to corporations; (2) no amount is includible in a United States shareholder's gross income on account of the payment of ACT by BP; and (3) no United States shareholder is entitled to a foreign tax credit for ACT or any other tax paid by BP.

Representatives of the United States and the United Kingdom have signed a new double taxation convention which, if ratified, will replace the existing convention and apply to dividends paid by BP after April 5, 1973. The new convention has been sent to the United States Senate for its advice and consent to ratification and was approved by the United Kingdom House of Commons in January 1977. Under the new convention, a United States resident individual shareholder whose holding is not effectively con-

nected with a permanent establishment of his business in the United Kingdom or, in the case of a shareholder who performs independent personal services, with a fixed base situated therein, will (so long as the United Kingdom allows a credit for ACT to individual United Kingdom resident shareholders) be entitled to receive, in addition to any dividend paid by BP, an amount equal to the ACT paid by BP in respect of such dividend, but subject to a withholding tax equal to 15% of the sum of the dividend paid and such ACT. Thus, assuming continuance of ACT at the rate of 35/65ths, a dividend of £65 would result in an additional payment of £35, subject to a withholding tax of £15. A United States corporate shareholder is treated for these purposes as an individual but different provisions will apply if the corporation controls 10% or more of the voting stock of the corporation paying the dividend. BP has been advised by Sullivan & Cromwell that the payment to a United States shareholder in respect of ACT will represent dividend income to the shareholder and that the 15% withholding will be eligible as a foreign income tax for credit against the shareholder's Federal income taxes.

Whether holders of Ordinary Shares who reside in countries other than the United States are entitled to a tax credit in respect of dividends on Ordinary Shares depends in general upon the provisions of such conventions or agreements, if any, as may exist between such countries and the United Kingdom. In addition to that with the United States, conventions or agreements presently exist between the United Kingdom and, among other countries, Canada, Australia, New Zealand, Austria, Belgium, Denmark, Finland, France, West Germany, Ireland, Italy, Luxembourg, The Netherlands, Norway, Portugal, Sweden and Switzerland.

Tax on Capital Gains

Residents of the United States will not be liable to United Kingdom taxation on capital gains on any profit realized on the disposal of their Ordinary Shares, including those represented by ADRs, unless the shares are held in connection with a trade or business carried on in the United Kingdom through a permanent establishment situated therein or, under the new double taxation convention, through a branch or agency in the United Kingdom.

Capital Transfer Tax

An individual shareholder may be liable to United Kingdom capital transfer tax irrespective of whether the shareholder is domiciled in the United Kingdom or not. The tax applies in the main to lifetime gifts and to property forming part of a deceased person's estate. If a person is not domiciled for purposes of the tax in the United Kingdom, the tax does not apply to property situated outside the United Kingdom. Under the terms of the existing estate tax convention between the United Kingdom and the United States, Ordinary Shares, including those represented by ADRs, are regarded as situated in the United Kingdom. No tax is payable on the first £15,000 of a person's chargeable transfers, but thereafter the tax is charged at ascending rates (rising to 75%) on successive levels of the cumulated transfers. Transfers between spouses are in general exempt. The tax also applies to Ordinary Shares held by certain trusts. Any capital transfer tax paid in respect of a United States shareholder's Ordinary Shares owned at death is allowed as a credit against, and up to the amount of, any Federal estate tax payable in the United States and attributable to the Ordinary Shares. No credit is given for any capital transfer tax paid on gifts (i.e., otherwise than on property passing on death). However, it has been announced that United Kingdom and United States authorities are discussing the possibility of a new double taxation convention covering taxes on the estates of deceased persons and on gifts to replace the existing estate tax convention.

EXCHANGE CONTROL

The United Kingdom Exchange Control Act of 1947 and rules issued thereunder impose restrictions on remittances by United Kingdom residents to persons not resident within its exchange control area

("non-residents"). So far as remittances of dividends on BP's Ordinary Shares are concerned, BP may pay dividends to non-residents (including United States residents) in sterling which is convertible into dollars at the current market rate in the official foreign exchange market, provided that the Ordinary Shares have been acquired in accordance with United Kingdom exchange control rules. Holders of ADRs receive their dividends through the Depositary which is responsible for ensuring that the relevant exchange control rules are complied with.

OFFERING OF ORDINARY SHARES IN THE UNITED KINGDOM

On June 14, 1977 the United Kingdom Government announced a public offering in the United Kingdom and elsewhere outside North America of not exceeding 66,785,591 Ordinary Shares (the "U.K. offering"), but reserved the right to withdraw some of such Ordinary Shares for an offering in the United States and Canada. The American Depositary Shares offered hereby represent the Ordinary Shares so withdrawn. The period for applications to purchase Ordinary Shares in the U.K. offering terminated on June 24, 1977. Such Ordinary Shares were offered on a partly-paid basis at a price of £8.45 per Ordinary Share (equivalent to \$14.53 translated into dollars at the Noon Buying Rate on June 27, 1977), of which £3.00 was payable upon application and £5.45 is payable on or before December 6, 1977. Purchasers in the U.K. offering are being issued Letters of Acceptance evidencing the right to receive registered certificates for Ordinary Shares on or after February 2, 1978 subject to due payment of the second installment of the purchase price.

The U.K. offering was not made in the United States, its territories or possessions or in Canada or to any national or resident thereof (including any corporation or other entity organized under the laws of the United States or Canada or any political subdivision thereof) (a "North American person"). The Letters of Acceptance representing the Ordinary Shares comprised in the U.K. offering have not been registered under the United States Securities Act of 1933 or qualified for sale under the securities laws of any province of Canada. Applications in the U.K. offering were accepted only from persons declaring that they were not North American persons or acquiring Ordinary Shares for the account of a North American person and that they had no present intention to sell the Ordinary Shares purchased by them in the U.K. offering or the Letter of Acceptance representing such Ordinary Shares in the United States, its territories or possessions or in Canada or to or for the account of any North American person. Transferees of Letters of Acceptance must make a similar declaration in order for certificates for Ordinary Shares to be registered in their names.

The U.K. offering was fully underwritten in the United Kingdom by the following merchant banks (the "U.K. underwriters"): Baring Brothers & Co., Limited, Robert Fleming & Co. Limited, Hambros Bank Limited, Hill Samuel & Co. Limited, Kleinwort, Benson Limited, Lazard Brothers & Co., Limited, Morgan Grenfell & Co. Limited, N. M. Rothschild & Sons Limited, J. Henry Schroder Wagg & Co. Limited and S. G. Warburg & Co. Ltd. The U.K. underwriters agreed to purchase from the United Kingdom Government any Ordinary Shares offered in the U.K. offering for which applications were not received and accepted. This underwriting commitment was sub-underwritten by some 800 corporations, funds and other persons. The applications for Ordinary Shares received and accepted in the U.K. offering were such that neither the U.K. underwriters nor such sub-underwriters were obligated to purchase any Ordinary Shares in their underwriting or sub-underwriting capacities.

Neither the U.K. underwriters nor the sub-underwriters of the U.K. offering are participating in the offer or sale of the American Depositary Shares offered hereby.

UNDERWRITERS

Under the terms of and subject to the conditions contained in an Underwriting Agreement with the United Kingdom Government, the Underwriters named below have, severally, agreed to purchase, and the United Kingdom Government has agreed to sell to them, severally, the respective numbers of American Depositary Shares set forth below.

Name	Number of American Depositary Shares	Name	Number of American Depositary Shares
Morgan Stanley & Co. Incorporated	854,600	City Securities Corporation	8,000
The First Boston Corporation	849,600	Richard W. Clarke Corporation	4,000
Goldman, Sachs & Co.	849,600	Colin, Hochstin Co.	12,000
Merrill Lynch, Pierce, Fenner & Smith Incorporated	849,600	Collett & Company, Inc.	8,000
Salomon Brothers	849,600	C. C. Collings and Company, Inc.	4,000
ABD Securities Corporation	88,000	Julien Collins & Company	8,000
Adams & Peck	8,000	Connors & Company, Inc.	4,000
Advest, Inc.	44,000	Coughlin and Company, Inc.	4,000
Alden & Co. Incorporated	4,000	Cowen & Company	12,000
Allen & Company Incorporated	44,000	Craigie Incorporated	12,000
Almstedt Brothers, Inc.	8,000	Crang & Ostiguy Inc.	8,000
American Securities Corporation	28,000	Crowell, Weedon & Co.	28,000
A. E. Ames & Co. Limited	44,000	Cunningham, Schmertz & Co., Inc.	4,000
Arnhold and S. Bleichroeder, Inc.	44,000	Dain, Kalman & Quail, Incorporated	44,000
Arthurs, Lestrangle & Short	8,000	Daiwa Securities America Inc.	16,000
Babbitt, Meyers & Company	4,000	Daniels & Bell, Inc.	8,000
Bacon, Whipple & Co.	44,000	Davenport & Co. of Virginia, Inc.	12,000
Robert W. Baird & Co. Incorporated	44,000	D. A. Davidson & Co., Incorporated	8,000
Baker, Watts & Co.	12,000	Shelby Cullom Davis & Co.	12,000
Barclay, Douglas & Co., Inc.	4,000	Davis, Skaggs & Co., Inc.	12,000
Basle Securities Corporation	88,000	F. H. Deacon, Hodgson Inc.	4,000
Bateman Eichler, Hill Richards Incorporated	44,000	DeHaven & Townsend, Crouter & Bodine Incorporated	8,000
George K. Baum & Company, Incorporated	8,000	R. G. Dickinson & Co.	12,000
Bear, Stearns & Co.	188,000	Dillon, Read & Co. Inc.	188,000
Bell & Beckwith	4,000	Doft & Co., Inc.	16,000
Bell, Gouinlock & Company, Limited	8,000	Dominion Securities Limited	44,000
Sanford C. Bernstein & Co., Inc.	16,000	Donaldson, Lufkin & Jenrette Securities Corporation	188,000
Birr, Wilson & Co., Inc.	16,000	Drexel Burnham Lambert Incorporated ..	188,000
D. H. Blair & Co., Inc.	8,000	F. Eberstadt & Co., Inc.	88,000
William Blair & Company	44,000	Edelstein, Campbell & Co.	4,000
Blunt Ellis & Simmons Incorporated	44,000	A. G. Edwards & Sons, Inc.	44,000
Blyth Eastman Dillon & Co. Incorporated	188,000	Elkins, Stroud, Suplee & Co.	28,000
Boettcher & Company	28,000	Eppler, Guerin & Turner, Inc.	16,000
Bosworth, Sullivan & Company, Inc.	16,000	Equitable Securities Corporation	12,000
J. C. Bradford & Co., Incorporated	44,000	Ernst & Co.	8,000
Branch, Cabell & Co.	4,000	EuroPartners Securities Corporation	88,000
Braun, Monroe and Co.	4,000	Evans & Co. Incorporated	8,000
Alex. Brown & Sons	88,000	Allen C. Ewing & Co.	4,000
K. J. Brown & Company, Inc.	4,000	Fahnestock & Co.	28,000
Burgess & Leith Incorporated	12,000	Faulkner, Dawkins & Sullivan, Inc.	88,000
Burns Fry Limited	28,000	Ferris & Company, Incorporated	16,000
Butcher & Singer Inc.	28,000	Financial America Securities, Inc.	4,000
Butler, Wick & Co.	8,000	First Albany Corporation	8,000
Buys-MacGregor, MacNaughton-Greenawalt & Co.	4,000	First Equity Corporation of Florida	8,000
Carolina Securities Corporation	4,000	First Harlem Securities Corporation	8,000
Carreau, Smith, Inc.	4,000	First Investors Corporation	4,000
Casgrain & Company Limited	4,000	First Manhattan Co.	12,000
The Cherokee Securities Company	4,000	First of Michigan Corporation	44,000
The Chicago Corporation	12,000	First Mid America Inc.	8,000
B. C. Christopher & Company	8,000	First Southwest Company	12,000

