THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. When considering what action you should take, you are recommended to seek your own personal financial advice from your stockbroker, bank manager, solicitor, accountant or other independent financial adviser authorised under the Financial Services Act 1986 immediately.

If you have sold or otherwise transferred all of your holding of shares in BP Amoco, please pass this document as soon as possible to the purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee. The distribution of this document in jurisdictions other than the United Kingdom may be restricted by law and therefore persons into whose possession this document comes should inform themselves about and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

A copy of this document, which comprises listing particulars relating to the Consideration Shares in accordance with the listing rules made under section 142 of the Financial Services Act 1986, has been delivered for registration to the Registrar of Companies in England and Wales in accordance with section 149 of that Act.

Application has been made to the London Stock Exchange for the Consideration Shares to be admitted to the Official List. Dealings in the Consideration Shares are expected to commence at 8.00 am on the Effective Date.

BP Amoco p.l.c.

(incorporated and registered in England and Wales with registered no. 102498)

LISTING PARTICULARS

relating to the combination of

BP Amoco p.l.c.

and

Atlantic Richfield Company

and

the issue of up to 1,671,887,184 ordinary shares of $0.50 each in BP Amoco p.l.c.

sponsored by Morgan Stanley & Co. Limited

Morgan Stanley & Co. Limited is acting for BP Amoco and no-one else in connection with the Combination, the Subdivision and the application for the New BP Amoco Ordinary Shares and the Consideration Shares to be admitted to the Official List and will not be responsible to anyone other than BP Amoco for providing the protections afforded to customers of Morgan Stanley & Co. Limited or for providing advice in relation to the Combination, the Subdivision and the application for the New BP Amoco Ordinary Shares and the Consideration Shares to be admitted to the Official List. Morgan Stanley & Co. Limited is regulated by The Securities and Futures Authority Limited.

All statements relating to the business, financial position and prospects of BP Amoco and ARCO should be viewed in light of the Year 2000 compliance issues which are set out in Parts I and VIII of this document.

Contents

Part I: Key Information

1 Introduction

On 1 April 1999 the Boards of BP Amoco and ARCO announced that they had reached agreement on a proposed combination of their two companies.

The Combination is subject to a number of conditions, including its approval by the ARCO Shareholders and BP Amoco Shareholders in their respective shareholder meetings. In addition to shareholder approval, the Combination is conditional on a number of regulatory, tax and other consents and confirmations in the US and the European Union. The companies are working towards completing the Combination later this year. The ARCO Board has approved the Merger Agreement and has recommended that ARCO Shareholders vote in favour of it. The BP Amoco Board has unanimously recommended that BP Amoco Shareholders vote in favour of the Combination.

2 Structure of the Combination and Subdivision

2.1 Structure

The Combination is to be effected by a statutory merger under Delaware law whereby Prairie Holdings, a wholly-owned subsidiary of BP Amoco, will be merged with and into ARCO and ARCO will become a wholly-owned subsidiary of BP Amoco in accordance with the terms of the Merger Agreement.

2.2 Subdivision

It is proposed to subdivide the ordinary share capital of BP Amoco with effect from 4 October 1999 so that each BP Amoco Ordinary Shareholder and each holder of BP Amoco ADSs will receive one additional BP Amoco Ordinary Share or BP Amoco ADS for each BP Amoco Ordinary Share or BP Amoco ADS they hold. If the Subdivision occurs prior to the Effective Date this will affect the number of BP Amoco Ordinary Shares to be issued to give effect to the Combination. Further details of the Subdivision are set out in paragraph 12 of this Part I and in Section C of Part V.

2.3 Consideration under the Combination

The aggregate consideration to be paid by BP Amoco pursuant to the Combination (on the basis set out in paragraph 17.1 of Part VIII) will be $31 billion.

2.4 Combination Terms

(a) Under the terms of the Combination, ARCO Common Shareholders (other than BP Amoco, ARCO or any subsidiary of BP Amoco or ARCO) will be entitled to receive:

for each ARCO Common Share	4.92 BP Amoco Ordinary Shares in the form of BP Amoco ADSs or, if they so elect in a timely manner, BP Amoco Ordinary Shares (each BP Amoco ADS will represent six BP Amoco Ordinary Shares and in consequence ARCO Common Shareholders will receive 0.82 of a BP Amoco ADS in exchange for each ARCO Common Share they own at the Effective Date). If the Subdivision is approved at the EGM and is completed prior to the Effective Date, ARCO Common Shareholders will be entitled to receive 1.64 BP Amoco ADSs or, if they so elect, 9.84 BP Amoco Ordinary Shares for each ARCO Common Share they own at the Effective Date.

(b) ARCO Common Shareholders who would otherwise have been entitled to receive a fraction of a BP Amoco ADS (including any odd lot of less than six BP Amoco Ordinary Shares representing such a fractional interest) will receive, in lieu thereof, cash (without interest and rounded to the nearest cent) equal to (a) the amount of that fractional interest multiplied by (b) the average closing sale prices for BP Amoco ADSs on the New York Stock Exchange for the ten trading days ending on the fifth complete trading day prior to the Effective Date, as reported in the Wall Street Journal.

(c) ARCO DSC II, a subsidiary of ARCO, will be exchanging the ARCO Common Shares it holds for BP Amoco Ordinary Shares in the form of BP Amoco ADSs prior to the Effective Date under the Share Exchange Agreement.

(d) Upon the Effective Date, all employee options and other rights to acquire ARCO Common Shares will convert into options and other rights to acquire BP Amoco Ordinary Shares, in the form of BP Amoco ADSs, after adjustment to take account of the Exchange Ratio.

A description of the principal terms of the Combination is set out in Section A of Part V.

2.5 Shareholder Approvals and Other Conditions

(a) *BP Amoco Shareholder approval*

The Combination is conditional upon the passing of Resolution 1 by BP Amoco Shareholders at the EGM. A number of other resolutions will also be considered at the EGM and are summarised in paragraph 16 of this Part I.

(b) *ARCO Shareholder approval*

The Combination is conditional upon approval by the holders of a majority of the voting power of the outstanding ARCO Common and Preference Shares on the relevant record date.

A special meeting of ARCO Shareholders has been convened for 30 August 1999, at which ARCO Shareholders will be asked to adopt the Merger Agreement.

(c) *Other conditions*

The Combination is also conditional on the satisfaction or waiver of certain other conditions, details of which are set out in Section A of Part V.

2.6 Consents and Timing

The Combination is conditional on obtaining all required consents and clearances. Application has been made to the relevant US and European Union authorities for the necessary consents and clearances, further details of which are set out in Section B of Part V. Subject to obtaining these consents and clearances and shareholder approvals, BP Amoco and ARCO are working to complete the Combination later this year.

2.7 Termination Rights

The Merger Agreement may be terminated by BP Amoco or ARCO in certain circumstances before the Effective Date. If the Merger Agreement is terminated:

- by ARCO because the BP Amoco Board withdraws its approval or favourable recommendation of the Combination to the BP Amoco Shareholders; or
- by either BP Amoco or ARCO because the BP Amoco Shareholders do not approve the Combination at the EGM and prior to the termination the BP Amoco Board has withdrawn its approval or favourable recommendation of the Combination to the BP Amoco Shareholders,

then a termination payment of $500 million will be payable by BP Amoco.

An equivalent sum (including profit realisable by BP Amoco under the Stock Option Agreement) may be received by BP Amoco from ARCO in certain circumstances including the withdrawal of the ARCO Board's approval or favourable recommendation of the Combination to the ARCO Shareholders or where the ARCO Board becomes entitled to recommend to the ARCO Shareholders an acquisition transaction proposed by a third party.

Further details on the termination rights under the Merger Agreement and Stock Option Agreement are set out in paragraphs 10, 11 and 12 of Section A of Part V.

3 ARCO's Business

ARCO is a worldwide oil and gas enterprise. Its turnover for the year ended 31 December 1998 was approximately $10.3 billion and its gross assets at that date were approximately $25.2 billion. It operates in two segments: exploration and production and refining and marketing.

Exploration and production explores for, develops and produces oil and natural gas worldwide. Areas in which it has operations include Alaska, the Gulf of Mexico, China, Indonesia and the United Kingdom North Sea. The largest element of ARCO's operations in the Lower 48 States of the United States is held by ARCO's 82 per cent owned subsidiary, Vastar.

Refining and marketing is primarily responsible for petroleum refining, marketing and transportation. ARCO's refining and marketing operations are primarily in the western United States. These operations include two west coast refineries and over 1,700 branded retail gasoline outlets in six western states of the United States and British Columbia in Canada.

Further information on ARCO is set out in Parts III and VII.

4 Background to the Combination

In recent years BP Amoco has periodically reviewed strategic initiatives for the improvement of its competitive position in the oil and gas industry worldwide, including possible business combinations, joint ventures and other significant transactions. In August 1998, BP and Amoco announced they were merging under the name of BP Amoco to become one of the three largest integrated oil and gas companies by market capitalisation. The BP Amoco Board believed that such a merger would create a more competitive global energy and petrochemicals group than either BP or Amoco would have been on its own and would generate significant opportunities to deliver value to shareholders. This merger was completed on 31 December 1998.

ARCO has also been reviewing its competitive position in the oil and gas industry and considering strategies to improve that position. In response to the large drop in crude oil prices and significant industry consolidation during 1998, the ARCO management and ARCO Board concluded that as an alternative to executing its strategic plan of focusing on its core oil and gas businesses as an independent company, ARCO should explore a strategic combination with another company in the oil and gas industry. Having considered the possible merits of a combination with each of the three largest integrated oil and gas companies by market capitalisation and certain other companies, ARCO's management determined that the greatest opportunities for synergies and enhanced shareholder value, taking into account transaction costs and risks, would be created by a combination of ARCO and BP Amoco. As a consequence, ARCO contacted BP Amoco to discuss options for closer co-operation between the two companies.

As set out in the Proxy Statement/Prospectus published by ARCO on 15 July 1999, while these discussions were ongoing ARCO was approached with a specific proposal for a share for share merger by another company. This proposal had an implied value of approximately $82.77 per ARCO Common Share, based on the offering company's closing share price on 30 March 1999 (the day before the ARCO Board approved the Combination), as compared to an implied value of approximately $84.72 per ARCO Common Share under the BP Amoco offer at that time. The ARCO Board preferred a combination with BP Amoco to the alternative offer because, *inter alia*, it believed that the alternative offer would not generate the same level of cost savings and synergies as the combination with BP Amoco, was not as certain to be completed as the combination with BP Amoco and because it believed that BP Amoco Shares would be likely to have a greater long term value than the shares of the other company.

5 Reasons for, and Benefits of, the Combination

The Boards of BP Amoco and ARCO believe that combining the two companies' complementary oil and gas assets around the world will result in an enterprise that will have a stronger strategic position, will enhance efficiencies and cost competitiveness, and will create significant opportunities for growth.

The BP Amoco Board considered a number of factors in determining to approve the Combination. The material factors they considered are set out below:

5.1 Strengthened Strategic Position

The combination of BP Amoco and ARCO will make BP Amoco the largest non-state owned oil producer in the world, as well as the largest oil and gas producer in both the US and the UK. ARCO will bring to BP Amoco distinctive assets that will diversify its portfolio of international assets, bolster or extend its strategic position in key areas, and significantly increase its options for growth. Among the strategic gains considered by the BP Amoco Board to be significant to the Combination are the following:

(a) **Alaskan oil and gas**
The combined Alaskan oil assets of BP Amoco and ARCO will provide BP Amoco with opportunities for significant cost reductions and incentives for new investment, which should result in a more efficient and cost competitive Alaskan North Slope oil region. ARCO's significant Alaskan gas interests, taken together with BP Amoco's existing interests, will justify a new phase of investigation into the feasibility of bringing Alaskan North Slope gas deposits into production.

(b) **Refining and marketing**
In the US, the combination of ARCO's leading position in refining and marketing on the west coast with BP Amoco's substantial position in the rest of the US will enable the combined group to compete on an equal footing with other major coast-to-coast marketers of gasoline.

(c) **Global gas assets**
The addition of ARCO's gas production and reserves will make BP Amoco the second largest non-state owned gas producer in the world and offer significant potential for further growth in production. In Southeast Asia ARCO will bring to BP Amoco, in addition to ARCO's current gas producing assets in China and Indonesia, significant growth interests in the Thailand/Malaysia joint development zone and in Indonesia's world-class Tangguh field, each of which is currently undeveloped.

5.2 Synergies

The combined company is expected to achieve an annual rate of pre-tax cost savings of approximately $1 billion during the second full year after the Effective Date of the transaction, with anticipated pre-tax cost savings of approximately $600 million to be achieved during the first full year. The estimated cost savings, which are in addition to cost savings previously targeted by BP Amoco and ARCO separately, are expected to come from the following:

(a) organisational efficiencies, including reductions in staff and corporate overheads;

(b) more focused exploration efforts through the use of shared technology to reduce the risk of unsuccessful wells and through the ability to choose only the most attractive opportunities available to the combined company;

(c) standardisation and simplification of business processes, e.g. information technology; and

(d) rationalisation of operations, e.g. through the elimination of duplicate offices and the adoption of common procurement policies.

The anticipated cost savings are expected to be offset by restructuring charges and transaction expenses of approximately $1 billion in the first year after the Effective Date, including approximately $400 million in UK stamp duty to be incurred on the issue of BP Amoco ADSs to ARCO Common Shareholders. BP Amoco expects to reduce the worldwide staff of the combined company by approximately 2,000 positions as a result of the Combination.

5.3 Additional Considerations

In the course of reaching its decision to approve the Combination, the BP Amoco Board considered the following additional factors:

(a) the opinion of Morgan Stanley to the effect that, as at 30 March 1999, the Exchange Ratio was fair from a financial point of view to BP Amoco;

(b) that the Combination would be subject to acquisition accounting under UK GAAP, resulting in on-going additional depreciation and amortisation charges. It is currently estimated that these additional charges will amount to $2.0 billion in the first full year following the Combination. Whilst accepting that this accounting treatment would have an adverse effect on reported earnings, the Board recognised that investors were increasingly prepared to take other measures into account in assessing the performance of a company;

(c) that in the first full year of the combined company's operations, the Combination would be accretive to BP Amoco's earnings per ordinary share, based on achieving anticipated pre-tax cost savings of approximately $600 million during the first full year and excluding the effect of the additional depreciation and amortisation charges, the restructuring charges and transaction expenses. This anticipated accretion assumed that prospective oil prices will remain above $10 per barrel. The Board also recognised that the transaction would generate significant incremental cash flow through reduced cash costs arising from the targeted synergies and reduced capital expenditure through the application of BP Amoco capital efficiency targets to all of the combined company's assets;

(d) that the implied premium to be paid for ARCO's outstanding shares, based on the relative market prices of BP Amoco and ARCO shares, was approximately 26 per cent based on average closing market prices for both the one-week and one-month periods prior to the first public reporting of a possible combination. The Board also considered that such implied premium was in line with the implied premia paid or payable in the BP/Amoco and Exxon/Mobil mergers when measured by reference to the equivalent trading periods;

(e) that the growth opportunities in ARCO's existing asset base could contribute up to 300,000 barrels per day in oil or oil equivalents of new production by 2010;

(f) that the proposed Combination was not expected to result in any change to the ceiling target for BP Amoco's gearing or to its policy of paying dividends equal to approximately 50 per cent of its estimated average earnings, excluding the effect of additional depreciation and amortisation charges resulting from the Combination, over the course of a business cycle;

(g) that BP Amoco's current management would manage the combined company;

(h) the possibility that the process of planning for the integration of ARCO into BP Amoco and the regulatory approval process and its effects might adversely affect the delivery of BP Amoco business performance targets. The Board noted the proposal of BP Amoco management that the risk of such adverse effects could be minimised through the appointment of two senior executives dedicated principally to managing these processes; and

(i) the possibility of encountering difficulties in achieving cost savings in the amounts currently estimated or in the time frame currently contemplated.

In view of the wide variety of factors considered by the BP Amoco Board in connection with its evaluation of the Combination, the BP Amoco Board did not consider it practical to, and did not attempt to, quantify, rank or otherwise assign relative weights to the specific factors described above, and individual members of the Board may have given different weight to different factors.

6 Directors of BP Amoco Following the Combination

The composition of the Board is not expected to change as a result of the Combination.

7 Accounting Treatment and Reporting

BP Amoco will account for the Combination using the acquisition method of accounting under UK GAAP. As a consequence, the assets and liabilities of ARCO will be reflected in the BP Amoco Group accounts at their fair value, and the excess of the purchase price for the acquisition over the fair value of the assets and liabilities acquired will be accounted for as goodwill, which will be amortised over its estimated economic life. The additional depreciation on the fair value uplift to fixed assets and the amortisation of the goodwill will give rise to non-cash charges against profit of approximately $2.0 billion in the first full year following the Combination. They will slowly decline but will persist for a number of years. These charges will not affect the Company's cashflows nor is it expected that they will affect the Company's ability to pay dividends.

The Company intends to disclose additional indicators of the BP Amoco Group's financial performance such as EBITDA and Adjusted EBITDA, the aim of which will be to bring greater clarity to the reporting of the performance of the BP Amoco Group. Whilst not being recognised UK or US GAAP measures, the Company believes these indicators will in the future enable investors to evaluate better both the Company's historical performance and its performance against that of its competitors. These new indicators are expected to be disclosed for the first time with the announcement of the Company's 1999 half year results. The additional indicators of financial performance will be published with, and be reconcilable to, BP Amoco's other measures of financial performance.

8 Dividends Following the Combination

The future dividends of BP Amoco will be dependent on its future earnings and financial condition and other factors affecting its business, but it is expected that BP Amoco will continue its current policy of paying dividends equal to approximately 50 per cent of its estimated average earnings (excluding the effect of the depreciation and amortisation charges resulting from the Combination) over the course of the business cycle.

BP Amoco currently expects that the timetable for dividends to be paid to its Ordinary Shareholders over the next twelve months will be as set out below. ARCO Common Shareholders will participate in all BP Amoco dividends that have a record date on or after the Effective Date.

Date of Announcement	Record Date	Payment Date
10 August 1999	20 August 1999	10 September 1999
2 November 1999	12 November 1999	10 December 1999
15 February 2000	25 February 2000	24 March 2000
9 May 2000	19 May 2000	12 June 2000

The announcement of a dividend in any quarter is not guaranteed, and is ultimately within the discretion of the BP Amoco Board. Dividends on the BP Amoco Preference Shares will continue to be paid half-yearly on 31 January and 31 July.

9 BP Amoco Group Targets

Following the merger of BP and Amoco on 31 December 1998, the Group Chief Executive and the management of BP Amoco have conducted a major strategic review of the combined BP Amoco Group's operations and asset base and, as a consequence of this review, have developed targets for its financial performance. The primary targets are:

(a) the percentage return on average capital employed of the BP Amoco Group to be increased, through efficiency improvements and growth, by between five and six percentage points over the three year period to the end of the year 2001;

(b) the gross level of capital expenditure over the three year period to the end of the year 2001 to be about $26 billion;

(c) aggregate asset disposals of around 15 per cent of capital employed by around the end of the year 2001 i.e. approximately $10 billion of disposals;

(d) capital employed by the BP Amoco Group to grow in the three year period to the end of the year 2001;

(e) gearing to remain in a range from about 25 per cent to about 30 per cent; and

(f) continuation of its current dividend policy (as described in paragraph 8 above).

The targets are expected to be achievable in external environmental conditions (including oil prices) over the period to the end of the year 2001 which are not substantially worse than those prevailing on average during 1998.

These targets replace previously announced targets and take account of an expected rate of pre-tax cost savings of $2 billion per annum resulting from the merger with Amoco, a rate of cost saving which it is now believed can be achieved before the end of 1999, but do not reflect the impact of the Combination. In particular the targets do not include the estimated pre-tax cost savings of $1 billion, the expected asset disposals of approximately $3 billion or the effects of the fair valuation of ARCO assets and the resulting amortisation and additional depreciation charges. The targets will be reviewed following the Combination and may require adjustment.

10 Current Trading and Prospects

Volatility in the general trading environment, particularly in relation to higher crude oil prices, will affect results. Higher crude oil prices in the second quarter of 1999 are likely to cause an improvement in the second quarter 1999 trading performance of BP Amoco and ARCO over the corresponding first quarter 1999 performance.

Restructuring activity has caused BP Amoco's first quarter 1999 results, and is likely to cause its near term results, to be affected by restructuring charges. These charges may be significant in the context of a quarter's or a full year's results.

The Directors believe that the prospects of the BP Amoco Group will be enhanced by the Combination.

11 Recent Developments

The Company has announced a significant oil discovery in the Gulf of Mexico. Based on information from the initial discovery well, it appears that the oil field may hold at least one billion barrels of recoverable oil. The Company has a 75 per cent interest in the field. The Company has also announced further significant discoveries in the Gulf of Mexico, Angola and Azerbaijan.

12 Subdivision of Ordinary Share Capital

The Directors propose that with effect from 4 October 1999, Existing BP Amoco Ordinary Shares will be subdivided with each Ordinary Shareholder holding two New BP Amoco Ordinary Shares of nominal value $0.25 for each Existing BP Amoco Ordinary Share of nominal value $0.50. The New BP Amoco Ordinary Shares will have the same rights as the Existing BP Amoco Ordinary Shares. Additional BP Amoco ADSs will be issued in connection with the subdivision of Existing BP Amoco Ordinary Shares thereby maintaining the existing ratio of one BP Amoco ADS to six BP Amoco Ordinary Shares.

BP Amoco Ordinary Shares and BP Amoco ADSs currently trade at prices which significantly exceed the prices of the securities of BP Amoco's principal competitors. The reason for the Subdivision is to reduce the price at which BP Amoco Ordinary Shares and BP Amoco ADSs trade with the intention of making BP Amoco securities more attractive to retail investors and increasing liquidity. Absent any other factors affecting price, the Subdivision is expected to result in initial prices for the New BP Amoco Ordinary Shares and the BP Amoco ADSs representing the New BP Amoco Ordinary Shares which are approximately half that of the prices of the Existing BP Amoco Ordinary Shares and existing BP Amoco ADSs immediately prior to the Subdivision.

The Subdivision of the BP Amoco Ordinary Shares will require the approval of a majority of shareholders voting in person or by proxy at the Extraordinary General Meeting. The Directors believe that the Subdivision is in the best interests of the shareholders.

Further information on the Subdivision is set out in Section C of Part V.

13 United Kingdom and United States Taxation

A summary of the tax position in the United Kingdom and the United States is set out in paragraph 11 of Part VIII.

In brief:

(a) the Directors have been advised that neither the Subdivision nor the issue of BP Amoco ADSs arising from the Subdivision will be treated as a disposal of Existing BP Amoco Ordinary Shares for the purposes of UK taxation of capital gains or a taxable event for US federal income tax purposes and that no stamp duty or SDRT should be payable as a result of the Subdivision; and

(b) BP Amoco will pay all stamp duties, SDRT and similar taxes or levies imposed in connection with the creation or issue of the Consideration Shares or related BP Amoco ADSs pursuant to the Combination.

14 Amendments to Articles of Association

It is proposed to amend the Articles of Association (the "Articles") in order, *inter alia*, to provide that all resolutions, other than those of a procedural nature, may only be approved by a vote on a poll and to enable proxies to be appointed in electronic form or by telephone, should the Directors so determine. These changes are being made to reflect the practicalities of voting and the appointment of proxies in a large company with shareholders all over the world.

A copy of the Articles, showing in full the amendments to the Articles if the resolution to amend the Articles becomes effective, is available for inspection at the offices of Linklaters, One Silk Street, London EC2Y 8HQ from the date of this document until the Effective Date and at the Royal Festival Hall from 10.00 am on 1 September 1999 until the conclusion of the EGM.

15 The Year 2000 Issue

The Year 2000 issue is the result of computer programmes being written using two digits rather than four digits to define the applicable year. For example, date sensitive software may recognise a date using "00" as the year 1900 rather than the year 2000. This could result in system failures or miscalculations causing disruption of operations.

Further details of BP Amoco and ARCO's plans to address this issue, and the risks and uncertainties related to it, are set out in paragraph 15 of Part VIII.

16 Extraordinary General Meeting

The EGM has been convened for 11.00 am on 1 September 1999. At the EGM, the following resolutions will be proposed:

(a) Resolution 1 will be proposed to approve the Combination;

(b) Resolution 2 will be proposed to approve and give effect to the Subdivision;

(c) Resolution 3 will be proposed to increase the authorised share capital of BP Amoco;

(d) Resolution 4 will be proposed to authorise the BP Amoco Board to allot shares up to an aggregate nominal amount of $1,885 million;

(e) Resolution 5 will be proposed to disapply shareholders' pre-emption rights up to an aggregate nominal amount of $280 million;

(f) Resolution 6 will be proposed to amend the Articles in order, *inter alia*, to provide that all resolutions, other than those of a procedural nature, be approved by a vote on a poll and to enable proxies to be appointed in electronic form or by telephone, should the Directors so determine.

The Combination is conditional on the approval of Resolution 1. The Combination is not conditional on Resolutions 2 to 6 being passed. Resolutions 3 to 5 will not be effective unless Resolution 1 is passed.

Resolutions 1 to 4 are being proposed as ordinary resolutions which require the approval of a majority of the votes cast in person or on a poll at the EGM. Resolutions 5 and 6 are being proposed as special resolutions and require the approval of not less than 75 per cent of the votes cast on a poll at the EGM.

17 Listing and Dealing

Listing and Dealing of New BP Amoco Ordinary Shares on the Subdivision
Application has been made to the London Stock Exchange for the New BP Amoco Ordinary Shares to be admitted to the Official List. Application will be made for BP Amoco ADSs representing the New BP Amoco Ordinary Shares to be listed on the New York Stock Exchange. Application will also be made to the other stock exchanges on which BP Amoco Ordinary Shares and BP Amoco ADSs are also listed for the New BP Amoco Ordinary Shares and additional BP Amoco ADSs to be listed on such exchanges.

Dealings in the New BP Amoco Ordinary Shares are expected to commence at 8.00 am on 4 October 1999.

The treatment of BP Amoco certificated and uncertificated securities upon the Subdivision is set out in paragraphs 3 and 4 of Section C of Part V.

Listing and Dealing of Consideration Shares

Application has been made to the London Stock Exchange for the Consideration Shares to be admitted to the Official List. Application has been made for BP Amoco ADSs representing the Consideration Shares to be listed on the New York Stock Exchange. Dealings in the Consideration Shares are expected to commence at 8.00 am on the Effective Date. It is a condition to the Combination becoming effective that the London Stock Exchange shall have granted permission for the listing of the Consideration Shares to be issued in the Combination and that the BP Amoco ADSs to be issued in the Combination are authorised for listing on the New York Stock Exchange.

Application will also be made to the other stock exchanges on which BP Amoco Ordinary Shares and BP Amoco ADSs are listed for the Consideration Shares and the BP Amoco ADSs to be issued in the Combination to be listed on such exchanges.

18 Forward-Looking Statements May Prove Inaccurate

In order to utilise the "Safe Harbor" provisions of the United States Private Securities Litigation Reform Act of 1995, BP Amoco is providing the following cautionary statement.

Certain statements contained in this document, particularly those regarding possible or assumed future performance, costs, dividends, returns, divestments, reserves and growth of ARCO and BP Amoco, industry growth and other trend projections, and those regarding synergistic benefits of the Combination and estimated company earnings, in particular those set out in paragraphs 5, 8, 9, 10 and 11 of this Part I are or may be considered forward-looking statements that involve risks and uncertainties. Actual results may differ materially from those expressed in such statements, depending on a variety of factors, including: the specific factors identified in the discussions accompanying such forward-looking statements; future levels of industry product supply, demand and pricing; political stability and economic growth in relevant areas of the world; the ability of BP Amoco and ARCO to integrate their businesses successfully after the Combination; development and use of new technology and successful partnering; the actions of competitors; natural disasters and other changes to business conditions; and other factors discussed elsewhere in this document.

19 Nature of Financial Information

All financial information in this Part I and paragraph 1 of each of Part II and Part III of this document is extracted from the financial information set out in Parts II, III and IV of this document. Shareholders should read the whole document and not just rely on key or summarised information. Except as otherwise indicated, all currency conversions between sterling and US dollars have been made at the Noon Buying Rate on 9 July 1999 of $1.5515: £1.00.

Part II: Information Relating to BP Amoco

1 Business Description of BP Amoco

On 31 December 1998, Amoco and BP merged. The merger was effected by BP issuing ordinary shares in the form of BP Amoco ADSs to holders of Amoco common stock. Following this merger, Amoco became a wholly-owned subsidiary of BP which was renamed BP Amoco p.l.c.

BP Amoco is one of the world's top three petroleum and petrochemical groups on the basis of market capitalisation, with a wide operational and geographic scope. The BP Amoco Group has well established operations in Europe, North and South America, Australia, Asia and parts of Africa.

BP Amoco's main businesses are exploration and production, refining and marketing, and chemicals. Exploration and production's activities include oil and gas exploration and field development and production ("upstream activities"), together with pipeline transportation, gas processing and gas marketing ("midstream activities"). The activities of refining and marketing include oil supply and trading as well as oil refining and marketing ("downstream activities"). Chemicals' activities include petrochemicals manufacturing and marketing. The BP Amoco Group provides high quality technological support for all its businesses through its research and engineering activities. Although relatively small in comparison to its main business, the BP Amoco Group also contains one of the world's leading solar businesses – BP Solarex.

The merger with Amoco resulted in BP's established oil production base in Alaska and its increasing presence in the Gulf of Mexico being combined with Amoco's Gulf of Mexico interests and its extensive oil and gas production in the US (other than Alaska) to create the largest producer of oil and gas in the US. The addition of Amoco's UK North Sea assets strengthened BP's position as the largest producer of oil in the UK.

In refining and marketing, Amoco's strong presence and brand in the mid-west, east and south-east of the US was reinforced by BP's existing business in the mid-west and south-east. The merger with Amoco on 31 December 1998 resulted in BP Amoco having approximately 16,300 service stations in the US and 12,000 in the rest of the world.

In chemicals, BP's polyethylene, acetic acid and acrylonitrile technology and production was complemented by Amoco's leading position in purified teraphthalic acid, paraxylene and metaxylene.

Further details of BP Amoco Group reserves are set out in Part VI of this document.

2 Extraction of Financial Information

The financial information for BP Amoco set out in paragraph 4 below has been extracted without material adjustment from the audited financial statements for BP Amoco for the three years ended 31 December 1998 filed with the SEC on Form 6-K on 7 July 1999. The audit opinion on these financial statements was unqualified. This financial information was restated to comply with Financial Reporting Standard No. 12 "Provisions, Contingent Liabilities and Contingent Assets" ("FRS12"), (see Note 46 to paragraph 4 of this Part II for further information). The BP Amoco Group adopted FRS12 with effect from 1 January 1999 and consequently this was reflected in the interim results of BP Amoco for the three months ended 31 March 1999. The financial information for BP Amoco does not constitute statutory accounts within the meaning of Section 240 of the Act.

3 Statement of Accounting Policies

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

The financial information for 1998 has been restated to comply with the requirements of FRS12. See Note 46 to paragraph 4 of this Part II for further information. Comparative figures have been restated in accordance with the revised presentation.

In addition the financial information for 1997 and 1996 has been restated to comply with the requirements of Financial Reporting Standard No. 9 "Associates and Joint Ventures" ("FRS9"). See Note 44 to paragraph 4 of this Part II for further information. The restatement has had no effect on the profit for the year and net assets.

Merger accounting
The financial statements have been prepared using the merger method of accounting in relation to the merger of BP and Amoco. Under merger accounting, the results and cash flows of BP and Amoco are combined from the beginning of the financial period in which the merger of BP and Amoco occurred and their assets and liabilities combined at the amounts at which they were previously recorded after adjusting to achieve consistency of accounting policies. Income statement, balance sheet and cash flow comparatives are restated on the combined basis. See Note 45 to paragraph 4 of this Part II for further information.

Accounting convention
The financial statements 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 BP Amoco 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 FIFO method.

Stock valuation
Stocks are valued at cost to the BP Amoco Group using the FIFO 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 BP Amoco Group financial statements comprise a consolidation of the accounts of the parent company and its subsidiary undertakings ("subsidiaries"). The results of subsidiaries acquired or sold are consolidated for the periods from or to the date on which control passes.

An associated undertaking ("associate") is an entity in which the BP Amoco Group has a long-term equity interest and over which it exercises significant influence. The consolidated financial statements include the BP Amoco Group proportion of the operating profit or loss, exceptional items, stock holding gains or losses, interest expense, taxation and net assets of associates (the "equity method").

A joint venture is an entity in which the BP Amoco Group has a long-term interest and shares control with one or more co-venturers. The consolidated financial statements include the BP Amoco Group proportion of turnover, operating profit or loss, exceptional items, stock holding gains or losses, interest expense, taxation, gross assets and gross liabilities of the joint venture (the "gross equity method").

Certain of the BP Amoco Group's activities are conducted through joint arrangements and are included in the consolidated financial statements in proportion to the BP Amoco Group's interest in the income, expenses, assets and liabilities of these joint arrangements.

On the acquisition of a subsidiary, or of an interest in a joint venture or associated undertaking, fair values reflecting conditions at the date of acquisition are attributed to the identifiable net assets acquired. When the cost of acquisition exceeds the fair values attributable to the BP Amoco Group's share of such net assets the difference is treated as purchased goodwill. This is capitalised and amortised over its estimated useful economic life, limited to a maximum period of 20 years.

Foreign currencies

On consolidation, assets and liabilities of subsidiary undertakings are translated into US dollars 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 BP Amoco 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 BP Amoco 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 and natural gas 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 natural 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. The average estimated useful lives of refineries are 20 years, chemicals manufacturing plants are 20 years and service stations 15 years. Other intangibles are amortised over a maximum period of 20 years.

The BP Amoco Group undertakes a review for impairment of a fixed asset or goodwill if events or changes in circumstances indicate that the carrying amount of the fixed asset or goodwill may not be recoverable. To the extent that the carrying amount exceeds the recoverable amount, that is the higher of net realisable value and value in use, the fixed asset or goodwill is written down to its recoverable amount. The value in use is determined from estimated discounted future net cash flows.

Decommissioning
Provision for decommissioning is recognised in full at the commencement of oil and natural gas production. The amount recognised is the present value of the estimated future expenditure determined in accordance with local conditions and requirements. A corresponding tangible fixed asset is also created of an amount equivalent to the provision. This is subsequently depreciated as part of the capital costs of the production and transportation facilities. Any change in the present value of the estimated expenditure is reflected as an adjustment to the provision and the fixed asset.

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. The amount recognised is the best estimate of the expenditure required. Where the liability will not be settled for a number of years the amount recognised is the present value of the estimated future expenditure.

Leases
Assets held under leases which result in BP Amoco 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.

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 average expected 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.

Discounting
The unwinding of the discount on provisions is included within interest expense.

4 Financial Information for BP Amoco

BP Amoco Group income statement

For the year ended 31 December	Note	1998	1997	1996
				$ million
Turnover		**83,732**	108,564	102,064
Less: Joint ventures		**15,428**	16,804	–
BP Amoco Group turnover	1	**68,304**	91,760	102,064
Replacement cost of sales		**56,270**	73,828	81,832
Production taxes	2	**604**	1,307	1,611
Gross profit		**11,430**	16,625	18,621
Distribution and administration expenses	3	**6,044**	6,742	8,367
Exploration expense		**921**	962	997
		4,465	8,921	9,257
Other income	4	**709**	662	714
BP Amoco Group replacement cost operating profit	5	**5,174**	9,583	9,971
Share of profits of joint ventures	5	**825**	544	–
Share of profits of associated undertakings	5	**522**	556	663
Total replacement cost operating profit	5	**6,521**	10,683	10,634
Profit (loss) on sale of businesses	6	**395**	127	127
Profit (loss) on sale of fixed assets	6	**653**	313	(298)
Merger expenses	6	**(198)**	–	–
Refinery network rationalisation	6	**–**	(47)	(24)
European refining and marketing joint venture implementation	6	**–**	(265)	(267)
Replacement cost profit before interest and tax	5	**7,371**	10,811	10,172
Stock holding gains (losses)	5	**(1,391)**	(939)	1,172
Historical cost profit before interest and tax		**5,980**	9,872	11,344
Interest expense	7	**1,173**	1,032	1,128
Profit before taxation		**4,807**	8,840	10,216
Taxation	9	**1,520**	3,013	2,783
Profit after taxation		**3,287**	5,827	7,433
Minority shareholders' interest		**63**	151	13
Profit for the year		**3,224**	5,676	7,420
Distribution to shareholders	10	**4,121**	3,452	3,007
Retained profit (deficit) for the year		**(897)**	2,224	4,413
Earnings per BP Amoco Ordinary Share – cents				
Basic	11	**34**	59	78
Diluted	11	**33**	59	77

Replacement cost results				
Historical cost profit for the year		**3,224**	5,676	7,420
Stock holding (gains) losses		**1,391**	939	(1,172)
Replacement cost profit for the year		**4,615**	6,615	6,248
Exceptional items, net of tax	6	**(652)**	10	414
Replacement cost profit before exceptional items		**3,963**	6,625	6,662
Earnings per BP Amoco Ordinary Share – cents				
On replacement cost profit before exceptional items	11	**41**	69	70

BP Amoco Group balance sheet

At 31 December	Note	1998	1997	1996
				$ million
Fixed assets				
Intangible assets	17	**3,037**	2,582	2,594
Tangible assets	18	**54,880**	52,595	55,179
Investments				
Joint ventures – Gross assets		**9,053**	9,147	–
– Gross liabilities		**4,048**	3,523	–
Net investment	19	**5,005**	5,624	–
Associated undertakings	19	**4,162**	4,354	3,990
Other	19	**605**	398	174
		9,772	10,376	4,164
Total fixed assets		**67,689**	65,553	61,937
Current assets				
Stocks	20	**3,642**	4,923	7,652
Debtors – amounts falling due:				
Within one year	21	**9,404**	11,383	14,682
After more than one year	21	**3,305**	2,998	2,800
Investments	22	**470**	1,067	1,233
Cash at bank and in hand		**405**	355	347
		17,226	20,726	26,714
Creditors – amounts falling due within one year				
Finance debt	23	**2,837**	2,856	2,760
Other creditors	24	**15,329**	17,671	20,745
Net current assets (liabilities)		**(940)**	199	3,209
Total assets less current liabilities		**66,749**	65,752	65,146
Creditors – amounts falling due after more than one year				
Finance debt	23	**10,918**	10,021	10,088
Other creditors	24	**2,047**	2,501	2,789
Provisions for liabilities and charges				
Deferred taxation	9	**1,632**	1,183	1,203
Other provisions	25	**8,468**	8,337	8,519
Net assets		**43,684**	43,710	42,547
Minority shareholders' interest – equity		**1,072**	1,100	313
BP Amoco shareholders' interest		**42,612**	42,610	42,234
Represented by				
Capital and reserves				
Called up share capital	27	**4,863**	4,330	4,382
Share premium account	28	**3,056**	3,450	3,406
Capital redemption reserve	28	**330**	327	327
Merger reserve	28	**697**	650	673
Profit and loss account	28	**33,666**	33,853	33,446
	29	**42,612**	42,610	42,234

BP Amoco Group cash flow statement

For the year ended 31 December	Note	1998	1997	1996
				$ million
Net cash inflow from operating activities	30	**9,586**	15,558	13,679
Dividends from joint ventures		**544**	190	–
Dividends from associated undertakings		**422**	551	476
Servicing of finance and returns on investments				
Interest received		**223**	243	199
Interest paid		**(961)**	(911)	(1,109)
Dividends received		**43**	13	30
Dividends paid to minority shareholders		**(130)**	–	–
Net cash outflow from servicing of finance and returns on investments		**(825)**	(655)	(880)
Taxation				
UK corporation tax		**(391)**	(500)	(450)
Overseas tax		**(1,314)**	(1,773)	(1,981)
Tax paid		**(1,705)**	(2,273)	(2,431)
Capital expenditure and financial investment				
Payments for fixed assets		**(8,431)**	(8,600)	(8,924)
Purchase of shares for employee share schemes		**(254)**	(300)	(14)
Proceeds from the sale of fixed assets	16	**1,387**	1,468	973
Net cash outflow for capital expenditure and financial investment		**(7,298)**	(7,432)	(7,965)
Acquisitions and disposals				
Investments in associated undertakings		**(396)**	(1,021)	(383)
Acquisitions	15	**(314)**	–	(535)
Net investment in joint ventures		**708**	(1,967)	–
Proceeds from the sale of businesses	16	**780**	364	827
Net cash inflow (outflow) for acquisitions and disposals		**778**	(2,624)	(91)
Equity dividends paid		**(2,408)**	(2,437)	(2,411)
Net cash inflow (outflow)		**(906)**	878	377
Financing	30	**(377)**	1,012	828
Management of liquid resources	30	**(596)**	(167)	(147)
Increase (decrease) in cash	30	**67**	33	(304)
		(906)	878	377

Statement of total recognised gains and losses

For the year ended 31 December	Note	1998	1997	1996
				$ million
Profit for the year		**3,224**	5,676	7,420
Currency translation differences		**55**	(1,587)	367
Total recognised gains and losses relating to the year		**3,279**	4,089	7,787
Prior year adjustment – change in accounting policy	46	**862**		
Total recognised gains and losses since 1997 Annual Report		**4,141**		

1 Turnover

									$ million
			1998			1997			1996
Sales and operating revenue			**76,448**			100,913			128,325
Customs duties and sales taxes			**8,144**			9,153			26,261
BP Amoco Group turnover			**68,304**			91,760			102,064
Turnover[a]	Total sales	Sales between businesses	Sales to third parties	Total sales	Sales between businesses	Sales to third parties	Total sales	Sales between businesses	Sales to third parties
By business									
Exploration and Production	**17,276**	**5,060**	**12,216**	23,171	7,696	15,475	23,404	8,235	15,169
Refining and Marketing	**48,437**	**1,812**	**46,625**	67,704	2,421	65,283	78,741	2,715	76,026
Chemicals	**9,691**	**379**	**9,312**	11,445	592	10,853	10,979	313	10,666
Other businesses and corporate	**199**	**48**	**151**	149	–	149	203	–	203
BP Amoco Group turnover	**75,603**	**7,299**	**68,304**	102,469	10,709	91,760	113,327	11,263	102,064
Share of joint venture sales			**15,428**			16,804			–
			83,732			108,564			102,064
	Total sales	Sales between areas	Sales to third parties	Total sales	Sales between areas	Sales to third parties	Total sales	Sales between areas	Sales to third parties
By geographical area									
UK[b]	**22,510**	**2,848**	**19,662**	31,260	3,787	27,473	36,231	7,009	29,222
Rest of Europe	**5,823**	**700**	**5,123**	8,496	553	7,943	19,176	2,337	16,839
USA	**33,160**	**1,215**	**31,945**	41,760	1,438	40,322	42,766	1,595	41,171
Rest of World	**14,032**	**2,458**	**11,574**	19,399	3,377	16,022	18,219	3,387	14,832
	75,525	**7,221**	**68,304**	100,915	9,155	91,760	116,392	14,328	102,064
Share of joint venture sales									
UK			**3,467**			4,584			–
Rest of Europe			**14,186**			15,414			–
USA			**43**			41			–
Rest of World			**305**			71			–
			18,001			20,110			–
Sales between areas			**2,573**			3,306			–
			15,428			16,804			–

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

[b] UK area includes the UK-based international activities of Refining and Marketing.

2 Production taxes

			$ million
	1998	1997	1996
UK petroleum revenue tax	**45**	306	480
Overseas production taxes	**559**	1,001	1,131
	604	1,307	1,611

3 Distribution and administration expenses

			$ million
	1998	1997	1996
Distribution	**4,714**	5,178	6,927
Administration	**1,330**	1,564	1,440
	6,044	6,742	8,367

4 Other income

			$ million
	1998	1997	1996
Income from other fixed asset investments	**74**	101	173
Other interest and miscellaneous income	**635**	561	541
	709	662	714
Income from listed investments included above	**–**	2	3

5 Analysis of replacement cost profit

Profit	BP Amoco Group replacement cost operating profit[a]	Joint ventures	Associated undertakings	Total replacement cost operating profit[a]	Exceptional items[b]	Replacement cost profit before interest and tax
						$ million
						1998
By business						
Exploration and Production	**2,987**	**65**	**179**	**3,231**	**396**	**3,627**
Refining and Marketing	**1,712**	**760**	**92**	**2,564**	**394**	**2,958**
Chemicals	**950**	**–**	**150**	**1,100**	**43**	**1,143**
Other businesses and corporate	**(475)**	**–**	**101**	**(374)**	**17**	**(357)**
	5,174	**825**	**522**	**6,521**	**850**	**7,371**
By geographical area						
UK[c]	**1,796**	**127**	**8**	**1,931**	**(39)**	**1,892**
Rest of Europe	**345**	**633**	**271**	**1,249**	**106**	**1,355**
USA	**2,506**	**31**	**94**	**2,631**	**511**	**3,142**
Rest of World	**527**	**34**	**149**	**710**	**272**	**982**
	5,174	**825**	**522**	**6,521**	**850**	**7,371**
						1997
By business						
Exploration and Production	7,093	24	268	7,385	587	7,972
Refining and Marketing	1,688	520	84	2,292	(422)	1,870
Chemicals	1,405	–	125	1,530	(15)	1,515
Other businesses and corporate	(603)	–	79	(524)	(22)	(546)
	9,583	544	556	10,683	128	10,811
By geographical area						
UK[c]	2,741	34	(8)	2,767	(133)	2,634
Rest of Europe	574	486	272	1,332	(205)	1,127
USA	4,276	19	65	4,360	456	4,816
Rest of World	1,992	5	227	2,224	10	2,234
	9,583	544	556	10,683	128	10,811

5 Analysis of replacement cost profit (continued)

						$ million
						1996
Profit	BP Amoco Group replacement cost operating profit[a]	Joint ventures	Associated undertakings	Total replacement cost operating profit[a]	Exceptional items[b]	Replacement cost profit before interest and tax
By business						
Exploration and Production	7,535	–	228	7,763	(100)	7,663
Refining and Marketing	1,592	–	116	1,708	(313)	1,395
Chemicals	1,419	–	235	1,654	169	1,823
Other businesses and corporate	(575)	–	84	(491)	(218)	(709)
	9,971	–	663	10,634	(462)	10,172
By geographical area						
UK[c]	2,754	–	(12)	2,742	(255)	2,487
Rest of Europe	710	–	278	988	(186)	802
USA	4,206	–	59	4,265	133	4,398
Rest of World	2,301	–	338	2,639	(154)	2,485
	9,971	–	663	10,634	(462)	10,172

Stock holding gains (losses)	**1998**	1997	1996
By business			
Exploration and Production	**(17)**	12	8
Refining and Marketing[d]	**(1,228)**	(849)	1,076
Chemicals	**(146)**	(102)	88
	(1,391)	(939)	1,172
By geographical area			
UK	**(136)**	(85)	60
Rest of Europe	**(283)**	(103)	219
USA	**(720)**	(647)	717
Rest of World	**(252)**	(104)	176
	(1,391)	(939)	1,172

[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 profit or loss on the sale of businesses and fixed assets. In addition for 1998, they include merger expenses and for 1997 the write-back of certain 1995 refinery network rationalisation costs. See Note 6 for further details.

[c] UK area includes the UK-based international activities of Refining and Marketing.

[d] Includes $330 million stock holding losses in respect of joint ventures and associated undertakings (1997 $200 million losses and 1996 $nil).

6 Exceptional items

Exceptional items comprise profit (loss) on sale of businesses and fixed assets, merger expenses, refinery network rationalisation and European refining and marketing joint venture implementation costs as follows:

			$ million
	1998	1997	1996
Profit (loss) on sale of businesses			
– Group	**310**	250	127
– Joint ventures	**85**	(123)	–
Profit (loss) on sale of fixed assets – Group	**653**	313	(298)
	1,048	440	(171)
Merger expenses – Group	**(198)**	–	–
Refinery network rationalisation – Group	**–**	(47)	(24)
European refining and marketing joint venture implementation – Group	**–**	(265)	(267)
Exceptional items	**850**	128	(462)
Taxation credit (charge):			
Sale of businesses	**(36)**	(7)	(92)
Sale of fixed assets	**(185)**	(208)	52
Merger expenses	**23**	–	–
Refinery network rationalisation	**–**	24	25
European refining and marketing joint venture implementation	**–**	53	57
Exceptional items, net of tax	**652**	(10)	(420)
Minority shareholders' interest	**–**	–	6
	652	(10)	(414)

Sale of businesses and fixed assets

The principal sales of businesses and fixed assets during 1998 were exploration and production properties in the USA and Papua New Guinea, the refinery in Lima, Ohio, the sale and leaseback of the Amoco building in Chicago, Illinois, the retail network in the Czech Republic, the Adibis fuel additives business and a speciality chemicals distribution business. The profit on sale of businesses by joint ventures relates mainly to the disposal by the BP/Mobil joint venture of its retail network in Belgium.

The major element of the profit in 1997 comprised the sale of US exploration and production properties and an intrastate natural gas pipeline unit in Texas. The loss on sale of businesses by joint ventures related principally to the costs of the BP/Mobil joint venture terminating base oil manufacturing operations at Llandarcy in the UK.

The 1996 loss comprises the sale of the polystyrene foam products and Carborundum businesses, the BP America office building in Cleveland, Ohio, certain Canadian exploration and production properties, the BP Amoco Group's interest in the undeveloped Ross field in the North Sea and the floating production storage vessels Seillean.

Additional information on the sale of businesses and fixed assets is given in Note 16 – Disposals.

Merger expenses

BP Amoco incurred fees and expenses of $198 million in connection with the merger of BP and Amoco. These costs relate principally to investment banking fees as well as legal, accounting and regulatory filing fees.

Refinery network rationalisation

The charge for refinery network rationalisation in 1997 of $47 million (1996 $24 million) represents the balance of the costs associated with the rationalisation of the BP Amoco Group's international refining system announced in 1995.

6 Exceptional items (continued)

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 $265 million in 1997 and $267 million in 1996. These costs include $265 million (1996 $226 million) which represents the BP Amoco Group's share of charges for severance, restructuring, rebranding and other implementation charges and in 1996, $41 million of own costs of asset write-downs and professional fees.

7 Interest expense

			$ million
	1998	1997	1996
Bank loans and overdrafts	**158**	188	170
Other loans	**762**	651	765
Finance leases	**90**	102	82
Accretion of discount on provisions	**120**	124	124
	1,130	1,065	1,141
Capitalised	**119**	116	81
Group	**1,011**	949	1,060
Joint ventures	**54**	–	–
Associated undertakings	**108**	83	68
Total charged against profit	**1,173**	1,032	1,128

Interest expense for 1996 included net charges of $75 million relating to early redemption of debt.

8 Depreciation and amounts provided

			$ million
Included in the income statement under the following headings:	**1998**	1997	1996
Depreciation			
Replacement cost of sales	**4,666**	4,631	4,680
Distribution	**335**	390	640
Administration	**100**	88	101
Exceptional items	**–**	8	5
	5,101	5,117	5,426
Depreciation of capitalised leased assets included above	**71**	76	90
Amounts provided against fixed asset investments			
Replacement cost of sales	**200**	–	–

The charge for depreciation in 1998 includes $214 million for the impairment of the Opon field in Colombia and $61 million for the write-down of various other oil and natural gas properties. The impairment of the Opon field reflected lower than anticipated natural gas production and related reserve estimates. The charge also reflected impairment of the adjacent power plant because of the unavailability of an economic fuel supply.

As a result of increased economic uncertainty in Russia, the BP Amoco Group has written down the carrying value of its investment in A O Sidanco by $200 million.

In assessing the value in use of impaired assets, a real discount rate of 7 per cent has been used.

9 Taxation

			$ million
	1998	1997	1996
United Kingdom corporation tax:			
Current at 31% (1997 at 31.5% and 1996 at 33%)	**1,325**	1,329	1,353
Overseas tax relief	**(566)**	(777)	(624)
	759	552	729
Deferred at 31% (1997 at 31.5% and 1996 at 33%)	**(188)**	217	32
	571	769	761
Advance corporation tax	**(76)**	(116)	(188)
	495	653	573
Overseas:			
Current	**896**	2,247	1,999
Deferred	**(4)**	7	80
Joint ventures	**(15)**	–	–
Associated undertakings	**148**	106	131
	1,025	2,360	2,210
Taxation charge for the year	**1,520**	3,013	2,783

Included in the charge for the year is a charge of $198 million (1997 $138 million charge and 1996 $42 million credit) relating to exceptional items.

Provisions for deferred taxation

				$ million
	Provisions		Gross potential liability	
Analysis of movements during the year:	**1998**	1997	**1998**	1997
At 1 January	**1,183**	1,203	**5,817**	5,824
Exchange adjustments	**37**	(52)	**20**	(165)
Charge (credit) for the year	**(192)**	224	**177**	350
Deletions/transfers	**604**	(192)	**604**	(192)
At 31 December	**1,632**	1,183	**6,618**	5,817
of which – United Kingdom	**927**	499	**1,577**	1,185
– Overseas	**705**	684	**5,041**	4,632
Analysis of provision:				
Depreciation	**2,413**	2,492	**9,905**	9,903
Petroleum revenue tax	**(420)**	(484)	**(420)**	(484)
Other timing differences	**(328)**	(176)	**(2,834)**	(2,877)
Advance corporation tax	**(33)**	(649)	**(33)**	(725)
	1,632	1,183	**6,618**	5,817

9 Taxation (continued)

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 (decreased) as follows:

			$ million
	1998	1997	1996
United Kingdom	**(40)**	83	180
Overseas	**409**	43	191
	369	126	371

Deferred taxation is not generally provided in respect of liabilities which may arise on the distribution of accumulated reserves of overseas subsidiaries, joint ventures and associates.

Reconciliation of the UK statutory tax rate to the effective rate of the group:			%
	1998	1997	1996
UK statutory tax rate	**31**	31	33
Increase (decrease) resulting from:			
Current year timing differences not provided (including prior year loss utilisation)	**(6)**	(4)	(6)
Relief for stock holding losses	**(3)**	(1)	1
Overseas taxes at higher rates	**4**	4	3
Tax credits	**(2)**	(2)	(2)
Advance corporation tax	**(1)**	(1)	(2)
Other	**2**	3	3
Effective tax rate on replacement cost profit before exceptional items	**25**	30	30

10 Distribution to BP Amoco Shareholders

		pence per share			cents per share			$ million		
		1998	1997	1996	**1998**	1997	1996	**1998**	1997	1996
BP										
Preference dividends (non-equity)								**1**	1	1
Dividends per ordinary share:	First quarterly	**5.75**	5.25	4.25	**9.5**	8.6	6.6	**551**	490	373
	Second quarterly	**6.00**	5.50	5.00	**10.0**	9.0	7.8	**579**	517	438
	Third quarterly	**6.00**	5.50	5.00	**10.0**	9.0	7.8	**584**	519	443
	Fourth quarterly	**–**	5.75	5.25	**–**	9.4	8.2	**–**	543	465
		17.75	22.00	19.50	**29.5**	36.0	30.4	**1,715**	2,070	1,720
Amoco										
Dividends per common stock:	First quarterly				**37.5**	35.0	32.5	**362**	345	312
	Second quarterly				**37.5**	35.0	32.5	**360**	349	323
	Third quarterly				**37.5**	35.0	32.5	**358**	344	323
	Fourth quarterly				**37.5**	35.0	32.5	**358**	344	329
					150.0	140.0	130.0	**1,438**	1,382	1,287
BP Amoco										
Dividend per ordinary share:	Fourth quarterly	**6.119**	–	–	**10.0**	–	–	**968**	–	–
Total BP Amoco Group								**4,121**	3,452	3,007

On an ordinary share equivalent basis, the Amoco quarterly dividends for 1998 were 9.4 cents (1997 8.8 cents and 1996 8.2 cents).

11 Earnings per BP Amoco Ordinary Share

	cents per share		
	1998	1997	1996
Basic earnings per share	**34**	59	78
Diluted earnings per share	**33**	59	77

The calculation of basic earnings per BP Amoco Ordinary Share is based on the profit attributable to BP Amoco Ordinary Shareholders i.e. profit for the year less preference dividends, related to the weighted average number of BP Amoco Ordinary Shares in issue during the year. The weighted average number of shares includes the weighted average number of Amoco common stock multiplied by the conversion ratio of 3.97:1. The profit attributable to BP Amoco Ordinary Shareholders is $3,223 million (1997 $5,675 million and 1996 $7,419 million). The average number of shares outstanding excludes the shares held by the Employee Share Ownership Plans.

For BP Amoco, the calculation of diluted earnings per share is based on profit attributable to BP Amoco Ordinary Shareholders as for basic earnings per share. However, the number of shares outstanding is adjusted to show the potential dilution if employee share options are converted into BP Amoco Ordinary Shares. The number of BP Amoco Ordinary Shares outstanding for basic and diluted earnings per share may be reconciled as follows:

	1998	1997	1996
Weighted average number of BP Amoco Ordinary Shares	**9,596**	9,592	9,559
BP Amoco Ordinary Shares issuable under employee share schemes	**42**	49	43
	9,638	9,641	9,602

In addition to basic 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.

11 Earnings per BP Amoco Ordinary Share (continued)

	cents per share		
	1998	1997	1996
Profit for the year	**34**	59	78
Stock holding (gains) losses	**14**	10	(12)
Replacement cost profit for the year	**48**	69	66
Exceptional items, net of tax	**(7)**	–	4
Replacement cost profit before exceptional items	**41**	69	70

12 Hire charges and expenditure on research

	$ million		
	1998	1997	1996
Hire charges under operating leases:			
Tanker charters	**396**	447	441
Plant and machinery	**429**	335	386
Land and buildings	**315**	268	364
	1,140	1,050	1,191
Expenditure on research	**412**	382	369

13 Auditors' remuneration

	$ million					
	1998		1997		1996	
	UK	Total	UK	Total	UK	Total
Audit fees – Ernst & Young						
BP Amoco Group audit	**5.8**	**12.1**	3.9	8.9	4.1	8.4
Local statutory audit and quarterly review	**0.8**	**5.1**	0.7	4.2	0.6	4.2
	6.6	**17.2**	4.6	13.1	4.7	12.6
Audit fees – PricewaterhouseCoopers						
BP Amoco Group audit	**0.1**	**2.7**	0.1	2.8	0.1	2.6
Local statutory audit and quarterly review	**0.2**	**0.9**	0.2	1.1	0.1	1.3
	0.3	**3.6**	0.3	3.9	0.2	3.9
Total group	**6.9**	**20.8**	4.9	17.0	4.9	16.5
Fees for other services – Ernst & Young						
Sales of businesses and merger transaction fees	**3.5**	**3.5**	1.5	1.5	1.6	2.3
Consultancy, tax and other advisory services	**5.2**	**21.7**	3.4	16.3	4.0	18.1
	8.7	**25.2**	4.9	17.8	5.6	20.4

Fees to major firms of accountants other than Ernst & Young for non-audit services amounted to $181 million (1997 $175 million and 1996 $102 million).

14 BP Amoco Group balance sheet analysis

$ million

	Capital expenditure and acquisitions			Operating capital employed		
	1998	1997	1996	**1998**	1997	1996
By business						
Exploration and Production	**6,318**	7,879	6,433	**39,165**	36,773	34,656
Refining and Marketing	**1,937**	1,824	1,731	**13,256**	14,764	15,033
Chemicals	**1,606**	1,145	1,964	**10,516**	10,010	9,859
Other businesses and corporate	**501**	572	160	**(1,845)**	(1,035)	(793)
	10,362	11,420	10,288	**61,092**	60,512	58,755
By geographical area						
UK[a]	**2,463**	2,413	2,280	**14,188**	12,853	12,077
Rest of Europe	**1,248**	1,243	1,121	**5,053**	4,821	5,308
USA	**3,720**	3,315	4,005	**26,740**	26,563	25,983
Rest of World	**2,931**	4,449	2,882	**15,111**	16,275	15,387
	10,362	11,420	10,288	**61,092**	60,512	58,755
Includes the following amounts for the BP/Mobil joint venture	**620**	646	–			

[a]UK area includes the UK-based international activities of Refining and Marketing.

	1998	1997	1996
Operating capital employed	**61,092**	60,512	58,755
Liabilities for current and deferred taxation	**(3,653)**	(3,925)	(3,360)
Capital employed	**57,439**	56,587	55,395
Financed by:			
Finance debt	**13,755**	12,877	12,848
Minority shareholders' interest	**1,072**	1,100	313
BP Amoco shareholders' interest	**42,612**	42,610	42,234
	57,439	56,587	55,395

15 Acquisitions

During 1998 the BP Amoco Group acquired Styrenix Kunststoffe, a plastics business based in Germany, and a number of minor refining and marketing businesses. In 1997 BP Amoco and Shell Oil completed the formation of Altura Energy, a partnership combining their oil and natural gas interests in west Texas and southeast New Mexico, USA. Altura Energy is consolidated within these accounts. In 1996 BP Amoco acquired the alpha-olefins and related businesses of Albermarle Corporation for $535 million.

The cost of acquisitions in the BP Amoco Group cash flow statement comprises:

			$ million
	1998	1997	1996
Goodwill	**38**	–	–
Other intangible assets	**1**	–	–
Tangible assets	**194**	810	395
Fixed assets – investments	**71**	–	–
Working capital	**27**	25	140
MSI	**–**	(835)	–
	331	–	535
Finance debt	**(17)**	–	–
Cash consideration	**314**	–	535
Cash acquired	**–**	–	–
Net cash outflow	**314**	–	535

Investment in associated undertakings in 1997 included the acquisition of a 10 per cent interest in A O Sidanco, a Russian integrated oil company, for $484 million. The investment in joint ventures in 1997 as well as the operational funding of the BP/Mobil joint venture included the acquisition of a 60 per cent interest in Pan American Energy in Argentina and a 50 per cent interest in Empresa Petrolera Chaco in Bolivia, two oil- and natural gas-producing companies, for $865 million.

16 Disposals

The principal divestments during 1998 were exploration and production properties in the USA and Papua New Guinea, the refinery in Lima, Ohio, the sale and leaseback of the Amoco building in Chicago, Illinois, the retail network in the Czech Republic, the Adibis fuel additives business and a speciality chemicals distribution business.

In 1997 the major disposals were the sale of US exploration and production properties and an intrastate natural gas pipeline in Texas. Other divestments included 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 polystyrene foam products and Carborundum businesses, the BP America office building in Cleveland, Ohio, certain Canadian exploration and production properties, the BP Amoco 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
	1998	1997	1996
Proceeds from the sale of businesses	**780**	364	827
Proceeds from the sale of fixed assets	**1,387**	1,468	973
	2,167	1,832	1,800

16 Disposals (continued)

The disposals comprise the following:

			$ million
	1998	1997	1996
Intangible assets	**151**	21	67
Tangible assets	**945**	1,184	1,508
Fixed assets – investments	**157**	40	62
Working capital	**88**	203	355
Other	**(125)**	(110)	(135)
	1,216	1,338	1,857
Profit (loss) on sale of businesses	**310**	250	127
Profit (loss) on sale of fixed assets	**653**	313	(298)
Total consideration	**2,179**	1,901	1,686
Deferred consideration	**(9)**	(69)	137
Cash transferred on sale	**(3)**	–	(23)
Net cash inflow	**2,167**	1,832	1,800

17 Intangible assets

				$ million
	Exploration expenditure	Goodwill	Other intangibles	Total
Cost				
At 1 January 1997	3,220	187	563	3,970
Exchange adjustments	(18)	6	(10)	(22)
Additions	932	2	8	942
Transfers	(457)	–	18	(439)
Assets used by the BP/Mobil joint venture	–	(71)	(123)	(194)
Deletions	(438)	(18)	(91)	(547)
At 31 December 1997	3,239	106	365	3,710
Depreciation				
At 1 January 1997	978	96	302	1,376
Exchange adjustments	(21)	(6)	1	(26)
Charge for the year	365	7	13	385
Transfers	–	–	11	11
Assets used by the BP/Mobil joint venture	–	(28)	(64)	(92)
Deletions	(521)	(2)	(3)	(526)
At 31 December 1997	801	67	260	1,128

17 Intangible assets (continued)

$ million

	Exploration expenditure	Goodwill	Other intangibles	Total
Cost				
At 1 January 1998	3,239	106	365	3,710
Exchange adjustments	(7)	3	4	–
Acquisitions	–	38	1	39
Additions	1,058	1	11	1,070
Transfers	(79)	(6)	(27)	(112)
Deletions	(610)	(3)	(16)	(629)
At 31 December 1998	**3,601**	**139**	**338**	**4,078**
Depreciation				
At 1 January 1998	801	67	260	1,128
Exchange adjustments	9	3	2	14
Charge for the year	373	14	10	397
Transfers	–	(4)	(16)	(20)
Deletions	(468)	(1)	(9)	(478)
At 31 December 1998	**715**	**79**	**247**	**1,041**
Net book amount				
At 31 December 1998	**2,886**	**60**	**91**	**3,037**
At 31 December 1997	2,438	39	105	2,582
At 31 December 1996	2,242	91	261	2,594

18 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	74,867	26,360	12,278	2,010	115,515	6,209
Prior year adjustment – change in accounting policy	1,636	–	–	–	1,636	–
Restated	76,503	26,360	12,278	2,010	117,151	6,209
Exchange adjustments	(698)	(815)	(272)	23	(1,762)	(62)
Acquisitions	810	–	–	–	810	–
Additions	5,095	1,088	1,028	175	7,386	4,832
Transfers	(252)	(57)	(112)	–	(421)	(4,715)
Assets used by the BP/ Mobil joint venture	–	(7,660)	–	–	(7,660)	(48)
Deletions	(903)	(610)	(277)	(138)	(1,928)	(33)
At 31 December 1997	80,555	18,306	12,645	2,070	113,576	6,183
Depreciation						
At 1 January 1997	40,902	13,240	5,619	911	60,672	
Prior year adjustment – change in accounting policy	1,300	–	–	–	1,300	
Restated	42,202	13,240	5,619	911	61,972	
Exchange adjustments	(379)	(335)	(165)	12	(867)	
Charge for the year	3,584	837	558	118	5,097	
Transfers	–	(11)	–	–	(11)	
Assets used by the BP/ Mobil joint venture	–	(4,466)	–	–	(4,466)	
Deletions	(205)	(376)	(116)	(47)	(744)	
At 31 December 1997	45,202	8,889	5,896	994	60,981	

18 Tangible assets – property, plant and equipment (continued)

$ million

	Exploration and Production	Refining and Marketing	Chemicals	Other businesses and corporate	Total	of which: Assets under construction
Cost						
At 1 January 1998	80,555	18,306	12,645	2,070	113,576	6,183
Exchange adjustments	309	(181)	169	6	303	(9)
Acquisitions	–	17	177	–	194	–
Additions	5,293	1,165	1,175	198	7,831	4,339
Transfers	455	(164)	195	99	585	(5,541)
Deletions	(1,804)	(991)	(183)	(469)	(3,447)	(827)
At 31 December 1998	**84,808**	**18,152**	**14,178**	**1,904**	**119,042**	**4,145**
Depreciation						
At 1 January 1998	45,202	8,889	5,896	994	60,981	
Exchange adjustments	335	(46)	73	2	364	
Charge for the year	3,698	789	478	112	5,077	
Transfers	127	(41)	108	48	242	
Deletions	(1,306)	(847)	(120)	(229)	(2,502)	
At 31 December 1998	**48,056**	**8,744**	**6,435**	**927**	**64,162**	
Net book amount						
At 31 December 1998	**36,752**	**9,408**	**7,743**	**977**	**54,880**	**4,145**
At 31 December 1997	35,353	9,417	6,749	1,076	52,595	6,183
At 31 December 1996	34,301	13,119	6,660	1,099	55,179	6,209

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 1998	**1,887**	**918**	**969**	**2,843**	**1,661**	**1,182**
At 31 December 1997	1,949	893	1,056	2,814	1,684	1,130
At 31 December 1996	2,080	920	1,160	2,792	1,668	1,124

	Freehold land	Leasehold land	
		Over 50 years unexpired	Other
At 31 December 1998	**963**	**42**	**29**
At 31 December 1997	964	41	30
At 31 December 1996	1,539	53	54

19 Fixed assets – investments

$ million

	Associated undertakings			Joint ventures	Loans	Own shares[a]	Other[b]	Total
	Shares	Loans	Share of retained profit					
Cost								
At 1 January 1997	1,953	766	1,303	–	54	15	107	4,198
Exchange adjustments	(184)	(6)	(227)	(317)	–	4	(11)	(741)
Additions and net movements in joint ventures	365	31	(156)	1,760	18	300	8	2,326
Acquisitions	507	–	–	–	–	–	–	507
Transfers	27	32	–	850	–	–	(49)	860
Assets used by the BP/Mobil joint venture	(7)	–	–	3,331	(23)	–	(10)	3,291
Deletions	–	(24)	(3)	–	(10)	–	(3)	(40)
At 31 December 1997	2,661	799	917	5,624	39	319	42	10,401
Amounts provided								
At 1 January 1997	32	–	–	–	–	–	2	34
Exchange adjustments	(4)	–	–	–	–	–	–	(4)
Provided in the year	–	–	–	–	–	–	–	–
Assets used by the BP/Mobil joint venture	(5)	–	–	–	–	–	–	(5)
At 31 December 1997	23	–	–	–	–	–	2	25

19 Fixed assets – investments (continued)

$ million

	Associated undertakings			Joint ventures	Loans	Own shares[a]	Other[b]	Total
	Shares	Loans	Share of retained profit					
Cost								
At 1 January 1998	2,661	799	917	5,624	39	319	42	10,401
Exchange adjustments	48	1	45	148	(3)	2	4	245
Additions and net movements in joint ventures	244	82	(165)	(752)	19	254	6	(312)
Acquisitions	71	–	–	–	–	–	–	71
Transfers	(234)	(9)	(7)	(15)	25	–	–	(240)
Deletions	(31)	(38)	(7)	–	–	(86)	(1)	(163)
At 31 December 1998	**2,759**	**835**	**783**	**5,005**	**80**	**489**	**51**	**10,002**
Amounts provided								
At 1 January 1998	23	–	–	–	–	–	2	25
Exchange adjustments	1	–	–	–	–	–	(1)	–
Provided in the year	200	–	–	–	–	–	–	200
Transfers	(3)	–	–	–	14	–	–	11
Deletions	(6)	–	–	–	–	–	–	(6)
At 31 December 1998	**215**	**–**	**–**	**–**	**14**	**–**	**1**	**230**
Net book amount								
At 31 December 1998	**2,544**	**835**	**783**	**5,005**	**66**	**489**	**50**	**9,772**
At 31 December 1997	2,638	799	917	5,624	39	319	40	10,376
At 31 December 1996	1,921	766	1,303	—	54	15	105	4,164

[a] Own shares are held in Employee Share Ownership Plans (ESOPs) to meet the future requirements of the Employee Share Schemes (see Note 32) and prior to award under the Long Term Performance Plan (see Note 33). At 31 December 1998 the ESOPs held 31,384,000 (1997 – 18,790,000) shares for the Employee Share Schemes and 3,133,000 (1997 – 3,274,000) shares for the Long Term Performance Plan. The market value of these shares at 31 December 1998 was $517 million (1997 – $292 million).

