BP EXPLORATION COMPANY LIMITED
(Registered No. 792)

ANNUAL REPORT AND ACCOUNTS 1997

Board of Directors: R L Olver (Chairman)
Dr D C Allen
Dr J E Golden
Dr A B Hayward

REPORT OF THE DIRECTORS

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

Principal activity

The company holds investments in subsidiary undertakings engaged in oil and gas production and exploration.

Results

The profit for the year, after taxation, of £2,150,017,000, less interim dividend of £2,100,000,000 and Preference dividend of £12,040,000, when added to the retained profit brought forward at 1 January 1997 of £179,754,000 gives a total retained profit carried forward at 31 December 1997 of £217,731,000.

Directors

Mr R L Olver served as a director of the company throughout the financial year. On 1 July 1997 Dr B E Grote resigned as a director of the company. Dr D C Allen was appointed on 31 July 1997. On 1 September 1997 Dr A B Hayward and Dr J E Golden were appointed as additional directors. Mr R F Chase ceased to be a director of the company on 31st December 1997 and Mr Olver was appointed as Chairman and Chief Executive on 1st January 1998.

Directors' interests

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:

	As at 31 December 1997	As at 1 January 1997 or date of appointment
DC Allen	36,491 *	26,691 *
JE Golden	20,876 *	20,876 *
AB Hayward	13,236	13,142

* 12,684 of Dr Allen's interests and all of Dr Golden's interests are held in ADS form

BP EXPLORATION COMPANY LIMITED

REPORT OF THE DIRECTORS

Directors' interests (continued)

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

	Granted	Exercised
DC Allen	Nil	16,800
JE Golden	Nil	Nil
AB Hayward	1,790	Nil

No director had any interest in the shares or debentures of subsidiary undertakings of The British Petroleum Company p.l.c. at 31 December 1997.

Policy and practice 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.

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

RD Morris, Secretary

Registered Office,
Burnside Road,
Farburn Industrial Estate,
Dyce, Aberdeen, AB2 0PB

28th September 1998

BP EXPLORATION COMPANY LIMITED

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 also responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and which enable them to ensure that the accounts comply with the Companies Act 1985. They are also for taking responsible 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 operation existence for the foreseeable future, continue to adopt the going concern basis in preparing the accounts.

BP EXPLORATION COMPANY LIMITED

REPORT OF THE AUDITORS TO THE MEMBERS OF BP EXPLORATION COMPANY LIMITED

We have audited the accounts on pages 5 to 12 which have been prepared under the historical cost convention and on the basis of the accounting policies set out on page 5.

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

Ernst & Young
Registered Auditor
London

28th September 1998

BP EXPLORATION COMPANY LIMITED

ACCOUNTING POLICIES

Accounting convention

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

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 in these accounts.

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.

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction.

Assets and liabilities in currencies other than sterling are translated into sterling at closing rate of exchange. All exchange gains and 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.

Deferred taxation

Deferred taxation is calculated using the liability method. Provision is made or recovery anticipated where timing differences are expected to reverse in the foreseeable future.

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BP EXPLORATION COMPANY LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 1997

	Note	1997 £000	1996 £000
Other income	1	2,101,660	600,138
Provisions released		55,440	7,458
Operating profit on ordinary activities before interest and tax		2,157,100	607,596
Operating exchange gain/(loss)		(986)	3,991
Interest payable and similar charges	2	1,778	1,210
Profit before taxation		2,154,336	610,377
Taxation	3	4,319	-
Profit for the financial year		2,150,017	610,377

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 31 DECEMBER 1997

There are no recognised gains or losses, attributable to the shareholders of the company, other than the profit of £2,150,017 for the year ended 31 December 1997 (1996 profit of £610,377,000).

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BP EXPLORATION COMPANY LIMITED

BALANCE SHEET AT 31 DECEMBER 1997

	Note	1997 £000	1996 £000
Fixed assets			
Investments	6	4,072,927	4,070,889
Current assets			
Debtors	7	79,351	691,289
Creditors - amounts falling due within one year	8	(3,154,212)	(4,242,799)
Net current liabilities		(3,074,861)	(3,551,510)
TOTAL ASSETS LESS CURRENT LIABILITIES		998,066	519,379
Creditors - amounts falling due after more than one year	8	-	79,290
Shareholders' interest		998,066	440,089
Represented by			
Capital and reserves			
Called up share capital	9	780,335	260,335
Reserves	10	217,731	179,754
		998,066	440,089

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R L Olver, Chairman

28th September 1998

NOTES TO THE ACCOUNTS

1. **Other income**

	1997 £000	1996 £000
Income from shares in subsidiary undertakings	2,101,660	600,138
	2,101,660	600,138

2. **Interest payable and similar charges**

	1997 £000	1996 £000
Interest payable to subsidiary undertakings	1,778	1,210
	1,778	1,210

3. **Taxation**

	1997 £000	1996 £000
United Kingdom Corporation Tax		
Current at 31.5% (1996 33%)	-	-
Overseas tax relief	-	-
Advance corporation tax	4,319	-
	4,319	-
Overseas taxation		
Current	-	-
Taxation Charge for the year	4,319	-

The company is a member of a group for the purposes of relief under Section 402 of the Income and Corporation Taxes Act 1988. Owing to the availability of group relief, no provision for corporation tax has been made in the accounts of this company. The group's current corporation tax liability has been provided in the accounts of BP International Limited, a fellow subsidiary undertaking (Note 1).

Provision for deferred taxation is not required.

4. **Directors**

None of the directors received any fees or remuneration for services as director of the company during the financial year (1996 £Nil)

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5. **Distribution to shareholders**

	1997 £000	1996 £000
Ordinary - interim	2,100,000	576,420
Preference	12,040	5,237
	2,112,040	581,657

6. **Fixed assets - investments**

	Subsidiary undertakings Shares £000	Associated undertakings Shares £000	Total £000
Cost			
At 1 January 1997 and 31 December 1996	4,070,568	322	4,070,890
Additions	2,037	-	2,037
Deletions	-	-	-
31 December 1997	4,072,605	322	4,072,927
Amounts provided			
At 1 January 1997	1	-	1
Deletions	-1	-	-1
31 December 1997	-	-	-
Net book amount			
At 31 December 1997	4,072,605	322	4,072,927
At 31 December 1996	4,070,567	322	4,070,889

The investments in the subsidiary and associated undertakings are unlisted.

In the opinion of the directors, the value of the shares and loans in the company's subsidiary and associated undertakings is not less than the amount at which they are shown in the balance sheet.

The more important subsidiary and associated undertakings of the company at 31 December 1997 and the percentage of equity capital held are set out below. The principal country of operation is generally indicated by the company's country of incorporation or by its name. A complete list of investments in subsidiary and associated undertakings will be attached to the parent company's annual return made to the Registrar of Companies.

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BP EXPLORATION COMPANY LIMITED

NOTES TO THE ACCOUNTS

6. **Fixed assets - investments (continued)**

Subsidiary undertakings	%	Country of incorporation	Principal activity
BP Exploration (Finance) Ltd	100	England and Wales	Investment company
BP Exploration Company (Middle East) Ltd	100	England and Wales	Holding company
BP Exploration Operating Company Ltd	100	England and Wales	Exploration and production
BP Norway Ltd	100	England and Wales	Exploration and production
BP (Abu Dhabi) Ltd	100	England and Wales	Exploration and production
BP Energy Ltd	100	England and Wales	Exploration and production
BP Exploration Mexico Ltd	100	England and Wales	Exploration and production
BP Exploration Orinoco Ltd	100	England and Wales	Exploration and production

Associated undertakings	%	Country of incorporation	Principal activity	Issued share capital
Abu Dhabi Marine Operating Company	14.67	Abu Dhabi	Refining and marketing	10,000 ordinary shares of DH100 each
BP Japan Oil Development Company Ltd	50	Scotland	Refining and marketing	50,000 ordinary shares of £1 each 272,500 deferred ordinary shares of £1 each

7. **Debtors**

	1997 £000	1996 £000
Parent and fellow subsidiary undertakings	6,150	624,545
Associated undertakings	73,201	65,435
Other	-	1,309
	79,351	691,289

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BP EXPLORATION COMPANY LIMITED

NOTES TO THE ACCOUNTS

8. Creditors

	1997		1996	
	Within 1 year	After 1 year	Within 1 year	After 1 year
	£000	£000	£000	£000
Parent and fellow subsidiary undertakings	3,154,212	-	4,241,490	79,290
Other	-	-	1,309	-
	3,154,212	-	4,242,799	79,290

9. Called up share capital

	1997	1996
	£000	£000
Ordinary Share Capital		
Authorised, issued and fully paid:		
260,335,000 ordinary shares of £1 each	260,335	260,335
Preference Share capital		
Authorised		
5,400,000 redeemable cumulative preference shares of £100 each.	540,000	260,000
Issued and fully paid		
5,200,000 redeemable cumulative preference shares of £100 each	520,000	-

On 17 February 1997 the authorised share capital was increased to £800,335,000 by the creation of a further 2,800,000 redeemable cumulative preference shares of £100 each. Between 19 February and 25 March 1997, 5,200,000 redeemable cumulative preference shares were issued at par as part of the financing strategy for the BP group

The redeemable cumulative preference shares are redeemable on four days' notice and are entitled to a fixed cumulative preference dividend, but carry no right to vote.

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BP EXPLORATION COMPANY LIMITED

NOTES TO THE ACCOUNTS

10. Reconciliation of shareholders funds and movements on reserves

	Share Capital £000	Reserves £000	Total £000
At 1 January 1996	335	151,034	151,369
Profit for the year	-	610,377	610,377
Increase in ordinary share capital	260,000	-	260,000
Distribution to shareholders	-		
Ordinary Dividend		(576,420)	(576,420
Preference Dividend		(5,237)	(5,237)
At 1 January 1997	260,335	179,754	440,089
Profit for the year	-	2,150,017	2,150,017
Increase in preference share capital	520,000	-	520,000
Distribution to shareholders			
Ordinary Dividend	-	(2,100,000)	(2,100,000)
Preference Dividend	-	(12,040)	(12,040)
At 31 December 1997	780,335	217,731	998,066

11. Related party transactions

The company has taken advantage of the exemptions contained within FRS 8, and does not disclose transactions with group companies.

12. 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 British Petroleum Company p.l.c.'s accounts can be obtained from Britannic House, 1 Finsbury Circus, London EC2M 7BA.

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BP

Front cover *In the 1920s, a field of daffodils inspired two senior executives from the French office of the Anglo-Persian Oil Company, as BP was then called, who were seeking distinctive colours for its new range of kerbside petrol pumps in Europe. The combination of the vitality of green and the freshness of yellow, adopted in 1931 as the company's house colours, has remained part of BP's corporate branding ever since*

The world's need for energy is growing steadily day by day. Energy and materials, used safely and efficiently, are essential to the prosperity and growth of every country and every region in the world. Sustaining and enhancing our quality of life depends on them.

To play a leading role in meeting these needs from oil, gas, solar power and petrochemicals without damaging the environment is BP's goal.

Ours is a positive involvement. Innovation will be the hallmark of the way we work with people, technology, assets and relationships. We will always be constructive. Our success depends on our making, and being seen to make, a distinctive contribution in all we do.

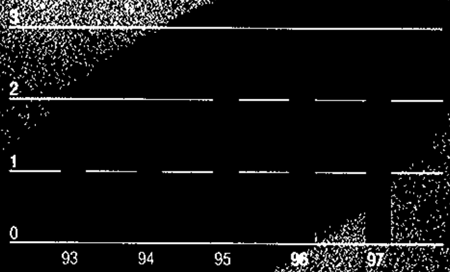
BP is committed to reporting not only its financial results but also its social and environmental performance. For a full picture of our performance during the year, this report should be read in conjunction with *HSE Facts: Health, Safety and the Environment 1997* and the *BP Social Report 1997*. Details are given on page 67.

The British Petroleum Company p.l.c. is the holding company of one of the world's largest petroleum and petrochemicals groups. Our main activities are exploration and production of crude oil and natural gas; refining, marketing, supply and transportation; and manufacturing and marketing of petrochemicals. We have a growing activity in solar power generation.

BP has major operations in Europe, North and South America, Asia, Australasia and parts of Africa. We are expanding our global presence.

financial performance

profit (replacement cost profit before exceptional items – £ billion)

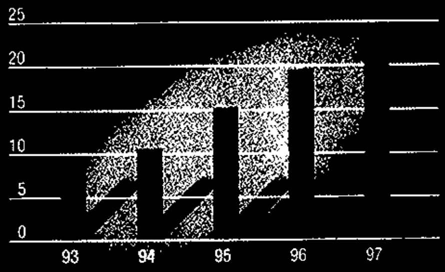


profits

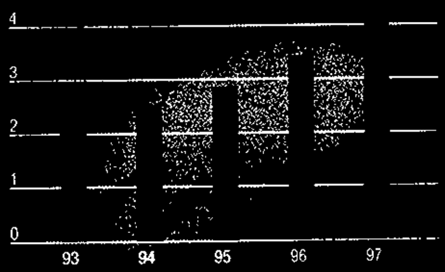
external environment

contents

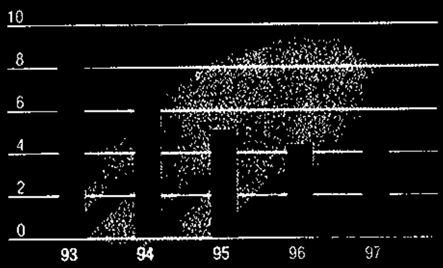
dividends (pence per share)



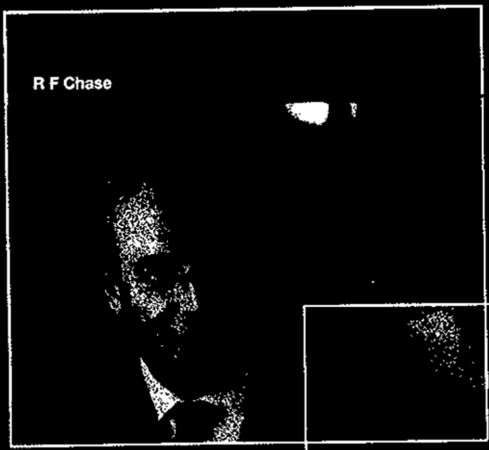
capital expenditure and acquisitions (£ billion)



net debt (£ billion – end year)

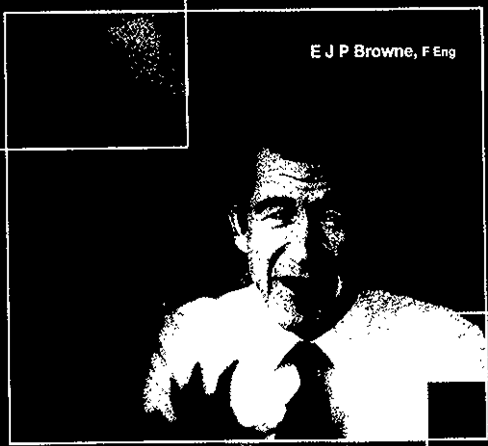


The Report of the Directors appears on pages 2-27 and 58-64; the Accounts appear on pages 28-50

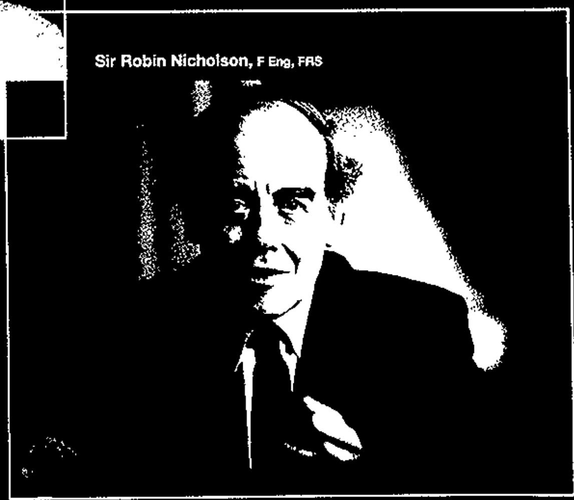


R F Chase

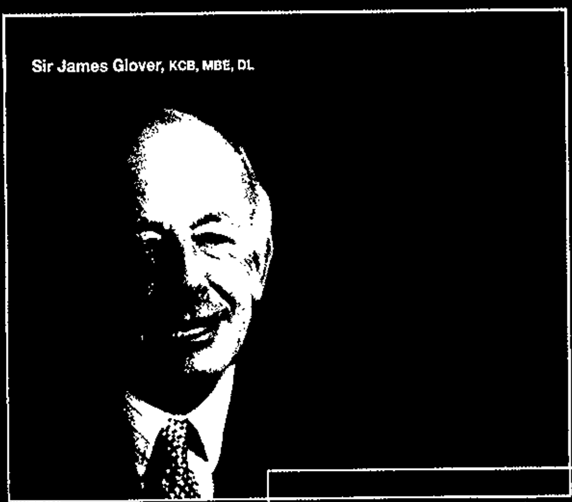
Sir Ian Prosser



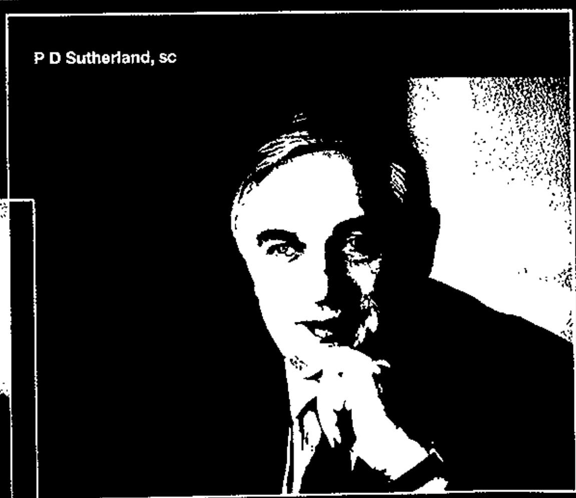
E J P Browne, F Eng



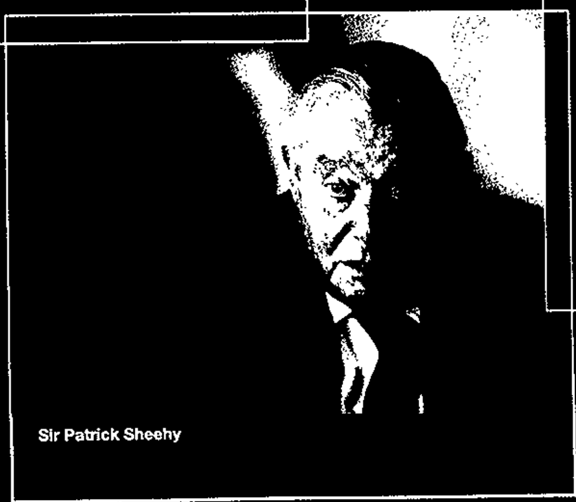
Sir Robin Nicholson, F Eng, FRS



Sir James Glover, KCB, MBE, DL



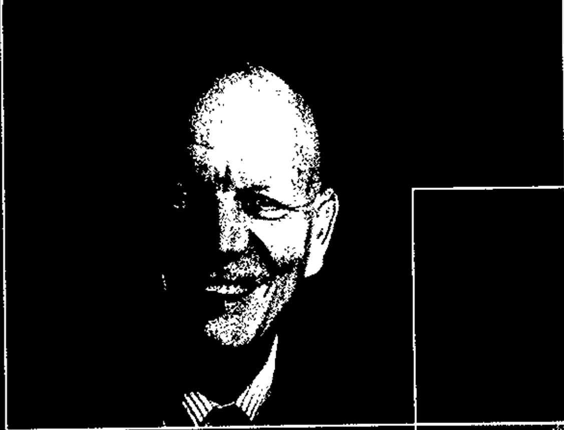
P D Sutherland, SC



Sir Patrick Sheehy

board of

The Lord Wright of Richmond, GCMG



C F Knight

Dr J G S Buchanan

B K Sanderson

H M P Miles, OBE

R L Olver

Dr K N Horn

Dr C S Gibson-Smith

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chairman's letter

Dear Shareholder

It is a privilege for me to follow David Simon as your chairman. As you know, the Prime Minister invited him to join the new British government last May – a signal honour. I am sure you will join me in wishing Lord Simon well in his role as Minister for Trade and Competitiveness in Europe.

David Simon gave BP 36 years of unstinting effort. He took over as group chief executive at a difficult time in June 1992, and led the company's recovery with distinction, both in that role and later as chairman from July 1995. He took the necessary tough decisions, while keeping the respect and loyalty of his colleagues. I thank him for his outstanding contribution.

"Your board is committed to the best principles of corporate governance. For you, the shareholders, our commitment is to building not just short-term, but long-term, value"

Today BP is well placed to build on the solid foundations that have been laid.

In the past year we have again made significant progress. We opened up exciting new prospects and formed important new alliances. Replacement cost profit before exceptional items grew by 13% to \$4.6 billion (£2.8 billion). It is particularly pleasing that all areas of the company contributed to this performance, which has enabled us to raise the dividend by 13% to 22 pence, a new peak. Debt remains at a prudent level, and our balance sheet is strong.

Competition

The oil industry has changed out of all recognition during the 1990s, and the integration of the world economy has opened up competition on a global scale. Our industry is full of hungry newcomers with something to prove, and the pressure on costs is unrelenting. Let me give you a simple example.

An important measure of performance in our industry is the cost of finding and developing a barrel of oil. Five years ago that cost averaged \$5.77. Last year it had fallen to \$4.78, a drop of almost 20%. BP's investment in technological innovation is giving us the edge to meet – and beat – our competitors in this demanding environment.

Our executive team, so ably led by John Browne, is well aware of the competitive challenges, not just in exploration and production but also in our refining, marketing and chemicals businesses. The performance improvements they have already achieved put us at the forefront of the industry. But the targets are constantly moving, and it is your board's task to ensure that progress is maintained.

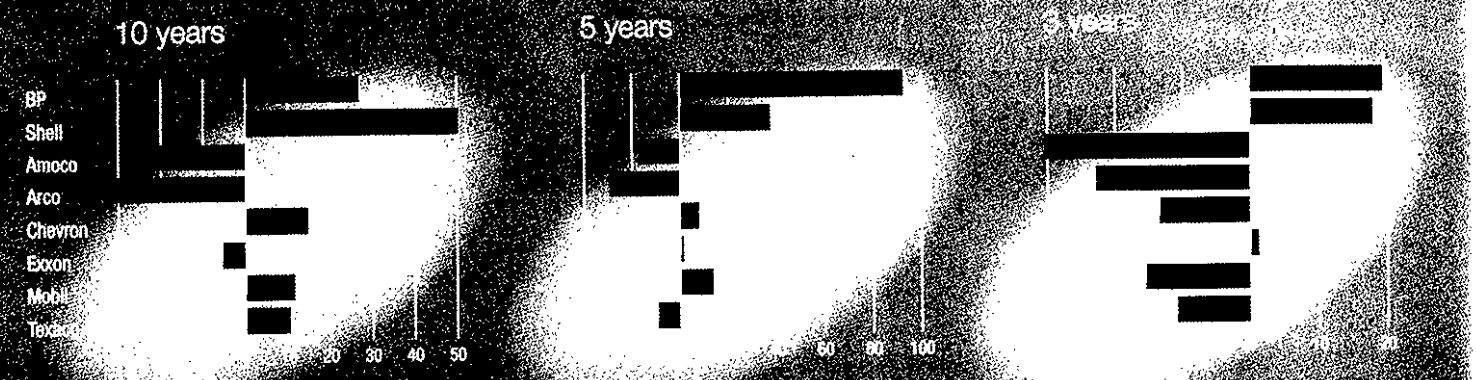
People

BP has many valuable assets. As your new chairman, I believe that none of these is more valuable than its people, some 56,000 of them across the globe, who devote their working lives to the company.

The extraordinary pace of global change places increasing demands on them, affecting how and where they work. I know that our management is determined to confront these challenges in a positive way.

We expect the best from our employees. In return they are entitled to our full support, to the opportunity to fulfil their potential – and to a sense of pride and dignity in their company and its mission. In seeking high achievement we must be willing to offer people high rewards when they consistently meet and exceed demanding targets. Sustained excellent performance benefits us all.

shareholder returns relative to the market (%)



Shareholder returns comprise annual share price movements, with dividends reinvested, for investments held over the period shown.
Shareholder returns relative to the market reflect the returns generated above or below returns from equivalent investments in the overall market.
This methodology is used in the Long Term Performance Plan on pages 59-60.

New frontiers

BP's history spans the 20th century. As we approach the 21st, we are exploring new frontiers – in South America, in Asia and, most remarkably of all, in the opening up of the old Soviet Union – a historic change that takes the European oil industry back to its birthplace in the 1870s.

This gives us a new opportunity to define our role. We admire the pioneering spirit of the 19th-century explorers, but today our approach must also reflect the needs of the nations in which we work. Many are young and still adjusting to the economic rules – such as profit – that we follow. We must go gently, be constructive and plan for the long term.

This approach influences the way we respond to other topics too. Concern on environmental issues is growing, and we aim to be responsible citizens of our small planet. In two important speeches during the year, John Browne has sought to contribute to the debate on global climate change.

BP is ready to listen and talk to those who approach these issues from a different perspective. We ask that they understand our position as a commercial company, our need to find, produce and distribute the energy the world needs, to contribute to economic progress, and to achieve a good return for our investors.