Name	Number of American Depository Shares	Name	Number of American Depository Shares
Robert Fleming Incorporated	88,000	Levesque, Beaubien Inc.	8,000
Foley, Warendorf & Co.	4,000	Loeb Rhoades & Co. Inc.	188,000
Folger Nolan Fleming Douglas Incorporated	44,000	Loewi & Co. Incorporated	28,000
Foster & Marshall Inc.	12,000	MacDougall, MacDougall & MacTier Ltd.	4,000
Frederick & Company, Inc.	4,000	Manley, Bennett, McDonald & Co.	12,000
Freehling & Co.	8,000	Mason & Lee, Inc.	4,000
Frost, Johnson, Read & Smith, Incorporated	4,000	A. E. Masten & Co. Incorporated	8,000
Fulton, Reid & Staples, Inc.	16,000	McCourtney-Breckenridge & Company ...	4,000
Furman Selz Mager Dietz & Birney Incorporated	8,000	McDonald & Company	44,000
J. A. Glynn & Co.	4,000	McLean, McCarthy & Company Limited..	4,000
Gordon Securities Limited	28,000	McLeod, Young, Weir & Company Limited	44,000
Gradison & Company Incorporated	8,000	Mead & Co. Limited	4,000
Greenshields Incorporated	188,000	Mesirov & Company	4,000
Gruntal & Co.	16,000	Midland Doherty Limited	28,000
Hambrecht & Quist	8,000	The Milwaukee Company	16,000
Hamerslag, Kempner & Marks	8,000	Molson, Rousseau & Cie Limitee	4,000
Hardy & Co.	4,000	Moore, Leonard & Lynch, Incorporated ...	28,000
Harrison & Company	8,000	Moore & Schley, Cameron & Co.	16,000
Bernard Herold & Co., Inc.	4,000	Morgan, Keegan & Company, Inc.	8,000
Herzfeld & Stern	16,000	Morgan, Olmstead, Kennedy & Gardner Incorporated	8,000
J. J. B. Hilliard, W. L. Lyons, Inc.	16,000	Moseley, Hallgarten & Estabrook Inc.	88,000
Hoppin, Watson Inc.	12,000	Mullaney, Wells & Company Division of Olde & Co., Incorporated ...	8,000
Hornblower, Weeks, Noyes & Trask Incorporated	188,000	Muller and Company	4,000
Houston Willoughby Limited	4,000	Nesbitt Thomson Securities Limited	28,000
Howard, Weil, Labouisse, Friedrichs Incorporated	28,000	New Court Securities Corporation	88,000
Howe, Barnes & Johnson, Inc.	8,000	New Japan Securities International Inc. ...	8,000
E. F. Hutton & Company Inc.	188,000	W. H. Newbold's Son & Co., Inc.	8,000
The Illinois Company Incorporated	12,000	Newhard, Cook & Co. Incorporated	16,000
Interstate Securities Corporation	16,000	The Nikko Securities Co. International, Inc.	16,000
Investment Corporation of Virginia	16,000	Nomura Securities International, Inc.	28,000
Janney Montgomery Scott Inc.	28,000	Odlum Brown & T. B. Read Ltd.	8,000
Jesup & Lamont Incorporated	12,000	The Ohio Company	28,000
Hugh Johnson & Company, Inc.	8,000	A. E. Osler, Wills, Bickle Limited	4,000
Johnson, Lane, Space, Smith & Co., Inc. ..	12,000	Paine, Webber, Jackson & Curtis Incorporated	188,000
Johnston, Lemon & Co. Incorporated	28,000	Parker/Hunter Incorporated	28,000
Edward D. Jones & Co.	8,000	H. O. Peet & Co. Inc.	8,000
Joseph, Miller & Russell, Inc.	8,000	Pemberton Securities Limited	8,000
Josephthal & Co.	12,000	Carl H. Pforzheimer & Co.	28,000
Keefe, Bruyette & Woods, Inc.	16,000	Philips, Appel & Walden, Inc.	16,000
Paul Kendrick & Co., Inc.	4,000	Piper, Jaffray & Hopwood Incorporated ..	44,000
Kidder, Peabody & Co. Incorporated	188,000	Pitfield, Mackay, Ross & Company Limited	44,000
John G. Kinnard and Company Incorporated	4,000	Prescott, Ball & Turben	44,000
Kirkpatrick, Pettis, Smith, Polian Inc.	12,000	R. W. Pressprich & Co. Incorporated	88,000
Kleinwort, Benson Incorporated	88,000	Quinn & Co., Inc.	4,000
Kormendi, Byrd Brothers, Inc.	8,000	Raffensperger, Hughes & Co., Inc.	8,000
Kuhn Loeb & Co. Incorporated	188,000	Rand & Co., Inc.	8,000
Ladenburg, Thalmann & Co. Inc.	44,000	Rauscher Pierce Securities Corporation ...	44,000
Laidlaw-Coggeshall Inc.	12,000	Raymond, James & Associates, Inc.	4,000
Cyrus J. Lawrence Incorporated	16,000	Reinholdt & Gardner	44,000
Lazard Frères & Co.	188,000	Richardson Securities of Canada	28,000
Legg Mason Wood Walker, Incorporated..	28,000	Robertson, Colman, Siebel & Weisel	28,000
Lehman Brothers Incorporated	188,000	The Robinson-Humphrey Company, Inc. ..	44,000
Lepercq, de Neuflize & Co. Incorporated..	12,000	Rodman & Renshaw, Inc.	12,000
		Wm. C. Roney & Co.	12,000
		Roose, Wade & Company	4,000

Name	Number of American Depository Shares	Name	Number of American Depository Shares
Ross, Stebbins Inc.	4,000	Wm. Sword & Co. Incorporated	8,000
Rotan Mosle Inc.	188,000	Thomson McKinnon Securities Inc.	88,000
L. F. Rothschild, Unterberg, Towbin	188,000	Traub and Company, Inc.	8,000
R. Rowland & Co. Incorporated	12,000	Trubee, Collins & Co.	4,000
Sade & Co.	4,000	Tucker, Anthony & R. L. Day, Inc.	88,000
Salkin, Welch & Co., Incorporated	4,000	UBS-DB Corporation	88,000
Scandinavian Securities Corporation	88,000	Ultrafin International Corporation	16,000
Scharff & Jones, Inc.	8,000	Underwood, Neuhaus & Co., Incorporated	16,000
Scherck, Stein & Franc, Inc.	12,000	Hans Utsch & Co., Inc.	4,000
Schneider, Bernet & Hickman, Inc.	12,000	Vercoe & Company, Inc.	4,000
Scott & Stringfellow, Inc.	12,000	Edward A. Viner & Co., Inc.	4,000
Seasongood & Mayer	4,000	Wagenseller & Durst, Inc.	16,000
H. B. Shaine & Co., Inc.	8,000	Wainwright Securities Inc.	28,000
Shearson Hayden Stone Inc.	188,000	Walwyn Stodgell Cochran Murray Limited	8,000
Shuman, Agnew & Co., Inc.	44,000	Warburg Paribas Becker Incorporated	228,000
I. M. Simon & Co.	8,000	Watling, Lerchen & Co. Incorporated	16,000
Smith Barney, Harris Upham & Co. Incorporated	188,000	Wedbush, Noble, Cooke, Inc.	
Smith, Hague & Co., Incorporated	8,000	William R. Staats Division	8,000
Smith, Moore & Co.	4,000	Weeden & Co. Incorporated	88,000
SoGen-Swiss International Corporation ...	88,000	Weinrich-Zitzmann-Whitehead Inc.	4,000
Stephens Inc.	12,000	Wertheim & Co., Inc.	188,000
Sterling, Grace & Co. Incorporated	8,000	Wheat, First Securities, Inc.	44,000
Stern Brothers & Co.	16,000	White, Weld & Co. Incorporated	188,000
Sterne, Agee & Leach, Inc.	8,000	C. T. Williams & Co., Inc.	4,000
Stifel, Nicolaus & Company Incorporated..	16,000	Dean Witter & Co. Incorporated	228,000
Stix & Co. Inc.	8,000	Wood, Struthers & Winthrop Inc.	88,000
Stone & Youngberg	8,000	Yamaichi International (America), Inc. ..	16,000
Suez American Corporation	16,000	Yorkton Securities Inc.	4,000
Sutro & Co. Incorporated	28,000	Zuckerman, Smith & Co., Inc.	4,000
Sweney Cartwright & Co.	4,000		
Henry F. Swift & Co.	4,000	Total	13,357,000

The Underwriting Agreement provides that the obligations of the several Underwriters to pay for and accept delivery of the American Depository Shares are subject to no conditions to closing except delivery of American Depository Receipts for such Shares. The nature of the Underwriters' obligations is such that they are committed to take and pay for all the American Depository Shares if any are taken.