[b] Other investments are unlisted.

20 Stocks

$ million

	1998	1997
Petroleum	**1,896**	3,140
Chemicals	**917**	1,043
Other	**174**	86
	2,987	4,269
Stores	**655**	654
	3,642	4,923
Replacement cost	**3,747**	4,985

21 Debtors

				$ million
		1998		1997
	Within 1 year	After 1 year	Within 1 year	After 1 year
Trade	**5,778**	**–**	7,725	–
Joint ventures	**644**	**–**	905	–
Associated undertakings	**153**	**7**	154	3
Prepayments and accrued income	**786**	**509**	773	164
Taxation recoverable	**248**	**165**	50	242
Pension prepayment	**–**	**2,213**	–	1,880
Other	**1,795**	**411**	1,776	709
	9,404	**3,305**	11,383	2,998

22 Current assets – investments

		$ million
	1998	1997
Listed – UK	**48**	50
– Foreign	**33**	31
	81	81
Unlisted	**389**	986
	470	1,067
Stock exchange value of listed investments	**83**	81

23 Finance debt

				$ million
		1998		1997
	Within 1 year	After 1 year	Within 1 year	After 1 year
Bank loans and overdrafts	**302**	**1,778**	426	1,574
Other loans	**2,434**	**7,357**	2,338	6,647
Total borrowings	**2,736**	**9,135**	2,764	8,221
Obligations under finance leases	**101**	**1,783**	92	1,800
	2,837	**10,918**	2,856	10,021

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. Total borrowings include $86 million (1997 – $113 million) for the carrying value of currency swaps.

23 Finance debt (continued)

$ million

Analysis of borrowings by year of repayment		1998 Bank loans and overdrafts	1998 Other loans	1998 Total	1997 Bank loans and overdrafts	1997 Other loans	1997 Total
Due after	5 years	**277**	**4,493**	**4,770**	373	4,012	4,385
Due within	5 years	**201**	**365**	**566**	332	1,084	1,416
	4 years	**785**	**1,081**	**1,866**	347	453	800
	3 years	**288**	**652**	**940**	301	430	731
	2 years	**227**	**766**	**993**	221	668	889
		1,778	**7,357**	**9,135**	1,574	6,647	8,221
	1 year	**302**	**2,434**	**2,736**	426	2,338	2,764
		2,080	**9,791**	**11,871**	2,000	8,985	10,985

Amounts included above repayable by instalments part of which falls due after five years from 31 December are as follows:

		1998	1997
After	5 years	**174**	114
Within	5 years	**406**	465
		580	579

Interest rates on borrowings repayable wholly or partly more than five years from 31 December 1998 range from 3 per cent to 10 per cent with a weighted average of 6 per cent. The weighted average interest rate on finance debt is 7 per cent.

At 31 December 1998 the BP Amoco Group had substantial amounts of undrawn borrowing facilities available, including $2,800 million (1997 – $2,500 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 and borrowings would be at pre-agreed rates. Certain of these facilities support the BP Amoco Group's commercial paper programme.

	1998						1997
	Fixed rate debt			Floating rate debt			
	Weighted average interest rate	Weighted average time for which rate is fixed	Amount	Weighted average interest rate	Amount	Total	Total
Analysis of borrowings by currency	%	Years	**$ million**	%	**$ million**	**$ million**	$ million
US dollars	7	10	**7,392**	5	**3,460**	**10,852**	9,993
Sterling	–	–	**–**	6	**613**	**613**	679
South African rands	–	–	**–**	15	**42**	**42**	63
Other currencies	7	9	**189**	7	**175**	**364**	250
Total loans			**7,581**		**4,290**	**11,871**	10,985

The BP Amoco Group aims for a balance between floating and fixed interest rates and, in 1998, BP's upper limit for the proportion of floating rate debt was 65 per cent of total net debt while Amoco's upper limit was 60 per cent of total debt outstanding. Aside from debt issued in the US municipal bond markets, interest rates on floating rate debt denominated in US dollars are linked principally to LIBOR, while rates on debt in other currencies are based on local market equivalents. The BP Amoco 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 per cent in the general level of interest rates on 1 January 1999 would change 1999 profit before tax by approximately $55 million.

23 Finance debt (continued)

Fair values and carrying amounts of borrowings	1998 Fair value	1998 Carrying amount	1997 Fair value	1997 Carrying amount
				$ million
Short-term borrowings	**1,659**	**1,659**	1,817	1,817
Long-term borrowings	**10,555**	**10,126**	9,319	9,055
Total borrowings	**12,214**	**11,785**	11,136	10,872

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). Long-term borrowings include debt which matures in the year from 31 December 1998, whereas in the balance sheet long-term debt of current maturity is reported under amounts falling due within one year. The carrying amounts of the BP Amoco Group's short-term borrowings, which mainly comprise commercial paper, bank loans and overdrafts, approximate their fair value. The fair value of the BP Amoco Group's long-term borrowings is estimated using quoted prices or, where these are not available, discounted cash flow analyses, based on the BP Amoco Group's current incremental borrowing rates for similar types and maturities of borrowing.

Obligations under finance leases		1998	1997
			$ million
Minimum future lease payments payable within:	1 year	**119**	123
	2 to 5 years	**736**	743
	Thereafter	**3,882**	4,044
		4,737	4,910
Less finance charges		**2,853**	3,018
Net obligations		**1,884**	1,892

24 Other creditors

	1998 Within 1 year	1998 After 1 year	1997 Within 1 year	1997 After 1 year
				$ million
Trade	**5,091**	**–**	5,854	–
Joint ventures	**205**	**–**	241	–
Associated undertakings	**154**	**4**	272	2
Production taxes	**241**	**1,238**	408	1,503
Taxation on profits	**2,395**	**39**	3,034	–
Social security	**14**	**–**	26	–
Accruals and deferred income	**2,642**	**454**	2,928	417
Dividends	**1,552**	**–**	1,074	–
Other	**3,035**	**312**	3,834	579
	15,329	**2,047**	17,671	2,501

25 Other provisions

$ million

	Decommissioning	Environmental	Unfunded pension plans	Other post-retirement benefits	Other	Total
At 1 January 1997	3,153	1,620	1,602	2,377	259	9,011
Prior year adjustment – change in accounting policy	(296)	(350)	–	–	154	(492)
Restated	2,857	1,270	1,602	2,377	413	8,519
Exchange adjustments	(28)	(17)	(199)	(1)	–	(245)
New provisions	57	–	–	–	–	57
Charged to income	–	34	268	114	60	476
Released to income	–	(55)	–	–	–	(55)
Accretion of discount	85	34	–	–	5	124
Utilised/deleted	(85)	(127)	(145)	(142)	(40)	(539)
At 31 December 1997	**2,886**	**1,139**	**1,526**	**2,348**	**438**	**8,337**
At 1 January 1998	2,886	1,139	1,526	2,348	438	8,337
Exchange adjustments	10	2	99	–	–	111
New provisions	130	–	–	–	–	130
Charged to income	–	13	195	101	68	377
Accretion of discount	86	30	–	–	4	120
Utilised/deleted	(31)	(310)	(53)	(138)	(75)	(607)
At 31 December 1998	**3,081**	**874**	**1,767**	**2,311**	**435**	**8,468**

At 31 December 1998 the provision for the costs of decommissioning the BP Amoco Group's oil and natural gas production facilities and pipelines at the end of their economic lives was $3,081 million. These costs are expected to be incurred over the next 30 years. The provision has been estimated using existing technology, at current prices and discounted using a real discount rate of 3 per cent.

The provision for environmental liabilities at 31 December 1998 was $874 million. This represents primarily the estimated environmental restoration and remediation costs for closed sites or facilities that have been sold. These costs are expected to be incurred over the next 10 years. The provision has been estimated using existing technology, at current prices, and discounted using a real discount rate of 3 per cent.

The BP Amoco Group also holds provisions for potential future awards under the long-term performance plan, expected rental shortfalls on surplus properties and sundry other liabilities. If these liabilities are not expected to be settled within the next 3 years, the provisions are discounted using a real discount rate of 3 per cent.

26 Derivative financial instruments

In the normal course of business the BP Amoco 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, including management of the balance between floating rate and fixed rate debt. The BP Amoco Group also manages its exposure to some movements in oil and natural gas prices. The underlying economic currency of the BP Amoco Group's cash flows is mainly US dollars. Accordingly, most of the BP Amoco Group's borrowings are in US dollars, are hedged with respect to the US dollar 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. In addition, the BP Amoco Group trades derivatives in conjunction with these risk management activities. The results of trading are recognised in the current period.

These derivatives involve, to varying degrees, credit and market risk. With regard to credit risk, the BP Amoco Group may be exposed to loss in the event of non-performance by a counterparty. The BP Amoco 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 BP Amoco Group has not experienced material non-performance by any counterparty.

26 Derivative financial instruments (continued)

Market risk is the possibility that a change in interest rates, currency exchange rates or oil and natural gas 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 BP Amoco Group to market risk because the exposure to market risk created by the derivative is offset by the opposite exposure arising from the asset, liability or transaction being hedged. When derivatives are held for trading purposes, the exposure of the BP Amoco Group to market risk is represented by potential 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

		1998			1997		
		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	**69**	**(328)**	**(45)**	54	(240)	(53)
	– foreign exchange contracts	**181**	**(160)**	**(75)**	153	(187)	126
	– oil price contracts	**12**	**(5)**	**7**	20	(25)	(5)
	– natural gas price contracts	**51**	**(44)**	**–**	20	(20)	–
Trading	– interest rate contracts	**–**	**–**	**–**	1	(7)	(6)
	– foreign exchange contracts	**30**	**(39)**	**(9)**	42	(40)	2
	– oil price contracts	**134**	**(123)**	**11**	160	(114)	46

Interest rate contracts include forward and futures contracts, swap agreements and options. Foreign exchange contracts include forward and futures contracts, swap agreements and options. Oil and natural gas 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

	1998	1997
	Average net fair value asset (liability)	Average net fair value asset (liability)
Interest rate contracts	**(8)**	(3)
Foreign exchange contracts	**21**	1
Oil price contracts	**54**	24
	67	22

The BP Amoco 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 per cent 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.

26 Derivative financial instruments (continued)

The BP Amoco 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
				1998		1997
	High	Low	Average	Year end	Average	Year end
Interest rate contracts	**6**	**–**	**2**	**–**	3	2
Foreign exchange rate contracts	**6**	**–**	**4**	**–**	3	2
Oil price contracts	**13**	**4**	**8**	**12**	6	4

In the light of evolving disclosure requirements in both the UK and the US, the presentation of trading results shown below includes certain activities of the BP Amoco 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 BP Amoco 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
	1998	1997
	Net gain (loss)	Net gain
Interest rate contracts	**(26)**	2
Foreign exchange contracts	**38**	23
Oil price contracts	**215**	144
	227	169

27 Called up share capital

During 1998 BP's authorised share capital of £2,000 million was redenominated and increased to 12 billion ordinary shares of $0.50 each amounting to $6 billion plus preference shares of £12,750,000 ($21 million). On 31 December 1998, BP issued 3,797,071,800 BP Amoco Ordinary Shares to Amoco shareholders on completion of the BP/Amoco merger. Further details of movements in share capital are shown in Note 28.

27 Called up share capital (continued)

The allotted, called up and fully paid share capital at 31 December was as follows:

	1998		1997	
	Shares	**$ million**	**Shares**	**$ million**
Non-equity				
8% (now 5.6%+tax credit) cumulative first preference shares of £1 each	**7,232,838**	**12**	7,232,838	12
9% (now 6.3%+tax credit) cumulative second preference shares of £1 each	**5,473,414**	**9**	5,473,414	9
Equity				
Ordinary shares of 50 cents each	**9,683,010,023**	**4,842**	3,835,209,036	1,918
Ordinary shares of 25 pence each	**–**	**–**	5,762,583,600	2,391
		4,863		4,330

On a show-of-hands vote on an ordinary resolution at a general meeting, Shareholders present in person or by proxy have one vote each. Special resolutions are voted on by poll. On a poll, Shareholders present in person or by proxy have two votes for every £5 in nominal amount of the BP Amoco Preference Shares held and one vote for every BP Amoco Ordinary Share held.

In the event of the winding up of the Company holders of BP Amoco Preference Shares would be entitled to a sum equal to the capital paid up on the BP Amoco Preference Shares plus an amount in respect of accrued and unpaid dividends and a premium equal to the higher of (i) 10 per cent of the capital paid up on the BP Amoco Preference Shares and (ii) the excess of the average market price over par value of such shares on the London Stock Exchange during the previous six months.

28 Capital and reserves

						$ million
	Share capital	Share premium account	Capital redemption reserve	Merger reserve	Profit and loss account	Total
At 1 January 1997	4,382	3,406	327	673	32,230	41,018
Prior year adjustment – change in accounting policy	–	–	–	–	1,216	1,216
Restated	4,382	3,406	327	673	33,446	42,234
Employee share schemes – Amoco	8	–	–	92	–	100
Employee share schemes – BP	10	144	–	–	–	154
Share dividend plan – BP	36	(36)	–	–	907	907
Share repurchases – Amoco	(64)	–	–	(115)	(1,243)	(1,422)
Profit for the year	–	–	–	–	5,676	5,676
Dividends	–	–	–	–	(3,452)	(3,452)
Exchange adjustment	(42)	(64)	–	–	(1,481)	(1,587)
At 31 December 1997	**4,330**	**3,450**	**327**	**650**	**33,853**	**42,610**
At 1 January 1998	4,330	3,450	327	650	33,853	42,610
Employee share schemes – Amoco	8	–	–	97	–	105
Employee share schemes – BP	5	117	–	–	(42)	80
Share dividend plan – BP	46	(46)	–	–	1,243	1,243
Share repurchases – Amoco	(27)	–	–	(50)	(507)	(584)
Redenomination of BP shares into US dollars	484	(484)	–	–	–	–
Profit for the year	–	–	–	–	3,224	3,224
Dividends	–	–	–	–	(4,121)	(4,121)
Exchange adjustment	17	19	3	–	16	55
At 31 December 1998	**4,863**	**3,056**	**330**	**697**	**33,666**	**42,612**

28 Capital and reserves (continued)

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

	1998	1997
	$ million	
Parent company	**16**	16
Subsidiary undertakings	**5,195**	5,469
Associated undertakings	**1,162**	1,144
	6,373	6,629

The movements in the BP Amoco Group's share capital during the year are set out above. All movements are quantified in terms of the number of BP Amoco Shares issued or repurchased.

Employee share schemes

During the year 13,069,529 BP Amoco Ordinary Shares were issued under the BP employee share schemes and 16,763,559 under Amoco employee share option and other employee benefit schemes. Certain of these shares were issued via a QUEST. See Note 32 for further details.

Share dividend plan

110,285,094 ordinary shares were issued under the share dividend plan by capitalisation of the share premium account.

Share repurchase

Prior to the announcement of the merger Amoco repurchased 54,900,795 shares for a total consideration of $584 million.

Redenomination of BP shares into US dollars

The increase in the nominal value of the ordinary shares for existing BP shareholders from 25 pence to $0.50 was effected by transferring $484 million from the share premium account.

29 Reconciliation of movements in shareholders' interest

For the year ended 31 December	Note	**1998**	1997
		$ million	
Profit for the year		**3,224**	5,676
Currency translation differences		**55**	(1,587)
Distribution to shareholders	10	**(4,121)**	(3,452)
Share dividend plan – BP		**1,243**	907
Movement in group reserves		**401**	1,544
Shares issued (repurchased)		**(399)**	(1,168)
Net increase in shareholders' interest		**2**	376
Shareholders' interest at 1 January		**42,610**	41,018
Shareholders' interest at 31 December		**42,612**	41,394
Prior year adjustment – change in accounting policy			1,216
At 31 December 1997 – as restated			42,610

There were no unrealised currency translation differences for the year on long-term borrowings used to finance equity investments in foreign currencies (1997 unrealised losses of $2 million).

30 BP Amoco Group cash flow statement analysis

(a) Reconciliation of historical cost profit before interest and tax to net cash inflow from operating activities			$ million
	1998	1997	1996
Historical cost profit before interest and tax	**5,980**	9,872	11,344
Depreciation and amounts provided	**5,301**	5,117	5,426
Exploration expenditure written off	**373**	365	574
Share of (profits) losses of joint ventures and associated undertakings	**(1,102)**	(777)	(663)
Interest and other income	**(272)**	(255)	(247)
(Profit) loss on sale of businesses and fixed assets	**(963)**	(563)	171
Charge for provisions	**377**	421	453
Utilisation of provisions	**(460)**	(401)	(460)
Decrease (increase) in stocks	**584**	1,740	(1,261)
Decrease (increase) in debtors	**1,768**	2,033	(3,551)
(Decrease) increase in creditors	**(2,000)**	(1,994)	1,893
Net cash inflow from operating activities	**9,586**	15,558	13,679

(b) Exceptional items

The cash outflow relating to the BP/Amoco merger expenses charged in 1998 was $32 million. The cash outflow in respect of the European refining and marketing joint venture implementation costs charged in 1996 and 1997 was $122 million (1997 – $307 million and 1996 – $69 million). The cash outflows relating to the refinery network rationalisation costs charged in 1995, 1996 and 1997 were $23 million in 1997 (1996 – $66 million). All amounts were included in the net cash inflow from operating activities.

(c) Financing			$ million
	1998	1997	1996
Long-term borrowing	**(2,196)**	(1,179)	(398)
Repayments of long-term borrowing	**1,217**	884	2,421
Short-term borrowing	**(513)**	(1,285)	(1,503)
Repayments of short-term borrowing	**692**	1,342	381
	(800)	(238)	901
Issue of share capital	**(161)**	(172)	(112)
Repurchase of share capital	**584**	1,422	39
Net cash (inflow) outflow	**(377)**	1,012	828

(d) Management of liquid resources

Liquid resources comprise current asset investments which are principally commercial paper issued by other companies. The net cash inflow from the management of liquid resources was $596 million (1997 – $167 million and 1996 – $147 million).

(e) Commercial paper

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

30 BP Amoco Group cash flow statement analysis (continued)

(f) Movement in net debt	Finance debt	Cash	Current asset investments	Net debt
				$ million
1996				
At 1 January	(13,602)	641	1,370	(11,591)
Net cash flow	901	(304)	(147)	450
Other movements	(122)	–	–	(122)
Exchange adjustments	(25)	10	10	(5)
At 31 December	(12,848)	347	1,233	(11,268)
1997				
At 1 January	(12,848)	347	1,233	(11,268)
Net cash flow	(238)	33	(167)	(372)
Other movements	133	–	5	138
Exchange adjustments	76	(25)	(4)	47
At 31 December	(12,877)	355	1,067	(11,455)
1998				
At 1 January	(12,877)	355	1,067	(11,455)
Net cash flow	(800)	67	(596)	(1,329)
Other movements	(53)	–	–	(53)
Exchange adjustments	(25)	(17)	(1)	(43)
At 31 December	**(13,755)**	**405**	**470**	**(12,880)**

31 Operating leases

				$ million
		1998		1997
Annual commitments under operating leases	Land and buildings	Other	Land and buildings	Other
Expiring within: 1 year	**50**	**149**	23	140
2 to 5 years	**92**	**432**	106	405
Thereafter	**174**	**99**	165	74
	316	**680**	294	619
Minimum future lease payments		**Total**		Total
Payable within: 1 year		**909**		828
2 to 5 years		**2,047**		2,253
Thereafter		**1,868**		1,721
		4,824		4,802

32 Employee share schemes

During 1998 BP and Amoco operated share schemes for their employees. However, the arrangements of the two companies differed reflecting market practice in the UK and the USA. Consequently the arrangements of each company are described separately. A review will be undertaken during 1999 in order to formulate an integrated employee share ownership strategy for BP Amoco. At the extraordinary general meeting in November 1998 shareholders approved a new discretionary share option plan (the "BP Amoco Share Option Plan").

BP offered its employees and those of most of its principal operating companies the opportunity to acquire a shareholding in BP. Scheme design varied by country, reflecting local legislation, culture and employment practice. There were two categories of scheme: those which were generally available to most staff (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, BP matched employees' own contributions of shares, all of which were then held for defined periods. With savings-related schemes, employees saved regularly toward the purchase of shares at a price fixed when their savings contract commenced. The ESOS offered 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 Amoco 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.

An Employee Share Ownership Plan ("ESOP") has been established to acquire BP Amoco Ordinary 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.

During 1998 the ESOP acquired a further 16,853,000 shares and released 4,259,000 shares for the participating share schemes. The cost of shares released for these schemes has been charged in these accounts. At 31 December 1998 the ESOP held 31,384,000 BP Amoco Ordinary Shares (1997 – 18,790,000 shares).

In January 1998 BP established a Qualifying Employee Share Ownership Trust ("QUEST") for the purposes of share option schemes for employees and executive directors of the Company and its subsidiaries. During the year, contributions of $42 million were made by the Company to the QUEST which, together with option-holder contributions, were used by the QUEST to subscribe for new ordinary shares at market price. The cost of this contribution has been transferred by the Company directly to retained profits and the excess of the subscription price over nominal value has increased share premium account. At 31 December 1998, all the 4,825,188 BP Amoco Ordinary Shares issued to the QUEST had been transferred to option holders exercising options under the BP Group Savings Related Share Option Scheme.

In Amoco stock options were used to a greater extent than in BP as an element of employee remuneration. Under the Amoco Stock Option Plan options were granted to key managerial and other eligible employees. The exercise price was the market price of Amoco stock on the date of grant. Options granted under the plans generally become exercisable one or two years after the date of grant and lapse on the tenth anniversary of the date of grant. There were no performance conditions. Following the merger of BP and Amoco outstanding Amoco stock options were converted into BP Amoco share options on the basis of the ratio of 3.97:1.

32 Employee share schemes (continued)

In addition Amoco also had a Restricted Stock Grant Plan. This plan provided for the awarding of Amoco stock to selected employees and non-executive directors. Shares issued under the plan may not be sold or otherwise transferred for a minimum period as established at the time of grant.

Employee share options granted during the year (options thousands)	**1998**	1997	1996
BP savings related and similar schemes	**4,867**	7,389	5,242
BP ESOS	**1,288**	2,269	1,905
Amoco Stock Option Plan	**30,348**	26,991	22,168
	36,503	36,649	29,315

The exercise prices for BP options granted during the year were $12.41 (4,773,000 options) and $11.68 (94,000 options) for savings-related and similar schemes and $14.04 (1,243,000 options) and $15.75 (45,000 options) for the ESOS. Amoco stock options were granted at an average price of $43.55 which equates to a BP Amoco share price of $10.97.

Shares issued in respect of options exercised during the year (shares thousands)	**1998**	1997	1996
BP savings related and similar schemes	**6,291**	13,974	5,545
BP ESOS	**5,130**	4,402	6,222
Amoco Stock Option Plan	**15,317**	14,197	9,671
	26,738	32,573	21,438

In addition, 1,649,000 shares (1997 – 6,822,000 shares and 1996 – 8,240,000 shares) were issued, and 4,259,000 shares released from the ESOP for participating share schemes.

Options outstanding at 31 December	**1998**	1997	1996
BP Amoco options (shares thousands)	**173,449**	168,033	168,446
Exercise period	**1999-2008**	1998-2007	1997-2006
Price	**$3.70-$15.75**	$3.70-$11.95	$2.35-$8.28

Details of Directors' individual participation in share schemes are given in Note 34 – Directors' remuneration.

33 Long-term performance plan

During 1998 BP senior executives and executive directors participated in the LTPP. This is an incentive scheme under which the Remuneration Committee may award BP Amoco Ordinary Shares to participants or fund the purchase of shares for participants if long-term targets are met. The LTPP had replaced the granting of executive share options to those participants. For 1999, the LTPP will be extended to cover senior executives and executive directors of the BP Amoco Group. Participants based in North America will continue to receive share options in line with local market practice.

The cost of potential future awards is accrued over the three-year performance periods of the LTPP. The amount charged in 1998 was $45 million (1997 – $28 million and 1996 – $31 million).

The value of awards under the 1995-7 LTPP made in 1998 was $36 million (1997: 1994-6 LTPP $28 million and 1996: 1991-5 LTPP $57 million).

Employee Share Ownership Plans ("ESOPs") have been established to acquire BP Amoco 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 Amoco Ordinary 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 1998 the ESOPs held 3,133,000 (1997 – 3,274,000) shares for potential future awards.

34 Directors' remuneration

			$ thousand
	1998	1997	1996
Total for all directors			
Emoluments[a]	**6,870**	8,264	7,235
Gains made on the exercise of share options	**888**	146	2,276
Amounts awarded under long-term incentive schemes	**4,434**	6,844	13,188
Highest paid director			
Emoluments	**1,514**	1,538	1,173
Gains made on the exercise of share options	**806**	105	–
Amount awarded under long-term incentive schemes	**1,331**	1,346	2,677
Accrued pension at 31 December	**626**	554	406

[a] Fees of $45,730 (1997 –$60,680 and 1996 $51,480) in respect of Mr H M P Miles' services as a non-executive director were paid to his employer.

As the merger between BP and Amoco occurred on 31 December 1998, the information shown above for 1998, 1997 and 1996 is the remuneration of BP directors only.

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 Amoco based on actuarial advice. There were no contributions to this pension scheme in 1998, 1997 or 1996.

Further information on executive remuneration

The following information is extracted from the report on Executive Remuneration included in the BP Amoco 1998 Annual Report & Accounts.

34 Directors' remuneration (continued)

Annual Remuneration

The table below represents annual remuneration earned by, and paid to, executive directors in the 1998 financial year, with the exception of bonuses (which were earned in 1998 but paid in 1999). A conversion rate of £1 = $1.66 has been used for 1998, £1 = $1.64 for 1997 and £1 = $1.56 for 1996.

$ thousand

	Base salary	Annual performance bonus	Benefits and other emoluments	**1998 Total**	1997 Total	1996 Total
Sir John Browne	895	492	127	**1,514**	1,538	1,173
Dr J G S Buchanan	533	296	70	**899**	927	378[a]
R F Chase	581	331	50	**962**	986	888
H L Fuller[b]	1,073	572	29	**1,674**	n/a	n/a
Dr C S Gibson-Smith	506	279	53	**838**	522	–
W G Lowrie[b]	708	328	13	**1,049**	n/a	n/a
R L Olver[c]	506	279	163	**948**	n/a	n/a
B K Sanderson	581	331	75	**987**	999	889
K R Seal	–	–	–	**–**	879	925
Dr R W H Stomberg	–	–	–	**–**	1,209	1,243
S J Ahearne	–	–	–	**–**	–	828[d]
Totals	5,383	2,908	580	**8,871**	7,060	6,324

[a] From date of appointment.

[b] H L Fuller and W G Lowrie were appointed to the BP Amoco Board on 31 December 1998, the effective date of the merger. However, the figures shown represent earnings for the whole 1998 calendar year which were paid for their services as directors to Amoco.

[c] R L Olver was appointed to the board on 1 January 1998. His benefits and other emoluments include expatriation costs which were incurred before his board appointment.

[d] To date of retirement.

Long-term performance plans

Potential awards to executive directors, including an indicative range of potential awards under the 1997 and 1998 LTPPs, are set out in the table below.

Performance period of LTPP	1994-96	1995-97	1996-98		1997-99		1998-2000	
Year of award	1997	1998	1999	1999	2000		2001	
					Range of potential awards[d]			
	Value of awards[a]	Value of awards[a]	Potential awards[b]	Award value[c]	Minimum	Maximum	Minimum	Maximum
	($ thousand)	($ thousand)	(shares)	($ thousand)	(shares)	(shares)	(shares)	(shares)
Current executive directors								
Sir John Browne	1,346	1,331	81,300	1,137	48,780	81,300	40,140	133,800
Dr J G S Buchanan	505	776	64,400	901	48,780	81,300	23,850	79,500
R F Chase	1,346	1,331	81,300	1,137	48,780	81,300	25,770	85,900
Dr C S Gibson-Smith	–	498	55,800	781	42,000	70,000	22,740	75,800
R L Olver	n/a	498	47,500	665	42,000	70,000	22,740	75,800
B K Sanderson	1,346	–	81,300	1,137	48,780	81,300	25,770	85,900
Former executive directors								
S J Ahearne	1,346	–	27,100	379	–	–	–	–
H E Norton	449	–	–	–	–	–	–	–
K R Seal	1,346	1,331	54,200	758	16,260	27,100	–	–
The Lord Simon of Highbury	449	–	–	–	–	–	–	–
Dr R W H Stomberg	505	776	54,200	758	16,260	27,100	–	–

[a] Based on average market price on date of award 1994-96 – £6.84/$11.22 at £1=$1.64 1995-97 £8.00/$13.28 1995-97 at £1 = $1.66.

[b] Based on assessed performance and the other terms of the LTPP.

[c] Based on mid-market price of BP Amoco shares on 16 February 1999 ($13.99).

[d] Minimum awards were determined for these LTPPs prior to the completion of the merger. Actual awards will be determined at the end of each performance period.

34 Directors' remuneration (continued)

Amoco share option awards

In common with US market practice, long-term incentives in Amoco in 1998 were in the form of grants of executive share options. Those options were granted at a level in line with the oil and general industry markets in the USA and they had no performance conditions.

Remuneration of non-executive directors

The remuneration of the chairman and non-executive directors for 1998, 1997 and 1996 is shown in the following table.

($ thousand)

	Year ended 31 December 1998	Year ended 31 December 1997	Year ended 31 December 1996
Current directors			
R S Block	**90**	n/a	n/a
J H Bryan	**90**	n/a	n/a
E B Davis, Jr	**90**	n/a	n/a
R J Ferris	**90**	n/a	n/a
C F Knight	**52**[a]	51[b]	37[c]
F A Maljers	**90**	n/a	n/a
Dr W E Massey	**90**	n/a	n/a
H M P Miles	**61**[a, d]	61[b, e]	51[c]
Sir Robin Nicholson	**46**[a, f]	73[b]	48[c]
Sir Ian Prosser	**55**[a]	34[b]	–
P D Sutherland	**266**[a]	216[b]	125[c]
M H Wilson	**90**	n/a	n/a
R P Wilson	**18**[a]	–	–
The Lord Wright of Richmond	**61**[a]	61[b]	64[c]
Directors leaving the board in 1998			
D R Beall	**393**[g]	n/a	n/a
Sir James Glover	**61**[a]	69[b]	72[c]
Dr K N Horn	**51**[a]	51[b]	39[c]
A C Martinez	**244**[h]	n/a	n/a
M R Seger	**393**[g]	n/a	n/a
Sir Patrick Sheehy	**51**[a]	54[b]	44[c]
T M Solso	**214**[i]	n/a	n/a
Directors who retired before 1998			
The Lord Simon of Highbury	**–**	535[b]	376[c]
Dr C H Hahn	**–**	–	55[c]
Total	**2,596**	2,085	911

[a] Sterling payments converted at the average 1998 exchange rate of £1 = $1.66.

[b] Sterling payments converted at the average 1997 rate of £1 = $1.64.

[c] Sterling payments converted at the average 1996 rate of £1 = $1.56.

[d] Paid in part to his employer.

[e] Paid to his employer.

[f] Also received $22,687 for serving on the Technical Advisory Council.

[g] Includes standard non-executive director remuneration of $89,762 and a special payment of $304,000 in recognition of service to the Amoco board.

[h] Includes standard non-executive director remuneration of $89,762 and a special payment of $154,000 in recognition of service to the Amoco board.

[i] Includes standard non-executive director remuneration of $89,762 and a special payment of $124,000 in recognition of service to the Amoco board.

34 Directors' remuneration (continued)

Pension entitlement – UK executive directors	Years of service at 31 December 1998	Accrued entitlement at 31 December 1998[a] ($ thousand)	Additional pension earned during the year ended 31 December 1998[a] ($ thousand)	Additional pension earned during the year ended 31 December 1997[a] ($ thousand)	Additional pension earned during the year ended 31 December 1996[a] ($ thousand)
Sir John Browne	**32**	**626**	**45**	118	28
Dr J G S Buchanan	**29**	**327**	**32**	20	5[b]
R F Chase	**34**	**420**	**32**	18	17
Dr C S Gibson-Smith	**28**	**295**	**27**	5[b]	–[b]
R L Olver	**25**	**300**	**27**	n/a[b]	–[b]
B K Sanderson	**34**	**420**	**32**	16	17

[a] A conversion rate of £1 = $1.66 has been used for 1998, £1 = $1.64 for 1997 and £1 = $1.56 for 1996.

[b] Only includes pension earned from date of board appointment.

Pension entitlement – US executive directors	Years of service at 31 December 1998	Accrued entitlement at 31 December 1998[a] ($ thousand)	Additional pension earned during the year ended 31 December 1998[a] ($ thousand)
H L Fuller	**37**	**1,146**	**128**
W G Lowrie	**32**	**475**	**111**

[a] Expressed as a single life annuity with benefit commencement at 31 December 1998.

Other remuneration features

Directors' executive share options[a]

	Number of Options At 1 Jan 98	Granted	Exercised	At 31 Dec 98	Average option price[b] £	Dates from which exercisable	Expiry dates
Sir John Browne	79,400	–	79,400[c]	**–**	n/a	n/a	n/a
Dr J G S Buchanan	59,600	–	–	**59,600**	2.87	9 Mar 92-27 Mar 93	8 Mar 99-26 Mar 00
H L Fuller	6,542,560	1,191,000[d]	349,360[e]	**7,384,200**	5.14	27 Mar 92-24 Mar 00	27 Mar 00-24 Mar 08
W G Lowrie	3,120,420	635,200[d]	222,320[f]	**3,533,300**	5.28	27 Mar 92-24 Mar 00	27 Mar 00-24 Mar 08

[a] To allow meaningful comparison, all options in the above table are denoted in BP Amoco ordinary stock. (Mr Fuller's and Mr Lowrie's options were originally denoted in Amoco common stock, at time of grant, but were converted to BP Amoco ADSs at the time of merger of BP and Amoco. They are shown here for convenience as the equivalent number of BP Amoco Ordinary Shares at a sterling price, using an exchange rate of £1=$1.66.)

[b] These are the weighted average prices applicable to all shares under option at the end of the year. Full details of Directors' shareholdings and options are available for inspection in the Company's register of Directors' interests.

[c] Exercise price £3.38 and market price at date of exercise £9.50.

[d] Grant price £6.61.

[e] Exercise price £3.08, and market price at date of exercise £6.25.

[f] Exercise price £2.87 for 95,280 shares and £3.08 for 127,040 shares, and market price at dates of exercise £6.25 and £8.89 respectively.

The market price of BP Amoco Ordinary Shares at 31 December 1998 was £8.98 ($14.91). The highest and lowest market prices of BP ordinary shares during 1998 were £9.68 and £7.37 respectively.

34 Directors' remuneration (continued)

Directors' SAYE share options

	At 1 Jan 98	Granted	Exercised	**At 31 Dec 98**	Average option price £[a]	Dates from which exercisable	Expiry dates
Sir John Browne	2,984	–	–	**2,984**	5.78	1 Sep 02	28 Feb 03
Dr J G S Buchanan	6,201	928[b]	3,640[c]	**3,489**	4.94	1 Sep 99-1 Sep 03	28 Feb 00-28 Feb 04
R F Chase	4,662	–	–	**4,662**	3.70	1 Sep 00	28 Feb 01
R L Oliver	7,809	–	4,381[d]	**3,428**	5.03	1 Sep 01-1 Sep 02	28 Feb 02-28 Feb 03
B K Sanderson	4,267	–	–	**4,267**	4.04	1 Sep 99-1 Sep 02	28 Feb 00-28 Feb 03

[a] These are the weighted average prices applicable to all shares under option at the end of the year. Full details of Directors' shareholdings and options are available for inspection in the Company's register of Directors' interests.

[b] Grant price £7.43.

[c] Exercise price £2.06, and market price at date of exercise £8.28.

[d] Exercise price £2.06 for 3,640 shares and £2.48 for 741 shares, and market price at dates of exercise £7.95 and £9.11 respectively.

All Executive Directors are also deemed to have an interest in such shares of the Company held from time to time by BP QUEST Company Limited to facilitate the operation of the Company's SAYE option scheme.

35 Loans to officers

Miss J C Hanratty has a low interest loan of $43,000 made to her prior to her appointment as Company Secretary on 1 October 1994.

36 Employee costs and numbers

			$ million
	1998	1997	1996
(a) Employee costs			
Wages and salaries	**4,995**	5,114	4,560
Social security costs	**412**	388	410
Pension costs	**139**	141	266
	5,546	5,643	5,236

	1998	1997	1996
(b) Number of employees at 31 December			
Exploration and Production	**18,800**	19,150	18,300
Refining and Marketing[a]	**52,100**	53,800	49,150
Chemicals	**23,050**	24,000	24,100
Other businesses and corporate	**2,700**	3,850	3,350
	96,650	100,800	94,900

36 Employee costs and numbers (continued)

	UK	Rest of Europe	USA	Rest of World	Total
(c) Average number of employees					
1998					
Exploration and Production	4,050	900	7,900	6,200	**19,050**
Refining and Marketing[b]	10,300	9,700	23,600	9,150	**52,750**
Chemicals	4,650	5,150	11,600	2,450	**23,850**
Other businesses and corporate	950	300	1,550	450	**3,250**
	19,950	**16,050**	**44,650**	**18,250**	**98,900**

	UK	Rest of Europe	USA	Rest of World	Total
1997					
Exploration and Production	3,750	900	8,450	5,700	18,800
Refining and Marketing[b]	9,550	10,000	23,650	9,000	52,200
Chemicals	5,000	4,650	11,850	2,550	24,050
Other businesses and corporate	900	200	1,950	600	3,650
	19,200	15,750	45,900	17,850	98,700

	UK	Rest of Europe	USA	Rest of World	Total
1996					
Exploration and Production	3,450	950	8,950	5,100	18,450
Refining and Marketing	7,550	9,650	22,850	8,200	48,250
Chemicals	5,200	4,600	13,300	2,400	25,500
Other businesses and corporate	750	150	1,850	950	3,700
	16,950	15,350	46,950	16,650	95,900

[a] Includes 17,300 (1997 – 18,050) employees assigned to the BP/Mobil joint venture.

[b] Includes 8,550 (1997 – 7,850) employees assigned to the BP/Mobil joint venture in the UK and 9,350 (1997 – 9,600) employees in the Rest of Europe.

37 Pensions

Most BP Amoco 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 BP Amoco 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 accrued liability for pension benefits is included within other provisions.

The net charge to income for pensions in 1998 was $139 million (1997 $141 million and 1996 $266 million). This was assessed in accordance with independent actuarial advice using the projected unit method for the BP Amoco Group's major pension plans.

37 Pensions (continued)

The principal assumptions used in calculating the credit/charge for the principal plans were as follows:

	1998	1997	1996
UK and other European			
Rate of return on assets	**7.0%**	8.1%	8.3%
Discount rate	**7.0%**	8.1%	8.3%
Future salary increases	**5.1%**	5.9%	6.2%
Future pension increases	**3.2%**	4.0%	4.3%
USA			
Rate of return on assets	**10%**	10%	10%
Discount rate	**6.9%**	7%	7%
Future salary increases	**4.7%**	4.7%	4.7%
Future pension increases	**nil**	nil	nil

At 1 January 1998, the date of the latest actuarial valuations or reviews, the market value of assets in the BP Amoco Group's major externally funded pension plans in the UK and the USA was $20,689 million ($17,988 million at 1 January 1997). The actuarial value of the assets of these plans represented 123 per cent (1997 119 per cent) of the benefits that had accrued to members of those plans, after allowing for expected future increases in salaries.

At 31 December 1998 the obligation for accrued benefits in respect of the principal unfunded schemes in Europe was $1,714 million ($1,543 million at 31 December 1997). Of this amount, $1,345 million ($1,220 million at 31 December 1997) has been provided in these accounts.

38 Other post-retirement benefits

Certain BP Amoco Group companies, principally in the USA, provide post-retirement health care 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 partly funded and the accrued net liability for post-retirement benefits is included within other provisions.

The charge to income for post-retirement benefits in 1998 of $101 million (1997 $110 million and 1996 $130 million) was assessed in accordance with independent actuarial advice using the projected unit method.

At 31 December 1998 the independent actuaries have reassessed the obligation for post-retirement benefits at $1,814 million ($1,709 million at 31 December 1997). The provision for post-retirement benefits at 31 December 1998 was $2,311 million ($2,348 million at 31 December 1997).

The discount rate used to assess the obligation at 31 December 1998 was 6.5 per cent (6.9 per cent at 31 December 1997). The assumed future healthcare cost trend rates for 1999 are 5 per cent to 7.6 per cent for beneficiaries aged under 65 and 5 per cent to 6.5 per cent for beneficiaries aged over 65, reducing to 5 per cent for both age groups in the year 2002 and for subsequent years.

39 Contingent liabilities

There were contingent liabilities at 31 December 1998 in respect of guarantees and indemnities entered into as part of, and claims arising from, the ordinary course of the BP Amoco 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 Amoco owns a 50 per cent 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 Amoco would defend the claims vigorously.

The Internal Revenue Service ("IRS") has challenged the application of certain foreign income taxes as credits against BP Amoco Corporation's US taxes that otherwise would have been payable for the years 1980 to 1992. On 18 June 1992, the IRS issued a statutory Notice of Deficiency for additional taxes in the amount of $466 million, plus interest, relating to 1980 to 1982. BP Amoco filed a petition in the US Tax Court contesting the IRS statutory Notice of Deficiency. Trial on the matter was held in April 1995, and a decision was rendered by the US Tax Court in March 1996, in BP Amoco's favour. The IRS has appealed the Tax Court's decision to the US Court of Appeals for the Seventh Circuit and on 11 March 1998 the Seventh Circuit affirmed the Tax Court's prior decision. A comparable adjustment of foreign tax credits for each year has been proposed for the years 1983 to 1992 based upon subsequent IRS audits. BP Amoco Corporation believes that the foreign income taxes have been reflected properly in its US federal tax returns. Consequently, this dispute is not expected to have a material adverse effect on liquidity, results of operations, or the financial position of the BP Amoco Group.

The BP Amoco 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 BP Amoco Group to take future action to remediate the effects on the environment of prior disposal or release of chemical or petroleum substances by the BP Amoco 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 BP Amoco 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 BP Amoco Group's accounting policies. While the amounts of future costs could be significant and could be material to the BP Amoco Group's results of operations in the period in which they are recognised, BP Amoco does not expect these costs to have a material effect on the BP Amoco Group's financial position or liquidity.

BP Amoco has issued guarantees under which amounts outstanding at 31 December 1998 were $7,252 million (1997 $6,290 million) including $7,220 million (1997 $6,288 million) in respect of borrowings by its subsidiary undertakings.

40 Capital commitments

Authorised future capital expenditure by BP Amoco Group companies for which contracts had been placed at 31 December 1998 amounted to $3,691 million (1997 $3,940 million).

41 Joint ventures and associated undertakings

Summarised financial information for the BP Amoco Group's share of its joint ventures, all of which were established in 1997, is shown below. The principal joint venture is the pan-European refining and marketing joint venture with Mobil, which is jointly controlled. The other significant joint ventures of the BP Amoco Group at 31 December 1998 are shown in Note 42.

		$ million
	1998	1997
Turnover	**15,428**	16,804
Profit for the period before tax	**546**	221
Profit for the period after tax	**561**	221
Fixed assets	**5,681**	5,349
Current assets	**3,372**	3,798
	9,053	9,147
Liabilities due within one year	**3,586**	2,993
Liabilities due after one year	**462**	530
	5,005	5,624

Within the BP/Mobil joint venture BP Amoco operates and has a 70 per cent interest in the fuels refining and marketing operation and has a 49 per cent interest in the lubricants business. Funding is provided to the joint venture by both BP Amoco and Mobil in proportion to their respective interests as required. Surplus cash in the joint venture is returned to BP Amoco and Mobil on a regular, usually daily, basis.

BP Amoco has made available to the joint venture on a long-term basis the tangible fixed assets formerly used by its European refining and marketing operations. Staff working for the fuels business are BP Amoco employees, while those working for the lubricants business are Mobil employees. Staff costs for BP Amoco employees were $902 million in 1998 ($889 million in 1997).

During 1998 the BP Amoco Group sold crude oil and products totalling $2,264 million (1997 $3,126 million) to the BP/Mobil joint venture and purchased crude oil and products totalling $1,335 million (1997 $1,963 million). At 31 December 1998 the outstanding balances receivable and payable were $351 million (1997 $526 million) and $144 million (1997 $241 million) respectively. In addition there were net receipts of $675 million (1997 advances of $367 million) outstanding at 31 December 1998.

The more significant associated undertakings of the BP Amoco group at 31 December 1998 are shown in Note 42.

During the year the BP Amoco Group purchased crude oil from two associated undertakings, Abu Dhabi Marine Areas and Abu Dhabi Petroleum to the value of $715 million (1997 $1,014 million and 1996 $1,055 million). At 31 December 1998 $45 million (1997 $93 million and 1996 $90 million) was payable in respect of these purchases.

During the year the BP Amoco Group sold chemical feedstocks totalling $395 million (1997 $549 million and 1996 $487 million) to Erdölchemie, an associated undertaking, and bought petrochemicals, mainly polyethylene, to the value of $76 million (1997 $64 million and 1996 $396 million). At 31 December 1998 the outstanding balance receivable from Erdölchemie was $1 million (1997 $5 million).

42 Subsidiary and associated undertakings and joint ventures

The more important subsidiary and associated undertakings and joint ventures of the BP Amoco Group at 31 December 1998 and the BP Amoco 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 BP Amoco 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 Co	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
*The Tanker Insurance Company	100	England	Insurance
France			
BP France	100	France	Refining and marketing and chemicals
Germany			
Deutsche BP	100	Germany	Refining and marketing and chemicals
Netherlands			
BP Capital BV	100	Netherlands	Finance
BP Nederland	100	Netherlands	Refining and marketing
Spain			
BP España	100	Spain	Refining and marketing
Middle East			
Amoco Egypt Gas	100	USA	Natural gas
Amoco Egypt Oil	100	USA	Oil
Amoco Sharjah LPG	100	USA	LPG
Amoco Sharjah Oil Co.	100	USA	Oil
*BP Middle East	100	England	Marketing

42 Subsidiary and associated undertakings and joint ventures (continued)

Subsidiary undertakings continued	%	Country of incorporation	Principal activities
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	Australia	Exploration and production
New Zealand			
BP Oil New Zealand	100	New Zealand	Marketing
Western Hemisphere			
Canada			
Amoco Canada Petroleum Company	100	Canada	Exploration and production
Trinidad			
Amoco Energy Company of Trinidad and Tobago	100	USA	Exploration and production
Amoco Trinidad (LNG)	100	Netherlands	Liquified natural gas
USA			
Altura Energy	64	USA	Exploration and production
BP Amoco Corporation BP Amoco Company BP America Standard Oil	100	USA	Exploration and production, refining and marketing, pipelines and chemicals

Associated undertakings	%	Country of incorporation	Principal activities
Abu Dhabi			
Abu Dhabi Marine Areas	33	England	Crude oil production
Abu Dhabi Petroleum	24	England	Crude oil production
Germany			
Erdölchemie	50	Germany	Chemicals
Ruhrgas	25	Germany	Gas distribution
Russia			
Sidanco[a]	10	Russia	Integrated oil operations
Rusia	20	Russia	Exploration and production

[a] 20% voting interest

Joint ventures	%	Principal place of business	Principal activities
BP/Mobil	70/49[b]	Europe	Refining and marketing
Empresa Petrolera Chaco	30	Bolivia	Exploration and production
Pan American Energy	60	Argentina	Exploration and production
Crescendo Resources	41	USA	Exploration and production

[b] Fuels/lubricants

43 Oil and gas exploration and production activities[a]

					$ million
					1998
	UK	Rest of Europe	USA	Rest of World	**Total**
Capitalised costs at 31 December					
Gross capitalised costs					
Proved properties	23,290	2,934	35,383	15,078	**76,685**
Unproved properties	400	76	890	1,915	**3,281**
	23,690	3,010	36,273	16,993	**79,966**
Accumulated depreciation	12,470	1,865	20,741	8,183	**43,459**
Net capitalised costs	**11,020**	**1,145**	**15,532**	**8,810**	**36,507**
Costs incurred for the year ended 31 December					
Acquisition of properties					
Proved	–	–	3	54	**57**
Unproved	–	1	58	62	**121**
	–	1	61	116	**178**
Exploration and appraisal costs[b]	177	106	476	764	**1,523**
Development costs	1,432	100	1,670	1,569	**4,771**
Total costs	**1,609**	**207**	**2,207**	**2,449**	**6,472**
Results of operations for the year ended 31 December					
Turnover[c]					
Third parties	1,063	73	2,782	2,133	**6,051**
Sales between businesses	2,481	520	2,027	905	**5,933**
	3,544	593	4,809	3,038	**11,984**
Exploration expenditure	134	89	240	458	**921**
Production costs	878	146	1,548	888	**3,460**
Production taxes	15	6	233	320	**574**
Other costs (income)[d]	(50)	(18)	780	384	**1,096**
Depreciation	1,183	169	1,168	1,072	**3,592**
	2,160	392	3,969	3,122	**9,643**
Profit before taxation[e]	1,384	201	840	(84)	**2,341**
Allocable taxes	378	79	111	115	**683**
Results of operations	**1,006**	**122**	**729**	**(199)**	**1,658**

43 Oil and gas exploration and production activities[a] (continued)

$ million

	UK	Rest of Europe	USA	Rest of World	1997 Total
Capitalised costs at 31 December					
Gross capitalised costs					
Proved properties	21,250	2,917	34,166	14,137	72,470
Unproved properties	323	55	914	1,776	3,068
	21,573	2,972	35,080	15,913	75,538
Accumulated depreciation	10,975	1,736	20,924	7,889	41,524
Net capitalised costs	10,598	1,236	14,156	8,024	34,014
Costs incurred for the year ended 31 December					
Acquisition of properties					
Proved	–	95	7	7	109
Unproved	15	3	121	26	165
	15	98	128	33	274
Exploration and appraisal costs[b]	192	133	524	942	1,791
Development costs	1,463	161	1,744	1,714	5,082
Total costs	1,670	392	2,396	2,689	7,147
Results of operations for the year ended 31 December					
Turnover[c]					
Third parties	2,680	559	5,639	1,553	10,431
Sales between businesses	1,817	341	1,132	2,884	6,174
	4,497	900	6,771	4,437	16,605
Exploration expenditure	156	79	273	454	962
Production costs	743	176	1,378	944	3,241
Production taxes	283	19	446	536	1,284
Other costs (income)[d]	50	(11)	720	690	1,449
Depreciation	1,236	185	1,163	707	3,291
	2,468	448	3,980	3,331	10,227
Profit before taxation[e]	2,029	452	2,791	1,106	6,378
Allocable taxes	655	206	896	501	2,258
Results of operations	1,374	246	1,895	605	4,120

43 Oil and gas exploration and production activities[a] (continued)

					$ million
					1996
	UK	Rest of Europe	USA	Rest of World	Total
Capitalised costs at 31 December					
Gross capitalised costs					
Proved properties	19,975	3,031	32,403	13,540	68,949
Unproved properties	343	50	871	1,809	3,073
	20,318	3,081	33,274	15,349	72,022
Accumulated depreciation	9,873	1,765	18,902	8,157	38,697
Net capitalised costs	10,455	1,316	14,372	7,192	33,325
Costs incurred for the year ended 31 December					
Acquisition of properties					
Proved	–	22	113	33	168
Unproved	–	–	106	114	220
	–	22	219	147	388
Exploration and appraisal costs[b]	167	103	543	837	1,650
Development costs	1,622	228	1,502	1,262	4,614
Total costs	1,789	353	2,264	2,246	6,652
Results of operations for the year ended 31 December					
Turnover[c]					
Third parties	2,708	371	5,999	1,869	10,947
Sales between businesses	2,304	342	1,134	2,884	6,664
	5,012	713	7,133	4,753	17,611
Exploration expenditure	161	90	284	462	997
Production costs	811	142	1,253	789	2,995
Production taxes	450	15	503	605	1,573
Other costs (income)[d]	161	(25)	973	701	1,810
Depreciation	1,372	176	1,159	686	3,393
	2,955	398	4,172	3,243	10,768
Profit before taxation[e]	2,057	315	2,961	1,510	6,843
Allocable taxes	700	199	1,086	690	2,675
Results of operations	1,357	116	1,875	820	4,168

The BP Amoco Group's share of associated undertakings' results of operations in 1998 was a profit of $40 million (1997 – profit $13 million and 1996 $1 million loss) after adding a tax credit of $19 million (1997 and 1996 $nil).

The BP Amoco Group's share of associated undertakings' net capitalised costs at 31 December 1998 was $2,212 million (1997 $2,662 million and 1996 $nil).

The BP Amoco Group's share of associated undertakings' costs incurred in 1998 was $282 million (1997 $1,349 million and 1996 $nil).

43 Oil and gas exploration and production activities (continued)

[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, the Central Area Transmission System and Ruhrgas gas distribution operations. Profits on sale of businesses and fixed assets relating to the oil and natural 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 Amoco 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 total replacement cost operating profit comprises:

			$ million
	1998	1997	1996
Exploration and production activities			
– BP Amoco Group (as above)	**2,341**	6,378	6,843
– Associated undertakings	**21**	13	(1)
Mid-stream activities	**869**	994	921
Total replacement cost operating profit	**3,231**	7,385	7,763

44 New accounting standard for joint ventures and associated undertakings

With effect from 1 January 1998 the BP Amoco Group has adopted FRS9. This has four effects:

(a) The BP/Mobil joint venture and Crescendo Resources are accounted for using the gross equity method rather than by proportional consolidation. This change has reduced the amounts reported against most income statement, balance sheet and cash flow statement captions. Profit for the year and net assets are unaffected by this change in treatment.

(b) Altura Energy is consolidated rather than being accounted for by proportional consolidation. This change has increased the amounts reported against most income statement, balance sheet and cash flow statement captions and creates a minority shareholder interest in the income statement and balance sheet. Profit for the period and BP Amoco shareholders' interest are unaffected by this change in treatment.

(c) Pan American Energy and Empressa Petrolera Chaco are treated as joint ventures rather than associates and are accounted for by the gross equity method rather than the equity method. Profit for the period and net assets are unaffected by this change in treatment.

(d) Income from associated undertakings and joint ventures is shown before charging interest expense. Interest expense for associated undertakings and joint ventures is now included in the total interest expense reported. Interest expense for associated undertakings which would have been charged against replacement cost operating profit in 1996, 1997 and the corresponding amounts for 1998 are shown below.

			$ million
	1998	1997	1996
Exploration and Production	**58**	6	11
Refining and Marketing	**22**	7	6
Chemicals	**66**	55	44
Other businesses and corporate	**16**	15	7
	162	83	68

44 New accounting standard for joint ventures and associated undertakings (continued)

Information for 1997 and 1996 has been restated to conform with the 1998 presentation prior to the adoption of FRS12 (see Note 46). A summarised income statement, balance sheet and cash flow statement for 1997 for BP Amoco on a FRS9 basis and as would have been prepared previously are shown below.

As the BP/Mobil joint venture, Crescendo Resources, Altura Energy, Pan American Energy and Empresa Petrolera Chaco were set up or acquired in 1997, financial information for 1996 is unaffected by the adoption of FRS9 except for the reclassification of interest expense in note (d) above.

		$ million
	1997	1997
Income statement	Pre FRS12 Note 46	Pre FRS9
Turnover	108,564	103,418
Less: Joint ventures	16,804	–
BP Amoco Group turnover	91,760	103,418
Total replacement cost operating profit	10,583	10,357
Profit on sale of businesses and fixed assets	440	440
Refinery network rationalisation	71	71
Replacement cost profit before interest and tax	11,094	10,868
Stock holding gains (losses)	(939)	(939)
Historical cost profit before interest and tax	10,155	9,929
Interest expense	908	825
Profit before taxation	9,247	9,104
Taxation	3,066	3,066
Profit after taxation	6,181	6,038
Minority shareholders' interest	151	8
Profit for the year	6,030	6,030

44 New accounting standard for joint ventures and associated undertakings (continued)

	$ million	
	1997	1997
Balance sheet	Pre FRS12 Note 46	Pre FRS9
Fixed assets		
Intangible assets	2,582	2,723
Tangible assets	52,263	54,637
Investments	10,376	5,899
	65,221	63,259
Current assets		
Stocks	4,923	6,399
Debtors	14,381	16,075
Investments	1,067	1,067
Cash at bank and in hand	355	354
	20,726	23,895
Creditors – amounts falling due within one year		
Finance debt	2,856	2,856
Other creditors	17,671	19,863
Net current assets	199	1,176
Total assets less current liabilities	65,420	64,435
Creditors – amounts falling due after more than one year		
Finance debt	10,021	10,021
Other creditors	2,562	2,569
Provisions for liabilities and charges	9,989	9,873
Net assets	42,848	41,972
Minority shareholders' interest	1,100	224
BP Amoco shareholders' interest	41,748	41,748
Represented by capital and reserves		
Called up share capital	4,330	4,330
Reserves	37,418	37,418
	41,748	41,748

44 New accounting standard for joint ventures and associated undertakings (continued)

Cash flow statement	1997 Pre FRS12 Note 46	1997 Pre FRS9
		$ million
Net cash inflow from operating activities	15,558	15,734
Dividends from joint ventures and associated undertakings	741	–
Net cash outflow from servicing of finance and returns on investments	(655)	(650)
Tax paid	(2,273)	(2,273)
Net cash outflow for capital expenditure	(7,432)	(7,902)
Net cash outflow for acquisitions and disposals	(2,624)	(1,595)
Equity dividends paid	(2,437)	(2,437)
Net cash inflow	878	877
Financing	1,012	1,012
Management of liquid resources	(167)	(167)
Increase in cash	33	32
	878	877

45 Merger accounting

The financial statements have been prepared using the merger method of accounting in relation to the merger of BP and Amoco. Under merger accounting, the results and cash flows of BP and Amoco are combined from the beginning of the financial period in which the merger occurred and their assets and liabilities combined at the amounts at which they were previously recorded after adjusting to achieve consistency of accounting policies. Income statement, balance sheet and cash flow comparatives are restated on the combined basis.

The merger of BP and Amoco became effective on 31 December 1998. As both BP and Amoco had financial year ends of 31 December, income statements for each company for the year ended 31 December 1998 are presented below together with their respective balance sheets at 31 December 1998.

On 31 December 1998 the Company issued 3,797,071,800 BP Amoco Ordinary Shares with a nominal value of $1,898,535,900 and a fair value of $56,943,166,956 to Amoco shareholders under the terms of the merger agreement between BP and Amoco. Following the merger, former BP shareholders held 5,885,938,223 shares. Assuming conversion of all outstanding BP share options and Amoco stock options into shares on that date and excluding shares held by the respective companies, the ownership interests of former BP and Amoco shareholders in the combined company were 59.98 per cent and 40.02 per cent respectively.

The following information is set out below:

(a) The nature and the amount of the accounting adjustments made to align Amoco's accounting policies with those of BP.

(b) Income statements and statements of total recognised gains and losses of BP and Amoco for the current and two prior years.

(c) Balance sheets of BP and Amoco at 31 December 1998 and 1997.

Reclassifications have been made to the Amoco historical financial information presented under US GAAP to conform to BP's presentation under UK GAAP.

45 Merger accounting (continued)

UK GAAP adjustments to Amoco historical financial statements

Amoco prepared its financial statements in accordance with US GAAP. The income statements and balance sheets of Amoco have been restated to conform with BP accounting policies under UK GAAP by giving effect to the following adjustments:

(a) **Consolidation bases**

Under US GAAP, certain oil and natural gas joint ventures are proportionately consolidated, whereas under UK GAAP the joint ventures would either be equity accounted or consolidated depending on the ownership interest. Amoco's joint ventures were set up in early 1997.

This adjustment does not alter profit for the year or net assets, but does change the amounts reported against a number of income statement and balance sheet captions; including creating a minority shareholders' interest of $59 million (1997 $143 million and 1996 $nil) in the income statement and of $826 million in 1998 (1997 $876 million) in the balance sheet.

(b) **Stock accounting**

Amoco carried stocks at the lower of current market values or cost. Cost is determined under the LIFO method for the majority of stocks of crude oil, petroleum products and chemical products. The costs of remaining stocks are determined on the FIFO or average cost methods. BP carried stocks at the lower of cost or net realisable value. Cost to BP is determined using the FIFO method. Cost of sales determined on a FIFO basis is adjusted to a replacement cost basis, i.e. to reflect the average cost of supplies incurred during the year, by excluding stock holding gains and losses.

As a result of this adjustment replacement cost of sales is reduced by $7 million (1997 increased by $130 million and 1996 increased by $195 million); there are stockholding losses of $415 million (1997 $419 million loss and 1996 $545 million gain); profit for the year is reduced by $408 million (1997 reduced by $549 million and 1996 increased by $350 million). The carrying value of stock is increased by $549 million in 1998 (1997 $955 million).

(c) **Deferred taxation**

Under the UK GAAP restricted liability method, deferred taxation is only provided for where timing differences are expected to reverse in the foreseeable future. For US GAAP under the liability method, deferred taxation is provided for temporary differences between the financial reporting basis and the tax basis of assets and liabilities at enacted tax rates expected to be in effect when such amounts are realised or settled.

This adjustment increases the charge for taxation by $76 million (1997 $110 million increase and 1996 $3 million decrease) and reduces the profit for the year by the same amount.

The provision for deferred taxation in the balance sheet is reduced by $1,761 million in 1998 (1997 $1,534 million).

(d) **Foreign currency translation**

BP considered that the functional currency of its non-UK operations is the local currency except for certain exploration and production operations where the US dollar is the functional currency. Amoco considered the functional currency of substantially all of its operations to be the US dollar. Where there is a difference between the two companies in terms of functional currency, the functional currency of Amoco's operations has been changed to the local currency.

The retranslation of Amoco's assets and liabilities resulting from this gives rise to currency translation differences.

The net effects of this adjustment are to increase profit for the year by $11 million (1997 reduce by $82 million and 1996 increase by $73 million) and to reduce net assets by $633 million in 1998 (1997 $583 million).

(e) **Exceptional items**

Under UK GAAP, certain exceptional items should be shown separately on the face of the income statement after operating profit. Under US GAAP these items would be classified as operating income or expenses.

For 1998 there were profits on the sale of businesses of $8 million (1997 $117 million and 1996 $144 million) and on the sale of fixed assets of $312 million (1997 $495 million profit and 1996 $42 million loss) and merger expenses of $119 million.

45 Merger accounting (continued)

(f) **Equity accounting**

UK GAAP requires the operating profit or loss, exceptional items, interest expense and taxation of associated undertakings and joint ventures to be shown separately from those of the group. For US GAAP, the after-tax profits or losses (i.e. operating results after exceptional items, interest expense and taxation) should be included in the income statement as a single line item.

UK GAAP requires the investor's share of the gross assets and gross liabilities of the joint venture to be shown on the face of the balance sheet, whereas under US GAAP the net investment should be included as a single line item.

This adjustment has no overall effect on profit for the year or net assets.

(g) **Sale and leaseback**

The sale and leaseback of the Amoco building in Chicago is treated as a sale for UK GAAP whereas for US GAAP it is treated as a financing transaction. The effect of this adjustment is to increase exceptional items and profit for the year by $211 million. Net assets are increased by $211 million.

