

BP INTERNATIONAL LIMITED

COMPANY NO: 542515

ANNUAL REPORT AND ACCOUNTS 1997

Board of Directors:-

Sir John Browne - Chairman
Dr J G S Buchanan
D S Fitzsimmons
F W M Starkie
D R Watson

REPORT OF THE DIRECTORS

The directors present their report and the accounts for the year ended 31 December 1997.

The company, which is based in the UK, is engaged internationally in oil, chemicals and related financial activities. It also provides services to other group undertakings and holds investments in subsidiary and associated undertakings engaged in similar activities.

Financial review

The profit for the year after taxation was £2,348 million. An interim dividend of £1,000 million was paid and the balance, when added to the retained profit brought forward at 1 January 1997 of £1,020 million, gives a total retained profit carried forward at 31 December 1997 of £2,368 million. The directors do not propose payment of a final dividend.

Review of activities

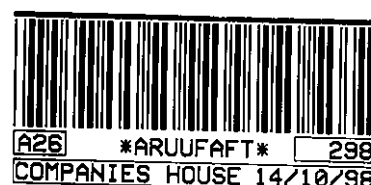
Oil activities comprise the results of BP International's Refining and Marketing business as well as certain international business sectors with head offices in the United Kingdom. These showed an operating profit for the year of £142 million.

The Chemicals activities consist of interests in various petrochemical and specialist derivative businesses. Chemicals operating profit of £182 million was £29 million lower than in 1996.

Operating profit from corporate and other activities of £2,457 million includes dividends from subsidiary undertakings of £2,101 million.

Directors

Sir John Browne, Dr J G S Buchanan, Mr F W M Starkie and Mr D R Watson served as directors throughout the financial year. Dr D C Allen resigned on 30 June 1997 and Mr D. S. Fitzsimmons was appointed on 1 July 1997.



REPORT OF THE DIRECTORS

The interests of the directors holding office at 31 December 1997, other than directors of the ultimate parent undertaking, and their families, in the 25p ordinary shares of The British Petroleum Company p.l.c., were as set out below:

	31 December 1997	1 January 1997 or date of appointment
F W M Starkie	31,691	25,318
D S Fitzsimmons	14,542	9,992
D R Watson	23,413	23,330

In addition, rights to subscribe for 25p ordinary shares in The British Petroleum Company p.l.c. were granted to, or exercised by, those directors between 1 January or date of appointment and 31 December 1997 as follows:-

	Granted	Exercised
F W M Starkie	2,984	9,101
D S Fitzsimmons	1,432	4,368
D R Watson	Nil	30,000

None of the above had any interest in shares or debentures of subsidiary undertakings of The British Petroleum Company p.l.c. at 31 December 1997.

Pursuant to Section 310 of the Companies Act 1985, for the year ended 31 December 1997, policies of insurance have been purchased and maintained by the ultimate parent undertaking for the directors and officers of the company against the financial consequences of actions brought against them by outside parties for their acts or omissions in the performance of their duties as directors or officers of the company.

Policy with respect to payment of suppliers

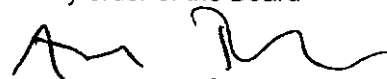
It is the company's policy to follow the CBI's prompt payment Code of Practice for all suppliers to the company. A copy of the Code of Practice may be obtained from the CBI.

The number of days' purchases represented by trade creditors at the year-end was 29.

Auditors

In accordance with Section 386 of the Companies Act 1985, the company has elected to dispense with the obligation to appoint auditors annually and Ernst & Young continue in office.

By order of the Board


Secretary

Registered Office
Britannic House
1 Finsbury Circus
London
EC2M 7BA

29 September 1998

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- prepare the accounts on the going concern basis, unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for taking reasonable steps to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

The directors confirm that they have complied with these requirements, and, having a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future, continue to adopt the going concern basis in preparing the accounts.

**REPORT OF THE AUDITORS TO THE MEMBERS OF
BP INTERNATIONAL LIMITED**

We have audited the accounts on pages 5 to 20 which have been prepared under the historical cost convention and on the basis of the accounting policies set out on pages 5 and 6.

Respective responsibilities of directors and auditors

As described on page 3 the company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company as at 31 December 1997 and of the profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young
Registered Auditors
London

29 September 1998

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ACCOUNTING POLICIES

Basis of preparation

The accounts are prepared under the historical cost convention and in accordance with applicable UK accounting standards.

Group accounts

Group accounts are not submitted as the company is exempt from the obligation to prepare group accounts under Section 228(1) of the Companies Act 1985. The results of subsidiary and associated undertakings are dealt with in the consolidated accounts of the ultimate parent undertaking, The British Petroleum Company p.l.c., a company registered in England and Wales.