The Underwriters propose to offer part of the American Depository Shares directly to the public at the public offering price and part to selected dealers who enter into Dealer Agreements in the form attached as Exhibit C to the Agreement Among Underwriters at a price which represents a concession, not in excess of \$.42 an American Depository Share, under the public offering price. Any Underwriter may allow, and such dealers may reallow, a concession, not in excess of \$.25 an American Depository Share, to other Underwriters or other such dealers.

Each of the Underwriters and such dealers has agreed that it will deliver a copy of this Prospectus (as then amended or supplemented if BP shall have furnished any amendments or supplements hereto) to each person who purchases American Depository Shares or Ordinary Shares from or through it on or before August 6, 1977.

The United Kingdom Government has agreed not to sell, contract to sell, or otherwise dispose of, without the consent of the representatives of the Underwriters, any American Depository Shares or Ordinary Shares owned by it on June 27, 1977, other than the American Depository Shares to be sold pursuant to the Underwriting Agreement and the Ordinary Shares recently offered for sale in the United Kingdom, for a period of 90 days after June 27, 1977.

The United Kingdom Government has agreed to indemnify the several Underwriters against certain liabilities, including liabilities under the Securities Act of 1933.

LEGAL OPINIONS

The validity of the ADRs representing the American Depositary Shares offered hereby will be passed upon by Sullivan & Cromwell, 48 Wall Street, New York, New York 10005, United States counsel for BP and the United Kingdom Government, and by Davis Polk & Wardwell, 1 Chase Manhattan Plaza, New York, New York 10005, counsel for the Underwriters. The validity of the underlying £1 units of Ordinary Stock will be passed upon by Linklaters & Paines, Barrington House, 59-67 Gresham Street, London EC2V 7JA, English solicitors for BP. The title of the United Kingdom Government to such £1 units of Ordinary Stock will be passed upon by The Solicitor for the Affairs of Her Majesty's Treasury, for the United Kingdom Government. Sullivan & Cromwell and Davis Polk & Wardwell will rely upon the opinions of Linklaters & Paines and The Solicitor for the Affairs of Her Majesty's Treasury as to matters governed by English law.

EXPERTS

The financial statements and schedules expressed in pounds sterling of BP and BP and its subsidiaries included or incorporated by reference in this Prospectus and the Registration Statement of which it is a part have been examined by Whinney Murray & Co., chartered accountants, independent auditors, whose reports thereon contain a qualification as to consistency with respect to modifications in 1975 and 1976 with regard to the valuation of inventories and deferred taxation. Such financial statements and schedules have been so included or incorporated by reference in reliance upon such reports of Whinney Murray & Co. given upon their authority as experts in accounting and auditing.

The consolidated financial statements and schedules of The Standard Oil Company, an Ohio corporation, and subsidiaries included or incorporated by reference in this Prospectus and the Registration Statement of which it is a part have been examined by Ernst & Ernst, independent auditors, whose reports thereon contain a qualification for the change in 1973 in the method of pricing certain inventories and, as they relate to Sohio's share of expenditures for construction of the Trans-Alaska Pipeline, are based in part on the report thereon of other independent auditors. Such financial statements and schedules have been so included or incorporated by reference in reliance upon such reports of these firms given upon their authority as experts in accounting and auditing.

The estimates of the recoverable reserves from the main oil and gas reservoir in the Prudhoe Bay Field are included herein in reliance upon the opinion and the authority of DeGolyer and MacNaughton, experts in making such estimates.

ADDITIONAL INFORMATION

In accordance with the rules and regulations of the Securities and Exchange Commission, this Prospectus does not contain all the information set forth in the Registration Statement of which this Prospectus is a part. Such additional information may be obtained from the Commission's principal office in Washington, D.C.

Both the Ordinary Shares represented by the American Depositary Shares offered hereby and 13,339,000 Ordinary Shares represented by Letters of Acceptance to be issued in the U.K. offering have been registered under the Securities Act of 1933 by such Registration Statement. This Prospectus relates to all such Ordinary Shares.

CERTAIN DEFINITIONS

As used in this Prospectus, the following terms have the following meanings:

(i) "Proved reserves" means those quantities of crude oil (including condensate and natural gas liquids) and natural gas which, upon analysis of geologic and engineering data, appear with reasonable certainty to be recoverable in the future from known oil and gas reservoirs under existing economic and operating conditions and are limited to those quantities of oil and gas which can be expected, with little doubt, to be recoverable commercially at current prices and costs, under existing regulatory practices and with existing equipment and operating methods.

(ii) "Proved developed reserves" means proved reserves which are expected to be recovered through existing wells with existing equipment and operating methods, and are subdivided into:

(a) "Producing reserves", which are expected to be produced from existing completion intervals now open for production in existing wells; and

(b) "Non-producing reserves", which exist behind the casing of existing wells, or at minor depths below the present bottom of such wells, and are expected to be produced through these wells in the predictable future, at a cost which is relatively small compared to the cost of a new well.

Proved developed reserves exclude oil and gas expected to be obtained through the application of fluid injection or other improved recovery techniques for supplementing the natural forces and mechanisms of primary recovery unless tested by a pilot project or after the operation of an installed program has confirmed through production response that increased recovery will be achieved.

(iii) "Proved undeveloped reserves" means proved reserves which are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for recompletion, but does not include reserves attributable to any acreage for which the application of fluid injection or other improved recovery techniques is contemplated unless such techniques have been proved effective by actual tests in the area and in the same reservoir.

INDEX TO FINANCIAL STATEMENTS **FINANCIAL STATEMENTS OF THE BP GROUP**

	<u>Page</u>
Report of Independent Auditors	F-1
The British Petroleum Company Limited and Subsidiary Companies	
Consolidated Statement of Income	
In pounds sterling	10
U.S. dollar translation	11
Consolidated Balance Sheet	
In pounds sterling	F-2
U.S. dollar translation	F-3
Consolidated Statement of Earned Surplus	
In pounds sterling	F-4
U.S. dollar translation	F-5
Consolidated Statement of Source and Application of Funds	
In pounds sterling	F-6
U.S. dollar translation	F-7
The British Petroleum Company Limited	
Statement of Changes in Capital Stock and Paid In Surplus	
In pounds sterling	F-8
U.S. dollar translation	F-9
Statement of Income	
In pounds sterling	F-10
U.S. dollar translation	F-11
Balance Sheet	
In pounds sterling	F-12
U.S. dollar translation	F-13
Statement of Earned Surplus	
In pounds sterling	F-14
U.S. dollar translation	F-15
Statement of Source and Application of Funds	
In pounds sterling	F-16
U.S. dollar translation	F-17
Notes to Financial Statements	F-18

Translation into U.S. dollars in the financial statements of the BP Group is for convenience only and has been made at the December 31, 1976 exchange rate of £1 = \$1.70 in accordance with the general policy of the staff of the Securities and Exchange Commission. See the third paragraph on page 2 of this Prospectus.

FINANCIAL STATEMENTS OF THE STANDARD OIL COMPANY AND SUBSIDIARIES*

Reports of Independent Auditors	F-38
Consolidated Statement of Income	F-39
Sohio Management's Discussion and Analysis of the Consolidated Statement of Income	F-40
Operating Results of Sohio for the Three Months Ended March 31, 1977	F-41
Consolidated Statement of Financial Position	F-42
Consolidated Statement of Stockholders' Equity	F-43
Consolidated Statement of Changes in Financial Position	F-45
Notes to Consolidated Financial Statements	F-46

* Financial statements of The Standard Oil Company have been omitted because it is primarily an operating company and all subsidiaries included in the consolidated financial statements are wholly owned and are not indebted to any person outside the consolidated group in an amount which is material in relation to the total consolidated assets, excluding indebtedness which is guaranteed by the parent or its consolidated subsidiaries.

THE BRITISH PETROLEUM COMPANY LIMITED AND SUBSIDIARY COMPANIES
REPORT OF INDEPENDENT AUDITORS

TO: THE BRITISH PETROLEUM COMPANY LIMITED

We have examined the financial statements expressed in pounds sterling of The British Petroleum Company Limited and of The British Petroleum Company Limited and its subsidiaries listed in the Index to the BP Group's Financial Statements on page 64 for the five years ended December 31, 1976. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. Incorporated in the financial statements are accounts of subsidiaries and associated companies audited by other auditors.