Income statement for the year ended 31 December 1998	Amoco US GAAP	US/UK GAAP adjustment	Amoco UK GAAP	BP	**$ million Total Pre FRS12 BP Amoco**
Turnover	26,695	(36)	26,659	57,073	**83,732**
Less: Joint ventures	–	348	348	15,080	**15,428**
BP Amoco Group turnover	26,695	(384)	26,311	41,993	**68,304**
Replacement cost of sales	21,750	(87)	21,663	34,691	**56,354**
Production taxes	149	18	167	437	**604**
Gross profit	4,796	(315)	4,481	6,865	**11,346**
Distribution and administration expenses	2,543	(77)	2,466	3,578	**6,044**
Exploration expense	658	–	658	263	**921**
	1,595	(238)	1,357	3,024	**4,381**
Other income	(30)	335	305	404	**709**
BP Amoco Group replacement cost operating profit	1,565	97	1,662	3,428	**5,090**
Share of profits of joint ventures	–	65	65	760	**825**
Share of profits of associated undertakings	–	69	69	453	**522**
Replacement cost operating profit	1,565	231	1,796	4,641	**6,437**

45 Merger accounting (continued)

Income statement for the year ended 31 December 1998	Amoco US GAAP	US/UK GAAP adjustment	Amoco UK GAAP	BP	**$ million Total Pre FRS12 BP Amoco**
Replacement cost operating profit	1,565	231	1,796	4,641	**6,437**
Profit (loss) on sale of businesses and fixed assets	–	320	320	728	**1,048**
Merger expenses	–	(119)	(119)	(79)	**(198)**
Replacement cost profit before interest and tax	1,565	432	1,997	5,290	**7,287**
Stock holding gains (losses)	–	(415)	(415)	(976)	**(1,391)**
Historical cost profit before interest and tax	1,565	17	1,582	4,314	**5,896**
Interest expense	380	93	473	580	**1,053**
Profit before taxation	1,185	(76)	1,109	3,734	**4,843**
Taxation	227	91	318	1,202	**1,520**
Profit after taxation	958	(167)	791	2,532	**3,323**
Minority shareholders' interest	–	59	59	4	**63**
Profit for the year	958	(226)	732	2,528	**3,260**
Distribution to shareholders	1,438	–	1,438	2,683	**4,121**
Replacement cost results					
Historical cost profit for the year			732	2,528	**3,260**
Stock holding (gains) losses			415	976	**1,391**
Replacement cost profit for the year			1,147	3,504	**4,651**
Exceptional items, net of tax			(125)	(527)	**(652)**
Replacement cost profit before exceptional items			1,022	2,977	**3,999**

45 Merger accounting (continued)

Income statement for the year ended 31 December 1997	Amoco US GAAP	US/UK GAAP adjustment	Amoco UK GAAP	BP	**Total Pre FRS12 BP Amoco**
					$ million
Turnover	32,103	98	32,201	76,363	108,564
Less: Joint ventures	71	41	112	16,692	16,804
BP Amoco Group turnover	32,032	57	32,089	59,671	91,760
Replacement cost of sales	25,304	41	25,345	48,583	73,928
Production taxes	286	9	295	1,012	1,307
Gross profit	6,442	7	6,449	10,076	16,525
Distribution and administration expenses	2,633	120	2,753	3,989	6,742
Exploration expense	635	1	636	326	962
	3,174	(114)	3,060	5,761	8,821
Other income	902	(574)	328	334	662
BP Amoco Group replacement cost operating profit	4,076	(688)	3,388	6,095	9,483
Share of profits of joint ventures	5	19	24	520	544
Share of profits of associated undertakings	19	17	36	520	556
Replacement cost operating profit	4,100	(652)	3,448	7,135	10,583
Profit (loss) on sale of businesses and fixed assets	–	612	612	(172)	440
Refinery network rationalisation	–	–	–	71	71
Replacement cost profit before interest and tax	4,100	(40)	4,060	7,034	11,094
Stock holding gains (losses)	–	(419)	(419)	(520)	(939)
Historical cost profit before interest and tax	4,100	(459)	3,641	6,514	10,155
Interest expense	339	34	373	535	908
Profit before taxation	3,761	(493)	3,268	5,979	9,247
Taxation	1,046	105	1,151	1,915	3,066
Profit after taxation	2,715	(598)	2,117	4,064	6,181
Minority shareholders' interest	(5)	143	138	13	151
Profit for the year	2,720	(741)	1,979	4,051	6,030
Distribution to shareholders	1,382	–	1,382	2,070	3,452
Replacement cost results					
Historical cost profit for the year			1,979	4,051	6,030
Stock holding (gains) losses			419	520	939
Replacement cost profit for the year			2,398	4,571	6,969
Exceptional items, net of tax			(377)	57	(320)
Replacement cost profit before exceptional items			2,021	4,628	6,649

45 Merger accounting (continued)

Income statement for the year ended 31 December 1996	Amoco US GAAP	US/UK GAAP adjustment	Amoco UK GAAP	BP	Total Pre FRS12 BP Amoco
					$ million
Turnover	32,284	–	32,284	69,780	102,064
Less: Joint ventures	–	–	–	–	–
BP Amoco Group turnover	32,284	–	32,284	69,780	102,064
Replacement cost of sales	25,062	193	25,255	56,667	81,922
Production taxes	327	–	327	1,284	1,611
Gross profit	6,895	(193)	6,702	11,829	18,531
Distribution and administration expenses	2,646	(56)	2,590	5,777	8,367
Exploration expense	680	–	680	317	997
	3,569	(137)	3,432	5,735	9,167
Other income	432	(82)	350	364	714
BP Amoco Group replacement cost operating profit	4,001	(219)	3,782	6,099	9,881
Share of profits of joint ventures	–	–	–	–	–
Share of profits of associated undertakings	144	34	178	485	663
Replacement cost operating profit	4,145	(185)	3,960	6,584	10,544
Profit (loss) on sale of businesses and fixed assets	–	102	102	(273)	(171)
European refining and marketing joint venture implementation	–	–	–	(532)	(532)
Replacement cost profit before interest and tax	4,145	(83)	4,062	5,779	9,841
Inventory holding gains (losses)	–	545	545	627	1,172
Historical cost profit before interest and tax	4,145	462	4,607	6,406	11,013
Interest expense	295	24	319	685	1,004
Profit before taxation	3,850	438	4,288	5,721	10,009
Taxation	1,016	12	1,028	1,727	2,755
Profit after taxation	2,834	426	3,260	3,994	7,254
Minority shareholders' interest	–	–	–	13	13
Profit for the year	2,834	426	3,260	3,981	7,241
Distribution to shareholders	1,287	–	1,287	1,720	3,007
Replacement cost results					
Historical cost profit for the year			3,260	3,981	7,241
Inventory holding (gains) losses			(545)	(627)	(1,172)
Replacement cost profit for the year			2,715	3,354	6,069
Exceptional items, net of tax			(106)	733	627
Replacement cost profit before exceptional items			2,609	4,087	6,696

45 Merger accounting (continued)

$ million

Balance sheet as at 31 December 1998	Amoco US GAAP	US/UK GAAP adjustment	Amoco UK GAAP	BP	Total Pre FRS12 BP Amoco
Fixed assets					
Intangible assets	756	(21)	735	2,302	**3,037**
Tangible assets	23,378	(33)	23,345	31,120	**54,465**
Investments					
Joint ventures – Gross assets			2,009	7,044	**9,053**
– Gross liabilities			719	3,329	**4,048**
– Net investment			1,290	3,715	**5,005**
Associated undertakings			939	3,223	**4,162**
Other			–	605	**605**
	2,234	(5)	2,229	7,543	**9,772**
Total fixed assets	26,368	(59)	26,309	40,965	**67,274**
Current assets					
Stocks	1,175	542	1,717	1,925	**3,642**
Debtors – amounts falling due:					
Within one year	3,160	37	3,197	6,207	**9,404**
After more than one year	612	72	684	2,621	**3,305**
Investments	387	–	387	83	**470**
Cash at bank and in hand	65	–	65	340	**405**
	5,399	651	6,050	11,176	**17,226**
Creditors – amounts falling due within one year					
Finance debt	836	–	836	2,001	**2,837**
Other creditors	3,972	265	4,237	11,092	**15,329**
Net current (liabilities) assets	591	386	977	(1,917)	**(940)**
Total assets less current liabilities	26,959	327	27,286	39,048	**66,334**
Creditors – amounts falling due after more than one year					
Finance debt	5,838	(412)	5,426	5,492	**10,918**
Other creditors	265	–	265	1,844	**2,109**
Provisions for liabilities and charges					
Deferred taxation	2,350	(1,759)	591	1,041	**1,632**
Other provisions	2,873	(29)	2,844	5,973	**8,817**
Net assets	15,633	2,527	18,160	24,698	**42,858**
Minority shareholders' interest	163	826	989	83	**1,072**
Shareholders' interest	15,470	1,701	17,171	24,615	**41,786**

45 Merger accounting (continued)

Balance sheet as at 31 December 1997	Amoco US GAAP	US/UK GAAP adjustment	Amoco UK GAAP	BP	Total Pre FRS12 BP Amoco
					$ million
Fixed assets					
Intangible assets	812	(15)	797	1,785	2,582
Tangible assets	22,813	(7)	22,806	29,457	52,263
Investments					
Joint ventures – Gross assets			2,308	6,839	9,147
– Gross liabilities			774	2,749	3,523
– Net investment			1,534	4,090	5,624
Associated undertakings			787	3,567	4,354
Other			–	398	398
	2,099	222	2,321	8,055	10,376
Total fixed assets	25,724	200	25,924	39,297	65,221
Current assets					
Stocks	1,174	940	2,114	2,809	4,923
Debtors – amounts falling due:					
Within one year	3,723	31	3,754	7,629	11,383
After more than one year	515	46	561	2,437	2,998
Investments	979	–	979	88	1,067
Cash at bank and in hand	166	1	167	188	355
	6,557	1,018	7,575	13,151	20,726
Creditors – amounts falling due within one year					
Finance debt	969	–	969	1,887	2,856
Other creditors	4,918	(45)	4,873	12,798	17,671
Net current assets (liabilities)	670	1,063	1,733	(1,534)	199
Total assets less current liabilities	26,394	1,263	27,657	37,763	65,420
Creditors – amounts falling due after more than 1 year					
Finance debt	4,691	–	4,691	5,330	10,021
Other creditors	308	–	308	2,254	2,562
Provisions for liabilities and charges					
Deferred taxation	2,085	(1,549)	536	647	1,183
Other provisions	2,860	(67)	2,793	6,013	8,806
Net assets	16,450	2,879	19,329	23,519	42,848
Minority shareholders' interest	131	876	1,007	93	1,100
Shareholders' interest	16,319	2,003	18,322	23,426	41,748

45 Merger accounting (continued)

Statement of total recognised gains and losses for the year ended 31 December 1998	Amoco UK GAAP	BP	**$ million Total Pre FRS12 BP Amoco**
Profit for the year	732	2,528	**3,260**
Currency translation differences	30	25	**55**
Total recognised gains and losses	**762**	**2,553**	**3,315**
For the year ended 31 December 1997			
Profit for the year	1,979	4,051	6,030
Currency translation differences	(348)	(1,239)	(1,587)
Total recognised gains and losses	1,631	2,812	4,443
For the year ended 31 December 1996			
Profit for the year	3,260	3,981	7,241
Currency translation differences	(19)	386	367
Total recognised gains and losses	3,241	4,367	7,608

46 New accounting standard for provisions

The BP Amoco Group has adopted Financial Reporting Standard No. 12 ‘Provisions, Contingent Liabilities and Contingent Assets’ (“FRS12”) with effect from 1 January 1999. This standard changes the criteria for recognising provisions for such costs as decommissioning, environmental liabilities and restructuring charges. It also requires provisions for liabilities which may not be settled for a number of years to be discounted to their net present value. The adoption of this standard has been treated as a change in accounting policy. Comparative figures have been restated to reflect this change in accounting policy.

The principal effects of the adoption of FRS12 are as follows:

(a) Provisions for environmental liabilities are determined on a discounted basis as the effect of the time value of money is material. Previously these liabilities were on an undiscounted basis.

(b) Provisions for decommissioning are recognised in full, on a discounted basis, at the commencement of oil and natural gas production. The BP Amoco Group’s prior practice was to accrue the expected cost of decommissioning oil and natural gas production facilities on a unit-of-production basis over the life of the field. FRS12 also requires the BP Amoco Group to capitalise an amount equivalent to the provision as a tangible fixed asset and to amortise this amount over the life of the field on a unit-of-production basis.

(c) The unwinding of the discount, which represents a period-by-period cost, is included within interest expense.

(d) Certain restructuring costs associated with refinery network rationalisation and European refining and marketing joint venture implementation are recognised in a later period than originally charged.

46 New accounting standard for provisions (continued)

Information for 1998, 1997 and 1996 has been restated to conform with FRS12. A summarised income statement and balance sheet for BP Amoco on a FRS12 basis and as would have been prepared previously are shown below. There is no impact on net cash flow.

						$ million
	1998	1998	1997	1997	1996	1996
Income Statement	Restated	Pre FRS12	Restated	Pre FRS12	Restated	Pre FRS12
Turnover	**83,732**	**83,732**	108,564	108,564	102,064	102,064
Less: Joint ventures	**15,428**	**15,428**	16,804	16,804	–	–
BP Amoco Group turnover	**68,304**	**68,304**	91,760	91,760	102,064	102,064
Total replacement cost operating profit	**6,521**	**6,437**	10,683	10,583	10,634	10,544
Profit on sale of businesses and fixed assets	**1,048**	**1,048**	440	440	(171)	(171)
Merger expenses	**(198)**	**(198)**	–	–	–	–
Refinery network rationalisation	**–**	**–**	(47)	71	(24)	–
European refining and marketing joint venture implementation	**–**	**–**	(265)	–	(267)	(532)
Replacement cost profit before interest and tax	**7,371**	**7,287**	10,811	11,094	10,172	9,841
Stock holding gains (losses)	**(1,391)**	**(1,391)**	(939)	(939)	1,172	1,172
Historical cost profit before interest and tax	**5,980**	**5,896**	9,872	10,155	11,344	11,013
Interest expense	**1,173**	**1,053**	1,032	908	1,128	1,004
Profit before taxation	**4,807**	**4,843**	8,840	9,247	10,216	10,009
Taxation	**1,520**	**1,520**	3,013	3,066	2,783	2,755
Profit after taxation	**3,287**	**3,323**	5,827	6,181	7,433	7,254
Minority shareholders' interest	**63**	**63**	151	151	13	13
Profit for the year	**3,224**	**3,260**	5,676	6,030	7,420	7,241

46 New accounting standard for provisions (continued)

						$ million
	1998	1998	1997	1997	1996	1996
Balance sheet	Restated	Pre FRS12	Restated	Pre FRS12	Restated	Pre FRS12
Fixed assets						
Intangible assets	**3,037**	**3,037**	2,582	2,582	2,594	2,594
Tangible assets	**54,880**	**54,465**	52,595	52,263	55,179	54,843
Investments	**9,772**	**9,772**	10,376	10,376	4,164	4,164
	67,689	**67,274**	65,553	65,221	61,937	61,601
Current assets						
Stocks	**3,642**	**3,642**	4,923	4,923	7,652	7,652
Debtors	**12,709**	**12,709**	14,381	14,381	17,482	17,482
Investments	**470**	**470**	1,067	1,067	1,233	1,233
Cash at bank and in hand	**405**	**405**	355	355	347	347
	17,226	**17,226**	20,726	20,726	26,714	26,714
Creditors – amounts falling due within one year						
Finance debt	**2,837**	**2,837**	2,856	2,856	2,760	2,760
Other creditors	**15,329**	**15,329**	17,671	17,671	20,745	21,075
Net current assets (liabilities)	**(940)**	**(940)**	199	199	3,209	2,879
Total assets less current liabilities	**66,749**	**66,334**	65,752	65,420	65,146	64,480
Creditors – amounts falling due after more than one year						
Finance debt	**10,918**	**10,918**	10,021	10,021	10,088	10,088
Other creditors	**2,047**	**2,109**	2,501	2,562	2,789	2,866
Provisions for liabilities and charges						
– deferred taxation	**1,632**	**1,632**	1,183	1,183	1,203	1,203
– other provisions	**8,468**	**8,817**	8,337	8,806	8,519	8,992
Net assets	**43,684**	**42,858**	43,710	42,848	42,547	41,331
Minority shareholders' interest	**1,072**	**1,072**	1,100	1,100	313	313
BP Amoco shareholders' interest	**42,612**	**41,786**	42,610	41,748	42,234	41,018
Represented by capital and reserves						
Called up share capital	**4,863**	**4,863**	4,330	4,330	4,382	4,382
Reserves	**37,749**	**36,923**	38,280	37,418	37,852	36,636
	42,612	**41,786**	42,610	41,748	42,234	41,018

5 BP Amoco Results for the Three-Month Period ended 31 March 1999

The following is the full text of BP Amoco's Stock Exchange Announcement of 11 May 1999 announcing its unaudited results for the first quarter of 1999.

"BP Amoco's first results show strong performance. Restructuring well advanced.

- **First quarter 1999 replacement cost profit, before exceptional items, was $761 million, after adjusting for special charges of $84 million in respect of merger integration costs. This was a competitive result in a difficult environment.**
- **Lower cash costs contributed $200 million to the result.**
- **Contributions from higher volumes in all businesses.**
- **The exceptional charge for the quarter was $860 million after tax, relating primarily to the first tranche of restructuring following the BP Amoco merger. The major components of the restructuring charge are severance and property rationalization.**
- **Quarterly dividend 10 cents per share.**

BP Amoco p.l.c. today reported its first quarter 1999 results. BP Amoco Group Chief Executive, Sir John Browne, commented:

"This is a good debut result for BP Amoco in a tough environment. The reasons are twofold. First, there are underlying performance improvements from lower cash costs and higher volumes in all businesses and, second, we are beginning to see the benefits of the merger coming through to the bottom line."

Operating Results

Replacement cost profit, before exceptional items was $761 million, after adjusting for special charges of $84 million in respect of merger integration costs. The result was 12% down on the previous quarter and 41% down on a year ago. The decrease reflected a substantial deterioration in the trading environment. Underlying performance improvements for the quarter were on target and some benefit from merger integration contributed to the quarter's result.

Exploration and Production operating profit for the quarter of $904 million, after adjusting for special charges of $86 million, was down 26% on the equivalent quarter last year when oil and gas prices were significantly higher. Cost savings and higher production partially offset the impact of lower prices.

In **Refining and Marketing**, lower costs and higher marketing volumes partially offset the effect of a severe deterioration in the refining environment and pressure on marketing margins, and limited the fall in operating profit, after adjusting for special charges of $17 million, to 33% against a year ago.

Chemicals' operating profit for the quarter, after adjusting for special charges of $11 million, was $217 million. Despite continued market weakness, this result was 74% higher than the previous quarter owing to volume improvements and a lower level of maintenance shutdowns.

Interest expense was $304 million compared with $307 million in the previous quarter.

The effective tax rate on replacement cost profit, before exceptional items, was 27% compared with 25% a year ago, when there was tax relief on stock holding losses.

Capital expenditure and acquisitions was $1.5 billion compared with $2.7 billion a year ago, reflecting the increased focus in the capital programme. Capital expenditure net of divestments was $1.3 billion.

Net debt at quarter-end was $13.9 billion. The ratio of net debt to net debt plus equity was 24.9%.

Net cash outflow in the quarter was $1.2 billion, similar to a year ago. Lower operating cash flow was offset by reduced net capital expenditure and tax payments.

Operating Results

Highlights

		First Quarter 1999	Fourth Quarter 1998	First Quarter 1998
Replacement cost operating profit	$m	**1,246**	999	1,999
Replacement cost profit before exceptional items	$m	**677**	516	1,279
Profit (loss) after exceptional items				
Replacement cost	$m	**(183)**	524	1,329
Historical cost	$m	**(176)**	13	640
Earnings per ordinary share				
RC profit before exceptional items	cents	**7**	5	13
HC profit after exceptional items	cents	**(2)**	–	7
Earnings per ADS share				
RC profit before exceptional items	cents	**42**	30	78
Dividends per ordinary share	cents	**10.0**	10.0	9.5
	pence	**6.138**	6.119	5.75

External Environment

		First Quarter 1999	Fourth Quarter 1998	First Quarter 1998
BP Amoco average oil realizations*	$/bbl	**10.5**	10.9	13.7
BP Amoco US natural gas realizations	$/mcf	**1.6**	1.9	1.8
Indicative global refining margin	$/bbl	**0.8**	1.3	2.2
Chemicals integrated margin	DM/te	**638**	675	1,085

*Crude oil and natural gas liquids

Exploration and production

Replacement cost operating profit was $904 million, after adjusting for special charges of $86 million. This adjusted result was down 26% from a year ago, reflecting lower oil and gas prices. North Sea and ANS oil prices were down by over $3 and nearly $5 a barrel, respectively. US gas prices have also fallen by some 20 cents per thousand cubic feet. These environmental factors were significantly offset by lower costs, reflecting the savings instigated last year in response to the low oil price and reductions resulting from the rationalization decisions made following the merger. Exploration expenditure was lower, following highgrading of the portfolio after the merger.

Overall production for the quarter was up from a year ago. There was a significant contribution from the Eastern Trough Area Project, commissioned in July last year, in the central North Sea. The increase more than offset the decline at the mature fields in Alaska.

In March, BP Amoco, in our 50/50 joint venture with the Egyptian General Petroleum Company, signed a new concession agreement with the Egyptian Government under which we will invest some $450 million over the next six years to maintain production and prolong the life of the fields in the Gulf of Suez. Also in March, production began at the Ursa field (BP Amoco 23%) in the deep water Gulf of Mexico. The more focused exploration programme showed good progress in the quarter.

North American natural gas distribution and marketing performed strongly in the quarter. In April, the first cargo of liquefied natural gas (LNG) was loaded from the Atlantic LNG operation in Trinidad (BP Amoco 34%), for shipment to Spain.

Highlights

		1Q 1999	4Q 1998	1Q 1998
Replacement cost operating profit	$m	**818**	442	1,221
Results include:				
Exploration expense	$m	**172**	264	220
Key statistics:				
Average realizations : North Sea	$/bbl	**11.1**	11.1	14.4
: Alaskan North Slope (ANS)	$/bbl	**9.7**	12.0	14.5
: US natural gas	$/mcf	**1.6**	1.9	1.8
Crude oil and natural gas liquids production				
(Net of royalties)				
UK	mb/d	**586**	575	483
Rest of Europe	mb/d	**107**	99	116
USA	mb/d	**814**	856	850
Rest of World	mb/d	**592**	583	576
Total crude oil and liquids production	mb/d	**2,099**	2,113	2,025
Natural gas production				
UK	mmcf/d	**1,490**	1,351	1,576
Rest of Europe	mmcf/d	**243**	264	212
USA	mmcf/d	**2,433**	2,459	2,428
Rest of World	mmcf/d	**1,906**	1,928	1,912
Total natural gas production	mmcf/d	**6,072**	6,002	6,128

Refining and Marketing

Replacement cost operating profit was $363 million, after adjusting for special charges of $17 million. This result reflected higher marketing volumes and lower costs which provided some offset to the deterioration in the environment, with significantly lower refining margins and pressure on marketing margins versus a year ago, when the result was $539 million.

BP Amoco integration made good progress during the quarter. New integrated business units are now in place and significant progress has been made towards achieving cost savings. The US Federal Trade Commission mandated sale of downstream assets is on track.

Highlights

		1Q 1999	4Q 1998	1Q 1998
Replacement cost operating profit	$m	**346**	506	539
Indicative global refining margin	$/bbl	**0.8**	1.3	2.2
Refinery throughputs				
UK	mb/d	**273**	296	304
Rest of Europe	mb/d	**563**	569	545
USA	mb/d	**1,276**	1,326	1,537
Rest of World	mb/d	**382**	364	378
Total throughput	mb/d	**2,494**	2,555	2,764
Oil sales volumes				
Refined products				
UK	mb/d	**240**	267	257
Rest of Europe	mb/d	**785**	810	768
USA	mb/d	**1,458**	1,570	1,419
Rest of World	mb/d	**658**	629	587
Total marketing sales	mb/d	**3,141**	3,276	3,031
Trading/supply sales	mb/d	**1,776**	1,498	1,610
Total oil product sales	mb/d	**4,917**	4,774	4,641
Crude oil	mb/d	**3,947**	5,660	4,107
Total oil sales	mb/d	**8,864**	10,434	8,748

Chemicals

Chemicals' replacement cost operating profit for the first quarter of $217 million, after adjusting for special charges of $11 million, was 74% higher than the previous quarter. The improvement in the face of continued market weakness was the result of higher volumes and a lower level of maintenance shutdowns. Volumes were up 7% versus a year ago, providing some offset to the downturn in the environment.

During the quarter, BP Amoco authorized the construction of a new 250 ktepa linear alpha olefins plant in Alberta, Canada. This plant is scheduled to come on stream in mid-2001. Also during the quarter, a 150 ktepa acetic acid plant near Chongqing, China opened (BP Amoco 51%), expansion of catalyst production capabilities at the Green Lake, Texas facility was authorized and construction of a butanediol plant in Lima, Ohio commenced.

Highlights

		1Q 1999	4Q 1998	1Q 1998
Replacement cost operating profit	$m	**206**	125	346
Chemicals production+	kte	**5,143**	4,978	4,817

+ Includes BP Amoco share of associated undertakings and other interests in production.

Other Businesses and Corporate

Other Businesses and Corporate comprises Finance, Solar, the BP Amoco Group's coal asset, interest income and costs relating to corporate activities worldwide. In April, BP Amoco announced that it had acquired from Enron Corporation the 50% of Solarex it did not already own.

Highlights

		1Q 1999	4Q 1998	1Q 1998
Replacement cost operating loss	$m	**(124)**	(74)	(107)

Exceptional items

Exceptional items include the profit on sale of fixed assets and businesses which, in the first quarter, included the sale of the Verdugt acid salts business, and the divestment of the BP/Mobil JV's retail network in Hungary.

The major components of restructuring relate to severance of $722 million and property rationalization of $370 million, both of which are consequent upon the merger.

Highlights

		1Q 1999	4Q 1998	1Q 1998
Profit (loss) on sale of fixed assets and businesses	$m	**97**	190	66
Restructuring costs	$m	**(1,155)**	–	–
Merger transaction costs	$m	**–**	(198)	–
Taxation credit (charge)	$m	**198**	16	(16)
Exceptional items after taxation	$m	**(860)**	8	50

Income Adjusted for Special Items

$ million

	1Q 1999			Adjusted Results	
	Reported Earnings	**Special Items***	**Adjusted Results**	4Q 1998	1Q 1998
Exploration and Production	**818**	**86**	**904**	769	1,221
Refining and Marketing	**346**	**17**	**363**	506	539
Chemicals	**206**	**11**	**217**	125	346
Other businesses and corporate	**(124)**	**–**	**(124)**	(29)	(107)
RC operating profit	**1,246**	**114**	**1,360**	1,371	1,999
Interest expense	**(304)**	**–**	**(304)**	(307)	(264)
Taxation	**(254)**	**(30)**	**(284)**	(180)	(437)
MSI	**(11)**	**–**	**(11)**	(17)	(19)
RC profit before exceptional items	677	84	761	867	1,279
Exceptional items before tax	**(1,058)**				
Taxation on exceptional items	**198**				
RC profit after exceptional items	**(183)**				
Stock holding gains (losses)	**7**				
HC profit (loss)	**(176)**				

*The special items refer to non-recurring charges and credits reported in the quarter.

1999 Dividends

BP Amoco p.l.c. today announced a first quarterly dividend for 1999 of 10 cents per ordinary share. Holders of ordinary shares will receive 6.138 pence per share and holders of American Depositary Receipts (ADRs) $0.60 per ADS share. The dividend is payable on 10 June 1999 to shareholders on the register on 21 May 1999. Participants in the Dividend Reinvestment Plan (DRIP) or the DRIP facility in the US Direct Access Plan will receive the dividend in the form of shares on 10 June 1999.

Outlook

Crude oil prices have risen from the lows experienced in the first quarter, reflecting market reaction to production cut-backs by OPEC. Prices are likely to remain firm if there is continued compliance with lower production levels.

Natural gas prices are likely to reflect normal seasonal trends.

Downstream, margins are likely to remain under pressure.

In **Chemicals**, pressure on margins and volumes is expected to continue for some time, caused by a combination of new industry capacity coming on stream and weaker demand.

BP Amoco Group Chief Executive, Sir John Browne, concluded:

"We are confident that the steps we have taken in response to the weak business environment, together with the benefits of the BP Amoco merger, will position us for continued competitive performance for the balance of 1999 and beyond. Further restructuring opportunities, together with the associated performance improvement, are likely to emerge in the future."

The foregoing discussion, in particular the statements under 'Outlook', focuses on certain trends and general market and economic conditions and outlook on production levels or rates, prices, margins and currency exchange rates and, as such, are forward-looking statements that involve risk and uncertainty that could cause actual results and developments to differ materially from those expressed or implied by this discussion. By their nature, trends and outlook on production, price, margin and currency exchange rates are difficult to forecast with any precision, and there are a number of factors, including the dynamic nature of economic conditions, that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements. Additional information, including information on factors which may affect BP Amoco's business, is contained in BP Amoco's Annual Report and Accounts for 1998 and in the Annual Report on Form 20-F filed with the US Securities and Exchange Commission.

BP Amoco p.l.c. and subsidiaries

Summarized Group results

	First Quarter 1999	Fourth Quarter 1998*	First Quarter 1998*
			$ million
Exploration and Production	**818**	442	1,221
Refining and Marketing	**346**	506	539
Chemicals	**206**	125	346
Other businesses and corporate	**(124)**	(74)	(107)
Total replacement cost operating profit	**1,246**	999	1,999
Profit on sale of fixed assets and businesses (Note 4)	**97**	190	66
Restructuring costs (Note 4)	**(1,155)**	–	–
Merger expenses (Note 4)	**–**	(198)	–
Replacement cost profit before interest and tax	**188**	991	2,065
Stock holding gains (losses) (Note 6)	**7**	(511)	(689)
Historical cost profit before interest and tax	**195**	480	1,376
Interest expense (Note 7)	**304**	307	264
Profit (loss) before taxation	**(109)**	173	1,112
Taxation (Note 8)	**56**	143	453
Profit (loss) after taxation	**(165)**	30	659
Minority shareholders' interest	**11**	17	19
Profit (loss) for the period	**(176)**	13	640
Distribution to shareholders	**970**	1,326	913
Earnings per ordinary share – cents			
Basic	**(2)**	–	7
Diluted	**(2)**	–	7

Replacement cost results

Historical cost profit (loss) for the period	**(176)**	13	640
Stock holding (gains) losses	**(7)**	511	689
Replacement cost profit (loss) for the period	**(183)**	524	1,329
Exceptional items, net of tax	**860**	(8)	(50)
Replacement cost profit before exceptional items	**677**	516	1,279
Earnings per ordinary share – cents			
On replacement cost profit before exceptional items	**7**	5	13

* Restated – for further information see Note 1.

Summarized Group balance sheet

	31 March 1999	31 December 1998*
	$ million	
Fixed assets		
Intangible assets	**3,310**	3,037
Tangible assets	**53,947**	54,880
Investments	**9,742**	9,772
	66,999	67,689
Current assets		
Stocks	**3,616**	3,642
Debtors	**13,513**	12,709
Investments	**305**	470
Cash at bank and in hand	**270**	405
	17,704	17,226
Creditors – amounts falling due within one year		
Finance debt	**3,789**	2,837
Other creditors	**15,633**	15,329
Net current liabilities	**(1,718)**	(940)
Total assets less current liabilities	**65,281**	66,749
Creditors – amounts falling due after more than one year		
Finance debt	**10,721**	10,918
Other creditors	**2,532**	2,047
Provisions for liabilities and charges	**9,918**	10,100
Net assets	**42,110**	43,684
Minority shareholders' interest	**1,038**	1,072
BP Amoco shareholders' interest	**41,072**	42,612

Movement in BP Amoco shareholders' interest:

	$ million
At 31 December 1998	41,786
Provisions, Contingent Liabilities and Contingent Assets (FRS 12) (Note 1)	826
As restated	42,612
Loss for the period	(176)
Distribution to shareholders	(970)
Currency translation differences	(806)
Share dividend plan	311
Employee share schemes	101
At 31 March 1999	**41,072**

* Restated – for further information see Note 1.

Summarized Group cash flow statement

			$ million
	First Quarter 1999	Fourth Quarter 1998	First Quarter 1998
Net cash inflow from operating activities (Note 9)	**829**	1,974	2,071
Dividends from joint ventures	**212**	47	74
Dividends from associated undertakings	**45**	135	38
Servicing of finance and returns on investments			
Interest received	**32**	52	44
Interest paid	**(281)**	(203)	(256)
Dividends received	**7**	17	8
Dividends paid to minority shareholders	**(65)**	(69)	(1)
Net cash outflow from servicing of finance and returns on investments	**(307)**	(203)	(205)
Taxation			
UK corporation tax	**(72)**	(204)	(54)
Overseas tax	**27**	(301)	(377)
Tax paid	**(45)**	(505)	(431)
Capital expenditure			
Payments for fixed assets	**(1,515)**	(2,235)	(2,195)
Proceeds from the sale of fixed assets	**87**	687	328
Net cash outflow for capital expenditure	**(1,428)**	(1,548)	(1,867)
Acquisitions and disposals			
Investments in associated undertakings	**(88)**	(13)	(139)
Acquisitions	**–**	(81)	(205)
Net investment in joint ventures	**(200)**	741	10
Proceeds from the sale of businesses	**92**	–	77
Net cash (outflow) inflow for acquisitions and disposals	**(196)**	647	(257)
Equity dividends paid	**(263)**	(642)	(599)
Net cash outflow	**(1,153)**	(95)	(1,176)
Financing (Note 10)	**(829)**	(1)	(811)
Management of liquid resources	**(161)**	(140)	(550)
Increase (decrease) in cash	**(163)**	46	185
	(1,153)	(95)	(1,176)

Capital expenditure and acquisitions

			$ million
By business	**First Quarter 1999**	Fourth Quarter 1998	First Quarter 1998
Exploration and Production			
UK	**244**	340	406
Rest of Europe	**8**	25	51
USA	**362**	652	509
Rest of World	**320**	533	606
	934	1,550	1,572
Refining and Marketing			
UK	**34**	76	21
Rest of Europe	**80**	184	112
USA	**154**	192	171
Rest of World	**48**	225	54
	316	677	358
Chemicals			
UK	**60**	152	45
Rest of Europe	**61**	149	267
USA	**63**	158	90
Rest of World	**25**	86	55
	209	545	457
Other businesses and corporate	**25**	58	324
	1,484	2,830	2,711
By geographical area			
UK	**344**	594	713
Rest of Europe	**151**	359	468
USA	**595**	1,027	813
Rest of World	**394**	850	717
	1,484	2,830	2,711
Includes the following amounts for the BP/Mobil European joint venture	**107**	221	132

US dollar/Sterling exchange rates

Average rates for the period	**1.63**	1.68	1.65
Period-end rates	**1.61**	1.67	1.67

Analysis of replacement cost operating profit

			$ million
By business	**First Quarter 1999**	Fourth Quarter 1998	First Quarter 1998
Exploration and Production			
UK	**323**	339	526
Rest of Europe	**127**	69	118
USA	**196**	174	489
Rest of World	**172**	(140)	88
	818	442	1,221
Refining and Marketing			
UK	**(22)**	51	78
Rest of Europe	**100**	99	124
USA	**113**	210	164
Rest of World	**155**	146	173
	346	506	539
Chemicals			
UK	**42**	10	85
Rest of Europe	**61**	50	73
USA	**107**	21	206
Rest of World	**(4)**	44	(18)
	206	125	346
Other businesses and corporate	**(124)**	(74)	(107)
	1,246	999	1,999
By geographical area			
UK	**347**	330	665
Rest of Europe	**282**	218	301
USA	**288**	377	759
Rest of World	**329**	74	274
	1,246	999	1,999
Includes the following amounts for joint ventures and associated undertakings	**260**	314	355

Notes

1 New accounting standard: provisions

The group has adopted Financial Reporting Standard No. 12 'Provisions, Contingent Liabilities and Contingent Assets' (FRS12) with effect from 1 January 1999. This standard changes the criteria for recognising provisions for such costs as decommissioning, environmental liabilities and restructuring charges. It also requires provisions for liabilities which may not be settled for a number of years to be discounted to their net present value. The adoption of this standard has been treated as a change in accounting policy. Comparative figures have been restated to reflect this change in accounting policy.

The principal effects of the adoption of FRS12 are as follows:

(a) Provisions for environmental liabilities are determined on a discounted basis as the effect of the time value of money is material. Previously these liabilities were on an undiscounted basis.

(b) Provisions for decommissioning are recognized in full, on a discounted basis, at the commencement of oil and natural gas production. The group's prior practice was to accrue the expected cost of decommissioning oil and natural gas production facilities on a unit-of-production basis over the life of the field. FRS12 also requires the group to capitalize an amount equivalent to the provision as a tangible fixed asset and to amortize this amount over the life of the field on a unit-of-production basis.

(c) The unwinding of the discount, which represents a period-by-period cost, is included within interest expense.

The adjustments to total replacement cost operating profit for businesses and interest expense are as follows:

			$ million
	First Quarter 1999	Fourth Quarter 1998	First Quarter 1998
Exploration and Production	**21**	22	20
Total replacement cost operating profit	**21**	22	20
Interest expense	**(30)**	(30)	(30)
Profit for the period	**(9)**	(8)	(10)

The adjustments to tangible assets and provisions for liabilities and charges at 31 December 1998 are as follows:

	$ million
Tangible assets	415
Other creditors	62
Other provisions	349
BP Amoco shareholders' interest	826

Notes (continued)

2 Turnover

	First Quarter 1999	Fourth Quarter 1998	First Quarter 1998
			$ million
By business			
Exploration and Production	**4,024**	4,113	4,596
Refining and Marketing	**10,167**	11,083	12,501
Chemicals	**2,123**	2,225	2,586
Other businesses and corporate	**30**	49	54
	16,344	17,470	19,737
Less: sales between businesses	**1,702**	1,637	1,874
Group excluding JVs	**14,642**	15,833	17,863
Sales of joint ventures	**3,342**	3,763	3,653
	17,984	19,596	21,516
By geographical area			
Group excluding JVs			
UK	**4,795**	5,234	6,222
Rest of Europe	**1,190**	1,307	1,551
USA	**6,630**	7,669	8,388
Rest of World	**3,454**	3,285	3,728
	16,069	17,495	19,889
Less: sales between areas	**1,427**	1,662	2,026
	14,642	15,833	17,863
Sales of joint ventures			
UK	**747**	822	884
Rest of Europe	**2,989**	3,464	3,312
USA	**24**	10	16
Rest of World	**93**	101	76
	3,853	4,397	4,288
Less: sales between areas	**511**	634	635
	3,342	3,763	3,653

Notes (continued)

3 Operating profits are after charging

			$ million
	First Quarter 1999	Fourth Quarter 1998	First Quarter 1998
Exploration expense			
UK	**13**	48	15
Rest of Europe	**24**	14	26
USA	**20**	82	55
Rest of World	**115**	120	124
	172	264	220
Production taxes (i)			
UK petroleum revenue tax	**33**	2	26
Overseas production taxes	**109**	93	164
	142	95	190

(i) Production taxes are charged against Exploration and Production's operating profit and are not included in the charge for taxation in Note 8.

4 Analysis of exceptional items

			$ million
	First Quarter 1999	Fourth Quarter 1998	First Quarter 1998
Exploration and Production	**(9)**	45	64
Refining and Marketing	**44**	(23)	2
Chemicals	**62**	(47)	–
Other businesses and corporate	**–**	215	–
Profit on sale of fixed assets and businesses	**97**	190	66
Restructuring costs	**(1,155)**	–	–
Merger expenses	**–**	(198)	–
Exceptional items before taxation+	**(1,058)**	(8)	66
Taxation credit (charge)	**198**	16	(16)
Exceptional items after taxation	**(860)**	8	50
+Includes the following amounts for joint ventures and associated undertakings	**39**	(25)	–

Notes (continued)

5 Replacement cost profit

Replacement cost profits reflect the current cost of supplies. The replacement cost profit for the period is arrived at by excluding from the historical cost profit stock holding gains and losses.

6 Stock holding gains (losses)

			$ million
	First Quarter 1999	Fourth Quarter 1998	First Quarter 1998
Exploration and Production	**(11)**	(7)	(16)
Refining and Marketing	**45**	(465)	(642)
Chemicals	**(27)**	(39)	(31)
	7	(511)	(689)
Includes the following amounts for joint ventures and associated undertakings	**57**	(101)	(137)

7 Interest expense

			$ million
	First Quarter 1999	Fourth Quarter 1998	First Quarter 1998
Group interest payable	**236**	247	241
Capitalized	**(15)**	(15)	(43)
	221	232	198
Joint ventures	**16**	14	13
Associated undertakings	**37**	31	23
Unwinding of discount on provisions (Note 1)	**30**	30	30
	304	307	264

8 Charge for taxation

			$ million
	First Quarter 1999	Fourth Quarter 1998	First Quarter 1998
UK	**88**	78	143
Overseas	**(32)**	65	310
	56	143	453
Includes the following amounts for joint ventures and associated undertakings	**24**	3	51

Notes (continued)

9 Net cash inflow from operating activities

	First Quarter 1999	Fourth Quarter 1998	First Quarter 1998
			$ million
Reconciliation of historical cost profit before interest and tax to net cash inflow from operating activities			
Historical cost profit before interest and tax	**195**	480	1,376
Depreciation and amounts provided	**1,244**	1,493	1,215
Exploration expenditure written off	**84**	96	79
Share of (profits) losses of joint ventures and associated undertakings+	**(356)**	(188)	(218)
Interest and other income	**(52)**	(65)	(57)
Profit on sale of fixed assets and businesses	**(58)**	(215)	(66)
Decrease (increase) in working capital and other items	**(228)**	373	(258)
Net cash inflow from operating activities	**829**	1,974	2,071
+Includes the following amounts of depreciation of the BP/Mobil European JV	**78**	84	69

10 Analysis of cash flow

	First Quarter 1999	Fourth Quarter 1998	First Quarter 1998
			$ million
Financing			
Long-term borrowing	**(50)**	(418)	(340)
Repayments of long-term borrowing	**793**	102	199
Short-term borrowing	**(2,192)**	102	(1,100)
Repayments of short-term borrowing	**721**	280	160
	(728)	66	(1,081)
Issue of ordinary share capital	**(101)**	(67)	(43)
Repurchase of ordinary share capital	**–**	–	313
Net cash inflow from financing	**(829)**	(1)	(811)

Notes (continued)

11 Analysis of changes in net debt

			$ million
	First Quarter 1999	Fourth Quarter 1998	First Quarter 1998
Opening balance			
Finance debt	**13,755**	13,759	12,877
Less: Cash	**405**	375	355
Current asset investments	**470**	612	1,067
Opening net debt	**12,880**	12,772	11,455
Closing balance			
Finance debt	**14,510**	13,755	13,932
Less: Cash	**270**	405	544
Current asset investments	**305**	470	512
Closing net debt	**13,935**	12,880	12,876
Increase in net debt	**(1,055)**	(108)	(1,421)
Movement in cash/bank overdrafts	**(163)**	46	185
Increase (decrease) in current asset investments	**(161)**	(140)	(550)
Net cash (inflow) outflow from financing (excluding share capital)	**(728)**	66	(1,081)
Other movements	**–**	(36)	2
Movement in net debt before exchange effects	**(1,052)**	(64)	(1,444)
Exchange adjustments	**(3)**	(44)	23
Increase in net debt	**(1,055)**	(108)	(1,421)

12 Ordinary shares

Shares in issue at 31 March 1999 = 9,721.4 million. Average number of shares in issue during January-March 1999 = 9,669.0 million (excluding shares held by the Employee Share Ownership Plans).

13 Statutory accounts

The financial information shown in this publication is unaudited and does not constitute statutory accounts. The 1998 statutory accounts have been delivered to the UK Registrar of Companies; the report of the auditors on those accounts was unqualified.”

Part III: Information Relating to ARCO

1 Business Description of ARCO

ARCO began operations in 1866 as the Atlantic Petroleum Storage Company. The company's present name, Atlantic Richfield Company, was adopted in 1966 after Richfield Oil Corporation was merged into the company. Sinclair Oil Corporation was merged into ARCO in 1969 and ARCO acquired the Anaconda Company in 1977. ARCO became a Delaware corporation in 1985.

ARCO is a global oil and gas enterprise operating in two segments: exploration and production and refining and marketing.

(a) *Exploration and production*
Exploration and production explores for, develops and produces oil and natural gas worldwide. ARCO has operations in Alaska, the Gulf of Mexico and the Midcontinent in the United States, and internationally in China, Indonesia, the United Kingdom North Sea, Algeria and Venezuela. The largest element of ARCO's operations in the Lower 48 States is held by ARCO's 82 per cent owned subsidiary, Vastar.

(b) *Refining and marketing*
Refining and marketing is primarily responsible for petroleum refining, marketing and transportation. ARCO's refining and marketing operations in the western United States include two west coast refineries, over 1,700 branded retail gasoline outlets in six western states of the United States and British Columbia in Canada, a marine fleet, and supporting pipelines and terminals.

ARCO's turnover for the year ended 31 December 1998 was approximately $10.3 billion and its gross assets as at that date were approximately $25.2 billion.

In 1997, ARCO announced its decision to increase its focus on its core exploration and production areas through organic growth, acquisitions and joint ventures, and to divest itself of non-strategic assets, whilst retaining its position in west coast refining and marketing. In connection with this strategy, ARCO has disposed of the following:

- its 49.9 per cent equity interest in Lyondell Petrochemical Company (September 1997);
- its US coal operations (including its Black Thunder and Coal Creek mines in Wyoming, its West Elk mine in Colorado, and its 65 per cent interest in three mines in Utah) to Arch Coal (June 1998);
- its entire interest in ARCO Chemical Company to its former subsidiary, Lyondell Petrochemical Company (July 1998); and
- its interest in two coal properties in Australia: the Blair Athol mine and the Gordonstone mine (in the first quarter of 1999).

In June 1998, ARCO merged with UTP and in this way acquired properties in the United Kingdom North Sea, Indonesia and Venezuela as well as interests in three oil concessions in the Badin area of Pakistan, interests in the Alpine field in Alaska and the Geismar petrochemical plant in Louisiana. In line with its focus on its core oil and gas operations, ARCO sold this petrochemical plant to Williams Energy Services in March 1999.

In late 1998, ARCO announced that it was undertaking a worldwide cost reduction programme designed to reduce: (1) upstream and downstream operating and support costs; (2) exploration spending; and (3) costs for the corporate centre and support services.

2 Extraction of Financial Information

The financial information on ARCO set out in paragraph 3 below has been extracted without material adjustment from the audited financial statements contained in the Annual Reports filed on Form 10-K with the SEC for each of the three years ended 31 December 1998, 1997 and 1996. The financial information has been prepared in accordance with US GAAP. PricewaterhouseCoopers LLP have issued independent accountants' reports on ARCO's consolidated financial statements for the three years ended 31 December 1998, 1997 and 1996 that are required to be included in ARCO's annual report on Form 10-K under the US Securities Exchange Act of 1934. Each such report was unqualified.

3 Financial Information for ARCO

ARCO consolidated statement of income

	$ million, except per share amounts		
	year ended 31 December		
	1998	1997[a]	1996[a]
Revenues			
Sales and other operating revenues	**10,303**	14,340	14,094
Other revenues	**506**	417	486
Total revenues	**10,809**	14,757	14,580
Expenses			
Trade purchases	**3,959**	6,405	6,463
Operating expenses	**2,735**	2,654	2,268
Selling, general and administrative expenses	**772**	816	737
Depreciation, depletion and amortisation	**1,535**	1,446	1,322
Impairment of oil and gas properties	**1,447**	–	–
Exploration expenses (including undeveloped leasehold amortisation)	**629**	508	413
Taxes other than income taxes	**506**	640	683
Interest	**259**	343	582
Restructuring costs	**249**	67	26
Total expenses	**12,091**	12,879	12,494
Income (loss) from continuing operations before income taxes, minority interest and extraordinary item	**(1,282)**	1,878	2,086
Provision (benefit) for taxes on income	**(651)**	504	786
Minority interest in earnings of subsidiaries	**24**	43	39
Income (loss) from continuing operations before extraordinary item	**(655)**	1,331	1,261
Income from discontinued operations, net of income taxes of $113 (1998), $74 (1997) and $155 (1996)	**179**	267	402
Gain on disposition of discontinued operations, net of income taxes of $1,620 (1998) and $342 (1997)	**928**	291	–
Income before extraordinary item	**452**	1,889	1,663
Extraordinary loss on extinguishment of debt, net of income taxes of $74	**–**	118	–
Net income	**452**	1,771	1,663
Earnings per share:			
Continuing operations			
Basic	**(2.05)**	4.14	3.92
Diluted	**(2.05)**	4.07	3.86
Net income			
Basic	**1.40**	5.51	5.17
Diluted	**1.40**	5.41	5.09
Weighted average equivalent shares outstanding:			
Basic	**321.0**	321.2	321.7
Diluted	**321.0**	327.4	326.5

[a] Restated for discontinued operations with no effect on net income.

ARCO consolidated balance sheet

	1998	1997[a]	1996[a]
			$ million
			at 31 December
Assets			
Current assets:			
Cash and cash equivalents	**657**	434	1,326
Short-term investments	**260**	222	784
Accounts receivable	**1,002**	929	1,270
Inventories	**475**	456	386
Prepaid expenses and other current assets	**317**	204	215
Total current assets	**2,711**	2,245	3,981
Investments and long-term receivables:			
Investments accounted for on the equity method	**1,235**	763	424
Other investments and long-term receivables	**831**	1,820	1,128
Total investments and long-term receivables	**2,066**	2,583	1,552
Net property, plant and equipment	**18,762**	13,560	12,567
Net assets of discontinued operations	**339**	2,777	3,395
Deferred charges and other assets	**1,321**	1,260	1,208
Total assets	**25,199**	22,425	22,703
Liabilities and stockholders' equity			
Current liabilities:			
Notes payable	**2,403**	1,456	960
Accounts payable	**976**	948	1,043
Taxes payable	**634**	308	389
Long-term debt due within one year	**399**	164	1,077
Other	**1,285**	953	894
Total current liabilities	**5,697**	3,829	4,363
Long-term debt	**4,332**	3,619	4,745
Deferred income taxes	**3,318**	2,661	2,385
Dismantlement, restoration and reclamation	**1,058**	966	909
Other deferred liabilities and credits	**2,955**	2,430	2,348
Minority interest	**259**	240	152
Total liabilities	**17,619**	13,745	14,902
Stockholders' equity:			
Preference stocks	**1**	1	1
Common stock, $2.50 par value; shares issued 325,902,559 (1998), 322,719,890 (1997) shares outstanding 321,315,367 (1998), 320,369,895 (1997)	**815**	807	403
Capital in excess of par value of stock	**863**	640	628
Retained earnings	**6,589**	7,054	6,592
Treasury stock	**(344)**	(170)	(1)
Accumulated other comprehensive income (loss)	**(344)**	348	178
Total stockholders' equity	**7,580**	8,680	7,801
Total liabilities and stockholders' equity	**25,199**	22,425	22,703

[a] Restated for discontinued operations.

Consolidated statement of changes in shareholders' equity

$ million

	Common stock Shares	Common stock Dollars	Preference stock	Capital in excess of par	Treasury stock Shares	Treasury stock Dollars*	Accumulated other comprehensive income (loss)	Retained earnings	Total
Balance 1 January 1996	160.9	402	1	632	0.1	(5)	(88)	5,816	6,758
Net income								1,663	1,663
Other comprehensive income:									
Unrealised gain on securities							236		236
Foreign currency translation							(2)		(2)
Minimum pension liability							32		32
Total comprehensive income									1,929
Common stock dividends								(885)	(885)
Preference stock dividends								(2)	(2)
Common stock issued	0.2	1		12					13
Treasury stock purchases					0.5	(57)			(57)
Treasury stock issued				(16)	(0.5)	61			45
Balance 31 December 1996	161.1	403	1	628	0.1	(1)	178	6,592	7,801
Net income								1,771	1,771
Other comprehensive income:									
Unrealised gain on securities							381		381
Foreign currency translation							(185)		(185)
Minimum pension liability							(26)		(26)
Total comprehensive income									1,941
Common stock dividends								(906)	(906)
Preference stock dividends								(2)	(2)
100% stock dividend	161.3	403						(403)	–
Common stock issued	0.3	1		8					9
Treasury stock purchases					3.5	(256)			(256)
Treasury stock issued				4	(1.3)	87			91
Other								2	2
Balance 31 December 1997	322.7	807	1	640	2.3	(170)	348	7,054	8,680
Net income								**452**	**452**
Other comprehensive income:									
Unrealised loss on securities							**(681)**		**(681)**
Foreign currency translation							**(18)**		**(18)**
Minimum pension liability							**7**		**7**
Total comprehensive income (loss)									**(240)**
Common stock dividends								**(915)**	**(915)**
Preference stock dividends								**(2)**	**(2)**
Common stock issued	**3.2**	**8**		**226**					**234**
Treasury stock purchases					**3.2**	**(249)**			**(249)**
Treasury stock issued				**(3)**	**(0.9)**	**75**			**72**
Balance 31 December 1998	**325.9**	**815**	**1**	**863**	**4.6**	**(344)**	**(344)**	**6,589**	**7,580**

* At cost

ARCO consolidated statement of cash flows

			$ million
		Year ended 31 December	
	1998	1997[a]	1996[a]
Cash flows from operating activities:			
Net income (loss) from continuing operations	**(655)**	1,213	1,261
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation, depletion and amortisation	**1,535**	1,446	1,322
Impairment of oil and gas properties	**1,447**	–	–
Dry hole expense and undeveloped leasehold amortisation	**303**	235	209
Extraordinary loss on extinguishment of debt	**–**	118	–
Income from equity investments	**(78)**	(19)	(22)
Dividends from equity investments	**37**	26	29
Noncash provisions greater (less) than cash payments	**184**	61	(203)
Minority interest in earnings of subsidiaries	**24**	43	39
Net gain on asset sales	**(61)**	(49)	(35)
Deferred income taxes	**(539)**	112	(44)
Changes in working capital accounts	**307**	183	158
Other	**58**	2	(27)
Net cash provided by operating activities	**2,562**	3,371	2,687
Cash flows from investing activities:			
Union Texas Petroleum acquisition	**(2,707)**	–	–
Additions to fixed assets, including dry hole costs	**(3,551)**	(2,655)	(1,854)
Net proceeds from sale of ARCO Chemical and US coal assets	**3,988**	–	–
Net cash provided (used) by short-term investments	**(33)**	558	753
Investment in/advances to LUKARCO	**(59)**	(227)	–
Investment in LUKOIL and Zhenhai securities	**–**	–	(218)
Proceeds from asset sales	**207**	182	47
Investments and long-term receivables	**(242)**	(202)	(115)
Other	**(73)**	6	4
Net cash used by investing activities	**(2,470)**	(2,338)	(1,383)
Cash flows from financing activities:			
Repayments of long-term debt	**(503)**	(1,558)	(832)
Proceeds from issuance of long-term debt	**536**	254	680
Net cash provided by notes payable	**912**	521	99
Dividends paid	**(917)**	(908)	(887)
Treasury stock purchases	**(32)**	(256)	(57)
Other	**50**	43	146
Net cash provided (used) by financing activities	**46**	(1,904)	(851)
Cash flows from discontinued operations	**85**	(16)	(381)
Effect of exchange rate changes on cash	**–**	(5)	4
Net increase (decrease) in cash and cash equivalents	**223**	(892)	76
Cash and cash equivalents at beginning of year	**434**	1,326	1,250
Cash and cash equivalents at end of year	**657**	434	1,326

[a] Restated for discontinued operations.

Notes to consolidated financial statements

Note 1 – Accounting policies

ARCO's accounting policies conform to generally accepted accounting principles, including the "successful efforts" method of accounting for oil and gas producing activities. Unless otherwise stated, the Notes to Consolidated Financial Statements exclude discontinued operations.

Principles of consolidation

The consolidated financial statements include the accounts of all subsidiaries, ventures and partnerships in which a controlling interest is held, including Vastar Resources, Inc., of which ARCO owned 82.1 per cent of the outstanding shares at 31 December 1998. ARCO also consolidates its interests in undivided interest pipeline companies and in oil and gas joint ventures. ARCO uses the equity method of accounting for companies where its effective ownership is between 20 per cent and 50 per cent and for other ventures and partnerships in which a controlling interest is not held.

Revenue recognition

Revenues are generally recognised upon the passage of title, net of royalties, if applicable.

Cash equivalents

Cash equivalents consist of highly liquid investments, such as time deposits, certificates of deposit and marketable securities other than equity securities, maturing within three months of purchase. Cash equivalents are stated at cost, which approximates fair value.

Oil and gas unproved property costs

Unproved property costs are initially capitalised. Significant unproved properties are not amortised but are periodically assessed for impairment. Other unproved properties are amortised on a composite basis, considering past success experience and average property life. In general, costs of properties surrendered or otherwise disposed of are charged to accumulated amortisation. Costs of successful properties are transferred to developed properties. Exploratory wells that find oil and gas reserves which cannot be classified as proved within one year of discovery and do not continue to qualify as capitalised costs are charged to expense as dry hole costs.

Fixed assets

Fixed assets are recorded at cost and are written off on either the unit-of-production or straight-line method based on the expected lives of individual assets or groups of assets.

Upon disposal of assets depreciated on an individual basis, residual cost less salvage value is included in current income. Upon disposal of assets depreciated on a group basis, unless unusual in nature or amount, residual cost less salvage value is charged against accumulated depreciation.

Long-lived assets are assessed for possible impairment in accordance with Statement of Financial Accounting Standards (SFAS) No. 121, whenever events indicate the carrying amount may not be recoverable. If undiscounted future cash flows are less than the carrying amount, an impairment loss is recognised to the extent the carrying amount exceeds future discounted cash flows. For proved oil and gas properties, the assessment is performed on an individual field basis.

Dismantlement, restoration and reclamation costs

The estimated costs, net of salvage value, of dismantling facilities or projects with limited lives or that are required to be dismantled by contract, regulation or law, and the estimated costs of restoration and reclamation associated with oil and gas operations are accrued during production and classified as a long-term liability. Such costs are taken into account in determining depreciation, depletion and amortisation.

Environmental remediation

Environmental remediation costs are accrued as operating expenses based on the estimated timing and extent of remedial actions required by applicable governmental authorities and the amount of ARCO's liability in consideration of the liability and financial wherewithal of other responsible parties. Estimated liabilities are not discounted to present value.

Note 1 – Accounting policies (continued)

Stock-based Compensation

Employee stock options are accounted for under the intrinsic value method prescribed by Accounting Principles Board Opinion (APB) No. 25.

Earnings per share

Basic earnings per share is based on the average number of common shares outstanding during each period. Diluted earnings per share includes as outstanding certain options and all convertible or potentially issuable securities as well. All historical earnings per share have been restated to give effect to the 100 per cent stock dividend effective 13 June 1997.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Derivative instruments

ARCO uses a variety of derivative instruments, both financial and commodity based, to minimise the market risks of commodity price, interest rate and foreign currency fluctuations. ARCO does not hold or issue derivative instruments for trading purposes and is not a party to leveraged instruments. All derivative instruments are off-balance sheet instruments; however, net receivable or payable positions related to derivative instruments are carried on the balance sheet. The nature of the transaction underlying a risk management strategy, primarily whether or not the instrument qualifies as a hedge, determines which accounting method is used.

The conditions that must be met for a derivative instrument to qualify as a hedge are: (1) the item to be hedged exposes ARCO to price or interest rate risk; (2) the derivative reduces the risk exposure and is designated as a hedge at the time the derivative contract is entered into; and (3) at the inception of the hedge and throughout the hedge period there is a high correlation between changes in market value of the derivative instrument and fair value of the underlying items being hedged.

Deferral accounting is used for the following types of transactions (if the instrument qualifies as a hedge): future crude oil and natural gas production; fixed-price crude oil and natural gas purchase and sale commitments; US dollar-denominated debt issued by a foreign subsidiary; debt denominated in a foreign currency; and anticipated foreign currency commitments. Under this method, deferred gains and losses are included in other assets or accrued liabilities until the designated underlying item is recognised in income. Recognised gains and losses are recorded in sales and other operating revenues, other revenues or trade purchases depending on the underlying item associated with the derivative. Instruments typically used in these transactions are crude oil and natural gas swap and price collar contracts and some foreign currency swap, forward and option contracts.

The accrual method of accounting is used for interest rate swap agreements entered into by the company which convert the interest rate on fixed-rate debt to a variable rate. Under the accrual method, each net payment or receipt due or owed under the derivative is recognised in income in the period to which the payment or receipt relates. Amounts to be paid/received under these agreements are recognised as an adjustment to interest expense. The related amounts payable to/receivable from the counterparties are included in other accrued liabilities.

The fair value method of accounting is used for any derivative instrument that does not qualify as a hedge. The fair value method, whereby gains and losses associated with changes in fair value of a derivative instrument are recognised currently in income or in accumulated other comprehensive income, is used for the following derivative instruments: foreign currency forward and option contracts associated with anticipated future cash flows related to overseas operations, and foreign currency swap contracts associated with foreign-denominated intercompany debt with maturities exceeding one year. Presently, changes in fair value of all transactions accounted for under this method are recognised currently in income and reported as other revenues.

Under all methods of accounting, the cash flows related to any recognised gains or losses associated with derivative instruments are reported as cash flows from operations.

Note 1 – Accounting policies (continued)

If a derivative instrument designated as a hedge is terminated prior to expected maturity, gains or losses are deferred and included in income when the underlying hedged item is recognised in income.

When the designated item associated with a derivative instrument matures, is sold, extinguished or terminated, gains or losses are recognised as part of the gain or loss on sale or settlement of the underlying item. When a derivative instrument is associated with an anticipated transaction that is no longer expected to occur, the gain or loss on the derivative is recognised immediately in income.

Reclassifications

Certain previously reported amounts have been restated to conform to classifications adopted in 1998 or to reflect ARCO's chemical and coal operations as discontinued.

Note 2 – Segment information

Segment information has been prepared in accordance with SFAS No. 131, "Disclosure about Segments of an Enterprise and Related Information." ARCO has two reportable segments: exploration and production ("E&P") and refining and marketing ("R&M"). The segments were determined based upon types of products produced/sold by each segment. Segment performance is evaluated based upon net income, excluding interest expense.

The E&P segment is an aggregation of several business units engaged in one or more of the following: the worldwide exploration, development and production of petroleum liquids (crude oil, condensate and natural gas liquids) and natural gas; the purchase and sale of petroleum liquids and natural gas; and the transportation via pipeline of petroleum liquids within the State of Alaska. ARCO's investments in the LUKARCO joint venture and LUKOIL common stock are included in the E&P segment as well.

The R&M segment comprises the refining of crude oil, primarily from the North Slope of Alaska; the marketing of petroleum products, primarily in the west coast region of the US; and the transportation of petroleum liquids and petroleum products via ocean-going tankers, primarily between Alaska and the west coast. ARCO's equity investment in Zhenhai Refining and Chemical Company is also included in the R&M segment.

Revenue from other operating segments is attributable to the pipeline transportation and storage of petroleum liquids and petroleum products in the Lower 48 States.

Intersegment sales were made at prices approximating current market value.

Note 2 – Segment information (continued)

Segment information

	Exploration & production	Refining & marketing	All other	Unallocated items	Totals
			1998		**$ million**
Sales and other operating revenue:					
US	4,372	5,457	156	2	**9,987**
International	1,562	27	–	14	**1,603**
Intersegment revenues	(1,179)	(14)	(80)	(14)	**(1,287)**
Total	4,755	5,470	76	2	**10,303**
Income from equity affiliates	25	19	34	–	**78**
Interest revenue	18	5	–	96	**119**
Interest expense	–	–	–	259	**259**
Depreciation, depletion and amortisation	1,239	252	18	26	**1,535**
Income tax expense (benefit)	(563)	145	65	(298)	**(651)**
Net income (loss)	(616)	281	111	676[a]	**452**
Investment in equity affiliates	661	219	344	11	**1,235**
Property, plant and equipment (net):					
US	7,420	2,939	432	132	**10,923**
International	7,824	15	–	–	**7,839**
Additions to fixed assets	3,020	488	38	5	**3,551**
Segment assets	18,203	3,826	1,119	2,051[b]	**25,199**
			1997		
Sales and other operating revenue:					
US	7,918	6,853	177	3	14,951
International	1,630	3	–	15	1,648
Intersegment revenues	(2,164)	(3)	(77)	(15)	(2,259)
Total	7,384	6,853	100	3	14,340
Income from equity affiliates	5	8	6	–	19
Interest revenue	12	3	–	99	114
Interest expense	–	–	–	343	343
Depreciation, depletion and amortisation	1,184	226	15	21	1,446
Income tax expense (benefit)	653	161	47	(357)	504
Net income	1,347	325	82	17[a]	1,771
Investment in equity affiliates	336	98	329	–	763
Property, plant and equipment (net):					
US	6,734	2,714	470	146	10,064
International	3,496	–	–	–	3,496
Additions to fixed assets	2,276	330	46	3	2,655
Segment assets	13,269	3,564	1,149	4,443[b]	22,425

Note 2 – Segment Information (continued)

	1996				$ million
	Exploration & production	Refining & marketing	All other	Unallocated items	Totals
Sales and other operating revenue:					
US	7,968	6,935	202	–	15,105
International	1,387	5	–	21	1,413
Intersegment revenues	(2,303)	(8)	(92)	(21)	(2,424)
Total	7,052	6,932	110	–	14,094
Income from equity affiliates	13	–	9	–	22
Interest revenue	3	1	–	163	167
Interest expense	–	–	–	582	582
Depreciation, depletion and amortisation	1,061	227	18	16	1,322
Income tax expense (benefit)	767	150	52	(183)	786
Net income (loss)	1,329	287	87	(40)[a]	1,663
Investment in equity affiliates	94	–	330	–	424
Property, plant and equipment (net):					
US	6,434	2,621	463	183	9,701
International	2,866	–	–	–	2,866
Additions to fixed assets	1,684	121	41	8	1,854
Segment assets	11,838	3,380	1,141	6,344[b]	22,703

[a] Includes: income from discontinued operations of $179 million, $267 million and $402 million in 1998, 1997 and 1996, respectively; gain on disposition of discontinued operations of $928 million and $291 million in 1998 and 1997, respectively; and extraordinary loss of $118 million in 1997.

[b] Includes assets of discontinued operations of $339 million (1998), $2,777 million (1997) and $3,395 million (1996).

Note 3 – Acquisition of Union Texas Petroleum Holdings, Inc.

In June 1998, ARCO completed its tender offer for all outstanding common shares of UTP for approximately $2.5 billion, or $29 per share in cash. ARCO also purchased in a tender offer 1,649,500 shares of UTP's 7.14 per cent Series A Cumulative Preferred Stock for approximately $200 million, or $122 per share in cash. UTP was a US-based, non-integrated oil and gas company with substantially all of its oil and gas producing operations conducted outside the US in the United Kingdom sector of the North Sea, Indonesia and Pakistan.

The acquisition is being accounted for as a purchase. The results of operations of UTP are included in the consolidated financial statements of ARCO as of 1 July 1998. The cost of the acquisition was allocated on the basis of the estimated fair value of the assets acquired and liabilities assumed and there are no contingencies or other matters that could affect the allocation of the purchase cost. The liabilities assumed included employee termination costs of $78 million and other costs, such as lease and other contract cancellation costs, totalling $18 million associated with the merging of UTP's businesses into ARCO's operations. At 31 December 1998, ARCO had terminated 279 of the 357 employees to be terminated and had paid out $52 million against the liability for severance payments. The remaining cash costs for severance, office lease and software maintenance contract buyouts totalling $37 million are expected to be paid out by the end of 2000. In addition, there were $7 million of non-cash charges. The group of employees terminated included US citizens employed in exploration and production operations and corporate headquarters personnel.

Note 3 – Acquisition of Union Texas Petroleum Holdings, Inc. (continued)

The following unaudited pro forma summary presents information as if UTP had been acquired as of the beginning of ARCO's fiscal years 1998 and 1997. The pro forma amounts include certain adjustments, primarily to recognise depreciation, depletion and amortisation based on the allocated purchase price of UTP assets, and do not reflect any benefits from economies which might be achieved from combining operations. The pro forma information does not necessarily reflect the actual results that would have occurred nor is it necessarily indicative of future results of operations of the combined companies:

	$ million, except per share amounts	
	1998	1997
Sales and other operating revenues	**10,570**	15,061
Income (loss) from continuing operations before extraordinary item	**(702)**	1,372
Income from and gains on discontinued operations	**1,107**	590
Extraordinary loss	**–**	(118)
Net income	**405**	1,844
Earnings (loss) per share		
Basic		
Continuing operations	**(2.19)**	4.27
Discontinued operations	**3.45**	1.84
Extraordinary loss	**–**	(.37)
Net income	**1.26**	5.74
Diluted		
Continuing operations	**(2.19)**	4.19
Discontinued operations	**3.45**	1.80
Extraordinary loss	**–**	(.36)
Net income	**1.26**	5.63

Note 4 – Discontinued operations

Coal

In June 1998, ARCO disposed of its US coal operations in a transaction with Arch Coal. Operations disposed of included the Black Thunder and Coal Creek mines in Wyoming, the West Elk mine in Colorado, and ARCO's 65 per cent interest in three mines in Utah. The Colorado and Utah mines were sold outright. ARCO contributed its Wyoming coal operations and Arch Coal transferred various of its coal operations into a new joint venture that is 99 per cent owned by Arch Coal and 1 per cent owned by ARCO.

As of February 1999, ARCO has disposed of its interests in two Australian coal mines. ARCO disposed of its 80 per cent interest in the Gordonstone coal mine and its 31.4 per cent interest in the Blair Athol Joint Venture. After those dispositions the carrying value of the remaining Australian assets was $56 million at 12 February 1999. At 31 December 1998, the carrying value of the Australian coal assets was $197 million and was included in net assets of discontinued operations on the balance sheet. Beginning in January 1999, ARCO suspended depreciation on the Australian coal assets (1998 annual depreciation was $23 million). ARCO has recorded a $92 million provision for the estimated loss on the disposal of the US and Australian coal assets. A gain of approximately $200 million on the sale of US coal operations has been deferred (by reducing the net assets of discontinued operations) until the disposition of the remaining Australian coal assets is completed in 1999 and the actual loss can be determined.