BP has almost half a million shareholders. I am conscious of the need to keep you all informed of our hopes and plans. We need to communicate simply and effectively – which is not always easy, given the legal and regulatory obligations placed on us by different jurisdictions. Of course, the annual general meeting is a welcome occasion for dialogue with shareholders, and we took steps last year to improve the opportunity for discussion.

The board

As well as Lord Simon, two directors left BP's board during the year. Russell Seal, managing director responsible for human resources, community affairs and health, safety and the environment, retired after 33 years, and Dr Rolf Stomberg, managing director of our downstream operations, retired after 27 years. We thank them for their considerable contribution.

Rodney Chase was appointed deputy group chief executive in January 1998, with responsibility for downstream activities.

We welcomed three new board members – Sir Ian Prosser, chairman of the Bass brewing and leisure group, as a non-executive director, Dr Chris Gibson-Smith as managing director to succeed Russell Seal, and Richard Olver as managing director, exploration and production.

Long-term value

Your board is committed to the best principles of corporate governance. For you, the shareholders, our commitment is to building not just short-term, but long-term, value.

As the new millennium approaches, we have many exciting possibilities. Our joint venture with Mobil has strengthened our retail presence throughout Europe. The alliance with A O Sidanco in Russia gives us access to major resources in Siberia. We have established a foothold in China, one of the biggest markets in the world.

Of necessity, some of these new ventures will take time. Be assured that, in developing them, we will be constantly mindful of the returns our shareholders are entitled to expect.

Peter Sutherland
Chairman
10 February 1998

outside it's snowing; inside he's as snug as a bug

He is a Luna moth, usually found in North America, but currently residing at a butterfly sanctuary in Europe.

Outside the sanctuary the winter weather is intemperate, to say the least. Hardly suitable for a creature that thrives in the summer. Still, thanks to a highly sensitive thermostat, he is quite at home. Good news for him and the other exotic residents of the sanctuary; good news for the many thousands who enjoy the attraction and others like it around the world.

BP can't claim direct credit for the health of the Luna moth, but we do make a constructive contribution – providing energy for the generation of heat and light around the world.

Now that's Positive Energy.


Positive Energy
BP

group chief executive's

BP had another excellent year in 1997. Replacement cost profit before exceptional items was $4.6 billion (£2.8 billion) – a record for the third year running – and 13% above last year. Our return on capital employed was maintained at 17%.

Net income per barrel upstream, where operating profits rose by 2%, was the highest in the industry. Oil and gas reserves were more than replaced for the sixth year running, despite a 2% production increase to 1.54 million barrels of oil equivalent a day. Our finding and development costs, at $4.78 a barrel, again showed improvement, remaining within our target range.

"Our strategy does not rely on a favourable external environment. All our targets are set against prudent assumptions so that we can deliver a strongly competitive performance even when economic cycles are running against us"

John Browne
Group Chief Executive

BP's downstream business increased its operating profit by 41% over 1996, despite a more difficult trading environment in key markets and low refining margins. Significant volume rises – including 9% in retail sales – were achieved, and the improvements from our joint venture with Mobil in Europe came in ahead of target.

The group's chemicals business achieved a return on capital of 20%, despite the weak Deutschmark. Volumes grew by 12% and a series of deals was concluded based on BP's proprietary technologies.

Performance

These results were delivered with little help from the external environment. The oil price was on average 6% lower than in 1996 at $19.1 a barrel. Refinery margins remained depressed and marketing margins continued to be affected by intense competition in some areas. In chemicals the trend of the business cycle saw a small rise in BP's average margins which was, however, offset by currency effects. International developments, generally in Asia and specifically covering oil supply, mean that the economic outlook remains unclear.

Our strategy, however, does not rely on a favourable external environment. All our targets are set against prudent assumptions so that we can deliver a strongly competitive performance even when economic cycles are running against us.

In 1996 we set out our medium-term targets, defined on the basis of unchanged prices and margins. At their heart was an aim to deliver $1.5 billion of underlying performance improvements – cost savings and volume increases – by the year 2000. In 1996 we delivered $600 million of such gains, against our initial target of $300 million.

The target for 1997 was a further $300 million. I am happy to report that we delivered almost double the target. Again, we have achieved this within a disciplined financial framework, with net debt at the bottom of our target range of $7–8 billion.

This strong financial performance enabled us to increase the dividend by 13%, linking our payout progressively to underlying performance improvements. At 22 pence per share the dividend is now 110% higher than three years ago.

We are also purchasing some $500 million of shares for future employee share schemes.

Growth in dividends has been balanced by a steady growth in capital expenditure. Last year alone we invested $6.7 billion (£4.1 billion).

Growth

To build successful and sustained growth in competitive global markets requires us to:

- continue to build our portfolio of distinctive assets, with access to material volumes of low-cost resources and to commanding positions in growth markets
- sustain an innovative, imaginative and performance-focused managerial culture, attracting the best people and giving them the freedom to deliver
- remain at the forefront of technological advance, accessing and applying the best available technology
- develop the quality of our relationships with customers, suppliers, other companies, communities and governments, on the basis of mutual advantage
- extend our global reach to ensure we have access to the best opportunities available to the industry anywhere in the world.

These principles lay behind the successful developments of 1997.

Upstream, the global reach of our exploration and production businesses was significantly enhanced by innovative Russian alliances – a 10% shareholding in A O Sidanco, a major integrated oil concern, and a stake which is expected to grow to 30% in Rusia, the company which owns the rights to develop major oil and gas fields in Siberia. We signed a new agreement in Kazakhstan and strengthened our leadership position in the Gulf of Mexico by the acquisition of 111 new leases in the deep-water area.

The strength of our asset portfolio was reinforced by the range of new fields coming on stream in the Gulf of Mexico, the North Sea, west of Shetland and Colombia. Total net production of oil and gas rose by 2%. 797 million barrels of oil equivalent were added to reserves in 1997.

Exploration successes in Alaska, Angola, the Gulf of Mexico, Australia and the North Sea ensure we not only have the resources to replace growing volumes of production but to generate opportunities for the second decade of the next century and beyond.

Our upstream business remains at the forefront of technological advance, designed to reduce costs and improve the recovery of hydrocarbons. For example, drilling efficiency improvements are offsetting the impact of inflation in the industry, enabling us to keep our finding and development costs on a declining trend.

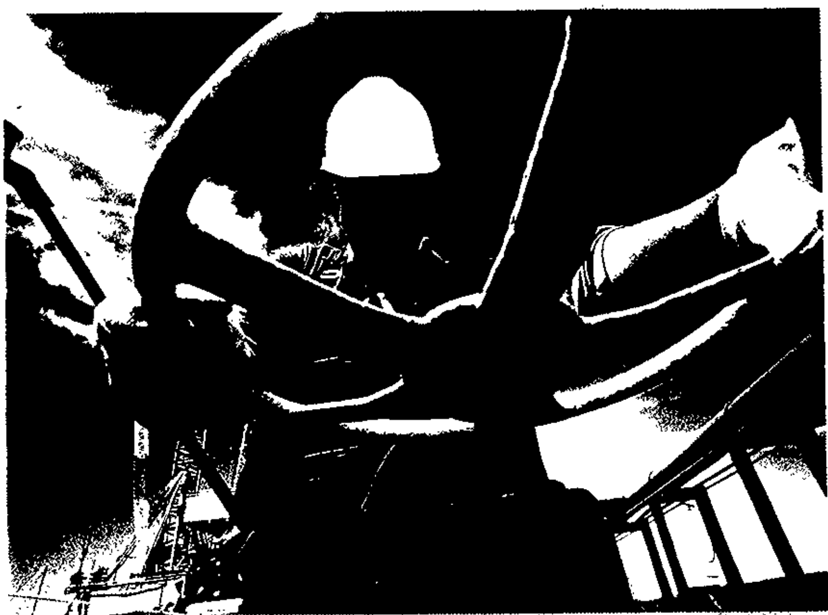
Our **downstream** businesses are enjoying similar successes. We have consolidated leadership positions in a range of markets, notably through innovative partnerships. Our joint venture with Mobil in Europe has been successfully implemented in 25 countries and performance improvements are coming in ahead of schedule.

We are continuing to forge alliances with retailers that build on our complementary skills. Following last year's agreement with Safeway in the UK, similar deals were made in Japan, Portugal and the Netherlands. Commercial businesses are opening the way in new markets, with liquefied petroleum gas deals in China and Turkey, and continued expansion of our aviation business in the USA, Eastern Europe and the Far East.

In refining, our aim is that BP's operations should be among the world's most efficient. This involves both closure of weaker units, as in the Netherlands and in respect of the lubricants manufacturing plant at Llandarcy last year, and investment to upgrade assets which have the potential to reach top-level performance.

Everybody who works for BP contributes to our success and to making our company distinctive – not just in the performance that we achieve but also in the ways we work together and with others. We are continually seeking to stimulate new and creative options for our business by drawing on the wide diversity of skills, talents and perspectives of all who work for us.

Our goal is that everyone in the company should understand the factors affecting the success of the business and share in that success. We encourage employees to become shareholders and to participate in our employee share ownership schemes. We are committed to providing a working environment in which everyone is treated fairly, has assurance of protection against any form of harassment or unlawful discrimination, and is able to compete openly for posts on the basis of merit.



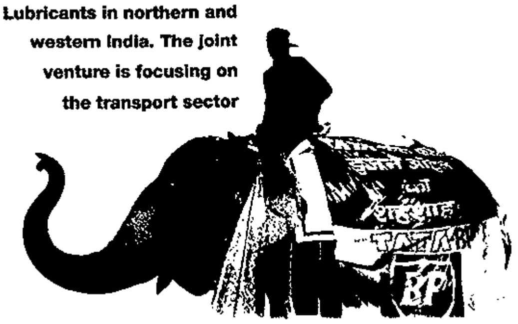
Together with Venezuela's state-owned oil company, BP is reactivating the dormant Pedernales oil field, where access to the operation is only possible by barge or light plane. We are taking care to minimise our impact on this environmentally sensitive area of the Orinoco river

Our revolutionary new technology for making acrylonitrile using propane instead of propylene as a feedstock resulted from intensive work at BP's Warrensville research centre, Ohio, USA

Restaurants, offices and homes in Singapore rely on liquefied petroleum gas (LPG) as the sole alternative to electricity for cooking. A dealer delivers LPG to the customer's door

Through new automation systems at the joint Mobil/BP terminals at Kingsbury, Birmingham, we are providing a more efficient distribution service for a full range of fuel products

Marching bands with elephants and camels helped launch Tata BP Lubricants in northern and western India. The joint venture is focusing on the transport sector



In **chemicals** we continue to develop our portfolio of world-class assets and market positions. We are investing with joint venture partners in Malaysia, Indonesia and China. At Grangemouth in Scotland our ethylene plant is on track to become the largest and most cost-effective in Europe. Our agreement with German chemicals company Hüls to buy Styrenix Kunststoffe will make BP one of Europe's largest styrenics producers.

Technical strength and a record of innovation are crucial to our ability to attract high-quality partners. BP has proprietary technologies in all its areas of strength – polyethylene, acetic acid and acrylonitriles – and a steady stream of process improvements in new catalysts continues to maintain this competitive edge.

People

Building real competitive advantage depends also on the creativity and effectiveness of the 56,000 people who work for BP and the culture in which they work. Success is as much about the 'software' as the 'hardware'. It requires us to rethink the way we work – to be quick on our feet and imaginative in our relationships, giving staff space to develop their ideas and make them work.

This is the culture we have sought to build at BP. I believe the results are evident. This annual report, like its predecessors, is the story of the achievements of our people.

Today's organisation in BP is based on business units which have clear targets and equally clear operational freedom to meet them. Everything except the core strategy is decentralised.

The effect is a highly motivating environment. But it is not isolating; managers and staff keep in touch, formally and informally, with their peers to share ideas and experiences, stimulate each other and ensure continuous learning. Our remuneration systems aim to correlate personal rewards with the performance of each business unit and also the overall performance of the company. In this way the interests of management and shareholders are aligned.

Leadership and responsibility

The leading role BP plays in developing resources around the world brings responsibilities to our own people, to the communities within which we operate and to the wider world. Behaving ethically is part of our core values.

We have developed a set of principles covering such matters as health and safety, ethics, the environment and human rights, and an internal process to assure the board that those principles are being applied consistently in every area in which we are involved.

We have a sustained record of environmental protection, developed over many years throughout our business.

Beyond the issues specific to our own operations, however, we cannot ignore public and political concern about the impact of growing energy consumption on the global environment. The science of climate change may be provisional, but the concern is real.

As a company, our objective must be to use our skills and technical expertise to provide those who require energy with the best possible choices, and ensure that their needs can be met through the efficient use of energy in ways which do not damage our common environment.

As a first step we are improving our systems for measuring and reporting the volumes of carbon dioxide emitted from our operations, and developing targets that will be published and independently verified. We are also setting up an experimental internal emissions trading network, using market forces to identify innovative and efficient means of reducing emissions.

Another contribution may come through the development of photovoltaics and solar power. BP's technical strength in this area gives us a distinctive position in an industry which has dramatic potential for growth. By 2020, solar and other renewable forms of energy could supply 5% of the world's energy needs; over time that could rise significantly.

The environment is just one aspect of our responsibilities to the communities around the world in which we work. Wherever we do business, we aim to transfer technology and skills. We helped the scientists of Azerbaijan rebuild their academy and its links with institutions around the world. We helped students and children in Vietnam learn English. We used bricks made from the waste rock cuttings produced by our drilling operations in Colombia to build homes for local people. In these and many other areas BP aims to bring positive energy to the communities in which we work.

In conclusion

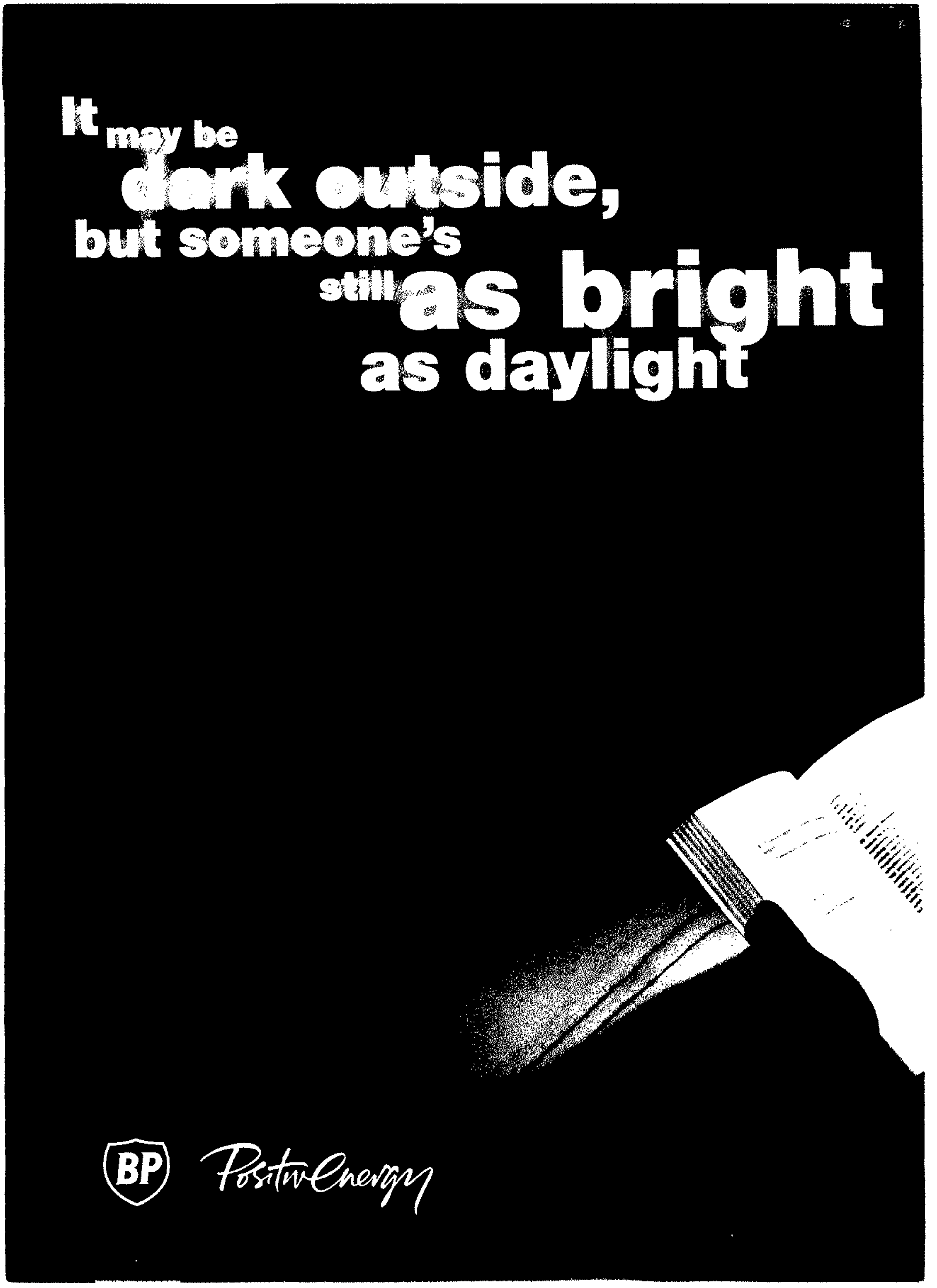
It is the combination of these elements that gives me the greatest confidence in BP's future. Our strategy for growth is clear and the results demonstrate our commitment to disciplined performance. We are delivering those results ahead of schedule. BP's success is no longer dependent on a favourable external environment.

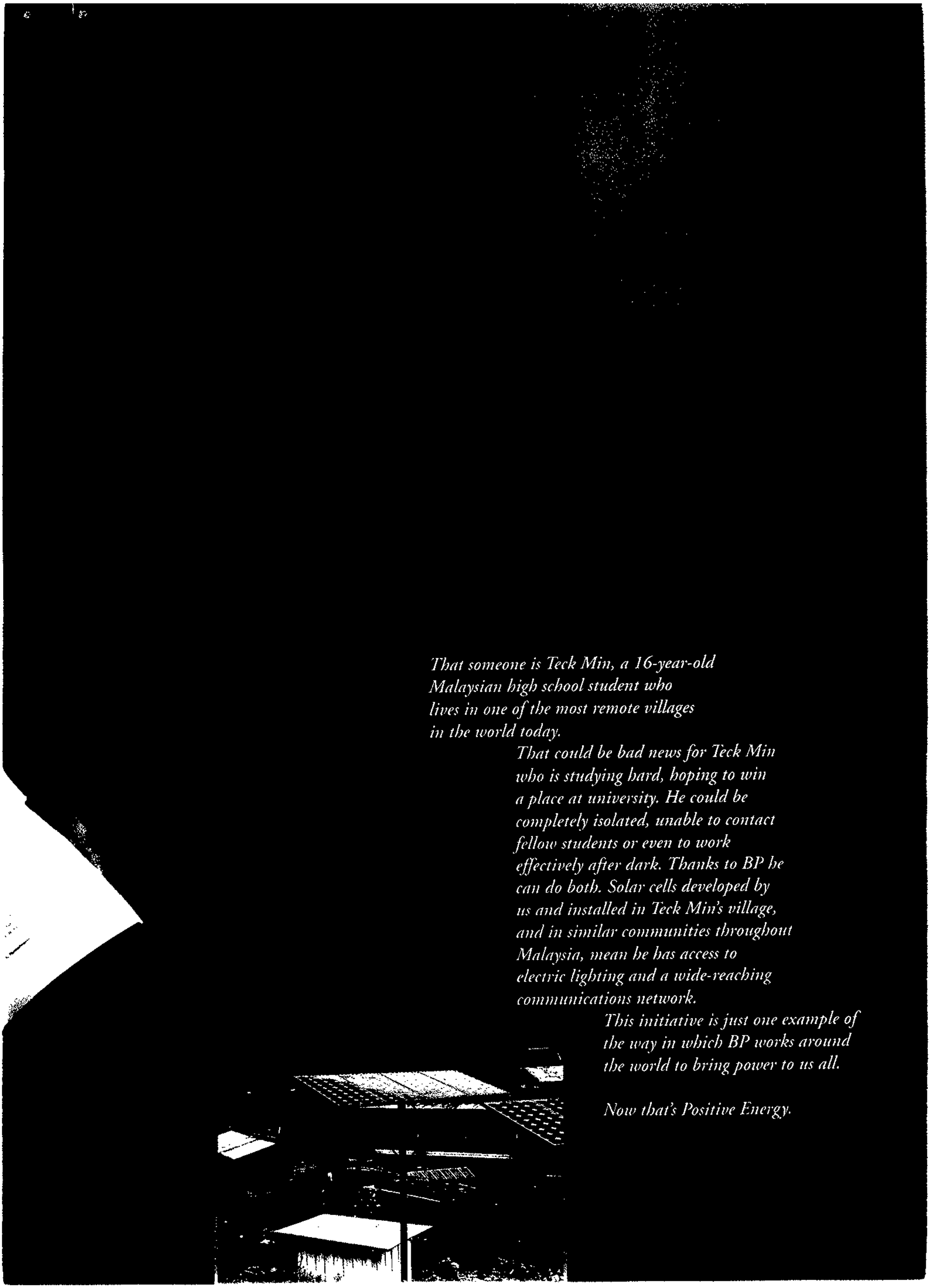
Our investments are carefully targeted to secure leadership positions offering sustained profitability. We are aware of what is necessary to operate in a complex and rapidly changing world. We are responsive to the rising expectations placed on international companies. BP has the people whose skills, energy and ideas will make the difference.

We plan prudently and think radically. 1997 was a good year for BP, and our journey continues.

John Browne
10 February 1998

"Our strategy for growth is clear and the results demonstrate our commitment to disciplined performance. BP has the people whose skills, energy and ideas will make the difference"


It may be dark outside, but someone's still as bright as daylight
BP
Positive Energy


That someone is Teck Min, a 16-year-old Malaysian high school student who lives in one of the most remote villages in the world today.
That could be bad news for Teck Min who is studying hard, hoping to win a place at university. He could be completely isolated, unable to contact fellow students or even to work effectively after dark. Thanks to BP he can do both. Solar cells developed by us and installed in Teck Min's village, and in similar communities throughout Malaysia, mean he has access to electric lighting and a wide-reaching communications network.
This initiative is just one example of the way in which BP works around the world to bring power to us all.
Now that's Positive Energy.

business operating review

Strong operating cash flow of $9.5 billion (£5.8 billion) enabled us to fund a growing capital spending programme while carefully managing the balance sheet

For the third year running, in 1997 BP delivered a record replacement cost profit before exceptional items – an increase of 13% on our 1996 performance. At $4.6 billion, this represents a 17% return on average capital employed – the highest of the oil majors.

Year on year, refining and marketing profits rose by 41% to $1.5 billion (£0.9 billion), thanks to improving demand and the joint venture in Europe with Mobil, which delivered benefits ahead of target. Exploration and production profits rose 2%, despite a 6% fall in the oil price. Chemicals improved by 7%, reflecting a resilient 20% return on operating capital in the face of the weak Deutschmark.

Capital expenditure was $6.7 billion (£4.1 billion), an underlying increase of 8% over 1996. This reflects not only a wealth of long-term development opportunities but also a determination to pursue them. Capital expenditure included $484 million for the purchase of a 10% interest in A O Sidanco.

Strong operating cash flow of $9.5 billion (£5.8 billion) enabled us to fund this growing capital spending programme while carefully managing the balance sheet. Net debt was reduced from $7.4 billion at the end of 1996 to $6.9 billion. The net debt to net debt plus equity ratio fell from 25% at the end of 1996 to 23% at the end of 1997.

Exploration and Production

Our upstream business had another successful year in 1997, despite lower oil prices. Replacement cost operating profit before exceptional items rose by 2% to $4.9 billion (£3.0 billion).

This strong performance was driven by increased production and continued focus on cost management. Production grew by 2.1% to 1.538 million barrels of oil equivalent a day (boe/d), while lifting costs were held steady at $2.50 a barrel. Within this, gas production increased 8.3% to 1,663 million standard cubic feet a day.

New field start-ups were Troika in the Gulf of Mexico, Erskine in the North Sea and Foinaven, west of Shetland. In addition, second-phase development began at Cusiana/Cupiagua in Colombia. Total output there now exceeds 300,000 boe/d.

The Chirag-Azeri field in the Azerbaijani waters of the Caspian Sea came on stream in the fourth quarter of 1997.

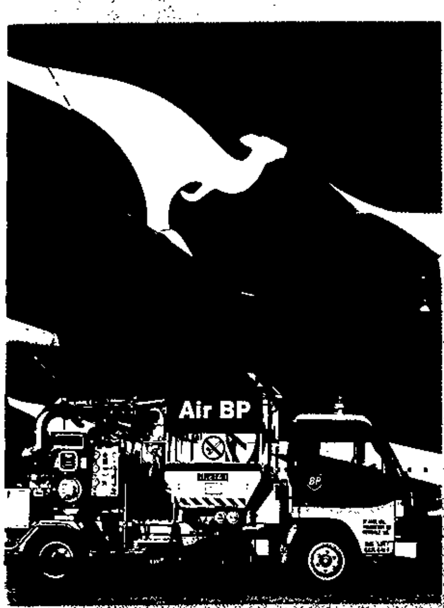
We renewed and grew the business with considerable success in 1997. Oil and gas reserves were more than replaced for the sixth year running, with 797 million barrels of oil equivalent added to reserves in 1997.