In our opinion the financial statements expressed in pounds sterling present fairly the financial position of The British Petroleum Company Limited and of The British Petroleum Company Limited and its subsidiaries at December 31, 1976, the results of their operations and the source and application of funds for each of the five years then ended, in conformity with accounting principles generally accepted in the United Kingdom consistently applied except for the modifications in 1975 and 1976 (with which we concur) with regard to the valuation of inventories and deferred taxation as described in Note A to the BP Group's Financial Statements.

United Kingdom accounting principles vary in certain respects from the accounting principles generally accepted in the United States. In our opinion the adjustments set forth in notes (a) and (b) to the BP Group Consolidated Statement of Income give a reasonable estimate of the material differences which would arise in determining net income if accounting principles generally accepted in the United States were to be applied. Furthermore, in our opinion, under United States generally accepted accounting principles, the profit on disposal of interests during 1974 and 1975 referred to in Notes E and F would have been reflected in income before extraordinary items in those years, whilst advance corporation tax credited to income in 1976 as set forth in Note O would have been treated as an extraordinary item.

WHINNEY MURRAY & Co.
Chartered Accountants

London, England
March 17, 1977.

THE BRITISH PETROLEUM COMPANY LIMITED AND SUBSIDIARY COMPANIES
CONSOLIDATED BALANCE SHEET

	December 31 1976	
	(£ million)	
Properties and operating assets—Note B		
At cost	5,237.7	
Less depreciation	<u>2,088.5</u>	3,149.2
Investments:		
The Standard Oil Company (Sohio)—Note C		438.7
Associated companies—Note D		
At cost	380.9	
Less provisions	<u>37.4</u>	343.5
Long-term receivables		232.1
Current assets:		
Cash	653.3	
Marketable securities at net book amount which approximates market	37.5	
Receivables, principally trade, less allowances for doubtful debts—£33.5 million	2,086.7	
Inventories—Note G		
Oil and chemicals	1,707.4	
Stores	<u>126.4</u>	
	4,611.3	
Current liabilities:		
Accounts payable and accrued liabilities	2,230.0	
Taxes payable	291.9	
Finance debts subject to repayment within one year	764.3	
Dividends payable	<u>50.4</u>	
	3,336.6	
Current assets less current liabilities		1,274.7
Total Assets Less Current Liabilities		<u>5,438.2</u>
Deduct:		
Finance debts—Notes H and J	2,275.7	
Less amounts subject to repayment within one year	<u>764.3</u>	
	1,511.4	
North Sea oil advance proceeds—Note I	319.0	
Deposits and noncurrent liabilities—Note L	248.5	
Deferred taxation—Note O	183.8	
Insurance provisions	52.5	
Unfunded pension provisions—Note M	141.8	
Minority interest	<u>122.8</u>	
		2,579.8
Net Assets		<u>2,858.4</u>
Commitments and Contingencies—Notes I, J, Q and R		
Capital Stock—Note Y:		
Preference		12.7
Ordinary		386.1
Paid in surplus		197.4
Earned surplus—Note N		<u>2,262.2</u>
Stockholders' Interest		<u>2,858.4</u>

The Notes to Financial Statements are an integral part of this Balance Sheet.

THE BRITISH PETROLEUM COMPANY LIMITED AND SUBSIDIARY COMPANIES
CONSOLIDATED BALANCE SHEET
(expressed in U.S. dollars)

	December 31 1976	
	(\$ million)	
Properties and operating assets—Note B		
At cost	8,904	
Less depreciation	<u>3,550</u>	5,354
Investments:		
The Standard Oil Company (Sohio)—Note C		746
Associated companies—Note D		
At cost	648	
Less provisions	<u>64</u>	584
Long-term receivables		394
Current assets:		
Cash	1,110	
Marketable securities at net book amount which approximates market	64	
Receivables, principally trade, less allowances for doubtful debts—\$57 million	3,547	
Inventories—Note G		
Oil and chemicals	2,903	
Stores	<u>215</u>	
	7,839	
Current liabilities:		
Accounts payable and accrued liabilities	3,791	
Taxes payable	496	
Finance debts subject to repayment within one year	1,299	
Dividends payable	<u>86</u>	
	5,672	
Current assets less current liabilities		2,167
Total Assets Less Current Liabilities		<u>9,245</u>
Deduct:		
Finance debts—Notes H and J	3,869	
Less amounts subject to repayment within one year	<u>1,299</u>	
	2,570	
North Sea oil advance proceeds—Note I	542	
Deposits and noncurrent liabilities—Note L	423	
Deferred taxation—Note O	312	
Insurance provisions	89	
Unfunded pension provisions—Note M	241	
Minority interest	<u>209</u>	
		4,386
Net Assets		<u>4,859</u>
Commitments and Contingencies—Notes I, J, Q and R		
Capital Stock—Note Y:		
Preference		22
Ordinary		656
Paid in surplus		336
Earned surplus—Note N		3,845
Stockholders' Interest		<u>4,859</u>

The Notes to Financial Statements are an integral part of this Balance Sheet.

This Balance Sheet is expressed in U.S. dollars at the December 31, 1976 exchange rate of £1 = \$1.70 for convenience only and should not be construed as a representation that the amounts of the pound sterling accounts represent, or have been or could be converted into, U.S. dollars at this or any other rate.

THE BRITISH PETROLEUM COMPANY LIMITED AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENT OF EARNED SURPLUS

	Years ended December 31				
	1972	1973	1974	1975	1976
	(£ million)				
Balance at beginning of period	974.8	1,007.7	1,606.2	2,016.3	2,079.7
Net income for period	61.3	603.5	487.4	166.2	179.8
Less: Dividends—Note P					
Preference—gross	1.0	—	—	—	—
Ordinary—gross	19.2	—	—	—	—
Preference—net	—	0.7	0.7	0.7	0.7
Ordinary—net	42.3	58.6	65.1	69.5	76.4
Transitional relief—Note P	(9.8)	—	—	—	—
Income retained	8.6	544.2	421.6	96.0	102.7
Premiums on acquisitions—Note F	(11.4)	—	—	—	—
Exchange fluctuations—Note A	37.7	55.8	(11.5)	13.6	79.8
Adjustment re inclusion of depreciation in inventories at January 1, 1975—Note A ...	—	—	—	14.6	—
Additional provision for deferred tax at January 1, 1975—Note A	—	—	—	(60.8)	—
Other movements	(2.0)	(1.5)	—	—	—
Balance at end of period	<u>1,007.7</u>	<u>1,606.2</u>	<u>2,016.3</u>	<u>2,079.7</u>	<u>2,262.2</u>

The Notes to Financial Statements are an integral part of this Statement.

CONSOLIDATED STATEMENT OF EARNED SURPLUS

(expressed in U.S. dollars)

	Years ended December 31				
	1972	1973	1974	1975	1976
			(\$ million)		
Balance at beginning of period	1,659	1,714	2,731	3,428	3,535
Net income for period	103	1,025	828	282	306
Less: Dividends—Note P					
Preference—gross	2	—	—	—	—
Ordinary—gross	33	—	—	—	—
Preference—net	—	1	1	1	1
Ordinary—net	72	100	110	118	130
Transitional relief—Note P	(17)	—	—	—	—
Income retained	13	924	717	163	175
Premiums on acquisitions—Note F	(19)	—	—	—	—
Exchange fluctuations—Note A	64	95	(20)	23	135
Adjustment re inclusion of depreciation in inventories at January 1, 1975—Note A ..	—	—	—	25	—
Additional provision for deferred tax at Jan- uary 1, 1975—Note A	—	—	—	(104)	—
Other movements	(3)	(2)	—	—	—
Balance at end of period	1,714	2,731	3,428	3,535	3,845

The Notes to Financial Statements are an integral part of this Statement.

This Statement is expressed in U.S. dollars at the December 31, 1976 exchange rate of £1=\$1.70 for convenience only and should not be construed as a representation that the amounts of the pound sterling accounts represent, or have been or could be converted into, U.S. dollars at this or any other rate.

THE BRITISH PETROLEUM COMPANY LIMITED AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS
(expressed in U.S. dollars)

	Years ended December 31				
	1972	1973	1974	1975	1976
	(\$ million)				
Source of Funds					
Income before extraordinary items and U.K. taxation	119	527	848	333	640
Extraordinary items after taxation	3	524	19	36	—
	122	1,051	867	369	640
Depreciation	206	231	279	329	452
Other items	22	(34)	32	(109)	89
Total generated from operations	350	1,248	1,178	589	1,181
Increase in finance debts	133	36	386	539	582
(excluding changes in currency values)					
North Sea oil advance proceeds	—	43	214	280	52
Book amount of assets sold	32	122	51	57	81
Net changes in currency values	68	39	9	85	232
Rights issue	58	—	—	—	—
Other items	139	(19)	119	101	184
Total other sources	430	221	779	1,062	1,131
Funds available	780	1,469	1,957	1,651	2,312
Application of Funds					
Capital expenditure	352	510	838	1,137	1,373
Investment in Sohio and other associated companies	150	49	(28)	196	262
Reduction of North Sea oil advance proceeds	—	—	—	7	122
Dividends paid	129	100	112	114	123
U.K. tax paid—mainly advance corporation tax (net of transitional relief)	—	19	27	39	34
	631	678	949	1,493	1,914
Increase in working capital	149	791	1,008	158	398
	780	1,469	1,957	1,651	2,312
Increase in Working Capital					
Increase in inventories	36	235	1,292	326	692
Increase in current receivables	120	718	827	38	694
(Increase)/decrease in current liabilities .. (excluding U.K. tax and proposed dividends)	(130)	(577)	(1,783)	28	(786)
Increase/(decrease) in cash and marketable securities	123	415	672	(234)	(202)
	149	791	1,008	158	398

The Notes to Financial Statements are an integral part of this Statement.