Note 4 – Discontinued operations (continued)

Chemical

In July 1998, ARCO tendered its entire interest of 80 million shares of ARCO Chemical Company common stock to Lyondell Petrochemical Company ("Lyondell") for $57.75 per share, or total cash proceeds of approximately $4.6 billion. After deferral of $313 million of the pretax gain, ARCO recorded an after-tax gain of approximately $1.1 billion in the third quarter of 1998 from the sale of the shares. The deferral represents the estimated discounted present value of the difference between the above-market MTBE contract between ARCO and ARCO Chemical and the spot market price for MTBE over the remaining term. The deferral will be amortised over the remaining term of the contract, ending in 2002, on a straight-line basis.

As part of the acquisition of UTP, ARCO determined it would sell UTP's petrochemical business. ARCO completed the sale in March 1999. At 31 December 1998, the carrying value of these assets was $142 million and was included in the net assets of discontinued operations on the balance sheet. If depreciation had not been suspended for the last six months of 1998, the petrochemical business would have had a loss of $5 million. ARCO has recorded a $33 million after-tax provision for loss on the sale of the assets.

In September 1997, ARCO disposed of its 49.9 per cent equity interest in Lyondell. ARCO recorded an after-tax gain of $291 million on the disposition.

Revenues and net income from discontinued operations were as follows:

	$ million	
	1998	1997
Revenues:		
ARCO Chemical	**1,990**	3,726
Coal operations	**338**	637
UTP petrochemical	**58**	–
Net income:		
ARCO Chemical	**170**	92
Coal operations	**9**	56
Lyondell	**–**	119
UTP petrochemical	**–**	–
	179	267

Note 5 – Accounting changes

Effective 1 January 1997, ARCO adopted Statement of Position (SOP) 96-1, "Environmental Remediation Liabilities." The provisions include standards affecting the measurement, recognition and disclosure of environmental remediation liabilities. The effect of initially applying the provisions of SOP 96-1 in 1997 was a decrease in net income of $30 million ($0.09 per share).

Note 6 – Extraordinary item

During 1997, ARCO retired debt with a face value of $756 million prior to maturity. The debt repurchases resulted in an extraordinary charge of $118 million against net income, after tax of $74 million.

Note 7 – Restructuring costs

During 1998, ARCO recorded pretax charges of $229 million for the costs of eliminating over 1,200 positions related to the downsizing of continuing operations, primarily E&P technical support, international E&P support operations and the corporate headquarters. All positions eliminated were specifically identified prior to 31 December 1998; all terminations are scheduled to take place prior to 31 December 1999.

The following table summarises the liabilities related to the 1998 restructuring programme, including $11 million transferred from the 1997 programme discussed below:

				$ million
Terminations	Short-term benefits[a]	Funded long-term benefits[b]	Unfunded long-term benefits[c]	Total
1,212	93	90	56	239

[a] Severance and ancillary relocation and outplacement benefits.

[b] Net increase in pension benefits to be paid from assets of qualified pension plans.

[c] Net increase in non-qualified pension benefits and other post retirement benefits to be paid from ARCO funds.

Long-term benefits will be paid after retirement over the remaining lives of the recipients or, for pension benefits, in a lump sum upon election. Long-term benefits have been accrued in accordance with SFAS No. 88. Severance and ancillary costs will be paid over the next two years. No significant amounts have been paid as of 31 December 1998.

In addition, ARCO recorded a pretax charge of $20 million related to office space and facilities that will be vacated with no future economic benefit. Cash payments will be made through 2005, the remaining term of the lease.

During 1997, ARCO recorded pretax charges of $67 million for personnel reductions in refining and marketing operations and corporate headquarters. As of 31 December 1998, $45 million was paid and $11 million was transferred to reserves for the 1998 programme, with a balance of $11 million to be paid within the next year. The transfer was necessary because when the 1998 programme was announced, certain employees who had not yet terminated under the 1997 programme became eligible for 1998 programme benefits. Approximately 480 employees were originally planned to terminate under the 1997 programme. Approximately 400 people terminated under the 1997 programme, with approximately 80 transferred to the 1998 programme.

The 1996 charge of $26 million represents the amount by which the costs of restructuring actions, originally estimated and recorded in 1994, were underaccrued, primarily because of additional terminations. Approximately 2,200 employees were originally planned to be terminated under the 1994 plan; approximately 2,450 were actually terminated.

Note 8 – Inventories

Inventories are recorded when purchased, produced or manufactured and are stated at the lower of cost or market. In 1998, approximately 80 per cent of inventories, excluding materials and supplies, were determined by the LIFO method. Materials and supplies and other non-LIFO inventories are determined predominantly on an average cost basis.

Total inventories at 31 December comprised the following:

		$ million
	1998	1997
Crude oil and petroleum products	**220**	247
Other products	**24**	24
Materials and supplies	**231**	185
Total	**475**	456

The excess of the current cost of inventories over book value was approximately $193 million and $240 million at 31 December 1998 and 1997, respectively.

Note 9 – Investments

At 31 December 1998 and 1997, investments in debt securities were primarily composed of US Treasury securities and corporate debt instruments. Maturities generally ranged from four days to ten years. These investments are classified as short or long term depending on maturity. ARCO's investments in LUKOIL common stock and Zhenhai Refining and Chemical Company convertible bonds were included in other investments and long-term receivables. At 31 December 1998 and 1997, all investments were classified as available-for-sale and were reported at fair value, with unrealised holding gains and losses, net of tax, reported in accumulated other comprehensive income.

The following summarises investments at 31 December:

		$ million
	1998	1997
Aggregate fair value	**926**	1,897
Gross unrealised holding losses	**135**	1
Gross unrealised holding gains	**(13)**	(985)
Amortised cost	**1,048**	913

Investment activity for the years ended 31 December was as follows:

		$ million
	1998	1997
Gross purchases	**15,118**	6,902
Gross sales	**463**	1,753
Gross maturities	**14,520**	6,111

Gross realised gains and losses were insignificant and were determined by the specific identification method.

Note 10 – Fixed assets

Property, plant and equipment at 31 December was as follows:

				$ million
	1998		1997	
	Gross	**Net**	**Gross**	**Net**
Exploration & production	**32,072**	**15,244**	25,145	10,230
Refining & marketing	**5,450**	**2,954**	5,017	2,714
Other operations	**649**	**432**	731	470
Unallocated	**1,151**	**132**	332	146
Total	**39,322**	**18,762**	31,225	13,560

Expenses for maintenance and repairs for 1998, 1997 and 1996 were $420 million, $334 million and $338 million, respectively.

In the fourth quarter of 1998, after a year-long decline in crude oil prices, ARCO determined that part of the oil price decline that had taken place was permanent. Accordingly, ARCO revised its official crude oil price forecast used for economic decision making during the fourth quarter of 1998. This forecast is based on a West Texas Intermediate ("WTI") benchmark price of $15/bbl in 1999, $16/bbl in 2000, and $17/bbl in 2001, with 2 per cent escalation thereafter. While current crude oil prices are below $15/bbl, many oil industry expert forecasts consider crude oil prices in the $12/bbl range to be unusually low and inappropriate for economic decision making. ARCO used a benchmark price of $12.05/bbl in preparing its 31 December 1998 Supplemental Oil & Gas Information.

Note 10 – Fixed assets (continued)

In accordance with SFAS 121, ARCO performed an impairment review to determine whether any of ARCO's oil and gas properties were impaired based on the new crude oil price forecast. Net undiscounted cash flows before tax were calculated and compared to the net book value on a field-by-field basis. This included cash flows from proved developed, proved undeveloped and potential oil and gas reserves, which included both producing and non-producing reserves. The potential reserves were calculated on a risk-weighted basis to include the uncertainties associated with field size, reservoir performance, technological development and commercial risk. Where appropriate, contracted prices were used but did not materially impact the result. For those fields where the net book value exceeded the net undiscounted cash flows before tax, the discounted future cash flows before tax were calculated using a 10 per cent discount rate factor. This resulted in a pre-tax impairment charge of $1.4 billion. ARCO tested a downside case using WTI benchmark crude oil prices of $1/bbl lower than each year of its official forecast. ARCO believes that prices below $14/bbl are not sustainable and like most commodities will cycle around their historical midpoints. The impaired properties included former UTP properties in Pakistan, Venezuela and the UK North Sea, as well as other ARCO properties in California, the UK North Sea, North Africa and the Middle East.

Note 11 – Short-term borrowings and bank credit facilities

Notes payable consist primarily of ARCO's commercial paper issued to a variety of financial investors and institutions and any amounts outstanding under ARCO credit facilities. The weighted average interest rate on notes payable outstanding at 31 December 1998 and 1997, was 5.6 per cent and 6.7 per cent, respectively.

In 1998 ARCO and certain wholly owned subsidiaries had committed bank credit facilities of approximately $3.1 billion. At 31 December 1998, there were $62 million of borrowings under these committed facilities.

At 31 December 1998, ARCO had unused letters of credit totalling approximately $418 million.

Note 12 – Long-term debt

Long-term debt at 31 December comprised the following:

	$ million	
	1998	1997
8¼%, due in 2022	**245**	245
8½%, due in 2012	**178**	178
8¾%, due in 2032	**159**	159
9%, due in 2021	**209**	209
9%, due in 2031	**97**	97
9⅛%, due in 2011	**253**	253
9⅛%, due in 2031	**155**	155
9⅞%, due in 2016	**181**	181
10⅞%, due in 2005	**410**	410
Series A Medium – Term Notes,[b] 8.48%[a]	**110**	182
Series B Medium – Term Notes,[c] 8.34%[a]	**250**	250
ARCO Tresop Notes, 5.06%[a]	**88**	163
Variable rate, due in 2031, 3.28%[a]	**265**	265
Variable rate, due in 2032, 4.96%[a]	**108**	108
Vastar:		
Commercial paper, 6.0%[a]	**219**	373
LIBOR Revolving Credit Agreement, 5.6%[a]	**320**	–
6% Putable/Callable Notes, due in 2010	**100**	–
6.39%, due in 2008	**50**	–
6.95%, due in 2006	**75**	75
6.96%, due in 2007	**75**	75
8.75%, due in 2005	**149**	149
Union Texas Petroleum:		
6.66%, due in 2002	**100**	–
7.34%, due in 1999	**179**	–
7.40%, due in 2038	**150**	–
8¼%, due in 1999	**100**	–
8⅜%, due in 2005	**125**	–
8½%, due in 2007	**75**	–
Other	**306**	256
Total, including debt due within one year	**4,731**	3,783
Less debt due within one year	**399**	164
Long-term debt	**4,332**	3,619

[a] Weighted average of interest rates at 31 December 1998.

[b] Maturities vary through 2011.

[c] Maturities vary through 2012.

Note 12 – Long-term debt (continued)

Maturities for the five years subsequent to 31 December 1998 are as follows:

					$ million
	1999	2000	2001	2002	2003
Maturities	399	12	76	117	555

In 1996, Vastar established a $1.1 billion Commercial Paper Programme for issuance of unsecured notes with maturities of up to 270 days from the date of issue. Vastar has agreed to maintain credit lines sufficient to support payment on the notes.

In 1996, Vastar consolidated existing unsecured revolving credit agreements into a single facility. As of 31 December 1998, commitments under this facility, as amended to date, totalled $1.1 billion. The commitment expires 31 March 2002. During 1998, $320 million of debt was outstanding under this facility. The credit facility is not guaranteed by ARCO. The agreement contains covenants, the most restrictive of which require Vastar to maintain certain financial ratios and minimum levels of tangible stockholders' equity and restrict encumbrance of assets.

In April 1998, Vastar issued $100 million of 6 per cent Putable/Callable Notes due 20 April 2010, Putable/Callable 20 April 2000. In 1998 Vastar also entered into an interest rate swap covering the Putable/Callable Notes, which effectively changed the 6 per cent fixed rate to a floating rate. The effective interest rate paid on these notes in 1998 was 5.6 per cent. At 31 December 1997, Vastar had no outstanding interest rate swaps. The financial impact of swaps in 1998 and 1997 was immaterial.

At 31 December 1998, approximately $247 million of long-term debt was denominated in foreign currencies. At 31 December 1997, no long-term debt was denominated in foreign currencies.

No material amounts of long-term debt are collateralised by ARCO assets.

Note 13 – Interest

Interest for the years ended 31 December comprised the following:

			$ million
	1998	1997	1996
Long-term debt	**322**	417	500
Short-term debt	**158**	86	82
Other[a]	**(115)**	(122)	19
	365	381	601
Capitalised interest	**(106)**	(38)	(19)
Total interest expense	**259**	343	582
Total interest paid in cash	**248**	390	586
Interest income	**119**	114	167

[a] Includes $153 of interest on a tax refund in 1998 and $145 reversal from partial tax audit settlements in 1997.

Note 14 – Financial instruments and fair value

ARCO does not hold or issue financial instruments for trading purposes.

ARCO enters into various types of foreign currency forward, option and swap contracts. Foreign currency forward and option contracts are used to minimise foreign exchange exposures associated with US dollar-denominated debt issued by a foreign subsidiary, anticipated foreign currency commitments and anticipated future cash flows related to overseas operations. Foreign currency swap contracts are used to minimise foreign exchange exposures related to foreign-denominated intercompany debt with maturities exceeding one year.

At 31 December 1998, the notional amounts of foreign currency contracts outstanding (principally involving European currencies) were approximately $528 million, with various maturities in 1999. At 31 December 1997, the notional amounts of foreign currency contracts outstanding were approximately $613 million.

Gains and losses on foreign currency forward contracts covering anticipatory cash flows are recognised currently as other income or expense. Gains and losses on foreign currency swaps associated with intercompany debt are recognised currently in income and offset foreign exchange gains and losses on the underlying intercompany loans. Gains and losses on other foreign currency contracts are generally deferred and offset the transactions being hedged.

ARCO also uses various hedging arrangements to manage the exposure to price risk for future natural gas and crude oil transactions. Gains and losses resulting from these transactions are deferred and included in other assets or accrued liabilities until realised in sales and other operating revenues as the physical production required by the contracts is delivered. During 1998, Vastar entered into a series of natural gas price collar agreements which at 31 December 1998, covered an average of 200 million cubic feet per day of its 1999 natural gas production for the period January 1999 through September 1999. These agreements will serve as hedges which secure weighted average prices on these volumes between $2.30 and $2.91 per thousand cubic feet for 1999 (on a Henry Hub basis).

At 31 December, the carrying value and estimated fair value of ARCO's financial instruments are shown as assets (liabilities) in the table below:

				$ million
	1998		1997	
	Carrying value	**Fair value**	Carrying value	Fair value
Non-derivatives:				
Short-term investments	**260**	**260**	222	222
Equity method investments	**1,235**	**1,176**	1,194	1,204
Other investments and long-term receivables	**831**	**831**	1,872	1,872
Notes payable	**(2,403)**	**(2,403)**	(1,599)	(1,599)
Long-term debt, including current maturities	**(4,731)**	**(5,466)**	(4,602)	(5,400)
Derivatives:				
Foreign currency forwards	**(1)**	**(1)**	(1)	(1)
Foreign currency options	**–**	**–**	4	4
Foreign currency swaps	**–**	**–**	3	2
Oil and gas options and swaps	**40**	**47**	(7)	(7)
Oil and gas futures	**(56)**	**(59)**	–	–
Commodity futures	**(12)**	**(12)**	2	2
Commodity options	**(2)**	**(2)**	–	–

1997 amounts include derivative and non-derivative financial instruments for discontinued operations. Carrying amounts for those instruments were included with net assets of discontinued operations on the restated balance sheet.

Note 14 – Financial instruments and fair value (continued)

All derivative instruments are off-balance-sheet instruments; however, net receivable or payable positions related to derivative instruments are carried on the balance sheet.

Short-term investments are carried at fair value. The fair value of notes payable approximates carrying value due to its short-term maturities. Equity method investments and other investments and long-term receivables were valued at quoted market prices if available. For unquoted investment securities, the reported fair value was estimated on the basis of financial and other information. The fair value of ARCO's long-term debt was estimated based on the quoted market prices for the same or similar issues or on the current rates offered to ARCO for debt of the same remaining maturities. The fair value of foreign currency contracts and interest rate swaps represented the amount to be exchanged if the existing contracts had been settled at year end and was estimated based on market quotes.

ARCO is exposed to credit risk in the event of nonperformance by the counterparties. ARCO does not generally require collateral or other security to support these financial instruments. The counterparties to these instruments are major institutions deemed creditworthy by ARCO; ARCO does not anticipate nonperformance by the counterparties.

Note 15 – Other commitments and contingencies

ARCO has commitments, including those related to the acquisition, construction and development of facilities, all made in the normal course of business.

Following the March 1989 Exxon Valdez oil spill in Prince William Sound, numerous federal, state and private plaintiff lawsuits were brought against Exxon, Alyeska Pipeline Service Company ("Alyeska") and Alyeska's owner companies, including ARCO, which owns approximately 22 per cent. While all of the federal, state and private plaintiff lawsuits have been settled, certain issues relating to liability for the spill remain unresolved between Exxon and Alyeska (including its owner companies).

ARCO, together with other former producers of lead paint, has been named in a number of lawsuits, including purported class actions, seeking compensatory damages, abatement of the housing units, and compensation for medical problems arising out of the presence of lead-based paint in certain housing units. ARCO is unable to predict the scope or amount of any such liability.

The State of Montana, along with the United States and the Salish and Kootenai Tribes (the "Tribes"), have been seeking recovery from ARCO for alleged injuries to natural resources resulting from mining and mineral processing businesses formerly operated by Anaconda. By November 1998 two consent decrees had been lodged with the court. ARCO has agreed to pay $135 million for settlement of $561 million of the State's $767 million natural resource damage claim relating to the Clark Fork River Basin, $86 million for clean-up and related liabilities at Silver Bow Creek, and $20 million to resolve claims by the Tribes and the United States.

ARCO is subject to liability pursuant to various federal, state and local environmental laws and regulations that require ARCO to do some or all of the following:

- Remove or mitigate the effects on the environment at various sites from the disposal or release of certain substances;
- Perform restoration work at such sites; and
- Pay damages for loss of use and non-use values.

Environmental liabilities include personal injury claims allegedly caused by exposure to toxic materials manufactured or used by ARCO.

ARCO is currently involved in assessments and cleanups under these laws at federal and state-managed sites as well as other clean-up sites including service stations, refineries, terminals, third-party landfills, former nuclear processing facilities, sites associated with discontinued operations and sites previously owned by ARCO or predecessors. This comprises 125 sites for which ARCO has been named a potentially responsible party ("PRP"), along with other sites for which no claims have been asserted. The number of PRP sites in and of itself is not a relevant measure of liability because the nature and extent of environmental concerns varies by site and ARCO's responsibility varies from sole responsibility to very little responsibility.

Note 15 – Other commitments and contingencies (continued)

ARCO may in the future be involved in additional assessments and cleanups. Future costs depend on unknown factors such as:

- Nature and extent of contamination;
- Timing, extent and method of remedial action;
- ARCO's proportional share of costs; and
- Financial condition of other responsible parties.

The environmental remediation accrual is updated annually, at a minimum, and at 31 December 1998 was $870 million. As these costs become more clearly defined, they may require future charges against earnings. Applying Monte Carlo analysis to estimated site maximums on a portfolio basis, ARCO estimates that future costs could exceed the amount accrued by as much as $500 million.

Approximately 54 per cent of the reserve related to sites associated with ARCO's discontinued operations, primarily mining activities in the states of Montana, Utah and New Mexico. Another significant component related to currently and formerly owned chemical, nuclear processing, and refining and marketing facilities, and other sites which received wastes from these facilities. The remainder related to other sites with reserves ranging from $1 million to $10 million per site. No one site represents more than 10 per cent of the total accrual. Substantially all amounts accrued are expected to be paid out over the next five to six years.

Claims for recovery of remediation costs already incurred and to be incurred in the future have been filed against various third parties. Many of these claims have been resolved. ARCO has neither recorded any asset nor reduced any liability in connection with unresolved claims.

Although any ultimate liability arising from any of the matters described herein could result in significant expenses or judgements that, if aggregated and assumed to occur within a single fiscal year, would be material to ARCO's results of operations, the likelihood of such occurrence is considered remote. On the basis of management's best assessment of the ultimate amount and timing of these events, such expenses or judgements are not expected to have a material adverse effect on ARCO's consolidated financial statements.

The operations and consolidated financial position of ARCO continue to be affected by domestic and foreign political developments as well as legislation, regulations and litigation pertaining to restrictions on production, imports and exports, tax increases, environmental regulations, cancellation of contract rights and expropriation of property. Both the likelihood of such occurrences and their overall effect on ARCO vary greatly and are not predictable.

These uncertainties are part of a number of items that ARCO has taken and will continue to take into account in periodically establishing reserves.

Note 16 – Taxes

The income tax provision for the years ended 31 December comprised the following:

	$ million		
	1998	1997	1996
Federal:			
Current	**(189)**	241	582
Deferred	**(7)**	143	(26)
	(196)	384	556
Foreign:			
Current	**91**	108	140
Deferred	**(486)**	(45)	(15)
	(395)	63	125
State:			
Current	**(14)**	43	108
Deferred	**(46)**	14	(3)
	(60)	57	105
Provision (benefit) for taxes on income	**(651)**	504	786
Total income taxes paid in cash	**1,417**[a]	781[a]	752

[a] Includes cash taxes paid relating to the sale of discontinued operations.

Major components of the net deferred tax liability at 31 December were as follows:

	$ million	
	1998	1997
Depreciation, depletion and amortisation	**(4,600)**	(3,250)
Other	**(389)**	(743)
Total deferred tax liabilities	**(4,989)**	(3,993)
Dismantlement and environmental	**664**	587
Post retirement benefits	**293**	295
Foreign excess tax basis/loss carryforwards	**107**	117
Other	**607**	333
Total deferred tax assets	**1,671**	1,332
Valuation allowance	**–**	–
Net deferred income tax liability	**(3,318)**	(2,661)

The valuation allowance was $7 million at 31 December 1996.

A deferred tax benefit of $426 million was recorded in 1998 versus a $242 million deferred tax expense in 1997 related to unrealised investment losses and gains included in accumulated other comprehensive income.

Note 16 – Taxes (continued)

Taxes other than income taxes for the years ended 31 December comprised the following:

			$ million
	1998	1997	1996
Property	**143**	146	144
Production/severance	**227**	359	401
Other	**136**	135	138
Total	**506**	640	683

ARCO has foreign loss carryforwards of $32 million which begin expiring in 2001.

The domestic and foreign components of income from continuing operations before income taxes and minority interest, and a reconciliation of income tax expense with tax at the effective federal statutory rate for the years ended 31 December were as follows:

						$ million
		1998		1997		1996
	Amount	**% Pretax income**	Amount	% Pretax income	Amount	% Pretax income
Income (loss) before income taxes:						
Domestic	**96**	**7.5**	1,647	87.7	1,896	90.9
Foreign	**(1,378)**	**(107.5)**	231	12.3	190	9.1
Total	**(1,282)**	**100.0**	1,878	100.0	2,086	100.0
Tax at 35%	**(449)**	**(35.0)**	657	35.0	730	35.0
Increase (reduction) in taxes resulting from:						
Taxes on foreign income in excess of statutory rate	**32**	**2.5**	21	1.1	84	4.0
Affiliate stock transactions	**(51)**	**(4.0)**	(109)	(5.8)	–	–
State income taxes (net of federal effect)	**(39)**	**(3.0)**	37	2.0	68	3.3
Tax credits	**(123)**	**(9.6)**	(106)	(5.6)	(95)	(4.6)
Other	**(21)**	**(1.7)**	4	0.1	(1)	–
Provision for taxes on income	**(651)**	**(50.8)**	504	26.8	786	37.7

Note 17 – Post-retirement benefit plans

ARCO and its subsidiaries sponsor numerous post retirement benefit plans. Defined benefit pension plans ("Pension") provide to substantially all employees pension benefits based on years of service and the employee's compensation, primarily during the last three years of service. Defined post retirement benefit plans ("Other") provide health care and life insurance benefits to substantially all employees who retire with ARCO having rendered the required years of service, and to their spouses and eligible dependants. ARCO pays for the cost of a benchmark health maintenance organisation with employees responsible for the differential cost, if any, of their selected option. Life insurance benefits are partially paid for by retiree contributions, which vary based upon coverage chosen by the retiree. ARCO has the right to terminate or modify the plans at any time.

				$ million
		1998		1997
	Pension	**Other**	Pension	Other
Plan Obligations				
Benefit obligation at 1 January	**(2,498)**	**(588)**	(2,495)	(612)
Service cost	**(53)**	**(7)**	(53)	(7)
Interest cost	**(173)**	**(39)**	(174)	(40)
Actuarial (loss) gain	**(96)**	**(4)**	(18)	17
Benefits paid	**311**	**51**	242	54
Special termination benefits	**(128)**	**(19)**	–	–
Acquisition	**(185)**	**(24)**	–	–
Divestiture	**–**	**14**	–	–
Benefit obligation at 31 December	**(2,822)**	**(616)**	(2,498)	(588)
Plan Assets				
Fair value of assets at 1 January	**2,710**	**–**	2,543	–
Actual return on assets	**264**	**–**	374	–
Company contributions	**69**	**–**	35	–
Benefits paid	**(311)**	**–**	(242)	–
Acquisition	**154**	**–**	–	–
Fair value of assets at 31 December	**2,886**	**–**	2,710	–
Funded Status				
Assets greater (less) than obligations	**64**	**(616)**	212	(588)
Unrecognised actuarial loss	**300**	**53**	195	45
Unrecognised prior service cost (benefit)	**133**	**(206)**	142	(221)
Unrecognised transition obligation	**(200)**	**–**	(227)	–
Total recognised	**297**	**(769)**	322	(764)
Balance Sheet Recognition				
Prepaid benefits	**459**	**–**	439	–
Accrued liabilities	**(257)**	**(769)**	(219)	(764)
Intangible asset	**20**	**–**	23	–
Accumulated other comprehensive income	**75**	**–**	79	–
Total recognised	**297**	**(769)**	322	(764)

Note 17 – Post-retirement benefit plans (continued)

The projected benefit obligation, accumulated benefit obligation ("ABO"), and fair value of plan assets for pension plans with ABO in excess of plan assets were $285 million, $247 million and $nil, respectively, at 31 December 1998, and $245 million, $219 million and $nil, respectively, at 31 December 1997.

				Percent
		1998		1997
	Pension	**Other**	Pension	Other
Assumptions				
Discount rate	**6.75**	**6.75**	7.0	7.0
Expected return on plan assets	**10.5**	**n/a**	10.5	n/a
Rate of salary progression	**4.0**	**4.0**	4.0	4.0

For measurement purposes, a 7 per cent annual rate of increase in the per capita cost of health care benefits was assumed for 1997 to 2001, after which the rate was assumed to decrease to 5 per cent and remain at that level thereafter.

A one-percentage-point change in assumed health care cost trend rates would have the following effects:

		$ million
		1998
	Increase	**Decrease**
Total of service and interest cost	**4.0**	**(3.4)**
Post-retirement benefit obligation	**44.0**	**(37.4)**

			$ million
	1998	1997	1996
Components of Net Benefit Cost			
Pension benefits:			
Service cost	**53**	53	60
Interest cost	**173**	174	177
Expected return on plan assets	**(281)**	(256)	(238)
Amortisation of transition asset	**(27)**	(27)	(27)
Amortisation of prior service cost	**7**	8	8
Recognised actuarial (gain) loss	**10**	10	24
Net benefit (income) cost	**(65)**	(38)	4
Other post retirement benefits:			
Service cost	**7**	7	7
Interest cost	**39**	40	42
Amortisation of prior service cost (benefit)	**(15)**	(15)	(15)
Recognised actuarial (gain) loss	**–**	–	3
Net benefit (income) cost	**31**	32	37

Note 18 – Lease commitments

Capital lease obligations are recorded at the present value of future rental payments. The related assets are amortised on a straight-line basis.

At 31 December 1998, future minimum rental payments due under leases were as follows:

	$ million	
	Capital leases	**Operating leases**
1999	**3**	**177**
2000	**3**	**162**
2001	**3**	**193**
2002	**3**	**153**
2003	**3**	**145**
Later years	**60**	**369**
Total minimum lease payments	**75**	**1,199**
Imputed interest (rates ranging from 8% to 12%)	**51**	
Present value of minimum lease payments included in long-term debt	**24**	

Minimum future rental income under noncancellable subleases at 31 December 1998, amounted to $69 million.

As at 31 December 1997, future minimum rental payments due under leases were as follows:

	$ million	
	Capital leases	Operating leases
1998	3	249
1999	3	209
2000	3	178
2001	3	120
2002	3	103
Later years	67	632
Total minimum lease payments	82	1,491
Imputed interest (rates ranging from 9.75% to 12%)	56	
Present value of minimum lease payments included in long-term debt	26	

Minimum future rental income under noncancellable subleases at 31 December 1997, amounted to $63 million.

Operating lease net rental expense for the years ended 31 December was as follows:

	$ million		
	1998	1997	1996
Minimum rentals	**189**	109	106
Contingent rentals	**2**	–	–
Sublease rental income	**(20)**	(11)	(11)
Net rental expense	**171**	98	95

No restrictions on dividends or on additional debt or lease financing exist under ARCO's lease commitments. Under certain conditions, options exist to purchase certain leased properties.

Note 19 – Stock options

Options to purchase shares of ARCO's common stock have been granted to executives, outside directors and key employees. The exercise price of each option is equal to the fair market value of common stock at the date of grant. These options become exercisable in varying instalments and expire 10 years after the date of grant. Options granted prior to 1997 vest over two years in equal instalments. Options granted subsequently vest equally over three years. Transactions during 1998, 1997 and 1996 were as follows (restated to give effect to 13 June 1997 100 per cent stock dividend):

	Number of shares	Weighted average exercise price
Balance, 1 January 1996	7,676,272	$52.92
Granted	1,101,834	56.61
Exercised	(1,110,326)	46.15
Cancelled	(34,358)	58.47
Balance, 31 December 1996	7,633,422	$54.41
Granted	1,414,048	64.47
Exercised	(1,022,100)	52.21
Cancelled	(18,224)	61.18
Balance, 31 December 1997	8,007,146	$56.45
Granted	1,862,840	73.73
Exercised	(420,012)	49.85
Cancelled	(37,647)	69.52
Balance, 31 December 1998	**9,412,327**	**$60.12**

A summary of ARCO's fixed stock options as of 31 December 1998, 1997 and 1996, was as follows:

	1998	1997	1996
Shares available for option	**8,523,492**	8,247,671	8,672,714
Options exercisable	**6,803,228**	6,064,856	6,067,976
Weighted average exercise price of options exercisable	**$56.01**	$54.58	$54.01
Weighted average fair value of options granted during the year	**$18.96**	$14.27	$25.90
Used to calculate fair value:			
Risk-free interest rate	**5.57%**	6.38%	6.00%
Expected life (years)	**10**	10	10
Expected volatility	**23.06%**	18.17%	14.42%
Expected dividends	**3.85%**	4.29%	0.00%

At 31 December 1998, exercise prices for options outstanding ranged from $42.25 to $85.875 and the weighted average remaining contractual life was 5.88 years.

Note 19 – Stock options (continued)

ARCO applies APB No. 25 in accounting for its fixed stock options. Accordingly, no compensation cost has been recognised for options granted. The following table reflects pro forma net income and earnings per share had ARCO elected to adopt the fair value method under SFAS No. 123:

	$		
	1998	1997	1996
Net income:			
As reported	**452**	1,771	1,663
Pro forma	**440**	1,758	1,651
Earnings per share (diluted):			
As reported	**1.40**	5.41	5.09
Pro forma	**1.36**	5.37	5.05

These pro forma amounts may not be representative of future disclosures since the estimated fair value of stock options would be amortised to expense over the vesting period, and additional options may be granted in future years.

Beginning in 1997, ARCO awards contingent restricted stock to executives and key employees. Contingent restricted stock may be converted to performance based restricted stock at various multiples depending on attainment of certain performance criteria over a specified evaluation period. Restricted stock ultimately issued is subject to a two-year restriction on transfer.

During 1998 and 1997, respectively, 184,488 and 326,688 shares of contingent restricted stock were awarded at weighted average prices of $74.00 and $64.06, net of forfeitures and retirements, with varying evaluation periods. During 1998, 135,180 shares of restricted stock were issued at a weighted average price of $73.93.

During 1998 and 1997, $10 million and $23 million was recognised as expense for performance-based restricted stock, respectively.

Holders of options granted prior to 1997 accrue dividend share credits (DSCs) on all shares under option. The amount of DSCs accrued is determined based upon the quarterly dividend rate and fair market value of ARCO common stock as of each quarterly record date. Upon exercise of options, holders receive additional shares of common stock equal to DSCs accumulated.

A summary of ARCO's DSC activity was as follows:

	Shares
Balance, 31 December 1996	1,695,986
Accrued	343,116
Paid out	(396,250)
Cancelled	(287)
Balance, 31 December 1997	1,642,565
Accrued	316,486
Paid out	(166,512)
Cancelled	(83)
Balance, 31 December 1998	**1,792,456**

During 1998 and 1997, $11 million and $35 million was recognised as expense for DSCs, respectively.

Note 20 – Stockholders' equity

Detail of capital stock as of 31 December was as follows:

	1998	1997
$3.00 Cumulative convertible preference stock, par $1:		
Shares authorised	**78,089**	78,089
Shares issued and outstanding	**51,608**	55,941
Aggregate value in liquidation – (thousands)	**$4,129**	$4,475
$2.80 Cumulative convertible preference stock, par $1:		
Shares authorised	**833,776**	833,776
Shares issued and outstanding	**573,336**	615,653
Aggregate value in liquidation – (thousands)	**$40,134**	$43,096
Common stock, par $2.50:		
Shares authorised	**600,000,000**	600,000,000
Shares issued	**325,902,559**	322,719,890
Shares outstanding	**321,315,367**	320,369,895
Shares held in treasury	**4,587,192**	2,349,995

Changes in preference stocks were due to conversions. The $3.00 cumulative convertible preference stock is convertible into 13.6 shares of common stock. The $2.80 cumulative convertible preference stock is convertible into 4.8 shares of common stock. Common stock is subordinate to the preference stocks for dividends and assets. The $3.00 and $2.80 preference stocks may be redeemed at the option of ARCO for $82 and $70 per share, respectively. ARCO has authorised 75,000,000 shares of preferred stock, $.01 par, of which none were issued or outstanding at 31 December 1998.

At 31 December 1998, shares of ARCO's authorised common stock were reserved as follows:

Conversions:	
$3.00 Preference stock	**701,869**
$2.80 Preference stock	**2,752,013**
Stock option plans	**17,935,819**
Employee benefit plans	**9,974,482**
Total	**31,364,183**

Under ARCO's incentive compensation plans, awards of ARCO's common stock may be made to officers, outside directors and key employees.

Note 21 – Supplemental cash flow information

The following is supplemental cash flow information for the years ended 31 December:

	1998	1997	1996
			$ million
Short-term investments:			
Gross sales and maturities	**226**	1,784	3,196
Gross purchases	**(259)**	(1,226)	(2,443)
Net cash provided (used)	**(33)**	558	753
Notes payable:			
Gross proceeds	**14,978**	7,386	3,850
Gross repayments	**(14,066)**	(6,865)	(3,751)
Net cash provided	**912**	521	99
Gross noncash provisions charged to income	**652**	500	261
Reserve reversal from partial tax audit settlements	**–**	(145)	–
Cash payments of previously accrued items	**(468)**	(294)	(464)
Noncash provisions greater (less) than cash payments	**184**	61	(203)
Changes in working capital – increase (decrease) to cash:			
Accounts receivable	**19**	363	(280)
Inventories	**8**	(63)	(31)
Accounts payable	**(60)**	(111)	205
Other working capital	**340**	(6)	264
	307	183	158

Excluded from the Consolidated Statement of Cash Flows for the year ended 31 December 1998 was the issue of 2,725,030 shares of ARCO common stock to a consolidated subsidiary in exchange for certain property, plant and equipment owned by the subsidiary. The transaction was recorded at fair market value.

In conjunction with the acquisition of UTP, liabilities were assumed as follows:

	$ million
Fair value of assets acquired	3,745
Cash paid	(2,707)
Liabilities assumed	1,038

Excluded from the Consolidated Statement of Cash Flows for the year ended 31 December 1997 was ARCO's use of Lyondell common stock to redeem its 9 per cent Exchangeable Notes with an outstanding principal amount of $988 million.

In October 1998, through a three-way exchange involving ARCO, Vastar and Mobil, ARCO disposed of its California heavy crude properties. In the transaction, an ARCO subsidiary holding the California properties traded the California properties for Mobil's interests in producing fields and exploration acreage in the Gulf of Mexico. In connection with the disposition, ARCO recorded an impairment writedown of $147 million before tax, or $114 million after tax, that was included in the impairment discussed in Note 10. Vastar then purchased the ARCO subsidiary holding the Gulf of Mexico properties for $437 million, including the assumption of $300 million of debt.

Note 22 – Foreign currency transactions

Foreign currency transactions resulted in net losses of $2 million, $12 million and $5 million in 1998, 1997 and 1996, respectively.

Note 23 – Earnings per share

$ million, except per share amounts

	1998			1997			1996		
	Income	**Shares**	**Per share**	Income	Shares	Per share	Income	Shares	Per share
Income (loss) from continuing operations	**(655)**			1,331			1,261		
Less: Preference stock dividends	**(2)**			(2)			(2)		
Income (loss) from continuing operations available to common shareholders	**(657)**	**321.0**	**(2.05)**	1,329	321.2	4.14	1,259	321.7	3.92
Discontinued operations	**1,107**	**321.0**	**3.45**	558	321.2	1.74	402	321.7	1.25
Extraordinary item – loss on extinguishment of debt				(118)	321.2	(0.37)			
Total income available to common shareholders – basic EPS	**450**	**321.0**	**1.40**	1,769	321.2	5.51	1,661	321.7	5.17
Income (loss) from continuing operations available to common shareholders	**(657)**	**321.0**		1,329	321.2		1,259	321.7	
Contingently issuable shares (primarily options)		**–**			2.3			0.6	
$3.00 Convertible preference stock		**–**			0.8			0.9	
$2.80 Convertible preference stock		**–**		2	3.1		2	3.3	
Income (loss) from continuing operations available to common shareholders	**(657)**	**321.0**	**(2.05)**	1,331	327.4	4.07	1,261	326.5	3.86
Discontinued operations	**1,107**	**321.0**	**3.45**	558	327.4	1.70	402	326.5	1.23
Extraordinary item – loss on extinguishment of debt				(118)	327.4	(0.36)			
Total income available to common shareholders and assumed conversions – diluted EPS[a]	**450**	**321.0**	**1.40**	1,771	327.4	5.41	1,663	326.5	5.09

[a] No dilution assumed for 1998 due to antidilutive effect on loss from continuing operations.

Note 24 – Comprehensive income

Effective 1 January 1998, ARCO adopted SFAS No. 130, "Reporting Comprehensive Income", which established new rules for the reporting of comprehensive income and its components. Comprehensive income comprises net income plus all other changes in equity from nonowner sources. The new disclosures had no impact on ARCO's net income, financial position, stockholders' equity or cash flows.

The related tax effects allocated to each component of other comprehensive income at 31 December were as follows:

$ million

	Unrealised gain (loss) on securities	Foreign currency translation	Minimum pension liability
1998			
Pre-tax amount	**(1,107)**	**(30)**	**11**
Tax (expense) benefit	**426**	**12**	**(4)**
Net-of-tax amount	**(681)**	**(18)**	**7**
1997			
Pre-tax amount	623	(299)	(42)
Tax (expense) benefit	(242)	114	16
Net-of-tax amount	381	(185)	(26)
1996			
Pre-tax amount	379	(6)	52
Tax (expense) benefit	(143)	4	(20)
Net-of-tax amount	236	(2)	32

Note 24 – Comprehensive income (continued)

Accumulated nonowner changes in equity (accumulated other comprehensive income) at 31 December were as follows:

	$ million	
	1998	1997
Net unrealised gain (loss) on investments	**(75)**	606
Foreign currency translation adjustment	**(222)**	(204)
Minimum pension liability	**(47)**	(54)
Accumulated other comprehensive income (loss)	**(344)**	348

Unrealised gains (losses) on securities related primarily to changes in the fair value of ARCO's investment in LUKOIL common stock, which had a fair value of $225 million, $1.3 billion and $678 million at 31 December 1998, 1997 and 1996, respectively, and a book value of $342 million.

Note 25 – Research and development

Expenditures for research and development totalled $32 million, $38 million and $25 million for the years ended 31 December 1998, 1997 and 1996, respectively.

Note 26 – Unaudited quarterly results

	$ million, except per share amounts	
	1998	1997
Sales and other operating revenues		
Quarter ended (restated):		
31 March	**2,536**	3,892
30 June	**2,564**	3,534
30 September	**2,655**	3,494
31 December	**2,548**	3,420
Total	**10,303**	14,340
Income (loss) from continuing operations before income taxes, minority interest and extraordinary item		
Quarter ended (restated):		
31 March	**190**	601
30 June	**32**	632
30 September	**(269)**	268
31 December	**(1,235)**[c,d]	377
Total	**(1,282)**	1,878
Net income (loss)		
Quarter ended:		
31 March	**220**	483
30 June	**154**	390[a]
30 September	**872**[e]	516[b]
31 December	**(794)**[c,d]	382[c]
Total	**452**	1,771
Earned per share		
Quarter ended:		
31 March	**0.67**	1.48
30 June	**0.47**	1.19
30 September	**2.67**	1.57
31 December	**(2.47)**	1.17

[a] See Note 6 to Consolidated Financial Statements.

[b] Includes $291 million gain on disposition of Lyondell stock.

[c] See Note 7 to Consolidated Financial Statements.

[d] Includes $925 million impairment writedown.

[e] Includes $998 million net gain on disposition of segments.

4 Supplemental Information (unaudited)

Oil and gas producing activities

The SEC defines proved oil and gas reserves as those estimated quantities of crude oil, natural gas, and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. Proved developed oil and gas reserves are reserves that can be expected to be recovered through existing wells with existing equipment and operating methods.

Petroleum reserves are estimated by ARCO engineers. The estimates include reserves in which ARCO holds an economic interest under production-sharing and other types of operating agreements with foreign governments.

Reserves attributable to certain oil and gas discoveries were not considered proved as of 31 December 1998 due to geological, technical or economic uncertainties. Proved reserves do not include amounts that may result from extensions of currently proved areas or from application of enhanced recovery processes not yet determined to be commercial in specific reservoirs. Proved reserves also do not include any reserves attributable to ARCO's 8 per cent interest in LUKOIL, a Russian oil company. NGL comprise 13 per cent of petroleum liquid proved reserves.

ARCO has no long-term supply contracts to purchase petroleum liquids or natural gas from foreign governments.

The changes in proved reserves for the years ended 31 December were as follows:

	Petroleum Liquids (million barrels)					Natural Gas (billion cubic feet)				
	Consolidated					Consolidated				
	US	International	Total	Other Reserves[1]	Worldwide	US	International	Total	Other Reserves[1]	Worldwide
Reserves at 1 January, 1996	2,163	206	2,369	–	2,369	4,666	3,683	8,349	–	8,349
Revisions	60	4	64	–	64	103	(94)	9	–	9
Improved recovery	5	–	5	–	5	14	–	14	–	14
Purchases	16	218	234	–	234	114	–	114	–	114
Extensions and discoveries	76	5	81	–	81	343	30	373	–	373
Production	(207)	(24)	(231)	–	(231)	(382)	(267)	(649)	–	(649)
Consumed	–	–	–	–	–	(78)	(5)	(83)	–	(83)
Sales	(1)	–	(1)	–	(1)	(4)	–	(4)	–	(4)
Reserves at 31 December, 1996	2,112	409	2,521	–	2,521	4,776	3,347	8,123	–	8,123
Revisions	115	60	175	–	175	187	17	204	–	204
Improved recovery	10	–	10	–	10	28	3	31	–	31
Purchases	10	25	35	49	84	165	16	181	67	248
Extensions and discoveries	89	55	144	–	144	308	352	660	–	660
Production	(204)	(29)	(233)	(1)	(234)	(389)	(308)	(697)	–	(697)
Consumed	–	–	–	–	–	(79)	(10)	(89)	–	(89)
Sales	(1)	–	(1)	–	(1)	(8)	–	(8)	–	(8)
Reserves at 31 December, 1997	2,131	520	2,651	48	2,699	4,988	3,417	8,405	67	8,472
Revisions	72	(13)	59	2	**61**	33	(95)	(62)	(1)	**(63)**
Improved recovery	30	–	30	–	**30**	6	5	11	–	**11**
Purchases	42	279	321	13	**334**	74	1,333	1,407	349	**1,756**
Exchanges	(119)	–	(119)	–	**(119)**	184	–	184	–	**184**
Extensions and discoveries	88	1	89	–	**89**	367	–	367	–	**367**
Production	(192)	(46)	(238)	(2)	**(240)**	(429)	(325)	(754)	(14)	**(768)**
Consumed	–	–	–	–	–	(79)	(9)	(88)	–	**(88)**
Sales	(9)	(3)	(12)	–	**(12)**	(27)	–	(27)	–	**(27)**
Reserves at 31 December, 1998	**2,043**	**738**	**2,781**	**61**	**2,842**	**5,117**	**4,326**	**9,443**	**401**	**9,844**
Proved developed reserves:										
At 1 January, 1996	1,896	92	1,988	–	1,988	4,294	1,806	6,100	–	6,100
At 31 December, 1996	1,828	150	1,978	–	1,978	4,310	1,780	6,090	–	6,090
At 31 December, 1997	1,821	204	2,025	7	2,032	4,467	1,643	6,110	10	6,120
At 31 December, 1998	**1,582**	**292**	**1,874**	**36**	**1,910**	**4,480**	**2,487**	**6,967**	**343**	**7,310**

[1] Comprises reserves attributable to ARCO's ownership interest in equity affiliates

Included in ARCO's reserves are 100 per cent of the reserves of Vastar. Vastar's reserves comprised 9 per cent and 51 per cent of US petroleum liquids and natural gas reserves, respectively, at 31 December 1998.

During 1998, net reserve additions replaced 197 per cent of worldwide oil-equivalent production. During the three-year period 1996-1998, ARCO's net reserve additions replaced 166 per cent of worldwide oil-equivalent production. Significant changes in 1998 related to the following:

- The addition of approximately 500 mmboe from the acquisition of UTP;
- The addition of approximately 80 mmboe associated with risked service contracts with the government of Venezuela; and
- The exchange of California heavy oil properties for oil and gas properties in the Gulf of Mexico.

Including contracts acquired with UTP, ARCO is a contractor to an affiliate of the Venezuelan government under six risked service contracts. ARCO, either solely or with partners, is responsible for providing capital and technology for the redevelopment of the fields along with operating existing production. In exchange for providing and funding overall operation and field development, ARCO is paid a per-barrel service fee to cover reimbursement of costs plus profit. There are two components to the fees, which include (1) a set fee for contractual baseline production and (2) a fee for incremental production. The fee for incremental production is based on a sliding scale incentive mechanism, which is indexed to a basket of international oil prices and overall field profitability.

Proved reserves and production quantities for Venezuelan operations are recorded based on ARCO's net working interest in each of the contract areas, "net" meaning reserves excluding royalties and interests owned by others per the contractual arrangements. The Venezuelan government maintains full ownership of all hydrocarbons in the fields.

Natural gas from the North Slope of Alaska, other than that used in providing fuel in North Slope operations or sold to others on the North Slope, is not presently economically marketable.

ARCO is actively evaluating various technical options for commercialising North Slope gas. Among the options being studied are the construction of gas transportation and LNG manufacturing facilities and the development of a gas-to-liquids conversion process. ARCO is also working with the State of Alaska to enhance the fiscal and regulatory climate for the ultimate commercialisation of North Slope gas resources. Significant technical uncertainties and existing market conditions still preclude gas from such potential projects being included in ARCO's reserves.

ARCO reports reserve estimates to various federal government agencies and commissions. These estimates may cover various regions of crude oil and natural gas classifications within the United States and may be subject to mandated definitions. There have been no reports since the beginning of the last fiscal year of total ARCO reserve estimates furnished to federal government agencies or commissions which vary from those reported to the SEC.

The aggregate amounts of capitalised costs relating to oil and gas producing activities and the related accumulated depreciation, depletion and amortisation as of 31 December were as follows:

$ million

	1998			1997			1996		
	US	International	Total	US	International	Total	US	International	Total
Proved properties	16,348	11,345	**27,693**	15,845	6,026	21,871	15,004	5,245	20,249
Unproved properties	622	1,292	**1,914**	365	447	812	257	297	554
	16,970	12,637	**29,607**	16,210	6,473	22,683	15,261	5,542	20,803
Accumulated depreciation, depletion and amortisation	10,569	4,789	**15,358**	10,559	2,959	13,518	9,924	2,668	12,592
Net capitalised costs	6,401	7,848	**14,249**	5,651	3,514	9,165	5,337	2,874	8,211
Net capitalised costs of equity affiliates*	–	188	**188**	–	55	55	–	–	–
Total	6,401	8,036	**14,437**	5,651	3,569	9,220	5,337	2,874	8,211

*ARCO's share

Costs, both capitalised and expensed, incurred in oil and gas producing activities during the three years ended 31 December are set forth below. Property acquisition costs represent costs incurred to purchase or lease oil and gas properties. Exploration costs include costs of geological and geophysical activity and drilling exploratory wells. Development costs include costs of drilling and equipping development wells and construction of production facilities to extract, treat and store oil and gas.

$ million

	1998			1997			1996		
	US	International	Total	US	International	Total	US	International	Total
Property acquisition costs:									
Proved properties	235	2,594	**2,829**	92	224	316	82	275	357
Unproved properties	72	662	**734**	100	8	108	98	11	109
Exploration costs	306	376	**682**	328	332	660	277	213	490
Development costs	1,102	1,200	**2,302**	692	794	1,486	481	482	963
Total expenditures	1,715	4,832	**6,547**	1,212	1,358	2,570	938	981	1,919
Costs incurred of equity affiliates*	–	349	**349**	–	109	109	–	–	–
Total	1,715	5,181	**6,896**	1,212	1,467	2,679	938	981	1,919

*ARCO's share

Results of operations from oil and gas producing activities (including operating overhead) for the three years ended 31 December were as follows:

$ million

	1998			1997			1996		
	US	International	Total	US	International	Total	US	International	Total
Revenues:									
Sales	1,535	1,305	**2,840**	1,974	1,349	3,323	1,892	1,140	3,032
Transfers	1,077	–	**1,077**	2,074	–	2,074	2,199	–	2,199
Other	44	75	**119**	42	45	87	47	45	92
	2,656	1,380	**4,036**	4,090	1,394	5,484	4,138	1,185	5,323
Production costs	609	332	**941**	615	286	901	587	234	821
Production taxes	273	56	**329**	420	43	463	457	50	507
Exploration expenses	272	357	**629**	263	245	508	238	175	413
Depreciation, depletion and amortisation	651	517	**1,168**	681	429	1,110	691	305	996
Impairment	180	1,267	**1,447**	–	–	–	–	–	–
Other operating expenses	201	244	**445**	258	247	505	277	227	504
Results before income taxes	470	(1,393)	**(923)**	1,853	144	1,997	1,888	194	2,082
Income tax expense (benefit)	58	(532)	**(474)**	609	11	620	628	109	737
Results of operations from oil and gas producing activities	412	(861)	**(449)**	1,244	133	1,377	1,260	85	1,345
Results from equity affiliates*	–	(3)	**(3)**	–	(6)	(6)	–	–	–
	412	(864)	**(452)**	1,244	127	1,371	1,260	85	1,345

* ARCO's share

The difference between the above results of operations and the amounts reported for exploration and production segment net income in Note 2 of Notes to Consolidated Financial Statements is primarily restructuring costs related to the oil and gas operations, the exclusions of non-producing exploration and production units (Alaskan pipelines, technical support) and minority interest adjustments.

The standardised measure of discounted estimated future net cash flows related to proved oil and gas reserves at 31 December was as follows:

$ billion

	1998			1997			1996		
	US	International	Total	US	International	Total	US	International	Total
Future cash inflows	21.9	16.2	**38.1**	36.7	16.6	53.3	48.8	17.8	66.6
Future development and production costs	13.0	7.6	**20.6**	15.0	7.1	22.1	14.2	7.3	21.5
Future income tax expense	2.3	2.9	**5.2**	7.3	3.5	10.8	12.0	3.2	15.2
Future net cash flows	6.6	5.7	**12.3**	14.4	6.0	20.4	22.6	7.3	29.9
10% annual discount	2.7	2.7	**5.4**	6.5	2.8	9.3	10.3	3.6	13.9
Standardised measure of discounted future net cash flows	3.9	3.0	**6.9**	7.9	3.2	11.1	12.3	3.7	16.0
Standardised measure of discounted future net cash flows of equity affiliates*	–	0.1	**0.1**	–	0.1	0.1	–	–	–
Total	3.9	3.1	**7.0**	7.9	3.3	11.2	12.3	3.7	16.0

*ARCO's share

Primary changes in the standardised measure of discounted estimated future net cash flows for the years ended 31 December were as follows:

	$ billion		
	1998	1997	1996
Sales and transfers of oil and gas, net of production costs	**(2.7)**	(4.0)	(3.9)
Extensions, discoveries and improved recovery, less related costs	**0.5**	0.9	1.2
Revisions of estimates of reserves proved in prior years:			
Quantity estimates	**–**	0.7	0.5
Net changes in price and production costs	**(11.3)**	(8.4)	8.4
Purchases/sales	**3.1**	0.5	1.0
Other	**(0.6)**	(0.7)	(0.4)
Accretion of discount	**1.7**	2.4	1.5
Development costs incurred during the period	**2.3**	1.5	1.0
Net change in income taxes	**2.8**	2.3	(3.2)
Net change	**(4.2)**	(4.8)	6.1

Estimated future cash inflows are computed by applying year-end prices of oil and gas to year-end quantities of proved reserves. Future price changes are considered only to the extent provided by contractual arrangements. Estimated future development and production costs are determined by estimating the expenditures to be incurred in developing and producing the proved oil and gas reserves at the end of the year, based on year-end costs and assuming continuation of existing economic conditions. Estimated future income tax expense is calculated by applying year-end statutory tax rates (adjusted for permanent differences and tax credits) to estimated future pretax net cash flows related to proved oil and gas reserves, less the tax basis of the properties involved.

These estimates are furnished and calculated in accordance with requirements of the Financial Accounting Standards Board and the SEC. Estimates of future net cash flows presented do not represent management's assessment of future profitability or future cash flows to ARCO. Management's investment and operating decisions are based on reserve estimates that include proved reserves prescribed by the SEC as well as probable reserves, and on different price and cost assumptions from those used here.

It should be recognised that applying current costs and prices and a 10 per cent standard discount rate does not convey absolute value. The discounted amounts arrived at are only one measure of the value of proved reserves.

5 Summary of Differences between US GAAP and UK GAAP

The main differences between the accounting policies adopted by ARCO under US GAAP and those adopted by BP Amoco under UK GAAP relate to the consolidation of a cogeneration plant, stock accounting, discounting of provisions, deferred taxation, exceptional items, equity accounting, depreciation of the Trans Alaska pipeline and accounting for business combinations.

ARCO's US chemicals operations and its US and Australian coal operations were classified in its statements as discontinued operations, in accordance with US GAAP. These operations have been disposed of and, due to restrictions on the availability of financial information following their disposal, it is not possible to adjust these discontinued operations to a UK GAAP basis. Consequently, the results of discontinued operations have been eliminated from the UK GAAP income statement, which therefore shows information for continuing operations only. Further details are set out in Note 3 to the Unaudited Restatements of ARCO Financial Information under UK GAAP.

Unaudited Restatements of ARCO Financial Information under UK GAAP

Consolidated income statements for the years ended 31 December 1998, 1997 and 1996 under UK GAAP

$ million

	Year ended 31 December 1998			Year ended 31 December 1997			Year ended 31 December 1996		
(Note 1)	**US GAAP (Note 2)**	**UK GAAP adjustments (Note 4)**	**Continuing operations UK GAAP**	US GAAP (Note 2)	UK GAAP adjustments (Note 4)	Continuing operations UK GAAP	US GAAP (Note 2)	UK GAAP adjustments (Note 4)	Continuing operations UK GAAP
Turnover	**11,341**	**–**	**11,341**	15,338	–	15,338	15,071	–	15,071
Less: Joint ventures	**188**	**106[a]**	**294**	71	116[a]	187	21	97[a]	118
Group turnover	**11,153**	**(106)**	**11,047**	15,267	(116)	15,151	15,050	(97)	14,953
Replacement cost of sales	**10,607**	**(368)[b]**	**10,239**	11,653	(143)[b]	11,510	11,093	(115)[b]	10,978
Production taxes	**227**	**–**	**227**	359	–	359	401	–	401
Gross profit	**319**	**262**	**581**	3,255	27	3,282	3,556	18	3,574
Distribution and administration expenses	**1,167**	**(16)[c]**	**1,151**	1,028	(16)[c]	1,012	910	(16)[c]	894
Exploration expense	**629**	**–**	**629**	508	–	508	413	–	413
	(1,477)	**278**	**(1,199)**	1,719	43	1,762	2,233	34	2,267
Other income	**454**	**(137)[d]**	**317**	357	(69)[d]	288	435	(59)[d]	376
Group replacement cost operating profit (loss)	**(1,023)**	**141**	**(882)**	2,076	(26)	2,050	2,668	(25)	2,643
Share of profits of joint ventures	**–**	**78[e]**	**78**	–	32[e]	32	–	26[e]	26
Share of profits of associated undertakings	**–**	**60[f]**	**60**	–	47[f]	47	–	44[f]	44
Total replacement cost operating profit (loss)	**(1,023)**	**279**	**(744)**	2,076	53	2,129	2,668	45	2,713
Profit (loss) on sale of businesses	**928**	**1,713[g]**	**2,641**	291	342[g]	633	–	–[g]	–
Profit (loss) on sale of fixed assets	**–**	**61[h]**	**61**	–	49[h]	49	–	35[h]	35
Replacement cost profit (loss) before interest and tax	**(95)**	**2,053**	**1,958**	2,367	444	2,811	2,668	80	2,748
Stock holding gains (losses)	**–**	**(57)[i]**	**(57)**	–	(68)[i]	(68)	–	87[i]	87
Historical cost profit (loss) before interest and tax	**(95)**	**1,996**	**1,901**	2,367	376	2,743	2,668	167	2,835
Interest expense	**259**	**75[j]**	**334**	535	64[j]	599	582	55[j]	637
Profit (loss) before taxation	**(354)**	**1,921**	**1,567**	1,832	312	2,144	2,086	112	2,198
Taxation	**(651)**	**2,388[k]**	**1,737**	285	496[k]	781	786	44[k]	830
Profit (loss) after taxation	**297**	**(467)**	**(170)**	1,547	(184)	1,363	1,300	68	1,368
Income from discontinued operations	**179**	**(179)[l]**	**–**	267	(267)[l]	–	402	(402)[l]	–
Minority shareholders' interest	**24**	**(4)[m]**	**20**	43	1[m]	44	39	1[m]	40
Profit (loss) for the year	**452**	**(642)**	**(190)**	1,771	(452)	1,319	1,663	(335)	1,328
Dividend requirements on preference shares	**2**	**–**	**2**	2	–	2	2	–	2
Profit (loss) for the year applicable to ordinary shares	**450**	**(642)**	**(192)**	1,769	(452)	1,317	1,661	(335)	1,326

Consolidated balance sheets as at 31 December 1998, 1997 and 1996 under UK GAAP

$ million

(Note 1)	Year ended 31 December 1998 US GAAP (Note 2)	Year ended 31 December 1998 UK GAAP adjustments (Note 5)	Year ended 31 December 1998 UK GAAP	Year ended 31 December 1997 US GAAP (Note 2)	Year ended 31 December 1997 UK GAAP adjustments (Note 5)	Year ended 31 December 1997 UK GAAP	Year ended 31 December 1996 US GAAP (Note 2)	Year ended 31 December 1996 UK GAAP adjustments (Note 5)	Year ended 31 December 1996 UK GAAP
Fixed assets									
Intangible assets	**975**	**–**	**975**	844	–	844	601	–	601
Tangible assets	**18,072**	**(1,022)[a]**	**17,050**	13,081	2[a]	13,083	12,333	25[a]	12,358
Investments									
Joint ventures									
Gross assets	**1,371**	**122[b]**	**1,493**	638	133[b]	771	299	137[b]	436
Gross liabilities	**321**	**34[b]**	**355**	124	38[b]	162	7	39[b]	46
Net investment	**1,050**	**88**	**1,138**	514	95	609	292	98	390
Associated undertakings	**208**	**–**	**208**	255	–	255	220	(14)	206
Other	**933**	**254[b]**	**1,187**	2,010	(810)[b]	1,200	1,329	(343)[b]	986
	2,191	**342[b]**	**2,533**	2,779	(715)[b]	2,064	1,841	(259)[b]	1,582
Total fixed assets	**21,238**	**(680)**	**20,558**	16,704	(713)	15,991	14,775	(234)	14,541
Current assets									
Stock	**564**	**178[c]**	**742**	534	235[c]	769	466	303[c]	769
Trade debtors	**716**	**–**	**716**	862	–	862	1,186	–	1,186
Other debtors falling due									
Within one year	**705**	**(20)[d]**	**685**	370	(24)[d]	346	405	(24)[d]	381
After more than one year	**513**	**104[e]**	**617**	481	110[e]	591	396	75[e]	471
Investments	**576**	**(13)[f]**	**563**	453	(5)[f]	448	951	(5)[f]	946
Cash at bank and in hand	**514**	**–**	**514**	280	–	280	1,204	–	1,204
Creditors – amounts falling due within one year									
Finance debt	**2,802**	**–**	**2,802**	1,620	–	1,620	2,037	–	2,037
Trade creditors	**592**	**–**	**592**	693	–	693	797	–	797
Other creditors	**2,352**	**584[g]**	**2,936**	1,232	251[g]	1,483	1,272	17[g]	1,289
Net current (liabilities) assets	**(2,158)**	**(335)**	**(2,493)**	(565)	65	(500)	502	332	834
Total assets less current liabilities	**19,080**	**(1,015)**	**18,065**	16,139	(648)	15,491	15,277	98	15,375
Creditors – amounts falling due after more than one year									
Finance debt	**4,332**	**–**	**4,332**	3,619	–	3,619	4,745	–	4,745
Other creditors	**1,008**	**–**	**1,008**	710	–	710	890	–	890
Provisions for liabilities and charges									
Deferred taxation	**3,318**	**(2,943)[h]**	**375**	2,661	(2,366)[h]	295	2,385	(2,021)[h]	364
Other provisions	**2,954**	**(202)[i]**	**2,752**	2,861	(237)[i]	2,624	2,565	(188)[i]	2,377
Net assets	**7,468**	**2,130**	**9,598**	6,288	1,955	8,243	4,692	2,307	6,999
Minority shareholders' interest	**259**	**5[j]**	**264**	240	4[j]	244	152	4[j]	156
Net assets of discontinued operations	**371**	**–**	**371**	2,632	–	2,632	3,262	–	3,262
ARCO shareholders' interest	**7,580**	**2,125**	**9,705**	8,680	1,951	10,631	7,802	2,303	10,105
Represented by									
Capital and reserves									
Called up share capital	**472**	**120[k]**	**592**	638	170[k]	808	404	–	404
Share premium account	**863**	**–**	**863**	640	–	640	628	–	628
Reserves	**6,245**	**2,005[l]**	**8,250**	7,402	1,781[l]	9,183	6,770	2,303[l]	9,073
	7,580	**2,125**	**9,705**	8,680	1,951	10,631	7,802	2,303	10,105

Note 1 – Replacement cost profit

Operating profit is a UK GAAP measure of trading performance. It excludes profits and losses on the sale of businesses and fixed assets and fundamental restructuring costs, interest expense and taxation.

BP Amoco determines operating profit on a replacement cost basis, which eliminates the effect of stock holding gains and losses. For the oil and gas industry, the price of crude oil can vary significantly from period to period, hence the value of crude oil (and products) also varies. As a consequence, the amount that would be charged to cost of sales on a FIFO basis of stock valuation would include the effect of oil price fluctuations on oil and products stocks. BP Amoco therefore charges cost of sales with the average cost of supplies incurred during the period rather than the historical cost of supplies on a FIFO basis. For this purpose, stocks at the beginning and end of the period are valued at the average cost of supplies incurred during the period rather than at their historical cost. These valuations are made quarterly by each business unit, based on local oil and product price indices applicable to their specific stock holdings, following a methodology that has been consistently applied by BP Amoco for many years. Operating profit on the replacement cost basis is used by BP Amoco management as the primary measure of business unit trading performance, and BP Amoco management believes that this measure assists investors to assess the BP Amoco Group's underlying trading performance from period to period.

Replacement cost is not a US GAAP measure. The major US oil companies apply the LIFO basis of stock valuation. The LIFO basis is not permitted under UK GAAP. The LIFO basis eliminates the effect of price fluctuations on crude oil and product stock except where a stock drawdown occurs in a period. BP Amoco management believes that, where stock volumes remain constant or increase in a period, operating profit on the LIFO basis will not differ materially from operating profit on BP Amoco's replacement cost basis.

Where a stock drawdown occurs in a period, cost of sales on a LIFO basis will be charged with the historical cost of the stock drawn down, whereas BP Amoco's replacement cost basis charges cost of sales at the average cost of supplies for the period. To the extent that the historical cost on the LIFO basis of the stock drawn down is lower than the current cost of supplies in the period, operating profit on the LIFO basis will be greater than operating profit on BP Amoco's replacement cost basis. To the extent that the historical cost on the LIFO basis of the stock drawn down is greater than the current cost of supplies in the period, operating profit on the LIFO basis will be lower than operating profit on BP Amoco's replacement cost basis.

Replacement cost profit before exceptional items excludes profits and losses on the sale of businesses and fixed assets and fundamental restructuring costs, which are defined by UK GAAP. This is the measure of profit used by the BP Amoco Board of Directors in setting targets for and monitoring performance within BP Amoco. BP Amoco's management believes this indicator provides the most relevant and useful measure for investors because it most accurately reflects underlying trading performance.

Note 2 – Reclassification

Reclassifications have been made to the ARCO historical financial information presented under US GAAP to conform to BP Amoco's presentation under UK GAAP.

For the presentation of ARCO's US GAAP income statement on a UK format, the gain on disposition of discontinued operations, net of tax, has been shown as a profit on the sale of businesses.

The extraordinary loss on the extinguishment of debt in 1997 has been included within interest expense as such a charge is not an extraordinary item under UK GAAP.

Note 3 – Significant differences between ARCO's accounting policies under US GAAP and BP Amoco's accounting policies under UK GAAP

ARCO prepares its financial statements in accordance with US GAAP. For purposes of preparing the unaudited pro forma income statements and balance sheet, the financial statements of ARCO have been restated to conform with BP Amoco accounting policies under UK GAAP by giving effect to the adjustments described below.

Consolidation basis

Under US GAAP, ARCO's interest in a cogeneration facility is proportionately consolidated, whereas under UK GAAP the joint venture would be equity accounted.

Note 3 – Significant differences between ARCO's accounting policies under US GAAP and BP Amoco's accounting policies under UK GAAP (continued)

Stock accounting

ARCO carries stocks at the lower of current market value or cost. Cost is determined under the LIFO method for the majority of stocks of crude oil and petroleum products. The costs of remaining stocks are determined predominantly on an average cost basis.

BP Amoco carries stocks at the lower of cost or net realisable value. Cost to BP Amoco is determined using the FIFO method. Cost of sales determined on a FIFO basis is adjusted to a replacement cost basis, i.e., to reflect the average cost of supplies incurred during the year, by excluding stock holding gains and losses.

Deferred taxation

Under the UK GAAP restricted liability method, deferred taxation is only provided for where timing differences are expected to reverse in the foreseeable future. For US GAAP under the liability method, deferred taxation is provided for temporary differences between the financial reporting basis and the tax basis of assets and liabilities at enacted tax rates.