As the ultimate parent undertaking has published a group cash flow statement in compliance with Financial Reporting Standard No.1(revised), a cash flow statement is not presented with these accounts.

Foreign currencies

Assets and liabilities of foreign currency branches are translated into sterling at closing rates of exchange, with the exception of fixed assets which are translated at the rate of exchange ruling at the date of acquisition and income statements are translated at average rates of exchange. All exchange gains or losses on settlement or translation at closing rates of exchange of monetary assets and liabilities are included in the determination of profit for the year.

Stock valuation

Stocks are valued at cost to the company, using the first-in first-out method or at net realisable value, whichever is the lower. Stores are stated at or below cost calculated mainly using the average method.

Depreciation

Tangible and intangible fixed assets, other than freehold land, are depreciated on the straight line method over their estimated useful lives.

Environmental liabilities

Environmental expenditures that relate to current or future revenues are expensed or capitalised as appropriate. Expenditures that relate to an existing condition caused by past operations and that do not contribute to current or future earnings are expensed.

Liabilities for environmental costs are recognised when environmental assessments or clean-ups are probable and the associated costs can be reasonably estimated. Generally, the timing of these provisions coincides with the commitment to a formal plan of action or, if earlier, on divestment or on closure of inactive sites.

32

ACCOUNTING POLICIES (Continued)

Pensions

Actuarial surpluses and deficiencies of the BP Pension Fund relating to employees of certain fellow UK subsidiaries are dealt with in the accounts of the company having regard to the overall position of the Fund. The difference between total pension costs and contributions in respect of those UK subsidiaries is included within pension provisions or debtors as appropriate.

Leases

Assets held under leases which result in the company receiving substantially all risks and rewards of ownership (finance leases) are capitalised as tangible fixed assets at the estimated present value of underlying lease payments. The corresponding finance lease obligation is included with borrowings. Rentals under operating leases are charged against income as incurred.

Interest

Interest is capitalised during the period of construction where it relates either to the financing of major projects with long periods of development or to dedicated financing of other projects. All other interest is charged against income.

Research

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

Deferred taxation

Deferred taxation is calculated using the liability method, in respect of timing differences arising primarily from the difference between the accounting and tax treatment of depreciation. Provision is made, or recovery anticipated, where timing differences are expected to reverse in the foreseeable future.

INCOME STATEMENT

For the year ended 31 December 1997

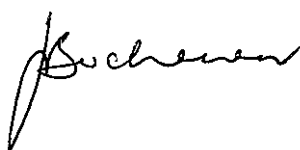
			£ million
	Note	1997	1996
Turnover	1	16,096	21,161
Cost of sales		15,426	20,679
Gross profit		670	482
Distribution and administration expenses		254	267
		416	215
Other income	2	2,365	902
Operating profit	1	2,781	1,117
Profit on disposal of fixed assets	3	4	2
Loss on disposal of discontinued operations	3	(17)	(76)
Profit before interest and tax		2,768	1,043
Interest expense	4	423	381
Profit before taxation		2,345	662
Taxation credit	9	3	98
Profit for the year		2,348	760
Distribution to shareholder		1,000	800
Retained profit/(loss) for the year		1,348	(40)

There are no recognised gains or losses attributable to the shareholders of the company other than the profit of £2,348 million for the year ended 31 December 1997 (1996 profit of £760 million).

589

BALANCE SHEET**At 31 December 1997****£ million**

	Note	1997	1996
Fixed assets			
Intangible assets	10	-	1
Tangible assets	11	1,062	1,015
Investments	12	2,932	2,406
		<hr/>	<hr/>
		3,994	3,422
Current assets			
Stocks	13	185	269
Debtors - amounts falling due:			
Within one year	14	10,786	10,000
After more than one year	14	8,547	6,532
Investments		-	2
Cash at bank and in hand		14	13
		<hr/>	<hr/>
		19,532	16,816
Creditors - amounts falling due within one year			
Finance debt	15	44	158
Other creditors	16	15,739	13,026
		<hr/>	<hr/>
Net current assets		3,749	3,632
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		7,743	7,054
Creditors - amounts falling due after more than one year			
Finance debt	15	869	808
Other creditors	16	4,468	5,188
		<hr/>	<hr/>
Provision for liabilities and charges			
Deferred taxation	9	37	37
		<hr/>	<hr/>
SHAREHOLDERS' INTEREST		2,369	1,021
		<hr/>	<hr/>
Represented by			
Capital and reserves			
Called up share capital	17	1	1
Reserves		2,368	1,020
		<hr/>	<hr/>
SHAREHOLDERS' FUNDS - EQUITY INTEREST	18	2,369	1,021
		<hr/>	<hr/>



Director

Director

29 September 1998



NOTES ON ACCOUNTS

1 Turnover

Turnover comprises sales and other operating revenue, all of which falls within the UK geographic area and also includes the UK based international oil and gas activities.