This Statement is expressed in U.S. dollars at the December 31, 1976 exchange rate of £1 = \$1.70 for convenience only and should not be construed as a representation that the amounts of the pound sterling accounts represent, or have been or could be converted into, U.S. dollars at this or any other rate.

THE BRITISH PETROLEUM COMPANY LIMITED
STATEMENT OF CHANGES IN CAPITAL STOCK AND PAID IN SURPLUS

	Unclassified Shares	Ordinary Stock	Preference Stock	
Authorized—£1 Units			8.0% (Now 5.6% + tax credit)	9.0% (Now 6.3% + tax credit)
Balance at December 31, 1971 ..	28,093,227	384,156,773	7,250,000	5,500,000
Increase during 1972	73,086,657	1,913,343	—	—
Balance at December 31, 1972, 1973, 1974, 1975 and 1976 ..	101,179,884	386,070,116	7,250,000	5,500,000
	Paid in Surplus			
Issued Stock and Paid in Surplus				
Balance at December 31, 1971 ..	£ 162,976,097	£ 377,562,450	£ 7,232,838	£ 5,473,414
Balance of proceeds of 1 for 15 rights issue made in 1971	27,263,494	6,594,323	—	—
Issued in connection with the ac- quisition of the Europa group of companies—Note F	7,175,036	1,913,343	—	—
Balance at December 31, 1972, 1973, 1974, 1975 and 1976 ..	£ 197,414,627	£ 386,070,116	£ 7,232,838	£ 5,473,414

The Notes to Financial Statements are an integral part of this Statement.

Note:

Of the £386.1 million ordinary capital issued at December 31, 1976, Her Majesty's Government in the United Kingdom owned £186.1 million (48.2%) and the Bank of England £77.8 million (20.1%). The Bank acquired this holding on January 23, 1975 from The Burmah Oil Company Limited, and in connection therewith gave an undertaking to the Panel on Take-overs and Mergers ("the Panel") that, so long as the Bank's holding and the British Government's holding of BP ordinary stock taken together represent 30% or more of the total voting rights normally exercisable in respect of such stock, the Bank will not exercise the votes attaching to such 77.8 million stock units. The Bank also advised the Panel that it was authorized by the Government to inform the Panel as follows: (a) it is not the Government's intention that the Bank's acquisition of the 77.8 million stock units should change in any way the existing arrangements between the Government and BP, and (b) accordingly, while any of such stock units remain in the Bank's hands and the Bank's undertaking referred to in the preceding sentence remains in force, the Government will not exercise a greater proportionate voting power in relation to other BP stockholders than it could have exercised prior to the Bank's acquisition of such 77.8 million stock units. The reason for these undertakings was to obtain from the Panel a ruling, which the Panel issued on January 23, 1975, that the Bank would not be obligated under the City Code on Take-overs and Mergers to offer to purchase the ordinary stock of BP held by its public stockholders.

THE BRITISH PETROLEUM COMPANY LIMITED
STATEMENT OF CHANGES IN CAPITAL STOCK AND PAID IN SURPLUS
(expressed in U.S. dollars)

		Issued Capital—Nominal Value		
	Paid in Surplus	Ordinary Stock	Preference Stock	
			8.0% (Now 5.6% + tax credit)	9.0% (Now 6.3% + tax credit)
Issued Stock and Paid in Surplus				
Balance at December 31, 1971 ..	\$277,059,365	\$641,856,165	\$12,295,825	\$9,304,804
Balance of proceeds of 1 for 15 rights issue made in 1971	46,347,940	11,210,349	—	—
Issued in connection with the ac- quisition of the Europa group of companies—Note F	12,197,561	3,252,683	—	—
Balance at December 31, 1972, 1973, 1974, 1975 and 1976 ..	\$335,604,866	\$656,319,197	\$12,295,825	\$9,304,804

The Notes to Financial Statements are an integral part of this Statement.

Note:

Of the £386.1 million capital issued at December 31, 1976, Her Majesty's Government in the United Kingdom owned £186.1 million (48.2%) and the Bank of England £77.8 million (20.1%). The Bank acquired this holding on January 23, 1975 from The Burmah Oil Company Limited, and in connection therewith gave an undertaking to the Panel on Take-overs and Mergers ("the Panel") that, so long as the Bank's holding and the British Government's holding of BP ordinary stock taken together represent 30% or more of the total voting rights normally exercisable in respect of such stock, the Bank will not exercise the votes attaching to such 77.8 million stock units. The Bank also advised the Panel that it was authorized by the Government to inform the Panel as follows: (a) it is not the Government's intention that the Bank's acquisition of the 77.8 million stock units should change in any way the existing arrangements between the Government and BP, and (b) accordingly, while any of such stock units remain in the Bank's hands and the Bank's undertaking referred to in the preceding sentence remains in force, the Government will not exercise a greater proportionate voting power in relation to other BP stockholders than it could have exercised prior to the Bank's acquisition of such 77.8 million stock units. The reason for these undertakings was to obtain from the Panel a ruling, which the Panel issued on January 23, 1975, that the Bank would not be obligated under the City Code on Take-overs and Mergers to offer to purchase the ordinary stock of BP held by its public stockholders.

This Statement is expressed in U.S. dollars at the December 31, 1976 exchange rate of £1 = \$1.70 for convenience only and should not be construed as a representation that the amounts of the pound sterling accounts represent, or have been or could be converted into, U.S. dollars at this or any other rate.

THE BRITISH PETROLEUM COMPANY LIMITED
STATEMENT OF INCOME

	Years ended December 31				
	1972	1973	1974	1975	1976
	(£ million)				
Dividends and interest from subsidiary companies less intra-group items	78.4	48.0	47.5	44.6	80.7
Dividends and interest from associated companies —Note D	2.2	1.4	2.3	2.8	2.9
	80.6	49.4	49.8	47.4	83.6
Other interest and miscellaneous income	14.0	32.1	79.6	49.2	37.2
	94.6	81.5	129.4	96.6	120.8
Interest expense	11.0	16.2	18.8	20.5	20.7
Administrative and other expenses	1.0	1.3	1.4	1.1	1.6
	82.6	64.0	109.2	75.0	98.5
Income before taxes and extraordinary items	82.6	64.0	109.2	75.0	98.5
Taxes	11.5	15.2	25.6	7.4	(71.8)
	71.1	48.8	83.6	67.6	170.3
Income before extraordinary items	71.1	48.8	83.6	67.6	170.3
Extraordinary items after taxation—Note F	—	25.3	—	21.3	—
	71.1	74.1	83.6	88.9	170.3
Net income	71.1	74.1	83.6	88.9	170.3

The Notes to Financial Statements are an integral part of this Statement.

The income from subsidiary companies consists principally of dividends on which U.K. tax has been accounted for by those companies. During the periods under review it has been the policy of BP to limit the distributions by subsidiary companies so that its income approximates the amount of its dividends. However, net income for 1976 is after crediting £70.9 million in respect of advance corporation tax written off in previous years (Note O).

THE BRITISH PETROLEUM COMPANY LIMITED

STATEMENT OF INCOME

(expressed in U.S. dollars)

	Years ended December 31				
	1972	1973	1974	1975	1976
	(\$ million)				
Dividends and interest from subsidiary companies less intra-group items	133	82	81	76	137
Dividends and interest from associated companies—Note D	4	2	4	5	5
	137	84	85	81	142
Other interest and miscellaneous income	24	55	135	84	63
	161	139	220	165	205
Interest expense	19	28	32	35	35
Administrative and other expenses	2	2	2	2	3
	140	109	186	128	167
Income before taxes and extraordinary items	19	26	44	13	(122)
Taxes	121	83	142	115	289
Income before extraordinary items	—	43	—	36	—
Extraordinary items after taxation—Note F	121	126	142	151	289
Net income					

The Notes to Financial Statements are an integral part of this Statement.

The income from subsidiary companies consists principally of dividends on which U.K. tax has been accounted for by those companies. During the periods under review it has been the policy of BP to limit the distributions by subsidiary companies so that its income approximates the amount of its dividends. However, net income for 1976 is after crediting \$121 million in respect of advance corporation tax written off in previous years (Note O).

This Statement is expressed in U.S. dollars at the December 31, 1976 exchange rate of £1 = \$1.70 for convenience only and should not be construed as a representation that the amounts of the pound sterling accounts represent, or have been or could be converted into, U.S. dollars at this or any other rate.

THE BRITISH PETROLEUM COMPANY LIMITED

BALANCE SHEET

	December 31 1976	
	(£ million)	
Investments:		
Subsidiary companies—Note A (eliminated in consolidation)		
At cost less provisions—£8.7 million	265.5	
Advances, current accounts and accrued dividends	890.5	1,156.0
Associated companies—Note D		
At cost	14.3	
Less provisions	2.1	12.2
Long-term receivables		25.6
Current assets:		
Cash	386.7	
Marketable securities at net book amount which approximates market	0.3	
Receivables, principally trade	18.3	
	405.3	
Current liabilities:		
Accounts payable and accrued liabilities	53.2	
Finance debts subject to repayment within one year	29.5	
Dividends payable	50.4	
	133.1	
Current assets less current liabilities		272.2
Total Assets Less Current Liabilities		1,466.0
Deduct:		
Finance debts—Note H	284.9	
Less amounts subject to repayment within one year	29.5	255.4
Net Assets		1,210.6
Commitments and Contingencies—Notes I, J and Q		
Capital Stock—Note Y:		
Preference		12.7
Ordinary		386.1
Paid in surplus		197.4
Earned surplus—Note N		614.4
Stockholders' Interest		1,210.6

The Notes to Financial Statements are an integral part of this Balance Sheet.