Exceptional items

Under UK GAAP, certain exceptional items are shown separately on the face of the income statement after operating profit. These items are profits or losses on the sale or closure of businesses and fixed assets and fundamental restructuring costs. Under US GAAP, these items, other than for discontinued operations, are classified as operating income or expenses.

Equity accounting

UK GAAP requires the investor's share of operating profit or loss, exceptional items, interest expense and taxation of associated undertakings and joint ventures to be shown separately from those of the group. For US GAAP, the after-tax profits or losses (i.e. operating results after exceptional items, interest expense and taxation) are included in the income statement as a single line item.

UK GAAP requires the investor's share of the gross assets and gross liabilities of joint ventures to be shown on the face of the balance sheet, whereas under US GAAP the net investment is included as a single line item.

Provisions

UK GAAP requires provisions for decommissioning and environmental liabilities to be determined on a discounted basis if the effect of the time value of money is material.

Provisions for decommissioning are recognised in full, on a discounted basis, at the commencement of oil and natural gas production. UK GAAP also requires the capitalisation as a tangible fixed asset and subsequent depreciation, of an amount equivalent to the provision.

The unwinding of the discount, which represents a period-by-period cost, is included within interest expense.

Under US GAAP (i) environmental liabilities are discounted only where the timing and amounts of payments are fixed and reliably determinable and (ii) provisions for decommissioning are provided for on a unit-of-production basis over field lives.

Depreciation

BP Amoco depreciates the cost of its interest in the TransAlaska pipeline on a unit-of-throughput basis, whereas ARCO depreciates the cost of its interest on a straight-line basis over the estimated useful life of the pipeline. ARCO's interest in the pipeline has been accounted for in the unaudited pro forma income statements and balance sheet using the BP Amoco method.

Discontinued operations

ARCO's US chemicals operations and its US and Australian coal operations were classified in its statements as discontinued operations, in accordance with US GAAP. These operations have been disposed of and due to restrictions on the availability of financial information following their disposal it is not possible to adjust these discontinued operations to a UK GAAP basis. Consequently, the results of discontinued operations have been eliminated from the UK GAAP income statement, which therefore shows information for continuing operations only.

Note 3 – Significant differences between ARCO's accounting policies under US GAAP and BP Amoco's accounting policies under UK GAAP (continued)

Business combinations

US GAAP requires the recognition of a deferred tax asset or liability for the tax effects of differences between the assigned values and the tax bases of assets acquired and liabilities assumed in a purchase business combination, whereas under UK GAAP no such deferred tax asset or liability is recognised. Under US GAAP the deferred tax asset or liability is amortised over the same period as the assets and liabilities to which it relates.

US GAAP requires certain reorganisation and integration costs to be incurred as part of a purchase business combination to be recognised as liabilities assumed and included in the allocation of the acquisition cost. UK GAAP does not permit recognition of these costs as part of the accounting for the business combination.

Pensions

US GAAP requires an additional minimum liability to be shown in the balance sheet if the accumulated benefit obligation exceeds the fair value of pension plan assets. UK GAAP does not require recognition of a liability in these circumstances.

Investments

Under US GAAP, ARCO has classified its investments in LUKOIL ADRs and the Zhenhai Refining and Chemical Company convertible bonds as available for sale. Consequently, they are reported at fair value, with unrealised holding gains and losses, net of tax, reported in accumulated other comprehensive income. If a decline in fair value below cost is "other than temporary" the unrealised loss should be accounted for as a realised loss and charged against income. Under UK GAAP, these investments are deemed to be long-term and carried in the balance sheet at cost, subject to review for impairment.

Treasury stock

Under US GAAP, treasury stock is deducted from shareholders' interests. Under UK GAAP, stock purchased to meet obligations under employee share schemes is shown in the balance sheet as fixed asset—investments and stock purchased which may be re-issued is deducted from shareholders' interest.

Note 4 – UK GAAP adjustments to historical ARCO income statements

The adjustments to restate the income statements of ARCO for the years ended 31 December 1998, 1997 and 1996 to conform with BP Amoco accounting policies under UK GAAP are set out below.

			$ million
	For the year ended 31 December		
Increase (decrease) in caption heading	**1998**	1997	1996
Consolidation basis			
Joint ventures	**106**	116	97
Replacement cost of sales	**(53)**	(59)	(47)
Distribution and administrative expenses	**(16)**	(16)	(16)
Share of profit of joint ventures	**37**	41	34
Profit for the period	**–**	–	–
Stock accounting			
Stock holding gains (losses)	**(57)**	(68)	87
Profit for the period	**(57)**	(68)	87
Deferred taxation			
Taxation	**322**	140	32
Profit for the period	**(322)**	(140)	(32)
Exceptional items			
Other income	**(61)**	(49)	(35)
Profit (loss) on sale of businesses	**1,713**	342	–
Profit (loss) on sale of fixed assets	**61**	49	35
Taxation	**1,713**	342	–
Profit for the period	**–**	–	–
Equity accounting			
Other income	**(76)**	(20)	(24)
Share of profit of joint ventures	**41**	(9)	(8)
Share of profit of associated undertakings	**60**	47	44
Interest	**16**	9	3
Taxation	**9**	9	9
Profit for the period	**–**	–	–
Provisions			
Replacement cost of sales	**(58)**	(71)	(53)
Interest expense	**59**	55	52
Minority shareholders' interest	**(4)**	1	1
Profit for the period	**3**	15	–
Depreciation			
Replacement cost of sales	**(9)**	(8)	(12)
Profit for the period	**9**	8	12
Discontinued operation			
Income from discontinued operations	**(179)**	(267)	(402)
Profit for the period	**(179)**	(267)	(402)
Business combinations			
Replacement cost of sales	**(248)**	(5)	(3)
Taxation	**344**	5	3
Profit for the period	**(96)**	–	–

Note 4 – UK GAAP adjustments to historical ARCO income statements (continued)

These adjustments may be summarised by caption heading as set out below.

			$ million
	For the year ended 31 December		
	1998	1997	1996
(a) Turnover: Joint ventures			
Consolidation basis	**106**	116	97
(b) Replacement cost of sales			
Consolidation basis	**(53)**	(59)	(47)
Provisions	**(58)**	(71)	(53)
Depreciation	**(9)**	(8)	(12)
Business combination	**(248)**	(5)	(3)
	(368)	(143)	(115)
(c) Distribution and administration expenses			
Consolidation basis	**(16)**	(16)	(16)
(d) Other income			
Exceptional items	**(61)**	(49)	(35)
Equity accounting	**(76)**	(20)	(24)
	(137)	(69)	(59)
(e) Share of profit of joint ventures			
Consolidation basis	**37**	41	34
Equity accounting	**41**	(9)	(8)
	78	32	26
(f) Share of profits of associated undertakings			
Equity accounting	**60**	47	44
(g) Profit (loss) on the sale or termination of businesses			
Exceptional items	**1,713**	342	–
(h) Profit (loss) on the sale of fixed assets			
Exceptional items	**61**	49	35
(i) Stock holding gains (losses)			
Stock accounting	**(57)**	(68)	87
(j) Interest expense			
Equity accounting	**16**	9	3
Provisions	**59**	55	52
	75	64	55
(k) Taxation			
Deferred taxation	**322**	140	32
Exceptional items	**1,713**	342	–
Equity accounting	**9**	9	9
Business combination	**344**	5	3
	2,388	496	44
(l) Income from discontinued operations			
Discontinued operations	**(179)**	(267)	(402)
(m) Minority shareholders' interest			
Provisions	**(4)**	1	1

Note 5 – UK GAAP adjustments to historical ARCO balance sheets

The adjustments to restate the balance sheets of ARCO at 31 December 1998, 1997 and 1996 to conform with BP Amoco accounting policies under UK GAAP are set out below.

			$ million
	For the year ended 31 December		
Increase (decrease) in caption heading	1998	1997	1996
Consolidation basis			
Tangible assets	**(102)**	(108)	(113)
Fixed assets: Investments – Joint ventures – gross assets	**122**	133	137
Fixed assets: Investments – Joint ventures – gross liabilities	**(34)**	(38)	(39)
Other debtors falling due within one year	**(20)**	(24)	(24)
Other debtors falling due after more than one year	**27**	27	27
Other creditors	**(7)**	(10)	(12)
Reserves	**–**	–	–
Stock accounting			
Stock	**178**	235	303
Reserves	**178**	235	303
Deferred taxation			
Tangible assets	**286**	–	–
Other creditors	**591**	261	29
Deferred taxation	**(1,715)**	(1,985)	(1,893)
Reserves	**1,410**	1,724	1,864
Provisions			
Tangible assets	**38**	91	107
Other provisions	**(202)**	(237)	(188)
Minority shareholders' interest	**5**	4	4
Reserves	**235**	324	291
Depreciation			
Tangible assets	**59**	50	42
Reserves	**59**	50	42
Business combinations			
Tangible assets	**(1,303)**	(31)	(11)
Deferred taxation	**(1,303)**	(31)	(11)
Reserves	**–**	–	–
Pensions			
Other debtors falling due after more than one year	**77**	83	48
Deferred taxation	**29**	29	20
Reserves	**48**	54	28
Investments			
Fixed assets: Investments – Associated undertakings	**–**	–	(14)
Fixed assets: Investments – Other	**134**	(980)	(343)
Current assets: Investments	**(13)**	(5)	(5)
Deferred taxation	**46**	(379)	(137)
Reserves	**75**	(606)	(225)
Treasury stock			
Fixed assets: Investments – Other	**120**	170	–
Called up share capital	**120**	170	–
Reserves	**–**	–	–

Note 5 – UK GAAP adjustments to historical ARCO balance sheets (continued)

These adjustments may be summarised by caption heading as set out below.

			$ million
	For the year ended 31 December		
	1998	1997	1996
(a) Tangible assets			
Consolidation basis	**(102)**	(108)	(113)
Deferred taxation	**286**	–	–
Provisions	**38**	91	107
Depreciation	**59**	50	42
Business combinations	**(1,303)**	(31)	(11)
	(1,022)	2	25
(b) Fixed assets: Investments			
Joint ventures			
Gross assets			
Consolidation basis	**122**	133	137
Gross liabilities			
Consolidation basis	**(34)**	(38)	(39)
Associated undertakings			
Investments	**–**	–	(14)
Other			
Investments	**134**	(980)	(343)
Treasury stock	**120**	170	–
	342	(715)	(259)
(c) Stock			
Stock accounting	**178**	235	303
(d) Other debtors falling due within one year			
Consolidation basis	**(20)**	(24)	(24)
(e) Other debtors falling due after more than one year			
Consolidation basis	**27**	27	27
Pensions	**77**	83	48
	104	110	75
(f) Investments			
Investments	**(13)**	(5)	(5)
(g) Other creditors			
Consolidation basis	**(7)**	(10)	(12)
Deferred taxation	**591**	261	29
	584	251	17
(h) Deferred taxation			
Deferred taxation	**(1,715)**	(1,985)	(1,893)
Business combinations	**(1,303)**	(31)	(11)
Investments	**46**	(379)	(137)
Pensions	**29**	29	20
	(2,943)	(2,366)	(2,021)

Note 5 – UK GAAP adjustments to historical ARCO balance sheets (continued)

	1998	1997	1996
			$ million
	For the year ended 31 December		
(i) Other provisions			
Provisions	**(202)**	(237)	(188)
(j) Minority shareholders' interest			
Provisions	**5**	4	4
(k) Called up share capital			
Treasury stock	**120**	170	–
(l) Reserves			
Stock accounting	**178**	235	303
Deferred taxation	**1,410**	1,724	1,864
Provisions	**235**	324	291
Depreciation	**59**	50	42
Pensions	**48**	54	28
Investments	**75**	(606)	(225)
	2,005	1,781	2,303

The following is a copy of a letter received from Ernst & Young:

"ERNST & YOUNG

The Directors
BP Amoco p.l.c.
Britannic House
1 Finsbury Circus
London EC2M 7BA

15 July 1999

The Directors
Morgan Stanley & Co. Limited
25 Cabot Square
Canary Wharf
London E14 4QA

Dear Sirs

We report on the unaudited restatements under BP Amoco p.l.c. accounting policies ("the Restatements") of the consolidated income statements for each of the years ended 31 December 1998, 1997 and 1996 and the consolidated balance sheets as at 31 December 1998, 1997 and 1996 of Atlantic Richfield Company ("ARCO") set out in paragraph 5 of Part III of the Listing Particulars dated 15 July 1999.

RESPONSIBILITY

It is the responsibility solely of the Directors of BP Amoco p.l.c. ("BP Amoco") to prepare the Restatements in accordance with paragraph 12.11 of the Listing Rules of the London Stock Exchange (the "Listing Rules"). It is our responsibility to form an opinion, as required by the Listing Rules on the Restatements and to report our opinion to you.

The Restatements incorporate significant adjustments to the historical consolidated financial statements of ARCO. The historical consolidated financial statements of ARCO for each of the three years ended 31 December 1998, 1997 and 1996 were prepared in accordance with US GAAP and were audited by PricewaterhouseCoopers LLP who gave unqualified reports thereon. We do not take responsibility for the historical consolidated financial statements of ARCO.

BASIS OF OPINION

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board. Our work, which involved no independent examination of any historical underlying financial information, consisted primarily of making enquiries of management of ARCO and its auditors to establish the accounting policies which were applied in the preparation of the historical underlying financial information.

We have considered the evidence supporting the Restatements and discussed the Restatements with the Directors of BP Amoco.

OPINION

As explained in note 3, the Restatements do not include any adjustments for the discontinued operations. As a result, the Restatements do not comply with the requirements of Financial Reporting Standard No. 3 "Reporting Financial Performance" to separately analyse the results of discontinued operations.

Except for the exclusion of the results of discontinued operations, in our opinion the adjustments made are those appropriate for the purpose of presenting the consolidated income statements for each of the years ended 31 December 1998, 1997 and 1996 and the consolidated balance sheets as at 31 December 1998, 1997 and 1996 on a basis consistent in all material respects with the current accounting policies of BP Amoco and the Restatements have been properly compiled on the basis stated.

Yours faithfully

Ernst & Young"

6 Financial Information for ARCO for the Three-Month Period ended 31 March 1999

The following financial information has been extracted from the unaudited report filed on Form 10-Q with the SEC for the three-month period ended 31 March 1999. The financial information is prepared in accordance with US GAAP.

"Unaudited consolidated statement of income

	($ million except per share amounts)	
	1999	1998 (Restated)
Revenues		
Sales and other operating revenues	**2,415**	2,536
Other revenues	**136**	110
	2,551	2,646
Expenses		
Trade purchases	**800**	986
Operating expenses	**566**	535
Selling, general and administrative expenses	**152**	183
Depreciation, depletion and amortisation	**483**	352
Exploration expenses (including undeveloped leasehold amortisation)	**74**	149
Taxes other than income taxes	**120**	154
Interest	**95**	97
	2,290	2,456
Income from continuing operations before income taxes and minority interest	**261**	190
Provision for taxes on income	**93**	47
Minority interest in earnings of subsidiaries	**3**	9
Income from continuing operations	**165**	134
Income from discontinued operations, net of income taxes of $0 (1999) and $46 (1998)	**–**	86
Net income	**165**	220
Earned per Share		
Basic		
Continuing operations	**0.51**	0.42
Discontinued operations	**–**	0.27
Net income	**0.51**	0.69
Diluted		
Continuing operations	**0.51**	0.41
Discontinued operations	**–**	0.26
Net income	**0.51**	0.67
Cash dividends paid per share of common stock	**0.7125**	0.7125

The accompanying notes are an integral part of these statements.

Unaudited consolidated balance sheet

	31 March 1999	31 December 1998
		$ million
Assets		
Current assets:		
Cash and cash equivalents	**790**	657
Short-term investments	**248**	260
Accounts receivable	**1,018**	1,002
Inventories	**489**	475
Prepaid expenses and other current assets	**228**	317
Total current assets	**2,773**	2,711
Investments and long-term receivables:		
Investments accounted for on the equity method	**1,223**	1,235
Other investments and long-term receivables	**1,023**	831
	2,246	2,066
Net property, plant and equipment	**18,942**	18,762
Net assets of discontinued operations	**64**	339
Deferred charges and other assets	**1,338**	1,321
Total assets	**25,363**	25,199

The accompanying notes are an integral part of these statements.

Unaudited consolidated balance sheet (continued)

	31 March 1999 ($ million)	31 December 1998 ($ million)
Liabilities and Stockholders' Equity		
Current liabilities:		
Notes payable	**2,564**	2,403
Accounts payable	**830**	976
Long-term debt due within one year	**199**	399
Taxes payable	**828**	634
Other	**897**	1,285
Total current liabilities	**5,318**	5,697
Long-term debt	**4,618**	4,332
Deferred income taxes	**3,279**	3,318
Dismantlement, restoration and reclamation	**1,082**	1,058
Other deferred liabilities and credits	**2,958**	2,955
Minority interest	**262**	259
Total liabilities	**17,517**	17,619
Stockholders' equity:		
Preference stocks	**1**	1
Common stock	**815**	815
Capital in excess of par value of stock	**858**	863
Retained earnings	**6,525**	6,589
Treasury stock	**(313)**	(344)
Accumulated other comprehensive income (loss)	**(40)**	(344)
Total stockholders' equity	**7,846**	7,580
Total liabilities and stockholders' equity	**25,363**	25,199

The accompanying notes are an integral part of these statements.

Unaudited consolidated statement of cash flows
Three months ended 31 March

	$ million	
	1999	1998
		(Restated)
Cash flows from operating activities:		
Net income from continuing operations	**165**	134
Adjustments to reconcile net income from continuing operations to net cash provided by operating activities:		
Depreciation, depletion and amortisation	**483**	352
Dry hole expense and undeveloped leasehold amortisation	**21**	63
Net gain on asset sales	**(14)**	(21)
Income from equity investments	**(7)**	(8)
Dividends from equity investments	**20**	1
Minority interest in earnings of subsidiaries	**3**	9
Cash payments greater than noncash provisions	**(125)**	(47)
Deferred income taxes	**(5)**	21
Changes in working capital accounts	**(296)**	(160)
Other	**(43)**	41
Net cash provided by operating activities	**202**	385
Cash flows from investing activities:		
Additions to fixed assets (including dry hole costs)	**(760)**	(755)
Net cash provided (used) by short-term investments	**5**	(8)
Proceeds from asset sales	**577**	45
Investments and long-term receivables	**(2)**	(17)
Other	**27**	(25)
Net cash used by investing activities	**(153)**	(760)
Cash flows from financing activities:		
Repayments of long-term debt	**(549)**	(52)
Proceeds from issuance of long-term debt	**634**	68
Net cash provided by notes payable	**202**	570
Dividends paid	**(229)**	(229)
Other	**13**	10
Net cash provided by financing activities	**71**	367
Cash flows from discontinued operations	**21**	52
Effect of exchange rate changes on cash	**(8)**	1
Net increase in cash and cash equivalents	**133**	45
Cash and cash equivalents at beginning of period	**657**	434
Cash and cash equivalents at end of period	**790**	479

The accompanying notes are an integral part of these statements.

Notes to unaudited consolidated financial statements

NOTE A. Accounting policies

Basis of presentation

The foregoing financial information is unaudited and has been prepared from the books and records of ARCO. Certain previously reported amounts have been restated to conform to classifications adopted in 1999. Unless otherwise stated, the Notes to Consolidated Financial Statements exclude discontinued operations. In the opinion of ARCO, the financial information reflects all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the financial position and results of operations in conformity with generally accepted accounting principles.

NOTE B. Comprehensive income

Comprehensive income comprises net income plus all other changes in equity from nonowner sources. ARCO's comprehensive income for the three-month periods ended 31 March 1999 and 1998 was as follows:

	$ million	
	Three months ended 31 March	
	1999	1998
Net income	**165**	220
Other comprehensive income:		
Net unrealised gain (loss) on investments[a]	**111**	(186)
Foreign currency translation adjustment	**193**	(4)
Comprehensive income	**469**	30

[a] Primarily consists of changes in the fair value of ARCO's investment in LUKOIL, which had a fair value of approximately $411 million at 31 March 1999, compared to a fair value of approximately $225 million at 31 December 1998. The unrealised pretax gain in the LUKOIL investment at 31 March 1999, was $69 million.

Accumulated nonowner changes in equity (accumulated other comprehensive income) at 31 March 1999 and 31 December 1998 were as follows:

	$ million	
	31 March 1999	31 December 1998
Net unrealised gain (loss) on investments	**36**	(75)
Foreign currency translation adjustment	**(29)**	(222)
Minimum pension liability	**(47)**	(47)
Accumulated other comprehensive income (loss)	**(40)**	(344)

NOTE C. Interim segment information

31 March 1999	Exploration & Production	Refining & Marketing	All Other	Unallocated	**$ million** Total
Sales and other operating revenues	1,304	1,306	17	2	2,629
Intersegment revenues	(211)	–	(1)	(2)	(214)
Total	1,093	1,306	16	–	2,415
Income from continuing operations	89	129	24	(77)	165
Income from discontinued operations	–	–	–	–	–
Net income	89	129	24	(77)	165
Segment assets	18,168	4,124	922	2,149	25,363
31 December 1998					
Segment assets	18,203	3,826	1,119	2,051	25,199

31 March 1998 (Restated)	Exploration & Production	Refining & Marketing	All Other	Unallocated	**$ million** Total
Sales and other operating revenues	1,538	1,352	40	2	2,932
Intersegment revenues	(361)	(12)	(21)	(2)	(396)
Total	1,177	1,340	19	–	2,536
Income from continuing operations	182	19	24	(91)	134
Income from discontinued operations	–	–	–	86	86
Net income	182	19	24	(5)	220

ARCO's coal and chemical operations have been reported as discontinued since 31 March 1998 and 30 June 1998, respectively. Accordingly, at 31 December 1998 and 31 March 1999, the income from and net assets of discontinued operations are included with unallocated items in the segment presentation above. The prior period has been restated to conform to the current presentation.

The amortisation and recognition of imputed interest associated with a gain deferred in conjunction with the sale of the chemicals operations had a favourable impact of approximately $10 million after tax on Refining and Marketing earnings in the first quarter 1999.

NOTE D. Investments

At 31 March 1999 and 1998, investments in debt securities were primarily composed of US Treasury securities and corporate debt instruments. Maturities generally ranged from one day to 10 years. ARCO's investments in LUKOIL common stock and Zhenhai Refining and Chemical Company convertible bonds were included in other investments and long-term receivables. At 31 March 1999 and 1998, all investments were classified as available-for-sale and were reported at fair value, with unrealised holding gains and losses, net of tax, reported in accumulated other comprehensive income (loss).

The following summarises investments in securities at 31 March:

	$ million	
	1999	1998
Aggregate fair value	**869**	1,675
Gross unrealised holding losses	**14**	2
Gross unrealised holding gains	**(73)**	(684)
Amortised cost	**810**	993

Investment activity for the three months ended 31 March was as follows:

	$ million	
	1999	1998
Gross purchases	**2,285**	4,802
Gross sales	**445**	124
Gross maturities	**2,078**	4,598

Gross realised gains and losses were insignificant and were determined by the specific identification method.

NOTE E. Inventories

Inventories at 31 March 1999 and 31 December 1998 comprised the following:

	$ million	
	31 March 1999	31 December 1998
Crude oil and petroleum products	**226**	220
Other products	**27**	24
Materials and supplies	**236**	231
Total	**489**	475

NOTE F. Capital stock

Detail of ARCO's capital stock was as follows:

	$ thousand	
	31 March 1999	31 December 1998
$3.00 Cumulative convertible preference stock, par $1	**50**	52
$2.80 Cumulative convertible preference stock, par $1	**564**	573
Common stock, par $2.50	**814,921**	814,673
Total	**815,535**	815,298

NOTE G. Capitalisation of interest

Interest expense excludes capitalised interest of $39 million and $16 million for the three-month periods ended 31 March 1999 and 1998, respectively.

NOTE H. Restructuring programmes

During 1998, ARCO recorded pretax charges of $229 million for the costs of eliminating over 1,200 positions, primarily exploration and production technical support, international exploration and production support operations and the corporate headquarters. The following table summarises the liabilities related to the 1998 restructuring programme, including $11 million transferred from the 1997 programme to cover those people who had not yet terminated under the 1997 programme and became eligible for the 1998 programme.

$ million

Terminations	Short-term benefits[a]	Funded long-term benefits[b]	Unfunded long-term benefits[c]	Total
1,212	93	90	56	239

[a] Severance and ancillary benefits such as relocation and outplacement.

[b] Net increase in pension benefits to be paid from assets of qualified plans.

[c] Net increase in non-qualified pension benefits and other post retirement benefits to be paid from ARCO funds.

Through 31 March 1999, approximately 590 employees have been terminated and approximately $41 million of severance and ancillary benefits have been paid and charged against the accrual. Payments made do not necessarily correlate to the number of terminations due to the ability of terminees to defer receipt of certain payments.

UTP Restructure

As part of the purchase price allocation for the purchase of UTP in 1998, ARCO established a $78 million provision for the termination of 357 employees resulting from the integration of UTP into ARCO's operations. At 31 March 1999, 299 employees have been terminated and a total of $68 million in severance benefits has been paid. The group of employees terminated included US citizens employed in exploration and production operations and corporate headquarters personnel.

NOTE I. Income taxes

Provision for taxes on income.

	$ million	
	Three months ended 31 March	
	1999	1998 (Restated)
Federal:		
Current	**41**	(10)
Deferred	**11**	27
	52	17
Foreign:		
Current	**45**	28
Deferred	**(17)**	(10)
	28	18
State:		
Current	**12**	8
Deferred	**1**	4
	13	12
Total	**93**	47

Reconciliation of provision for taxes on income with tax at federal statutory rate.

	Three months ended 31 March			
	1999		1998	
	Amount	Per cent of pretax income	Amount	Per cent of pretax income
				(Restated)
	$ million	**%**	**$ million**	**%**
Income from continuing operations before income taxes and minority interest	**261**	100.0	190	100.0
Tax at federal statutory rate	**91**	35.0	67	35.0
Increase (reduction) in taxes resulting from:				
Subsidiary stock transaction	**—**	—	(13)	(6.8)
Taxes on foreign income in excess of statutory rate	**21**	8.0	20	10.5
State income taxes (net of federal effect)	**8**	3.1	8	4.2
Tax credits	**(24)**	(9.2)	(31)	(16.3)
Other	**(3)**	(1.3)	(4)	(1.9)
Provision for taxes on income	**93**	35.6	47	24.7

NOTE J. Discontinued operations

In first quarter 1999, ARCO disposed of its interests in two Australian coal mines. ARCO disposed of its 80 per cent interest in the Gordonstone coal mine and its 31.4 per cent interest in the Blair Athol Joint Venture. At 31 March 1999, the carrying value of the remaining Australian assets was $64 million and was included in net assets of discontinued operations on the balance sheet. Beginning in January 1999, ARCO suspended depreciation on the Australian coal assets (1998 annual depreciation was $23 million). In 1998, ARCO recorded a $92 million provision for the estimated loss on the disposal of the US and Australian coal assets.

As part of the acquisition of UTP, ARCO determined it would sell UTP's petrochemical business. In March 1999, ARCO sold the UTP petrochemical business to Williams Energy Services. At 31 March 1999, the carrying value of UTP's net petrochemical assets, which included a $33 million after-tax provision for loss on the sale of UTP's assets, was zero.

Revenues and income from discontinued operations for the three months ended 31 March 1999 and 1998 were:

		$ million
	31 March 1999	31 March 1998
Revenues:		
ARCO Chemical	–	934
Coal operations	26	141
UTP petrochemical	24	–
Total	50	1,075
Net income:		
ARCO Chemical	–	76
Coal operations	–	10
UTP petrochemical	–	–
Total	–	86

NOTE K. Earned per share

The information necessary for the calculation of earnings per share is as follows:

	($ million, except per share amounts)		
	Three months ended 31 March 1999		
	Income	Shares	Per share
Income from continuing operations	**165.4**		
Less: Preference stock dividends	**(0.5)**		
Income from continuing operations available to common stockholders – basic EPS	**164.9**	**321.6**	**0.51**
Income from discontinued operations, net of tax	**–**	**321.6**	**–**
Net income available to common stockholders – basic EPS	**164.9**	**321.6**	**0.51**
Effect of dilutive securities:			
Contingently issuable shares (primarily options)		**2.2**	
Convertible preference stock	**0.5**	**3.4**	
Net income available to common stockholders and assumed conversions – diluted EPS	**165.4**	**327.2**	**0.51**
Income from discontinued operations, net of tax	**–**	**327.2**	**–**
Income from continuing operations available to common stockholders and assumed conversions – diluted EPS	**165.4**	**327.2**	**0.51**

	Three months ended 31 March 1998		
	Income	Shares	Per share
Income from continuing operations	134.4		
Less: Preference stock dividends	(0.5)		
Income from continuing operation available to common stockholders – basic EPS	133.9	320.6	0.42
Income from discontinued operations, net of tax	85.7	320.6	0.27
Net income available to common stockholders – basic EPS	219.6	320.6	0.69
Effect of dilutive securities:			
Contingently issuable shares (primarily options)		2.9	
Convertible preference stock	0.5	3.7	
Net income available to common stockholders and assumed conversions – diluted EPS	220.1	327.2	0.67
Income from discontinued operations, net of tax	(85.7)	327.2	(0.26)
Income from continuing operations available to common stockholders and assumed conversions – diluted EPS	134.4	327.2	0.41

NOTE L. Supplemental income statement information

Taxes other than income taxes comprised the following:

	$ million	
	Three months ended 31 March	
	1999	1998 (Restated)
Production/severance	**40**	64
Property	**35**	40
Other	**45**	50
Total	**120**	154

NOTE M. Supplemental cash flow information

Following is supplemental cash flow information for the three months ended 31 March 1999 and 1998:

	$ million	
	Three months ended 31 March	
	1999	1998 (Restated)
Gross sales and maturities of short-term investments	**15**	64
Gross purchases of short-term investments	**(10)**	(72)
Net cash provided (used) by short-term investments	**5**	(8)
Gross proceeds from issuance of notes payable	**3,737**	3,960
Gross repayments of notes payable	**(3,535)**	(3,390)
Net cash provided by notes payable	**202**	570
Gross noncash provisions charged to income	**37**	67
Cash payments of previously accrued items	**(162)**	(114)
Cash payments greater than noncash provisions	**(125)**	(47)
Interest paid	**101**	128[a]
Income paid	**98**	109[a]

[a] Includes amounts paid related to discontinued operations.

Changes in working capital accounts for the three-month periods ended 31 March 1999 and 1998 were as follows:

	$ million	
	Three months ended 31 March	
	1999	1998 (Restated)
Increase (decrease) to cash		
Accounts receivable	**(16)**	108
Inventories	**(16)**	(61)
Accounts payable	**(146)**	(194)
Other working capital	**(118)**	(13)
Total	**(296)**	(160)

NOTE N. Other commitments and contingencies

ARCO has commitments, including those related to the acquisition, construction and development of facilities, all made in the normal course of business.

Following governmental approvals, construction on the Caspian pipeline project is scheduled to begin during the second quarter of 1999. ARCO has guaranteed all of LUKARCO's obligations associated with the Caspian pipeline project, which amount to 25 per cent of all funding requirements for this project. The current estimates of total project funding requirements are between $2.2 to $2.4 billion.

Following the March 1989 EXXON VALDEZ oil spill, numerous federal, state and private plaintiff lawsuits were brought against Exxon, Alyeska Pipeline Service Company ("Alyeska"), and Alyeska's owner companies including ARCO, which owns approximately 22 per cent. While all of the federal, state and private plaintiff lawsuits have been settled, certain issues relating to the liability for the spill remain unresolved between Exxon and Alyeska (including its owner companies).

ARCO, together with other former producers of lead paint have been named in a number of lawsuits, including purported class actions, seeking damages, abatement of the housing units, and compensation for medical problems arising out of the presence of lead-based paint in certain housing units. ARCO is unable to predict the scope or amount of any such liability.

The State of Montana, along with the United States and the Salish and Kootenai Tribes (the "Tribes"), have been seeking recovery from ARCO of alleged injuries to natural resources resulting from mining and mineral processing businesses formerly operated by Anaconda. In April 1999 the court approved two consent decrees. Under the terms of these decrees, ARCO has agreed to pay $135 million for settlement of $561 million of the State's $767 million natural resource damage claim relating to the Clark Fork River Basin, $86 million for clean-up and related liabilities at Silver Bow Creek, and $20 million to resolve claims by the Tribes and the United States.

ARCO is subject to other loss contingencies pursuant to federal, state and local environmental laws and regulations that require ARCO to do some or all of the following:

- Remove or mitigate the effects on the environment at various sites from the disposal or release of certain substances;
- Perform restoration work at such sites; and
- Pay damages for loss of use and non-use values.

Environmental liabilities include personal injury claims allegedly caused by exposure to toxic materials manufactured or used by ARCO.

ARCO is currently involved in assessments and cleanups under these laws at federal and state-managed sites as well as other clean-up sites including service stations, refineries, terminals, third-party landfills, former nuclear processing facilities, sites associated with discontinued operations and sites previously owned by ARCO or predecessors. This comprises 125 sites for which ARCO has been named a potentially responsible party ("PRP"), along with other sites for which no claims have been asserted. The number of PRP sites in and of itself is not a relevant measure of liability because the nature and extent of environmental concerns varies by site and ARCO's share of responsibility varies from sole responsibility to very little responsibility.

ARCO may in the future be involved in additional assessments and cleanups.

Future costs depend on unknown factors such as:

- Nature and extent of contamination;
- Timing, extent and method of remedial action;
- ARCO's proportional share of costs; and
- Financial condition of other responsible parties.

The environmental remediation accrual is updated annually, at a minimum, and at 31 March 1999, was $847 million. As these costs become more clearly defined, they may require future charges against earnings. Applying Monte Carlo analysis to estimated site maximums on a portfolio basis, ARCO estimates that future costs could exceed the amount accrued by as much as $500 million.

NOTE N. Other commitments and contingencies (continued)

Approximately 54 per cent of the reserve related to sites associated with ARCO's discontinued operations, primarily mining activities in the states of Montana, Utah and New Mexico. Another significant component related to currently and formerly owned chemical, nuclear processing, and refining and marketing facilities, and other sites which received wastes from these facilities. The remainder related to other sites with reserves ranging from $1 million to $10 million per site. No one site represents more than 10 per cent of the total reserve. Substantially all amounts accrued are expected to be paid out over the next five to six years.

Claims for recovery of remediation costs already incurred and to be incurred in the future have been filed against various third parties. Many of these claims have been resolved. ARCO has neither recorded any asset nor reduced any liability in connection with unresolved claims.

Although any ultimate liability arising from any of the matters described herein could result in significant expenses or judgements that, if aggregated and assumed to occur within a single fiscal year, would be material to ARCO's results of operations, the likelihood of such occurrence is considered remote. On the basis of management's best assessment of the ultimate amount and timing of these events, such expenses or judgements are not expected to have a material adverse effect on ARCO's consolidated financial statements.

The operations and consolidated financial position of ARCO continue to be affected by domestic and foreign political developments as well as legislation, regulations and litigation pertaining to restrictions on production, imports and exports, tax increases, environmental regulations, cancellation of contract rights and expropriation of property. Both the likelihood of such occurrences and their overall effect on ARCO vary greatly and are not predictable.

These uncertainties are part of a number of items that ARCO has taken and will continue to take into account in periodically establishing reserves.

NOTE O. Merger agreement between ARCO and BP Amoco

On 31 March 1999, BP Amoco and ARCO reached agreement to combine with each other in an all-share transaction in which shareholders of ARCO will receive 0.82 BP Amoco ADSs for each share of ARCO common stock exchanged. The agreement was approved by both Boards of Directors.

The transaction is subject to the approval of the shareholders of both BP Amoco and ARCO and the consent of various state and regulatory authorities, including the Federal Trade Commission and the European Commission. At the time the transaction was announced, BP Amoco estimated that the transaction will close by year-end 1999.

NOTE P. Subsequent events

On 23 April 1999, ARCO issued $1 billion of senior debt securities, which consisted of $500 million of four-year notes with a coupon of 5.55 per cent, due 2003, and $500 million of 10-year notes with a coupon of 5.90 per cent, due 2009. Net proceeds from the offering will be used for general corporate purposes and, principally, for the replacement of short-term debt with long-term debt.

Management's discussion and analysis of financial condition and results of operations

First Quarter 1999 vs. First Quarter 1998

Consolidated earnings

The $31 million increase in income from continuing operations in the first quarter of 1999 reflected improved refining and marketing margins, due to lower crude oil prices, and increased retail marketing volumes. These factors were partially offset by lower exploration and production earnings due to lower crude oil and natural gas prices, compared to the same period in 1998.

The lower net income in 1999 reflected the absence of earnings from discontinued operations disposed of in the second and third quarters of 1998. Those operations included ARCO Coal's US operations and ARCO's entire interest in ARCO Chemical Company ("ARCO Chemical").

For the first quarter of 1999, net special items charges totalled $7 million and consisted primarily of charges for future environmental remediation.

For the first quarter of 1998, a special items benefit of $8 million consisted of a deferred tax benefit, partially offset by charges for future environmental remediation.

After-tax segment earnings

		$ million
	1999	1998 (Restated)
Exploration and production	**89**	182
Refining and marketing	**129**	19
Other operations	**24**	24
Interest expense	**(70)**	(69)
Other unallocated expenses	**(7)**	(22)
Income from continuing operations	**165**	134
Discontinued operations	**–**	86
Net income	**165**	220

Exploration and Production

ARCO's earnings from worldwide oil and gas exploration and production operations in 1999 were significantly impacted by lower crude oil prices and, to a lesser extent, lower natural gas prices and increased depreciation, depletion and amortisation ("DD&A"). The increased DD&A reflected the integration of former UTP operations into ARCO and increased DD&A associated with expanded production for Vastar. The lower commodity prices in the 1999 first quarter were partially offset by higher production volumes and a $75 million decrease in exploration expense, primarily associated with international and Vastar operations. Vastar is 82.1 per cent owned by ARCO.

Average oil & gas prices

	$	
	1999	1998
US		
Petroleum liquids – per barrel (bbl)		
Alaska	**6.07**	10.26
Lower 48 States, including Vastar	**9.75**	12.68
Composite average price	**7.17**	11.10
Natural gas – per mcf	**1.60**	1.89
International		
Petroleum liquids composite average – per bbl	**9.16**	12.59
Venezuela crude oil – per bbl	**3.71**	–
Natural gas – per mcf	**2.47**	2.69
Indonesia LNG	**2.31**	–

Petroleum liquids and natural gas production

	1999	1998
Net production		
US		
Petroleum liquids – b/d		
Alaska	**345,100**	364,100
Vastar	**55,900**	51,600
Other Lower 48 States	**92,200**	140,500
Total	**493,200**	556,200
Natural gas – mcf/day	**1,359,800**	1,091,700
boe/d	**719,800**	738,100
International		
Petroleum liquids – b/d	**179,100**	83,700
Natural gas – mcf/day	**1,228,600**	847,600
boe/d	**383,900**	225,000
Total net production boe/d	**1,103,700**	963,100

* Natural gas converted at the ratio of 6 mcf to 1 barrel of liquid.

In 1999, the reduction in US petroleum liquids production primarily resulted from natural field declines in Alaska and the absence of production from California properties (other Lower 48 States) producing exclusively heavy crude oil, which were exchanged for Gulf of Mexico exploration acreage and properties producing both crude oil and natural gas that were ultimately transferred to Vastar. The increased international petroleum liquids volumes primarily reflected production from UTP properties which became part of ARCO's operations in the third quarter of 1998 and new production from Venezuela, which averaged 31,500 b/d in the first quarter of 1999.

The increase in international natural gas volumes in 1999 primarily reflected production from former UTP properties. The 1999 increase in US natural gas volumes primarily reflected production from Gulf of Mexico shelf properties transferred to Vastar in the fourth quarter of 1998. The added international production from the former UTP properties contributed 336 mmcf/d and ARCO's United Kingdom natural gas fields increased their production by 74 mmcf/d. These higher production amounts were partially offset by a reduction in production from the Yacheng 13 field in China of 34 mmcf/d. The reduction in Yacheng 13 production resulted from the absence of cost recovery barrels, as ARCO had recovered its costs by the first quarter 1999.

Refining and Marketing

In the 1999 first quarter, refining and marketing earnings increased as a result of lower crude oil costs and increased retail marketing volumes. Average gasoline realisations for first quarter 1999 were lower than the corresponding 1998 period. However, higher gasoline realisations came late in the quarter and were due primarily to production losses from four separate California refinery incidents, including one at ARCO's Los Angeles Refinery, and the switch from winter blends, which include added butane and oxygenates, to summer blends, that causes a 10 per cent reduction in volumes.

The change in jet fuel and distillate volumes in 1999, compared to 1998, reflected ARCO's decision to produce more distillate and correspondingly less jet fuel due to more favourable market prices for distillate products in first quarter 1999.

The amortisation and recognition of imputed interest associated with the deferral of part of the pre-tax gain on the sale of the ARCO Chemical interest in 1998 had a net favourable impact of approximately $10 million after tax on refining and marketing earnings in the first quarter of 1999. See the ARCO Annual Report on Form 10-K for the year ended 31 December 1998 for a further discussion of the deferred gain.

West coast petroleum products sales

	Volumes (b/d)	
	1999	1998
Gasoline	**310,000**	295,400
Jet	**98,500**	110,200
Distillate	**87,900**	77,900
Other	**59,100**	63,400
Total	**555,500**	546,900

Other operations

The 1999 and 1998 results from ARCO's other operations included the earnings from Lower 48 States pipeline operations and an aluminium rolling facility.

Discontinued operations

As of 31 March 1999, ARCO has sold its interests in two Australian coal mines. ARCO sold its 80 per cent interest in the Gordonstone coal mine and its 31.4 per cent interest in the Blair Athol Joint Venture. ARCO recorded in 1998 a $92 million provision for the estimated loss on the disposal of the US and Australian coal assets.

On 24 February 1999, ARCO announced that it had sold Union Texas Petrochemicals Corporation ("UTP Petrochemical") to Williams Energy Services. ARCO had acquired Union Texas' petrochemical business as part of its purchase of UTP in June 1998.

ARCO had no earnings from discontinued operations in 1999, because of the sale of the US coal and ARCO Chemical operations in 1998. Income or loss from Australian coal and UTP Petrochemical operations is being deferred as part of net assets from discontinued operations on the balance sheet at 31 March 1999.

Consolidated revenues

	$ million	
	1999	1998
Sales and other operating revenues		
Exploration and production	**1,304**	1,538
Refining and marketing	**1,306**	1,352
Other	**18**	42
Intersegment eliminations	**(213)**	(396)
Total	**2,415**	2,536

The decline in exploration and production sales and other operating revenues resulted primarily from lower crude oil and natural gas prices. Refining and marketing sales and other operating revenues decreased primarily because of lower refined products prices, partially offset by higher gasoline volumes.

Consolidated expenses

Trade purchases were lower in 1999 primarily as a result of lower crude oil prices.

The small increase in operating expenses in 1999 primarily reflected the operating costs associated with former UTP properties now being operated by ARCO, partially offset by approximately $40 million of cost savings in exploration and production and in the Lower 48 States pipeline operations related to ARCO's cost reduction programme announced in 1998.

The lower selling, general and administrative expenses in 1999 primarily resulted from ARCO's cost reduction programme.

The higher depreciation, depletion and amortisation ("DD&A") expense in 1999 primarily reflected the inclusion of DD&A of the former UTP operations, which became a part of ARCO's operations in the third quarter of 1998, and expanded production for Vastar in 1999.

The lower taxes other than income taxes in 1999 primarily resulted from the impact of lower crude oil prices on US production taxes.

Income taxes

ARCO's effective tax rate was 35.6 per cent in the 1999 first quarter, compared to 24.7 per cent in the 1998 first quarter. The 1999 effective tax rate approximates the federal statutory rate, reflecting the absence of tax benefits from affiliate stock transactions, which totalled $13 million in 1998, and lower tax credits in 1999 than existed in 1998.

Liquidity and capital resources

	$ million
	1999
Cash flow provided (used) by:	
Operations	**202**
Investing activities	**(153)**
Financing activities	**71**

The net cash used by investing activities in the first quarter 1999 included expenditures for additions to fixed assets of $760 million and proceeds from asset sales of $577 million ($377 million associated with Australian coal asset sales). ARCO expects total capital expenditures for additions to fixed assets to approximate $2.7 billion for the full year 1999.

The net cash provided by financing activities in the first quarter of 1999 included net proceeds of $202 million from the issuance of short-term debt and proceeds of $634 million from the issuance of long-term debt primarily by Vastar. These proceeds were partially offset by repayments of long-term debt of $549 million and dividend payments of $229 million.

Cash and cash equivalents and short-term investments totalled $1.0 billion, and short-term borrowings were $2.6 billion at the end of the first quarter of 1999.

Beginning in 1997 and continuing through the first quarter of 1999, ARCO utilised increased short-term borrowing in lieu of increased long-term borrowing (other than long-term debt assumed in connection with the UTP acquisition in 1998). As a result ARCO is in a working capital deficit position of approximately $2.7 billion at 31 March 1999. Depending upon the revenues earned and cash received from the sale of assets during 1999, ARCO may increase total indebtedness during the course of the year.

On 23 April 1999, ARCO issued $1 billion of senior debt securities, which consisted of $500 million of four-year notes with a coupon of 5.55 per cent, due 2003, and $500 million of 10-year notes with a coupon of 5.90 per cent, due 2009. Net proceeds from the offering will be used for general corporate purposes and, principally, for the replacement of short-term debt with long-term debt.

ARCO believes it has adequate resources and liquidity to fund future cash requirements for working capital, capital expenditures, dividends and debt repayments with cash from operations, existing cash balances, additional short- and long-term borrowing, and the sale of assets.

On 31 March 1999, BP Amoco and ARCO reached agreement to combine with each other in an all-share transaction in which shareholders of ARCO will receive 0.82 BP Amoco ADSs for each share of ARCO common stock exchanged. The agreement was approved by both Boards of Directors.

The transaction is subject to the approval of the shareholders of both BP Amoco and ARCO and the consent of various state and regulatory authorities. At the time the transaction was announced, BP Amoco estimated that the transaction will close by year-end 1999.

Statements of Financial Accounting Standards Not Yet Adopted

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities". SFAS No. 133 requires companies to adopt its provisions for all fiscal quarters of all fiscal years beginning after 15 June 1999. Earlier application of all of the provisions of SFAS No. 133 is permitted, but the provisions cannot be applied retroactively to financial statements of prior periods. SFAS No. 133 standardises the accounting for derivative instruments by requiring that an entity recognise those items as assets or liabilities in the statement of financial position and measure them at fair value. The Company has not yet completed evaluating the impact of the provisions of SFAS No. 133.

Impact of Year 2000 issue

ARCO's plans to address the Year 2000 issue are fully described in its Annual Report on Form 10-K for the year ended 31 December 1998. The following table is an update of a table contained in ARCO's Annual Report on Form 10-K for the year ended 31 December 1998 and shows ARCO's progress on addressing the Year 2000 issue as at 31 March 1999.

			$ million	
Areas addressed	Per cent complete at 31 March 1999	Expected date of completion	Total expended through 31 March 1999	Total estimated cost
Computing integrity	79[a]	June 1999	9	12
Asset integrity	50[b]	September 1999	6	11
Commercial integrity	27[c]	June 1999	1	4
Total costs			16	27

[a] Internal mission critical components substantially complete with most of the remaining work outside of the direct control of ARCO.

[b] Due to additional work being identified in the first quarter the expected completion date has been adjusted.

[c] Commercial integrity remediation work largely involves contingency planning which is underway.

The total cost associated with required modifications to achieve Year 2000 compliance is not expected to be material to ARCO's financial position. The approximate total cost of the Year 2000 project is $27 million, an 8 per cent increase since year-end 1998 due to increased work in 1999, primarily in the Asset Integrity area, and increased budgets for follow-up work in the year 2000. This estimate does not include ARCO's potential share of Year 2000 costs that may be incurred by partnerships and joint ventures in which ARCO participates but is not the operator.

Management cautions against projecting any future results based on present earnings levels because of economic uncertainties, the extent and form of existing or future governmental regulations and other possible actions by governments."

Part IV: Pro Forma Financial Information, Indebtedness and Working Capital

Section A: Pro Forma Financial Information on the enlarged BP Amoco Group

The following unaudited pro forma income statements for the year ended 31 December 1998 and the three months ended 31 March 1999 and the balance sheet as at 31 March 1999 (the "Pro Forma Financial Information") for BP Amoco have been prepared for illustrative purposes only to show the effects of the Combination as if it had occurred at (i) 1 January 1998 for the pro forma income statement for the year ended 31 December 1998; (ii) 1 January 1999 for the pro forma income statement for the three months ended 31 March 1999; and (iii) 31 March 1999 for the pro forma balance sheet. Because of its nature, the Pro Forma Financial Information may not give a true picture of the financial position of BP Amoco. It has been prepared and reported upon in accordance with the Listing Rules. The Pro Forma Financial Information presented below does not reflect the proposed Subdivision.

The financial information for BP Amoco for the year ended 31 December 1998 is based on the audited results and has been extracted from paragraph 4 of Part II. The financial information for BP Amoco for the three months ended and as at 31 March 1999 is based on the unaudited interim results and has been extracted from paragraph 5 of Part II.

The financial information for ARCO for the year ended 31 December 1998 is based on the unaudited restatement under UK GAAP as set out in paragraph 5 of Part III. The financial information for ARCO for the three months ended and as at 31 March 1999 has been based on the unaudited interim results and has been extracted from paragraph 6 of Part III.

Unaudited pro forma income statement for the three months ended 31 March 1999

$ million, except per share amounts

	BP Amoco	ARCO historical			Pro forma adjustments	BP Amoco pro forma
	UK GAAP (Note 1)	US GAAP (Note 2)	UK GAAP adjustments (Note 4)	UK GAAP	UK GAAP (Note 5)	UK GAAP
Turnover	17,984	2,643	–	2,643	–	20,627
Less: Joint ventures	3,342	55	29[a]	84	–	3,426
Group turnover	14,642	2,588	(29)	2,559	–	17,201
Replacement cost of sales	11,911	2,039	(50)[b]	1,989	495[a]	14,395
Production taxes	142	41	–	41	–	183
Gross profit	2,589	508	21	529	(495)	2,623
Distribution and administration expenses	1,536	199	(5)[c]	194	–	1,730
Exploration expense	172	74	–	74	–	246
	881	235	26	261	(495)	647
Other income	105	121	(22)[d]	99	–	204
Group replacement cost operating profit	986	356	4	360	(495)	851
Share of profits of joint ventures	131	–	21[e]	21	–	152
Share of profits of associated undertakings	129	–	12[f]	12	–	141
Total replacement cost operating profit	1,246	356	37	393	(495)	1,144
Profit (loss) on sale of businesses	102	–	–	–	–	102
Profit (loss) on sale of fixed assets	(5)	–	14[g]	14	–	9
Restructuring costs	(1,155)	–	–	–	–	(1,155)
Replacement cost profit before interest and tax	188	356	51	407	(495)	100
Stock holding gains (losses)	7	–	(15)[h]	(15)	–	(8)
Historical cost profit before interest and tax	195	356	36	392	(495)	92
Interest expense	304	95	29[i]	124	(14)[b]	414
Profit (loss) before taxation	(109)	261	7	268	(481)	(322)
Taxation	56	93	25[j]	118	–	174
Profit (loss) after taxation	(165)	168	(18)	150	(481)	(496)
Minority shareholders' interest (MSI)	11	3	(2)[k]	1	(21)[c]	(9)
Profit (loss) for the period	(176)	165	(16)	149	(460)	(487)
Profit (loss) for the year applicable to ordinary shares	(176)	165	(16)	149	(460)	(487)
Profit (loss) per ordinary share						
Profit (loss) for the period	(0.02)			0.46		(0.04)
Replacement cost profit before exceptional items	0.07			0.47		0.03
Average number outstanding shares (in millions)	9,669			322	1,672	11,341
Reconciliation of replacement cost results						
Profit (loss) for the period	(176)			149	(460)	(487)
Stock holding (gains) losses	(7)			15	–	8
Replacement cost profit (loss) for the period	(183)			164	(460)	(479)
Exceptional items net of tax and MSI	860			(13)	–	847
Replacement cost profit (loss) before exceptional items	677			151	(460)	368

Unaudited pro forma income statement for the year ended 31 December 1998

				$ million, except per share amounts
	BP Amoco	ARCO	Pro forma adjustments	BP Amoco pro forma
	UK GAAP (Note 1)	Continuing Operations UK GAAP	UK GAAP (Note 5)	UK GAAP
Turnover	83,732	11,341	–	95,073
Less: Joint ventures	15,428	294	–	15,722
Group turnover	68,304	11,047	–	79,351
Replacement cost of sales	56,270	10,239	1,845[a]	68,354
Production taxes	604	227	–	831
Gross profit	11,430	581	(1,845)	10,166
Distribution and administration expenses	6,044	1,151	–	7,195
Exploration expense	921	629	–	1,550
	4,465	(1,199)	(1,845)	1,421
Other income	709	317	–	1,026
Group replacement cost operating profit (loss)	5,174	(882)	(1,845)	2,447
Share of profits of joint ventures	825	78	–	903
Share of profits of associated undertakings	522	60	–	582
Total replacement cost operating profit (loss)	6,521	(744)	(1,845)	3,932
Profit (loss) on sale of businesses	395	2,641	–	3,036
Profit (loss) on sale of fixed assets	653	61	–	714
Merger expenses	(198)	–	–	(198)
Replacement cost profit (loss) before interest and tax	7,371	1,958	(1,845)	7,484
Stock holding gains (losses)	(1,391)	(57)	–	(1,448)
Historical cost profit (loss) before interest and tax	5,980	1,901	(1,845)	6,036
Interest expense	1,173	334	(40)[b]	1,467
Profit (loss) before taxation	4,807	1,567	(1,805)	4,569
Taxation	1,520	1,737	–	3,257
Profit (loss) after taxation	3,287	(170)	(1,805)	1,312
Income from discontinued operations	–	–	–	–
Minority shareholders' interest (MSI)	63	20	(79)[c]	4
Profit (loss) for the year	3,224	(190)	(1,726)	1,308
Dividend requirements on preference shares	1	2	(2)[d]	1
Profit (loss) for the year applicable to ordinary shares	3,223	(192)	(1,724)	1,307
Profit (loss) per ordinary share				
Profit (loss) for the year	0.34	(0.60)	–	0.12
Replacement cost profit (loss) before exceptional items	0.41	(3.19)	–	0.11
Average number outstanding of ordinary shares (in millions)	9,596	321	1,672	11,268
Reconciliation of replacement cost results				
Profit (loss) for the year	3,224	(190)	(1,726)	1,308
Stock holding (gains) losses	1,391	57	–	1,448
Replacement cost profit (loss) for the year	4,615	(133)	(1,726)	2,756
Exceptional items net of tax and MSI	(652)	(891)*	–	(1,543)
Replacement cost profit (loss) before exceptional items	3,963	(1,024)	(1,726)	1,213

* Representing the profit on sale of businesses and fixed assets net of associated tax of $1,811 million

Unaudited pro forma balance sheet as at 31 March 1999

	BP Amoco	ARCO			Pro forma adjustments	BP Amoco pro forma
	UK GAAP (Note 1)	US GAAP (Note 2)	UK GAAP adjustments (Note 6)	UK GAAP	UK GAAP (Note 7)	UK GAAP
						$ millions
Fixed assets						
Intangible assets	3,310	976	–	976	3,585[a]	7,871
Tangible assets	53,947	18,257	(909)[a]	17,348	19,137[b]	90,432
Investments						
Joint Ventures						
Gross assets	9,115	1,383	119[b]	1,502	–	10,617
Gross liabilities	4,085	352	33[b]	385	–	4,470
Net investment	5,030	1,031	86	1,117	–	6,147
Associated undertakings	4,143	214	–	214	–	4,357
Other	569	1,133	33[c]	1,166	57[c]	1,792
	9,742	2,378	119	2,497	57	12,296
Total fixed assets	66,999	21,611	(790)	20,821	22,779	110,599
Current assets						
Stock	3,616	597	163[d]	760	–	4,376
Trade debtors	6,182	722	–	722	–	6,904
Other debtors falling due						
Within one year	4,162	618	(18)[e]	600	605[d]	5,367
After more than one year	3,169	555	104[f]	659	(233)[e]	3,595
Investments	305	563	(2)[g]	561	–	866
Cash at bank and in hand	270	790	–	790	–	1,060
Total current assets	17,704	3,845	247	4,092	372	22,168
Creditors – amounts falling due within one year						
Finance debt	3,789	2,763	–	2,763	–	6,552
Trade creditors	3,219	660	–	660	–	3,879
Other creditors	12,414	2,020	510[h]	2,530	630[f]	15,574
Net current (liabilities) assets	(1,718)	(1,598)	(263)	(1,861)	(258)	(3,837)
Total assets less current liabilities	65,281	20,013	(1,053)	18,960	22,521	106,762

Unaudited pro forma balance sheet as at 31 March 1999 (continued)

	BP Amoco	ARCO			Pro forma adjustments	BP Amoco pro forma
						$ millions
	UK GAAP (Note 1)	US GAAP (Note 2)	UK GAAP adjustments (Note 6)	UK GAAP	UK GAAP (Note 7)	UK GAAP
Creditors – amounts falling due after more than one year						
Finance debt	10,721	4,618	–	4,618	568[g]	15,907
Other creditors	2,532	1,025	–	1,025	–	3,557
Provisions for liabilities and charges						
Deferred taxation	1,597	3,279	(2,921)[i]	358	–	1,955
Other provisions	8,321	2,983	(218)[j]	2,765	(153)[h]	10,933
Net assets	42,110	8,108	2,086	10,194	22,106	74,410
Minority shareholders' interest	1,038	262	9[k]	271	858[i]	2,167
Shareholders' interest	41,072	7,846	2,077	9,923	21,248	72,243
Represented by						
Capital and reserves						
Share capital						
Preference	21	1	–	1	(1)[j]	21
Ordinary	4,861	502	90[l]	592	244[k]	5,697
Share premium account	3,468	858	–	858	(1,333)[l]	2,993
Merger reserve	697	–	–	–	30,810[m]	31,507
Reserves	32,025	6,485	1,987[m]	8,472	(8,472)[n]	32,025
	41,072	7,846	2,077	9,923	21,248	72,243

Note 1 – Replacement cost profit

Operating profit is a UK GAAP measure of trading performance. It excludes profits and losses on the sale of businesses and fixed assets and fundamental restructuring costs, interest expense and taxation.

BP Amoco determines operating profit on a replacement cost basis, which eliminates the effect of stock holding gains and losses. For the oil and gas industry, the price of crude oil can vary significantly from period to period, hence the value of crude oil (and products) also varies. As a consequence, the amount that would be charged to cost of sales on a FIFO basis of stock valuation would include the effect of oil price fluctuations on oil and products stocks. BP Amoco therefore charges cost of sales with the average cost of supplies incurred during the period rather than the historical cost of supplies on a FIFO basis. For this purpose, stocks at the beginning and end of the period are valued at the average cost of supplies incurred during the period rather than at their historical cost. These valuations are made quarterly by each business unit, based on local oil and product price indices applicable to their specific stock holdings, following a methodology that has been consistently applied by BP Amoco for many years. Operating profit on the replacement cost basis is used by BP Amoco management as the primary measure of business unit trading performance, and BP Amoco management believes that this measure assists investors to assess the BP Amoco Group's underlying trading performance from period to period.

Replacement cost is not a US GAAP measure. The major US oil companies apply the LIFO basis of stock valuation. The LIFO basis is not permitted under UK GAAP. The LIFO basis eliminates the effect of price fluctuations on crude oil and product stock except where a stock drawdown occurs in a period. BP Amoco management believes that, where stock volumes remain constant or increase in a period, operating profit on the LIFO basis will not differ materially from operating profit on BP Amoco's replacement cost basis.

Where a stock drawdown occurs in a period, cost of sales on a LIFO basis will be charged with the historical cost of the stock drawn down, whereas BP Amoco's replacement cost basis charges cost of sales at the average cost of supplies for the period. To the extent that the historical cost on the LIFO basis of the stock drawn down is lower than the current cost of supplies in the period, operating profit on the LIFO basis will be greater than operating profit on BP Amoco's replacement cost basis. To the extent that the historical cost on the LIFO basis of the stock drawn down is greater than the current cost of supplies in the period, operating profit on the LIFO basis will be lower than operating profit on BP Amoco's replacement cost basis.

Replacement cost profit before exceptional items excludes profits and losses on the sale of businesses and fixed assets and fundamental restructuring costs, which are defined by UK GAAP. This is the measure of profit used by the BP Amoco Board of Directors in setting targets for and monitoring performance within BP Amoco. BP Amoco's management believes this indicator provides the most relevant and useful measure for investors because it most accurately reflects underlying trading performance.

Note 2 – Reclassification

Reclassifications have been made to the ARCO historical financial information presented under US GAAP to conform to BP Amoco's presentation under UK GAAP.

For the presentation of ARCO's US GAAP income statement on a UK format, the gain on disposal of discontinued operations, net of tax, has been shown as a profit on the sale of businesses.

Note 3 – Significant differences between ARCO's accounting policies under US GAAP and BP Amoco's accounting policies under UK GAAP

ARCO prepares its financial statements in accordance with US GAAP. For purposes of preparing the unaudited pro forma income statements and balance sheet, the financial statements of ARCO have been restated to conform with BP Amoco accounting policies under UK GAAP by giving effect to the adjustments described below.

Consolidation basis

Under US GAAP, ARCO's interest in a cogeneration facility is proportionately consolidated, whereas under UK GAAP the joint venture would be equity accounted.

Stock accounting

ARCO carries stocks at the lower of current market value or cost. Cost is determined under the LIFO method for the majority of stocks of crude oil and petroleum products. The costs of remaining stocks are determined predominantly on an average cost basis.

BP Amoco carries stocks at the lower of cost or net realisable value. Cost to BP Amoco is determined using the FIFO method. Cost of sales determined on a FIFO basis is adjusted to a replacement cost basis, i.e., to reflect the average cost of supplies incurred during the year, by excluding stock holding gains and losses.

Deferred taxation

Under the UK GAAP restricted liability method, deferred taxation is only provided for where timing differences are expected to reverse in the foreseeable future. For US GAAP under the liability method, deferred taxation is provided for temporary differences between the financial reporting basis and the tax basis of assets and liabilities at enacted tax rates.

Exceptional items

Under UK GAAP, certain exceptional items are shown separately on the face of the income statement after operating profit. These items are profits or losses on the sale of businesses and fixed assets and fundamental restructuring costs. Under US GAAP, these items, other than for discontinued operations, are classified as operating income or expenses.

Equity accounting

UK GAAP requires the investor's share of operating profit or loss, exceptional items, interest expense and taxation of associated undertakings and joint ventures to be shown separately from those of the group. For US GAAP, the after-tax profits or losses (i.e. operating results after exceptional items, interest expense and taxation) are included in the income statement as a single line item.

UK GAAP requires the investor's share of the gross assets and gross liabilities of joint ventures to be shown on the face of the balance sheet, whereas under US GAAP the net investment is included as a single line item.

Provisions

UK GAAP requires provisions for decommissioning and environmental liabilities to be determined on a discounted basis if the effect of the time value of money is material.

Provisions for decommissioning are recognised in full, on a discounted basis, at the commencement of oil and natural gas production. UK GAAP also requires the capitalisation as a tangible fixed asset and subsequent depreciation, of an amount equivalent to the provision.

The unwinding of the discount, which represents a period-by-period cost, is included within interest expense.

Under US GAAP (i) environmental liabilities are discounted only where the timing and amounts of payments are fixed and reliably determinable and (ii) provisions for decommissioning are provided for on a unit-of-production basis over field lives.

Note 3 – Significant differences between ARCO's accounting policies under US GAAP and BP Amoco's accounting policies under UK GAAP (continued)

Depreciation

BP Amoco depreciates the cost of its interest in the TransAlaska pipeline on a unit-of-throughput basis, whereas ARCO depreciates the cost of its interest on a straight-line basis over the estimated useful life of the pipeline. ARCO's interest in the pipeline has been accounted for in the unaudited pro forma income statements and balance sheet using the BP Amoco method.

Discontinued operations

ARCO's US chemicals operations and its US and Australian coal operations were classified in its statements as discontinued operations, in accordance with US GAAP. These operations have been disposed of and due to restrictions on the availability of financial information following their disposal it is not possible to adjust these discontinued operations to a UK GAAP basis. Consequently, the results of discontinued operations have been eliminated from the UK GAAP income statement, which therefore shows information for continuing operations only.

Business combinations

US GAAP requires the recognition of a deferred tax asset or liability for the tax effects of differences between the assigned values and the tax bases of assets acquired and liabilities assumed in a purchase business combination, whereas under UK GAAP no such deferred tax asset or liability is recognised. Under US GAAP the deferred tax asset or liability is amortised over the same period as the assets and liabilities to which it relates.

US GAAP requires certain reorganisation and integration costs to be incurred as part of a purchase business combination to be recognised as liabilities assumed and included in the allocation of the acquisition cost. UK GAAP does not permit recognition of these costs as part of the accounting for the business combination.

Pensions

US GAAP requires an additional minimum liability to be shown in the balance sheet if the accumulated benefit obligation exceeds the fair value of pension plan assets. UK GAAP does not require recognition of a liability in these circumstances.

Investments

Under US GAAP ARCO has classified its investments in LUKOIL ADRs and the Zhenhai Refining and Chemical Company convertible bonds as available for sale. Consequently they are reported at fair value, with unrealised holding gains and losses, net of tax, reported in accumulated other comprehensive income. If a decline in fair value below cost is "other than temporary" the unrealised loss should be accounted for as a realised loss and charged against income. Under UK GAAP these investments are deemed to be long-term and carried in the balance sheet at cost, subject to review for impairment.

Treasury stock

Under US GAAP treasury stock is deducted from shareholders' interest. Under UK GAAP stock purchased to meet obligations under employee share schemes is shown in the balance sheet as fixed asset – investments and stock purchased which may be re-issued is deducted from shareholders' interest.

Note 4 – UK GAAP adjustments to historical ARCO income statements

The adjustments to restate the income statements of ARCO for the three months ended 31 March 1999 to conform with BP Amoco accounting policies under UK GAAP are set out below.

Increase (decrease) in caption heading	$ million For the three months ended 31 March 1999
Consolidation basis	
Turnover: Joint ventures	29
Replacement cost of sales	(11)
Distribution and administration expenses	(5)
Share of profits of joint ventures	13
Profit for the period	–
Stock accounting	
Stock holding gains (losses)	(15)
Profit for the period	(15)
Deferred Tax	
Taxation	(11)
Profit for period	11
Exceptional items	
Other income	(14)
Profit (loss) on the sale of businesses	–
Profit (loss) on the sale of fixed assets	14
Taxation	–
Profit for the period	–
Equity accounting	
Other income	(8)
Share of profits of joint ventures	8
Share of profits of associated undertakings	12
Interest expense	5
Taxation	7
Profit for the period	–
Provisions	
Replacement cost of sales	(8)
Interest expense	24
Minority shareholders interest	(2)
Profit for the period	(14)
Depreciation	
Replacement cost of sales	(2)
Profit for the period	2
Discontinued operations	
Income from discontinued operations	–
Profit for the period	–
Business combinations	
Replacement cost of sales	(29)
Taxation	29
Profit for the period	–

Note 4 – UK GAAP adjustments to historical ARCO income statements (continued)

These adjustments may be summarised by caption heading as set out below.

	$ million For the three months ended 31 March 1999
(a) Turnover: Joint ventures	
Consolidation basis	29
(b) Replacement cost of sales	
Consolidation basis	(11)
Provisions	(8)
Depreciation	(2)
Business combinations	(29)
	(50)
(c) Distribution and administration expenses	
Consolidation basis	(5)
(d) Other income	
Exceptional items	(14)
Equity accounting	(8)
	(22)
(e) Share of profits of joint ventures	
Consolidation basis	13
Equity accounting	8
	21
(f) Share of profits of associated undertakings	
Equity accounting	12
(g) Profit (loss) on sale of fixed assets	
Exceptional items	14
(h) Stock holding gains (losses)	
Stock accounting	(15)
(i) Interest expense	
Equity accounting	5
Provisions	24
	29

Note 4 – UK GAAP adjustments to historical ARCO income statements (continued)

	$ million
	For the three months ended 31 March 1999
(j) Taxation	
Deferred taxation	(11)
Exceptional items	–
Equity accounting	7
Business combinations	29
	25
(k) Minority shareholders' interest	
Provisions	(2)

Note 5 – Pro Forma adjustments to the income statements

The unaudited pro forma income statements give effect to the pro forma adjustments set out below.