Activity analysis

	Turnover		Operating profit	
	1997	1996	1997	1996
Oil	14,404	19,411	142	33
Chemicals	1,684	1,681	182	211
Corporate and other	176	214	2,457	873
Less: inter-activity sales	(168)	(145)	-	-
	16,096	21,161	2,781	1,117

Corporate and other includes management, financial activities and gas operations.

Corporate operating profit includes an exchange gain in respect of exchange translation on long term assets and liabilities of £124 million (1996 £88 million loss).

2 Other income

	1997	1996
Income from Subsidiary undertakings		
Dividends	2,101	705
Interest and miscellaneous income	186	88
	2,287	793
Interest from parent and fellow subsidiary undertakings	55	59
Other interest and miscellaneous income	23	50
	2,365	902

527

NOTES ON ACCOUNTS

3 Exceptional item

Exceptional items comprise the profit on disposal of fixed assets and the loss on sale or termination of operations as follows:

	£ million	
	1997	1996
Profit on sale of fixed assets	4	2
Loss on sale or termination of operations	(17)	(76)
	<u>(13)</u>	<u>(74)</u>

The loss on sale or termination of operations in 1997 relates to the group's disposal of its residual Nutritions operations and the Barry chemicals operations.

The 1996 loss related to the disposal of Nutritions operations and rationalisation of the company's properties in the UK.

4 Interest and other similar charges

	£ million	
	1997	1996
Interest expense		
Parent and fellow subsidiary undertakings	375	324
Finance leases	45	43
Other	3	12
	<u>423</u>	<u>379</u>
Factoring charge payable to BP Capital p.l.c.	-	2
	<u>423</u>	<u>381</u>

The factoring charge payable in 1996 to BP Capital p.l.c., a fellow subsidiary undertaking, arose under an agreement in respect of certain of the company's debtors.

NOTES ON ACCOUNTS

5 Depreciation, exchange, hire, research and audit costs

£ million

	1997	1996
Depreciation	69	84
	==	==
Depreciation of capitalised leased assets included above	22	23
Hire charges under operating leases:	—	—
Plant and machinery	4	4
Land and buildings	13	13
	—	—
	17	17
	==	==
Expenditure on research	47	46
	==	==
Exchange (gain)/loss	(123)	72
	==	==
Auditors' remuneration:		
		£'000
	1997	1996
Audit fees	822	833
	==	==
For other services to the company and its UK subsidiary undertakings	475	602
	==	==

6 Employees

BP International Limited does not directly employ any staff.

7 Pensions

The BP Group's principal UK pension plan (the BP Pension Fund) is separately funded and provides benefits that are computed based on an employee's years of service and final pensionable salary. Contributions are made to the BP Pension Fund by certain fellow UK subsidiary undertakings on the basis of advice from independent actuaries, using actuarial methods the objective of which is to provide adequate funds to meet pension obligations as they fall due, and are based on pension costs in respect of all members of the fund. Having regard to the overall position of the fund, actuarial surpluses and deficiencies are amortised over the expected remaining service lives of members and charged or credited to income as appropriate in the accounts of this company. Details of the most recent actuarial valuation of the BP Pension Fund as at 1 January 1997 are included within the financial statements of the ultimate parent undertaking. No contributions have been paid by the Company for the year ended 31 December 1997 (1996 - £Nil).

The credit to profit for the year for pensions is £149 million (1996 £104 million).

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NOTES ON ACCOUNTS

8 Directors' emoluments

The chairman and one other director are directors of The British Petroleum Company p.l.c. (the ultimate parent undertaking) in whose accounts the information required by the Companies Act 1985, as to emoluments, is given. The remaining directors are senior executives of, and are remunerated by, The British Petroleum Company p.l.c. and received no remuneration for services to this company or its subsidiary undertakings.

9 Taxation

	£ million	
	1997	1996
United Kingdom corporation tax		
Current at 31.5% (33%)	531	422
Overseas taxation relief	(474)	(400)
	—	—
	57	22
Advance corporation tax	(60)	(120)
	—	—
	(3)	(98)
	==	==

United Kingdom taxation - the company is a member of a group for the purposes of group relief under Section 402 of the Income and Corporation Taxes Act 1988.