Discoveries occurred in many parts of the world. Of particular note were the finds in Angola where the Dalia and Girassol fields are being appraised. Together these deep-water discoveries will form the basis of a major new business opportunity for BP. Meanwhile, in Alaska there were two substantial finds – the Liberty field east of Endicott and the Tarn discovery near the Kuparuk field.

It was also a very successful year for long-term renewal through new access agreements.

In Alaska and the Gulf of Mexico we deepened our leadership positions by acquiring substantial amounts of new acreage at lease sales. We also signed a new agreement for exploration and potential development of a major acreage tract in Kazakhstan.

In December we achieved another strategic objective by purchasing the 10% equity stake in A O Sidanco, a major Russian oil company. Additionally BP agreed to acquire 45% of Sidanco's controlling interest in Rusia, an Irkutsk-based company with major oil and gas discoveries in eastern Siberia. This strategic relationship forms the base on which to construct a major joint exploration and production business in Siberia. This will include developing the large Kovyktinskoye gas condensate field that forms part of Rusia's holdings.



From the largest commercial wide-bodied jets to single-engined piston aircraft, Air BP supplies aviation fuels throughout the world

During 1997 we strengthened our leadership position in the Gulf of Mexico by acquiring 111 new leases in the deep-water area

tree nursery in Yopal, the heart of BP's operations in Colombia. prevent permanent environmental impact, we aim to ensure that areas cleared for construction are quickly replanted

Roadside poster sites in Guangzhou promote the BP brand of fuels and lubricants now on sale to an expanding Chinese market

main fields in development

crude oil production

natural gas production

Technology underpins much of what we do. This is evident in our efforts to manage costs and increase production. In the Gulf of Mexico, technology, in combination with the sharing of best practices, has reduced the time it takes to drill 10,000 feet (3,077 metres) by more than 50%. In effect, this has offset the near-doubling of deep-water drilling rig costs in recent years.

Innovative application of technology is also playing a key role in recovering more oil from our existing operations.

In Alaska, 'designer wells' have allowed us to access pockets of oil that were previously uneconomic. These wells use state-of-the-art drilling and seismic technology to connect one well bore to multiple oil targets.

In 1998 we see production continuing to grow as we bring on new fields in the North Sea, Alaska, Venezuela and the Atlantic off the Shetland Isles. These fields, combined with late 1997 start-ups, should be contributing significantly by the end of 1998.

battling the elements

Despite extreme weather conditions, Alaska remains a vital province, with recent discoveries and the introduction of 'designer wells' to improve performance

Refining and Marketing

In addition to improving performance considerably in 1997, our downstream oil business made major strides in progressing its strategic agenda. Replacement cost operating profit before exceptional items rose to $1.5 billion (£0.9 billion), an increase of 41% on 1996. Return on fixed assets, a measure of relative competitive performance, was 12% in 1997, placing downstream oil in the first quartile versus benchmark competitors.

Marketing volumes were 9% higher than in 1996, reflecting the benefits of the European joint venture with Mobil, expansion into emerging markets, and a concerted effort to improve retail facilities in established markets.

More than 40 new filling stations were constructed in Poland, China and Russia during the year and growth should accelerate in 1998.

The aviation business continued its expansion with growth into China, Lebanon and Central and Eastern Europe. Major liquefied petroleum gas agreements were signed in China and Turkey, and lubricants joint ventures established in Vietnam and Indonesia.

In established markets, more than 300 filling stations were upgraded to BP's highest standard, the majority of them with large convenience stores. As a result of increasing floor space and improved retailing skills, merchandising turnover increased by 14% at BP's company-owned and operated sites during 1997.

Commercial marketing growth during the year was underpinned by acquisitions in the UK and Austria and investment in technology to improve customer service.

Following our decision in 1996 announcing the closure of the Lima refinery, Ohio, the refinery repositioning programme remains on track.

During 1997, the Pernis fuels refinery in the Netherlands was closed and BP and Mobil announced the closure of the Llandarcy lubricants refinery in south Wales in the fourth quarter.

snack attack

Sales have soared since BP Express shops in the USA introduced Blimpie sandwich franchises. The delicious freshly made snacks are proving so popular that the 50 Blimpie outlets opened during 1997 could double in the next 12 months

We have decided to continue operating the Lavéra fuels refinery in France for the foreseeable future.

In addition to key portfolio decisions, operating efficiency, another area of focus, improved by 25 cents (15 pence) a barrel in 1997, representing 50% of the improvement targeted for the year 2000.

Progress on delivering the European joint venture with Mobil exceeded expectations. Partnerships have been established in 25 countries and, during 1997, 2,060 filling stations were rebranded. Capture of the savings is solidly on track and a number of new growth options have been identified as BP and Mobil begin to take advantage of our leadership position across Europe.

A new downstream organisation was put in place during 1997, focusing on accountable business units and decreased hierarchy. The organisation and supporting processes will provide the platform for improved performance, sharing of good ideas, faster decision-making and accelerated growth.

Chemicals

Significant productivity improvements in our chemicals business during 1997 were offset by the strength of sterling and a weaker Deutschmark. In spite of this, we produced a 20% return on capital before tax and reported an operating profit of $0.8 billion (£0.5 billion) which was $51 million up on 1996.

This success resulted largely from careful management of assets, strong emphasis on developing and applying technology, and the introduction of innovative business practices. The total volume of product manufactured rose 12% in 1997.

Among major capacity increases, the acrylonitrile plant at Green Lake, Texas, became the world's largest when a new reactor boosted output by one-third. At Grangemouth, Scotland, the continuing expansion in ethylene production, begun in 1997, will make the plant one of the largest and most cost-effective in Europe. A smaller project last year involved growth of polystyrene and expandable polystyrene capacity at Wingles, France.

The disposal of units which no longer fit BP's core hydrocarbon-based businesses is now in its final stages.

Our commitment to long-term growth was underlined during 1997 by a wide range of new projects. In China we continued feasibility studies on the $2.5 billion (£1.5 billion) project for a world-scale integrated ethylene cracker complex at Jinshan with the Shanghai Petrochemical Company.

Elsewhere in Asia, BP has developed plans to build a world-scale ethylene cracker at Bojonegara, West Java, with its partners. The cracker start-up will be timed to meet developing demand.

In Malaysia, BP and Petronas unveiled plans to invest jointly in an acetic acid plant at Kertih which will use BP's advanced Cativa technology. Production is due to start by the end of 1999. With our partners we gave approval for a major expansion at the International Esters Company plant at Ulsan, South Korea. We concluded a joint venture agreement to build a polyethylene plant at Bataan, Philippines. We also signed two memoranda of understanding in Indonesia covering construction of polybutenes and solvents plants in West Java.

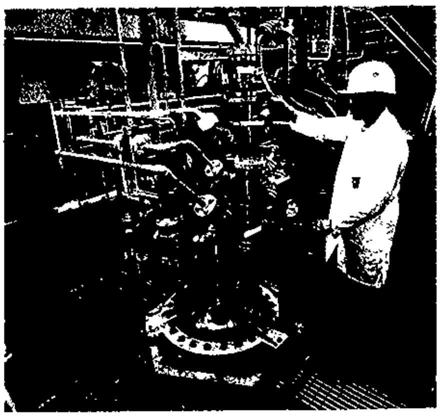
In Europe, we agreed to buy Styrenix Kunststoffe, the styrene plastics business owned by German chemicals company Hüls, part of the Veba group. BP's largest chemicals business acquisition for 15 years, it will make us one of Europe's biggest styrenics producers. We are committed to growing our styrenics business globally, particularly in Asia, from a strong base in Europe, where we already have styrenics plants at Wingles, France, and Baglan Bay, Wales.

We also announced plans for a world-scale production plant for 1,4-butanediol, based on the new technology developed jointly with Lurgi Öl-Gas-Chemie GmbH. The preferred plant is our Lima site in the USA. Construction is planned to begin by the end of 1998, with completion scheduled for 2000.

New technologies announced or progressed during the year included a new route to produce ethyl acetate, a widely used solvent, and the successful operation of a demonstration unit which can produce acrylonitrile by propane ammoxidation at considerable savings over current methods.

polystyrene power

Styrenics is a growing area of investment for BP to meet global demand. A new styrenics catalyst undergoes trials at the Wingles plant in France



Solar energy

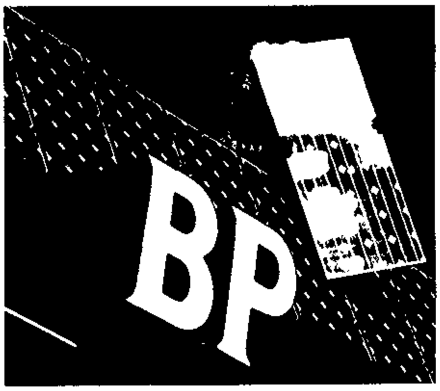
BP's solar business continued with its 16th year of unbroken growth in turnover. Sales reached a record $80 million (£50 million) in 1997, up 33% on 1996.

Our commitment to long-term growth was confirmed with the announcement in May of our aim to increase annual turnover to $1 billion (£600 million) by 2007.

Commercial highlights in 1997 included major new contracts. A three-year deal with the Philippines government will see the installation of solar power at 400 remote villages, benefiting more than a million people.

sunny side up

Solar panels are powering a number of our retail outlets, such as the service station on the site of the former Berlin wall. After evaluation, this concept may be extended across the world



In September we won a contract to supply grid-connected solar power at the athletes' village, next to the site for the Olympic Games at Sydney, Australia, in 2000. The 665-house village will be one of the largest concentrations of solar-powered homes linked to a grid anywhere in the world.

The future of BP's solar business is underpinned by strong technology. We have the highest-efficiency solar cells in volume production today and are expanding our production capacity in Spain. We have also recently opened a thin-film plant in Fairfield, California.

Health, Safety and the Environment

BP's health, safety and environment (HSE) goals are simply stated – no accidents, no harm to people and no damage to the environment. Wherever we have control or influence we consult and co-operate with all stakeholders, openly report our performance and recognise those who contribute to improving it.

Overall, the safety performance of our workforce (both employees and contractors) measured in lost-time injury (LTI) frequency did not improve during 1997. A significant improvement was recorded for contractors who work for us, and 39% of our reporting units completed the year with no LTIs.

We had slightly fewer oil spills in 1997 than in 1996. Of the 277 spills in 1997, only 5% exceeded 15,000 litres, while over 50% were between 150 and 3,000 litres. During the year we also began to measure the volume of oil recovered from the environment after a spill. In 1997 we recovered more than 70% of the total oil spilled.

This is the first year in which the joint venture with Mobil in Europe has been included in our HSE reporting. In creating this organisation, three smaller BP lubricants refineries transferred to Mobil while we gained two Mobil fuels refineries. This change increased both hydrocarbon emissions to air and discharges to water for our refining business, creating a new baseline for BP.

We have begun to make progress on BP's target to reduce hydrocarbon emissions to air by 50% (165,000 tonnes) by the year 2001. Emissions are now down to 312,000 tonnes. We are moving towards our second target of having verified environmental management systems at all our sites that have a significant environmental impact. Four sites gained independent verification in 1997.

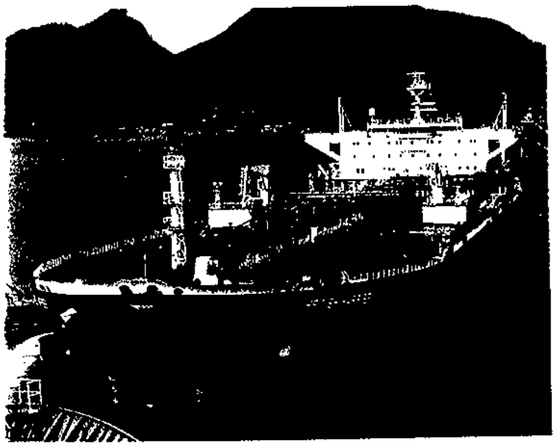
Global climate change is an issue on which BP has taken action during 1997. As a first priority we committed ourselves to reduce our emissions of carbon dioxide. The second priority was to understand their level and sources. To do this we recalculated our emissions for 1995 and 1996 using our improved methodology. The figure for 1997 is 40 million tonnes. The next step will be to set targets for reduction.

We are also developing a pilot emissions trading system involving some of our key operations. If this succeeds in achieving emission reductions at the lowest practicable cost, we will introduce it throughout BP.

Fuller details of our HSE performance are given in *HSE Facts 1997.*

double first

One of our latest class of crude oil tankers, the *British Harrier* meets the highest technical and environmental specifications. BP's first purpose-built, managed and operated double-hull, double-bottomed ship, it is servicing refineries in Australia and New Zealand



Community activities

Last April we published a new edition of *BP in the community.* This described more than 100 community investment and partnership programmes supported by BP worldwide. The brochure also signalled the development of BP's business policies and the management processes required to ensure that the policies are understood and implemented throughout the company.

In addition, it announced our intention to move towards a new, more comprehensive and more searching account of our social performance in future years. This process moves forward with the issue in April 1998 of the next edition of the publication, now renamed the *BP Social Report.*

keeping in touch

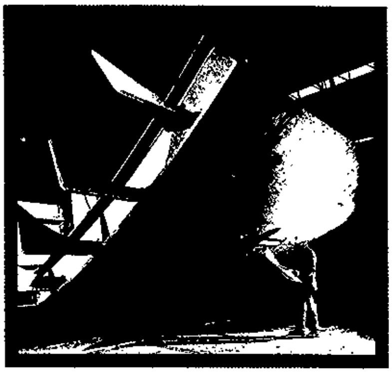
A young visitor enjoys lunch at an exhibition about the Coryton refinery, Essex, now operated by BP as part of the joint venture with Mobil. Openness and dialogue with local communities are vital to mutual understanding and trust

The new report aims to provide a representative and balanced view of our social performance. A range of case studies illustrates what BP's business policies mean in practice. It also features detailed case studies describing our social impact and performance in a small number of countries more comprehensively, and gives information on our social contribution through community programmes.

Support for the community is an integral part of our business activities. It takes many forms and often involves partnerships with other organisations, building on different skills and knowledge for mutual benefit. For example, during 1997 we committed $2.3 million (£1.4 million) over five years to help set up a business advisory agency in Poland, in collaboration with Groundwork Blackburn and the Polish Environmental Partnership Foundation. The agency is designed to help small and medium-sized companies improve their performance by adopting best environmental management practice. The publication includes examples of similar activities in more than 40 countries.

The report discusses developments in managing BP's social performance and the continuing commitment to ensure that our overall impact on the communities affected by our business operations is beneficial.


BP
Positive Energy



Designed to operate in inhospitable depths of 3,900 feet, the base section for the Ursa platform in the Gulf of Mexico is constructed in southern Italy. BP owns 23% of Ursa

A musical young South African finds a novel use for an empty BP oil drum

First oil flowed from the Chirag-Azeri field in the Caspian Sea in November 1997, just three years after the deal between the Azerbaijani government and AIOC, the consortium of which BP is a part

The Shelf-5 semi-submersible rig, destined for the Shah Deniz field operated by BP, is refurbished at Baku's shipyard

HSE performance highlights

[illegible]	[illegible]
[illegible] ('000 tonnes)	[illegible]
[illegible] ('000 [illegible])	[illegible]
[illegible] (over 1 barrel)	[illegible]
Carbon dioxide emissions (million tonnes)	[illegible]

Provisional data; final figures will be published in *HSE Facts 1997*
Data published in *HSE Facts 1996*
An injury that results in a person being unable to work for a day (shift) or more. The frequency rate is per million hours worked
1 barrel = approx. 159 litres
Includes data from operations reported for the first time in 1997
Figure recalculated in 1997 (33 million tonnes reported in 1996)

community expenditure (£ million)

[illegible]	8.2
[illegible]	6.1
[illegible]	1.6
[illegible]	2.0
[illegible]	1.6
[illegible]	19.5

[illegible] detailed on page 24


BP
Positive Energy


Every week throughout the summer, thousands of sunflowers grown by Provençal farmers are taken to airfields across the region for export. Their destination? Restaurants, hotels and homes around the world, where they arrive fresh and fragrant, thanks to a process most of us take for granted.
At BP, we know just how time-sensitive the movement of perishable goods can be, whether sunflowers, scallops or strawberries. We know because we play an indirect, but important, role in facilitating international trade; in this case, providing the low-sulphur gasoil that powers farmers' tractors, and the kerosine which lifts cargo planes into the air.
The farmers of Provence are largely unaware of BP's contribution, which probably means we are doing our job well, achieving the maximum effect with the minimum fuss and impact.
Now that's Positive Energy.
Faster than a
but still
as a

Exceptional items of $101 million (£62m) before tax related mainly to the costs of terminating base oil manufacturing operations at Llandarcy. These were partly offset by the write-back of provisions resulting from the decision to continue operating the Lavéra refinery. Exceptional charges of $805 million (£516m) before tax in 1996 related mainly to the one-off restructuring and implementation costs of the European downstream joint venture with Mobil.

Interest expense was further reduced, from $641 million (£411m) in 1996 to $486 million (£296m), as a result of debt repayments and lower interest rates. The reported interest charge in 1996 included a net special charge of $74 million (£48m) caused by the early redemption of $1 billion of bonds.

Corporate taxes charged in the year increased to $1,915 million (£1,168m) against $1,727 million (£1,107m) in 1996. The rise reflected higher taxable income although there continued to be some beneficial offset from the utilisation of past tax losses and the write-back of Advance Corporation Tax. The effective tax rate on replacement cost profit, before exceptional items, was 30%, the same level as last year. It is expected that the effective tax rate will continue at or around this level during 1998.

Historical cost profit was $4,051 million (£2,470m) after exceptional items and stock holding losses of $520 million (£317m). This compares with $3,981 million (£2,552m) in 1996, which included stock holding gains of $627 million (£402m).

Capital expenditure and acquisitions amounted to $6,672 million (£4,068m), an underlying increase of 8% over 1996, reflecting BP's commitment to disciplined profitable growth. This figure includes $484 million for the purchase of a 10% interest in A O Sidanco and $270 million (£165m) in respect of the purchase of shares for future employee share schemes.

Net cash flow for the year was $403 million (£246m), $386 million (£260m) below the underlying level of the previous year. This is after adjusting for the final payments during 1996 in respect of the 1994 Alaskan tax settlement. Higher operating cash flow due to lower working capital requirements was more than offset by higher capital expenditure and acquisitions and lower disposal proceeds.

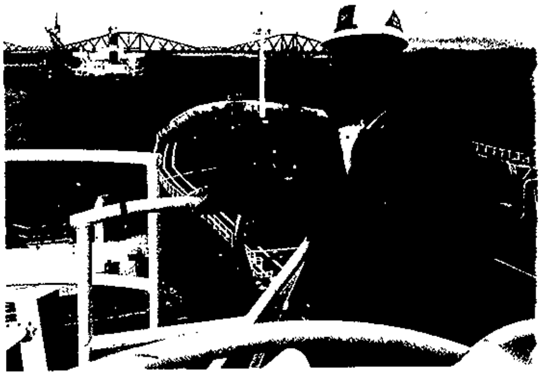
The group's finance debt is almost entirely in US dollars. Net debt, that is debt less cash and liquid resources, was reduced by $413 million during 1997, and net debt at the year-end stood at $6.9 billion (£4.2bn). The ratio of net debt to net debt plus equity was 23% compared with 25% a year ago. We expect to keep net debt within our target range of $7–8 billion. Cash generation will be used to fund increased capital expenditure and, when appropriate, to make additional returns to the shareholder.

Dividends

Total dividends announced for 1997 were 22 pence per share, against 19.5 pence in 1996, an increase of 13%.

Following the changes announced to the UK corporate tax system in July, principally the immediate withdrawal of the repayment of the tax credit to UK tax-exempt institutions, and the abolition of the Foreign Income Dividend regime from April 1999, we announced that we would continue to offer the gross scrip share dividend plan in its current form until the government's further intentions were clarified. The withdrawal of the repayment of the tax credit made the plan, which is based on the net dividend plus the associated tax credit, attractive to a larger number of shareholders. This resulted in a substantially increased uptake of the plan during 1997.

The UK government's Pre-Budget Report in November announced that it intended to abolish Advance Corporation Tax with effect from April 1999. Its abolition would remove the economic reason for continuing with the share dividend plan, but the position will be reviewed once the full details are announced in the March 1998 Budget.



fast turn-round

Loading ocean-going tankers at BP's Hound Point terminal, Scotland, is a precision operation, masterminded by a berth supervisor. Whatever the weather, the huge vessels must be loaded with crude oil and back at sea within 18 hours

Share purchases

During 1997, we announced that we intended to ask shareholders at the annual general meeting in April 1998 for approval to buy back shares for cancellation. Subject to this approval, the repurchases would be instituted from time to time when the board felt there was capacity to do so.

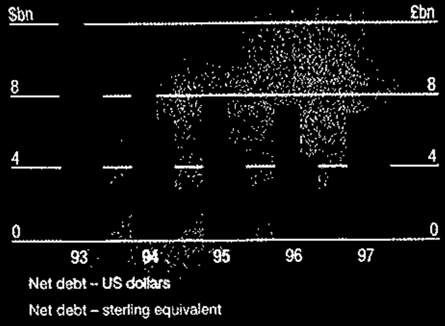
In the meantime, the company is buying shares worth $500 million (£300m) in the market to meet future obligations under employee share schemes rather than issuing new shares. This will reduce the dilutive effect of previous arrangements. By the end of 1997, 18.8 million shares had been purchased at a cost of $270 million (£165m), and we expect that the trustee will have completed the remainder of the purchases by the end of March 1998.

Internal financial control

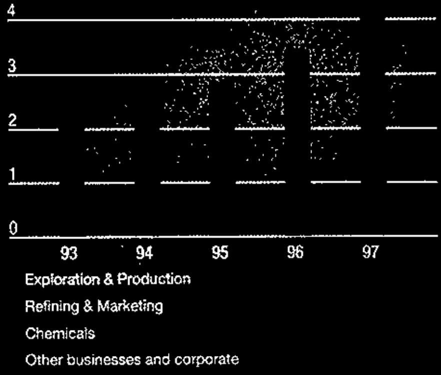
In accordance with the provisions of the Cadbury Code of Best Practice, we set out below a general description of BP's internal financial control.

The process for internal financial control has been designed to allow the board to monitor the group's overall financial position and to help protect its assets. Its purpose

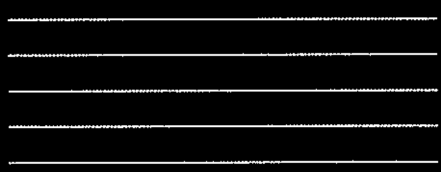
net debt progression
($/£ billion – end year)



capital expenditure and acquisitions (£ billion)



environmental expenditure
(£ million)



is to give reasonable assurance against material financial misstatement or loss. The directors are responsible for this process, and appropriate authorities and guidelines are in place.

The board approves the aggregate financial framework and performance targets within which the executive has been delegated authority to operate and formulate the component financial objectives for individual operating units. Performance against these targets is reported quarterly and variances analysed. Financial forecasts are reviewed monthly and include analyses of material sensitivities and changes.

BP's policy on business conduct, which covers ethical behaviour, compliance with legislation and sound accounting practice, underpins our internal financial control process. It is reinforced by an annual compliance certification process throughout BP.

The Audit Committee reviews the effectiveness of internal financial control with management and with internal and external auditors and reports on it to the board.

The directors consider the system fulfilled its purpose in 1997.

Financial risk management

Fluctuations in exchange rates can have significant effects on BP's operating results. Most are subsumed within our business operating results through changing cost-competitiveness, lags in market adjustment to movements in rates, and conversion differences accounted on specific transactions. For this reason, the total effect of exchange rate fluctuations is not identifiable separately in the group's reported results.

The underlying economic currency of the group's cash flows is mainly the US dollar. Our foreign exchange management policy is therefore to minimise economic exposures from currency movements against the US dollar. Accordingly, most of our borrowings are in US dollars or are swapped into dollars where this achieves a lower cost of financing. Other significant non-dollar exposures are also managed using a range of derivatives.

As well as managing the currency and maturity of debt, we manage interest costs through the balance between floating-rate and fixed-rate debt, again using derivatives. We also trade derivatives in conjunction with these risk management activities.

BP's oil trading division uses financial and commodity derivatives as part of the overall optimisation of the value of the group's equity oil production and as part of the associated trading of crude oil, products and related instruments.

In risk management and trading, only well-understood, conventional derivatives instruments are used. These include futures and options traded on regulated exchanges, and 'over-the-counter' swaps, options, swaptions and forward contracts.

Where derivatives constitute a hedge, they do not expose the group to market risk because the change in their market value is offset by an equal and opposite change in the market value of the asset, liability or transaction being hedged. By contrast, where derivatives are held for trading purposes, changes in market value give rise to gains and losses. These are recognised in the current period.

All material derivatives activity, whether for risk management or trading, is carried out by specialist teams that have appropriate skills, experience and supervision. These teams are subject to close financial and management control, meeting generally accepted industry practice and reflecting the principles of the Group of Thirty Global Derivatives Study recommendations.

This control framework includes prescribed trading limits that are reviewed regularly by senior management, marking trading exposures to market and reviewing open positions to assess BP's exposure in potentially adverse situations. Counter-party credit validation, independent of the dealers, is undertaken before contractual commitment.

An independent control function monitors compliance with BP's derivative management policies. Further details of BP's use of derivatives appear in Note 27 on the Accounts, pages 42 and 43.