THE BRITISH PETROLEUM COMPANY LIMITED

BALANCE SHEET (expressed in U.S. dollars)

	December 31 1976	
	(\$ million)	
Investments:		
Subsidiary companies—Note A (eliminated in consolidation)		
At cost less provisions—\$15 million	451	
Advances, current accounts and accrued dividends	1,514	1,965
Associated companies—Note D		
At cost	24	
Less provisions	3	21
Long-term receivables		43
Current assets:		
Cash	657	
Marketable securities at net book amount which approximates market	1	
Receivables, principally trade	31	
	689	
Current liabilities:		
Accounts payable and accrued liabilities	90	
Finance debts subject to repayment within one year	50	
Dividends payable	86	
	226	
Current assets less current liabilities		463
Total Assets Less Current Liabilities		2,492
Deduct:		
Finance debts—Note H	484	
Less amounts subject to repayment within one year	50	434
Net Assets		2,058
Commitments and Contingencies—Notes I, J and Q		
Capital Stock—Note Y:		
Preference		22
Ordinary		656
Paid in surplus		336
Earned surplus—Note N		1,044
Stockholders' Interest		2,058

The Notes to Financial Statements are an integral part of this Balance Sheet.

This Balance Sheet is expressed in U.S. dollars at the December 31, 1976 exchange rate of £1 = \$1.70 for convenience only and should not be construed as a representation that the amounts of the pound sterling accounts represent, or have been or could be converted into, U.S. dollars at this or any other rate.

THE BRITISH PETROLEUM COMPANY LIMITED
STATEMENT OF EARNED SURPLUS

	Years ended December 31				
	1972	1973	1974	1975	1976
			(£ million)		
Balance at beginning of period	554.9	555.8	557.2	558.1	559.6
Net income for period	71.1	74.1	83.6	88.9	170.3
Less: Dividends—Note P					
Preference—gross	1.0	—	—	—	—
Ordinary—gross	19.2	—	—	—	—
Preference—net	—	0.7	0.7	0.7	0.7
Ordinary—net	42.3	58.6	65.1	69.5	76.4
Income retained	8.6	14.8	17.8	18.7	93.2
Exchange fluctuations	(6.8)	(13.4)	(16.9)	(17.2)	(38.4)
Other movements	(0.9)	—	—	—	—
Balance at end of period	<u>555.8</u>	<u>557.2</u>	<u>558.1</u>	<u>559.6</u>	<u>614.4</u>

The Notes to Financial Statements are an integral part of this Statement.

THE BRITISH PETROLEUM COMPANY LIMITED

STATEMENT OF EARNED SURPLUS

(expressed in U.S. dollars)

	Years ended December 31				
	1972	1973	1974	1975	1976
Balance at beginning of period	943	945	(\$ million) 947	948	951
Net income for period	121	126	142	151	289
Less: Dividends—Note P					
Preference—gross	2	—	—	—	—
Ordinary—gross	33	—	—	—	—
Preference—net	—	1	1	1	1
Ordinary—net	72	100	110	118	130
Income retained	14	25	31	32	158
Exchange fluctuations	(11)	(23)	(30)	(29)	(65)
Other movements	(1)	—	—	—	—
Balance at end of period	945	947	948	951	1,044

The Notes to Financial Statements are an integral part of this Statement.

This Statement is expressed in U.S. dollars at the December 31, 1976 exchange rate of £1=\$1.70 for convenience only and should not be construed as a representation that the amounts of the pound sterling accounts represent, or have been or could be converted into, U.S. dollars at this or any other rate.

THE BRITISH PETROLEUM COMPANY LIMITED
STATEMENT OF SOURCE AND APPLICATION OF FUNDS

	Years ended December 31				
	1972	1973	1974	1975	1976
	(£ million)				
Source of Funds					
Income before extraordinary items and U.K. taxation	82.6	64.0	109.2	75.0	98.5
Extraordinary items after taxation	—	25.3	—	21.3	—
Increase/(decrease) in finance debts (excluding changes in currency values)	35.1	3.3	(9.1)	14.6	30.5
Rights issue	33.8	—	—	—	—
Decrease/(increase) in long-term receivables	2.9	(30.3)	12.2	8.5	23.0
Other items	11.5	0.7	0.4	2.6	(4.9)
Funds Available	<u>165.9</u>	<u>63.0</u>	<u>112.7</u>	<u>122.0</u>	<u>147.1</u>
Application of Funds					
Increase/(decrease) in investment in subsidiaries and associates*	44.3	(173.4)	(309.0)	178.9	245.2
Dividends paid to BP stockholders	75.8	59.3	65.8	67.3	72.6
U.K. tax paid—mainly advance corporation tax (net of transitional relief)	—	10.9	15.9	22.8	20.2
	<u>120.1</u>	<u>(103.2)</u>	<u>(227.3)</u>	<u>269.0</u>	<u>338.0</u>
Increase/(decrease) in working capital	45.8	166.2	340.0	(147.0)	(190.9)
	<u>165.9</u>	<u>63.0</u>	<u>112.7</u>	<u>122.0</u>	<u>147.1</u>
Working Capital					
Increase/(decrease) in current receivables	1.1	13.7	18.7	0.9	(21.1)
Decrease/(increase) in current liabilities (excluding U.K. tax and proposed dividends) ...	0.3	(0.9)	2.7	(20.9)	(14.4)
Increase/(decrease) in cash and marketable securi- ties	44.4	153.4	318.6	(127.0)	(155.4)
	<u>45.8</u>	<u>166.2</u>	<u>340.0</u>	<u>(147.0)</u>	<u>(190.9)</u>

* 1976 excludes taxes recoverable from subsidiaries.

The Notes to Financial Statements are an integral part of this Statement.

THE BRITISH PETROLEUM COMPANY LIMITED
STATEMENT OF SOURCE AND APPLICATION OF FUNDS
(expressed in U.S. dollars)

	Years ended December 31				
	1972	1973	1974	1975	1976
	(\$ million)				
Source of Funds					
Income before extraordinary items and U.K. taxation	140	109	186	128	167
Extraordinary items after taxation	—	43	—	36	—
Increase/(decrease) in finance debts (excluding changes in currency values)	60	5	(15)	25	52
Rights issue	58	—	—	—	—
Decrease/(increase) in long-term receivables	5	(51)	20	14	40
Other items	19	1	1	4	(9)
Funds Available	<u>282</u>	<u>107</u>	<u>192</u>	<u>207</u>	<u>250</u>
Application of Funds					
Increase/(decrease) in investment in subsidiaries and associates*	75	(295)	(525)	304	417
Dividends paid to BP stockholders	129	101	112	114	123
U.K. tax paid—mainly advance corporation tax (net of transitional relief)	—	19	27	39	34
	<u>204</u>	<u>(175)</u>	<u>(386)</u>	<u>457</u>	<u>574</u>
Increase/(decrease) in working capital	78	282	578	(250)	(324)
	<u>282</u>	<u>107</u>	<u>192</u>	<u>207</u>	<u>250</u>
Working Capital					
Increase/(decrease) in current receivables	2	23	32	2	(36)
Decrease/(increase) in current liabilities (excluding U.K. tax and proposed dividends) ...	1	(2)	4	(36)	(24)
Increase/(decrease) in cash and marketable securities	75	261	542	(216)	(264)
	<u>78</u>	<u>282</u>	<u>578</u>	<u>(250)</u>	<u>(324)</u>

* 1976 excludes taxes recoverable from subsidiaries.

The Notes to Financial Statements are an integral part of this Statement.

This Statement is expressed in U.S. dollars at the December 31, 1976 exchange rate of £1 = \$1.70 for convenience only and should not be construed as a representation that the amounts of the pound sterling accounts represent, or have been or could be converted into, U.S. dollars at this or any other rate.

THE BRITISH PETROLEUM COMPANY LIMITED AND SUBSIDIARY COMPANIES

NOTES TO FINANCIAL STATEMENTS

Note A—Accounting Policies

Composition of Consolidated Financial Statements

The consolidated financial statements comprise a consolidation of the accounts of The British Petroleum Company Limited and all its subsidiaries except for a number of minor companies, the consolidation of whose accounts would cause undue expense and delay in presentation and whose income is insignificant. The investment in these minor companies is included in the consolidated balance sheet with investment in associated companies. Associated companies are those in which the BP Group has an equity interest of 50% or less. All inter-company transactions are eliminated.

Where accounting policies followed by subsidiaries differ significantly from those adopted for group accounts purposes appropriate consolidation adjustments are made for material items.

In the case of associated companies there is included in the income statement the group proportion of the income and costs of those companies, including from January 1, 1975 The Standard Oil Company (Sohio), whose earnings are material. Dividends received are included for associated companies whose earnings are relatively small.

Currency Conversion

Assets and liabilities expressed in currencies other than sterling and operating results of overseas subsidiaries are converted into sterling at the year-end rates of exchange.

Exchange fluctuations are included in the determination of income except those relating to the restatement at year-end exchange rates of

- (a) opening balance sheets of overseas subsidiary and associated companies and
- (b) long-term receivables and finance debts (excluding acceptance facilities) in other than local currencies

which are taken directly to earned surplus.