A £3 million (1996 £98 Million) current tax credit has arisen in respect of the group's taxable profits derived from non-North Sea activities, after taking account of the attributable overseas taxation relief and writeback of ACT. No provision for deferred taxation was made in 1997 (1996 £ Nil).

The gross potential liability for deferred taxation in respect of the group's non-North Sea activities at 31 December 1997 was £312 million (1996 £285 million). If provision had been made in the accounts on the basis of the gross potential liability there would have been a charge of £27 million (1996 £21 million).

The gross potential liability for deferred taxation for the company at 31 December 1997 comprises tax in respect of:-

	£ million	
	1997	1996
Depreciation	91	92
Other items	9	(28)
	—	—
	100	64
	==	==

If provision had been made in the accounts of the company on the basis of the gross potential liability there would have been a charge of £36 million (1996 £20 million credit).

NOTES ON ACCOUNTS

10 Intangible assets

£ million

Patents &
trade marks

Cost	
At 1 January 1997 and 31 December 1997	27
	—
Depreciation	
At 1 January 1997	26
Charge for year	1
	—
At 31 December 1997	27
	—
Net book amount	
At 31 December 1997	Nil
	—
At 31 December 1996	1
	—
Principal rate of depreciation	20%

NOTES ON ACCOUNTS

11 Tangible assets - property, plant and equipment

£ million

	Chemicals	Oil	Corporate and other	Total	of which: Assets under construction
Cost					
At 1 January 1997	1,883	70	134	2,087	70
Additions	140	1	4	145	96
Deletions	(69)	(2)	(29)	(100)	
Group Transfers	-	-	-	-	(36)
At 31 December 1997	1,954	69	109	2,132	130
Depreciation					
At 1 January 1997	956	44	72	1,072	
Charge for year	59	3	6	68	
Deletions	(51)	(1)	(18)	(70)	
Group Transfers	-	-	-	-	
At 31 December 1997	964	46	60	1,070	
Net book amount					
At 31 December 1997	990	23	49	1,062	130
At 31 December 1996	927	26	62	1,015	70
Principal rates of depreciation	3-12%	10-25%	3-25%		

Assets held under finance leases, capitalised interest and land at net book amount included above:

	Leased assets			Capitalised interest			Freehold land
	Cost	Dep'n	Net	Cost	Dep'n	Net	
At 31 December 1997	661	190	471	7	7	-	1
At 31 December 1996	686	186	500	7	7	-	1

See

NOTES ON ACCOUNTS

12 Fixed assets - Investments

£ million

	Subsidiary undertakings Shares	Associated undertakings Shares	Other Loans	Total
Cost				
At 1 January 1997	2,436	4	5	2,445
Additions	687	-	-	687
Deletions	(158)	-	-	(158)
At 31 December 1997	2,965	4	5	2,974
Amounts provided				
At 1 January 1997	39	-	-	39
Provided in the year	126	-	-	126
Deletions	(123)	-	-	(123)
At 31 December 1997	42	-	-	42
Net book amount				
At 31 December 1997	2,923	4	5	2,932
At 31 December 1996	2,397	4	5	2,406

The more important investments in subsidiary and associated undertakings as at 31 December 1997 are set out in note 23.

13 Stocks

£ million

	1997	1996
Oil	41	115
Chemicals	94	102
	<hr/>	<hr/>
Stores	135	217
	50	52
	<hr/>	<hr/>
	185	269
Replacement cost	186	273
	<hr/>	<hr/>

504

NOTES ON ACCOUNTS

14 Debtors

	£ million			
	Within 1 Year	1997 After 1 Year	Within 1 Year	1996 After 1 Year
Trade	773	-	1,034	-
Subsidiary undertakings	9,049	1,592	7,561	310
Parent and fellow subsidiary undertakings	408	6,190	1,131	5,605
Associated undertakings	217	-	-	-
Prepayments and accrued income	172	-	158	-
Pension prepayment	-	761	-	612
Advance corporation tax recoverable	67	-	64	-
Other	100	4	52	5
	10,786	8,547	10,000	6,532

15 Finance debt

	£ million			
	Within 1 Year	1997 After 1 Year	Within 1 Year	1996 After 1 Year
Bank loans and overdrafts	14	3	135	2
Obligations under finance leases	30	866	23	806
	44	869	158	808

There were no bank loans and overdrafts repayable after 5 years.

The company had undrawn borrowing facilities available amounting to £1,205 million (1996 £1,183 million), which were covered by formal commitments.