Insurance

The group generally restricts its purchase of insurance to situations where this is required for legal or contractual reasons. This is because external insurance is not considered economic for BP. Losses will therefore be borne as they arise, rather than being spread over time through insurance premia. The position is reviewed each year.

Millennium IT risk

The Year 2000 issue, which stems from computer programs written using two digits rather than four to define the applicable year, could result in processing faults on the change of century, producing a wide range of consequences.

The company has conducted a risk-based review of its computer systems and computer-controlled processes to identify those which could be affected and developed an implementation plan to test and remediate the faults. We are replacing or repairing the affected systems, in close collaboration with system suppliers. The approximate cost of this work is estimated at $150 million and all business-critical work is due to be completed by the end of 1998.

The company's global operations are also exposed, to an unquantifiable degree, to the failure of third parties to deal with their Year 2000 exposures; we will take all practical steps to mitigate the effect.

The Euro

BP is adapting its commercial and financial processes so that its European operations can do business in the Euro after it is introduced in some countries on 1 January 1999. The capability to conduct business in national currencies will be retained as long as necessary. The costs associated with these changes are estimated at $100 million. We do, however, see the introduction of the Euro primarily as a business opportunity.

North Sea tax review

In his Budget of July 1997 the UK Chancellor announced a review of the North Sea fiscal regime to ensure that an appropriate share of North Sea profits is being taxed while continuing to maintain a high level of oil industry interest in the future development of the UK's oil and gas reserves.

In our submission to the review we argued that the existing fiscal regime broadly succeeds in both areas. The outcome is likely to be announced in the March 1998 Budget.

Environmental investment

Operating and capital expenditure on the prevention, control, abatement or elimination of air, water and solid waste pollution is often not incurred as a separately identifiable transaction. Instead, it forms part of a larger transaction which includes, for example, normal maintenance expenditure. The figures for environmental operating and capital expenditures in the table are therefore estimates, based on the definitions and guidelines of the American Petroleum Institute.

Capital expenditure on pollution abatement was at much the same level as in 1996 and similar levels are expected in the foreseeable future. In addition to capital expenditure, the table shows the charges to current profits to create provisions for future environmental remediation. Expenditure against such provisions is normally incurred in subsequent periods and is not included in environmental operating expenditure reported for such periods.

Provisions for environmental remediation are made when a clean-up is probable and the amount reasonably determinable. Generally, their timing coincides with commitment to a formal plan of action or, if earlier, on divestment or on closure of inactive sites.

The extent and cost of future remediation programmes are inherently difficult to estimate. They depend on the scale of any possible contamination, the timing and extent of corrective actions, and also BP's share of the liability. Although the cost of any future compliance could be significant, and may be material to the results of operations in the period in which it is recognised, we do not expect that such costs will have a material effect on BP's financial position or liquidity. We believe our provisions are sufficient for known requirements; and we do not believe that our costs will differ significantly from those of other companies engaged in similar industries or that our competitive position will be adversely affected as a result.

In addition, we make provisions over the useful lives of our oil and gas producing assets and related pipelines to meet the cost of eventual decommissioning. The charge for decommissioning made in 1997 is shown in the table opposite and further details of our environmental and decommissioning provisions appear in Note 26 on the Accounts on page 42.

stress-resistant

Pipe materials must be able to resist the development of cracks through rough handling or repeated stress. A technician at our Grangemouth chemicals plant puts Rigidex polyethylene piping through a flexural fatigue test

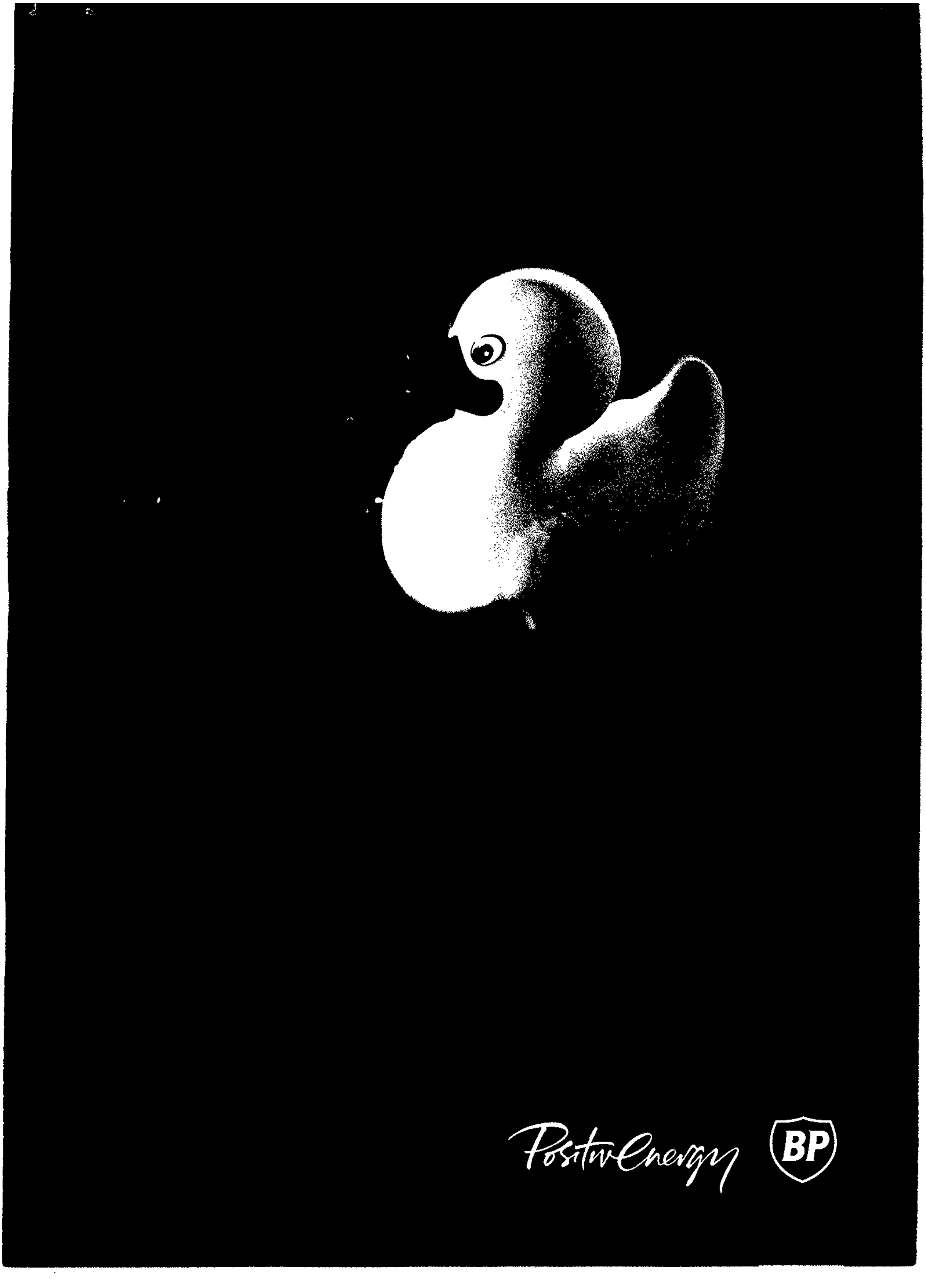
Polyethylene? You may call him Donald or Daffy, or any one of a thousand other names, as he bobs away through the bubbles or sits benignly by the soapdish.

Perhaps you sometimes wonder where he comes from. Perhaps not. Either way, the humble plastic duck has a history just like the rest of us. He actually started life as a complex chemical compound, formed from a range of raw ingredients, most of which are derived from fossil fuels.

Which is where BP comes into the story. We are the people who find, extract and process these fossil fuels to a state in which they can be used to create plastics for use every day in homes, offices, factories, laboratories and hospitals.

Now that's Positive Energy.

Bathtime just wouldn't be the same without polyethylene


Positive Energy
BP

Accounting policies

Accounting standards
These accounts are prepared in accordance with applicable UK accounting standards.

Accounting convention
The accounts are prepared under the historical cost convention. Historical cost accounts show the profits available to shareholders and are the most appropriate basis for presentation of the group's balance sheet. Profit or loss determined under the historical cost convention includes stock holding gains or losses and, as a consequence, does not necessarily reflect underlying trading results.

Replacement cost
The results of individual businesses and geographical areas are presented on a replacement cost basis. Replacement cost operating results exclude stock holding gains or losses and reflect the average cost of supplies incurred during the year, and thus provide insight into underlying trading results. Stock holding gains or losses represent the difference between the replacement cost of sales and the historical cost of sales calculated using the first-in first-out method.

Stock valuation
Stocks are valued at cost to the group 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.

Group consolidation
The group financial statements comprise a consolidation of the accounts of the parent company and its subsidiary undertakings. The financial statements incorporate the group proportion of the profits or losses and net assets of associated undertakings. Certain of the group's activities are conducted through joint ventures and other similar arrangements and are included in the financial statements in proportion to the group's share of their income, expenses, assets and liabilities.

Foreign currencies
On consolidation, assets and liabilities of subsidiary undertakings are translated into sterling at closing rates of exchange. Income and cash flow statements are translated at average rates of exchange.

Exchange differences resulting from the retranslation of net investments in subsidiary and associated undertakings at closing rates, together with differences between income statements translated at average rates and at closing rates, are dealt with in reserves. Exchange gains and losses arising on long-term foreign currency borrowings used to finance the group's foreign currency investments are also dealt with in reserves.

All other 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.

Derivative financial instruments
The group is a party to derivative financial instruments (derivatives) primarily to manage exposures to fluctuations in foreign currency exchange rates and interest rates, and to manage some of its margin exposure from changes in oil prices.

All derivatives which are held for trading purposes and all oil price derivatives held for risk management purposes are marked to market and all gains and losses recognised in the income statement.

Interest rate swap agreements, swaptions and futures contracts are used to manage interest rate exposures. Amounts payable or receivable in respect of these derivatives are recognised as adjustments to interest expense over the period of the contracts.

As part of exchange rate risk management, foreign currency swap agreements and forward contracts are used to convert non-US dollar borrowings into US dollars. Gains and losses on these derivatives are deferred and recognised on maturity of the underlying debt, together with the matching loss or gain on the debt. Foreign currency forward contracts and options are used to hedge significant non-US dollar firm commitments or anticipated transactions. Gains and losses on these contracts and option premia paid are also deferred and recognised in the income statement or as adjustments to carrying amounts, as appropriate, when the hedged transaction occurs.

Exploration expenditure
Exploration expenditure is accounted for in accordance with the successful efforts method. Exploration and appraisal drilling expenditure is initially capitalised as an intangible fixed asset. When proved reserves of oil and gas are determined and development is sanctioned, the relevant expenditure is transferred to tangible production assets. All exploration expenditure determined as unsuccessful is charged against income. Exploration licence acquisition costs are amortised over the estimated period of exploration. Geological and geophysical exploration costs are charged against income as incurred.

Depreciation
Oil and gas production assets are depreciated using a unit-of-production method based upon estimated proved reserves. Other tangible and intangible assets are depreciated on the straight line method over their estimated useful lives.

Decommissioning
Provision is made for the decommissioning of production facilities in accordance with local conditions and requirements on the basis of costs estimated as at the balance sheet date. The provision is allocated over accounting periods using a unit-of-production method based on estimated proved reserves.

Petroleum revenue tax
The charge for petroleum revenue tax is calculated using a unit-of-production method.

Changes in unit-of-production factors
Changes in factors which affect unit-of-production calculations are dealt with prospectively, not by immediate adjustment of prior years' amounts.

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.

Leases
Assets held under leases which result in group companies 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.

Goodwill
Goodwill is the excess of purchase consideration over the fair value of net assets acquired. It is capitalised and amortised over its estimated useful economic life, limited to a maximum period of twenty years.

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

Interest
Interest is capitalised gross 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.

Pensions and other post-retirement benefits
The cost of providing pensions and other post-retirement benefits is charged to income on a systematic basis, with pension surpluses and deficits amortised over the expected average remaining service lives of current employees. The difference between the amounts charged to income and the contributions made to pension plans is included within other provisions or debtors as appropriate. The amounts accrued for other post-retirement benefits and unfunded pension liabilities are included within other provisions.

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 treatments of both depreciation and petroleum revenue tax. Provision is made or recovery anticipated where timing differences are expected to reverse in the foreseeable future.

Comparative figures
Certain previous years' figures have been restated to conform with the 1997 presentation.

Group income statement

For the year ended 31 December	Note	1997	1996
		£ million	
Turnover	1	**43,460**	44,731
Replacement cost of sales		**35,177**	36,325
Production taxes	2	**617**	823
Gross profit		**7,666**	7,583
Distribution and administration expenses	3	**3,652**	3,704
Exploration expense		**199**	203
		3,815	3,676
Other income	4	**506**	516
Replacement cost operating profit	5	**4,321**	4,192
Loss on sale or termination of operations	6	**(105)**	(175)
Refinery network rationalisation	6	**43**	–
European refining and marketing joint venture implementation	6	**–**	(341)
Replacement cost profit before interest and tax	5	**4,259**	3,676
Stock holding gains (losses)	5	**(317)**	402
Historical cost profit before interest and tax		**3,942**	4,078
Interest expense	7	**296**	411
Profit before taxation		**3,646**	3,667
Taxation	8	**1,168**	1,107
Profit after taxation		**2,478**	2,560
Minority shareholders' interest		**8**	8
Profit for the year		**2,470**	2,552
Distribution to shareholders	9	**1,262**	1,102
Retained profit for the year		**1,208**	1,450
Earnings per ordinary share	10	**43.3p**	45.5p

Replacement cost results			
Historical cost profit for the year		**2,470**	2,552
Stock holding (gains) losses		**317**	(402)
Replacement cost profit for the year		**2,787**	2,150
Exceptional items, net of tax and minority shareholders' interest	6	**35**	470
Replacement cost profit before exceptional items		**2,822**	2,620
Earnings per ordinary share			
On replacement cost profit before exceptional items	10	**49.5p**	46.7p

Balance sheets

					£ million
		Group		Parent	
At 31 December	Note	1997	1996	1997	1996
Fixed assets					
Intangible assets	18	**1,130**	959	–	–
Tangible assets	19	**19,639**	18,805	–	–
Investments	20	**2,414**	2,056	**3,261**	2,411
		23,183	21,820	**3,261**	2,411
Current assets					
Stocks	21	**2,581**	3,009	–	–
Debtors – amounts falling due:					
Within one year	22	**5,460**	6,276	**4,672**	5,114
After more than one year	22	**1,487**	1,314	**11**	4
Investments	23	**53**	58	–	–
Cash at bank and in hand		**113**	95	**1**	2
		9,694	10,752	**4,684**	5,120
Creditors – amounts falling due within one year					
Finance debt	24	**1,137**	1,058	–	–
Other creditors	25	**8,980**	9,559	**762**	757
Net current (liabilities) assets		**(423)**	135	**3,922**	4,363
Total assets less current liabilities		**22,760**	21,955	**7,183**	6,774
Creditors – amounts falling due after more than one year					
Finance debt	24	**3,211**	3,474	–	–
Other creditors	25	**1,362**	1,530	**49**	83
Provisions for liabilities and charges					
Deferred taxation	8	**390**	405	–	–
Other provisions	26	**3,629**	3,642	**40**	40
Net assets		**14,168**	12,904	**7,094**	6,651
Minority shareholders' interest		**56**	109	–	–
BP shareholders' interest		**14,112**	12,795	**7,094**	6,651
Represented by					
Capital and reserves					
Called up share capital	28	**1,453**	1,425	**1,453**	1,425
Share premium account	29	**2,078**	2,012	**2,078**	2,012
Capital redemption reserve		**197**	197	**197**	197
Reserves	30	**10,384**	9,161	**3,366**	3,017
	31	**14,112**	12,795	**7,094**	6,651

Peter Sutherland, Director

John Browne, Director

10 February 1998

Group cash flow statement

For the year ended 31 December	Note	1997	1996
			£ million
Net cash inflow from operating activities	32	**5,773**	4,992
Servicing of finance and returns on investments			
Interest received		**95**	91
Interest paid		**(320)**	(477)
Dividends received		**12**	15
Net cash outflow from servicing of finance and returns on investments		**(213)**	(371)
Taxation			
UK corporation tax		**(288)**	(278)
Overseas tax		**(541)**	(671)
Tax paid		**(829)**	(949)
Capital expenditure			
Payments for fixed assets		**(3,505)**	(3,114)
Proceeds from the sale of fixed assets	17	**89**	319
Net cash outflow for capital expenditure		**(3,416)**	(2,795)
Acquisitions and disposals			
Investments in associated undertakings		**(491)**	(126)
Proceeds from the sale of businesses	17	**65**	283
Net cash (outflow) inflow for acquisitions and disposals		**(426)**	157
Equity dividends paid		**(643)**	(720)
Net cash inflow		**246**	314
Financing	32	**228**	557
Management of liquid resources	32	**(7)**	(45)
Increase (decrease) in cash	32	**25**	(198)
		246	314

Statement of total recognised gains and losses

For the year ended 31 December	1997	1996
		£ million
Profit for the year	**2,470**	2,552
Currency translation differences	**(538)**	(818)
Total recognised gains and losses	**1,932**	1,734

1 Turnover

	1997	1996
		£ million
Sales and operating revenue	**56,626**	59,394
Customs duties and sales taxes	**13,166**	14,663
Turnover	**43,460**	44,731

Turnover[a]	Total sales	Sales between businesses	Sales to third parties	Total sales	Sales between businesses	Sales to third parties
By business						
Exploration and Production	**7,909**	**2,607**	**5,302**	8,577	2,952	5,625
Refining and Marketing[b]	**35,728**	**578**	**35,150**	36,426	710	35,716
Chemicals	**3,123**	**173**	**2,950**	3,464	155	3,309
Other businesses and corporate	**58**	**–**	**58**	81	–	81
	46,818	**3,358**	**43,460**	48,548	3,817	44,731

	Total sales	Sales between areas	Sales to third parties	Total sales	Sales between areas	Sales to third parties
By geographical area						
UK[b c]	**21,218**	**4,420**	**16,798**	22,837	4,483	18,354
Rest of Europe[b]	**12,552**	**1,895**	**10,657**	11,357	1,398	9,959
USA	**9,945**	**146**	**9,799**	11,003	253	10,750
Rest of World	**7,324**	**1,118**	**6,206**	6,871	1,203	5,668
	51,039	**7,579**	**43,460**	52,068	7,337	44,731

[a] Turnover to third parties is stated by origin which is not materially different from turnover by destination. Transfers between group companies are made at market prices taking into account the volumes involved.

[b] 1997 turnover includes the BP share of the BP/Mobil European joint venture.

[c] UK area includes the UK-based international activities of BP Oil.

2 Production taxes

	1997	1996
		£ million
UK petroleum revenue tax	**176**	299
Overseas production taxes	**441**	524
	617	823

3 Distribution and administration expenses

	1997	1996
		£ million
Distribution	**3,521**	3,580
Administration	**131**	124
	3,652	3,704

4 Other income

	1997	1996
		£ million
Share of profits of associated undertakings	**293**	283
Income from other fixed asset investments	**50**	47
Other interest and miscellaneous income	**163**	186
	506	516
Income from listed investments included above	**1**	2

5 Analysis of replacement cost profit

£ million

Profit	1997 Replacement cost operating profit[a]	1997 Exceptional items[b]	1997 Replacement cost profit before interest and tax	1996 Replacement cost operating profit[a]	1996 Exceptional items[b]	1996 Replacement cost profit before interest and tax
By business						
Exploration and Production	**2,960**	**(15)**	**2,945**	3,063	(37)	3,026
Refining and Marketing	**910**	**(24)**	**886**	679	(355)	324
Chemicals	**484**	**(9)**	**475**	476	16	492
Other businesses and corporate	**(33)**	**(14)**	**(47)**	(26)	(140)	(166)
	4,321	**(62)**	**4,259**	4,192	(516)	3,676
By geographical area						
UK[c]	**1,604**	**(95)**	**1,509**	1,601	(194)	1,407
Rest of Europe	**720**	**49**	**769**	521	(256)	265
USA	**1,235**	**(22)**	**1,213**	1,329	6	1,335
Rest of World	**762**	**6**	**768**	741	(72)	669
	4,321	**(62)**	**4,259**	4,192	(516)	3,676

[a] Replacement cost operating profit is before stock holding gains and losses and interest expense, which is attributable to the corporate function. Transfers between group companies are made at market prices taking into account the volumes involved.

[b] Exceptional items comprise loss on sale or termination of operations of £105 million (£175 million) and write-back of certain 1995 refinery network rationalisation costs of £43 million (1996 – European refining and marketing joint venture implementation costs of £341 million).

[c] UK area includes the UK-based international activities of BP Oil.

Stock holding gains (losses)	1997	1996
By business		
Exploration and Production	**10**	(12)
Refining and Marketing	**(316)**	409
Chemicals	**(11)**	5
	(317)	402
By geographical area		
UK	**(53)**	37
Rest of Europe	**(74)**	128
USA	**(131)**	172
Rest of World	**(59)**	65
	(317)	402

6 Exceptional items

Exceptional items comprise loss on sale or termination of operations and refining and marketing rationalisation costs, as follows:

£ million

	1997	1996
Loss on sale or termination of operations	**(105)**	(175)
Refinery network rationalisation	**43**	–
European refining and marketing joint venture implementation	**–**	(341)
Exceptional items	**(62)**	(516)
Taxation credit (charge):		
Sale or termination of operations	**12**	(28)
Refinery network rationalisation	**15**	–
European refining and marketing joint venture implementation	**–**	70
Exceptional items, net of tax	**(35)**	(474)
Minority shareholders' interest (MSI)	**–**	4
Exceptional items, net of tax and MSI	**(35)**	(470)

Sale or termination of operations The major element of the loss on sale or termination of operations comprises the costs of terminating base oil manufacturing operations at Llandarcy in the UK. Additional information on sale or termination of operations is given in Note 17 – Disposals.
Refinery network rationalisation The credit for refinery network rationalisation relates to the release of provisions for environmental and severance costs charged in 1995 in respect of the anticipated sale or closure of the Lavéra refinery in France. This release reflects the decision to continue operating the refinery.
European refining and marketing joint venture implementation The one-off costs associated with the setting up of the European refining and marketing joint venture with Mobil were recognised in 1996.
Taxation In accordance with the group's policy for accounting for deferred tax, only partial relief has been recognised in respect of the joint venture implementation costs.

7 Interest expense

£ million

	1997	1996
Bank loans and overdrafts	**41**	49
Other loans	**253**	348
Finance leases	**58**	52
	352	449
Capitalised	**56**	38
Charged against profit	**296**	411

Interest expense for 1996 included net charges of £48 million relating to early redemption of debt.

8 Taxation

	£ million 1997	1996
United Kingdom corporation tax:		
Current at 31.5% (33%)	**785**	866
Overseas tax relief	**(474)**	(400)
	311	466
Deferred at 31.5% (33%)	**124**	(6)
	435	460
Advance corporation tax	**(60)**	(120)
	375	340
Overseas:		
Current	**758**	637
Deferred	**(30)**	46
Associated undertakings	**65**	84
	793	767
Taxation charge for the year	**1,168**	1,107

Included in the charge for the year is a credit of £27 million (£42 million) relating to exceptional items.

Provisions for deferred taxation

	Provisions		Gross potential liability (£ million)	
Analysis of movements during the year:	**1997**	1996	**1997**	1996
At 1 January	**405**	376	**1,813**	1,607
Exchange adjustments	**(11)**	(15)	**(56)**	(97)
Charge for the year	**94**	40	**353**	299
Deletions/transfers	**(98)**	4	**(98)**	4
At 31 December	**390**	405	**2,012**	1,813
of which – United Kingdom	**210**	184	**651**	574
– Overseas	**180**	221	**1,361**	1,239
Analysis of provision:				
Depreciation	**1,163**	1,223	**3,669**	3,413
Petroleum revenue tax	**(287)**	(353)	**(287)**	(353)
Other timing differences	**(106)**	(183)	**(944)**	(859)
Advance corporation tax	**(380)**	(282)	**(426)**	(388)
	390	405	**2,012**	1,813

If provision for deferred taxation had been made on the basis of the gross potential liability the taxation charge for the year would have been increased as follows:

	£ million 1997	1996
United Kingdom	**51**	116
Overseas	**208**	143
	259	259

Deferred taxation is not generally provided in respect of liabilities which may arise on the distribution of accumulated reserves of overseas subsidiary and associated undertakings.

Reconciliation of the UK statutory tax rate to the effective tax rate of the group:	% 1997	1996
UK statutory tax rate	**31**	33
Increase (decrease) resulting from:		
Current year timing differences not provided (including prior year loss utilisation)	**(8)**	(9)
Overseas taxes at higher rates	**3**	3
Advance corporation tax	**(1)**	(3)
Other	**5**	6
Effective tax rate on replacement cost profit before exceptional items	**30**	30

9 Distribution to shareholders

	Pence per share 1997	Pence per share 1996	£ million 1997	£ million 1996
Preference dividends (non-equity)			**1**	1
Ordinary dividends: First quarterly	**5.25**	4.25	**299**	239
Second quarterly	**5.50**	5.00	**315**	281
Third quarterly	**5.50**	5.00	**316**	283
Fourth quarterly	**5.75**	5.25	**331**	298
	22.00	19.50	**1,262**	1,102

10 Earnings per ordinary share

The calculation of earnings per ordinary share is based on the profit for the year less preference dividends, related to the weighted average of 5,702 million (5,613 million) ordinary shares in issue during the year. In addition to earnings per share based on the historical cost profit for the year, a further measure, based on replacement cost profit before exceptional items, is provided as it is considered that this measure gives an indication of underlying performance.