Inventories

Inventories of oil and chemicals are valued at the lower of approximate BP Group cost including overheads, using the first in, first out method, and net realisable value. In 1975 depreciation was included in BP Group cost for the first time in accordance with Statement of Standard Accounting Practice No. 9 issued during that year by the Institutes of Chartered Accountants in the U.K. This change increased the inventory valuation at January 1, 1975 by £14.6 million and is reflected in these financial statements as an adjustment to earned surplus in 1975 with no material effect on the determination of consolidated net income for that year. For purposes of valuation petroleum revenue tax has been treated as a cost in 1976 as a result of further consideration of the nature of this new tax (Note O). The amount relating to inventories at December 31, 1975 was not material.

Inventories of stores are stated at or below cost calculated mainly using the average method.

Pensions

In most group companies there are pension and retirement plans, the forms and benefits varying with regard to economic conditions and practices in the countries concerned. Payments to funds and

THE BRITISH PETROLEUM COMPANY LIMITED AND SUBSIDIARY COMPANIES

NOTES TO FINANCIAL STATEMENTS—(Continued)

Note A—Accounting Policies—(Continued)

provisions are made on the basis of actuarial assessment; current supplementary pension payments are charged against income.

Depreciation and Amounts Provided

Properties and operating assets are depreciated either on a straight line basis, by the reducing balance method or in accordance with local fiscal rules and in the case of the North Sea Forties Field are being amortized on a unit-of-production basis. The result is that these assets are depreciated over their estimated useful lives or shorter periods.

Exploration properties are written off over the estimated period of exploration and full provision is made against the BP Group's proportion of other exploration expenditure whether incurred directly by subsidiary companies or indirectly by associated companies.

Research

Expenditure on research and development is wholly written off in the year in which it is incurred.

Interest and Financing Costs

Interest and financing costs are charged against income but are capitalized where there is dedicated financing of major projects under development.

Petroleum Revenue Tax

The charge for petroleum revenue tax is calculated on a unit-of-production basis and is included in creditors or noncurrent liabilities as appropriate.

Deferred Taxation

The deferral net change method is used in the calculation of deferred taxation. The basis on which the BP Group provides for taxation was revised in 1975 to accord with Statement of Standard Accounting Practice No. 11 issued in that year by the Institutes of Chartered Accountants in the U.K. and the effects of U.K. tax legislation enacted during 1975 (Note O). No U.K. deferred tax provision was required as of January 1, 1975 but in accordance with U.K. accounting principles £60.8 million additional overseas deferred tax as of January 1, 1975 was charged to earned surplus in 1975. The estimated effect on consolidated net income for years prior to 1975 is shown in note (a) to the Consolidated Statement of Income. (See also Note CC—Subsequent Events—(Unaudited).)

Note B—Properties and Operating Assets

	December 31, 1976		
	Cost	Depreciation	Net
	(£ million)		
Production and exploration	1,997.5	351.4	1,646.1
Tankers	303.4	115.2	188.2
Refineries	1,261.9	808.2	453.7
Marketing	1,331.3	653.5	677.8
Chemicals	343.6	160.2	183.4
	<u>5,237.7</u>	<u>2,088.5</u>	<u>3,149.2</u>

THE BRITISH PETROLEUM COMPANY LIMITED AND SUBSIDIARY COMPANIES

NOTES TO FINANCIAL STATEMENTS—(Continued)

Note B—Properties and Operating Assets—(Continued)

The net amount of properties and operating assets at December 31, 1976 includes £159.8 million in respect of land (including buildings acquired with the land) of which £143.9 million represents owned property, mainly service stations overseas, £5.2 million leases with unexpired terms of 50 years or more and £10.7 million other leases.

When properties or operating assets are abandoned, sold or otherwise disposed of, the cost and relative depreciation are deducted from the appropriate accounts and the difference between the net cost and realized value (if any) is charged to expense or credited to revenue as applicable. Maintenance, repairs, minor renewals and betterments are charged to expense. Major renewals and betterments are capitalized.

The BP Group's investment in the Trans Alaska Pipeline System at December 31, 1976 amounting to £737.6 million is included in the caption "production and exploration" above. (See also Note J.)

Note C—Investment in The Standard Oil Company (Sohio)

The investment in Sohio was initially represented by 1,000 shares of special stock which entitled the BP Group to the same rights (except as to dividends) as approximately a 25% common stock interest. The number of shares of common stock, to which the 1,000 shares of special stock are equivalent, will rise with increases in the sustainable crude oil production from Sohio's Prudhoe Bay properties, or in certain circumstances from other Alaskan properties, to a maximum of approximately 54% if such production (net of one-eighth royalty owned by the State of Alaska) reaches 600,000 barrels per day prior to January 1, 1984.

The special stock is pledged as collateral to secure a short-term debt of \$58.7 million repayable in 1977 with interest at 7% per annum.

In October 1975 Sohio sold 2,000,000 shares of its common stock and pursuant to the terms of the original agreement dated October 7, 1969 the BP Group acquired 1,080,000 shares being a 54% interest of the issue thereby increasing the BP Group's interest in Sohio to approximately 26%. The investment in Sohio expressed in pounds sterling has increased during 1976 by £66 million due to the movement in the U.S. dollar/sterling rate of exchange.

The BP Group's interest has been equity accounted as from January 1, 1975 when dividends became receivable. This treatment has been reflected in these accounts by the inclusion in other income of £29.5 million (£23.1 million in 1975) with a charge of £9.8 million (£8.4 million in 1975) in overseas taxation. However, interest of £5.5 million (£10.0 million in 1975) on short-term loans related to this investment has been charged leaving a net benefit to BP Group income of £14.2 million (£4.7 million in 1975). Such interest was capitalized in the years 1972-1974 and included as part of the cost of the special stock. At December 31, 1976 the BP Group's share of Sohio's undistributed income was £24.1 million.

The net assets of Sohio at December 31, 1976 are summarized as follows:

	December 31 1976
	(\$ million)
Property, plant and equipment after depreciation and depletion	4,869
Investments and other assets	550
Current assets	841
	<u>6,260</u>
Less:	
Current liabilities	540
Other liabilities	36
Long-term debt	3,627
Deferred revenue	400
Deferred income taxes	108
Preferred stock	11
	<u>4,722</u>
Net assets applicable to common and special stock	<u>1,538</u>

THE BRITISH PETROLEUM COMPANY LIMITED AND SUBSIDIARY COMPANIES

NOTES TO FINANCIAL STATEMENTS—(Continued)

Note C—Investment in The Standard Oil Company (Sohio)—(Continued)

For the five years ended December 31, 1976 the net sales and operating revenue of Sohio was, 1972—\$1,387 million, 1973—\$1,507 million, 1974—\$2,207 million, 1975—\$2,507 million and 1976—\$2,916 million. Net income after extraordinary items for the five years ended December 31, 1976 was, 1972—\$57 million, 1973—\$89 million, 1974—\$148 million, 1975—\$127 million and 1976—\$137 million. Dividends amounting to \$37 million were paid to Sohio's preferred and common stockholders for each of the three years ended December 31, 1974, \$38 million in 1975 and \$41 million in 1976. In addition, dividends amounting to \$12 million were paid for each of the years 1975 and 1976 on the special stock referred to above.

Note D—Investments in Associated Companies

Investment

Investments in associated companies, virtually none of which is publicly traded, almost entirely represent joint ventures in exploring, producing, refining and marketing oil and chemical products, and are held by BP and its subsidiaries, mainly 100% owned. At December 31, 1976 investments in these associated companies were as follows:

	December 31, 1976		
	Cost	Provisions (£ million)	Net
Production and exploration	128.1	31.1	97.0
Refineries	60.6	1.9	58.7
Marketing	98.1	4.4	93.7
Chemicals	94.1	—	94.1
	<u>380.9</u>	<u>37.4</u>	<u>343.5</u>

These investments are mainly in the nature of partnerships with other oil groups having in many cases integrated trading operations with subsidiary companies of the BP Group which take a wide variety of forms.

Net Assets

Information as to the BP Group proportion of the net assets of associated companies at the end of 1976 is not yet available. However, from the accounts received during the year 1976 from major associated companies in which the BP Group net investment at December 31, 1975 was £259.4 million (out of a total net investment of £293.3 million), it has been ascertained that the net assets of these companies amounted to £1,081.7 million and the BP Group proportion thereof was £347.4 million as follows:

	Associated Companies	BP Group Proportion
	(£ million)	
Properties and operating assets after depreciation	1,413.7	420.2
Long-term receivables and investments	191.8	52.0
Intangibles including goodwill	32.5	8.6
Current assets	904.5	334.2
	<u>2,542.5</u>	<u>815.0</u>
Less: Finance debts	602.6	164.7
Liabilities mainly current	858.2	302.9
Net assets	<u>1,081.7</u>	<u>347.4</u>

THE BRITISH PETROLEUM COMPANY LIMITED AND SUBSIDIARY COMPANIES

NOTES TO FINANCIAL STATEMENTS—(Continued)

Note D—Investments in Associated Companies—(Continued)

The accounts referred to were largely prepared as at December 31, 1975 and were drawn up in accordance with the statutory regulations of the countries in which these companies were incorporated.

Income and Retained Earnings—BP Group Proportion

The BP Group share of the net income of certain associated companies, mainly in respect of crude oil production, for the five years ended December 31, 1976 is reflected in the Consolidated Statement of Income as follows:

	Reduction in Costs	Inclusion in Other Income	Charge to Overseas Taxation	Net Income (BP Group Share)
	(£ million)			
1972	185.5	4.0	124.6	64.9
1973	214.5	6.7	148.4	72.8
1974	420.8	7.7	379.5	49.0
1975	347.8	(0.3)	298.6	48.9
1976	519.4	3.6	484.5	38.5

At December 31, 1976 £17.4 million of the accumulated earnings were undistributed. Dividends received from these companies amounted to £96.5 million in 1972, £79.9 million in 1973, £63.4 million in 1974, £60.8 million in 1975 and £16.3 million in 1976. As at December 31, 1976 there was no material difference between the investment cost and the BP Group's equity interest therein.