(a) The depreciation and amortisation rates for the fair value adjustments to tangible fixed assets and goodwill are set out below.

Depreciation: Exploration and Production assets have been depreciated on a unit-of-production basis. Refining and Marketing assets have been depreciated over 20 years (refineries) and 8 years (marketing assets).

Goodwill: Amortised over a period of 20 years.

(b) The fair value of ARCO long-term debt, including current maturities, has been estimated as $5,385 million based on the quoted market prices for the same or similar issues. The difference between the fair value and the carrying value of this debt ($4,817 million) has been amortised on a straight line basis over the remaining term of the debt and is shown as an adjustment to interest expense.

(c) Minority shareholders' interest

This represents the share of the other pro-forma adjustments attributable to minority shareholders.

(d) Dividend requirements on preference shares

It is assumed that ARCO Preference Shares are converted into ARCO Common Shares prior to the Combination and are therefore eligible for exchange into BP Amoco Ordinary Shares on completion of the Combination.

All the adjustments apart from (d) above will have a continuing effect. The estimated charge for additional depreciation and amortisation of goodwill in the first full year following the Combination is $2.0 billion.

	$ million	
	For the three months ended 31 March 1999	For the year ended 31 December 1998
(a) Replacement cost of sales		
Depreciation	**473**	1,757
Goodwill amortisation	**22**	88
	495	1,845
(b) Interest expense	**(14)**	(40)
(c) Minority shareholders' interest	**(21)**	(79)
(d) Dividend requirements on preference shares	**–**	(2)

The unaudited pro forma income statements do not include adjustments to eliminate transactions between ARCO and BP Amoco, because such amounts are not considered material.

Note 6 – UK GAAP adjustments to historical ARCO balance sheet

The adjustments to restate the balance sheet of ARCO at 31 March 1999 to conform with BP Amoco accounting policies under UK GAAP are set out below.

Increase (decrease) in caption heading	$ million At 31 March 1999
Consolidation basis	
Tangible assets	(101)
Fixed assets: Investments – Joint ventures – gross assets	119
Fixed assets: Investments – Joint ventures – gross liabilities	(33)
Other debtors	
Within one year	(18)
After more than one year	27
Other creditors	(6)
Reserves	–
Stock accounting	
Stock	163
Reserves	163
Deferred taxation	
Tangible assets	285
Other creditors	516
Deferred taxation	(1,666)
Reserves	1,435
Provisions	
Tangible assets	107
Other provisions	(218)
Minority shareholders' interest	9
Reserves	316
Depreciation	
Tangible assets	61
Reserves	61
Business combinations	
Tangible assets	(1,261)
Deferred taxation	(1,261)
Pensions	
Other debtors falling due after more than one year	77
Deferred taxation	29
Reserves	48
Investments	
Fixed assets: Investments – Other	(57)
Current assets: Investments	(2)
Deferred taxation	(23)
Reserves	(36)
Treasury stock	
Fixed assets: Investments – Other	90
Share capital – Ordinary	90

Note 6 – UK GAAP adjustments to historical ARCO balance sheet (continued)

These adjustments may be summarised by caption heading as set out below.

	$ million
	At 31 March 1999
(a) Tangible assets	
Consolidation basis	(101)
Deferred taxation	285
Provisions	107
Depreciation	61
Business combinations	(1,261)
	(909)
(b) Fixed assets: Investments – Joint ventures	
Gross assets:	
Consolidation basis	119
Gross liabilities:	
Consolidation basis	(33)
	86
(c) Fixed assets: Investments – Other	
Investments	(57)
Treasury stock	90
	33
(d) Stock	
Stock accounting	163
(e) Other debtors falling due within one year	
Consolidation basis	(18)
(f) Other debtors falling due after more than one year	
Consolidation basis	27
Pensions	77
	104
(g) Current assets: Investments	
Investments	(2)
(h) Other creditors	
Consolidation basis	(6)
Deferred taxation	516
	510
(i) Deferred taxation	
Deferred taxation	(1,666)
Business combinations	(1,261)
Pensions	29
Investments	(23)
	2,921
(j) Other provisions	
Provisions	(218)
(k) Minority shareholders' interest	
Provisions	9
(l) Share capital – Ordinary	
Treasury stock	90
(m) Reserves	
Stock accounting	163
Deferred taxation	1,435
Provisions	316
Depreciation	61
Pensions	48
Investments	(36)
	1,987

Note 7 – Pro Forma adjustments to the balance sheet

The unaudited pro forma balance sheet gives effect to the following pro forma adjustments, which include adjustments to reflect the fair values of the assets and liabilities of ARCO under the acquisition method of accounting.

BP Amoco expects to incur severance and other restructuring costs as a result of the Combination. Preliminary estimates indicate that these costs will be approximately $500 million and will be charged to income as and when the criteria for recognition of such costs under UK GAAP are met and accordingly no amount has been included in the unaudited pro forma financial information.

The unaudited pro forma balance sheet does not include adjustments to eliminate amounts payable and receivable between BP Amoco and ARCO, because such amounts are not considered material.

Consideration

ARCO Common Shareholders will be entitled to receive for each ARCO Common Share held at the Effective Date 4.92 BP Amoco Ordinary Shares. Such BP Amoco Ordinary Shares will be delivered in the form of BP Amoco ADSs or, at the election of an ARCO Common Shareholder, BP Amoco Ordinary Shares. The precise number of ARCO Common Shares to be cancelled and exchanged in the Combination cannot be determined until the Effective Date. For purposes of the pro forma adjustments within the unaudited pro forma financial information at 31 March 1999, the number of ARCO Common Shares issued and outstanding on 9 July 1999 (323 million shares) together with the estimated number of additional shares which may be issued in respect of outstanding options and contingent stock and on conversion of ARCO Preference Shares (16 million shares) have been used, which would result in the issue of approximately 278 million BP Amoco ADSs.

For the purposes of the unaudited pro forma financial information, the cost of acquisition has been determined as follows:

	$ million
	31 March 1999
Issue of 1,672 million BP Amoco Ordinary Shares at £12.20 ($18.93) per share	31,646
Less: expected consideration receivable on issue of shares under option	605
	31,041
Merger fees and expenses	70
	31,111

The share price of £12.20 is the closing middle market quotation for BP Amoco Ordinary Shares as derived from the Daily Official List on 9 July 1999 (being the latest practicable date prior to the printing of this document).

Accruals for amounts receivable and payable on the Combination

All outstanding ARCO options are assumed to be exercised at the time of the Combination. The amount receivable on the exercise of these options is $605 million.

SDRT of 1.5 per cent of the value of the BP Amoco Ordinary Shares underlying the BP Amoco ADSs, at the time the BP Amoco Ordinary Shares are transferred to the Depositary (or its nominee), is payable by BP Amoco on the issue of BP Amoco ADSs. To the extent that ARCO Common Shareholders elect to take BP Amoco Ordinary Shares (which underlie BP Amoco ADSs) rather than BP Amoco ADSs, BP Amoco will have no SDRT liability for the BP Amoco Ordinary Shares issued. For the purposes of preparing the pro forma information BP Amoco has assumed that all ARCO Common Shareholders will take BP Amoco ADSs rather than BP Amoco Ordinary Shares and in calculating the number of BP Amoco ADSs which may be issued has included the number of BP Amoco ADSs which may be issued in respect of outstanding ARCO options and contingent stock and on conversion of ARCO Preference Shares. The amount of SDRT payable has been estimated as $475 million, using a BP Amoco Ordinary Share price of £12.20 (being the closing middle market quotation for BP Amoco Ordinary Shares as derived from the Daily Official List on 9 July 1999 (being the latest practicable date prior to the printing of this document)) and applying the Noon Buying Rate of $1.5515: £1.00 on 9 July 1999.

The estimated amounts of SDRT ($475 million) and aggregate BP Amoco and ARCO fees and expenses ($155 million) payable have been accrued for the purposes of these adjustments. SDRT is a share issue expense and has been charged against the share premium account.

Note 7 – Pro forma adjustments to the balance sheet (continued)

Fair value adjustments

The methods and assumptions set out in the following paragraphs were used in estimating the preliminary fair value of the assets and liabilities acquired.

Finance debt

The fair value of ARCO long-term debt, including current maturities, has been estimated based on the quoted market prices for the same or similar issues. The adjustment increases the book value of finance debt by $568 million.

Pensions and Other Postretirement Benefits

The fair value adjustments have been derived from the information disclosed in ARCO's Annual Report on Form 10-K for the year ended 31 December 1998. The adjustments for pensions reduces the asset by $233 million. The adjustments for other postretirement benefits reduces the provision by $153 million.

Tangible and intangible fixed assets

The fair value of the Refining and Marketing tangible assets was estimated by determining the net present value of future cash flows. Goodwill represents the difference between the value of the business and the value of the assets acquired. The goodwill created was $1,761 million. The balance of the consideration given and the liabilities acquired was attributed to Exploration and Production tangible and intangible assets. The increase over carrying value for tangible fixed assets was $19,137 million and for intangible fixed assets was $1,824 million. The fair value of fixed asset investments exceeds their carrying value by $57 million.

Other assets and liabilities

The carrying amounts for all other assets and liabilities approximate their fair value.

Minority shareholders' interest

A part of the fair value adjustments relating to Vastar are ascribed to the minority shareholders' interest.

Combination adjustments

The combination adjustments eliminate the ARCO Common Shares, ARCO Preference Shares, share premium account and retained earnings and introduce the nominal value of the BP Amoco Ordinary Shares to be issued and the merger reserve which represents the deemed premium arising on the issue of BP Amoco Ordinary Shares.

	$ million
Increase (decrease) in caption heading	At 31 March 1999
Consideration	
Share capital	
Ordinary	836
Merger reserve	30,810
Accruals for amounts receivable and payable on the Combination	
Other debtors falling due within one year	605
Other creditors	630
Share premium account	(475)
Fair value adjustments	
Intangible assets	3,585
Tangible assets	19,137
Fixed assets: Investments – Other	57
Other debtors falling due after more than one year	(233)
Other provisions	(153)
Finance debt	568
Minority shareholders' interest	858
Combination adjustments	
Share capital	
Preference	(1)
Ordinary	(592)
Share premium account	(858)
Reserves	(8,472)

These adjustments may be summarised by caption heading as set out below.

			$ million
			At 31 March 1999
(a)	**Intangible assets**		
	Fair value adjustments		3,585
(b)	**Tangible assets**		
	Fair value adjustments		19,137
(c)	**Fixed assets: Investments – Other**		
	Fair value adjustments		57
(d)	**Other debtors falling due within one year**		
	Accruals for amounts receivable and payable on the Combination		605
(e)	**Other debtors falling due after more than one year**		
	Fair value adjustments		(233)
(f)	**Other creditors**		
	Accruals for amounts receivable and payable on the Combination		630
(g)	**Finance debt**		
	Fair value adjustments		568
(h)	**Other provisions**		
	Fair value adjustments		(153)
(i)	**Minority shareholders' interest**		
	Fair value adjustments		858
(j)	**Share capital – Preference**		
	Combination adjustments		(1)
(k)	**Share capital – Ordinary**		
	Consideration	836	
	Combination adjustments	(592)	
			244
(l)	**Share premium account**		
	Accruals for amounts receivable or payable on the Combination	(475)	
	Combination adjustments	(858)	
			(1,333)
(m)	**Merger reserve**		
	Consideration		30,810
(n)	**Retained earnings**		
	Combination adjustments		(8,472)

Note 8 – Net debt to net debt plus equity ratio

This is calculated as debt ($22,459 million) less cash ($1,060 million) and current asset investments ($866 million) to net debt ($20,533 million) plus equity ($74,410 million). At 31 March 1999, based on the pro forma balance sheet, this gives a ratio of 22 per cent.

Note 9 – Operating cost savings

BP Amoco expects to achieve pre-tax cost savings of approximately $1 billion annually during the second full year of operations of the combined enterprise, through organisational efficiencies, more focused exploration efforts, standardisation and simplification of business processes and rationalisation of operations. No adjustment has been included in the unaudited pro forma financial information for the anticipated benefits of these operating cost savings. There can be no assurance that anticipated cost savings will be achieved in the expected amounts or at the times anticipated.

The following is a copy of a letter received from Ernst & Young:

"ERNST & YOUNG

The Directors 15 July 1999
BP Amoco p.l.c.
Britannic House
1 Finsbury Circus
London EC2M 7BA

The Directors
Morgan Stanley & Co. Limited
25 Cabot Square
Canary Wharf
London E14 4QA

Dear Sirs

We report on the unaudited pro forma income statements for the year ended 31 December 1998 and the three-month period ended 31 March 1999 and the unaudited pro forma balance sheet as at 31 March 1999 ("Pro Forma Financial Information") set out in Section A of Part IV of the Listing Particulars dated 15 July 1999 which have been prepared, for illustrative purposes only, to provide information about how the proposed transaction might have affected the financial information presented.

RESPONSIBILITY

It is the responsibility solely of the Directors of BP Amoco p.l.c. ("BP Amoco") to prepare the Pro Forma Financial Information in accordance with paragraph 12.29 of the Listing Rules of the London Stock Exchange (the "Listing Rules").

It is our responsibility to form an opinion, as required by the Listing Rules, on the Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

BASIS OF OPINION

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards and the bulletin 1998/8 "Reporting on pro forma financial information pursuant to the Listing Rules" issued by the Auditing Practices Board. Our work, which involved no independent examination of any underlying financial information, consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the Pro Forma Financial Information with the Directors of BP Amoco.

Our work has not been carried out in accordance with auditing standards generally accepted in the United States of America and accordingly should not be relied upon as if it had been carried out in accordance with those standards.

OPINION

In our opinion:

(a) the Pro Forma Financial Information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of BP Amoco;

(c) the adjustments are appropriate for the purposes of the Pro Forma Financial Information as disclosed pursuant to paragraph 12.29 of the Listing Rules; and

(d) the reconciliation to BP Amoco accounting policies of the Atlantic Richfield Company income statement for the three-month period ended 31 March 1999 and the balance sheet as at 31 March 1999 set out in columns 2, 3 and 4 on pages 165, 167 and 168 has been properly compiled on the basis stated.

Yours faithfully

Ernst & Young"

Section B: Indebtedness of the BP Amoco Group and the ARCO Group

On 30 June 1999, the borrowings and indebtedness of the BP Amoco Group and the ARCO Group (excluding their respective intra-group borrowings) were as follows:

			$ million
	BP Amoco Group	ARCO Group	Total
Loans and other borrowings (unsecured)			
— Bonds, debentures and notes	8,866	7,472	16,338
— Finance leases	1,857	23	1,880
— Other borrowings	5,127	–	5,127
Total	15,850	7,495	23,345

Of the BP Amoco Group indebtedness noted above, $13,885 million has been guaranteed by BP Amoco. Of the ARCO Group indebtedness noted above, $6,243 million has been guaranteed by ARCO.

Save as disclosed above and in respect of the litigation disclosed in paragraph 14 of Part VIII and apart from their respective intra-group liabilities, neither the BP Amoco Group nor the ARCO Group had outstanding, as at 30 June 1999, any loan capital issued, or created but unissued, term loans, other borrowings or indebtedness in the nature of borrowings, including bank overdrafts and liabilities under acceptances (other than normal trade bills), acceptance credits or hire purchase commitments, or obligations under finance leases, mortgages, charges, guarantees or other material contingent liabilities.

Foreign currency amounts have been translated into US dollars at the exchange rates prevailing on 30 June 1999.

At 30 June 1999, the BP Amoco Group had bank facilities of $3 billion. These committed facilities are mainly with a number of international banks and half of them expire in 2000 and half in 2001. Any borrowings under these facilities would be at pre-agreed rates. Certain of these facilities support the BP Amoco Group's $6 billion commercial paper programmes. As at 30 June 1999, $3,163 million was outstanding under these programmes. In addition, in April 1999 BP Amoco updated and increased the value of its Euro Debt Issuance Programme to $4 billion. As at 30 June 1999, $2,019 million was outstanding under this programme.

At 30 June 1999, the ARCO Group had bank facilities of $3.1 billion. These facilities consist of credit agreements with a number of domestic and international banks, $100 million of which expires in 1999 and $3 billion in December 2000. Any borrowings under these facilities would be at pre-agreed rates. These facilities serve as an alternative form of credit to the ARCO Group's $1,953 million commercial paper programme.

Section C: Working Capital

BP Amoco is of the opinion that, taking into account bonds in issue, available bank facilities and assuming future utilisation of existing commercial paper programmes and other money market facilities, the enlarged group (BP Amoco as enlarged by the Combination with ARCO) has sufficient working capital for its present requirements, that is for at least the next 12 months from the date of this document.

Part V: Section A: Summary of the Terms of the Combination

1 Nature of the Combination

The Combination will be effected by a statutory merger under the laws of the state of Delaware whereby Prairie Holdings (a wholly-owned subsidiary of BP Amoco) will be merged with and into ARCO and ARCO will become a wholly-owned subsidiary of BP Amoco in accordance with the terms of the Merger Agreement.

2 Consideration to be Delivered in the Combination

2.1 Under the terms of the Combination, ARCO Common Shareholders (other than BP Amoco, ARCO or any subsidiary of BP Amoco or ARCO) will be entitled to receive:

for each ARCO Common Share	4.92 BP Amoco Ordinary Shares in the form of BP Amoco ADSs (each BP Amoco ADS will represent six BP Amoco Ordinary Shares and in consequence ARCO Common Shareholders will receive 0.82 of a BP Amoco ADS in exchange for each ARCO Common Share they own at the Effective Date). Within 42 days after the Effective Date, ARCO Common Shareholders may specifically elect to receive six BP Amoco Ordinary Shares instead of any BP Amoco ADS to which they would be entitled. If the Subdivision is approved at the EGM and is completed prior to the Effective Date ARCO Common Shareholders will be entitled to receive 1.64 BP Amoco ADSs or, if they so elect, 9.84 BP Amoco Ordinary Shares for each ARCO Common Share they own at the Effective Date.

The ARCO subsidiary, CH Twenty Holdings LLC, will be excluded from the offer and consequently will retain its shareholding in ARCO.

2.2 ARCO Common Shareholders who would otherwise have been entitled to receive a fractional interest in a BP Amoco ADS (including any odd lot of less than six BP Amoco Ordinary Shares representing such a fractional interest) will receive in lieu thereof, cash (without interest and rounded to the nearest cent) equal to (a) the amount of that fractional interest multiplied by (b) the average of the closing sale prices for BP Amoco ADSs on the New York Stock Exchange for the ten trading days ending on the fifth complete trading day prior to the Effective Date, as reported in the Wall Street Journal.

2.3 Following the Effective Date, BP Amoco will own approximately 99 per cent of the outstanding ARCO Common Shares, with the remainder of the ARCO Common Shares being owned by CH Twenty Holdings LLC. It is expected that certain ARCO Preference Shares, which are voting shares, will continue to be held by their existing holders. As a result, BP Amoco is expected to control, through its ownership of ARCO Common Shares, between approximately 98 per cent and 99 per cent of the voting rights in ARCO following the Combination, depending upon the number of ARCO Preference Shares which are converted into ARCO Common Shares and the number of ARCO stock options over ARCO Common Shares that are exercised prior to the Combination. The existence of these minority voting rights will not affect BP Amoco's ability to control ARCO following the Combination.

2.4 ARCO Common Shareholders who receive BP Amoco Ordinary Shares or BP Amoco ADSs will be entitled to receive or participate in all dividends and distributions payable on such BP Amoco Ordinary Shares or on the BP Amoco Ordinary Shares represented by such BP Amoco ADSs that have a record date after the Effective Date.

3 Share Options and Preference Shares

3.1 Upon the Effective Date, all employee options or other rights to acquire ARCO Common Shares will convert into options or rights to acquire BP Amoco Ordinary Shares deliverable in the form of BP Amoco ADSs after adjustment to take account of the Exchange Ratio. BP Amoco will pay all stamp duties, SDRT and other taxes and similar levies, if any, imposed in connection with the issue or creation of such BP Amoco Ordinary Shares or BP Amoco ADSs (and any BP Amoco ADRs in connection with such BP Amoco ADSs).

3.2 No consideration is being offered for ARCO Preference Shares. Any ARCO Preference Shares which have not been converted into ARCO Common Shares in accordance with their terms prior to the Effective Date will remain outstanding.

3.3 Following completion of the Combination, ARCO Preference Shares will be convertible into BP Amoco ADSs rather than ARCO Common Shares. The number of BP Amoco Ordinary Shares into which each ARCO Preference Share is convertible shall be equal to the number of ARCO Common Shares into which each such ARCO Preference Share was convertible immediately prior to the Effective Date, multiplied by the Exchange Ratio.

4 Employee Benefits

4.1 It has been agreed that the Combination is a change of control for the purposes of ARCO's employee benefit plans, programmes, policies and agreements. As a consequence ARCO employees, including directors and other executives, will be entitled to a number of benefits including the vesting of unvested stock options, the lifting of restrictions on previously restricted stock, the vesting of shares in relation to contingent stock awards, cash payments upon termination of employment and the continuation of certain rights and benefits (including health and life insurance coverage) for a specified period of time.

4.2 Certain executive officers of ARCO whose employment is terminated within 24 months of a change of control will receive severance benefits that include (i) an enhancement to the normal retirement benefit that adds five years of age and five years of service to the calculation of the normal retirement benefit; (ii) a severance benefit equal to one and a half weeks pay for each year of continuous service capped at 36 weeks of pay; (iii) the amount by which the executive's current compensation multiplied by three exceeds the sum of (i) and (ii); (iv) the payment of the executives' incentive plan awards; and (v) continuation of health, dental and life assurance for 36 months. Executives will also receive a tax gross up payment if any of the payments described in paragraph 4.1 of this paragraph 4 are deemed to give rise to a liability for United States excise tax. The amount of this gross up payment cannot reasonably be determined until the time of actual termination when all the relevant facts will be known.

4.3 The estimated cash value of the severence related benefits to be received by the five most highly remunerated executive officers of ARCO directly attributable to the change of control, as an aggregate for all five, is approximately $62,927,024, calculated on the following assumptions: an Effective Date of 31 December 1999, termination of employment on 29 February 2000, a retirement date of 1 March 2000, a value of $94.24 per ARCO Common Share and taking no account of any tax gross up payments.

5 Shareholder Approvals and Other Conditions

5.1 BP Amoco and ARCO will not implement the Combination pursuant to the Merger Agreement unless certain conditions are satisfied or waived by them. These include:

5.1.1 the Combination and the other transactions contemplated by the Merger Agreement being duly approved by the ARCO Shareholders and Resolution 1 being duly approved by the BP Amoco Shareholders;

5.1.2 the London Stock Exchange having agreed, subject to allotment, to admit to the Official List the Consideration Shares to be allotted in connection with the Combination and such agreement not having been withdrawn, and the BP Amoco ADSs to be issued in the Combination having been authorised for listing on the New York Stock Exchange subject to official notice of issuance;

5.1.3 the waiting period (and any extension thereof) applicable to the Combination under the HSR Act having terminated or expired;

5.1.4 if applicable, review and investigation under Exon-Florio having been terminated and the President of the United States having taken no action authorised under it;

5.1.5 the Registration Statement on Form F-4 of BP Amoco (the "F-4 Registration Statement") having become effective under the US Securities Act of 1933, as amended, (the "Securities Act") prior to the mailing of the Proxy Statement/Prospectus to the

ARCO Shareholders, no stop order with respect to the F-4 Registration Statement being in effect and no stop order proceedings having been threatened or initiated by the SEC and not concluded or withdrawn;

5.1.6 the filing of the certificate of merger with the Secretary of State of the State of Delaware;

5.1.7 BP Amoco or ARCO having received in respect of the Combination and any matters arising therefrom:

(i) confirmation by way of the decision from the European Commission in accordance with Article 6(1)(b), 8(2) or 10(6) of the Merger Regulation that the Combination and any matters arising therefrom are compatible with the common market insofar as the Combination constitutes a concentration with a European Community dimension within the scope of the Merger Regulation and insofar as the Combination (or any part of it) is referred to any national competent authority pursuant to Article 9 of the Merger Regulation, that the Combination is granted clearance by that national competent authority;

(ii) confirmation from the Office of Fair Trading that it is not the intention of the Secretary of State for Trade and Industry to refer the Combination or any matters arising therefrom to the Competition Commission or approval from the Secretary of State for Trade and Industry, in the event that the Combination or any matters arising therefrom are referred to the Competition Commission (insofar as the Combination qualifies for investigation by the Competition Commission under the Fair Trading Act 1973) or a referral has been made by the European Commission to the UK competent authority under Article 9 of the Merger Regulation; and

(iii) consent of H.M. Treasury pursuant to section 765 of the Income and Corporation Taxes Act 1988 or confirmation that no such consent is required;

5.1.8 any approvals, confirmations, declarations, decisions and/or consents required for the purpose of the conditions specified in paragraphs 5.1.2 to 5.1.7 above containing no terms, conditions or restrictions relating or applying to, or requiring changes in, or limitations on, the operation of any asset or business of ARCO, BP Amoco or any of their respective subsidiaries which term, condition or restriction individually or in the aggregate would be reasonably likely to have a Material Adverse Effect on BP Amoco or ARCO after the Effective Date, with materiality for these purposes being determined with reference to the total value of the combined US operations of BP Amoco and ARCO and their subsidiaries; and

5.1.9 there not being any law (whether temporary, preliminary or permanent) enacted by a governmental entity which restrains or prohibits the completion of the Combination or the other transactions contemplated by the Combination and is reasonably likely to have a Material Adverse Effect on either BP Amoco or ARCO or that would materially impair the ability of BP Amoco to complete the Combination.

5.2 The obligation of BP Amoco to complete the Combination is subject to the satisfaction, or waiver by BP Amoco, prior to the Effective Date, of the following additional conditions:

5.2.1 each of the representations and warranties of ARCO set out in the Merger Agreement that is qualified by Material Adverse Effect being true and correct on and as of the Effective Date as if made on and as of such date and each of the representations and warranties of ARCO that is not so qualified being true and correct as of the Effective Date as if made on and as of such date (except, in each case, to the extent any such representation or warranty expressly speaks as of an earlier date), provided that this condition insofar as it relates to representations and warranties not so qualified will be deemed satisfied so long as any failures of such representations and warranties to be true and correct, taken together, would not reasonably be expected to have a Material Adverse Effect on ARCO; and

5.2.2 ARCO having performed all material obligations required to be performed by it under the Merger Agreement at or prior to the Effective Date,

and, in each case, BP Amoco having received a certificate signed by an executive officer of ARCO to such effect.

5.3 The obligation of ARCO to complete the Combination is subject to the satisfaction, or waiver by ARCO, prior to the Effective Date, of additional conditions substantially similar to the conditions described in paragraphs 5.2.1 and 5.2.2, except that references to BP Amoco are replaced with references to ARCO and references to ARCO are replaced with references to BP Amoco.

In addition, ARCO must have received a tax opinion from Cravath, Swaine & Moore, substantially to the effect that, on the basis of the facts, representations and assumptions set out in that opinion (i) the Combination will be treated for US federal income tax purposes as a reorganisation within the meaning of section 368(a) of the US Internal Revenue Code of 1986 (as amended), and (ii) no gain or loss will be recognised by ARCO Common Shareholders who exchange ARCO Common Shares solely for BP Amoco Ordinary Shares or BP Amoco ADSs pursuant to the Combination, except with respect to (a) cash received in lieu of fractional entitlements or (b) 5 per cent ARCO Shareholders who fail to enter into any required gain recognition agreement with the IRS.

6 Share Exchange Agreement

The Merger Agreement contemplates an exchange of all ARCO Common Shares held by ARCO DSC II for BP Amoco Ordinary Shares which shall be delivered in the form of BP Amoco ADSs. The Share Exchange Agreement provides that such share exchange will be completed prior to the Effective Date, but only after all other conditions to the Combination have been satisfied, and will be made at the Exchange Ratio. As at 9 July 1999 (the latest practicable date prior to the printing of this document), ARCO DSC II held 1,025,085 ARCO Common Shares, solely for the purpose of funding distributions of ARCO Common Shares to ARCO executives under the ARCO 1985 Executive Long-Term Incentive Plan. The ARCO Common Shares exchanged under the Share Exchange Agreement will then be held by BP Amoco at the Effective Date and will therefore be cancelled, without consideration, in the Combination. BP Amoco and ARCO have agreed to effect the share exchange in order that the ARCO Common Shares held by ARCO DSC II will not be cancelled in the Combination but instead will be exchanged for BP Amoco ADSs that will be available for delivery to ARCO employees under the ARCO 1985 Executive Long-Term Incentive Plan.

7 Conduct of Business Pending the Combination

7.1 Until the Effective Date, ARCO has agreed that, save with the consent of BP Amoco, ARCO and each of its subsidiaries:

7.1.1 will carry on its business in the ordinary course and use its best reasonable efforts to preserve its business organisation intact and maintain its existing relations and goodwill with customers, suppliers, creditors, governmental authorities, lessors, employees and business associates;

7.1.2 will not dispose of property or assets having an aggregate value of more than $500 million;

7.1.3 will not incur debt except for the refinancing of long-term indebtedness and except for commercial paper and other short-term debt;

7.1.4 will not make capital expenditures in excess of specified dollar limits;

7.1.5 will not make or authorise any acquisition, investment or commitment to invest in the assets or stock of another entity, except for certain capital expenditures or contributions to joint ventures otherwise permitted under the Merger Agreement;

7.1.6 will not terminate any existing line of business;

7.1.7 will not enter into any new shareholder, membership or voting agreements, or other agreements relating to transfers of investments or management in connection with joint ventures, without reasonable advance notice to and consultation with BP Amoco, except agreements involving less than $200 million in assets of ARCO and its subsidiaries;

7.1.8 will not establish any new, or terminate or amend any existing, stock-based compensation plan or other benefit plan or, in the case of existing plans, make any new awards thereunder, except, among other things, to extend the effectiveness of ARCO's enhanced retirement programme and to issue new stock options within specified limits;

7.1.9 will not increase the salary or other compensation of employees except for periodic increases and new hires or promotions occurring in the ordinary course of business;

7.1.10 will not settle any litigation where the amount of the settlement would exceed $50 million without reasonable advance notice to and consultation with BP Amoco;

7.1.11 will not modify any accounting policy except as may be required by a change in applicable law or US GAAP; and

7.1.12 will consult with BP Amoco with respect to any modifications, waiver, release or assignment, other than in the ordinary course of business, of any contract identified by BP Amoco and ARCO as material to ARCO.

7.2 In addition, BP Amoco and ARCO have agreed that before the Effective Date they will not take any of the following actions, among others, except as specifically permitted by the Merger Agreement or with the consent of the other company:

7.2.1 amend their corporate governance documents;

7.2.2 declare or pay dividends, other than quarterly cash dividends on common or ordinary shares and dividends required under each company's preference stocks;

7.2.3 issue or permit any of their subsidiaries to issue equity securities or rights; or

7.2.4 redeem or permit any of their subsidiaries to redeem shares of capital stock.

8 Certain Representations and Warranties

8.1 The Merger Agreement contains certain customary representations and warranties by ARCO and BP Amoco with respect to themselves and their respective subsidiaries, regarding, among other things, due organisation, good standing and qualification; capital structure; corporate authority to enter into the contemplated transactions and lack of conflicts with corporate governance documents; governmental filings; reports and financial statements; litigation and liabilities; absence of certain changes; brokers and finders; ownership of the other party's shares; ARCO Employee Benefit Plans; environmental matters; ARCO rights plan; ARCO joint ventures and exclusivity arrangements; and tax matters. ARCO has also represented that it has taken or will take all actions appropriate and necessary to ensure that provisions of the Delaware General Corporation Law limiting business combinations or any other anti-takeover statute will not affect the Combination.

8.2 In the Merger Agreement, ARCO's representations and warranties with respect to Vastar, which is a subsidiary not wholly-owned by ARCO, are more limited than the representations and warranties made with respect to ARCO's other subsidiaries and generally do not extend to any date after 31 March 1999.

9 Indemnification and Insurance

In the Merger Agreement, ARCO and BP Amoco have agreed that after the Effective Date, all rights to indemnification and limitations on liability existing under the ARCO Certificate of Incorporation and By-laws in favour of directors and officers of ARCO, or under an agreement in effect as of the date of the Merger Agreement between any such director or officer and ARCO or its subsidiaries, with respect to actions or omissions by them on or prior to the Effective Date will continue in full force and effect and BP Amoco will, for a period of six years after the Effective Date and with respect to acts or omissions occurring prior to the Effective Date, indemnify such directors and officers and procure directors' and officers' liability insurance, covering each person currently covered by ARCO's directors' and officers' liability insurance.

10 Termination of the Merger Agreement

10.1 The Merger Agreement may be terminated at any time prior to the Effective Date, whether before or after approval by the ARCO Shareholders and the BP Amoco Shareholders, by the mutual written consent of ARCO and BP Amoco.

10.2 The Merger Agreement may be terminated by either BP Amoco or ARCO at any time before the Effective Date if:

(i) the Combination has not been completed by 31 March 2000 (the "Termination Date"); or

(ii) a governmental order permanently restraining, enjoining or otherwise prohibiting the completion of the Combination has become final and non-appealable; or

(iii) the approval by the ARCO Shareholders or the BP Amoco Shareholders required for the completion of the Combination or the other transactions contemplated by the Merger Agreement has not been obtained by reason of the failure to obtain the required vote at a duly held meeting of the ARCO Shareholders or BP Amoco Shareholders, as the case may be, or at any adjournment thereof.

The right to terminate the Merger Agreement described in this paragraph 10.2 shall not be available to any party who has breached in a material respect its obligations under the Merger Agreement which shall have contributed to the failure to complete the Combination.

The Termination Date may be extended by either ARCO or BP Amoco to 30 June 2000 if all material governmental authorisations have not been obtained or have not been waived by each of ARCO and BP Amoco on or prior to the Termination Date.

10.3 The Merger Agreement may be terminated at any time before the Effective Date, whether before or after approval by the ARCO Shareholders, by ARCO if:

(i) the BP Amoco Board withdraws its approval or favourable recommendation of the Combination; or

(ii) (a) a person has made a proposal or offer with respect to a merger, reorganisation, share exchange, dual-holding company transaction, consolidation or similar transaction involving ARCO, or any purchase of, or offer to purchase, all or substantially all of the equity securities of ARCO or of the ARCO Group's assets taken as a whole (any such transaction being an "Acquisition Proposal");

(b) such Acquisition Proposal constitutes a Superior Proposal (as defined below);

(c) the ARCO Board becomes entitled under the Merger Agreement to recommend the Superior Proposal to its shareholders;

(d) ARCO pays BP Amoco the relevant termination payment set out in paragraph 11.2.3 below and any amount due under the Stock Option Agreement; and

(e) ARCO enters into an agreement to implement such Acquisition Proposal; or

(iii) BP Amoco has breached any representation, warranty, covenant or agreement set out in the Merger Agreement which would result in a failure of either (a) the condition to the obligations of ARCO to complete the Combination relating to the representations and warranties of BP Amoco or (b) the condition to the obligations of ARCO to complete the Combination relating to the performance by BP Amoco of its material obligations, which breach cannot be or is not cured prior to the Termination Date.

"Superior Proposal" means an Acquisition Proposal by a third party (i) on terms which the ARCO Board determines in its good faith judgement (after consultation with its financial advisers) to be more favourable from a financial point of view to its shareholders than the Combination and the related transactions and (ii) which the ARCO Board determines in its good faith judgement to constitute a transaction that is reasonably likely to be consummated on the terms set forth, taking into account all legal, financial, regulatory and other aspects of such proposal.

10.4 The Merger Agreement may be terminated at any time before the Effective Date, whether before or after approval by the BP Amoco Shareholders, by BP Amoco if:

(i) the ARCO Board withdraws its approval or favourable recommendation of the Combination to ARCO Shareholders; or

(ii) the ARCO Board enters into negotiations with or furnishes information to a third party regarding an acquisition transaction proposed by the third party; or

(iii) the ARCO Board recommends such an acquisition transaction to its shareholders; or

(iv) ARCO has breached any representation, warranty, covenant or agreement contained in the Merger Agreement which would result in a failure of either (a) the condition to the obligations of BP Amoco to complete the Combination relating to the representations and warranties of ARCO or (b) the condition to the obligations of BP Amoco to complete the Combination relating to the performance by ARCO of its material obligations, which breach cannot be or is not cured prior to the Termination Date.

11 Termination Payments

11.1 If:

11.1.1 ARCO terminates the Merger Agreement because the BP Amoco Board has withdrawn its approval or favourable recommendation of the Combination to the BP Amoco Shareholders; or

11.1.2 either BP Amoco or ARCO terminates the Merger Agreement because the necessary approval of BP Amoco Shareholders is not obtained and, prior to such termination, the BP Amoco Board has withdrawn its approval or favourable recommendation of the Combination to the BP Amoco Shareholders,

then BP Amoco will be required to pay $500,000,000 to ARCO.

11.2 If:

11.2.1 either BP Amoco or ARCO terminates the Merger Agreement because the necessary approval of ARCO Shareholders is not obtained and, either:

(i) at the time of the ARCO Shareholders' vote, an Acquisition Proposal or offer exists with respect to ARCO; or

(ii) prior to such termination the ARCO Board has withdrawn its approval or favourable recommendation of the Combination to ARCO Shareholders; or

11.2.2 BP Amoco terminates the Merger Agreement in accordance with the provisions described in paragraph 10.4 (i), (iii) or, solely where such breach is a wilful breach, (iv) of this Section A of Part V; or

11.2.3 ARCO terminates the Merger Agreement because the ARCO Board becomes entitled under the Merger Agreement to recommend a Superior Proposal for an acquisition transaction to the ARCO Shareholders,

then ARCO will be required to pay to BP Amoco:

(a) $450,000,000, if the Merger Agreement is terminated in accordance with the provisions described in paragraph 11.2.1(ii), 11.2.2 or 11.2.3 of this Section A of Part V; or

(b) $250,000,000, if the Merger Agreement is terminated in accordance with the provisions described in paragraph 11.2.1(i) of this Section A of Part V, plus an additional $200,000,000 if, within 12 months of the date of termination of the Merger Agreement, ARCO executes and delivers an agreement to or completes any Acquisition Proposal with respect to ARCO or the ARCO Board recommends the acceptance by ARCO Shareholders of a third party tender or exchange offer for ARCO Common Shares.

12 The Stock Option Agreement

12.1 Under the Stock Option Agreement, ARCO granted BP Amoco an unconditional and irrevocable option to purchase up to 64,861,617 fully paid ARCO Common Shares at a price per share in cash equal to $82.82 (subject to adjustment so that the price per share in cash will result in a Total Profit to BP Amoco of $25 million). The number of shares subject to the option may be subject to possible adjustment but in no event will the number of shares for which the option is exercisable exceed 19.9 per cent of the ARCO Common Shares issued and outstanding (excluding the shares subject to the option) at the time of the exercise.

12.2 BP Amoco may exercise the option in whole but not in part by delivering a written notice thereof within 180 days following the occurrence of a Triggering Event unless the Effective Date has occurred prior to the giving of such notice. For the purposes of the Stock Option Agreement, a "Triggering Event" will be deemed to have occurred if the Merger Agreement is terminated in the circumstances entitling BP Amoco to an aggregate termination payment of $450,000,000 as described in paragraph 11.2 of this Section A of Part V.

12.3 Pursuant to the Stock Option Agreement, BP Amoco may not exercise its option in respect of a number of option shares which would, as at the date of the exercise, result in the aggregate of the Total Profit when added to any termination payment paid by ARCO to BP Amoco pursuant to the Merger Agreement exceeding $500,000,000.

For the purposes of the Stock Option Agreement, "Total Profit" means the aggregate amount (before taxes) of the following:

(a) the amount received by BP Amoco pursuant to ARCO's repurchase of the option or any option shares less, in the case of any repurchase of option shares, BP Amoco's purchase price for such option shares; and

(b) the fair market value or the aggregate net cash amounts received by BP Amoco pursuant to the sale of option shares (or any other security into which the option shares are converted or exchanged or any other property, cash or other securities received (subject to certain adjustments)) less BP Amoco's purchase price of such option shares.

Part V: Section B: Regulatory Matters

Under the Merger Agreement, neither party is required to complete the Combination in the event that any required regulatory consent or approval contains any term or imposes any condition that is reasonably likely to have a Material Adverse Effect on BP Amoco or ARCO. For this purpose, a Material Adverse Effect will be determined on the basis of the total value of the combined US operations of BP Amoco and ARCO and their subsidiaries. It is possible that required regulatory consents and approvals will not be obtained at all or on a timely basis or that material conditions will be imposed on these consents and approvals that could be detrimental to the businesses of BP Amoco after the Combination.

1 US Antitrust

Under the HSR Act and the related rules certain transactions, including the Combination, may not be completed unless certain waiting period requirements have been satisfied. On 17 May 1999 BP Amoco and ARCO each filed a Premerger Notification and Report Form pursuant to the HSR Act with the US Federal Trade Commission (the "FTC") and the Antitrust Division of the Department of Justice (the "Antitrust Division").

On 17 June 1999, BP Amoco and ARCO each received from the FTC a second request requiring submission to the FTC of further information and documentation related to the Combination. Under the HSR Act, the Combination may not be completed until 20 days following the substantial compliance with these requests by both parties, unless earlier terminated. At any time before or after the Effective Date, the Antitrust Division, the FTC or others could take action under the antitrust laws with respect to the Combination, including seeking to enjoin the completion of the Combination, to rescind the Combination or to condition approval of the Combination on the divestiture of substantial assets of BP Amoco or ARCO.

In addition, the State of Alaska and several other western US states have indicated an interest in investigating and reviewing the Combination under their state antitrust laws. There can be no assurance that a challenge to the Combination on antitrust grounds will not be made or, if such a challenge is made, that it would not be successful.

2 Exon-Florio

The provisions of Exon-Florio empower the President of the US to prohibit or suspend an acquisition of, or investment in, a US company by a non-US person if the President finds, after investigation, credible evidence that the non-US person might take action that threatens to impair the national security of the US and that other provisions of existing law do not provide adequate and appropriate authority to protect the national security of the US. Any determination that an investigation is called for must be made within 30 days of notice of the proposed transaction. If a determination were made, any investigation must be completed within 45 days of such determination and any decision to take action must be announced within 15 days of completion of the investigation. On 12 July 1999, ARCO and BP Amoco filed a voluntary notice under Exon-Florio requesting confirmation that the Combination does not threaten to impair the national security of the US.

3 European Union

BP Amoco and ARCO each conducts business in Member States of the European Union (the "EU"). The Merger Regulation requires that certain mergers or acquisitions involving parties with aggregate worldwide sales and individual EU sales exceeding certain thresholds be notified to, and approved by, the European Commission before they are implemented. BP Amoco and ARCO notified the European Commission of the Combination on 4 May 1999.

The European Commission must review the Combination to determine whether or not it is compatible with the common market and, accordingly, whether or not to permit it to proceed. A merger or acquisition which does not create or strengthen a dominant position that would significantly impede effective competition in the common market or in a substantial part of the common market, is considered to be compatible with the common market and must be allowed to proceed. If, following a preliminary one month investigation (Phase I), the European Commission considers that it needs to examine the Combination more closely because it raises serious doubts as to its compatibility with the common market, it must initiate further investigative procedures (Phase II). If it initiates a Phase II investigation, the

European Commission must make a final decision as to whether or not the Combination is compatible with the common market no later than four months after the initiation of the Phase II investigation.

BP Amoco and ARCO believe that the proposed Combination is compatible with the common market under the Merger Regulation. Nevertheless, on 10 June 1999, the European Commission decided to initiate a Phase II investigation into the Combination. There can be no assurance as to what the outcome of this investigation will be or whether a challenge to the proposed Combination will be made on the grounds that it is not compatible with the common market or, if a challenge is made, what the result will be.

4 Other Laws

The other regulatory approvals necessary to complete the Combination are described in Section A of this Part V.

5 General

BP Amoco and ARCO conduct operations in a number of jurisdictions where other regulatory filings or approvals may be required or advisable in connection with the completion of the Combination. BP Amoco and ARCO are currently in the process of reviewing whether other filings or approvals may be required or desirable in other jurisdictions which may be material to BP Amoco and ARCO. It is possible that certain of such filings may not be completed and certain of such approvals (which are not as a matter of practice required to be obtained prior to effectiveness of a merger transaction) may not be obtained prior to the Effective Date.

Part V: Section C: Subdivision of Ordinary Share Capital

1 Reasons for the Subdivision of Ordinary Share Capital

The Directors propose that with effect from 4 October 1999 Existing BP Amoco Ordinary Shares will be subdivided with each BP Amoco Ordinary Shareholder receiving two New BP Amoco Ordinary Shares of nominal value $0.25 for each Existing BP Amoco Ordinary Share of nominal value $0.50.

The reason for the Subdivision and related issue of BP Amoco ADSs is to reduce the price at which BP Amoco Ordinary Shares and BP Amoco ADSs trade with the intention of making BP Amoco securities more attractive to retail investors and increasing liquidity. Absent any other factors affecting price, the Subdivision is expected to result in initial prices for the New BP Amoco Ordinary Shares and the BP Amoco ADSs representing the New BP Amoco Ordinary Shares which are approximately half that of the prices of the Existing BP Amoco Ordinary Shares and existing BP Amoco ADSs immediately prior to the Subdivision.

2 How the Subdivision will be Achieved

In order to effect the Subdivision, it is necessary for it to be approved by ordinary resolution at the Extraordinary General Meeting. Both the BP Amoco Ordinary Shareholders and the holders of the BP Amoco Preference Shares are entitled to vote on this resolution.

The Subdivision is also conditional upon the approval of the London Stock Exchange to admit the New BP Amoco Ordinary Shares to the Official List.

3 Effect of Subdivision on BP Amoco Ordinary Shares

There will be no material differences between Existing BP Amoco Ordinary Shares with nominal value $0.50 and New BP Amoco Ordinary Shares with nominal value $0.25. The Subdivision will not affect voting rights for BP Amoco Ordinary Shareholders. The Subdivision will be made by reference to holdings of BP Amoco Ordinary Shares on the register of members as at the Record Date.

It is expected that dealings and settlement in CREST in the BP Amoco Ordinary Shares will continue until the Record Date when, in the case of Existing BP Amoco Ordinary Shares held in certificated form, the register of members will be closed for transfers. The registration of uncertificated holdings in respect of the Existing BP Amoco Ordinary Shares will be "disabled" on admission of the New BP Amoco Ordinary Shares, which, subject to the necessary approvals at the Extraordinary General Meeting and the London Stock Exchange agreeing to admit the New BP Amoco Ordinary Shares to the Official List, is expected to occur at 8.00 am on 4 October 1999.

The New BP Amoco Ordinary Shares will be in registered form. The Company expects to despatch by 11 October 1999 definitive share certificates in respect of the New BP Amoco Ordinary Shares to holders of Existing BP Amoco Ordinary Shares held in certificated form. From the time of admission of the New BP Amoco Ordinary Shares to the Official List certificates in respect of the Existing BP Amoco Ordinary Shares will no longer be of value. Such certificates should be destroyed on receipt of the New BP Amoco Ordinary Share certificates.

BP Amoco Ordinary Shareholders who hold their Existing BP Amoco Ordinary Shares in uncertificated form will have their CREST accounts credited with the New BP Amoco Ordinary Shares following the Subdivision.

Temporary documents of title will not be issued and, pending despatch of definitive share certificates, transfers of New BP Amoco Ordinary Shares held in certificated form will be certified against the register held by the Company's Registrar.

4 Effect of Subdivision on BP Amoco ADSs

The Depositary will, at the same time as the Subdivision is effected, issue one additional BP Amoco ADS to each holder of BP Amoco ADSs for each BP Amoco ADS held at the Record Date, thereby maintaining the existing ratio of one BP Amoco ADS to six BP Amoco Ordinary Shares. BP Amoco ADSs outstanding as at the Record Date will not be affected by the Subdivision (save that each such BP Amoco ADS will represent six New BP Amoco Ordinary Shares rather than six Existing BP Amoco Ordinary Shares) and will remain valid after such time.

There will be no material differences between the BP Amoco ADSs representing the Existing BP Amoco Ordinary Shares with nominal value $0.50 and BP Amoco ADSs representing the New BP Amoco Ordinary Shares with nominal value $0.25. The Subdivision will not affect voting rights for holders of BP Amoco ADSs. The issue of additional BP Amoco ADSs as a result of the Subdivision will be made by reference to holdings of BP Amoco ADSs on the register of BP Amoco ADSs as at the Record Date. Subject to the Subdivision becoming effective on 4 October 1999, the Record Date will also be the payable date for BP Amoco ADS holders.

The Depositary expects to despatch by 8 October 1999 additional BP Amoco ADSs to every person holding, at the Record Date, BP Amoco ADSs. BP Amoco ADS holders who own BP Amoco ADSs through a bank, broker or other nominee will receive such BP Amoco ADSs in accordance with their bank, broker or nominee's practice. If BP Amoco ADSs are held in certificated form, the existing certificate(s) will remain valid and should be retained.

Part VI: BP Amoco Crude Oil and Natural Gas Reserves

1 Crude Oil and Natural Gas Production

During 1998, the BP Amoco Group produced oil and natural gas from 19 countries. Two of these countries, the UK and the US, provide the main sources of its production of crude oil and natural gas and BP Amoco is the largest producer of both oil and gas in each country.

1.1 Crude Oil Production

A total of 1,351,000 b/d of crude oil was produced from the UK and the US in the year ended 31 December 1998, comprising 66 per cent of the BP Amoco Group's total worldwide production of 2,049,000 b/d.

Within the UK, the BP Amoco Group holds a majority interest in fields such as Forties, Magnus and Harding as well as holding less substantial interests in other fields. In 1998, the BP Amoco Group's net UK oil production totalled 518,000 b/d.

Within the US, the BP Amoco Group has substantial production in both Alaska and the Lower 48 States with majority interests in fields such as Prudhoe Bay and Milne Point in Alaska, and Slaughter and Pompano in the other states. In 1998 the BP Amoco Group's net US oil production totalled 833,000 b/d.

Other countries with major BP Amoco oil production interests include Norway and Egypt, each with BP Amoco net production of more than 100,000 b/d.

1.2 Natural Gas Production

A total of 3,579 mmcf/d of natural gas was produced from the UK and the US in the year ended 31 December 1998, comprising 62 per cent of the BP Amoco Group's total worldwide production of 5,808 mmcf/d.

Within the UK, the BP Amoco Group holds majority interests in Village Fields and West Sole gas fields and substantial interests in other gas fields such as the Bruce, Brae and East Leman. In 1998, the BP Amoco Group's net UK natural gas production totalled 1,258 mmcf/d.

Within the US the BP Amoco Group's gas production is focused in the Lower 48 States with majority interests in fields such as Hugoton, Colorado Coal, Red Oak and Whitney Canyon. In 1998, BP Amoco's net US natural gas production totalled 2,321 mmcf/d – this excludes gas consumed in operations, a volume which equals 216 mmcf/d in the case of Alaska.

Other countries with major BP Amoco gas production interests include Canada and Trinidad, with BP Amoco net production in 1998 of 767 mmcf/d and 439 mmcf/d respectively.

2 Main Fields in Development

The BP Amoco Group continued to explore for and develop new fields in 1998 and into 1999. In 1998, the Schiehallion and ETAP fields came on production as did Cusiana/Cupiaga Phase 2 in Colombia. In 1999, the Ursa, Marlin and Europa fields in the Gulf of Mexico are targeted to commence production along with the Ha'py field in Egypt. Further development work continues in a number of fields around the world, such as Northstar in Alaska, Girassol in Angola, East Baltim in Egypt and Azeri-Chirag-Gunashli in Azerbaijan.

3 Crude Oil and Natural Gas Reserves

At the end of 1998, the BP Amoco Group had crude oil and natural gas reserves in 20 countries. As with production, the UK and the US are the main sources of reserves with Trinidad as an additional major source of gas reserves.

BP Amoco Group reserves derive from a variety of contractual and real property arrangements of the kind normally utilised by international oil and gas companies to access hydrocarbon reserves. These arrangements vary considerably in their terms but typically last for periods of between 20 and 40 years, require the carrying out of hydrocarbon exploration work at the cost of BP Amoco and any relevant co-venturers and provide for the entitlement to certain hydrocarbons of the companies involved.

BP Amoco only reports proved reserves. BP Amoco has other estimates of resources, some of which could be classified as "probable" reserves as defined in the Listing Rules (i.e. not yet proved but which, based on the available evidence and taking into account technical and economic factors, have a better than 50 per cent chance of being produced).

3.1 Net proved reserves

The estimated net proved reserves of the BP Amoco Group at 31 December 1998 are summarised below.

	millions of barrels					billions of cubic feet				
	Crude Oil[a]					Natural gas[b]				
	UK	Rest of Europe	United States	Rest of World	Total	UK	Rest of Europe	United States	Rest of World	Total
Proved developed	1,258	220	2,982	858	5,318	3,536	324	9,637	6,054	19,551
Proved undeveloped	270	51	979	686	1,986	1,107	38	1,658	8,647	11,450
	1,528	271	3,961[c]	1,544	7,304	4,643	362	11,295	14,701	31,001
Associated Undertakings					1,128					1,766
Total BP Amoco Group and BP Amoco share of associated undertakings					8,432					32,767

Notes:

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

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

[c] Proved reserves in the Prudhoe Bay Field in Alaska include a volume of reserves 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. This volume varies from time to time, depending as it does on a number of factors including the price of crude oil. As at 31 December 1998, it was estimated as nil.

The BP Amoco Group's total reserves of crude oil, condensate, natural gas liquids and natural gas are reviewed annually to take account of production, field reassessments, the application of improved recovery techniques, the addition of new reserves from discoveries and extensions, and revisions due to changes in economic factors. Selective reviews of reserves are also undertaken periodically.

In the case of oil reserves, extensions, discoveries and other additions added 321 mmb to proved reserves in 1998, and the use of improved recovery techniques added a further 182 mmb. The net effect of sales and purchases resulted in a decrease of 117 mmb to proved reserves and the net effect of revisions to reserves resulted in a further decrease of 43 mmb. After allowing for production the BP Amoco Group's estimated net proved crude oil reserves decreased by 308 mmb during 1998, to 7,304 mmb. These reserves are mainly located in the US (54 per cent, primarily in Alaska) and the UK (21 per cent, primarily in the North Sea). In addition, and not included in the above figures, the BP Amoco Group's share of proved reserves held by associated undertakings totalled 2,013 mmb; these are held mainly in Abu Dhabi and, if recent production levels were to continue, these reserves would not be fully recovered during the period of the concessions.

In the case of gas reserves, extensions, discoveries and other additions of gas added 4,755 bcf to proved reserves in 1998 with improved recovery techniques adding a further 349 bcf. These were offset by a reduction of 2,381 bcf due to the net effect of sales and purchases and a further minor reduction of 3 bcf due to net revisions. After allowing for production the BP Amoco Group's estimated net proved gas reserves increased by 627 bcf during 1998 to 31,001 bcf. These reserves are located primarily in the US (36 per cent), Trinidad (27 per cent) and the UK (15 per cent). In addition, and not included in the above figures, the BP Amoco Group's share of proved reserves held by associated undertakings totalled 1,766 bcf, essentially in the Pan American Energy and Crescendo Resources joint ventures.

On a crude oil equivalent basis, gas represents some 42 per cent of the hydrocarbon reserves of the BP Amoco Group (excluding associated undertakings).

3.2 Production replacement

Current levels of reserves are expected substantially to support current levels of production for the foreseeable future.

3.3 Changes in reserves since 31 December 1998

Save as disclosed in "Recent Developments" set out in paragraph 11 of Part I of this document, as at 9 July 1999 (the latest practicable date prior to the printing of this document), no major discovery or significant event has occurred that would have a material effect on the estimated proved reserves reported at 31 December 1998.

Part VII: ARCO Crude Oil and Natural Gas Reserves

1 General

ARCO conducts its worldwide oil and gas exploration and production operations primarily in the United States, China, Indonesia, the United Kingdom North Sea, Algeria, Venezuela, Malaysia and Thailand, and the Caspian Sea (Azerbaijan and Kazakhstan).

The ARCO Group's US production of crude oil, condensate, NGL and natural gas is principally in the states of Alaska, Texas, California, Oklahoma and offshore in the Gulf of Mexico. Non-US crude oil and natural gas production is located primarily in Indonesia, the United Kingdom North Sea, China, Algeria, Venezuela and Kazakhstan, with production on a smaller scale being located in Tunisia, Pakistan, Dubai and Qatar.

The ARCO Group is engaged in exploration for crude oil and natural gas in onshore and offshore areas of the United States and various countries outside North America. United States offshore efforts are conducted primarily in the Gulf of Mexico in both shallow and deep water. Non-US exploration activities are carried out primarily in the North Sea (United Kingdom), Africa (Algeria), the Caspian Sea (Azerbaijan and Kazakhstan), Latin America (Venezuela), South East Asia (Malaysia, Thailand and Indonesia), China, and on a smaller scale in Ecuador and the Arabian Gulf (Qatar).

A more detailed discussion of ARCO's primary areas of operation is set out in paragraph 5 of this Part VII.

During 1998, ARCO's total production on an oil-equivalent barrel basis grew to 1,008,700 b/d, of which international production was 285,300 b/d. ARCO's exploration and production operating results to March 1999 were significantly affected by lower crude oil prices and, to a lesser extent, lower gas prices and increased depreciation. The impact of lower commodity prices was partially offset by higher production volumes and a decrease in exploration expenses. ARCO's 1998 international petroleum liquids production averaged 130,400 b/d, up from 82,600 b/d in 1997. Natural gas production in 1998 averaged 929 mmcf/d, up from 844 mmcf/d in 1997. ARCO's net proved reserves from its international interests at 31 December 1998 were 1,587 mmboe.

ARCO's goal is to increase its international production significantly, stabilise production in Alaska after 1999, and increase its Lower 48 States production to a modest degree.

2 Crude Oil and Natural Gas Reserves

2.1 Calculation and review of oil and gas reserves

ARCO employs engineers and geoscientists with responsibility for assessing reserves as part of multi-disciplined teams evaluating ARCO's numerous reservoirs. ARCO's reserve estimators are qualified in accordance with the US Society of Petroleum Engineers' Standards Pertaining to the Estimating and Auditing of Oil and Gas Reserve Information adopted in 1979. ARCO believes these qualifications are consistent with those set out in the Listing Rules. From time to time, ARCO has also retained qualified outside reservoir engineers.

The SEC defines proved oil and gas reserves as those estimated quantities of crude oil, natural gas and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. Proved developed oil and gas reserves are reserves that can be expected to be recovered through existing wells with existing equipment and operating methods.

ARCO's annual review of reserves includes consideration of reservoir performance, results of drilling and investments such as compression and waterfloods as well as consideration of performance discrepancies and changes in economic conditions. In conducting its review, ARCO utilises third party reviews, including those prepared by field operators where ARCO has a non-operating interest. Due to the wide variety of operations and reservoirs, techniques for the estimation of reserves vary from simple decline curve analysis and reserve production ratios to sophisticated modelling. Other techniques used are volumetrics, material balance and analogies.

All of ARCO's reserve estimates are maintained in a limited-access computerised database to maintain reserve integrity and security. This database is the source of information for financial and reporting purposes.

2.2 Recovery factors

Recovery factors for the reservoirs are diverse. For gas fields, recovery factors typically range from 50 per cent for reservoirs depleted under waterdrive mechanisms to as high as 90 per cent for reservoirs depleted under volumetric mechanisms. For conventional oil fields, recovery factors range from 15 per cent for reservoirs depleted under solution gas drive to as high as 50 per cent for reservoirs depleted under waterdrive and/or waterflood mechanisms. Heavy oil reservoirs recovery factors range from 7 per cent to 20 per cent.

2.3 Estimated net proved reserves

The estimated net proved reserves of the ARCO Group at 31 December 1998 are summarised below.

	Petroleum Liquids (millions of barrels)		Natural Gas (billions of cubic feet)	
	US[a]	**Rest of World[b]**	**US[c]**	**Rest of World[d]**
Proved reserves	2,043	799	5,117	4,727
Proved developed reserves	1,582	328	4,480	2,830

Notes:

[a] Includes 185 mmb proved and 109 mmb developed attributable to Vastar.

[b] Includes 61 mmb proved and 36 mmb developed attributable to the equity interest in the LUKARCO joint venture.

[c] Includes 2,590 bcf proved and 2,071 bcf developed attributable to Vastar.

[d] Includes 401 bcf proved and 343 bcf developed attributable to the equity interest in the LUKARCO joint venture.

ARCO only reports proved reserves. ARCO has other estimates of resources, some of which could be classified as "probable" reserves as defined in the Listing Rules (i.e. not yet proved but which, based on the available evidence and taking into account technical and economic factors, have a better than 50 per cent chance of being produced).

2.4 Production replacement

Projecting future rates of oil and gas production over time on existing fields is inherently imprecise. Production rates of oil and gas reservoirs generally decline. Future production rates can be affected by price volatility and ARCO's ability to replace depleting reserves. There can be no assurances: (a) as to the level or timing of success, if any, that ARCO will have in acquiring or finding and developing economically recoverable reserves; (b) that estimates of proved reserves will not be revised in the future; or (c) that the actual quantities of oil and gas ultimately recovered will not differ from the reserve estimates.

Greater detail on ARCO's replacement of its production with new reserves on an oil-equivalent basis during 1998 is set out in paragraph 2.5 of this Part VII.

2.5 The following table (extracted from ARCO's unaudited supplemental information included in its Annual Report on Form 10-K for 1998) sets out the proved reserves of the ARCO Group for the three years ended 31 December 1998, 1997 and 1996.

	Petroleum Liquids (millions of barrels)					Natural Gas (billions of cubic feet)				
	Consolidated					Consolidated				
	US	Rest of World	Total	Other Reserves[a]	World-wide	US	Rest of World	Total	Other Reserves[a]	World-wide
Reserves at										
1 January 1996	2,163	206	2,369	—	2,369	4,666	3,683	8,349	—	8,349
Revisions	60	4	64	—	64	103	(94)	9	—	9
Improved recovery	5	—	5	—	5	14	—	14	—	14
Purchases	16	218	234	—	234	114	—	114	—	114
Extensions and discoveries	76	5	81	—	81	343	30	373	—	373
Production	(207)	(24)	(231)	—	(231)	(382)	(267)	(649)	—	(649)
Consumed	—	—	—	—	—	(78)	(5)	(83)	—	(83)
Sales	(1)	—	(1)	—	(1)	(4)	—	(4)	—	(4)
Reserves at										
31 December 1996	2,112	409	2,521	—	2,521	4,776	3,347	8,123	—	8,123
Revisions	115	60	175	—	175	187	17	204	—	204
Improved recovery	10	—	10	—	10	28	3	31	—	31
Purchases	10	25	35	49	84	165	16	181	67	248
Extensions and discoveries	89	55	144	—	144	308	352	660	—	660
Production	(204)	(29)	(233)	(1)	(234)	(389)	(308)	(697)	—	(697)
Consumed	—	—	—	—	—	(79)	(10)	(89)	—	(89)
Sales	(1)	—	(1)	—	(1)	(8)	—	(8)	—	(8)
Reserves at										
31 December 1997	2,131	520	2,651	48	2,699	4,988	3,417	8,405	67	8,472
Revisions	72	(13)	59	2	61	33	(95)	(62)	(1)	(63)
Improved recovery	30	—	30	—	30	6	5	11	—	11
Purchases	42	279	321	13	334	74	1,333	1,407	349	1,756
Exchanges	(119)	—	(119)	—	(119)	184	—	184	—	184
Extensions and discoveries	88	1	89	—	89	367	—	367	—	367
Production	(192)	(46)	(238)	(2)	(240)	(429)	(325)	(754)	(14)	(768)
Consumed	—	—	—	—	—	(79)	(9)	(88)	—	(88)
Sales	(9)	(3)	(12)	—	(12)	(27)	—	(27)	—	(27)
Reserves at										
31 December 1998	2,043	738	2,781	61	2,842	5,117	4,326	9,443	401	9,844
Proved developed reserves:										
At 1 January 1996	1,896	92	1,988	—	1,988	4,294	1,806	6,100	—	6,100
At 31 December 1996	1,828	150	1,978	—	1,978	4,310	1,780	6,090	—	6,090
At 31 December 1997	1,821	204	2,025	7	2,032	4,467	1,643	6,110	10	6,120
At 31 December 1998	1,582	292	1,874	36	1,910	4,480	2,487	6,967	343	7,310

Note:

[a] Comprises reserves attributable to ARCO's ownership in equity affiliates.

The following table (extracted from ARCO's unaudited operating data included in its Annual Report on Form 10-K for 1998) sets out a geographic segmental analysis of the proved reserves of the ARCO Group for the three years ended 31 December 1998, 1997 and 1996.

	Year ended 31 December					
	Crude Oil and NGLs (millions of barrels)			Natural Gas (billions of cubic feet)		
Proved oil and gas reserves – net[a]	**1998**	1997	1996	**1998**	1997	1996
Alaska	**1,530**	1,510	1,510	**1,959**	2,029	2,025
Rest of World	**799**	568	409	**4,727**	3,484	3,347
Vastar	**185**	129	115	**2,590**	2,379	2,224
Other Lower 48 States	**328**	492	487	**568**	580	527
Total	**2,842**	2,699	2,521	**9,844**	8,472	8,123

Notes:

[a] Comprises reserves attributable to ARCO's ownership in equity affiliates.

The table above on proved oil and gas reserves includes reserves in which ARCO holds an economic interest under production-sharing and other types of operating agreements with foreign governments.

Reserves attributable to certain oil and gas discoveries were not considered proved as at 31 December 1998 due to geological, technical or economic uncertainties. Proved reserves do not include amounts that may result from extensions of currently proved areas or from application of enhanced recovery processes not yet determined to be commercial in specific reservoirs. Proved reserves also do not include any reserves attributable to ARCO's 8 per cent interest in LUKOIL, a Russian oil company. Natural gas liquids comprise 13 per cent of petroleum liquid proved reserves.

ARCO has no long-term supply contracts to purchase petroleum liquids or natural gas from foreign governments.

Included in ARCO's reserves are 100 per cent of the reserves of Vastar. Vastar's reserves comprised 9 per cent and 51 per cent of ARCO's US petroleum liquids and natural gas reserves, respectively, at 31 December 1998.

During 1998, net reserve additions replaced 197 per cent of worldwide oil-equivalent production. During the three-year period 1996-1998, ARCO's net reserve additions replaced 166 per cent of worldwide oil-equivalent production. Significant changes in 1998 related to the following:

- The addition of approximately 500 mmboe from the acquisition of UTP in June 1998;
- The addition of approximately 80 mmboe associated with risk service contracts with the government of Venezuela; and
- The exchange of California heavy oil properties for oil and gas properties in the Gulf of Mexico.

Proved reserves and production quantities for Venezuelan operations are recorded based on ARCO's net working interest in each of the contract areas, "net" meaning reserves excluding royalties and interests owned by others under the contractual arrangements. The Venezuelan government maintains full ownership of all hydrocarbons in the fields.

Natural gas from the North Slope of Alaska, other than that used in providing fuel in North Slope operations or sold to others on the North Slope, is not presently economically marketable.

ARCO is actively evaluating various technical options for commercialising North Slope gas. Among the options being studied are the construction of gas transportation and LNG manufacturing facilities and the development of a gas-to-liquids conversion process. ARCO is also working with the State of Alaska to enhance the fiscal and regulatory climate for the ultimate commercialisation of North Slope gas resources. Significant technical uncertainties and existing market conditions still preclude gas from such potential projects being included in ARCO's reserves.

In the fourth quarter of 1998, after a year-long decline in crude oil prices, ARCO determined that part of the oil price decline that had taken place was permanent. Accordingly, ARCO revised its official crude oil price forecast used for economic decision making during the fourth quarter of 1998. This forecast is based on a West Texas Intermediate ("WTI") benchmark price of $15/bbl in

1999, $16/bbl in 2000, and $17/bbl in 2001, with 2 per cent escalation thereafter. ARCO used a benchmark price of $12.05/bbl in preparing its Supplemental Oil & Gas Information (as at 31 December 1998).