A reconciliation of the two earnings per share measures is as follows:

	Pence per share 1997	Pence per share 1996
Profit for the year	**43.3**	45.5
Stock holding (gains) losses	**5.6**	(7.2)
Replacement cost profit for the year	**48.9**	38.3
Exceptional items, net of tax	**0.6**	8.4
Replacement cost profit before exceptional items	**49.5**	46.7

11 Hire charges and expenditure on research

	£ million 1997	£ million 1996
Hire charges under operating leases:		
Tanker charters	**232**	248
Plant and machinery	**139**	164
Land and buildings	**114**	135
	485	547
Expenditure on research	**141**	127

12 Auditors' remuneration

	1997 UK	1997 Total	1996 UK	1996 Total
Audit fees – Ernst & Young				
Group audit	**2.4**	**5.4**	2.6	5.4
Local statutory audit and quarterly review	**0.4**	**2.6**	0.4	2.7
	2.8	**8.0**	3.0	8.1

Group audit fees include £0.5 million (£0.5 million) in respect of the parent company.

	1997 UK	1997 Total	1996 UK	1996 Total
Fees for other services – Ernst & Young				
Sales of businesses	**0.9**	**0.9**	1.0	1.5
Consultancy, tax and other advisory services	**2.1**	**5.8**	2.4	6.3
	3.0	**6.7**	3.4	7.8

Fees to other major firms of accountants for non-audit services amounted to £59 million (£32 million). The higher fees reflect the outsourcing of European downstream accounting services.

13 Depreciation and amounts provided

Included in the income statement under the following headings:	£ million 1997	£ million 1996
Depreciation		
Replacement cost of sales	**1,520**	1,696
Distribution	**257**	306
Administration	**13**	15
Exceptional items	**26**	3
	1,816	2,020
Depreciation of capitalised leased assets included above	**40**	57

14 Group balance sheet analysis

	Capital expenditure and acquisitions		Operating capital employed	
£ million	1997	1996	1997	1996
By business				
Exploration and Production	**2,748**	2,415	**13,742**	12,187
Refining and Marketing	**774**	761	**4,668**	5,137
Chemicals	**272**	239	**2,377**	2,221
Other businesses and corporate	**274**	27	**(639)**	(712)
	4,068	3,442	**20,148**	18,833
By geographical area				
UK[a]	**1,353**	1,321	**7,076**	6,559
Rest of Europe	**518**	378	**1,988**	2,144
USA	**912**	822	**5,454**	5,127
Rest of World	**1,285**	921	**5,630**	5,003
	4,068	3,442	**20,148**	18,833

[a] UK area includes the UK-based international activities of BP Oil.

	1997	1996
Operating capital employed	**20,148**	18,833
Liabilities for current and deferred taxation	**(1,632)**	(1,397)
Capital employed	**18,516**	17,436
Financed by:		
Finance debt	**4,348**	4,532
Minority shareholders' interest	**56**	109
BP shareholders' interest	**14,112**	12,795
	18,516	17,436

15 Capital commitments

Authorised future capital expenditure by group companies for which contracts had been placed at 31 December amounted to £1,418 million (£1,540 million).

16 Acquisitions

In December 1997 the group acquired a 10% interest in A O Sidanco, a Russian integrated oil company, for £292 million. This amount is shown as the acquisition of an associated undertaking within fixed asset investments. Also in 1997 the group acquired an additional 7.4% of the share capital of BP France for a cash consideration of £56 million.
There were no acquisitions in 1996.

17 Disposals

Disposals in 1997 included the sale of oil marketing assets in Thailand and advanced materials and phenolic resin businesses in the UK.

The principal disposals in 1996 were the sale of the Carborundum businesses; the BP America office building in Cleveland, Ohio; the group's interest in the undeveloped Ross field and the floating production and storage vessel Seillean.

Total proceeds received for disposals represent the following amounts shown in the cash flow statement:

£ million	1997	1996
Proceeds from the sale of fixed assets	**89**	319
Proceeds from the sale of businesses	**65**	283
	154	602

The disposals comprise the following:

£ million	1997	1996
Intangible assets	**13**	43
Tangible assets	**148**	530
Fixed assets – investments	**53**	40
Working capital	**105**	232
Other	**(18)**	(77)
	301	768
Loss on sale or termination of operations	**(105)**	(175)
Total consideration	**196**	593
Deferred consideration	**(42)**	24
Cash transferred on sale	**–**	(15)
Net cash inflow	**154**	602

18 Intangible assets

£ million

	Exploration expenditure	Goodwill	Other intangibles	Total
Cost				
At 1 January 1997	1,322	76	144	1,542
Exchange adjustments	19	1	(12)	8
Additions	429	4	7	440
Transfers	(195)	–	11	(184)
Deletions	(187)	(2)	(2)	(191)
At 31 December 1997	**1,388**	**79**	**148**	**1,615**
Depreciation				
At 1 January 1997	456	44	83	583
Exchange adjustments	(1)	–	(11)	(12)
Charge for the year	68	5	12	85
Transfers	–	–	7	7
Deletions	(176)	(2)	–	(178)
At 31 December 1997	**347**	**47**	**91**	**485**
Net book amount				
At 31 December 1997	**1,041**	**32**	**57**	**1,130**
At 31 December 1996	866	32	61	959

19 Tangible assets – property, plant and equipment

£ million

	Exploration and Production	Refining and Marketing	Chemicals	Other businesses and corporate	Total	of which: Assets under construction
Cost						
At 1 January 1997	27,264	9,415	2,888	287	39,854	2,360
Exchange adjustments	101	(758)	(16)	21	(652)	1
Additions	1,948	726	229	28	2,931	1,732
Transfers	219	(11)	(30)	–	178	(1,499)
Deletions	(25)	(271)	(77)	(66)	(439)	(46)
At 31 December 1997	**29,507**	**9,101**	**2,994**	**270**	**41,872**	**2,548**
Depreciation						
At 1 January 1997	14,397	4,914	1,590	148	21,049	
Exchange adjustments	61	(359)	(29)	10	(317)	
Charge for the year	1,293	395	98	13	1,799	
Transfers	–	(7)	–	–	(7)	
Deletions	(23)	(183)	(58)	(27)	(291)	
At 31 December 1997	**15,728**	**4,760**	**1,601**	**144**	**22,233**	
Net book amount						
At 31 December 1997	**13,779**	**4,341**	**1,393**	**126**	**19,639**	**2,548**
At 31 December 1996	12,867	4,501	1,298	139	18,805	2,360
Principal rates of depreciation	[a]	2-25%	3-12%	3-25%		

[a] Mainly unit-of-production

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

£ million

	Leased assets			Capitalised interest		
	Cost	Depreciation	Net	Cost	Depreciation	Net
At 31 December 1997	**1,154**	**560**	**594**	**1,534**	**948**	**586**
At 31 December 1996	1,173	543	630	1,478	895	583

	Freehold land	Leasehold land: Over 50 years unexpired	Leasehold land: Other
At 31 December 1997	**557**	**39**	**29**
At 31 December 1996	589	29	32

20 Fixed assets – investments

	Associated undertakings			Loans	Own shares[a]	Other[b]	Total
							£ million
Group	Shares	Loans	Share of retained profit				
Cost							
At 1 January 1997	896	453	624	32	9	62	2,076
Exchange adjustments	(65)	5	(107)	(2)	–	(5)	(174)
Additions	112	14	(64)	18	183	5	268
Acquisitions	309	–	–	–	–	–	309
Transfers	6	30	–	–	–	(30)	6
Deletions	(18)	(25)	(2)	(6)	–	(2)	(53)
At 31 December 1997	**1,240**	**477**	**451**	**42**	**192**	**30**	**2,432**
Amounts provided							
At 1 January 1997	19	–	–	–	–	1	20
Exchange adjustments	(2)	–	–	–	–	–	(2)
Provided in the year	–	–	–	–	–	–	–
At 31 December 1997	**17**	**–**	**–**	**–**	**–**	**1**	**18**
Net book amount							
At 31 December 1997	**1,223**	**477**	**451**	**42**	**192**	**29**	**2,414**
At 31 December 1996	877	453	624	32	9	61	2,056

	Subsidiary undertakings[c]	Associated undertakings[c]		Own shares[a]	Total
					£ million
Parent	Shares	Shares	Loans		
Cost					
At 1 January 1997	2,404	2	1	9	2,416
Additions	667	–	–	183	850
Deletions	(1)	–	–	–	(1)
At 31 December 1997	**3,070**	**2**	**1**	**192**	**3,265**
Amounts provided					
At 1 January 1997	4	–	1	–	5
Provided in the year	(1)	–	–	–	(1)
At 31 December 1997	**3**	**–**	**1**	**–**	**4**
Net book amount					
At 31 December 1997	**3,067**	**2**	**–**	**192**	**3,261**
At 31 December 1996	2,400	2	–	9	2,411

Own shares are held in Employee Share Ownership Plans (ESOPs) to meet the future requirements of the Employee Share Schemes (see Note 34) and prior to award under the Long Term Performance Plan (see Note 35). At 31 December 1997 the ESOPs held 18,790,000 shares for the Employee Share Schemes and 3,274,000 shares for the Long Term Performance Plan. The market value of these shares at 31 December 1997 was £176 million.

Other investments are unlisted.

The investments in subsidiary and associated undertakings are almost entirely unlisted.

21 Stocks

		£ million
	1997	1996
Petroleum	**2,003**	2,407
Chemicals	**253**	272
Other	**74**	64
	2,330	2,743
Stores	**251**	266
	2,581	3,009
Replacement cost	**2,621**	3,039

22 Debtors

£ million

	Group				Parent			
	1997		1996		1997		1996	
	Within 1 year	After 1 year	Within 1 year	After 1 year	Within 1 year	After 1 year	Within 1 year	After 1 year
Trade	**4,044**	–	4,948	–	–	–	–	–
Group undertakings	–	–	–	–	**4,658**	–	5,092	–
Associated undertakings	**71**	**2**	68	2	–	–	–	–
Prepayments and accrued income	**411**	**105**	483	90	–	–	–	–
Taxation recoverable	**30**	**146**	33	191	**7**	–	8	–
Pension prepayment	–	**1,113**	–	930	–	–	–	–
Other	**904**	**121**	744	101	**7**	**11**	14	4
	5,460	**1,487**	6,276	1,314	**4,672**	**11**	5,114	4

23 Current assets – investments

£ million

	1997	1996
Listed – UK	**30**	32
– Foreign	**19**	12
	49	44
Unlisted	**4**	14
	53	58
Stock exchange value of listed investments	**49**	46

24 Finance debt

£ million

	1997		1996	
	Within 1 year	After 1 year	Within 1 year	After 1 year
Bank loans and overdrafts	**134**	**69**	266	29
Other loans	**954**	**2,106**	754	2,461
Total borrowings	**1,088**	**2,175**	1,020	2,490
Obligations under finance leases	**49**	**1,036**	38	984
	1,137	**3,211**	1,058	3,474

Where the liability for any borrowing is swapped into another currency the borrowing is accounted in the swap currency and not in the original currency of denomination. The total figures for borrowings in the table above include a net increase of £68 million (reduction of £18 million) in the carrying value of debt through the offset of swaps.

£ million

	1997			1996		
Analysis of borrowings by year of repayment	Bank loans and overdrafts	Other loans	Total	Bank loans and overdrafts	Other loans	Total
Due after 5 years	**11**	**885**	**896**	11	1,185	1,196
Due within 5 years	**6**	**320**	**326**	5	249	254
4 years	**21**	**254**	**275**	4	235	239
3 years	**28**	**248**	**276**	5	451	456
2 years	**3**	**399**	**402**	4	341	345
	69	**2,106**	**2,175**	29	2,461	2,490
1 year	**134**	**954**	**1,088**	266	754	1,020
	203	**3,060**	**3,263**	295	3,215	3,510

Amounts included above repayable by instalments part of which falls due after five years from 31 December are as follows:	1997	1996
After 5 years	**11**	7
Within 5 years	**16**	14
	27	21

Interest rates on borrowings repayable wholly or partly more than five years from 31 December 1997 range from 3% to 19% with a weighted average of 9%. The weighted average interest rate on finance debt is 7%.

At 31 December 1997 the group had substantial amounts of undrawn borrowing facilities available, including £1,205 million (£1,183 million) which were covered by formal commitments. These committed facilities are mainly with a number of international banks and expire in 2001. Commitment fees are paid on the unused portion of the lines of credit. Borrowings under the facilities will be at prevailing money market rates. Certain of these facilities support the group's commercial paper programme.

24 Finance debt continued

Analysis of borrowings by currency	Fixed rate debt: Weighted average interest rate %	Fixed rate debt: Weighted average time for which rate is fixed Years	Fixed rate debt: Amount £ million	Floating rate debt: Weighted average interest rate %	Floating rate debt: Amount £ million	1997 Total £ million	1996 Total £ million
Sterling	–	–	–	7	33	33	137
US dollars	9	12	1,980	6	1,089	3,069	3,144
French francs	–	–	–	–	–	–	28
South African rands	–	–	–	19	38	38	51
Other currencies	8	4	16	7	107	123	150
Total loans			1,996		1,267	3,263	3,510

The group aims for a balance between floating and fixed interest rates. During 1997 the upper limit for the proportion of floating rate debt was set at 65% of total debt. Interest rates on floating rate debt denominated in US dollars are linked principally to LIBOR, with those on debt in other currencies based on the equivalent in local markets. The group monitors interest rate risk using a process of sensitivity analysis. Assuming no changes to the borrowings and hedges described above, it is estimated that a change of 1% in the general level of interest rates on 1 January 1998 would change 1998 profit before tax by approximately £20 million.

£ million

Fair values and carrying amounts of borrowings	1997 Fair value	1997 Carrying amount	1996 Fair value	1996 Carrying amount
Short-term borrowings	642	642	713	713
Long-term borrowings	2,657	2,553	2,934	2,815
Total borrowings	3,299	3,195	3,647	3,528

The fair value and carrying amounts of borrowings shown above exclude the effects of currency swaps which are included for presentation in the balance sheet. The carrying amounts of the group's short-term borrowings under its commercial paper programme and bank loans and overdrafts approximate their fair value. The fair value of the group's long-term debt (including the current maturities of long-term debt) is estimated using quoted prices or, where such prices are not available, discounted cash flow analyses, based on the group's current incremental borrowing rates for similar types of borrowing arrangements and maturities.

£ million

Obligations under finance leases		1997	1996
Minimum future lease payments payable within:	1 year	64	58
	2 to 5 years	420	426
	Thereafter	2,387	2,578
		2,871	3,062
Less finance charges		1,786	2,040
Net obligations		1,085	1,022

25 Other creditors

£ million

	Group 1997 Within 1 year	Group 1997 After 1 year	Group 1996 Within 1 year	Group 1996 After 1 year	Parent 1997 Within 1 year	Parent 1997 After 1 year	Parent 1996 Within 1 year	Parent 1996 After 1 year
Trade	3,712	–	4,512	–	–	–	–	–
Group undertakings	–	–	–	–	–	49	13	83
Associated undertakings	148	1	129	1	–	–	–	–
Production taxes	217	929	350	1,070	–	–	–	–
Taxation on profits	1,418	–	1,216	–	89	–	141	–
Social security	24	–	32	–	6	–	6	–
Accruals and deferred income	1,344	218	1,179	261	6	–	6	–
Dividends	647	–	581	–	647	–	581	–
Other	1,470	214	1,560	198	14	–	10	–
	8,980	1,362	9,559	1,530	762	49	757	83

26 Other provisions

	Decommissioning	Environmental	Unfunded pension plans	Other post-retirement benefits	Other	Total
						£ million
At 1 January 1997	1,485	634	903	491	129	3,642
Exchange adjustments	14	1	(104)	9	5	(75)
Charged to income	66	(31)	140	24	30	229
Utilised/deleted	(5)	(39)	(74)	(25)	(24)	(167)
At 31 December 1997	**1,560**	**565**	**865**	**499**	**140**	**3,629**

Other includes parent company £40 million (£40 million).

27 Derivative financial instruments

In the normal course of business the group is a party to derivative financial instruments (derivatives) with off-balance sheet risk, primarily to manage its exposure to fluctuations in foreign currency exchange rates and interest rates, and some movements in oil prices. The underlying economic currency of the group's cash flows is mainly US dollars. Accordingly, most of our borrowings are in US dollars or swapped into dollars where this achieves a lower cost of financing. Significant non-dollar cash flow exposures are hedged. Gains and losses arising on these hedges are deferred and recognised in the income statement or as adjustments to carrying amounts, as appropriate, only when the hedged item occurs. We also manage the balance between floating rate and fixed rate debt. In addition, we trade derivatives in conjunction with these risk management activities.

These derivatives involve, to varying degrees, credit and market risk. With regard to credit risk, the group may be exposed to loss in the event of non-performance by a counterparty. The group controls credit risk by entering into derivative contracts only with highly credit rated counterparties and through credit approvals, limits and monitoring procedures and does not usually require collateral or other security. The group has not experienced material non-performance by any counterparty.

Market risk is the possibility that a change in interest rates, currency exchange rates or oil prices will cause the value of a financial instrument to decrease or its obligations to become more costly to settle. When derivatives are used for the purpose of risk management they do not expose the group to market risk because gains and losses on the derivatives offset losses and gains on the asset, liability or transaction being hedged. When derivatives are traded, the exposure of the group to market risk is limited to changes in their fair (market) values.

The measurement of market risk in trading activities is discussed further below.

The table shows the 'fair value' of the asset or liability created by derivatives. This represents the market value at the balance sheet date. Credit exposure at 31 December is represented by the column 'fair value asset'.

The table also shows the 'net carrying amount' of the asset or liability created by derivatives. This amount represents the net book value, i.e. market value when acquired or later marked to market.

							£ million
				1997			1996
		Fair value asset	Fair value (liability)	Net carrying amount asset (liability)	Fair value asset	Fair value (liability)	Net carrying amount asset (liability)
Risk management	– interest rate contracts	**33**	**(144)**	**(32)**	34	(129)	(37)
	– foreign exchange contracts	**80**	**(106)**	**75**	339	(59)	100
	– oil price contracts	**12**	**(15)**	**(3)**	11	(39)	(28)
Trading	– interest rate contracts	**1**	**(4)**	**(3)**	–	–	–
	– foreign exchange contracts	**25**	**(24)**	**1**	24	(19)	5
	– oil price contracts	**97**	**(69)**	**28**	70	(68)	2

Interest rate contracts include forward and futures contracts, swap agreements, options and swaptions. Foreign exchange contracts include forward and futures contracts, swap agreements and options. Oil price contracts are those which require settlement in cash and include futures contracts, swap agreements and options.

The following table shows the average net fair value of derivatives and other financial instruments held for trading purposes during the year:

		£ million
	1997	1996
	Average net fair value asset (liability)	Average net fair value asset (liability)
Interest rate contracts	**(2)**	–
Foreign exchange contracts	**1**	2
Oil price contracts	**15**	20
	14	22

27 Derivative financial instruments continued

The group measures its market risk exposure, i.e. potential gain or loss in fair values, on its trading activity using a value at risk technique. This technique is based on a variance/covariance model and makes a statistical assessment of the market risk arising from possible future changes in market values over a 24-hour period. The calculation of the range of potential changes in fair value takes into account a snapshot of the end-of-day exposures, and the history of one day price movements over the previous twelve months, together with the correlation of these price movements. The potential movement in fair values is expressed to three standard deviations which is equivalent to a 99.7% confidence level. This means that, in broad terms, one would expect to see an increase or a decrease in fair values greater than the value at risk on only one occasion per year if the portfolio were left unchanged.

The group calculates value at risk on all instruments that are held for trading purposes and that therefore give an exposure to market risk. The value at risk model takes account of derivative financial instruments such as interest rate forward and futures contracts, swap agreements, options and swaptions, foreign exchange forward and futures contracts, swap agreements and options and oil price futures, swap agreements and options. Financial assets and liabilities and physical crude oil and refined products that are treated as trading positions are also included in these calculations. The value at risk calculation for oil price exposure also includes derivative commodity instruments (commodity contracts that permit settlement either by delivery of the underlying commodity or in cash), such as forward contracts.

The following table shows values at risk for trading activities.

£ million

				1997		1996
	High	Low	Average	Year end	Average	Year end
Interest rate contracts	**5**	**–**	**2**	**1**	1	–
Foreign exchange rate contracts	**2**	**–**	**2**	**1**	2	–
Oil price contracts	**7**	**2**	**4**	**2**	4	2

In the light of evolving disclosure requirements in both the UK and the US, the presentation of trading results shown below now includes certain activities of the group's oil trading division which involve the use of derivative financial instruments in conjunction with physical and paper trading of oil. It is considered that a more comprehensive representation of the group's oil trading activities is given by the classification of the gains or losses on such derivatives along with the physical and paper trades to which they relate.

The following table shows the trading income arising from derivatives and other financial instruments. For oil price contract trading, this also includes income or losses arising on trading of derivative commodity instruments and physical oil trades, representing the net result of the oil-trading portfolio.

£ million

	1997	1996
	Net gain	Net gain
Interest rate contracts	**1**	1
Foreign exchange contracts	**14**	9
Oil price contracts	**88**	80
	103	90

For oil price contracts, a reconciliation from the presentation previously used to the current presentation is provided below.

£ million

	1997	1996
Trading income on derivative financial instruments under previous classification	**31**	5
Effect of linking to related derivative commodity instruments and physical oil positions	**57**	75
Net trading income on oil-trading portfolio	**88**	80

28 Called up share capital

No change was made during 1997 to the parent company's authorised share capital of £2,000 million. The allotted share capital at 31 December was as follows:

	1997		1996	
	Shares	**£ million**	Shares	£ million
Non-equity				
8% (now 5.6%+tax credit) cumulative first preference shares of £1 each	**7,232,838**	**7**	7,232,838	7
9% (now 6.3%+tax credit) cumulative second preference shares of £1 each	**5,473,414**	**5**	5,473,414	5
Equity				
Ordinary shares of 25p each	**5,762,583,600**	**1,441**	5,650,206,533	1,413
		1,453		1,425

On a show-of-hands vote at a general meeting, shareholders present in person have one vote each. On a poll, shareholders present in person or by proxy have two votes for every £5 in nominal amount of the first and second preference shares held and one vote for every ordinary share held.

During the year, 87,179,495 ordinary shares were issued under the share dividend plan by capitalisation of the share premium account. In addition, 25,197,572 ordinary shares were issued during the year under employee share schemes.

29 Share premium account

	£ million	
	1997	1996
At 1 January	**2,012**	1,949
Employee share schemes	**88**	77
Share dividend plan	**(22)**	(14)
At 31 December	**2,078**	2,012

Shares issued under the share dividend plan are issued as fully paid by capitalisation of the share premium account.

30 Reserves

Group reserves include the following amounts, the distribution of which is limited by statutory or other restrictions:

	£ million	
	1997	1996
Parent company	**10**	10
Subsidiary undertakings	**1,459**	1,675
Associated undertakings	**689**	760
	2,158	2,445

As a consolidated income statement is presented, a separate income statement for the parent company is not required to be published. The profit for the year of the group dealt with by the parent company and the reserves of the parent company are as follows:

	£ million	
	1997	1996
At 1 January	**3,017**	2,608
Profit for the year	**1,058**	1,244
Distribution to shareholders	**(1,262)**	(1,102)
Share dividend plan	**553**	267
At 31 December	**3,366**	3,017

31 Reconciliation of movements in shareholders' interest

For the year ended 31 December	Note	£ million	
		1997	1996
Profit for the year		**2,470**	2,552
Currency translation differences		**(538)**	(818)
Distribution to shareholders	9	**(1,262)**	(1,102)
Share dividend plan		**553**	267
Movement in group reserves		**1,223**	899
Shares issued		**94**	82
Net increase in shareholders' interest		**1,317**	981
Shareholders' interest at 1 January		**12,795**	11,814
Shareholders' interest at 31 December		**14,112**	12,795

Currency translation differences for the year include unrealised losses of £1 million (£1 million) on long-term borrowings used to finance equity investments in foreign currencies.

32 Group cash flow statement analysis

(a) Reconciliation of historical cost profit before interest and tax to net cash inflow from operating activities	1997 £ million	1996
Historical cost profit before interest and tax	**3,942**	4,078
Depreciation	**1,816**	2,020
Exploration expenditure written off	**68**	203
Share of profits of associated undertakings, less dividends received	**–**	(62)
Interest and other income	**(106)**	(115)
Loss on sale or termination of operations	**105**	175
Charge for provisions	**229**	289
Utilisation of provisions	**(149)**	(202)
Decrease (increase) in stocks	**268**	(556)
Decrease (increase) in debtors	**319**	(1,782)
(Decrease) increase in creditors	**(719)**	944
Net cash inflow from operating activities	**5,773**	4,992

(b) Exceptional items

The cash outflow relating to the refinery network rationalisation costs charged in 1995 was £14 million (£42 million). The cash outflow in respect of the European refining and marketing joint venture implementation costs charged in 1996 was £187 million (£44 million). Both amounts were included in the net cash inflow from operating activities.