Obligations under finance leases:

	£ million	
	1997	1996
Minimum future lease payments		
Payable within:		
1 year	30	23
2 to 5 years	302	297
Thereafter	2,259	2,437
	2,591	2,757
Less finance charges	1,695	1,928
Net obligations	896	829

NOTES ON ACCOUNTS

16 Other creditors

	£ million			
	Within 1 Year	1997 After 1 Year	Within 1 Year	1996 After 1 Year
Trade	966	-	1,224	-
Subsidiary undertakings	1,932	4,461	1,202	4,682
Parent and fellow subsidiary undertakings	12,015	-	9,924	497
Associated undertakings	67	-	3	-
Taxation on profits	300	-	232	-
Accruals and deferred income	337	-	348	-
Other	122	7	93	9
	<u>15,739</u>	<u>4,468</u>	<u>13,026</u>	<u>5,188</u>

17 Called up share capital

	£ million	
	1997	1996
Authorised, allotted and fully paid 1,000,000 ordinary shares of £1 each	1	1
	-	-

18 Reconciliation of movements in shareholders' interest

	£ million	
	1997	1996
For the year ended 31 December		
Profit for the year	2,348	760
Distribution to shareholders	(1,000)	(800)
Movement in reserves	1,348	40
Shareholders' interest at 1 January	1,021	1,061
Shareholders' interest at 31 December	<u>2,369</u>	<u>1,021</u>

19 Contingent liabilities

There were contingent liabilities at 31 December 1997 in respect of guarantees and indemnities entered into as part of, and claims arising from, the ordinary course of the company's business, including borrowing by its subsidiary undertakings, upon which no material losses are likely to arise.

NOTES ON ACCOUNTS

20 Capital commitments

Authorised future capital expenditure for which contracts have been placed at 31 December 1997 amounted to £10 million (1996 £33 million).

21 Related party transactions

As the company is a wholly owned subsidiary of The British Petroleum Company p.l.c., in accordance with the provisions of FRS 8, the company is not required to disclose transactions with group companies and associated undertakings.

22 Lease commitments

£ million

Annual commitments under operating leases:

	1997 Land and buildings	1996 Land and buildings
Expiring within:		
1 year	-	-
2 to 5 years	1	1
Thereafter	12	12
	—	—
	13	13
	==	—

23 Subsidiary and associated undertakings

The more important subsidiary and associated undertakings of the company at 31 December 1997 and the percentage of equity capital held (to the nearest whole number) are set out below. The principal country of operation is generally indicated by the company's country of incorporation or by its name. Those held directly by the company are marked with an asterisk. A complete list of investments in subsidiary and associated undertakings has been attached to the parent company's annual return made to the Registrar of Companies.

59

NOTES ON ACCOUNTS

23 Subsidiary and associated undertakings (continued)

Subsidiary undertakings	%	Country of incorporation	Principal activities	
INTERNATIONAL				
*BP Chemicals Investments	100	England & Wales	Chemicals	
*BP Exploration	100	Scotland	Exploration and production	
BP Exploration Operating Company	100	England & Wales	Exploration and production	
*BP Oil International	100	England & Wales	Integrated oil operations	
EUROPE				
UK				
*BP Capital plc	100	England & Wales	Finance	
BP Chemicals	100	England & Wales	Chemicals	
*BP Oil UK	100	England & Wales	Refining and marketing	
PORTUGAL				
*BP Portuguesa	100	Portugal	Marketing	
AUSTRALASIA				
AUSTRALIA				
BP Developments Australia	100	USA	Exploration and production	
FAR EAST				
*BP Asia Pacific Holdings	100	England & Wales	Holding company	
WESTERN HEMISPHERE				
USA				
*BP America Holdings	100	England & Wales	Holding company for BP America	
BP America) Standard Oil)	100	USA	Exploration and production, refining and marketing, pipelines and chemicals.	
Associated undertakings				
	%	Country of incorporation	Principal activity	Issued Share Capital
AFRICA				
The Consolidated Petroleum Company	50	England & Wales	Marketing	350,000 shares of £10

The investments in subsidiary and associated undertakings are unlisted.

507

NOTES ON ACCOUNTS

24 Ultimate parent undertaking

The ultimate parent undertaking of the group of undertakings for which group accounts are drawn up, and of which the company is a member, is The British Petroleum Company p.l.c., a company registered in England and Wales. Copies of the accounts of The British Petroleum Company p.l.c. may be obtained from the Company Secretary, Britannic House, 1 Finsbury Circus, London EC2M 7BA.