In accordance with SFAS 121, ARCO performed an impairment review to determine whether any of ARCO's oil and gas properties were impaired based on the new crude oil price forecast. Net undiscounted cash flows before tax were calculated and compared to the net book value on a field-by-field basis. This included cash flows from proved developed, proved undeveloped and potential oil and gas reserves, which included both producing and non-producing reserves. The potential reserves were calculated on a risk-weighted basis to include the uncertainties associated with field size, reservoir performance, technological development and commercial risk. Where appropriate, contracted prices were used but did not materially impact the result. For those fields where the net book value exceeded the net undiscounted cash flows before tax, the discounted future cash flows before tax were calculated using a 10 per cent discount rate factor. This resulted in a pre-tax impairment charge of $1.4 billion. ARCO tested a downside case using WTI benchmark crude oil prices of $1/bbl lower than each year of its official forecast. ARCO believes that prices below $14/bbl are not sustainable and like most commodities will cycle around their historical midpoints. The impaired properties included former UTP properties in Pakistan, Venezuela and the United Kingdom North Sea, as well as other ARCO properties in California, the United Kingdom North Sea, North Africa and the Middle East.

ARCO reports reserve estimates to various federal government agencies and commissions. These estimates may cover various regions of crude oil and natural gas classifications within the United States and may be subject to mandated definitions. There have been no reports since the beginning of the last fiscal year of total ARCO reserve estimates furnished to federal government agencies or commissions which vary from those reported to the SEC.

2.6 Changes in reserves since 31 December 1998

As at 9 July 1999 (the latest practicable date prior to the printing of this document), no major discovery or significant event had occurred that would have a material effect on the estimated proved reserves reported at 31 December 1998.

3 Exploration and Drilling

3.1 1998 exploratory and development drilling

The following table is a summary of information relating to the ARCO Group's exploratory and development drilling activities in the three years ended 31 December 1998, 1997 and 1996. Exploratory wells are those drilled completely outside the known boundaries of reservoirs which are already being developed. Development wells are drilled within the known boundaries of reservoirs which are already being developed. Productive wells are those which are determined to be commercially viable. Dry wells are those which are determined not to be commercially viable.

	Year ended 31 December					
	1998		1997		1996	
	US[a]	**Rest of World**	**US**[b]	**Rest of World**	**US**[c]	**Rest of World**
Net productive exploratory wells drilled	**32**	**10**	33	3	28	2
Net dry exploratory wells drilled	**29**	**10**	27	10	48	7
Net productive development wells drilled	**573**	**27**	563	23	332	23
Net dry development wells drilled	**37**	**—**	37	—	33	—

Notes:

[a] Includes 23, 16, 187 and 35 wells, respectively, drilled by Vastar.

[b] Includes 18, 15, 162 and 27 wells, respectively, drilled by Vastar.

[c] Includes 17, 29, 156 and 25 wells, respectively, drilled by Vastar.

The number of wells in the process of being drilled (on a gross and net basis) at 31 December 1998 was as follows:

	US	Rest of World
Gross wells in process of drilling (including wells temporarily suspended)	51	18
Net wells in process of drilling (including wells temporarily suspended)	34	7
Waterflood projects in process	4	—
Enhanced oil recovery operations	63	3

The number of productive wells owned by the ARCO Group at 31 December 1998 was as follows:

	Oil		Gas	
	US[ab]	Rest of World[c]	US[d]	Rest of World
Total gross productive wells	9,458	763	3,679	642
Total net productive wells	3,930	296	1,820	162

Notes:

[a] Includes approximately 1,688 gross and 352 net multiple completions for ARCO, of which there are 402 gross and 184 net multiple completions for Vastar.

[b] Includes approximately 1,536 gross and 774 net wells, respectively, attributable to Vastar.

[c] Includes approximately 89 gross and 36 net multiple completions.

[d] Includes approximately 2,851 gross and 1,473 net wells, respectively, attributable to Vastar.

3.2 Petroleum rights acreage

The ARCO Group's petroleum rights acreage, including acreage held under options and exploration arrangements at 31 December 1998, is summarised below.

	Developed Acreage		Undeveloped Acreage	
	Net	Gross	Net	Gross
	(thousands of acres)			
US				
Alaska	208	341	984	1,618
Lower 48 States[a]	1,888	3,224	3,123	4,960
Total US	2,096	3,565	4,107	6,578
Rest of World	295	669	64,027	123,787
Total	2,391	4,234	68,134	130,365

Note:

[a] Includes 1,539 net developed acreage, 2,468 gross developed acreage, 2,815 net undeveloped acreage and 4,243 gross undeveloped acreage, respectively, held by Vastar.

4 Crude Oil and Natural Gas Production

The ARCO Group's production of crude oil and natural gas for the three years ended 31 December 1998, 1997 and 1996, which includes applicable volumes produced under service contracts and production sharing agreements, is summarised below.

	Petroleum Liquids (b/d)		Natural Gas (mmcf/d)	
Years Ended 31 December	**US[a]**	**Rest of World**	**US[b]**	**Rest of World**
1998	527,600	130,400	1,175	929
1997	557,900	82,600	1,066	844
1996	564,500	66,100	1,044	730

Notes:

[a] Includes 50,100, 50,700 and 48,800 b/d produced by Vastar in 1998, 1997 and 1996, respectively.

[b] Includes 988, 882 and 872 mmcf/d produced by Vastar in 1998, 1997 and 1996, respectively.

The following tables (extracted from ARCO's unaudited operating data included in its Annual Report on Form 10-K for 1998) set out a geographic segmental analysis of the ARCO Group's production of crude oil and natural gas for the three years ended 31 December 1998, 1997 and 1996.

	Year ended 31 December		
	1998	**1997**	**1996**
Crude oil, condensate and NGL production[a] (thousand b/d – net):			
US			
Alaska	**346.7**	377.2	392.7
Vastar	**50.1**	50.7	48.8
Other Lower 48 States	**130.8**	130.0	123.0
Total US	**527.6**	557.9	564.5
Rest of World			
Indonesia	**29.6**	23.7	24.7
United Kingdom	**34.0**	19.9	21.8
Algeria	**21.1**	17.1	6.3
Venezuela	**16.7**	—	—
NGLs/other	**29.0**	21.9	13.3
Total Rest of World	**130.4**	82.6	66.1
Total	**658.0**	640.5	630.6

Note:

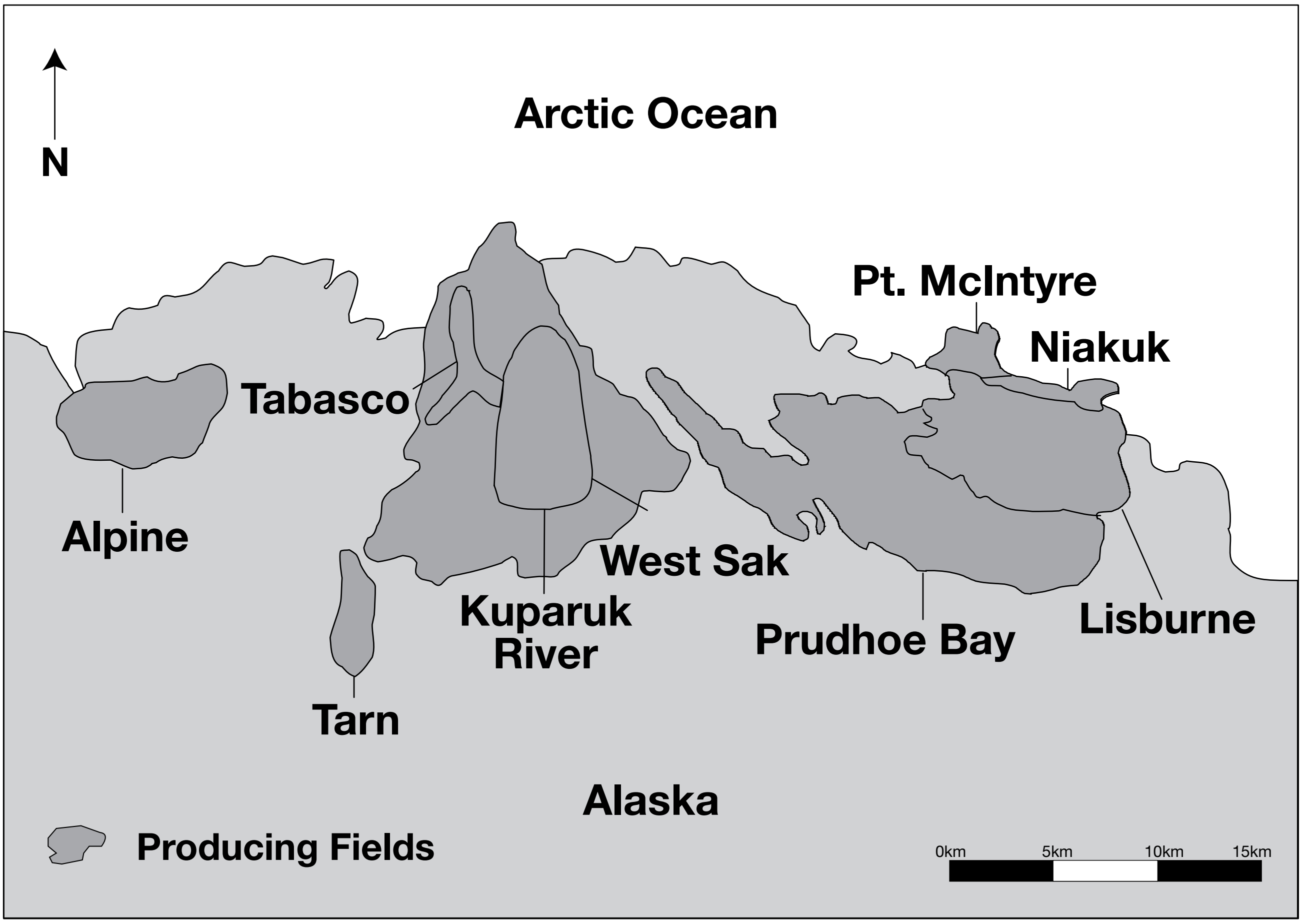
[a] Including equity affiliates.

	Year ended 31 December		
	1998	**1997**	**1996**
Natural gas production (mmcf/d – net):			
US			
Vastar	**988.0**	882.0	871.6
Other US	**186.9**	184.4	172.5
Total US	**1,174.9**	1,066.4	1,044.1
Rest of World			
United Kingdom	**368.9**	367.6	330.1
Indonesia	**293.2**	314.0	310.7
Indonesia LNG	**98.0**	—	—
China	**132.8**	141.9	69.3
Other	**36.4**	20.2	19.5
Total Rest of World	**929.3**	843.7	729.6
Total	**2,104.2**	1,910.1	1,773.7

5 Description of Major Areas of Operation

5.1 Alaska

The following map shows the ARCO Group's principal interests in Alaska:



Approximately 53 per cent of ARCO's worldwide petroleum liquids production came from ARCO's interests in Alaska, primarily in the Prudhoe Bay, Greater Kuparuk Area and the Greater Point McIntyre Area fields on the North Slope of Alaska. ARCO's net liquids production from Alaska in 1998 decreased 8 per cent to 346,700 b/d. ARCO's interests in Alaska included net proved reserves of 1,857 mmboe at 31 December 1998. From ARCO's unaudited information extracted from ARCO's Form 10-Q for the quarter period ended 31 March 1999, ARCO's net liquid production from Alaska to 31 March 1999 was 345,100 b/d.

Alpine Field

ARCO's latest North Slope project is the Alpine Field in which ARCO has a 78 per cent working interest. With gross proved and potential reserves of 365 mmb of oil, Alpine is on schedule to begin production of 40,000 b/d in mid-2000, increasing to 70,000 b/d in 2001.

Prudhoe Bay

ARCO operates the eastern half of the Prudhoe Bay field and has a 21.87 per cent working interest in the oil rim production from the field and a 42.56 per cent working interest in the gas cap production. ARCO's net petroleum liquids production from the Prudhoe Bay field averaged 175,300 b/d in 1998, compared to 198,500 b/d in 1997.

Greater Kuparuk Area

ARCO is the sole operator in the Greater Kuparuk Area, which includes the Kuparuk River field and three satellite fields. ARCO holds a 55.2 per cent working interest in each of these fields. ARCO's share of production from the Kuparuk River field was 123,000 net b/d of petroleum liquids during 1998, compared to 128,200 net b/d during 1997. The Kuparuk Large Scale Enhanced Oil Recovery ("EOR") Project, which began operations in September 1996, added 15,000 net b/d to production by the end of 1998. EOR production is expected to increase further in 1999.

Greater Point McIntyre Area

ARCO has working interests in five of six Greater Point McIntyre Area fields as follows: 30.1 per cent in Point McIntyre, 40 per cent in Lisburne, and 50 per cent in both West Beach and North Prudhoe Bay State. ARCO also has a working interest in the West Niakuk field; ARCO is currently negotiating the precise amount of its interest with the other owners of that field. All six of the fields are processed through the Lisburne Production Center, of which ARCO is the operator. During 1998, liquids processed through the Lisburne Production Center averaged 169,700 gross b/d, or 41,500 net b/d.

Stabilisation of Alaska Production

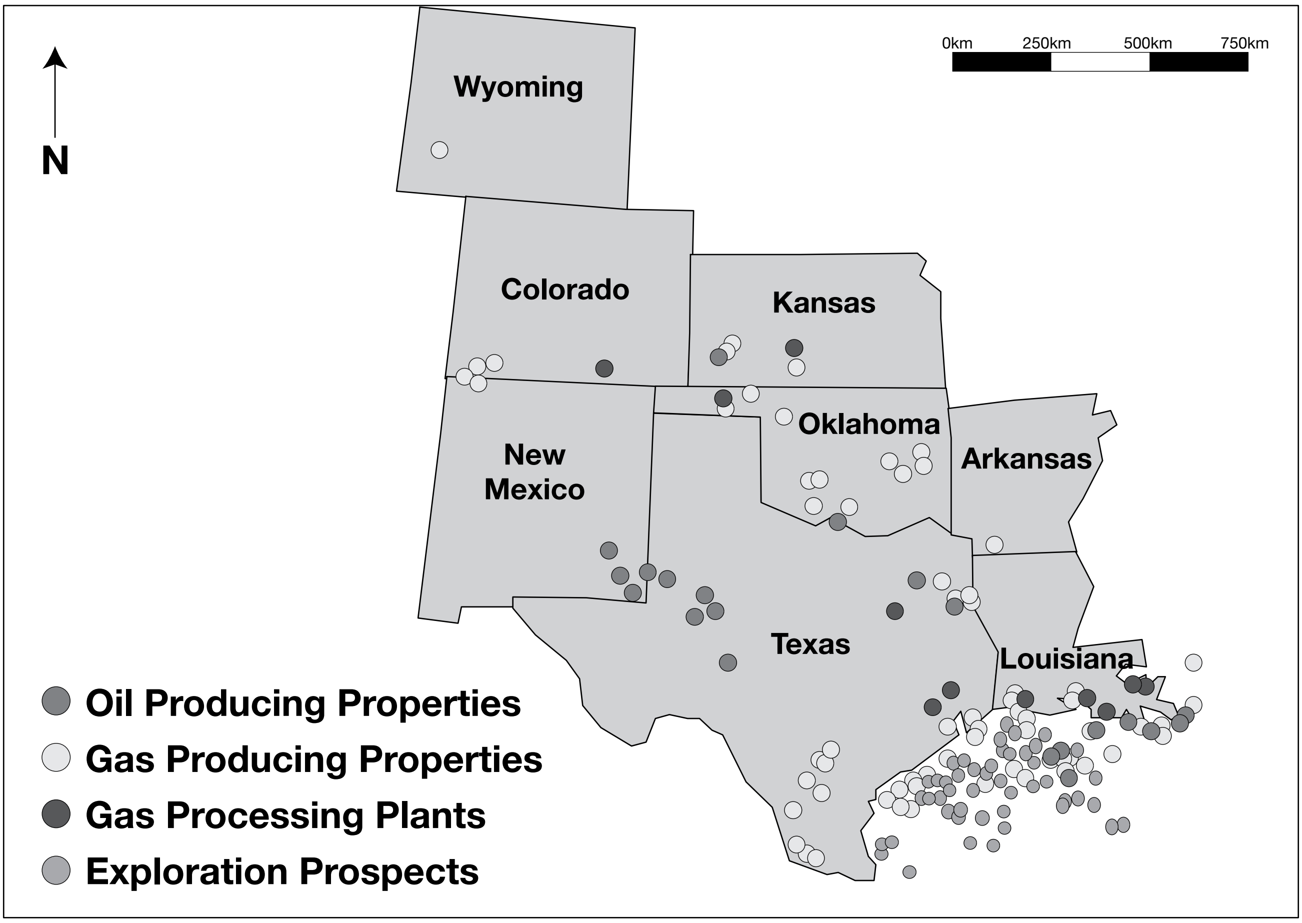
ARCO has several projects underway in Alaska which ARCO expects will stop the decline in Alaska production after 1999. The $150 million Prudhoe Bay Miscible Injectant Expansion ("MIX") project is designed to add 50 million gross barrels of petroleum liquids to ultimate field recovery and 20,000 net b/d of petroleum liquids production in late 1999. ARCO and its partners approved MIX in 1997 and expect it to become operational in 1999. ARCO commenced development of the Alpine field in 1998 and expects production to start up in mid 2000 at a gross rate of 40,000 b/d. Following its acquisition of an additional 22 per cent working interest from UTP, ARCO has a 78 per cent working interest in the field. A $44 million EOR project currently underway at Greater Point McIntyre is expected to be completed by the end of 1999.

ARCO also began production from four satellite fields at the end of 1997 and during 1998. Three of these satellite fields are in the Greater Kuparuk Area: Tarn, Tabasco, and West Sak. The Tarn field began production in July 1998, only nine months after receiving approval for development. Production also began from the Tabasco field, with a single producing well on-line. Additional drilling in Tabasco is underway. West Sak contributed production throughout 1998. Midnight Sun, the first satellite field in the Prudhoe Bay area, started up in the fourth quarter of 1998. Net production from these four satellite fields in 1998 averaged 6,100 b/d.

ARCO transports all of the petroleum liquids produced from the North Slope fields to market through the Trans Alaska Pipeline System ("TAPS"), an 800-mile pipeline system that ties the North Slope of Alaska to the port of Valdez in south central Alaska. ARCO has a 22.2 per cent weighted average undivided ownership interest in TAPS. ARCO also owns approximately 22 per cent of the shares of Alyeska Pipeline Service Company, which constructed and now operates TAPS for the owners. ARCO's undivided interest in TAPS is consolidated in the Alaska exploration and production operations for financial reporting purposes. TAPS 1998 throughput averaged approximately 1,207,000 b/d. ARCO operates six ocean-going tankers that ship the liquids from Valdez to US west coast locations.

5.2 Lower 48 States

The following map shows the ARCO Group's principal interests in the Lower 48 States:



ARCO's consolidated operations in the Lower 48 States had net production of 425 bcf of natural gas (including consumption) and 66 mmb of petroleum liquids in 1998 as compared to 385 bcf and 66 mmb in 1997. ARCO replaced 45 per cent of Lower 48 States 1998 production on a boe/d basis through its exploration and development activities and purchases (net of sales).

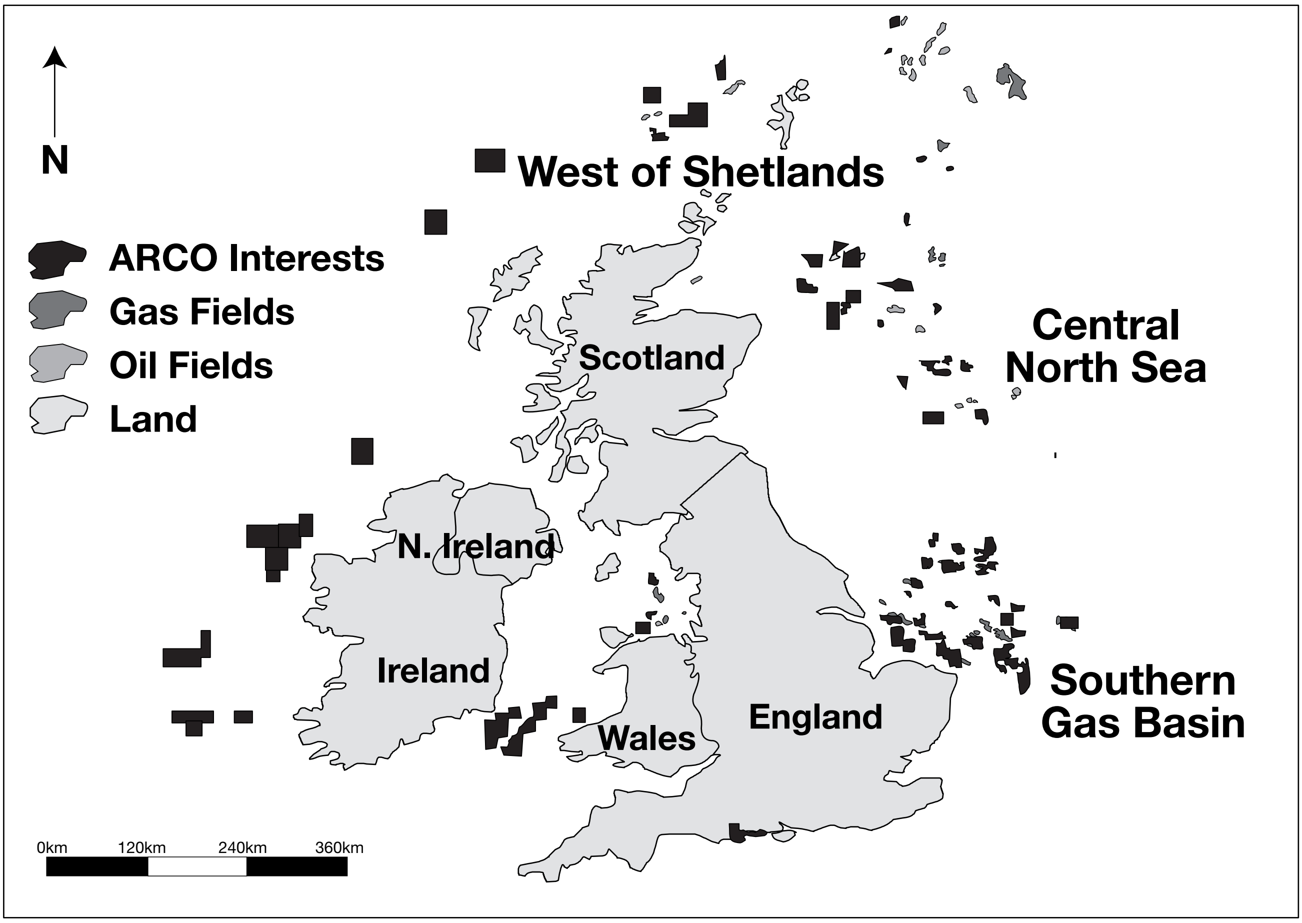
The primary vehicle for ARCO's exploration and production operations in the Lower 48 States is Vastar. Vastar explores for, develops, produces and markets natural gas and petroleum liquids in major producing basins in the Gulf of Mexico, the Gulf Coast, the San Juan Basin/Rockies and the US Midcontinent areas.

After the disposal of its California heavy crude oil properties in the San Joaquin Valley in October 1998, ARCO's assets in the Lower 48 States (other than Vastar) consist of oil and gas producing assets in the Permian Basin of west Texas, southeast New Mexico and in the Wilmington Field in Long Beach, California. These assets accounted for reserves at 31 December 1998 of 423 mmboe, of which 78 per cent were petroleum liquids. In 1998 and 1997 net production from ARCO's other interests in the Lower 48 States was 57 mmboe.

From ARCO's unaudited information extracted from the Form 10-Q for the quarter period ended 31 March 1999, ARCO's net liquid production from Vastar was 55,900 b/d and from other fields in the Lower 48 States was 92,200 b/d.

5.3 United Kingdom North Sea and Atlantic Margin

The following map shows the ARCO Group's principal interests in the United Kingdom North Sea and Atlantic Margin:



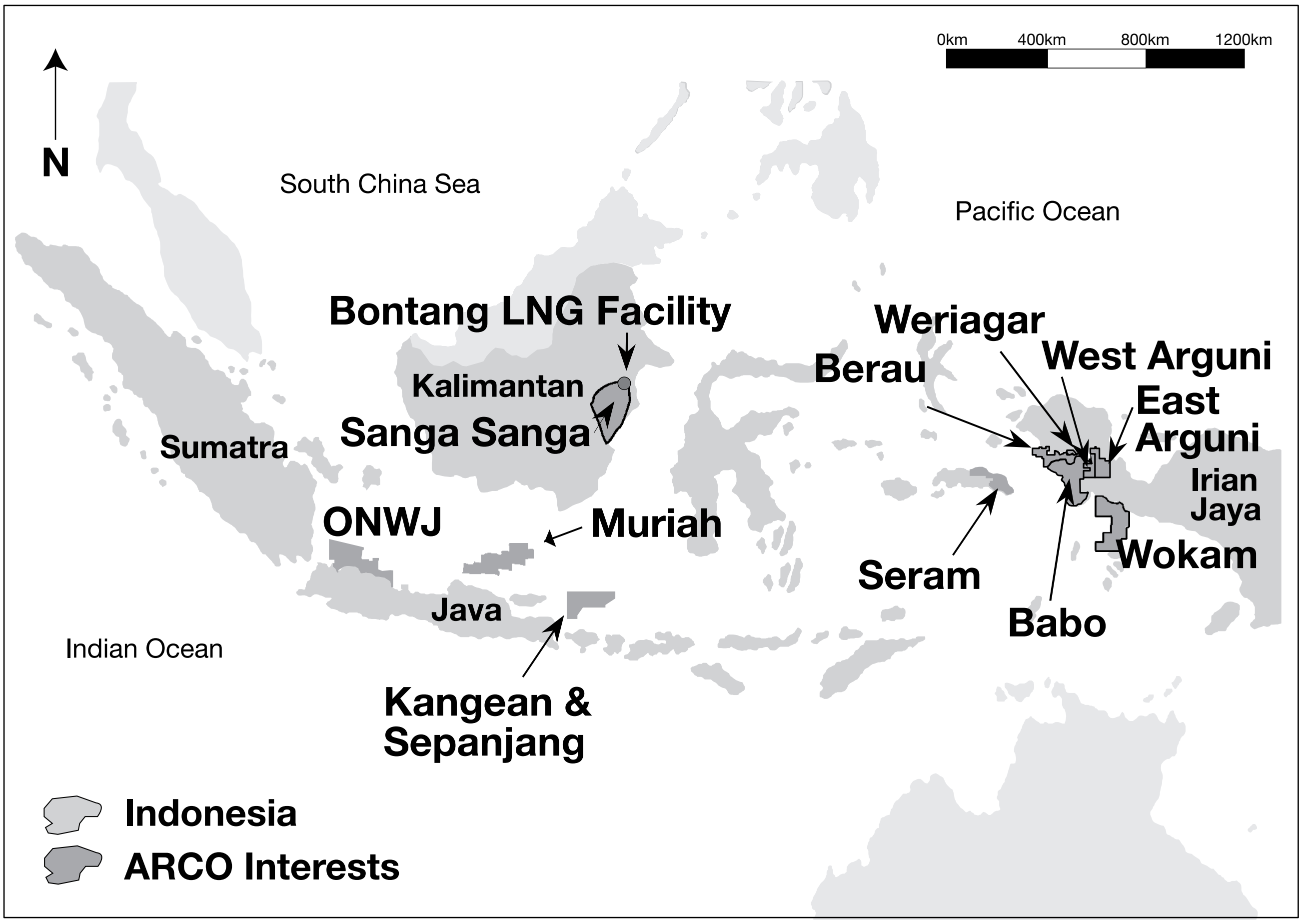
ARCO expanded its international exploration and production operations in 1998 with the acquisition of UTP in June 1998. Production from former UTP interests in the United Kingdom North Sea, Indonesia and Venezuela was included in ARCO's consolidated financial statements at 1 July 1998.

Properties which were acquired as part of UTP in the United Kingdom North Sea are the 15.5 per cent working interest in the Alba oil field, which has been producing since 1994, the 9.42 per cent unit interest in the Britannia gas field, which began production in 1998, the 20 per cent working interest in the Piper and Claymore fields and a 25 per cent working interest in the Sean fields.

During 1998, ARCO and its partners continued development of the Shearwater gas condensate field in the Central Graben. Start-up is expected in 2000.

5.4 Indonesia

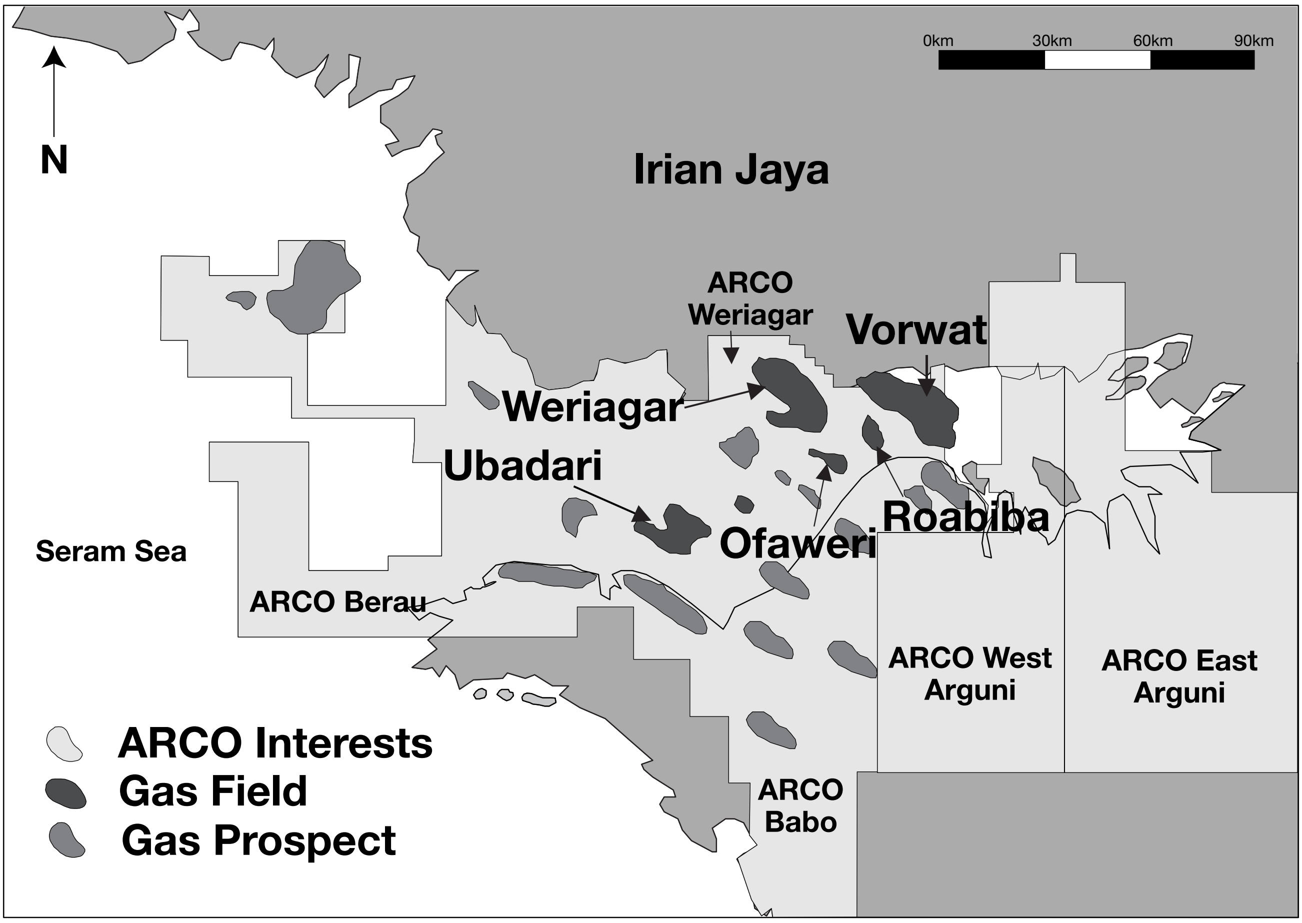
The following map shows the ARCO Group's principal interests in Indonesia:



In Indonesia, ARCO's acquisition of UTP gave ARCO its entry into the LNG business. The Indonesian operations consist primarily of a 37.81 per cent working interest in the East Kalimantan joint venture that produces natural gas and, to a lesser extent, oil and condensate from the Sanga Sanga block. Substantially all the natural gas produced by the joint venture is supplied to a liquefaction plant at Bontang Bay, pursuant to long-term contracts with Pertamina, the Indonesian national oil company. The Bontang plant converts the gas into LNG in parallel processing units called "trains". Seven trains are currently in operation and an eighth is under construction at the date of this document.

ARCO's 1998 natural gas production from all Indonesian interests totalled 569 mmcf/d.

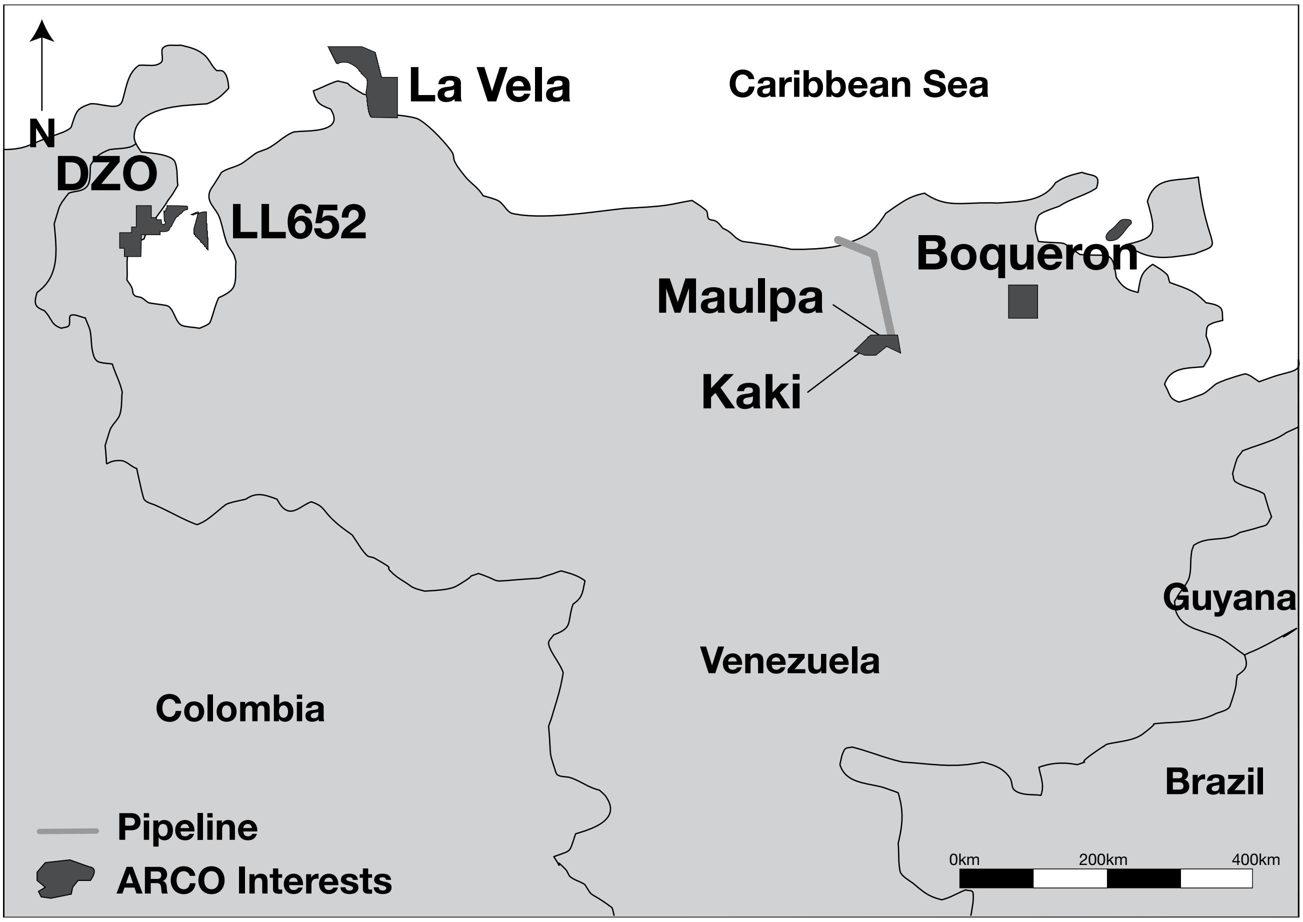
The following map shows the ARCO Group's specific interests in the Tangguh field in Indonesia:



During 1998, estimated gross resources in the giant Tangguh field increased to 14.4 tcf. ARCO will operate the Weriagar, Berau and Muturi fields that will feed gas to the Tangguh project. The planned two-train LNG production facility will be operated by an Indonesian company that will be jointly owned by Pertamina, the Indonesian national oil company, and the participants in the production sharing contracts that will supply gas to the plant. ARCO and Pertamina are jointly marketing the LNG.

5.5 Venezuela

The following map shows the ARCO Group's principal interests in Venezuela:



ARCO's Venezuelan operations consist of risk service contracts covering six blocks. The Venezuelan government maintains full ownership of all hydrocarbons in the fields.

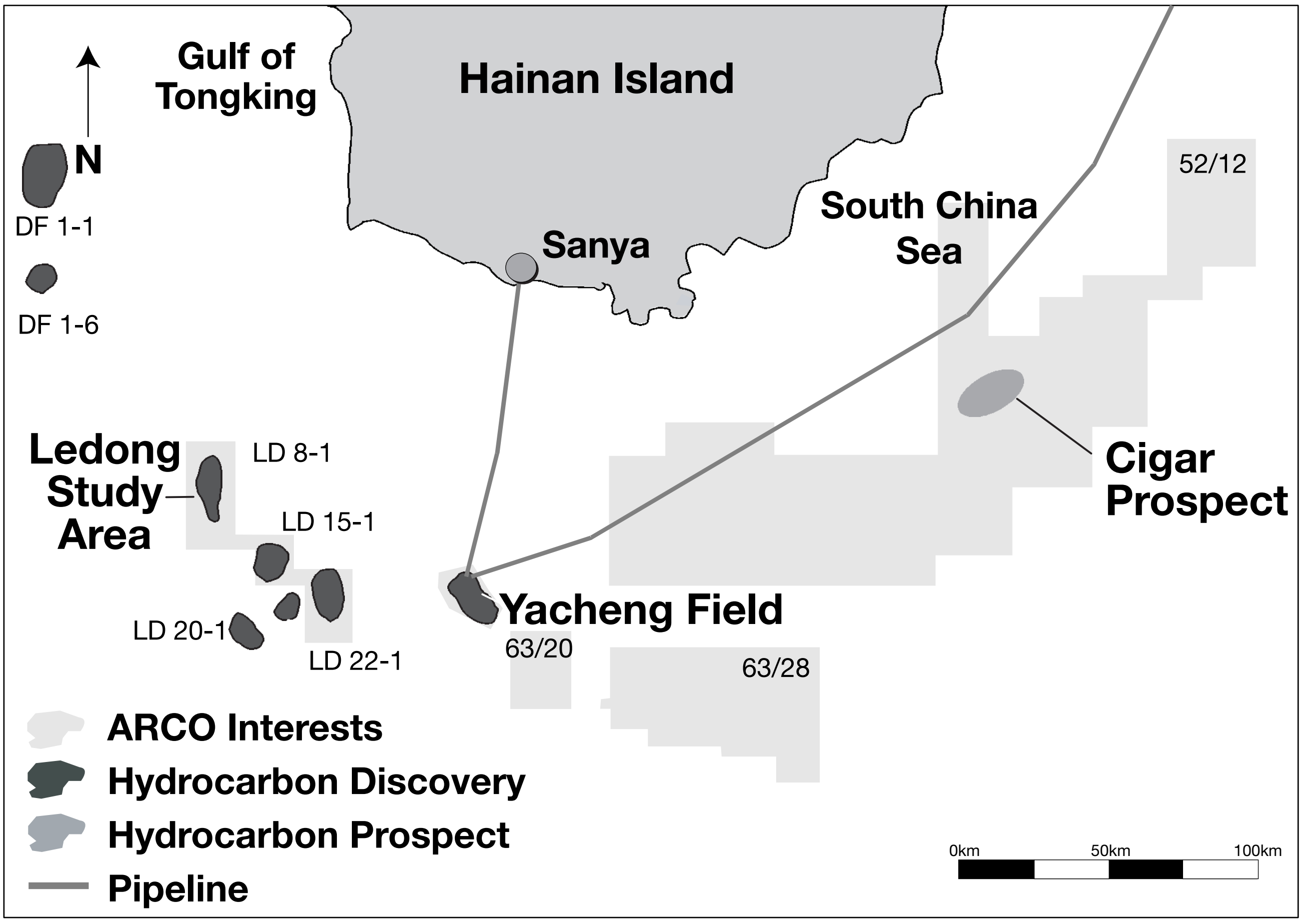
ARCO acquired from UTP interests in two risk service contracts covering the Desarrollo Zulia Occidente ("DZO") contract area (a 100 per cent interest) and the Boqueron contract area (a 60 per cent interest). In acquiring DZO, ARCO assumed a potential liability for making payments of up to a maximum of $15 million annually for six years. Because this potential liability is based primarily on oil prices achieving levels substantially higher than today's prices, ARCO considers it a remote possibility that these payments will ever be made. ARCO also signed risk service contracts covering the Kaki (56 per cent), Maulpa (56 per cent) and LL-652 (18 per cent) blocks, as well as the La Vela exploration block. ARCO is the operator of the DZO and Boqueron blocks.

Proved reserves and production quantities for Venezuelan operations are recorded based on ARCO's net working interest in each of the contract areas, "net" meaning reserves excluding royalties and interests owned by others under the contractual arrangements. Total production from ARCO's interests from the date of initial involvement was 6,099,000 barrels, or 16,700 b/d on a full-year basis. Production for the fourth quarter of 1998 averaged 32,000 b/d. These properties represented 166 mmboe of net proved reserves at 31 December 1998.

With the fall in worldwide crude prices, ARCO recorded a $190 million impairment to the capitalised cost of the DZO unit. ARCO is in discussions with the Venezuelan government on the terms of the DZO unit contract to improve the profitability under current oil prices. ARCO's long-term work programme and investment in the DZO unit depend on the results of these discussions.

5.6 China

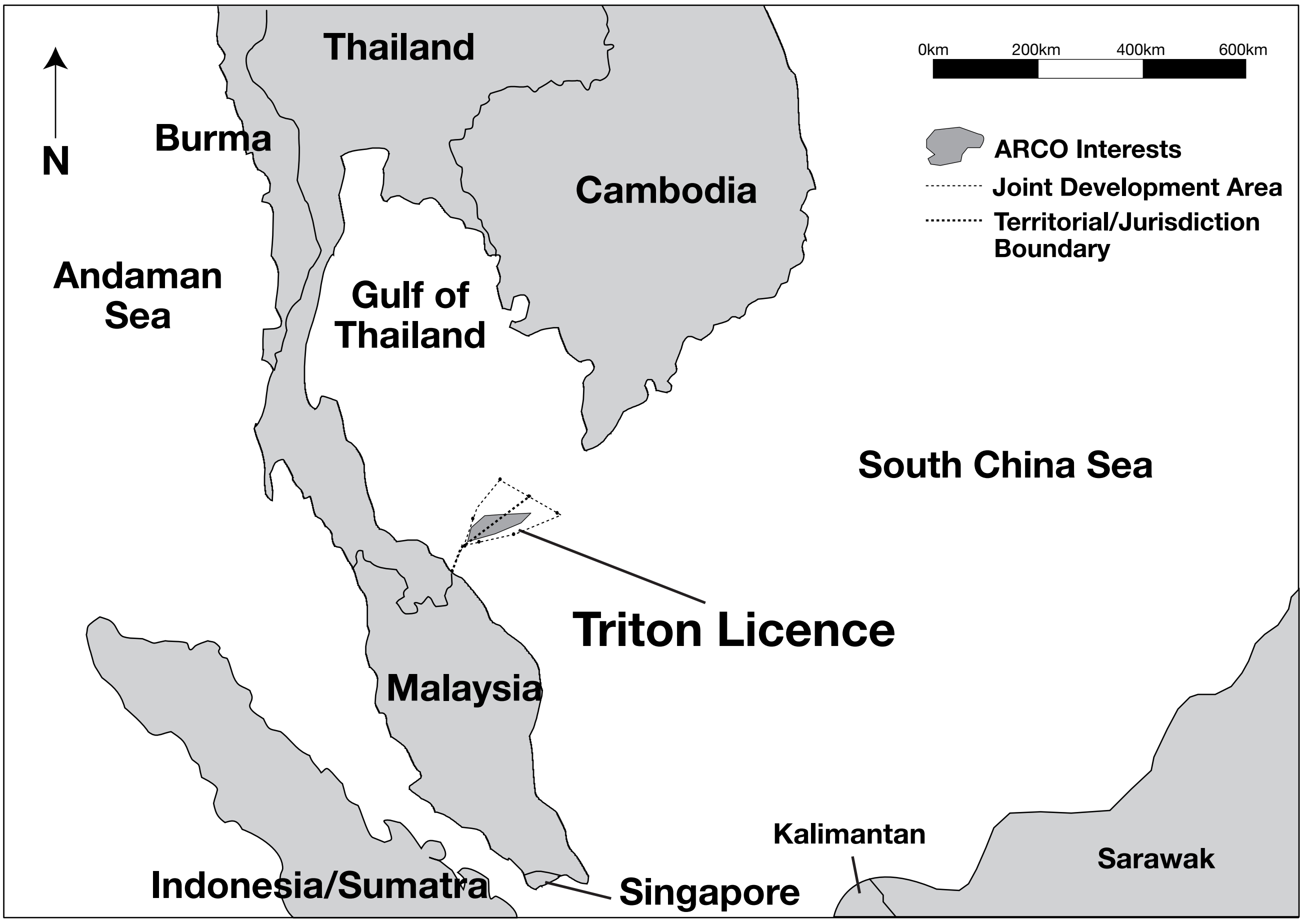
The following map shows the ARCO Group's principal interests in China:



In China, ARCO operates the Yacheng-13 gas field, from which ARCO obtained net production of 133 mmcf/d during 1998, down from 142 mmcf/d in 1997.

5.7 Malaysia and Thailand

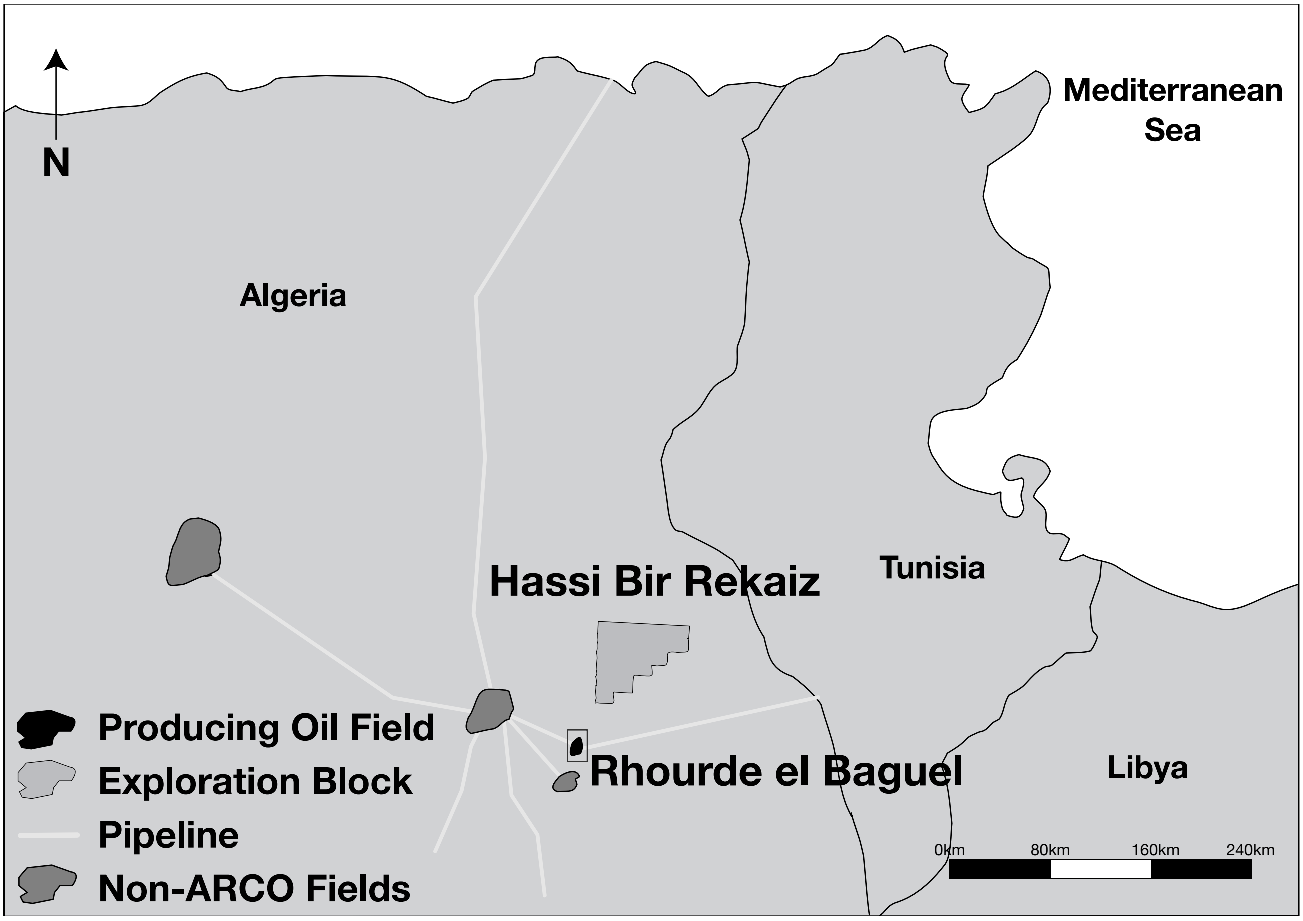
The following map shows the ARCO Group's principal interests in Malaysia and Thailand:



In August 1998, ARCO acquired a 25 per cent interest in a major natural gas project in the Malaysia-Thailand Joint Development Area ("JDA") in the Gulf of Thailand. ARCO purchased a 50 per cent interest in the Triton Energy Limited subsidiaries that hold Triton's interest in the JDA for a cash payment of $150 million and an agreement to fund half the development costs until first commercial production, up to a maximum of $377 million. Triton continues to hold a 25 per cent interest in the JDA, and the other 50 per cent is owned by the Malaysian national oil company Petronas.

5.8 Algeria

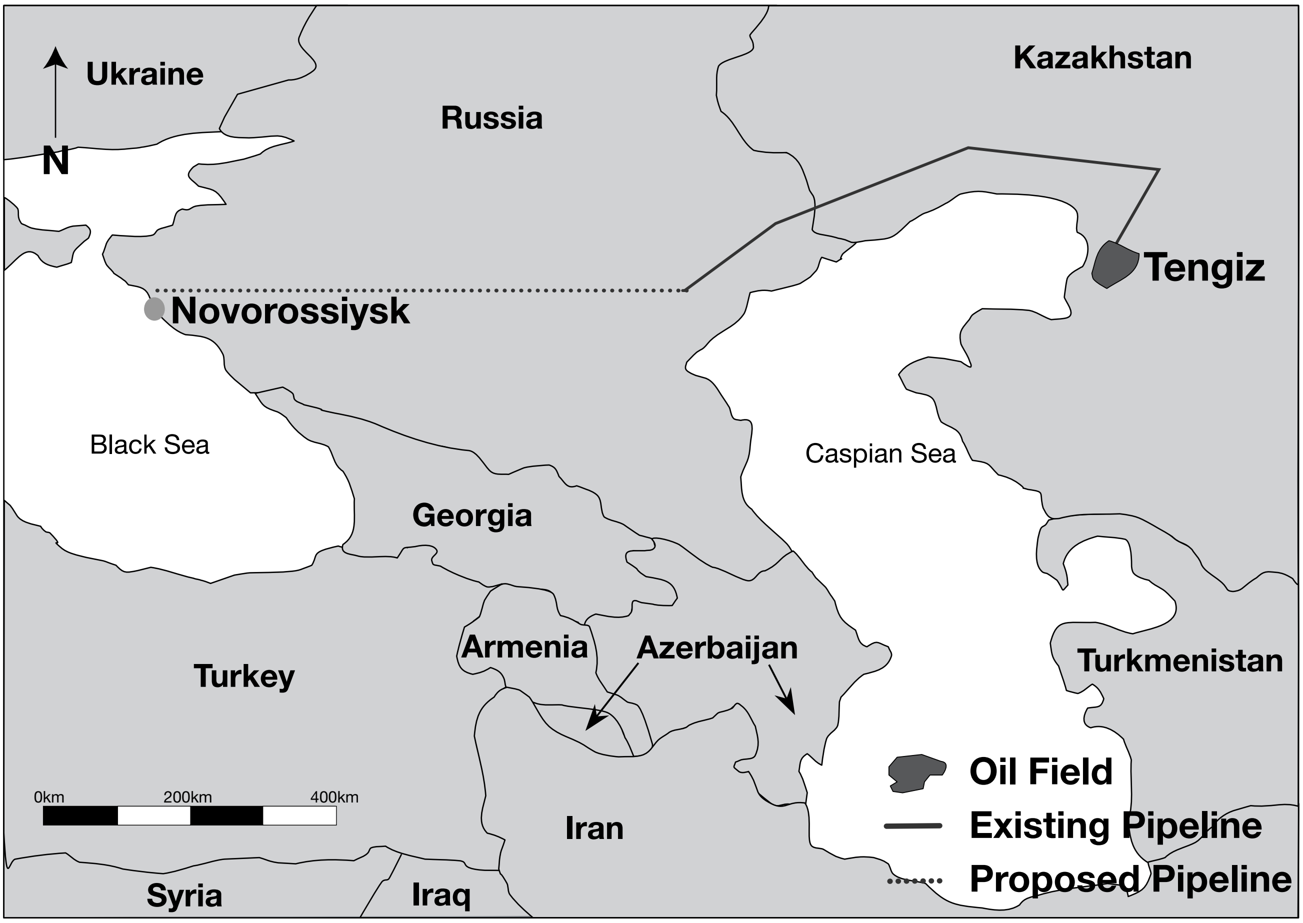
The following map shows the ARCO Group's principal interests in Algeria:



ARCO's operations in Algeria consist of the EOR project currently under development in the Rhourde El Baguel field. Under its agreements with Sonatrach, the Algerian state oil company, ARCO will receive up to 49 per cent of the project's annual production. For 1998, ARCO reported net production of 21,100 b/d.

5.9 The Caspian Sea (Kazakhstan and Azerbaijan)

The following map shows the ARCO Group's principal interests in the Caspian Sea:



ARCO also holds a 46 per cent interest in LUKARCO, a joint venture with the Russian oil company LUKOIL. LUKARCO was formed in February 1997 to facilitate joint oil and gas investment in Russia and other countries in the Commonwealth of Independent States. The LUKARCO joint venture holds a 5 per cent interest in the joint venture operating the Tengiz oil field in Kazakhstan, a 12.5 per cent interest in the Caspian Pipeline Consortium ("CPC"), a multi-party effort to build a 900-mile pipeline from the Tengiz field to the Black Sea via Russia, and a 60 per cent interest in the Yalama block in the Caspian Sea offshore of Azerbaijan. Under the terms of the joint venture arrangement, ARCO has agreed to provide financing to LUKARCO covering most of the costs of any projects approved by ARCO. ARCO is obliged to fund LUKARCO's 25 per cent share of the construction costs of the CPC pipeline. In addition to the joint venture interest, ARCO owns 8 per cent of LUKOIL's total equity, which at 30 June 1999 was valued at $582 million.

6. Crude Oil and Gas Sales Commitments

ARCO has various long-term natural gas sales contracts covering the majority of its production in Indonesia, the United Kingdom North Sea and China. ARCO's various annual delivery obligations under these contracts are substantially limited to producible reserves from specific fields.

In the Lower 48 States, Vastar has various long-term natural gas sales contracts. In connection with the formation in 1997 of Southern Company Energy Marketing L.P. ("SCEM"), a strategic alliance limited partnership with the Southern Company, Vastar entered into a gas purchase and sale agreement with SCEM. The primary term expires on 31 December 2007 and the prices are market-based. The contract covers substantially all of the gas produced and owned or controlled by Vastar. Excluded from this contract is gas which Vastar is committed to deliver under certain longer-term gas marketing contracts with co-generation facilities pursuant to which Vastar delivered an average of 72 mmcf/d in 1998. Such long-term contracts have an average remaining contract term of approximately 12 years. In 1998, the average price of gas sold under such contracts was approximately $2.62 per mcf. There have been no instances in the last three years in which Vastar was unable to meet any significant natural gas delivery commitment.

7. Environmental Protection and Remediation Costs

ARCO is subject to federal, state and local environmental laws and regulations, including the US Comprehensive Environmental Response, Compensation and Liability Act 1980, as amended, the US Superfund Amendments and Reauthorization Act 1986 and the US Resource Conservation Recovery Act 1976.

ARCO is currently involved in environmental assessments and cleanups under these laws at federal and state-managed sites, as well as other clean-up sites, including service stations, refineries, terminals, third party landfills, former nuclear processing facilities, sites associated with discontinued operations and sites that were formerly owned by ARCO or its predecessors. This comprises 125 sites for which ARCO has been named as a potentially responsible party ("PRP"), along with other sites for which no claims have been asserted. The number of PRP sites in and of itself is not a relevant measure of liability because the nature and extent of environmental concerns varies by site and ARCO's potential responsibility varies from sole to very little. Future costs, therefore, depend on unknown factors such as the nature and extent of the contamination; the timing, extent and method of remedial action; ARCO's proportional share of costs; and the financial condition of other responsible parties.

The environmental remediation accrual is updated annually, at a minimum, and at 31 March 1999 was $847 million. The environmental reserves for the three years to 31 December 1998 and for the three months ended 31 March 1999 are set out below.

Environmental Reserves*

$ million

	Three months to 31 March 1999	Year ended 31 December 1998	1997	1996
Beginning balance	**870**	722	524	600
Charges	**10**	234	300	45
Payments	**(33)**	(86)	(102)	(121)
Ending balance	**847**	870	722	524

* Total long-term and short-term liabilities

The amount accrued represents the estimated undiscounted costs that ARCO will incur to complete the remediation of sites with known contamination. In view of the uncertainties associated with estimating these costs (such as differences of opinion between ARCO and various regulatory agencies with respect to the appropriate method for remediating contaminated sites, uncertainty as to the extent of contamination at various sites, and uncertainty regarding ARCO's ultimate share of costs at various sites), it is possible that actual costs could exceed the amount accrued by as much as $500 million. This estimate was determined by applying Monte Carlo analysis to estimated site maximums on a portfolio basis. Monte Carlo analysis is an analytical tool that uses computer generated iterations to determine a range of probable outcomes for a project or a portfolio of projects. ARCO's specific use of Monte Carlo analysis involved determining a range of liability outcomes for ARCO's portfolio of active sites.

Approximately 54 per cent of the reserves relate to sites associated with ARCO's discontinued operations, primarily mining activities in the states of Montana, Utah and New Mexico. Another significant component relates to currently and formerly owned nuclear processing and refining and marketing facilities, and other sites that received wastes from these facilities. The remainder relates to sites with reserves ranging from $1 million to $10 million per site. No one site represents more than 10 per cent of the total accrual. Substantially all amounts reserved are expected to be paid out over the next five to six years.

In addition to the provision for environmental remediation costs, $1.1 billion has been accrued for the estimated cost, net of salvage value, of dismantling facilities as required by contract, regulation or law, and for the estimated costs of restoration and reclamation of land associated with such facilities.

Claims for recovery of remediation costs already incurred and to be incurred in the future have been filed against various third parties. Many of these claims have been resolved. ARCO has neither recorded any asset nor reduced any liability in connection with unresolved claims.

Although any ultimate liability arising from any of the matters described herein could result in significant expenses or judgements that, if aggregated and assumed to occur within a single fiscal year, would be material to ARCO's results of operations, the likelihood of such occurrence is considered remote. On the basis of ARCO management's best assessment of the ultimate amount and timing of these events, such expenses or judgements are not expected to have a material adverse effect on ARCO's consolidated financial statements.

8 Standardised Measure of Discounted Future Net Cash Flows Relating to Proved Crude Oil and Gas Reserves

The table below (extracted from ARCO's supplemental unaudited information included in its Annual Report on Form 10-K for 1998) summarises the standardised measure of discounted estimated future net cash flows relating to proved crude oil and gas reserves at 31 December 1998, 1997 and 1996.

$ billion

	1998			1997			1996		
	US	Rest of World	Total	US	Rest of World	Total	US	Rest of World	Total
Future cash inflows	**21.9**	**16.2**	**38.1**	36.7	16.6	53.3	48.8	17.8	66.6
Future development and production costs	**13.0**	**7.6**	**20.6**	15.0	7.1	22.1	14.2	7.3	21.5
Future income tax expense	**2.3**	**2.9**	**5.2**	7.3	3.5	10.8	12.0	3.2	15.2
Future net cash flows	**6.6**	**5.7**	**12.3**	14.4	6.0	20.4	22.6	7.3	29.9
10% annual discount	**2.7**	**2.7**	**5.4**	6.5	2.8	9.3	10.3	3.6	13.9
Standardised measure of discounted future net cash flows	**3.9**	**3.0**	**6.9**	7.9	3.2	11.1	12.3	3.7	16.0
Standardised measure of discounted future net cash flows of equity affiliates*	**–**	**0.1**	**0.1**	–	0.1	0.1	–	–	–
Total	**3.9**	**3.1**	**7.0**	7.9	3.3	11.2	12.3	3.7	16.0

* ARCO's share

Estimated future cash inflows are computed by applying year-end prices of oil and gas to year-end quantities of proved reserves. Future price changes are considered only to the extent provided by contractual arrangements. Estimated future development and production costs are determined by estimating the expenditures to be incurred in developing and producing the proved oil and gas reserves at the end of the year, based on year-end costs and assuming continuation of existing economic conditions. Estimated future income tax expense is calculated by applying year-end statutory tax rates (adjusted for permanent differences and tax credits) to estimated future pretax net cash flows related to proved oil and gas reserves, less the tax basis of the properties involved.

These estimates are furnished and calculated in accordance with requirements of the US Statement of Financial Accounting Standards Board (No. 69) and the SEC. Estimates of future net cash flows presented do not represent management's assessment of future profitability or future cash flows to ARCO. ARCO management's investment and operating decisions are based on reserve estimates that include proved reserves prescribed by the SEC as well as probable reserves, and on different price and cost assumptions from those used here.

It should be recognised that applying current costs and prices and a 10 per cent standard discount rate does not convey absolute value. The discounted amounts arrived at are only one measure of the value of proved reserves.

Primary changes in standardised measure of discounted estimated future net cash flows

The following table (extracted from ARCO's supplemental unaudited information included in its Annual Report on Form 10-K for 1998) details the primary changes in the standardised measure of discounted estimated future net cash flows of the ARCO Group for the three years ended 31 December 1998.

			$ billion
	1998	**1997**	**1996**
Sales and transfers of oil and gas, net of production costs	**(2.7)**	(4.0)	(3.9)
Extensions, discoveries and improved recovery, less related costs	**0.5**	0.9	1.2
Revisions of estimates of reserves proved in prior years:			
Quantity estimates	**–**	0.7	0.5
Net changes in price and production costs	**(11.3)**	(8.4)	8.4
Purchases/sales	**3.1**	0.5	1.0
Other	**(0.6)**	(0.7)	(0.4)
Accretion of discount	**1.7**	2.4	1.5
Development costs incurred during the period	**2.3**	1.5	1.0
Net change in income taxes	**2.8**	2.3	(3.2)
Net change	**(4.2)**	(4.8)	6.1

Because the price of crude oil and natural gas is likely to remain volatile in the future, price changes can be expected to continue to affect significantly the standardised measure of discounted future net cash flows.

The valuation of plant and equipment has been included at paragraph 10.2 below.

9 Capitalised Costs

The following table summarises the aggregate amount of capitalised costs for oil and gas exploration and production activities, and the related accumulated depreciation, depletion and amortisation at 31 December 1998, 1997 and 1996. The data in the tables has been extracted from ARCO's unaudited supplemental information included in its Annual Report on Form 10-K for 1998.

									$ million
			1998			1997			1996
	US	Rest of World	Total	US	Rest of World	Total	US	Rest of World	Total
Proved properties	**16,348**	**11,345**	**27,693**	15,845	6,026	21,871	15,004	5,245	20,249
Unproved properties	**622**	**1,292**	**1,914**	365	447	812	257	297	554
	16,970	**12,637**	**29,607**	16,210	6,473	22,683	15,261	5,542	20,803
Accumulated depreciation, depletion and amortisation	**10,569**	**4,789**	**15,358**	10,559	2,959	13,518	9,924	2,668	12,592
Net capitalised costs	**6,401**	**7,848**	**14,249**	5,651	3,514	9,165	5,337	2,874	8,211
Net capitalised costs of ARCO's share of equity affiliates	**—**	**188**	**188**	—	55	55	—	—	—
Total	**6,401**	**8,036**	**14,437**	5,651	3,569	9,220	5,337	2,874	8,211

10 Costs Incurred and Property, Plant and Equipment

10.1 Costs incurred in acquisition and exploitation of reserves

Costs, both capitalised and expensed, incurred in oil and gas producing activities during the three years ended 31 December 1998, 1997 and 1996 are set out below. Property acquisition costs represent costs incurred to purchase or lease oil and gas properties. Exploration costs include costs of geological and geophysical activity and drilling exploratory wells. Development costs include costs of drilling and equipping development wells and construction of production facilities to extract, treat and store oil and gas.

The tables in this paragraph 10 have been extracted from ARCO's unaudited supplemental information included in its Annual Report on Form 10-K for 1998.

$ million

			1998			**1997**			**1996**
	US	**Rest of World**	**Total**	**US**	**Rest of World**	**Total**	**US**	**Rest of World**	**Total**
Property acquisition costs:									
Proved properties	**235**	**2,594**	**2,829**	92	224	316	82	275	357
Unproved properties	**72**	**662**	**734**	100	8	108	98	11	109
Exploration costs	**306**	**376**	**682**	328	332	660	277	213	490
Development costs	**1,102**	**1,200**	**2,302**	692	794	1,486	481	482	963
Total expenditure	**1,715**	**4,832**	**6,547**	1,212	1,358	2,570	938	981	1,919
Costs incurred of equity affiliates*	**—**	**349**	**349**	—	109	109	—	—	—
Total	**1,715**	**5,181**	**6,896**	1,212	1,467	2,679	938	981	1,919

* ARCO's share

10.2 Property, plant and equipment

Property, plant and equipment of ARCO as at 31 December 1998 and 1997 was as follows:

$ million

	1998		**1997**	
	Gross	**Net**	**Gross**	**Net**
Exploration & Production	**32,072**	**15,244**	25,145	10,230
Refining & Marketing	**5,450**	**2,954**	5,017	2,714
Other operations	**649**	**432**	731	470
Unallocated	**1,151**	**132**	332	146
Total	**39,322**	**18,762**	31,225	13,560

Expenses for maintenance and repairs for 1998, 1997 and 1996 were $420 million, $334 million and $338 million, respectively.

11 Results of Operations for Oil and Gas Producing Activities (including operating overhead)

The following information has been extracted from ARCO's unaudited supplemental information included in its Annual Report on Form 10-K for 1998 and from ARCO's 1998 Annual Report.