(c) Financing	1997 £ million	1996
Long-term borrowing	**(92)**	(23)
Repayments of long-term borrowing	**372**	1,278
Short-term borrowing	**(740)**	(846)
Repayments of short-term borrowing	**732**	182
	272	591
Issue of ordinary share capital	**(44)**	(34)
Net cash outflow	**228**	557

(d) Management of liquid resources	1997 £ million	1996
Purchases	**15**	209
Sales	**(22)**	(254)
Net cash inflow	**(7)**	(45)

Liquid resources comprise current asset investments.

(e) Commercial paper

Net movements in commercial paper are included within short-term borrowings or repayment of short-term borrowings as appropriate.

	1997				1996			£ million
(f) Movement in net debt	Finance debt	Cash	Current asset investments	Net debt	Finance debt	Cash	Current asset investments	Net debt
At 1 January	(4,532)	95	58	(4,379)	(5,498)	294	101	(5,103)
Net cash flow	272	25	(7)	290	591	(198)	(45)	348
Other movements	(41)	–	3	(38)	(17)	–	(2)	(19)
Exchange adjustments	(47)	(7)	(1)	(55)	392	(1)	4	395
At 31 December	**(4,348)**	**113**	**53**	**(4,182)**	(4,532)	95	58	(4,379)

33 Operating leases

	1997		1996	
Annual commitments under operating leases	Land and buildings	Other	Land and buildings	Other
Expiring within: 1 year	**9**	**80**	10	62
2 to 5 years	**30**	**209**	28	161
Thereafter	**68**	**29**	75	96
	107	**318**	113	319

£ million

Minimum future lease payments	1997 Total	1996 Total
Payable within: 1 year	**399**	397
2 to 5 years	**1,033**	1,012
Thereafter	**775**	758
	2,207	2,167

34 Employee share schemes

The company offers its employees and those of most of its principal operating companies the opportunity to acquire a shareholding in BP. Scheme design varies by country, reflecting local legislation, culture and employment practice. There are two categories of scheme: those which are generally available to staff who meet a minimum service qualification (e.g. the Participating and Savings Related Share Option Schemes in the UK) and those for defined categories of staff (e.g. the Executive Share Option Scheme (ESOS) for middle managers).

Under participating schemes, the company matches employees' own contributions of shares, all of which are then held for defined periods. With savings related schemes, employees save regularly toward the purchase of shares at a price fixed when their savings contract commences. The ESOS offers middle managers the opportunity to exercise share options between the third and tenth anniversaries of the date of grant, at the market price set at the time of grant. Grants made since 1995 under the ESOS will not be exercisable until a performance condition has been satisfied. Before any options can be exercised, the Remuneration Committee will require the total return to shareholders (share price increase with all dividends reinvested) on an investment in BP shares to exceed the mean total return to shareholders of a representative group of UK companies by a margin set from time to time by the committee. The performance period for each grant will normally be three years.

During 1997 the company established an Employee Share Ownership Plan (ESOP) to acquire BP shares to satisfy future requirements of certain employee share schemes. Funding is provided to the ESOP by the company. The assets and liabilities of the ESOP are recognised as assets and liabilities of the company within these accounts. The ESOP has waived its rights to dividends.

At 31 December 1997 the ESOP held 18,790,000 shares.

Employee share options granted during the year (options thousands)	**1997**	1996
Savings related and similar schemes	**7,389**	5,242
ESOS	**2,269**	1,905
	9,658	7,147

The exercise prices for the options granted during the year were £5.78 for savings related and similar schemes and £6.77 (2,216,000 options) and £7.33 (53,000 options) for the ESOS.

Shares issued in respect of options exercised during the year (shares thousands)	**1997**	1996
Savings related and similar schemes	**13,974**	5,545
ESOS	**4,402**	6,222
	18,376	11,767

In addition, 6,822,000 shares (8,240,000 shares) were issued under participating share schemes.

Options outstanding at 31 December	**1997**	1996
Options	**46,400,000**	57,818,000
Exercise period	**1998 – 2007**	1997 – 2006
Price	**£2.06 – £7.33**	£2.06 – £5.41

Details of directors' individual participation in share schemes are given in the Report of the Remuneration Committee on pages 58 to 61.

35 Long term performance plan

Senior executives and the executive directors participate in the Long Term Performance Plan (the Plan). This is an incentive scheme under which the Remuneration Committee may award shares to participants or fund the purchase of shares for participants if long-term targets are met. The Plan has replaced the granting of executive share options to participants. Further details of the Plan are given in the Report of the Remuneration Committee on pages 58 to 61.

The cost of potential future awards is accrued over the performance period of the Plan, usually three years. The amount charged in 1997 was £17 million (£20 million).

The value of awards under the 1994-6 Plan made in 1997 was £17 million (1991-5 Plan £34 million).

Employee Share Ownership Plans (ESOPs) have been established to acquire BP shares to satisfy any awards made to participants under the Plan and then to hold them for the participants during the retention period of the Plan. In order to hedge the cost of potential future awards the ESOPs may, from time to time over the performance period of the Plans, purchase BP shares in the open market. Funding is provided to the ESOPs by the company. The assets and liabilities of the ESOPs are recognised as assets and liabilities of the company within these accounts. The ESOPs have waived their rights to dividends.

At 31 December 1997 the ESOPs held 3,274,000 shares for potential future awards.

36 Directors' remuneration

	£ thousand	
	1997	1996
Total for all directors		
Emoluments[a]	**5,039**	4,638
Gains made on the exercise of share options	**89**	1,459
Amounts awarded under long term incentive schemes	**4,173**	8,454
Highest paid director		
Emoluments	**938**	752
Gains made on the exercise of share options	**64**	–
Amount awarded under long term incentive schemes	**821**	1,716
Accrued pension at 31 December	**338**	260

[a] The fees of £37,000 (£33,000) in respect of Mr H M P Miles' services as a non-executive director are paid to his employer.

Emoluments These amounts comprise fees paid to the chairman and non-executive directors, and, for executive directors, salary and benefits earned during the relevant financial year, plus bonuses awarded for the year.

Pension contributions Six executive directors participate in a non-contributory pension scheme established for UK staff by a separate trust fund to which contributions are made by BP based on actuarial advice. There were no contributions to this pension scheme in 1997 or 1996. One executive director, Dr Stomberg, is a member of the Deutsche BP pension scheme. In 1997 £1,585,000 (£431,000) was set aside to provide for his pension entitlement.

Report of the Remuneration Committee Full details of individual directors' remuneration are given in the Report of the Remuneration Committee on pages 58 to 61.

37 Loans to officers

Miss J C Hanratty has a low interest loan of £26,000 made to her prior to her appointment as Company Secretary on 1 October 1994.

38 Employee costs and numbers

	£ million	
	1997	1996
(a) Employee costs		
Wages and salaries	**1,645**	1,633
Social security costs	**139**	155
Pension costs	**(46)**	36
	1,738	1,824

	1997	1996
(b) Number of employees at 31 December		
Exploration and Production	**6,850**	6,450
Refining and Marketing	**39,450**	36,300
Chemicals	**8,250**	8,650
Other businesses and corporate	**1,900**	1,750
	56,450	53,150

					1997					1996
	UK	Rest of Europe	USA	Rest of World	Total	UK	Rest of Europe	USA	Rest of World	Total
(c) Average number of employees										
Exploration and Production	3,000	350	1,350	2,050	**6,750**	2,800	400	1,450	1,850	6,500
Refining and Marketing	9,550	10,000	10,200	8,850	**38,600**	7,550	9,650	10,150	8,200	35,550
Chemicals	4,650	2,850	850	100	**8,450**	4,850	3,050	1,450	250	9,600
Other businesses and corporate	850	200	200	600	**1,850**	750	150	200	950	2,050
	18,050	**13,400**	**12,600**	**11,600**	**55,650**	15,950	13,250	13,250	11,250	53,700

39 Pensions

Most group companies have pension plans, the forms and benefits of which vary with conditions and practices in the countries concerned. The main plans provide benefits that are computed based on an employee's years of service and final pensionable salary. In most cases group companies make contributions to separately administered trusts, based on advice from independent actuaries using actuarial methods, the objective of which is to provide adequate funds to meet pension obligations as they fall due. In certain countries the plans are unfunded and the obligation for pension benefits is included within other provisions.

The net credit to income for pensions in 1997 was £46 million (charge – £36 million). This was assessed in accordance with independent actuarial advice using the projected unit method for the group's major pension plans.

The principal assumptions used in calculating the credit/charge were in the following ranges:

	1997	1996
Rate of return on assets/discount rate	**7% to 10%**	7% to 10%
Future salary increases	**4% to 7%**	4% to 7%
Future pension increases	**nil to 5%**	nil to 5%

At 1 January 1997, the date of the latest actuarial valuations or reviews, the market value of assets in the group's major externally funded pension plans was £9,200 million (£8,624 million). The actuarial value of the assets of these plans represented 131% (125%) of the benefits that had accrued to members of those plans, after allowing for expected future increases in salaries.

At 31 December 1997 the obligation for accrued benefits in respect of the principal unfunded schemes was £891 million (£982 million). Of this amount, £735 million (£799 million) has been provided in these accounts.

40 Other post-retirement benefits

Certain group companies, principally in the United States, provide post-retirement healthcare and life insurance benefits to their retired employees and dependants. The entitlement to these benefits is usually based on the employee remaining in service until retirement age and completion of a minimum period of service. The plans are unfunded and the liability for post-retirement benefits is included within other provisions.

The charge to income for post-retirement benefits in 1997 of £24 million (£38 million) was assessed in accordance with independent actuarial advice using the projected unit method.

At 31 December 1997 the independent actuaries have reassessed the obligation for post-retirement benefits at £363 million (£350 million). The provision for post-retirement benefits at 31 December 1997 was £499 million (£491 million).

The discount rate used to assess the obligation at 31 December 1997 was 6.75% (7.0%). The assumed future healthcare cost trend rate for 1998 and subsequent years is 5.0%.

41 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 group's business, upon which no material losses are likely to arise.

Approximately 200 lawsuits were filed in State and Federal Courts in Alaska seeking compensatory and punitive damages arising out of the Exxon Valdez oil spill in Prince William Sound in March 1989. Most of those suits named Exxon, Alyeska Pipeline Service Company (Alyeska), which operates the oil terminal at Valdez, and the seven oil companies which own Alyeska. Alyeska initially responded to the spill until the response was taken over by Exxon. BP owns a 50% interest in Alyeska through a subsidiary of BP America Inc. Alyeska and its owners have settled all of the claims against them under these lawsuits. Exxon has indicated that it may file a claim for contribution against Alyeska for a portion of the costs and damages which it has incurred. If any claims are asserted by Exxon which affect Alyeska and its owners, BP would defend the claims vigorously.

The group is subject to numerous national and local environmental laws and regulations concerning its products, operations and other activities. These laws and regulations may require the group to take future action to remediate the effects on the environment of prior disposal or release of chemical or petroleum substances by the group or other parties. Such contingencies may exist for various sites including refineries, chemical plants, oil fields, service stations, terminals and waste disposal sites. In addition, the group may have obligations relating to prior asset sales or closed facilities. The ultimate requirement for remediation and its cost is inherently difficult to estimate. However, the estimated cost of known environmental obligations has been provided in these accounts in accordance with the group's accounting policies. While the amounts of future costs could be significant and could be material to the group's results of operations in the period in which they are recognised, BP does not expect these costs to have a material effect on the group's financial position or liquidity.

The parent company has issued guarantees under which amounts outstanding at 31 December 1997 were £3,789 million (£3,431 million) including £3,788 million (£3,430 million) in respect of borrowings by its subsidiary undertakings.

42 Related party transactions

During the year the group purchased crude oil from two associated undertakings, Abu Dhabi Marine Areas Limited and Abu Dhabi Petroleum Company Limited, to the value of £618 million (£676 million). At 31 December 1997 £56 million (£53 million) was payable in respect of these purchases.

During the year the group sold chemical feedstocks totalling £335 million (£312 million) to Erdölchemie, an associated undertaking, and bought petrochemicals, mainly polyethylene, to the value of £39 million (£254 million). At 31 December 1997 the outstanding balances receivable from and payable to Erdölchemie were £3 million (£41 million) and £nil (£9 million) respectively.

43 Subsidiary and associated undertakings, joint ventures and similar arrangements

The more important subsidiary and associated undertakings, joint ventures and similar arrangements of the group at 31 December 1997 and the group percentage of equity capital or joint venture interest (to 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 parent company are marked with an asterisk (*), the percentage owned being that of the group unless otherwise indicated. A complete list of investments in subsidiary and associated undertakings and joint ventures will be attached to the parent company's annual return made to the Registrar of Companies. Advantage has been taken of the exemption conferred by regulation 7 of The Partnerships and Unlimited Companies (Accounts) Regulations 1993 from the requirements to deliver to the Registrar of Companies and publish the annual accounts of the BP/Mobil joint ventures.

Subsidiary undertakings	%	Country of incorporation	Principal activities
International			
BP Chemicals Investments	100	England	Chemicals
BP Exploration	100	Scotland	Exploration and production
*BP International	100	England	Integrated oil operations
BP Oil International	100	England	Integrated oil operations
BP Exploration Operating Company	100	England	Exploration and production
*BP Shipping	100	England	Shipping
Europe			
UK			
BP Capital	100	England	Finance
BP Chemicals	100	England	Chemicals
BP Oil UK	100	England	Refining and marketing
*Britoil (parent 15%)	100	Scotland	Exploration and production
*Tanker Insurance Company	100	England	Insurance
Austria			
*BP Austria	100	Austria	Marketing
Belgium			
BP Belgium	100	Belgium	Marketing and finance
France			
BP France	100	France	Refining and marketing and chemicals
Germany			
Deutsche BP	100	Germany	Refining and marketing and chemicals
Greece			
BP Greece	100	England	Marketing
Netherlands			
BP Capital	100	Netherlands	Finance
BP Nederland	100	Netherlands	Refining and marketing
Europe – *continued*			
Portugal			
BP Portuguesa	100	Portugal	Marketing
Spain			
BP España	100	Spain	Refining and marketing
Switzerland			
BP (Switzerland)	100	Switzerland	Marketing
Turkey			
*BP Petrolleri	100	Turkey	Marketing
Middle East			
*BP Middle East	100	England	Marketing
Africa			
*BP Southern Africa	100	South Africa	Refining and marketing
Far East			
Singapore			
*BP Singapore	100	Singapore	Refining and marketing
Australasia			
Australia			
BP Australia	100	Australia	Integrated oil operations
BP Finance Australia	100	Australia	Finance
BP Developments Australia	100	USA	Exploration and production
New Zealand			
BP Oil New Zealand	100	New Zealand	Marketing
Western Hemisphere			
USA			
BP America Standard Oil	100	USA	Exploration and production, refining and marketing, pipelines and chemicals

Associated undertakings	%	Country of incorporation	Principal activities	Issued share capital
Abu Dhabi				
Abu Dhabi Marine Areas	37	England	Crude oil production	1.65 million shares of £1
Abu Dhabi Petroleum	24	England	Crude oil production	11.21 million ordinary shares of £1
Germany				
Erdölchemie	50	Germany	Chemicals	DM320 million
Ruhrgas	25	Germany	Gas distribution	44 million shares of DM50
Russia				
Sidanco[a]	10	Russia	Integrated oil operations	232 million shares of 40 Roubles
Rusia	20	Russia	Exploration and production	45 million shares of 10,000 Roubles

[a] 20% voting interest

Joint ventures and similar arrangements	%	Principal place of business	Principal activities
BP/Mobil	70/49[b]	Europe	Refining and marketing
Bruce field	37	UK – Offshore	Exploration and production
Forties field	93	UK – Offshore	Exploration and production
Magnus field	85	UK – Offshore	Exploration and production
Miller field	40	UK – Offshore	Exploration and production
Wytch Farm	50	UK – Onshore	Exploration and production
Ula field	80	Norway – Offshore	Exploration and production
North West Shelf	17	Australia	Natural gas production and shipping
Endicott field	57	USA Alaska	Exploration and production
Kuparuk field	39	USA Alaska	Exploration and production
Milne Point field	91	USA Alaska	Exploration and production
Prudhoe Bay field (oil rim/gas cap)	51/14	USA Alaska	Exploration and production
Trans Alaska Pipeline	50	USA Alaska	Pipelines
Cusiana/Cupiagua	19	Colombia	Exploration and production

[b] Fuels/lubricants

44 Oil and gas exploration and production activities[a]

£ million

	1997					1996				
	UK	Rest of Europe	USA	Rest of World	Total	UK	Rest of Europe	USA	Rest of World	Total
Capitalised costs at 31 December										
Gross capitalised costs										
Proved properties	10,901	1,132	10,393	2,442	**24,868**	10,041	1,167	9,623	1,931	22,762
Unproved properties	166	18	266	833	**1,283**	176	10	233	755	1,174
	11,067	1,150	10,659	3,275	**26,151**	10,217	1,177	9,856	2,686	23,936
Accumulated depreciation	5,486	720	6,043	805	**13,054**	4,834	717	5,616	782	11,949
Net capitalised costs	5,581	430	4,616	2,470	**13,097**	5,383	460	4,240	1,904	11,987
Costs incurred for the year ended 31 December										
Acquisition of properties										
Proved	–	58	3	–	**61**	–	14	–	–	14
Unproved	–	–	50	–	**50**	–	–	25	26	51
	–	58	53	–	**111**	–	14	25	26	65
Exploration and appraisal costs[b]	47	27	146	294	**514**	81	23	147	234	485
Development costs	833	33	552	392	**1,810**	965	22	429	280	1,696
Total costs	880	118	751	686	**2,435**	1,046	59	601	540	2,246
Results of operations for the year ended 31 December										
Turnover[c]										
Third parties	1,634	341	1,647	177	**3,799**	1,736	236	1,874	227	4,073
Sales between businesses	806	–	230	1,042	**2,078**	1,169	4	180	1,080	2,433
	2,440	341	1,877	1,219	**5,877**	2,905	240	2,054	1,307	6,506
Exploration expenditure	32	12	90	65	**199**	50	19	69	65	203
Production costs	331	56	343	124	**854**	400	40	316	100	856
Production taxes	162	–	189	252	**603**	280	–	234	285	799
Other costs (income)[d]	45	–	121	380	**546**	162	(4)	140	432	730
Depreciation	663	83	330	119	**1,195**	799	79	327	125	1,330
Decommissioning	42	5	6	5	**58**	46	1	9	2	58
	1,275	156	1,079	945	**3,455**	1,737	135	1,095	1,009	3,976
Profit before taxation[e]	1,165	185	798	274	**2,422**	1,168	105	959	298	2,530
Allocable taxes	379	71	279	56	**785**	419	61	375	67	922
Results of operations[f]	786	114	519	218	**1,637**	749	44	584	231	1,608

[a] This note relates to the requirements contained within the UK Statement of Recommended Practice 'Disclosures about oil and gas exploration and production activities'. Mid-stream activities of natural gas gathering and distribution and the operation of the main pipelines and tankers are excluded. The main mid-stream activities are the Alaskan transportation facilities, the Forties Pipeline system and Ruhrgas gas distribution operations. Profits on sale or termination of operations relating to the oil and gas exploration and production activities, which have been accounted as exceptional items, are also excluded.

[b] Exploration and appraisal drilling expenditure and licence acquisition costs are initially capitalised within intangible fixed assets in accordance with BP group accounting policy.

[c] Turnover represents sales of production excluding royalty oil where royalty is payable in kind.

[d] Includes cost of royalty oil not taken in kind and property taxes.

[e] The exploration and production business replacement cost operating profit comprises:

£ million

	1997	1996
Exploration and production activities – as above	**2,422**	2,530
Stock holding (gains) losses	**(10)**	12
Mid-stream activities	**548**	521
Replacement cost operating profit	**2,960**	3,063

[f] Income from the group's share of oil and gas produced by associated undertakings is included within results of operations.

[g] Excludes A O Sidanco.

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 the group and of the profit or loss of the group 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;
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors are also responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the group and which 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 group 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 The British Petroleum Company p.l.c.

We have audited the accounts on pages 28 to 50, which have been prepared under the historical cost convention and on the basis of the accounting policies set out on pages 28 and 29. We have also audited the information specified for audit by the London Stock Exchange which is set out on pages 59 to 61 in the Report of the Remuneration Committee.

Respective responsibilities of directors and auditors

As described above, 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 group'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 and of the group as at 31 December 1997 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young
Chartered Accountants
Registered Auditor
London

10 February 1998

Supplementary information on oil and gas quantities

Movements in estimated net proved reserves 1997

	Crude oil[a] millions of barrels					Natural gas[e] billions of cubic feet				
Subsidiary undertakings	UK	Rest of Europe	USA	Rest of World	**Total**	UK	Rest of Europe	USA	Rest of World	**Total**
At 1 January 1997										
Developed	579	128	1,881	226	**2,814**	2,506	20	2,418	1,607	**6,551**
Undeveloped	896	19	827	346	**2,088**	1,976	5	415	1,056	**3,452**
	1,475	147	2,708	572	**4,902**	4,482	25	2,833	2,663	**10,003**
Changes attributable to:										
Revisions of previous estimates	30	5	(15)	17	**37**	88	–	112	(22)	**178**
Redetermination of interests	–	–	–	–	**–**	–	–	–	–	**–**
Purchases of reserves-in-place	9	67	2	–	**78**	196	13	2	–	**211**
Extensions, discoveries and other additions	85	27	292	26	**430**	81	289	392	375	**1,137**
Improved recovery	29	–	55	1	**85**	9	–	–	96	**105**
Production	(145)	(33)	(202)	(34)	**(414)**	(434)	(14)	(115)[f]	(125)	**(688)**
Sales of reserves-in-place	(61)	(27)	–	–	**(88)**	(153)	(289)	–	–	**(442)**
	(53)	39	132	10	**128**	(213)	(1)	391	324	**501**
At 31 December 1997										
Developed	699	172	1,853	324	**3,048**	2,482	17	2,510	1,566	**6,575**
Undeveloped	723	14	987	258	**1,982**	1,787	7	714	1,421	**3,929**
	1,422	186	2,840[b]	582	**5,030**	4,269	24	3,224	2,987[g]	**10,504**
Associated undertakings[c]										
BP share										
At 1 January 1997					**1,869**					–
Net revisions					**(1)**					–
Production					**(43)**					–
At 31 December 1997					**1,825[d]**					–
Total group and BP share of associated undertakings					**6,855**					**10,504**

[a] Crude oil includes natural gas liquids and condensate. Net proved reserves of crude oil exclude production royalties due to others.

[b] Proved reserves in the Prudhoe Bay field in Alaska include an estimated 65 million barrels upon which a net profits royalty will be payable over the life of the field under the terms of the BP Prudhoe Bay Royalty Trust.

Associated undertakings

[c] Excludes reserves in A O Sidanco.

[d] The group holds proportionate interests, through associated undertakings, in onshore and offshore concessions in Abu Dhabi expiring in 2014 and 2018 respectively. If recent production levels were to continue, these reserves would not be fully recovered during the period of the concessions.

[e] Net proved reserves of natural gas exclude production royalties due to others.

[f] Includes 81 billion cubic feet of natural gas consumed in Alaskan operations.

[g] Includes reserves located in Australia totalling 1,830 billion cubic feet.