Considerable expense and undue delay would be occasioned in obtaining up-to-date completed accounts for the many associated companies incorporated and operating overseas whose earnings are relatively small. It is considered that the procedures adopted for dealing with the BP Group share of the income of associated companies, including dividends received, effectively result, both as to cost and overseas taxation, in a meaningful presentation of the integrated operations of the BP Group.

Dividends and interest were received from associated companies, excluding Sohio and those specifically referred to above, as follows:

	BP		Consolidated	
	Dividends	Interest	Dividends	Interest
	(£ million)			
1972	2.0	0.2	5.7	3.9
1973	1.2	0.2	4.0	4.4
1974	2.1	0.2	8.1	4.2
1975	2.6	0.2	10.8	3.7
1976	2.8	0.1	10.6	3.8

The BP Group share of losses is, in all material cases, covered by provisions in BP or its subsidiary companies.

Consolidated sales proceeds include sales to major 50% owned associated companies for each of the five years ended December 31, 1976 of £80.6 million, £127.5 million, £312.9 million, £277.4 million and £178.6 million. Reference is made in Note G to purchases from such companies.

THE BRITISH PETROLEUM COMPANY LIMITED AND SUBSIDIARY COMPANIES

NOTES TO FINANCIAL STATEMENTS—(Continued)

Note E—Production Interests

During 1974 agreements were made with the governments of Kuwait, Qatar and Abu Dhabi under which each acquired a 60% interest in the respective concessions as from January 1, 1974. In the case of Qatar and Abu Dhabi this represented a further 35% as the governments already had acquired a 25% interest as from January 1, 1973. In Nigeria where the government acquired a 35% interest in the concession as from April 1, 1973 this was increased to 55% as from April 1, 1974.

In the 1973 accounts the net book amount of the assets acquired by governments in that year, together with amounts in respect of assets previously nationalized in Iraq and Libya, were transferred from production assets and investment in associated companies to a separate account to which amounts received during the year were credited.

In the 1974 accounts similar transfers were made to the separate account in respect of the further interests acquired. Consideration amounts from governments resulted in a credit balance of £11.6 million which was accounted for in the Consolidated Statement of Income for 1974 as an extraordinary item. Under United States generally accepted accounting principles as applied in 1974, in conformity with Accounting Principles Board Opinion No. 30, such an item would have been included in the determination of income before extraordinary items. Earnings per unit of ordinary stock before extraordinary items would have increased correspondingly by 3.1p (5 cents) with no change in net income and income per unit of ordinary stock.

In November 1974 an agreement was made with the Libyan government constituting a full and final settlement with them of all outstanding matters. The financial effect relating to the BP Group's assets in Libya was reflected in the above-mentioned separate account.

In pursuance of its intention to acquire 100% ownership the Kuwait government signed an agreement with the BP Group and its partner in Kuwait on December 1, 1975 by which it acquired the remaining 40% interest of both companies in Kuwait as from March 5, 1975. The government of Qatar announced in December 1974 a policy decision to acquire the remaining 40% of the Qatar Petroleum Company concession and negotiations were concluded in 1976 to this effect. In regard to the concession in southern Iraq, the Iraq government, following an interim settlement in January 1975, subsequently on December 8, 1975, took unilateral action purporting to nationalize the BP Group's interest. No material profits or losses have arisen or are expected to arise following resolution of the above matters.

Discussions with Iran which were held during the first half of 1973 on the future long-term relationship with members of the Iranian Oil Consortium (BP Group interest 40%) led to a new agreement effective from March 21, 1973. This agreement, while ensuring to Iran total benefits and advantages no less favorable than those applicable to other countries in the Gulf, contains features designed to suit Iran's own position. By this agreement Iran acquired the rights and assumed the obligations of the operating companies formerly owned by the consortium. Under these arrangements oil is being sold to the companies for a twenty-year period from March 21, 1973 and agreed quantities processed for them at the Abadan refinery.

Note F—Major Acquisitions, Disposals and Reclassifications

The corporate structure of the BP Group's Canadian interests was reorganized in October 1972. This involved the amalgamation of BP Canada Limited and BP Oil and Gas Ltd. which resulted in a small reduction of the BP Group's interest to approximately 66% of the amalgamated company.

THE BRITISH PETROLEUM COMPANY LIMITED AND SUBSIDIARY COMPANIES

NOTES TO FINANCIAL STATEMENTS—(Continued)

Note F—Major Acquisitions, Disposals and Reclassifications—(Continued)

A 60% interest in the Europa group of companies, a marketing and refining group in New Zealand, was acquired as of April 1, 1972 and its accounts have been consolidated from that date. In connection with this acquisition, which was accounted for as a purchase, £1.9 million ordinary stock was issued by BP with an agreement to acquire the remaining 40% by May 9, 1977 when a further £0.4 million was issued.

On July 2, 1973 BP Italiana, a wholly-owned subsidiary, was sold to Oil Chemicals and Transport Finance Corporation S.A. which is owned by an international consortium organized by the Monti group. BP Italiana had, at that time, a refinery at Volpiano, near Milan, with a capacity of 72,000 barrels per day and controlled a sales network of some 3,200 retail outlets with related depots and transport facilities. The agreement also provided for the sale of BP's 49% shareholding in Industria Raffinazione Oli Minerali S.p.A., which owns a refinery at Venice with a capacity of 90,000 barrels per day, subject to the pre-emptive rights of the major shareholder. A first installment of the consideration was received in 1973 and the remainder was received by July 1975. The profit of £25.3 million was dealt with as an extraordinary item in the Consolidated Statement of Income for 1973. The trading results of BP Italiana for the first half year of 1973 were included in the Consolidated Statement of Income for that year.

The BP Group's exploration interests in Italy and its shareholding in Italproteine, the project for manufacture of protein in Sardinia, were not included in the above-mentioned sale, nor were its interests in aviation fuelling, marine bunkering and lubricants and other special products trade in Italy.

Abu Dhabi Marine Areas Limited which has a concession offshore Abu Dhabi is one-third owned by Compagnie Française des Pétroles. Following agreement reached on December 26, 1972 a 45% interest in the wholly-owned subsidiary company which held the BP Group's two-thirds interest was sold to the Japan Oil Development Company Limited (to which the signatory to the agreement, Overseas Petroleum Corporation, assigned its rights). The consideration was \$780 million and the profit arising of £274.5 million was dealt with as an extraordinary item in the Consolidated Statement of Income for 1973.

In 1975, the BP Group sold its 50% holding in Norsk Braendselolje A/S for approximately £27 million. Some assets were not included in the sale and were retained in a new wholly-owned company, BP Norge A/S, established to continue and develop specialized trading activities, in particular sales of lubricants and chemicals and sales to the Norwegian shipping industry. The surplus after tax of £21.3 million in respect of this sale was accounted for in the Consolidated Statement of Income as an extraordinary item. Under United States generally accepted accounting principles as applied in 1975, in conformity with Accounting Principles Board Opinion No. 30, such an item would have been included in the determination of income before extraordinary items. Earnings per unit of ordinary stock before extraordinary items would have increased correspondingly by 5.5p (9 cents) with no change in net income and income per unit of ordinary stock.

The BP and Shell marketing operations in southern Africa were separated at the end of June 1975 and BP now trades independently in South Africa, South West Africa (Namibia), Botswana, Lesotho and Swaziland. Similarly on December 31, 1975 the BP Group's oil marketing activities in the U.K. which had previously operated within Shell-Mex and B.P. Limited, an associated company, were separated and BP now trades in the U.K. as BP Oil Limited.

These reorganisations had no material effect on the determination of consolidated net income for 1975 but resulted in a reclassification in the accounts whereby the amount shown as investment in associated companies was reduced and properties and operating assets were correspondingly increased.

THE BRITISH PETROLEUM COMPANY LIMITED AND SUBSIDIARY COMPANIES

NOTES TO FINANCIAL STATEMENTS—(Continued)

Note G—Inventories and Purchases

Inventories of oil and chemicals used in the computation of cost of oil, ocean freight, refining and chemical manufacturing, and customs duties and sales taxes were as follows:

	<u>Cost of oil, etc.</u>	<u>Customs duties, etc.</u>	<u>Total</u>
		(£ million)	
December 31, 1971	267.0	13.6	280.6
December 31, 1972	280.4	15.8	296.2
December 31, 1973	406.1	23.9	430.0
December 31, 1974	1,146.4	24.2	1,170.6
December 31, 1975	1,290.6	30.3	1,320.9
December 31, 1976	1,680.4	27.0	1,707.4

Purchases from major 50% owned associated companies and from others, mainly producer governments since January 1, 1973, were as follows:

	<u>Purchases from major 50% owned associated companies</u>	<u>Purchases from others, mainly producer governments</u>
		(£ million)
1971	63.0	219.0
1972	62.4	241.0
1973	71.9	637.2
1974	155.6	4,420.3
1975	195.1	4,594.4
1976	230.2	6,759.2

Note H—Finance Debts

Long-term debts are those, as defined by the U.K. Companies Act 1967, which are wholly or in part repayable more than five years from the date of the balance sheet.

Short-term debts and acceptances are those repayable within five years from the date of the balance sheet, other than those bank loans and overdrafts which are repayable within one year from the date of the balance sheet. Short-term debts of the BP Group at December 31, 1976 amounted to £906.6 million and included £70.9 million in respect of commercial paper issued by BP Pipelines Inc., a wholly-owned group subsidiary, at an approximate interest rate of 5%. Acceptances under facilities with differing periods of duration in respect of oil movements amounted to £171.4 million.