Summarised group income statements

	£ million					$ million				
	1993	1994	1995	1996	**1997**	1993	1994	1995	1996	**1997**
Turnover	34,950	33,116	36,106	44,731	**43,460**	52,425	50,667	57,047	69,780	**71,274**
Replacement cost operating profit	2,501	2,725	3,410	4,192	**4,321**	3,752	4,169	5,388	6,540	**7,086**
Exceptional items	(240)	36	(968)	(516)	**(62)**	(360)	55	(1,530)	(805)	**(101)**
Replacement cost profit before interest and tax	2,261	2,761	2,442	3,676	**4,259**	3,392	4,224	3,858	5,735	**6,985**
Stock holding gains (losses)	(284)	62	2	402	**(317)**	(426)	95	4	627	**(520)**
Historical cost profit before interest and tax	1,977	2,823	2,444	4,078	**3,942**	2,966	4,319	3,862	6,362	**6,465**
Interest expense	675	542	498	411	**296**	1,013	829	787	641	**486**
Profit before taxation	1,302	2,281	1,946	3,667	**3,646**	1,953	3,490	3,075	5,721	**5,979**
Taxation	685	692	829	1,107	**1,168**	1,027	1,059	1,310	1,727	**1,915**
Profit after taxation	617	1,589	1,117	2,560	**2,478**	926	2,431	1,765	3,994	**4,064**
Minority shareholders' interest (MSI)	2	12	(5)	8	**8**	3	18	(8)	13	**13**
Profit for the year	615	1,577	1,122	2,552	**2,470**	923	2,413	1,773	3,981	**4,051**
Distribution to shareholders	458	578	850	1,102	**1,262**	687	884	1,343	1,719	**2,070**
Retained profit for the year	157	999	272	1,450	**1,208**	236	1,529	430	2,262	**1,981**
Earnings per ordinary share	11.3p	28.8p	20.2p	45.5p	**43.3p**	$0.17	$0.44	$0.32	$0.71	**$0.71**
Dividends per ordinary share	8.40p	10.50p	15.25p	19.50p	**22.00p**	For $ amounts see page 66				
Replacement cost results										
Historical cost profit	615	1,577	1,122	2,552	**2,470**	923	2,413	1,773	3,981	**4,051**
Stock holding (gains) losses, net of MSI	281	(62)	(2)	(402)	**317**	422	(95)	(4)	(627)	**520**
Replacement cost profit for the year	896	1,515	1,120	2,150	**2,787**	1,345	2,318	1,769	3,354	**4,571**
Exceptional items, net of tax and MSI	229	(33)	893	470	**35**	343	(51)	1,412	733	**57**
Replacement cost profit before exceptional items	1,125	1,482	2,013	2,620	**2,822**	1,688	2,267	3,181	4,087	**4,628**
Earnings per ordinary share										
On replacement cost profit before exceptional items	20.7p	27.1p	36.3p	46.7p	**49.5p**	$0.31	$0.41	$0.57	$0.73	**$0.81**

Translation into US dollars

Figures given in US dollars on pages 53 to 55 and 57 have been derived from the sterling amounts as follows:

	£1=US dollar				
	1993	1994	1995	1996	**1997**
Income and cash flow statements, capital expenditure and acquisitions – at average exchange rates for the year	1.50	1.53	1.58	1.56	**1.64**
Balance sheets – at year end exchange rates	1.48	1.56	1.56	1.69	**1.66**

Summarised group balance sheets

	£ million					$ million				
	1993	1994	1995	1996	**1997**	1993	1994	1995	1996	**1997**
Fixed assets	22,706	22,191	22,609	21,820	**23,183**	33,605	34,618	35,270	36,876	**38,484**
Stocks and debtors	8,101	8,709	9,348	10,599	**9,528**	11,990	13,586	14,583	17,912	**15,816**
Cash and liquid resources	210	188	395	153	**166**	310	294	617	259	**276**
Total assets	31,017	31,088	32,352	32,572	**32,877**	45,905	48,498	50,470	55,047	**54,576**
Creditors and provisions excluding finance debt	12,789	13,175	14,932	15,136	**14,361**	18,928	20,553	23,295	25,580	**23,840**
Capital employed	18,228	17,913	17,420	17,436	**18,516**	26,977	27,945	27,175	29,467	**30,736**
Financed by:										
Finance debt	8,380	6,747	5,498	4,532	**4,348**	12,402	10,526	8,577	7,659	**7,217**
Minority shareholders' interest	100	109	108	109	**56**	148	170	168	184	**93**
BP shareholders' interest	9,748	11,057	11,814	12,795	**14,112**	14,427	17,249	18,430	21,624	**23,426**
	18,228	17,913	17,420	17,436	**18,516**	26,977	27,945	27,175	29,467	**30,736**

Summarised group cash flow statements

	£ million					$ million				
	1993	1994	1995	1996	**1997**	1993	1994	1995	1996	**1997**
Net cash inflow from operating activities	4,453	4,513	5,095	4,992	**5,773**	6,679	6,905	8,050	7,788	**9,468**
Net cash outflow from servicing of finance and returns on investments	(596)	(517)	(385)	(371)	**(213)**	(893)	(791)	(608)	(579)	**(349)**
Tax paid	(681)	(738)	(314)	(949)	**(829)**	(1,022)	(1,129)	(496)	(1,480)	**(1,360)**
Net cash outflow for capital expenditure	(2,219)	(1,988)	(2,444)	(2,795)	**(3,416)**	(3,327)	(3,042)	(3,862)	(4,360)	**(5,602)**
Net cash inflow (outflow) for acquisitions and disposals	1,430	369	44	157	**(426)**	2,145	565	71	245	**(699)**
Equity dividends paid	(439)	(424)	(525)	(720)	**(643)**	(659)	(649)	(831)	(1,124)	**(1,055)**
Net cash inflow	1,948	1,215	1,471	314	**246**	2,923	1,859	2,324	490	**403**
Financing	1,973	1,220	1,264	557	**228**	2,959	1,866	1,997	869	**374**
Management of liquid resources	13	(31)	43	(45)	**(7)**	20	(48)	68	(70)	**(11)**
Increase (decrease) in cash	(38)	26	164	(198)	**25**	(56)	41	259	(309)	**40**
	1,948	1,215	1,471	314	**246**	2,923	1,859	2,324	490	**403**

Statistics

Crude oil and natural gas production (net of royalties)	1993	1994	1995	1996	1997
UK	370	429	403	421	**397**
USA	627	605	572	562	**553**
Other	245	231	238	258	**301**
Crude oil production (thousand barrels per day)	1,242	1,265	1,213	1,241	**1,251**
UK	824	872	838	1,096	**1,189**
USA	92	69	62	78	**92**
Other	217	321	346	361	**382**
Natural gas production (million cubic feet per day)	1,133	1,262	1,246	1,535	**1,663**
Total production (thousand barrels oil equivalent per day)	1,437	1,483	1,428	1,506	**1,538**
Group refinery throughputs[a] (thousand barrels per day)	1,845	1,736	1,899	1,730	**1,797[b]**
For BP by others	11	9	10	8	**12**
Total	1,856	1,745	1,909	1,738	**1,809**

[a] Includes crude oil and other feedstock input to BP's crude distillation units both for BP and third parties.

[b] Includes BP share of the BP/Mobil European joint venture.

Crude oil and refined petroleum product sales					thousand barrels per day
Crude oil	1,987	2,499	2,837	3,599	**3,426**
Refined petroleum products	3,019	2,954	3,067	3,029	**3,262[c]**
Total oil sales	5,006	5,453	5,904	6,628	**6,688**

[c] Includes BP share of the BP/Mobil European joint venture.

Estimated net proved reserves of crude oil[d e]					millions of barrels at 31 December
Developed	2,531	2,595	2,700	2,814	**3,048**
Undeveloped	2,006	1,990	1,965	2,088	**1,982**
Group companies	4,537	4,585	4,665	4,902	**5,030**
Associated undertakings (BP share)					
Abu Dhabi	2,000	1,953	1,912	1,869	**1,825**

Estimated net proved reserves of natural gas[d]					billions of cubic feet at 31 December
Developed	5,661	6,259	6,592	6,551	**6,575**
Undeveloped	4,573	3,986	3,789	3,452	**3,929**
Group companies	10,234	10,245	10,381	10,003	**10,504**

[d] Net proved reserves of crude oil and natural gas exclude production royalties due to others.

[e] Proved reserves in the Prudhoe Bay field in Alaska at 31 December 1997 include an estimated 65 million barrels upon which a net profit royalty will be payable over the life of the field under the terms of the BP Prudhoe Bay Royalty Trust.

Average realisations						
North Sea	$/bbl	17.1	15.7	17.0	20.4	**19.1**
North Sea	£/bbl	11.4	10.2	10.7	13.1	**11.6**
Alaskan North Slope	$/bbl	16.1	14.8	16.7	19.7	**19.0**

Further analysis is contained in *BP Financial and Operating Information 1993–1997* (see page 67).

Capital expenditure and acquisitions

	£ million					$ million				
	1993	1994	1995	1996	**1997**	1993	1994	1995	1996	**1997**
By business										
Exploration and Production	1,751	1,633	1,910	2,415	**2,748**	2,627	2,498	3,018	3,767	**4,507**
Refining and Marketing	811	687	683	761	**774**	1,217	1,051	1,079	1,187	**1,269**
Chemicals	222	164	247	239	**272**	333	251	390	373	**446**
Other businesses and corporate	118	34	15	27	**274**	176	53	24	43	**450**
	2,902	2,518	2,855	3,442	**4,068**	4,353	3,853	4,511	5,370	**6,672**
By geographical area										
UK[a]	807	734	989	1,321	**1,353**	1,211	1,122	1,563	2,061	**2,219**
Rest of Europe	488	296	318	378	**518**	732	453	502	590	**850**
USA	833	744	749	822	**912**	1,250	1,138	1,183	1,282	**1,496**
Rest of World	774	744	799	921	**1,285**	1,160	1,140	1,263	1,437	**2,107**
	2,902	2,518	2,855	3,442	**4,068**	4,353	3,853	4,511	5,370	**6,672**

[a] UK area includes the UK-based international activities of BP Oil.

Cost of acquisitions included in this table includes the finance debt of acquired companies.

Ratios

The balance sheet elements shown on page 54 in £ million are used in the following ratios:	1993	1994	1995	1996	**1997** %
Return on average capital employed					
– replacement cost profit before exceptional items	9.4	11.3	14.3	17.5	**17.4**
– historical cost profit after exceptional items	6.7	11.8	9.1	17.0	**15.4**
(Based on profit after taxation before deducting interest expense)					
Return on average BP shareholders' interest					
– replacement cost profit before exceptional items	11.6	14.2	17.6	21.3	**21.0**
– historical cost profit after exceptional items	6.3	15.2	9.8	20.7	**18.4**
(Based on profit after taxation and minority shareholders' interest)					
Payout ratio					
– replacement cost profit before exceptional items	40.7	39.0	42.2	42.1	**44.7**
– historical cost profit after exceptional items	74.5	36.7	75.8	43.2	**51.1**
(Dividend: profit)					
Debt to debt-plus-equity ratio	46.0	37.7	31.6	26.0	**23.5**
(Finance debt: finance debt plus BP and minority shareholders' interest)					
Debt to equity ratio	85.1	60.4	46.1	35.1	**30.7**
(Finance debt: BP and minority shareholders' interest)					
Net debt to net debt-plus-equity ratio	45.3	37.0	30.0	25.3	**22.8**
Net debt to equity ratio	83.0	58.7	42.8	33.9	**29.5**
(Net debt equals finance debt less cash and liquid resources)					

Share price

	Pence per 25p ordinary share				
	1993	1994	1995	1996	**1997**
High	364	435	545	701	**956**
Daily average	304	395	459	601	**787**
Low	229	349	395	514	**663**
End year	361	425	539	700	**800**

Report of the Remuneration Committee

This report describes BP's remuneration philosophy and programmes.

It contains the following sections:

- The Remuneration Committee
- Remuneration of executive directors and senior executives
- Remuneration of chairman and non-executive directors

The Remuneration Committee

Role

Acting on behalf of shareholders, the Remuneration Committee's role is to determine the terms of engagement and remuneration of the group chief executive and the managing directors.

The committee also establishes the principles for the remuneration of other senior executives. These principles then provide the framework for remunerating all employees.

The committee works with the executive directors to set challenging and demanding performance targets at the beginning of the year, to ensure that a robust reward structure is in place, and to make awards at the end of the year which reflect the year's performance.

Composition

The committee is composed of the chairman and three other non-executive directors: Mr P D Sutherland (committee chairman), Mr C F Knight, Mr H M P Miles and The Lord Wright of Richmond.

The committee members have no personal financial interests, other than as shareholders, in the matters to be decided. They have no conflicts arising from cross-directorships or day-to-day involvement in running BP.

The committee actively solicits professional advice both from within the company and from independent outside consultants.

Compliance

The constitution and operation of the committee are in compliance with Section A of the best practice provisions annexed to the London Stock Exchange Listing Rules.

The committee also confirms that full consideration has been given to the best practice provisions set out in Section B, annexed to the Listing Rules, in framing its 1997–98 remuneration policy for executive directors.

Ernst & Young have confirmed that the scope of their report on the accounts covers the disclosures contained in this report that are specified for audit by the London Stock Exchange.

Remuneration of executive directors and senior executives

BP's reward philosophy

The role of reward in BP is to support our business strategy by encouraging the actions and behaviour that deliver distinctive performance. Reward is one of the tools at our disposal to help make clear to people how they should focus their energies to the best longer-term advantage of the company. Our targeting demands continuous improvement in performance, with one year's improvement providing the challenging platform for the next year's targets. Within this framework, we aim to reward our directors' achievements for results that enhance business performance and shareholder value in both the long and short term.

Comparator information

Remuneration is set by reference to the employment market in each director's and executive's home country. Surveys are conducted on a regular basis to review remuneration levels in companies that have a global spread of operations and are of comparable size and complexity.

Within the UK, market data is obtained from independent consultants' surveys of a selection of major FTSE 100 companies.

The executive remuneration package

We aim to provide competitive reward for on-target performance, with the possibility of top reward for top performance. The package balances both long-term strategic and short-term performance goals, and individual and team reward, through its three elements: Base Salary, Annual Performance Bonus and the Long Term Performance Plan (LTPP).

As the organisational seniority of the executive increases, so base salary declines as a proportion of total potential remuneration, and the two performance-linked 'at risk' elements increase significantly. At executive director level, base salary forms only approximately a quarter of the maximum target remuneration, whereas the LTPP is potentially around half of the total.

Annual remuneration

Annual remuneration refers to the combination of Base Salary and Annual Performance Bonus. Base salaries are reviewed annually and targeted at the median of the national survey groups for fully effective job performance. This ensures that salaries are market competitive, with higher salaries paid where justified by a sustained higher level of individual contribution.

The annual performance bonus is a non-pensionable cash payment for achieving targets set out in collective and individual annual performance contracts. The bonus plan focuses on delivered results. The performance contracts reflect the operating plans of the company and, in aggregate, are subject to board approval.

US GAAP

The following is a summary of adjustments to profit for the year and to BP shareholders' interest which would be required if generally accepted accounting principles in the United States (US GAAP) had been applied instead of those generally accepted in the United Kingdom (UK GAAP). The results are stated using the first-in first-out method of stock valuation.

	1997	1996
		£ million
Profit for the year	**2,470**	2,552
Adjustments:		
Depreciation charge[a]	**(99)**	(113)
Deferred taxation[a]	**(132)**	(260)
Severance costs	**(24)**	(13)
European refining and marketing joint venture implementation costs	**(157)**	170
Other	**12**	2
Profit for the year as adjusted	**2,070**	2,338
Per ordinary share	**36.3p**	41.7p
Per American depositary receipt[b]	**217.8p**	250.2p
		$ million
Profit for the year as adjusted	**3,395**	3,647
Per ordinary share	**$0.60**	$0.65
Per American depositary receipt[b]	**$3.60**	$3.90
		£ million
BP shareholders' interest	**14,112**	12,795
Adjustments:		
Fixed assets[a]	**872**	958
Deferred taxation[a]	**(2,312)**	(2,217)
Severance costs	**43**	71
European refining and marketing joint venture implementation costs	**5**	170
Other	**(99)**	(114)
BP shareholders' interest as adjusted	**12,621**	11,663
		$ million
BP shareholders' interest as adjusted	**20,951**	19,710

[a] Under UK GAAP, provision for deferred taxation is made where timing differences are expected to reverse in the foreseeable future. Under US GAAP, deferred taxation is provided on a full liability basis on all temporary differences as defined in US Statement of Financial Accounting Standard No.109. As required by this standard assets and liabilities of acquired businesses have been adjusted from a net-of-tax to a pre-tax basis.

[b] One American depositary receipt is equivalent to six 25p ordinary shares.

Group performance and bonus ratings

	1993	1994	1995	1996	1997
Oil price $/bbl[a]	17.1	15.7	17.0	20.4	**19.1**
Exchange rate $/£	1.50	1.53	1.58	1.56	**1.64**
Cash from operations $bn	6.7	6.9	8.1	7.8	**9.5**
Net cash flow $bn	2.9	1.9	2.3	0.5	**0.4**
Profit $bn[b]	1.7	2.3	3.2	4.1	**4.6**
Return on average capital employed %	9	11	14	17	**17**
Earnings per share (pence)[b]	21	27	36	47	**49**
Debt ratio %	46	38	32	26	**23**
Bonus rating	90	105	101	105	**106**

[a] North Sea average realisation [b] Replacement cost profit before exceptional items

Annual remuneration (£ thousand)

	Base salary	Annual performance bonus	Benefits and other emoluments	1997 Total	1996 Total
E J P Browne	505	393	40	**938**	752
J G S Buchanan	313	234	18	**565**	242[a]
R F Chase	336	252	13	**601**	569
C S Gibson-Smith	100[a]	209	9	**318**	n/a
B K Sanderson	336	252	21	**609**	570
K R Seal	259[b]	256	21	**536**	593
R W H Stomberg	478	242	17	**737**	797
S J Ahearne	–	–	–	–	531[b]
	2,327	1,838	139	**4,304**	4,054

[a] From date of appointment [b] To date of retirement

At the end of each year, the Remuneration Committee establishes a rating based on the achievement of targets set out in the performance contracts. When targets are achieved, the full target bonus of 70% of base salary is payable to directors. A maximum bonus of 77% of base salary is payable when financial targets have been substantially exceeded.

Underperformance against targets will result in bonus awards of less than the target amount and, possibly, no payment at all. When the target bonus is earned, executive annual remuneration levels can reach the top quartile of the relevant employment market.

1997 annual remuneration

1997 has been another year of outstanding performance in BP, which is a significant achievement considering the very high standards set in previous years. The trend of continuing improvement in financial performance and associated bonus ratings is shown in the above table.

Profit is one of the key financial measures in the 1997 Group Performance Contract. Earnings of $4.6 billion represented a 13% increase over 1996 and exceeded the target. A significant element, in excess of $0.5 billion after tax, was sustainable profit improvement achieved through reducing costs and increasing volumes across all business segments.

Once again, the return on average capital employed of 17% was the highest among the oil majors. Net cash flow of $0.4 billion in 1997 was just below the 1996 level in spite of the strong increase in cash generated from operations. The principal reason was the increased level of investment, including the purchase of the shareholding in A O Sidanco during the year.

Financial performance accounts for a maximum of 60 points in the overall rating and the Remuneration Committee decided to award the maximum.

The other elements of the performance contract in 1997 are called The Priorities for Action. These include producing competitive returns on assets, the development of relationship, people and organisational issues, technology management and HSE (health, safety and environment). Good progress was made during the year, but the company remains determined to achieve even higher standards.

The committee awarded 46 points for these elements out of a possible maximum of 50.

This brings the total award for 1997 to 106 out of a possible maximum of 110.

The table above represents annual remuneration earned by and paid to executive directors in the 1997 financial year, with the exception of bonuses (earned in 1997 but paid in 1998).

Mr Seal retired on 1 September 1997, and Dr Gibson-Smith was appointed to the board on the same date. Dr Stomberg's salary was set in relation to comparable German salaries.

The Long Term Performance Plan

The Long Term Performance Plan was introduced in 1991 to link a significant part of participants' future remuneration to the creation of long-term value for shareholders. There are now 365 participants in the Plan in 18 countries. Depending on the technical constraints in each country in which the Plan is operated, and whether the long-term targets in the Plan are met, the committee may award shares to participants or authorise funds for the purchase of shares by participants.

The plan consists of rolling three-year performance periods. At the beginning of the performance period, participants receive a grant of performance units, but only if they acquire a personal

Long term performance plans

Performance period of Plan	1994-96	1995-97		1996-98	1997-99
Year of award	1997	1998	1998	1999	2000
	Value of award[a] £'000	Potential award[b] (shares)	Award value[c] £'000	Maximum potential awards (number of shares)	
Current executive directors					
E J P Browne	821	**100,200**	**815**	81,300	81,300
J G S Buchanan	308	**58,400**	**475**	64,400	81,300
R F Chase	821	**100,200**	**815**	81,300	81,300
C S Gibson-Smith	–	**37,500**	**305**	55,800	70,000
B K Sanderson	821	**–**	**–**	81,300	81,300
R W H Stomberg	308	**58,400**	**475**	54,200	27,100
Former executive directors					
K R Seal	821	**100,200**	**815**	54,200	27,100
The Lord Simon of Highbury	273	–	–	–	–
S J Ahearne	821	–	–	27,100	–
H E Norton	273	–	–	–	–
	5,267	**454,900**	**3,700**	499,600	449,400

[a] Based on average market price of BP shares on date of award (£6.84)
[b] Based on assessed performance and the other terms of the Plan
[c] Based on market price of BP shares on 9 February 1998 (£8.13)

shareholding in BP equal to at least 10% of their maximum potential award from the Plan.

The primary performance measure for the Plan is BP's total shareholder return in relation to a chosen peer group of seven major oil companies (Amoco, Arco, Chevron, Exxon, Mobil, Shell Transport and Trading, and Texaco). This measure of total shareholder return eliminates the differential growth elements attributable to movements in the UK and US markets. Participants benefit only when they deliver hard business results that benefit shareholders.

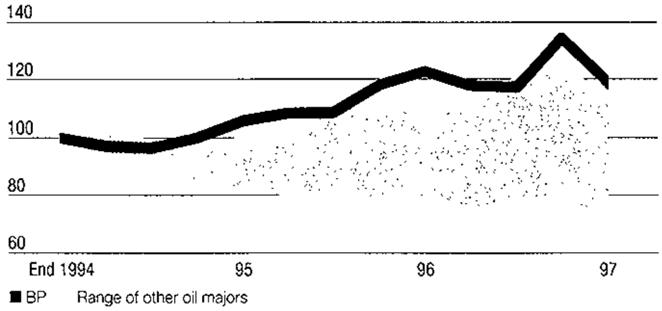
For example, the maximum award may be made only when BP's performance exceeds all the selected competitors and performance is also satisfactory against the secondary measures of trends in cash flow, return on capital employed, earnings per share and the absolute magnitude of BP's shareholder return. For second and lower rankings, award levels will be adjusted pro rata to the growth in total shareholder return relative to the lead competitor. No award will be made to directors if BP's performance is below the median of the selected competitors.

Any awards from the Plan are taxable in full and sufficient shares will be released immediately and sold only to meet the relevant tax liability. Serving recipients are then obliged to retain the balance of the shares from the award for a number of years. Shares awarded in 1998 under the 1995 Plan will be retained until 2000. For all subsequent Plans the retention period was increased to three years.

By requiring an up-front investment in shares, and retaining any shares awarded for a number of years, the LTPP ensures that BP's top leaders hold significant shareholdings in BP. This reinforces the alignment of interests between executives and shareholders further.

Participation in the 1994 and 1995 Plans was conditional on the transfer of an interest from the original 1991 Plan, and not all directors elected to make that transfer.

shareholder return against the market (%)



The 1995 Plan

Over the three-year Plan period, BP has outperformed the other major oil companies on the primary measure *(see above)*, with BP achieving growth in total shareholder return of 19.5%, which exceeded the growth in the UK market.

On the secondary measures too, BP has made substantial progress. Earnings per share increased by 22 pence over the three-year performance period, cash flow was stronger and the return on capital employed rose from 11% in 1994 to 17% in 1997. Net debt has been reduced to $6.9 billion from $10.2 billion over the three-year period.

The Remuneration Committee has reviewed these outcomes in the light of the performance conditions specified at the start of the 1995 Plan. It has concluded that a 100% award may be made under the Plan.

The potential awards to executive directors, including an indicative range of potential awards under the 1996 and 1997 Plans, are set out in the Long Term Performance Plans table on page 59.

The total potential number of shares that may be awarded to all participants under the 1995 Plan is 2,700,000 with a value of

Directors' share options

	Number of options				Exercise price	Market price at date of exercise	Date from which	Expiry
		During the year						
	At 1/1/97	Granted	Exercised	At 31/12/97	£	£	exercisable	date
E J P Browne	79,400	–	–	79,400	3.38		27/3/93	26/3/00
	9,101	–	9,101	–	2.06[a]	9.24	1/9/97	n/a
	–	2,984	–	2,984	5.78[a]		1/9/02	28/2/03
J G S Buchanan	48,000	–	–	48,000	2.75		9/3/92	8/3/99
	11,600	–	–	11,600	3.38		27/3/93	26/3/00
	3,640	–	–	3,640	2.06[a]		1/9/97	28/2/98
	1,071	–	–	1,071	3.22[a]		1/9/99	29/2/00
	1,490	–	–	1,490	4.63[a]		1/9/01	28/2/02
R F Chase	4,662	–	–	4,662	3.70[a]		1/9/00	28/2/01
R L Olver[b]	–	–	–	3,640	2.06[a]		1/9/97	28/2/98
	–	–	–	741	2.48[c]		1/9/98	28/2/99
	–	–	–	2,235	4.63[a]		1/9/01	28/2/02
	–	–	–	1,193	5.78[a]		1/9/02	28/2/03
B K Sanderson	3,640	–	3,640	–	2.06[a]	8.77	1/9/97	n/a
	2,142	–	–	2,142	3.22[a]		1/9/99	29/2/00
	932	–	–	932	3.70[a]		1/9/00	28/2/01
	–	1,193	–	1,193	5.78[a]		1/9/02	28/2/03
K R Seal	6,955	–	–	6,955	2.48[a]		1/9/98	28/2/99

[a] Options granted under the Savings Related Share Option Scheme. All other options were granted under the Executive Share Option Scheme prior to 1991
[b] On appointment on 1 January 1998
[c] Options granted under the Overseas (Supplemental) Share Option Scheme
No other options were held by directors who held office during the year
The market price of BP ordinary shares at 31 December 1997 was £8.00 (1996, £7.00). The highest and lowest market prices during 1997 were £9.56 and £6.63 respectively

£22 million based on a share price of £8.13 (middle market quotation as derived from the London Stock Exchange Daily Official List on 9 February 1998).

Participating Share Scheme interests

In 1997, five directors were allocated shares under the Participating Share Scheme which is available to most UK employees. Under the participating scheme, the company matches employees' own contribution of shares, all of which are held for a defined period *(see Note 34 on the Accounts, page 46)*.

Pensions

Pension and other benefits relate to competitor practice in the home country of each senior executive. In the UK, eligible staff can join the BP Pension Scheme, which offers Inland Revenue-approved retirement benefits, based on final salary.

Scheme members' core benefits, which are non-contributory, comprise a pension accrual rate of 1/60th of final basic salary for each year of service (up to a limit of two-thirds of final basic salary), a lump-sum death-in-service benefit of three times salary and a dependant's benefit of two-thirds of actual or prospective pension. Normal retirement age is 60, but members who have more than 30 years' pensionable service at age 55 can opt to retire early without actuarial reduction to their pension. Post-retirement pensions are reviewed annually, and increases equivalent to the Retail Price Index (up to 5%) are guaranteed.

Managing directors accrue pension at the enhanced rate of 2/60ths of their final basic salary for each year of service as managing directors (up to the same two-thirds limit).

None of our UK directors is affected by the 'pensionable earnings cap'.

The BP Pension Scheme is the principal section of the BP Pension Fund; the latter is set up in the UK under a trust deed. Contributions to the Fund are made on the advice of an actuary appointed by the trustees. No contributions were made by the company during 1997 in respect of pensions accruing under the BP Pension Scheme.

Pension entitlement

	Years of service at 31/12/97	Accrued entitlement at 31/12/97 £'000	Additional pension earned during the year ended 31/12/97 £'000	Additional pension earned during the year ended 31/12/96 £'000
E J P Browne	31	338	72	18
J G S Buchanan	28	172	12	3[a]
R F Chase	33	227	11	11
C S Gibson-Smith	27	157	3[a]	–
B K Sanderson	33	227	10	11
K R Seal[b]	33	247	20	–
R W H Stomberg	28	335[c]	14[c]	15

[a] From date of appointment [b] At date of retirement [c] DM2.84/£1

In accordance with normal German practice, Dr Stomberg, who retired from the main BP board on 31 December 1997, was a member of the Deutsche BP AG Pension Scheme. This scheme is not covered by the same trust deed and fund as the BP Pension Scheme, and in 1997 a contribution of DM4.5 million was made on Dr Stomberg's behalf.

Service contracts

In 1996 the committee adopted the policy of one-year notice periods for future appointments. UK executive directors who were appointed prior to 1996 continue to hold a contract of service which includes a two-year period of notice.

Dr Buchanan and Dr Gibson-Smith have contracts which include a one-year notice period, as does Mr Olver (appointed to the board on 1 January 1998). Under each contract, the company reserves the right to make a payment in lieu of notice.

Dr Stomberg's full-time secondment to the UK main board from Deutsche BP terminated on the date of his retirement, 31 December 1997. He has accepted a part-time fixed-term appointment for two years, at a fixed salary of DM1.1 million a year, as special adviser to the group chief executive on European matters.

Remuneration of chairman and non-executive directors

The remuneration of the chairman and non-executive directors is determined by the board as a whole. The chairman receives a fixed fee. The other non-executive directors receive a basic fee and extra remuneration for their duties on board committees.

Remuneration of chairman and non-executive directors (£ thousand)

	1997	1996
The Lord Simon of Highbury	**326**	241
P D Sutherland	**132**	80
Sir James Glover	**42**	46
Dr C H Hahn	**–**	35[a]
Dr K N Horn	**31**	25
C F Knight	**31**	24
H M P Miles	**37[b]**	33[b]
Sir Robin Nicholson	**45**	31
Sir Ian Prosser	**21[c]**	–
Sir Patrick Sheehy	**33**	28
The Lord Wright of Richmond	**37**	41
	735	584

[a] At date of retirement [b] Fees are paid to Mr Miles' employer [c] From date of appointment

The Board and corporate governance

Sir Ian Prosser was appointed a non-executive director on 1 May 1997. The Lord Simon of Highbury resigned as chairman on 7 May to take up a ministerial post in Her Majesty's government. Mr P D Sutherland was appointed non-executive chairman on the same date. Mr K R Seal retired on 1 September, and Dr C S Gibson-Smith was appointed a managing director on the same date. Dr R W H Stomberg retired on 31 December. Mr R L Olver was appointed a managing director on 1 January 1998.

BP's articles of association require one-third of the directors to retire by rotation each year at the company's annual general meeting, together with directors appointed by the board since the last annual general meeting. Retiring directors may offer themselves for re-election. The directors retiring and offering themselves for re-election at this year's meeting are Mr E J P Browne, Dr C S Gibson-Smith, Dr K N Horn, Mr H M P Miles, Sir Robin Nicholson, Mr R L Olver and Sir Ian Prosser.

Governance

BP's board of directors is responsible for understanding the requirements of the shareholders and the political, economic and social environment in which the group operates. It establishes group performance objectives which are agreed through the annual performance contract with the group chief executive and managing directors. It discusses annually and endorses the group strategy framework and the policies within which the group operates. It monitors by testing on a regular basis the confidence in or risks to the achievement of the performance objectives and the observance of the strategy and policies.

There are 15 directors on the board: the non-executive chairman, the group chief executive, eight non-executive directors and five managing directors. The non-executive directors bring a wide range of experience and independence of judgement to the board. They do not have service contracts with the company. Their remuneration is shown on page 61.

The principal board committees and membership are as follows:

The **Chairman's Committee** reviews the structure and effectiveness of the group's organisation and overall performance of the group chief executive. It also reviews the succession plans for all executive directors and any other matters which are appropriate for the non-executive directors to consider. *Members: Mr P D Sutherland (chairman) and all non-executive directors*

The **Audit Committee** reviews the application and effectiveness of the policies and processes of the group on matters of internal financial policy, control and risk. It reviews all group financial statements and other related documents to be sent to shareholders prior to their submission to the board. The auditors and the chief financial officer regularly attend the committee's meetings. *Members: Sir Patrick Sheehy (chairman), Sir James Glover, Mr H M P Miles, Sir Robin Nicholson, Sir Ian Prosser*

The **Ethics and Environment Assurance Committee** reviews policies and processes which bear upon the group's reputation and its community, customer, employee, health, safety, environmental and other relationships. *Members: Mr P D Sutherland (chairman), Sir James Glover, Dr K N Horn, Sir Robin Nicholson, The Lord Wright of Richmond*

The **Remuneration Committee** determines on behalf of the board the terms of engagement and remuneration of the group chief executive and managing directors. It also establishes the principles for the remuneration of other senior executives. The committee's annual report appears on pages 58-61. *Members: Mr P D Sutherland (chairman), Mr C F Knight, Mr H M P Miles, The Lord Wright of Richmond*

The **Nominations Committee** recommends to the board candidates for appointment as directors and proposes the directors to retire by rotation at the annual general meeting. *Members: Mr P D Sutherland (chairman), Mr E J P Browne, and two non-executive directors*

In addition, when necessary a **Results Committee** is authorised on behalf of the board to release financial statements and dividend announcements, and an **Equity Committee** exercises the board's authority to issue and allot shares. The members of both committees are Mr P D Sutherland (chairman), Mr E J P Browne and Dr J G S Buchanan.

Throughout 1997, the company complied with the Code of Best Practice recommended by the Cadbury Committee on the Financial Aspects of Corporate Governance.

Directors' interests in BP ordinary shares

(number of shares)

	31/12/97	1/1/97[a]	Increase in directors' interests from 31/12/97 to 10/2/98
Current directors			
P D Sutherland	3,289	3,207	–
E J P Browne	352,282[b]	260,565	3,089[c]
J G S Buchanan	109,588	79,001	959
R F Chase	207,878	129,807	1,823
C S Gibson-Smith	93,548	92,995	660
Sir James Glover	4,571	4,455	40
K N Horn[d]	11,132	5,933	81
C F Knight[d]	13,514	13,065	117
H M P Miles	4,406	4,263	38
Sir Robin Nicholson	1,629	1,574	14
R L Olver	90,183[e]	–	668
Sir Ian Prosser	413	413	–
B K Sanderson	268,978	203,938	43
Sir Patrick Sheehy	7,807	7,807	–
The Lord Wright of Richmond	1,916	1,851	17
Former directors	On retirement	1/1/97	
K R Seal	244,167	170,078	
The Lord Simon of Highbury	275,688	247,019	
R W H Stomberg	199,745	148,891	

[a] Or at date of appointment [b] Includes 23,507 (36,783) ordinary shares held in ADR form
[c] Includes 204 ordinary shares held in ADR form [d] Held in ADR form
[e] On appointment on 1 January 1998

Directors' biographies

P D Sutherland, SC, Non-Executive Chairman
Peter Sutherland (51) became chairman on 7 May 1997. He rejoined the board in 1995 as deputy chairman following service as director-general of the GATT and the World Trade Organisation. He is chairman of Goldman Sachs International and a non-executive director of ABB Asea Brown Boveri and Telefonaktiebolaget LM Ericsson.

E J P Browne, F Eng, Group Chief Executive
John Browne (49) became group chief executive in 1995. He has been a managing director since 1991. He is a non-executive director of SmithKline Beecham and the Intel Corporation and a member of the international advisory board of Daimler-Benz.

Dr J G S Buchanan, Managing Director
John Buchanan (54) became group chief financial officer and a managing director in 1996. He was formerly group treasurer and chief executive, BP Finance. He is a non-executive director of Boots and a member of the UK Accounting Standards Board.

R F Chase, Deputy Group Chief Executive and Managing Director
Rodney Chase (54) became a managing director in 1992. He is deputy group chief executive and chief executive of the group's refining and marketing business. He is a non-executive director of the BOC Group.

Dr C S Gibson-Smith, Managing Director
Chris Gibson-Smith (52) became a managing director on 1 September 1997. He is responsible for regional management and for group policies on ethical conduct, employees, relationships and health, safety and environment.

R L Olver, Managing Director
Dick Olver (51) became a managing director on 1 January 1998, when he also took over responsibility for BP's exploration and production business. He is a non-executive director of Reuters Holdings.

B K Sanderson, Managing Director
Bryan Sanderson (57) became a managing director in 1992. He is chief executive of BP's chemicals business. A non-executive director of British Steel, he is vice president of CEFIC, the European Chemical Industry Council.

Sir James Glover, KCB, MBE, DL, Non-Executive Director
Sir James (68) joined BP's board in 1987 after a career in the British Army, in which his last appointment was as the Commander-in-Chief, UK Land Forces. He is chairman of Royal Armouries (International) and Merlin Communications International.

Dr K N Horn, Non-Executive Director
Karen Horn (54) became a director of BP in 1992. She is senior managing director and head of the international private bank at Bankers Trust Company. She is also a director of Eli Lilly, Rubbermaid and TRW.

C F Knight, Non-Executive Director
Charles Knight (62) has been a BP director since 1987. He is chairman of Emerson Electric and is a director of Anheuser-Busch, SBC Communications and IBM.

H M P Miles, OBE, Non-Executive Director
Michael Miles (61) became a director of BP in 1994. An executive director of John Swire & Sons and ING Baring Holdings, he serves on the boards of Johnson Matthey and BICC. He is a former chairman of Cathay Pacific Airways.

Sir Robin Nicholson, F Eng, FRS, Non-Executive Director
Sir Robin (63) joined BP's board in 1987. He is chairman of Pilkington Optronics, a non-executive director of Rolls-Royce and a member of the UK government's Council for Science and Technology.

Sir Ian Prosser, Non-Executive Director
Sir Ian (54) became a non-executive director on 1 May 1997. He is chairman and chief executive of Bass, a non-executive director of Lloyds TSB and a member of the council of the Brewers and Licensed Retailers Association.

Sir Patrick Sheehy, Non-Executive Director
Sir Patrick (67) became a BP director in 1984. He retired as chairman of B.A.T Industries in 1995. He is chairman of Marlborough Underwriting Agency and a non-executive director of Asda Properties and Celtic plc.

The Lord Wright of Richmond, GCMG, Non-Executive Director
Lord Wright (66) joined BP's board in 1991, having been Permanent Under-Secretary and Head of the UK Diplomatic Service. He is a non-executive director of De La Rue and an advisory director of Unilever. He is chairman of the Royal Institute of International Affairs.

BP ordinary shareholders at 31 December 1997

Range of holdings	Number of shareholders	Percentage of total shareholders	Percentage of share capital
1 – 100	50,299	13.4	–
101 – 200	77,113	20.6	0.2
201 – 1,000	133,992	35.7	1.2
1,001 – 10,000	106,195	28.3	5.0
10,001 – 100,000	5,565	1.5	2.3
100,001 – 1,000,000	1,415	0.4	8.5
Over 1,000,000	522	0.1	82.8
Total shareholders	375,101	100.0	100.0

Category	Number of shareholders	Percentage of total shareholders	Percentage of share capital
Individuals	344,954	92.0	6.6
Companies	2,825	0.8	3.4
Trust companies (pension funds etc)	1,656	0.4	2.0
Banks and nominees[a]	25,570	6.8	86.2
Insurance and assurance companies	96	–	1.8
Total shareholders	375,101	100.0	100.0

[a] Includes the 6.2% holding of the State of Kuwait

The total number of ordinary shares in issue at 31 December 1997 was 5,762,583,600, of which approximately 946,529,975 were represented by ADRs – see page 66

At 31 December 1997 there were also 2,386 preference shareholders

Substantial shareholdings

At the date of this report, the company has been notified that Morgan Guaranty Trust Company of New York, as depositary for American Depositary Receipts (ADRs), holds interests in 942,324,902 ordinary shares (16.27% of the company's ordinary share capital). Included in this total are part of the respective holdings of FMR Corp and Fidelity International Limited (together FMR) and of the Kuwait Investment Office (KIO). Either directly or through nominees, FMR holds interests in 271,706,977 ordinary shares (4.69% of the company's ordinary share capital) and the KIO in 357,520,000 ordinary shares (6.17% of the company's ordinary share capital). The Prudential Corporation group of companies holds interests in 184,175,023 ordinary shares (3.18% of the company's ordinary share capital).

Annual General Meeting

The 1998 annual general meeting will be held on Thursday 16 April 1998 at 11.00 a.m. at the Barbican Centre, Silk Street, London. The notice convening the meeting is sent to shareholders separately with this report, together with an explanation of the items of special business to be considered at the meeting.

Ernst & Young have expressed their willingness to continue in office as auditors and their reappointment will be proposed at the annual general meeting.

By order of the Board

Judith C Hanratty, Secretary *10 February 1998*

Report of the auditors

To The British Petroleum Company p.l.c. on corporate governance matters

In addition to our audit of the accounts we have reviewed the directors' statements on pages 23-24, 51 and 62 concerning the company's compliance with the paragraphs of the Cadbury Code of Best Practice specified for our review by the London Stock Exchange and their adoption of the going concern basis in preparing the accounts. The objective of our review is to draw attention to any non-compliance with Listing Rules 12.43(j) and 12.43(v).

We carried out our review in accordance with guidance issued by the Auditing Practices Board, and assessed whether the directors' statements on going concern and internal financial control are consistent with the information of which we are aware from our audit. That guidance does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of either the company's system of internal financial control or its corporate governance procedures nor on the ability of the company to continue in operational existence.

Opinion

With respect to the directors' statements on internal financial control on pages 23-24, other than the opinion on effectiveness, which is outside the scope of our report, and going concern on page 51, in our opinion the directors have provided the disclosures required by the Listing Rules referred to above and such statements are consistent with the information of which we are aware from our audit work on the accounts.

Based on enquiry of certain directors and officers of the company and examination of relevant documents, in our opinion the directors' statement on page 62 appropriately reflects the company's compliance with the other paragraphs of the Code specified for our review by Listing Rule 12.43(j).

Ernst & Young

Chartered Accountants

London *10 February 1998*

Announcement of dividends and results

Proposed key dates for dividends to be announced in 1998 and for the BP Share Dividend Plan:

Period	4Q 1997	1Q 1998	2Q 1998	3Q 1998
Announcement	10 Feb 98	5 May 98	4 Aug 98	3 Nov 98
Ex-dividend UK	16 Feb 98	11 May 98	10 Aug 98	9 Nov 98
Ex-dividend USA	18 Feb 98	13 May 98	12 Aug 98	11 Nov 98
Record or qualifying	20 Feb 98	15 May 98	14 Aug 98	13 Nov 98
Variation[a]	3 Apr 98	3 Jul 98	2 Oct 98	31 Dec 98
Payment	5 May 98	3 Aug 98	2 Nov 98	1 Feb 99

[a] The date by which shareholders must notify the BP Registrar of any change in dividend election between cash and shares

The group's half-year results will be included in the *Half Year Review* which will be sent to shareholders in August.

The following net cash dividends have been announced on the ordinary shares:

Pence/share	1Q	2Q	3Q	4Q	Total
1993	2.1	2.1	2.1	2.1	8.4
1994	2.5	2.5	2.5	3.0	10.5
1995	3.0	4.0	4.0	4.25	15.25
1996	4.25	5.0	5.0	5.25	19.5
1997	5.25	5.5	5.5	5.75	22.0

Holders of ordinary shares are offered the choice of receiving either cash dividends or shares or a combination of both. In 1997, share dividends were set at a level which was 25% greater than the net cash dividend. You can change your election by contacting the BP Registrar.

First and second preference shares

Dividends are paid on 31 January and 31 July of each year.

Taxation

This section is intended for individual shareholders who are subject to UK taxation only, and does not take into account overseas taxation.

a) Dividends

Cash dividends

The table sets out the amounts **per share held** that were paid to shareholders who received cash dividends during the 1997/8 tax year.

Payment date	Dividend/ distribution	Tax credit	Dividend/ distribution + tax credit
May 97	5.25p	1.31p	6.56p
Aug 97	5.25p	1.31p	6.56p
Nov 97	5.5p	1.38p	6.88p
Feb 98	5.5p	1.38p	6.88p

Share Dividend Plan

Each new share received under the BP Share Dividend Plan will be treated for income tax purposes as giving rise to gross income on which lower rate tax has been paid. The table below sets out the amounts **per new share received** during the 1997/8 tax year.

Payment date	Dividend	Notional tax	Dividend + notional tax
May 97	719.3p	179.8p	899.1p
Aug 97	819.5p	204.9p	1,024.4p
Nov 97	741.9p	185.5p	927.4p
Feb 98	813.3p	203.3p	1,016.6p

The 'dividend' amount is also the acquisition value of the shares for the purpose of capital gains tax.

b) Capital gains tax

The market values of BP shares at 6 April 1965 for the purposes of capital gains tax, after adjustment for the conversion, sub-division and capitalisation issue were:

Ordinary shares: £0.213542 per 25p ordinary share
First preference shares: £1.128125 per £1 share
Second preference shares: £1.243750 per £1 share

Since 5 April 1965 there have been rights issues of ordinary shares as follows:

1 for 13 at £0.2083: the ex-rights date was 28 February 1966
1 for 15 at £0.4283: the ex-rights date was 14 October 1971
1 for 7 at £0.9167: the ex-rights date was 23 June 1981

As from the close of business on 5 October 1979, each £1 unit of ordinary stock was converted and sub-divided into four ordinary shares of 25p each, and each existing £1 unit of preference stock was converted into one preference share of £1.

With effect from 1 May 1987, a capitalisation issue was made of two additional ordinary shares of 25p each for each ordinary share held at the close of business on 15 April 1987.

The market values at 31 March 1982 for the purposes of capital gains tax indexation allowance, after adjustment for the capitalisation issue referred to above, were:

Ordinary shares: £0.95 per 25p ordinary share
First preference shares: £0.565 per £1 share
Second preference shares: £0.645 per £1 share

The Inland Revenue publishes indexation tables and leaflets about capital gains tax which are available from local tax offices.

If you are in any doubt or if you need any further help, you should consult an appropriate financial adviser.

Information for non-UK shareholders

United States and Canada

BP shares are traded in the USA on the New York Stock Exchange in the form of American Depositary Shares (ADSs) and held in the form of American Depositary Receipts (ADRs). With effect from 6 June 1997, the company split existing ADRs on a two-for-one basis so that an ADR is now equivalent to six ordinary shares. The information shown on this page reflects this split. Details of trading activity are published under the abbreviation 'BritPt' in the stock tables of most daily newspapers.

ADR market price ranges (US$)	1997 High	1997 Low	1996[a] High	1996[a] Low
1st Quarter	**73½**	**64⅞**	54	47¼
2nd Quarter	**75⅜**	**65 11/16**	55¼	51 9/16
3rd Quarter	**93**	**74⅝**	62 11/16	54 5/16
4th Quarter	**91⅞**	**79**	71⅞	62⅜

[a] 1996 figures have been restated following the ADR split

Cash dividends

ADR holders are generally eligible for all dividends or other entitlements attaching to the underlying shares of BP and receive all cash dividends in US dollars (although Canadian resident ADR holders ordinarily receive their dividends in Canadian dollars).

With respect to qualifying US resident ADR holders, the current double tax convention between the UK and the USA includes provisions which entitle them to a refund of the currently applicable 20/80ths UK tax credit attached to the dividend, less a currently applicable 15% UK withholding tax charged on the sum of the dividend and the tax credit.

Under the arrangements made by Morgan Guaranty Trust Company of New York, payment of the tax credit refund, net of the UK withholding tax, is made to a qualifying US resident ADR holder who completes the declaration on the reverse of the dividend check and presents it for payment within three months from its date of issue.

Similar arrangements have also been made in respect of qualifying Canadian resident ADR holders.

The exchange rate for dividend payments for US and Canadian ADR holders is that ruling at 5.00 p.m. London time on the business day preceding the date of announcement.

The following dividends have been announced on ADRs for the undermentioned periods:

Quarterly dividends[a]		1Q	2Q	3Q	4Q	Total
1993	US$	0.210	0.201	0.198	0.196	**0.805**
	CAN$	0.267	0.259	0.259	0.263	**1.048**
1994	US$	0.239	0.245	0.260	0.299	**1.043**
	CAN$	0.331	0.340	0.351	0.419	**1.441**
1995	US$	0.306	0.409	0.403	0.415	**1.533**
	CAN$	0.415	0.554	0.544	0.569	**2.082**
1996	US$	0.407	0.492	0.525	0.547	**1.971**
	CAN$	0.555	0.676	0.701	0.739	**2.671**
1997	US$	0.542	0.572	0.588	0.599	**2.301**
	CAN$	0.749	0.789	0.825	0.859	**3.222**

[a] 1993-96 figures have been restated following the ADR split

BP has been advised by its US counsel that in respect of qualifying US resident ADR holders, subject to certain limitations, the 15% withholding tax will be treated as a foreign income tax that is eligible for credit against the holder's federal income taxes. This credit may be obtained by filing Form 1116 'Computation of Foreign Tax Credit' with the ADR holder's Federal Income Tax return.

Reports to ADR holders

ADR holders receive the annual and half-yearly reports issued to shareholders. If they are a holder of record (i.e. if the ADRs are held by them directly) the annual and half-yearly reports will be sent to them at the record address. If the ADRs are held in a 'Street Name' at a bank or brokerage firm, that institution is responsible for obtaining the materials and forwarding them to the holders.

BP is subject to the requirements for information of the US Securities and Exchange Commission (SEC) as they apply to foreign companies. It files with the SEC the Annual Report on Form 20-F (which corresponds to a 10-K for a US corporation) and other information as required.

Annual General Meeting

The 1998 annual general meeting of the company takes place in London on Thursday 16 April.

On request, Morgan Guaranty will appoint ADR holders as its proxy; this enables holders to attend the meeting and, on a poll, to vote the underlying ordinary shares.

Europe and Japan

BP shares are traded on stock exchanges in the UK, France, Germany, Switzerland and Japan.

Shareholder enquiries

Administration

If you have any queries about the administration of shareholdings such as change of address, change of ownership, dividend payments and the share dividend plan please contact the Registrar or ADR managers.

UK – Registrar's Office
The BP Registrar
Lloyds Bank Registrars
The Causeway, Worthing, West Sussex BN99 6DA
Telephone: (+44) 01903 502541
Fax: (+44) 01903 833371

USA – ADR Administration
Morgan ADR Service Center
PO Box 8205, Boston, MA 02266-8205
Telephone: (+1) 781-575-4328
Toll free in the USA 800-428-4237

Canada – ADR Administration
CIBC Mellon Trust Company
393 University Avenue, 5th Floor, PO Box 7010
Adelaide Street Postal Station, Toronto, Ontario M5C 2W9
Telephone: (+1) 416-813-4600
Toll free in Canada 800-387-0825

Japan
The Mitsubishi Trust and Banking Corporation
7-7 Nishi-Ikebukuro 1-chome, Toshima-ku, Tokyo 171
Telephone: (+81) 03-5391-7029
Fax: (+81) 03-5391-1911

Other queries

Any other queries can be addressed to BP's Investor Relations offices in the following countries:

UK
The British Petroleum Company p.l.c.
Britannic House, 1 Finsbury Circus, London EC2M 7BA
Telephone: (+44) 0171-496 4632
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USA
The British Petroleum Company p.l.c.
535 Madison Avenue – 22nd Floor
New York, NY 10022-4121
Telephone: (+1) 212-451-8070
Toll free in the USA 800-478-7553
Fax: (+1) 212-451-8088

Other published information

Publications
Copies of reports filed by the company with the United States Securities and Exchange Commission, together with a range of other publications, such as *BP HSE Facts 1997: Health, Safety and the Environment; BP Social Report 1997; BP Financial and Operating Information 1993-1997;* and the *BP Statistical Review of World Energy*, can be obtained from Investor Relations offices.

Cassettes for visually impaired shareholders
Highlights from the *BP Annual Report* are available to visually impaired shareholders on audio cassette. Copies are available, free of charge, from Investor Relations offices.

Internet
BP's home page on the Internet "http://www.bp.com" includes information on BP's activities and financial information.

Share price information
Prices are published in most newspapers and also in the UK on Ceefax and Teletext, or by dialling 0891 222335 (50p a minute at all times).

Registered Office
Britannic House, 1 Finsbury Circus, London EC2M 7BA, UK
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