$ million

	1998			1997			1996		
	US	Rest of World	Total	US	Rest of World	Total	US	Rest of World	Total
Revenues									
Sales	**1,535**	**1,305**	**2,840**	1,974	1,349	3,323	1,892	1,140	3,032
Transfers	**1,077**	**—**	**1,077**	2,074	—	2,074	2,199	—	2,199
Other	**44**	**75**	**119**	42	45	87	47	45	92
	2,656	**1,380**	**4,036**	4,090	1,394	5,484	4,138	1,185	5,323
Production costs	**609**	**332**	**941**	615	286	901	587	234	821
Production taxes	**273**	**56**	**329**	420	43	463	457	50	507
Exploration expense[a]	**272**	**357**	**629**	263	245	508	238	175	413
Depreciation, depletion and amortisation	**651**	**517**	**1,168**	681	429	1,110	691	305	996
Impairment	**180**	**1,267**	**1,447**	—	—	—	—	—	—
Other operating expenses	**201**	**244**	**445**	258	247	505	277	227	504
Results before income taxes	**470**	**(1,393)**	**(923)**	1,853	144	1,997	1,888	194	2,082
Income tax expense (benefit)	**58**	**(532)**	**(474)**	609	11	620	628	109	737
Results of operations from oil and gas producing activities	**412**	**(861)**	**(449)**	1,244	133	1,377	1,260	85	1,345
Results from equity affiliates[b]	**—**	**(3)**	**(3)**	—	(6)	(6)	—	—	—
Total	**412**	**(864)**	**(452)**	1,244	127	1,371	1,260	85	1,345

Notes:

[a] Segmental analysis of exploration expense.

[b] ARCO's share.

$ million

	Year ended 31 December		
	1998	1997	1996
Pretax exploration expense:			
Alaska	**46**	71	30
Rest of World*	**357**	245	175
Vastar	**211**	175	186
Other Lower 48 States	**15**	17	22
Total	**629**	508	413

* Includes $17 million, $36 million and $12 million of costs recovered in 1998, 1997 and 1996, respectively, under provisions of production-sharing agreements.

The difference between the above results of operations and the amounts reported for exploration and production segment net income is primarily restructuring costs related to the oil and gas operations, the exclusions of non-producing exploration and production units (Alaskan pipelines, technical support) and minority interest adjustments.

Average sales prices (including transfers) and production costs per unit of crude oil and natural gas produced, for the three years ended 31 December 1998, are set out in the table below.

						$
	Year ended 31 December					
	1998		**1997**		**1996**	
	US	**Rest of World**	**US**	**Rest of World**	**US**	**Rest of World**
Average sales price (including transfers) per barrel of petroleum liquids produced	**9.43**	**11.07**	15.63	18.20	16.07	19.02
Average lifting cost per equivalent barrel of production	**3.34**	**3.73**	3.85	4.07	3.86	4.14
Average sales price per mcf of natural gas produced	**1.82**	**2.54**	2.04	2.64	1.80	2.54

A geographic segmental analysis of the average sales prices (including transfers) and production costs per unit of crude oil and natural gas produced, for the three years ended 31 December 1998, is set out below.

			$ million
	Year ended 31 December		
	1998	**1997**	**1996**
Average oil and gas production costs (dollars/oil-equivalent barrel):			
Alaska	**2.76**	3.44	3.86
Rest of World	**3.73**	4.07	4.14
Vastar	**2.72**	2.83	2.50
Other Lower 48 States	**5.49**	6.18	5.83
Average sales prices:			
Oil and gas liquids (dollars/barrel):			
Alaska	**8.50**	15.03	15.23
Lower 48 States, including Vastar	**11.23**	16.88	17.99
US composite average	**9.43**	15.63	16.07
Rest of World	**11.07**	18.20	19.02
Natural gas (dollars/thousand cubic feet):			
US, including Vastar	**1.82**	2.04	1.80
Rest of World	**2.54**	2.64	2.54
Indonesia LNG	**2.49**	—	—

Part VIII: Additional Information

1 Responsibility

The Directors, whose names are set out in paragraph 8.1 below, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

2 Incorporation

The Company was incorporated in England and Wales on 14 April 1909 under the Companies (Consolidation) Act 1908 as a limited company with registered number 102498. The Company was re-registered on 4 January 1982 under the Companies Acts 1948 to 1980 as a public limited company limited by shares. The principal legislation under which BP Amoco operates is the Act. The Company's registered and head office is at Britannic House, 1 Finsbury Circus, London EC2M 7BA.

3 Share Capital

3.1 The share capital of BP Amoco as at the close of business on 9 July 1999 (the latest practicable date prior to the printing of this document), both before and after the Subdivision, and of BP Amoco immediately following the Combination becoming effective (assuming approval of Resolution 3 and the issue of 5,043,418 BP Amoco Ordinary Shares to ARCO DSC II prior to the Effective Date and no further issues of shares by BP Amoco after 9 July 1999 and prior to the Effective Date other than the issue of 1,666,843,766 Consideration Shares), is and will be as follows:

	AUTHORISED		ISSUED AND FULLY PAID	
	Number	**Amount**	**Number**	**Amount**
Before Combination and Subdivision				
BP Amoco Ordinary Shares of $0.50 each	12,000,000,000	$6,000,000,000	9,729,162,866	$4,864,581,433
8 per cent Cumulative First Preference Shares of £1 each	7,250,000	£7,250,000	7,232,838	£7,232,838
9 per cent Cumulative Second Preference Shares of £1 each	5,500,000	£5,500,000	5,473,414	£5,473,414
After Subdivision and before Combination				
BP Amoco Ordinary Shares of $0.25 each	24,000,000,000	$6,000,000,000	19,458,325,732	$4,864,581,433
8 per cent Cumulative First Preference Shares of £1 each	7,250,000	£7,250,000	7,232,838	£7,232,838
9 per cent Cumulative Second Preference Shares of £1 each	5,500,000	£5,500,000	5,473,414	£5,473,414
After Combination (if Subdivision does not occur)				
BP Amoco Ordinary Shares of $0.50 each	18,000,000,000	$9,000,000,000	11,402,050,050	$5,701,025,025
8 per cent Cumulative First Preference Shares of £1 each	7,250,000	£7,250,000	7,232,838	£7,232,838
9 per cent Cumulative Second Preference Shares of £1 each	5,500,000	£5,500,000	5,473,414	£5,473,414
After Combination (if Subdivision has occurred)				
BP Amoco Ordinary Shares of $0.25 each	36,000,000,000	$9,000,000,000	22,804,100,100	$5,701,025,025
8 per cent Cumulative First Preference Shares of £1 each	7,250,000	£7,250,000	7,232,838	£7,232,838
9 per cent Cumulative Second Preference Shares of £1 each	5,500,000	£5,500,000	5,473,414	£5,473,414

Details of the outstanding options over BP Amoco Ordinary Shares are set out in paragraph 5.3 of this Part VIII.

3.2 The following alterations in the issued share capital of BP Amoco have occurred in the three years prior to 9 July 1999 (the latest practicable date prior to the printing of this document):

BP Amoco Ordinary Shares issued under option schemes*

	Number	Nominal Value $	Weighted average exercise price $
1 January 1996 to 31 December 1996	21,437,745	10,718,872	5.26
1 January 1997 to 31 December 1997	32,572,683	16,286,341	5.17
1 January 1998 to 31 December 1998	26,737,746	13,368,873	6.01
1 January 1999 to 9 July 1999	19,657,594	9,828,797	8.13

* Includes BP Amoco Ordinary Share equivalents of Amoco shares issued under former Amoco option schemes.

BP Amoco Ordinary Shares issued under the BP Amoco Participating Schemes

	Number	Nominal Value $
1 January 1996 to 31 December 1996	8,240,640	4,120,320
1 January 1997 to 31 December 1997	6,821,609	3,410,805
1 January 1998 to 31 December 1998	1,648,523	824,262
1 January 1999 to 9 July 1999	574,176	287,088

Under the BP Amoco Participating Schemes, the Company matches employees' own contributions of shares.

BP Amoco Ordinary Shares issued under the BP Amoco Share Dividend Plan*

	Number	Nominal Value $
1 January 1996 to 31 December 1996	54,848,723	27,424,361
1 January 1997 to 31 December 1997	87,179,495	43,589,747
1 January 1998 to 31 December 1998	110,285,094	55,142,547
1 January 1999 to 1 February 1999	25,921,073	12,960,537

* The BP Amoco Share Dividend Plan was cancelled following the 1 February 1999 dividend.

Under the BP Amoco Share Dividend Plan, shares were issued as fully paid by capitalisation of the share premium account.

BP Amoco Ordinary Share equivalents issued under other former Amoco employee benefit plans

	Number	Nominal Value $
1 January 1996 to 31 December 1996	883,643	441,822
1 January 1997 to 31 December 1997	1,011,382	505,691
1 January 1998 to 31 December 1998	1,446,819	723,410

3.3 On 31 December 1998 BP Amoco issued 3,797,071,800 BP Amoco Ordinary Shares to shareholders of Amoco in relation to the merger of Amoco with BP Amoco pursuant to which the shareholders of Amoco were entitled to receive 3.97 BP Amoco Ordinary Shares for each Amoco common share that they held.

3.4 Save as disclosed in paragraphs 3.2 and 3.3 above, during the three years prior to 9 July 1999 (the latest practicable date prior to the printing of this document), no share capital of BP Amoco and no share capital of any other member of the BP Amoco Group which is material (other than intra-group issues by wholly-owned subsidiaries) has been issued or been agreed to be issued fully or partly paid, either for cash or for a consideration other than cash and no such issue is proposed.

3.5 The provisions of section 89(1) of the Act (which to the extent not disapplied pursuant to section 95 of the Act, confer on shareholders rights of pre-emption in respect of the allotment of "equity securities" (as defined in section 94 of the Act) which are, or are to be, paid up in cash) apply to the authorised but unissued share capital of BP Amoco except to the extent disapplied as referred to below. The Listing Rules require that, unless the approval of shareholders in general meeting is obtained, BP Amoco must offer ordinary shares to be issued for cash to existing ordinary shareholders on a pro rata basis.

3.6 At the EGM a resolution will be proposed to increase BP Amoco's authorised share capital following the Combination to £12,750,000 (which represents the BP Amoco Preference Shares) and $9,000,000,000 by the creation of either, if the Subdivision has occurred prior to the Effective Date, an additional 12,000,000,000 New BP Amoco Ordinary Shares or, if the Subdivision has not occurred prior to the Effective Date, an additional 6,000,000,000 BP Amoco Ordinary Shares. In addition, a resolution will be proposed at the EGM to give the Directors authority to allot relevant securities (as defined in Section 80(2) of the Act) up to an aggregate nominal amount of $1,885 million at any time until the sooner of the next Annual General Meeting or 14 July 2000. By a resolution proposed on the same date, the Directors will be empowered to allot equity securities for cash as if section 89(1) of the Act did not apply to any such allotment, but such power will be limited to the allotment of equity securities up to an aggregate nominal amount of $280 million and will expire on the sooner of the next Annual General Meeting or 14 July 2000. The increase in the authorised share capital will result in a suitable margin of authorised but unissued share capital being available for issue in the medium term after the Combination. The authorities giving the Directors the power to allot securities will ensure that BP Amoco has sufficient share capital for its needs in the short term.

3.7 Promptly after the Effective Date, the Exchange Agent will send each ARCO Common Shareholder (other than BP Amoco, ARCO or any subsidiary of BP Amoco or ARCO) holding ARCO Common Share certificates a letter of transmittal for use in effecting delivery of ARCO Common Shares to the Exchange Agent. The letter of transmittal will include a form of election by which an ARCO Common Shareholder may elect to receive BP Amoco Ordinary Shares instead of all or part of the BP Amoco ADSs to which such shareholder is entitled. Elections to receive BP Amoco Ordinary Shares will be accepted only until the close of business on the 42nd day following the Effective Date and must be made for BP Amoco Ordinary Shares in multiples of six. Any ARCO Common Shareholder failing to submit a properly completed form of election within that period will automatically receive the consideration under the Combination in the form of BP Amoco ADSs upon delivery of such shareholder's letter of transmittal and any certificates for ARCO Common Shares. An ARCO Common Shareholder who desires to receive all of the consideration under the Combination to which such shareholder is entitled in the form of BP Amoco ADSs, is not required to wait for the expiration of the 42-day period in order to receive the consideration under the Combination in that form. The form of election will permit a shareholder to request all of their consideration under the Combination in ADS form. For ARCO Common Shareholders properly electing to receive their consideration in BP Amoco Ordinary Shares, any entitlement to BP Amoco Ordinary Shares in excess of multiples of six will constitute a fractional interest in a BP Amoco ADS and will be paid in cash. After delivery of an ARCO Common Share certificate (if any), together with a duly executed and completed letter of transmittal, each ARCO Common Shareholder will be entitled to receive (A) the number of BP Amoco ADSs or BP Amoco Ordinary Shares, excluding any fractional interest in a BP Amoco ADS, that such holder has the right to receive as consideration under the Combination and (B) a cheque in the amount (after giving effect to any required tax withholdings) of (i) cash in lieu of any fractional interest in a BP Amoco ADS and (ii) any cash dividends or other distributions announced in respect of such holder's BP Amoco ADSs or BP Amoco Ordinary Shares with a record date after the Effective Date and a payment date on or prior to the date that the holder of ARCO Common Shares becomes entitled to the receipt of BP Amoco ADSs or BP Amoco Ordinary Shares and not previously paid. A holder of ARCO Common Shares in uncertificated form will be entitled to receive the consideration under the Combination in BP Amoco ADSs and other amounts described above after the expiration of the 42-day period for the election of BP Amoco Ordinary Shares without delivering any letter of transmittal. Any ARCO Common Share certificates surrendered will be cancelled. No interest will be paid or accrued on any amount payable. An ARCO Common Shareholder will not receive any dividends or other distributions with respect to BP Amoco ADSs or BP Amoco Ordinary Shares to which such shareholder is entitled under the Merger Agreement until the ARCO Common Share certificate is surrendered to the Exchange Agent or, in the case of a holder of uncertificated ARCO Common Shares, such shareholder otherwise becomes entitled to the consideration under the Combination.

3.8 No temporary documents of title will be issued pursuant to the Combination.

3.9 None of the Consideration Shares or the New BP Amoco Ordinary Shares have been or will be made available to the public in whole or in part in conjunction with the application for listing of those securities.

3.10 The BP Amoco Ordinary Shares are listed and are traded on the London Stock Exchange, the Paris Bourse, the Deutsche Börse AG, the Swiss Exchange and the Tokyo Stock Exchange and will continue to be listed on these stock exchanges on and from the Effective Date. The BP Amoco ADSs are authorised for listing and are traded on the New York Stock Exchange, the Chicago Stock Exchange, the Pacific Exchange and the Toronto Stock Exchange.

3.11 The BP Amoco Shares are in registered form with the exception of 3,072,071,800 BP Amoco Ordinary Shares which are in bearer form. The Consideration Shares will be issued in registered form and will be capable of being held in either certificated or in uncertificated form through CREST. The Consideration Shares and the New BP Amoco Ordinary Shares will be credited as fully paid and will rank *pari passu* in all respects with the BP Amoco Ordinary Shares, including the right to all dividends and other distributions declared, made or paid thereon after the Effective Date.

3.12 Save as referred to in paragraph 3.2 and save for the share options referred to under the share schemes in paragraph 5 below no share or loan capital of the Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option.

4 Memorandum and Articles of Association

4.1 Memorandum of Association

The Memorandum of Association of BP Amoco (the "Memorandum") provides that its principal objects are, amongst other things, to carry on all or any of the businesses of dealers in, and refiners of, petroleum and other mineral oils, natural gas or other similar substances and to treat or turn to account in any other manner any such substances.

The objects of BP Amoco are set out in full in clause 4 of its Memorandum which is available for inspection at the address specified in paragraph 18 of this Part VIII.

4.2 Articles of Association

The Articles of Association of BP Amoco (the "Articles") contain (amongst other things, and subject to relevant provisions of general company law and of the Listing Rules), provisions to the following effect, as set out below. Those paragraphs or words printed in italics reflect the changes to the Articles on the assumption that Resolution 6 is passed at the EGM:

4.2.1 Voting Rights

When a member is entitled to attend a general meeting and vote, he or his proxy has one vote on a show of hands and on a poll every member who is present in person or by proxy shall have two votes for every £5 in nominal amount of the BP Amoco Preference Shares and one vote for every BP Amoco Ordinary Share of which he is the holder.

At any general meeting resolutions *of a procedural nature* shall be decided on a show of hands unless a poll is demanded (before or on the declaration of the result of the show of hands) by the chairman, five members present in person or by proxy, or certain other persons. All other *ordinary*, special and extraordinary resolutions will be decided on a poll.

An Approved Depositary (as defined in the Articles) may appoint as its proxy or proxies such persons as it decides and specify the number of shares in respect of which they have been appointed as proxies. Each such proxy may itself appoint a proxy.

Any holder of a Bearer Share who has deposited either the Bearer Share at the office at which the Company's share register is situated (the "transfer office") or has deposited the Bearer Share with the Depositary, bank or agent of the Company (which has deposited at the transfer office a certificate (in such form as the Directors shall determine) and the Directors have decided to accept such certificate as evidence of the number of shares specified in the Bearer Share) shall be entitled to attend and vote at general meetings, appoint a proxy or proxies and requisition a meeting.

4.2.2 Restrictions on Voting

(a) Only members who have paid the Company all calls, and all other sums, relating to their shares which are due at the time of the general meeting can attend or vote at general meetings. This applies both to attending a meeting personally and to attending by proxy or corporate representative.

(b) If any member or any person appearing to be interested in shares held by such member has been duly served with a notice under section 212 of the Act (which confers upon public companies the power to require information with respect to interests in their voting shares) and is in default for the prescribed period in supplying to the Company the information thereby requested, then, the member shall not (for so long as the default continues) in respect of the shares in relation to which the default occurred ("Default Shares") be entitled to vote either personally or by proxy at a general meeting or at a meeting of the holders of any class of shares of the Company or to exercise any right which is conferred by virtue of holding shares in relation to general meetings. This restriction shall also apply to a transferee to whom any Default Shares are transferred (other than pursuant to an Approved Transfer (as defined in the Articles) or in circumstances where the transferor is not in default in relation to supplying the information and is not transferring his entire holding.)

(c) Where the Default Shares represent 0.25 per cent or more of the issued shares of the class in question, the directors may by notice (a "Direction Notice") to such member direct that any cash dividend or other money which would otherwise be payable in respect of the Default Shares shall be retained by the Company without any liability to pay interest thereon. The prescribed period referred to above means 14 days from the date of service of the notice under section 212 where the Default Shares represent 0.25 per cent or more of the shares concerned and 28 days in all other cases. In the case of shares in uncertificated form, the Directors may only exercise their discretion not to register a transfer if permitted to do so by the Regulations. Any Direction Notice shall cease to have effect in relation to any shares which are transferred by such members by means of an approved transfer.

(d) Where any person appearing to be interested in the Default Shares has been served with a Direction Notice and the Default Shares which are the subject of such Direction Notice are held by an Approved Depositary, then the Direction Notice shall apply only to such Default Shares held by the Approved Depositary and not to any other shares held by the Approved Depositary.

(e) Where the member on whom a notice under Section 212 of the Act is served is an Approved Depositary, the obligations of the Approved Depositary as a member shall be limited to disclosing to the Company such information relating to any person appearing to be interested in the shares held by it and has been recorded by it pursuant to the arrangements entered into by the Company pursuant to which it was appointed as an Approved Depositary.

4.2.3 Variation of Rights

The special rights attached to any class of shares may, subject to the provisions of the Statutes, be varied with the sanction of an extraordinary resolution passed at a separate meeting of the holders of the shares of the class. At every separate meeting the necessary quorum shall be persons holding or representing by proxy one-tenth of the issued Preference Shares and one third of the issued shares of that class (as regards all other classes of share). Any such vote will only be taken on a poll.

4.2.4 **Dividends**

(a) The members can declare a dividend by passing an ordinary resolution. No such dividend can exceed the amount recommended by the Directors. In the period up to 31 December 2003, the Company shall announce dividends in respect of ordinary shares in US dollars together with a sterling equivalent which shall be converted at a market rate (whether spot or forward) fixed by the directors on the day on which the dividend is announced. BP Amoco Ordinary Shareholders shall be entitled to be paid dividends in sterling. If the Directors consider that the profits of the Company justify such payments, the Directors may declare and pay the fixed dividends on any class of shares carrying a fixed dividend on the dates prescribed for the payments of such dividends and may also pay interim dividends on shares of any class on such amounts and on such dates and for such periods as they decide. All dividends will be divided and paid in proportions based on the amounts paid up on the shares during any period for which the dividend is paid.

(b) No dividend shall be paid otherwise than out of profits available for distribution under the provisions of the Act, the Regulations and every other statute for the time being in force concerning companies and affecting the Company (the "Statutes").

(c) Any dividend unclaimed after a period of 12 years from the date on which such dividend was declared or became due for payment shall be forfeited and shall revert to the Company.

(d) The Directors may allow such member and/or Approved Depositary to receive dividends duly payable in any currency or currencies other than sterling using such exchange rate for currency conversion as the Directors may consider appropriate.

(e) The Directors may offer to members the right to receive, in lieu of dividend (or part thereof), Designated Shares (as defined in the Articles).

(f) The holder of a Bearer Share is entitled to dividends upon the deposit of his Bearer Share at the transfer office or if he has deposited the Bearer Share with the Depositary, bank or agent of the Company (which has deposited at the transfer office a certificate (in such form as the Directors shall determine) and the Directors have decided to accept such certificate).

4.2.5 **Winding-Up**

If the Company is wound-up (whether the liquidation is voluntary, under supervision of the court or by the court) the liquidator may, with the authority of an extraordinary resolution passed by the members:

(a) divide among the members the whole or any part of the assets of the Company. This applies whether the assets consist of property of one kind or different kinds. For this purpose the liquidator can set such value as he considers fair upon any property and decide how such division shall be carried out between the members; and

(b) transfer any part of the assets to trustees upon such trusts for the benefit of members as the liquidator decides. No past or present shareholders shall be compelled to accept any shares or other property in respect of which there is a liability.

4.2.6 **Shares in Uncertificated Form**

Subject to the Statutes and the rules (as defined in the Regulations) the Directors may determine that any class of shares may be held in uncertificated form and that title to such shares may be transferred by means of a relevant system or that shares of any class should cease to be held and transferred as aforesaid.

4.2.7 **Bearer Shares**

The Articles permit the Company to issue Bearer Shares in respect of fully paid BP Amoco Shares. No Bearer Share shall be issued except upon request in writing and with the support of such evidence as the Directors shall determine. The Directors are entitled to refuse any such request. Any holder of a Bearer Share who desires to be registered as a member or requests that another person be registered as a member, in respect of all or some of the shares included in the Bearer Share shall surrender the Bearer Share to the transfer office and will then be entitled to receive a share certificate for such shares, subject to paying any fees, duties or taxes incurred by the Company unless otherwise agreed.

4.2.8 **Transfer of shares**

(a) All transfers of shares which are in certificated form may be effected by transfer in writing in any usual form or in such other form acceptable to the directors and may be under hand only. The instrument of transfer shall be signed by or on behalf of the transferor and, except in the case of fully paid shares, by or on behalf of the transferee. The transferor will be deemed to remain the holder of the shares transferred until the name of the transferee is entered in the register of members of the Company in respect thereof. All transfers of shares which are in uncertificated form may be effected by means of a relevant system as defined in the Regulations. In relation to Bearer Shares title transfers by delivery.

(b) The Directors may decline to recognise any instrument of transfer relating to shares in certificated form unless it is in respect of any one class of share and is lodged at the transfer office accompanied by the relevant share certificate(s) and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer.

(c) The Directors may, in the case of shares in certificated form, in their absolute discretion and without giving any reason, refuse to register any transfer of shares (not being fully paid shares) provided that, where any such shares are admitted to the Official List, such discretion may not be exercised in such a way as to prevent dealings in the shares of that class taking place on an open and proper basis. The Directors may also refuse to register a transfer of shares (whether fully paid or not) in favour of more than four persons jointly.

(d) Subject to the requirements of the London Stock Exchange, the Company shall register a transfer of any uncertificated share or any renounceable right to the allotment of a share which is a participating security held in uncertificated form in accordance with the Regulations, but so that the Board may refuse to register such a transfer in favour of more than four persons jointly or in any other circumstance permitted by the Regulations.

(e) Subject to the Statutes and the requirements of the London Stock Exchange as above, the registration of transfers may be suspended at such time and for such period (not exceeding 30 days in any year) as the directors may decide and either generally or in respect of a particular class of shares, but the Company may not close any register relating to a participating security without the consent of the operator of the relevant system (as such terms are defined in the Regulations).

(f) If the directors refuse to register the transfer they shall within two months after the date on which:

(i) the letter of transfer was lodged with the Company (in the case of shares held in certificated form); or

(ii) the Operator-Instruction (as defined in the Regulations) was received by the Company (in the case of shares held in uncertificated form);

send to the transferee notice of the refusal.

(g) A Direction Notice may also direct that no transfer of any of the shares held by such member shall be registered unless the transfer is an approved transfer (as defined in the Articles) or the member is not in default as regards supplying the information required and the transfer is of part only of the member's holding and is accompanied by a certificate given by the member in a form satisfactory to the Directors to the effect that after due and careful enquiry the member is satisfied that none of its shares which are the subject of the transfer are Default Shares.

4.2.9 **Changes in capital**

(a) The members can by ordinary resolution do any of the following:

(i) consolidate and divide all or any of the Company's share capital into shares of a larger nominal amount than the existing shares;

(ii) sub-divide all or part of the Company's share capital into shares of a smaller nominal amount than is fixed in the Memorandum. This is subject to any restrictions under the Statutes. The resolution may provide that, as between the holders of the divided shares, different rights and restrictions of a kind which the Company can apply to new shares may apply to different divided shares;

(iii) cancel any shares which have not, at the date of the ordinary resolution, been taken or agreed to be taken by any person and reduce the amount of the Company's share capital by the amount of the shares so cancelled; and

(iv) increase its share capital.

(b) The Company may also:

(i) purchase its own shares (including redeemable shares) if the Statutes allow this; and

(ii) by special resolution:

(a) reduce its share capital; or

(b) reduce any capital redemption reserve, share premium account or other distributable reserve.

4.3 CREST

By a board resolution dated 2 May 1996 the Company disapplied provisions relating to the holding, transfer and transmission of shares in its Articles which were inconsistent with the Regulations.

5 Share Schemes

5.1 BP Amoco Share Schemes

Under the BP Amoco Share Schemes set out below, no consideration is payable on the grant of any option and none of the benefits under them are pensionable. References in this paragraph 5 to "shares" are to BP Amoco Ordinary Shares.

5.1.1 The BP Amoco Group Savings Related Share Option Scheme 1991 (the "1991 SAYE Scheme")

(a) **Eligibility**

All employees (including executive Directors) of participating companies are eligible to participate in the 1991 SAYE Scheme.

(b) **Issue of Invitations**

Invitations to join the 1991 SAYE Scheme are normally issued within 28 days of the announcement of the Company's results for any period.

(c) **Savings Contract**

Employees joining the 1991 SAYE Scheme must enter into a savings contract with a designated savings carrier under which they make a monthly saving for a period of three or five years or, if the Directors so allow, any other period permitted under the relevant legislation. The monthly saving must not exceed such limit as is fixed by the Directors within the ceiling imposed by the relevant legislation (currently £250 per month). A bonus equivalent to 2.75 times the monthly saving is currently payable after three years and 7.5 times after five years. Alternatively, if the Directors so allow, at the beginning of a savings contract an employee may elect for a seven year contract under which he saves for five years and at the end of the seven year period receives a bonus currently equivalent to 13.5 times his monthly saving. If, before the earliest time an option holder may exercise an option, he gives notice that he intends to stop paying contributions under a savings contract, or in fact stops paying such contributions, his options will lapse.

(d) **Option Price**

Options will be granted at an option price which is not less than whichever shall be the greater of 80 per cent of the market value of the shares and their nominal value. Market value means the middle market quotation on the latest practicable business day preceding the related offer date.

(e) **Exercise of Options**

Options are normally exercisable for a six month period following the bonus date under the relevant savings contract. If the option is not exercised within this six month period, the option will lapse. Options may also, however, be exercised early in certain circumstances, for example on the death of an option holder, ceasing to be an employee due to injury, disability or redundancy, retirement or following change of control of the employing company and in the event of a takeover or winding-up of the Company. If an option is exercised early in one of these circumstances, the option holder may only use the savings made under his savings contract at that time to exercise the option. If an option holder voluntarily resigns, his options will lapse. Options are not transferrable and may only be exercised by the person to whom they are granted.

(f) **Exchange of Options**

In the event of a change of control of the Company in certain circumstances, option holders may exchange their options for options over shares in the acquiring company.

(g) **Scheme Limits**

A maximum of one half of one per cent of the issued ordinary share capital of the Company for the time being can be issued in respect of options granted under the 1991 SAYE Scheme each year. During the life of the 1991 SAYE Scheme shares with a nominal value of no more than 5 per cent of the issued ordinary share capital of the Company can be issued in respect of options granted under it. This total may be altered if there is a variation in the share capital of the Company.

(h) **Issue of Shares**

Shares issued on the exercise of options will rank *pari passu* with shares of the same class in issue on the date of allotment except in respect of rights arising by reference to a prior record date. Application will be made to the London Stock Exchange for the listing of shares issued under the 1991 SAYE Scheme.

(i) **Variation in Share Capital**

Options may be adjusted following certain variations in the share capital of the Company, including a capitalisation or rights issue, sub-division or consolidation of the share capital.

(j) **Amendments**

The basic structure of the 1991 SAYE Scheme and, in particular, the limit on the number of shares which can be issued under it cannot be altered to the advantage of participants without the prior sanction of the Company in general meeting. Amendments are subject to prior approval of the UK Inland Revenue while the scheme is to retain its approved status.

(k) **Termination**

No options may be granted under the 1991 SAYE Scheme after 30 April 2001.

5.1.2 **The BP Amoco Group International Savings Related Share Option Scheme 1997 (the "International 1997 SAYE Scheme")**

The International 1997 SAYE Scheme is operated for the benefit of employees outside the UK and is substantially the same as the 1991 SAYE Scheme except as set out below:

(a) invitations will normally be issued within 42 days of the announcement of the Company's results for any period;

(b) the market value of a share will be derived from the middle market quotation on the immediately preceding business day or, if the Directors so determine, the average of the middle market quotations for the five immediately preceding business days;

(c) the number of shares which may be allocated under the International 1997 SAYE Scheme on any day may not exceed 10 per cent of the ordinary share capital of the Company in issue immediately before that day, when added to the total number of shares which have been allocated in the previous 10 years under the International 1997 SAYE Scheme and any other employee share scheme operated by the Company. In addition, the number of shares which may be allocated under the International 1997 SAYE Scheme on any day will not exceed five per cent of the ordinary share capital of the Company in issue immediately before that day, when added to the total number of shares which have been allocated in the previous five years under the International 1997 SAYE Scheme and any other employee share scheme operated by the Company; and

(d) any shares issued upon exercise of options will be held by the International 1997 SAYE Scheme trustee until the employee either leaves the BP Amoco Group or instructs the trustee to sell the shares, unless the Directors determine otherwise.

5.1.3 **BP Amoco Share Option Plan (the "Option Plan")**

(a) **Operation of the Option Plan**

Options are granted by the Directors. In the case of senior executives this will be on the recommendation of the Remuneration Committee. Options will normally only be granted within 42 days of the announcement of the Company's results for any period but may initially be granted within 42 days of the adoption of the Option Plan.

Options may be granted to acquire BP Amoco Ordinary Shares or BP Amoco ADSs (both referred to as "shares" in this paragraph 5.1.3).

(b) **Eligibility**

All employees of the BP Amoco Group (designated by the Directors) are eligible to participate in the Option Plan. It is intended to operate the Option Plan widely, although most senior executives will only normally participate in the LTPP. Non-US employees who participate in the LTPP will not be granted options.

(c) **Option Price**

Options will be granted at an option price in sterling or US dollars which is not less than the market value of the shares on the date of grant and, where shares are to be subscribed, their nominal value (if greater). Market value means the middle-market quotation of a share on the preceding business day or the average of the middle-market quotations over the three preceding business days or where the option price is in US dollars an equivalent US dollar price.

(d) **Employee Participation**

The proportion of an employee's total remuneration package which will comprise options under the Option Plan will be determined by the Remuneration Committee. Such proportion will take account of two factors. First, it will be structured so as to attract and retain individuals who will contribute to the performance of BP Amoco and therefore increase return to shareholders. Therefore, BP Amoco will operate the Option Plan so as to enable a remuneration package to be offered which will be competitive within the markets in which BP Amoco operates taking into account cash remuneration, options and awards under the LTPP. Secondly, the value of grants to be made to BP Amoco Group employees will take into account previous values awarded.

(e) **Performance Condition**

Options may be granted on the basis that exercise of options will be subject to a performance condition (set on grant) the aim of which is to link the exercise of options to sustained improvements in the underlying financial performance of the Company.

(f) **Exercise of Options**

Options will normally be exercisable, subject to any performance condition being satisfied, by a person who remains a director or employee of the BP Amoco Group, on or after the third anniversary of grant. However, (i) options may be exercised early and even though any performance condition has not been satisfied in certain circumstances, for example on an optionholder ceasing to be an employee due to ill health, retirement, following a change in control of the employing company, and in the event of a takeover or winding up of the Company; and (ii) by persons who are no longer employees of the BP Amoco Group due to retirement. Options are not transferable and may only be exercised by the persons to whom they are granted.

(g) **Exchange of Options**

In the event of a change of control of the Company in certain circumstances, options may be exchanged for equivalent options over shares in the acquiring company.

(h) **Issue of Shares**

Shares issued on the exercise of options will rank *pari passu* with shares of the same class in issue on the date of allotment except in respect of rights arising by reference to a prior record date. The rules provide for application to be made to the London Stock Exchange for admission to listing of shares which may be issued under the Option Plan.

The Directors may decide, instead of procuring the issue or transfer of shares on the exercise of an option, to pay the optionholder a cash amount equivalent to the difference between the option price and the market value of the shares on the date of exercise or alternatively to transfer or issue shares equal to that value.

(i) **Variation**

Options may be adjusted following certain variations in the share capital of the Company including a capitalisation or rights issue.

(j) **Amendments**

The basic structure of the Option Plan and, in particular, the limits on the number of shares which may be issued under it cannot be altered to the advantage of participants without the prior sanction of the Company in general meeting.

(k) **Option Plan Limits**

The Option Plan is subject to the following overall limits on the number of shares which may be issued under it:

(i) in any ten year period, not more than 10 per cent of the issued ordinary share capital of the Company for the time being may in aggregate be issued or be issuable under the Option Plan and any other employees' share plan operated by the Company;

(ii) in any ten year period, not more than five per cent of the issued ordinary share capital of the Company for the time being may in aggregate be issued or be issuable under the Option Plan and all other discretionary share option plans adopted by the Company;

(iii) in any five year period, not more than five per cent of the issued ordinary share capital of the Company for the time being may in aggregate be issued or be issuable under the Option Plan and any other employees' share plan adopted by the Company; and

(iv) in any three year period, not more than three per cent of the issued ordinary share capital of the Company for the time being may in aggregate be issued or issuable under the Option Plan and all other discretionary share option plans adopted by the Company.

For the purposes of these limits options which lapse cease to count.

(l) **Termination of the Option Plan**

The Directors may terminate the Option Plan at any time and in any event no options may be granted after the tenth anniversary of its adoption.

5.1.4 **The BP Amoco Group Executive Share Option Scheme 1994 (the "1994 Executive Scheme")**

The 1994 Executive Scheme is in two parts. Under the first part options may be granted which attract tax benefits. Options under the second part are not Inland Revenue approved.

(a) **Option Price**

The price per share at which options may be granted is not less than the greater of the nominal value of a share and the middle market quotation for shares derived from the Daily Official List on the business day immediately preceding the date of grant. Directors may, however, if they so decide, derive the market value from the average market price over the five immediately preceding business days.

(b) **Exercise of Options**

Options are normally exercisable not earlier than three years from the date of grant and where the option holder remains an employee and subject to the satisfaction of any conditions set on grant but may be exercised earlier in special circumstances, and without regard to any conditions (other than performance conditions, save in the event of the employee's death), such as where the employee dies or leaves the Company as a result of redundancy, ill health, or the sale of his employing company. Options may also be exercised in the event of a takeover or a winding-up of the Company. No option may be exercised later than ten years from its date of grant.

(c) **Exchange of Options**

In the event of a change in control of the Company in certain circumstances option holders may exchange their options over shares in the acquiring company.

(d) **Scheme Limits on Participation**

The number of shares over which options to subscribe may be granted under the 1994 Executive Scheme shall not at any time exceed any of the following limits:

(i) five per cent of the ordinary share capital of the Company in issue immediately prior to the date of grant, when aggregated with the number of shares placed under option to subscribe or issued in the previous five years under all employees' share schemes established by the Company, with no more than three per cent of that figure being issued or placed under option to subscribe in the previous three years under any discretionary share option schemes established by the Company;

(ii) 10 per cent of the ordinary share capital of the Company in issue immediately prior to the date of grant, when aggregated with the number of shares placed under option to subscribe or issued in the previous ten years under all employees' share schemes established by the Company;

(iii) five per cent of the ordinary share capital of the Company in issue immediately prior to the date of grant, when aggregated with the number of shares placed under option to subscribe or issued in the previous ten years under any discretionary share option schemes established by the Company; and

(iv) 2.5 per cent of the ordinary share capital of the Company in issue immediately prior to the date of grant, when aggregated with the number of shares placed under option to subscribe or issued in the four years commencing on the date the 1994 Executive Scheme was adopted by the Company, under any discretionary share option scheme established by the Company.

In calculating the above limits no account is to be taken of options over existing shares or of any shares subject to options which have been released or lapsed without being exercised.

(e) **Individual Limits on Participation**

The total market value of shares subject to any options to subscribe granted in any ten year period to an option holder under the non-Inland Revenue approved part of the 1994 Executive Scheme (and any other discretionary share option schemes set up by the Company or a subsidiary or associated company) may not exceed the greater of £100,000 and four times the option holder's total remuneration from the Company and its subsidiaries including any options granted under the Inland Revenue approved part.

An employee's participation is also limited so that the aggregate price payable for shares under option at any one time under the Inland Revenue approved part does not exceed £30,000 including any options under any other Inland Revenue approved executive share option scheme established by the Company, its subsidiaries or associated companies.

(f) **Performance Condition**

Options may be granted subject to a performance condition aimed at linking the exercise of options to sustained improvements in the underlying financial performance of the Company.

(g) **Other Conditions**

Options are not transferable or assignable. The shares over which options are granted will, when issued, rank *pari passu* with all other issued shares of the Company. Until issued they will not be entitled to dividends, rights or any other distribution.

(h) **Amendments**

The basic structure of the 1994 Executive Scheme and, in particular, the limits on the number of shares which may be issued under it cannot be altered to the advantage of participants without the prior sanction of the Company in general meeting. Alterations are also subject to the prior approval of the Inland Revenue whilst the Inland Revenue approved part of the 1994 Executive Scheme is to retain its approved status.

(i) **Termination**

The Directors may terminate the 1994 Executive Scheme at any time but options then outstanding will continue to be valid and exercisable in accordance with the rules. No options may be granted more than ten years after the rules were approved by the Company in general meeting.

5.1.5 **The BP Amoco Group Overseas Executive Share Option Scheme 1994 (the "1994 Overseas Executive Scheme")**

The 1994 Overseas Executive Scheme is substantially the same as the 1994 Executive Scheme except that it is not approved by the Inland Revenue and is intended to be granted to selected overseas employees. However, the Directors have the right to give the option holder cash in lieu of shares.

5.1.6 **The BP Amoco Group Executive Share Option Scheme 1984 (the "1984 Executive Scheme")**

The 1984 Executive Scheme is substantially the same as the 1994 Executive Scheme except that the 1984 Executive Scheme did not provide for performance conditions to be satisfied and provided for different time periods relating to exercise upon cessation of employment.

5.1.7 **The BP Amoco Long-Term Performance Plan (the "LTPP")**

(a) **Introduction**

The LTPP has been operated since 1991. In accordance with the principles of good corporate governance the LTPP was revised at the time of the merger between BP and Amoco and approved by BP Shareholders. The revised LTPP, described below, incorporates the main features of the LTPP prior to its revision, together with a number of changes. These include a change to the level of awards which may be made under the LTPP, the introduction of more demanding performance conditions and minimum shareholding requirements.

(b) **Operation of the LTPP**

The LTPP is operated by the Remuneration Committee. If the Remuneration Committee decides to operate the LTPP, it will normally do so within 42 days after the announcement of the Company's annual or interim results although the initial operation may be within 42 days of the adoption of the LTPP.

(c) **Eligibility**

All employees of the BP Amoco Group and executive Directors are eligible to join the LTPP although it is operated for the benefit of senior executives selected by the Remuneration Committee. Non-US employees who participate in the LTPP will not be granted options.

(d) **Performance Units**

Performance units will be awarded to participants under the LTPP which will give the participant the right to be considered for an award of shares at the end of a performance period. The maximum number of performance units that may be granted to a participant in any one year will not exceed one times the participant's total potential cash remuneration.

(e) **Determination of Awards**

At the end of the period to which the performance condition relates, which will not normally be less than three years, the extent to which it has been satisfied will be determined and the appropriate number of shares will be awarded to each participant on the basis that they are to be held on behalf of the relevant participant during a retention period determined by the Remuneration Committee, which will not normally be less than three years. The maximum number of shares which may be awarded for each performance unit is two.

Awards may, at the discretion of the Remuneration Committee, be satisfied in cash.

The Remuneration Committee may amend the performance conditions if events occur which would make the amended performance condition a fairer measure of performance and provided any amended condition is not easier to satisfy.

(f) **Release of Shares**

The shares awarded will be held on behalf of the participant until the end of the retention period (the "Restricted Shares") and will then be released to the participant provided minimum share ownership conditions are met or if they are not met, on retirement. The minimum share ownership requirement will be determined by the Remuneration Committee. Only Restricted Shares will be taken into account to determine whether or not this minimum requirement has been met. For executives at director level this will normally be five times salary. Pending release of Restricted Shares, each participant will be entitled to any dividends and entitled to instruct the trustee how to vote. Shares may be released early at the discretion of the Remuneration Committee, for example, when the participant dies.

(g) **Cessation of Employment**

Generally, if a participant ceases employment before the end of the performance period then no award will be made. However, awards will be made at the end of the performance period where cessation was due to ill-health, retirement or redundancy provided that on cessation at least 12 months have passed since the grant of performance units. Where an award of shares is made in those circumstances the retention period will normally be one year unless the Remuneration Committee decides otherwise.

(h) **Takeover**

In the event of a takeover of the Company becoming unconditional before the end of the performance period to which the performance condition relates, the Remuneration Committee will immediately determine the award to be made to each participant, taking account of the proportion of the performance period which has elapsed, and the degree to which the performance condition has been satisfied.

(i) **Variation**

In the event of a variation of the share capital of the Company, the Remuneration Committee has discretion to adjust any performance units. In the event of any other corporate reconstruction prior to the end of the period to which the performance condition relates, the Remuneration Committee may take such action as it considers appropriate including making awards or adjusting performance units.

(j) **Amendment**

The basic structure of the LTPP and, in particular, the limits on the number of shares which may be issued under it cannot be altered to the advantage of participants without the prior approval of the Company in general meeting.

(k) **LTPP Limits**

Shares to satisfy awards may either be purchased in the market or subscribed by the Company's employee benefit trust. The LTPP is subject to the following overall limits on the number of shares which may be issued under it:

(i) in any ten year period, not more than 10 per cent of the issued ordinary share capital of the Company for the time being may in aggregate be issued or be issuable under the LTPP and any other employees' share plan operated by the Company;

(ii) in any ten year period, not more than five per cent of the issued ordinary share capital of the Company for the time being may in aggregate be issued or be issuable under the LTPP and all other discretionary share option plans adopted by the Company;

(iii) in any five year period, not more than five per cent of the issued ordinary share capital of the Company for the time being may in aggregate be issued or be issuable under the LTPP and any other employees' share plan adopted by the Company; and

(iv) in any three year period, not more than three per cent of the issued ordinary share capital of the Company for the time being may in aggregate be issued or issuable under the LTPP and all other discretionary share option plans adopted by the Company.

(l) **Termination**

The Remuneration Committee may in its discretion terminate the LTPP at any time and in any event no performance units may be granted after the tenth anniversary of its adoption.

5.1.8 **The BP Amoco Group Participating Share Scheme 1979 (the "1979 Participating Scheme")**

(a) **Eligibility**

All UK employees (including executive Directors) of participating companies are eligible to participate in the 1979 Participating Scheme.

(b) **Participation Rights**

In each year of operation of the 1979 Participating Scheme, qualifying employees will be notified of their maximum permitted contribution to the 1979 Participating Scheme, and may vest in the trustees or in a PEP or ISA manager (together the "Trustees") shares having an aggregate value not exceeding that amount. They may utilise shares already held by them, or purchase shares (either directly or through the Trustees) specifically for this purpose. Such shares ("Investment Shares") will then be held by the Trustees for the benefit of the participant concerned. Once Investment Shares have been so vested, the Trustees will be put in funds by the employing companies concerned to purchase and/or subscribe further shares ("Additional Shares"), which will be appropriated to the respective participants.

(c) **Scheme Limits**

The ratio of Additional Shares to their related Investment Shares may vary from year to year, but the total value of Additional Shares will not exceed the relevant statutory limit per participant per annum. The number of Additional Shares to be issued in any one year will not exceed one half of one per cent of the Company's then issued ordinary share capital with an aggregate maximum of £42,875,143 over the life of the 1979 Participating Scheme (provided that in the case of new share issues or rights offers such limit shall be altered as appropriate to maintain the same limit when expressed as a percentage of the issued ordinary share capital of the Company). Additional Shares so issued will be subscribed for at their market value on the business day prior to their issue and appropriation or such other date as agreed by the Trustees and the Inland Revenue, and an application will be made to the London Stock Exchange for their admission to the Official List.

(d) **Share Retention**

The Additional and Investment Shares will be held by the Trustees for a retention period (currently two years), during which time they may not be sold except in the case of death, the attainment of statutory pensionable age, or cessation of service by reason of redundancy, injury or disability. For a further year the Trustees will retain Additional Shares unless the employee concerned wishes to sell or otherwise deal in them and, after the year has elapsed, will transfer them to the employee concerned. Whilst any shares are held in trust in this way, the respective employees will be the beneficial owners, entitled to receive dividends and exercise voting rights.

(e) **Alterations**

Certain provisions of the 1979 Participating Scheme may be amended by the Directors, but the basic structure (and in particular the limitations on participation and on the number of Additional Shares that may be issued thereunder) cannot be altered to the advantage of participants without shareholders' prior approval.

5.1.9 **The BP Amoco Group Overseas Participating Share Scheme 1988 (the "1988 Overseas Participating Scheme")**

The 1988 Overseas Participating Scheme is substantially the same as the 1979 Participating Scheme. However, it is designed for expatriate employees and therefore the rules do not refer or relate to various UK tax and other related issues as does the 1979 Participating Scheme. The aggregate limits are the same as those for the 1979 Participating Scheme and the rules provide in addition a specific participant's limit on the value of additional shares each year equivalent to 10 per cent of the individual's remuneration. The required retention period for the 1988 Overseas Participating Scheme is two years and there is provision to allow withholding to be made in respect of tax in any relevant jurisdiction.

5.1.10 **The BP Amoco Group International Participating Share Scheme 1997 (the "1997 International Participating Scheme")**

The 1997 International Participating Scheme is substantially the same as the 1979 Participating Scheme. As the 1997 International Participating Scheme is an international scheme it does not contain various provisions relating to UK taxation and various other UK specific matters.

The aggregate scheme limits are: (a) that the number of shares that can be allocated under the 1997 International Participating Scheme when added to the total number of shares allocated under all the Company's employee share schemes cannot exceed 10 per cent of the issued ordinary share capital of the Company; and (b) that the number of shares that can be allocated under the scheme on any day when added to the total number of shares allocated under the scheme before that day in the same calendar year cannot exceed one per cent of the issued ordinary share capital of the Company. The individual participant's limit is set at the relevant statutory limit.

The retention period is two years and provision is made for withholding by the trustee of amounts required by the relevant taxation jurisdictions.

5.1.11 **The BP Amoco Group Overseas Share Option Scheme (Supplemental) 1988 (the "1988 Supplemental Scheme")**

(a) **Eligibility**

Any employee (including executive directors) of any member of the BP Amoco Group who is not a qualifying employee for the purposes of the 1991 SAYE Scheme will be eligible to be considered for the award of an option.

(b) **Invitations**

Invitations to apply for options will, other than in circumstances considered by the Directors to be exceptional, only be made within the 28 days next following the preliminary announcement of results for any period.

(c) **Individual Limits on Participation**

No option shall be granted to any employee if the aggregate option price of such option and any other such option under either this scheme or under the 1991 SAYE Scheme or any other BP Amoco Group savings related share option scheme approved in accordance with the statutory provisions which remain to be exercised would exceed the maximum permitted from time to time under the 1991 SAYE Scheme.

(d) **Scheme Limits on Participation**

No option may be granted if immediately thereafter the aggregate nominal amount of shares which might fall to be or have already been issued upon the exercise of options under this scheme or under the 1991 SAYE Scheme or the BP Amoco Group Overseas Savings Related Share Option Scheme 1988 (which is no longer in operation) would exceed £22,500,500 in total (subject to adjustment) or one half of one per cent of the Company's issued ordinary share capital in any single year.

(e) **Option Price**

The price per share at which options will be granted will be not less than the greater of the nominal value of a share and the market value of a share less such discount not exceeding 20 per cent as the Directors may think fit. The market value is the middle market quotation of a share on the latest practicable business day preceding the related offer date.

(f) **Exercise of Options**

The options will specify whether they have a five year or a three year option period. Options will normally be exercisable during the period of six months commencing on the relevant anniversary.

If an option is exercised prior to the exercise date, for example, if the employee is posted to a different country or back to the UK, it will only be exercisable pro rata to the number of completed months commencing on the related date of grant to the total option period.

There are provisions relating to early exercise in the event of the option holder's death, retirement, cessation of employment by reason of injury or disability and in various other circumstances.

There is also provision for early exercise in the event of certain events such as a winding-up, takeover, or variation of the share capital of the Company.

(g) **Exchange of Options**

In the event of a change of control of the Company in certain circumstances option holders may exchange their options over shares in the acquiring company.

(h) **Other Conditions**

Options will not be transferrable or assignable. The shares over which options are granted will, when issued, rank *pari passu* with all other issued shares of the Company.

5.1.12 **The Amoco Employee Savings Plan (the "Amoco Savings Plan")**

(a) **Eligibility**

Any employees of BP Amoco Corporation and its participating affiliated companies.

(b) **Participation rights**

Employees can elect to contribute up to 20 per cent of their compensation into accounts maintained in their names by the Plan's trustee.

(c) **Company contribution**

Amounts contributed by a participating employee are matched by the company contributing up to seven per cent of the employee's compensation, depending upon length of service.

(d) **Investment criteria**

The fund invests primarily in BP Amoco ADSs; participants can direct investment of their plan accounts in other plan investment options.

(e) **Vesting**

Participants become vested in company matching contributions over a period of 5 years.

(f) **Entitlement**

Participants are generally entitled to receive distribution of their accounts from the fund upon termination of employment. Any portion of the participant's account invested in BP Amoco ADSs may be received in such securities or in cash.

(g) **Alteration**

The company may amend the plan at any time, although certain rights of plan participants cannot be altered.

5.1.13 **The Amoco Fabrics & Fibers Company Salaried 401(k) Savings Plan (the "Salaried 401(k) Plan")**

The Salaried 401(k) Plan is substantially similar to the Amoco Savings Plan, save that eligible employees are generally salaried employees of Amoco Fabrics & Fibers Company. The maximum contribution of an eligible employee is 16 per cent of their compensation and the company contribution is one half of the employee's (to a maximum of six per cent of the employee's compensation).

5.1.14 **The Amoco Fabrics & Fibers Company Hourly 401(k) Savings Plan (the "Hourly 401(k) Plan")**

The Hourly 401(k) Plan is substantially similar to the Amoco Savings Plan, save that the eligible employees are generally hourly paid employees of the Amoco Fabrics & Fibers Company. The maximum contribution of an eligible employee is 13 per cent of their compensation and the company contribution is one half of the employee's (to a maximum of three per cent of the employer's compensation).

5.1.15 **The BP America Capital Accumulation Plan**

(a) **Eligibility**

Generally, an employee of any participating affiliated company of BP America Inc. ("BP America") who is not eligible to participate in a separate defined contribution plan sponsored by the Company or who is represented by a labour organisation which has bargained for and agreed to the provisions of the plan, is eligible to participate in the plan.

(b) **Participation Rights**

Eligible employees may contribute up to 16 per cent of their base pay (subject to certain legal restrictions) to accounts maintained in their names by the plan's trustee.

(c) **BP America Contribution**

The company contributes quarterly to the plan an amount equal to each employee's contribution up to six per cent of base pay.

(d) **Investment Criteria**

Company contributions are made to the participants' accounts in the plan's BP Amoco Stock Fund and funded in the form of BP Amoco ADSs. The BP Amoco Stock Fund invests primarily in BP Amoco ADSs; typically less than three per cent is held in short-term obligations for liquidity reasons. There are no restrictions on the participants to maintain the Company matching contribution in the BP Amoco Stock Fund. Participants may direct the investment of their plan accounts (including Company matching contributions) into other plan investment options at any time.

(e) **Vesting**

Generally, vesting in Company matching contributions occurs after five years of continuous employment, upon death, attainment of age 65 and in certain other circumstances.

(f) **Entitlement**

In general, participants are entitled to receive distribution of their account on termination of service from BP Amoco. Participants are entitled to receive any portion of their account invested in the BP Amoco Stock Fund in BP Amoco ADSs or in cash.

(g) **Alteration**

The Company has the right to amend the plan at any time but may not alter certain rights of the participants.

5.1.16 **The Amoco Canada Employee Savings Plan**

(a) **Eligibility**

Under this plan, eligible employees are all regular full and part-time employees of Amoco Canada.

(b) **Participation Rights**

Eligible employees can elect to contribute up to 55 per cent of their compensation to accounts maintained in their names by the plan's trustee.

(c) **Amoco Canada Contribution**

Amounts contributed by a participating employee are matched 100 per cent by Amoco Canada, to a maximum of four or six per cent of the employee's compensation, depending upon length of service.

(d) **Investment Criteria**

Company matching contributions are initially made to the participant's account in the form of BP Amoco ADSs. Thereafter, participants may sell the BP Amoco ADSs at any time and reinvest the proceeds in other investments permitted by the plan, generally Canadian mutual funds. Participants can direct investment of their own contributions into any investment permitted by the plan, including BP Amoco ADSs.

(e) **Vesting**

Participants become vested in company matching contributions immediately.

(f) **Entitlement**

Participants are entitled to receive a distribution of their accounts upon their separation from employment with Amoco Canada. Any portion of the participant's account invested in BP Amoco ADSs at the time of distribution may be received in cash or in kind, at the participant's option.

(g) **Alteration**

Amoco Canada may amend or discontinue the plan at any time, although certain rights of plan participants cannot be altered.

5.1.17 **National and Regional Share Schemes**

The Company has established various national and regional share schemes based on the 1979 Participating Scheme, details of which are set out in paragraph 5.1.8 above. These schemes are: the BP Amoco Australia Employee Share Plan, the BP Amoco Austria Employee Share Scheme, the BP Amoco Botswana Employee Share Scheme, the BP Amoco Deutsche Employee Share Scheme, the BP Amoco Far East Employee Share Scheme, BP Amoco Group in France Mutual Fund, the BP Amoco Hong Kong Employee Share Plan, the BP Amoco Malaysia Employee Share Plan, the BP Amoco Namibia Employee Share Scheme, the BP Amoco New Zealand Share Scheme, the BP Amoco Norway Share Scheme, the BP Amoco Singapore Employee Share Plan, the BP Amoco Southern Africa Employee Share Scheme and the Share Scheme for BP Amoco Group Employees in Spain. The Company's shareholders' authority for the share schemes is generally the shareholder resolution dated 26 April 1990, when the shareholders authorised the Directors to establish share schemes for the benefit of employees of subsidiaries incorporated outside the UK based on share schemes operating in the UK. These share schemes are generally governed by local law and are tailored to meet local legal and taxation requirements.

5.1.18 **Employee Benefit Trusts**

Three employee benefit trusts have been established to provide shares under the BP Amoco Share Schemes as follows:

The BP Employee Share Ownership Plan ("ESOP 1");

The BP Employee Share Ownership Plan No.2 ("ESOP 2"); and

The BP Employee Share Ownership Plan No.3 ("ESOP 3").

The trusts are Jersey resident discretionary trusts established with the object of helping and encouraging the holding of shares by the beneficiaries. The trustee is a BP Amoco Group company.

Beneficiaries of the trusts include all employees and former employees together with their spouses and children under the age of 18 although, for the purposes of ESOP1, directors are excluded. The trustee has the power to apply the income and the capital of the trust for the benefit of the beneficiaries and may also acquire shares and apply them for the benefit of the beneficiaries.

The trustee may not subscribe for shares without the prior approval of the Company in general meeting.

The Company has also established a Qualifying Employee Share Ownership Trust (the "QUEST") to provide shares under the Company's savings related share option schemes ("SAYE Schemes"). The QUEST is a UK resident discretionary trust established with the object of helping and encouraging the holding of shares by beneficiaries or for their benefit. The trustee is a BP Amoco Group company. The trustee has the power to apply the income and capital of the trust for the benefit of the beneficiaries and may also acquire shares and apply them for the benefit of the beneficiaries.

Unless shareholder approval is obtained, shares may only be subscribed by the trustee in conjunction with an SAYE Scheme.

5.2 Outstanding rights under Amoco share plans

The employee share plans established by Amoco are no longer operated, however rights are outstanding under the plans set out below. Pursuant to the Amoco Agreement and Plan of Merger, the rights are in respect of BP Amoco Ordinary Shares in the form of BP Amoco ADSs.

(a) **Amoco Share Ownership Plan for Amoco (UK) Exploration Company, Amoco Share Ownership Plan for Amoco Chemical (UK) Limited and Amoco Share Ownership Plan for Amoco Europe Limited**

These are UK Inland Revenue approved profit sharing schemes under which participants make regular contributions from salary which are matched by the participating companies and used to buy shares. The shares are held in trust by the trustees of the plans for the benefit of the participants, for a retention period (currently two years). During this period the shares cannot be disposed of except in certain limited circumstances including the participant's death, the participant reaching age 60 and the participant ceasing employment due to injury, disability or redundancy. The shares purchased with the participating companies' contributions may be retained in trust for a further year in order for them to be released free of UK income tax. Whilst shares are held in trust the participants are the beneficial owners and are entitled to receive dividends and exercise voting rights.

Amoco may amend the plans with the consent of the trustees, provided that approval of the UK Inland Revenue is required if the plans are to retain their approved status and provided that the amendments do not adversely affect the rights of participants. The board of directors of Amoco may terminate the plan at any time provided that the rights of a participant in respect of his shares are not adversely affected.

(b) **Amoco Norway Oil Company Share Ownership Plan and Amoco Netherlands Petroleum Company Share Ownership Plan**

These are based on the UK plans described in paragraph 5.2 (a) above, but are governed by local law and have been adapted to take account of local legal and taxation requirements.

(c) **Amoco Performance Share Plan**

Under this plan, Amoco provided funds to the trustee to acquire shares for allocation to accounts maintained for participating employees. The plan was amended effective as of 31 December 1997 to close participation for any employee not participating in the plan as of that date and to preclude future contributions. The plan is expected to be terminated effective 1 August 1999. After termination, participants will have the option of receiving their account balances in BP Amoco ADSs or in cash. All rights of participants in their accounts are fully vested.

(d) **Amoco UK Restricted Share Scheme and Amoco UK Restricted Unit Scheme**

Under the Amoco UK Restricted Share Scheme an award of shares is made to the participant which cannot be disposed of during the restricted period specified in the award agreement. The trustees have a discretion to terminate the restricted period early in certain specified circumstances including if the participant ceases employment due to injury, disability, redundancy or retirement. If this discretion is not exercised the shares are forfeited. The participants do not have any right to dividends paid on the shares during the restricted period but the trustee has a discretion to pay dividends to participants. The participants are entitled to exercise any voting rights attaching to the shares during the restricted period. The board of directors of Amoco may amend the scheme provided that the prior consent of the trustee is obtained if the amendment would affect the trustee's duties and the prior agreement of the participants is obtained if the amendment would adversely affect the rights of participants. The board may also terminate the scheme, provided that the prior consent of the trustee and participants is obtained if such termination would affect the existing rights of participants.

The Amoco UK Restricted Share Unit Scheme is similar to the Amoco UK Restricted Share Scheme, except that a restricted share unit is awarded, representing a share which has been awarded to a participant. At the end of the restricted period, the participant receives a payment of an amount equivalent to the value of the shares represented by those units (subject to the deduction of any taxes due).

(e) **Amoco 1991 Incentive Program and Amoco Management Incentive Program**

Awards made under these plans may be in the form of options, stock appreciation rights, restricted shares, performance awards, bonuses or other awards. Options under these plans were converted, pursuant to the Amoco Agreement and Plan of Merger, into options over BP Amoco Ordinary Shares (in the form of BP Amoco ADSs) (the "Exchanged Amoco Options").

Options under this scheme can only generally be exercised, as to one half of the shares subject to option, one year from the date of the relevant option agreement and, as to the other half, two years after the date of the agreement. If the optionholder leaves before this date, the option will lapse. However, there is provision for the exercise of options on death, retirement and on a change of control (as defined) in the Company. The scheme may be amended, cancelled, modified or extended by Amoco.

There is also a section of the plan for UK employees of Amoco, under which options are also exercisable early where the optionholder leaves employment by reason of injury, ill-health or pregnancy or confinement. Adjustments may be made to options granted under this section of the plan if there is a variation of capital of the Company.

(f) **Management Incentive Program of BP Amoco Corporation and its Participating Subsidiaries**

This scheme is the predecessor to the Amoco 1991 Incentive Program and Amoco Management Incentive Program. Options which remain outstanding under this scheme have also been exchanged for equivalent options over shares in BP Amoco.

Options under this scheme are only exercisable if the optionholder has been in continuous employment for a period set by the company for each option (which must not be less than two years). Options lapse if the optionholder ceases to be in employment. However, if an optionholder retires more than two years after the date of grant of the option or dies, the option will be exercisable for a limited period after which it will lapse.

In other respects, this scheme is similar to the Amoco 1991 Incentive Program and Amoco Management Incentive Program.

5.3 Outstanding Options

The table below shows details of the options which were outstanding over BP Amoco Ordinary Shares or BP Amoco ADSs under the BP Amoco Share Schemes and Exchanged Amoco Options on 9 July 1999 (the latest practicable date prior to the printing of this document):

Scheme	Date options granted	Normal date of exercise	Option exercise price per BP Amoco Share	Number of BP Amoco Shares
1991 SAYE Scheme	22.6.93	1.9.98	248p	13,208
	28.6.94	1.9.99	322p	3,534,462
	27.6.95	1.9.00	370p	5,005,172
	2.7.96 (3yr option)	1.9.99	463p	1,211,822
	2.7.96 (5yr option)	1.9.01	463p	2,642,341
	1.7.97 (3yr option)	1.9.00	578p	1,505,802
	1.7.97 (5yr option)	1.9.02	578p	4,233,398
	3.7.98 (3yr option)	1.9.01	743p	1,431,464
	3.7.98 (5yr option)	1.9.03	743p	3,036,161
	2.7.99 (3yr option)	1.9.02	899p	1,539,267
	2.7.99 (5yr option)	1.9.04	899p	2,750,924
1988 Supplemental Scheme	28.6.94	28.6.99	322p	98,950
	27.6.95	27.6.00	370p	246,636
	2.7.96 (3yr option)	2.7.99	463p	36,607
	2.7.96 (5yr option)	2.7.01	463p	278,738
	1.7.97 (3yr option)	1.7.00	578p	76,351
	1.7.97 (5yr option)	1.7.02	578p	454,549

Scheme	Date options granted	Normal date of exercise	Option exercise price per BP Amoco Share	Number of BP Amoco Shares
International 1997 SAYE Scheme	1.7.97 (3yr option)	1.9.00	578p	190,257
	3.7.98 (3yr option)	1.9.01	743p	70,575
	12.11.98 (3yr option)	1.12.01	695p	83,386
	2.7.99 (3yr option)	1.9.02	900p	124,092
Option Plan (BP Amoco Ordinary Shares)	15.3.99	15.3.02	976p	1,631,584
	24.5.99	24.5.02	1119p	16,317
Option Plan (BP Amoco ADSs)[a]	15.3.99	15.3.00 (50%)	$15.78	16,658,604
		15.3.01 (50%)		
	24.5.99	24.5.00 (50%)	$17.97	1,539,984
		24.5.01 (50%)		
1984 Executive Scheme	27.3.90	27.3.93	338p	124,800
	26.3.91	26.3.94	333p	142,600
	24.3.92	24.3.95	258p	189,600
	23.3.93	23.3.96	300p	413,100
	25.3.94	25.3.97	372p	668,852
1994 Executive Scheme	28.2.95	28.2.98	408p	1,139,600
	6.3.96	6.3.99	541p	366,100
	28.2.97	28.2.00	677p	638,400
	23.5.97	23.5.00	733p	19,200
	6.3.98	6.3.01	856p	938,000
	14.5.98	14.5.01	966p	45,000
1984 Overseas Executive Scheme	27.3.90	27.3.93	338p	241,600
	26.3.91	26.3.94	333p	216,900
	24.3.92	24.3.95	258p	318,000
	23.3.93	23.3.96	300p	215,200
	25.3.94	25.3.97	372p	374,400
1994 Overseas Executive Scheme	28.2.95	28.2.98	408p	2,192,430
	6.3.96	6.3.99	541p	895,100
	28.2.97	28.2.00	677p	1,472,000
	23.5.97	23.5.00	733p	28,800
	6.3.98	6.3.01	856p	228,900

Scheme	Date options granted	Normal date of exercise	Option exercise price per BP Amoco Share	Number of BP Amoco Shares
Exchanged Amoco				
Options	27.3.90	27.3.92	$6.60	3,544,626
	23.4.91	23.4.93	$6.82	7,446,438
	24.3.92	24.3.94	$5.55	8,521,698
	22.3.93-17.5.93	22.3.95-17.5.95	$7.23	10,565,262
	22.3.94	22.3.95 & 22.3.96[b]	$6.93	11,167,716
	1.3.95-20.11.95	1.3.96 & 1.3.97-20.11.96 & 20.11.97[b]	$7.90	12,980,754
	2.1.96-8.11.96	2.1.97 & 2.1.98-8.11.97 & 8.11.98[b]	$9.22	15,697,668
	3.2.97-29.12.97	3.2.98 & 3.2.99-29.12.98 & 29.12.99[b]	$11.36	19,869,678
	2.1.98-1.9.98	2.1.99 & 2.1.00-1.9.99 & 1.9.00[b]	$10.97	25,901,622

Notes:

[a] The $ exercise price per BP Amoco ADS has been converted to the equivalent $ exercise price per BP Amoco Ordinary Share.

[b] Amoco options granted on or after 22 March 1994: 50 per cent becomes exercisable on the first anniversary of grant and 50 per cent becomes exercisable on the second anniversary of grant.

5.4 ARCO Stock Options

5.4.1 Pursuant to the Merger Agreement, at the Effective Date, all ARCO stock options and other rights under ARCO Employee Benefit Plans to acquire ARCO Common Shares which are then outstanding and unexercised will cease to represent a right to acquire ARCO Common Shares and will be converted automatically into options to purchase or other rights to acquire BP Amoco Ordinary Shares deliverable in the form of BP Amoco ADSs and BP Amoco will assume each such ARCO stock option or other rights to acquire ARCO Common Shares subject to the terms of the applicable ARCO compensation or benefit plan or agreement. This is subject to the exception that from and after the Effective Date, (i) the number of BP Amoco Ordinary Shares purchasable upon exercise of each such ARCO stock option will be equal to the number of ARCO Common Shares that were purchasable under such ARCO stock option immediately prior to the Effective Date multiplied by 4.92, subject to any adjustments provided for in the Merger Agreement, and (ii) the exercise price per BP Amoco Ordinary Share under each such ARCO stock option will be obtained by dividing the per share exercise price of each such ARCO stock option by 4.92, subject to any adjustment provided for in the Merger Agreement.

5.4.2 In addition, with respect to dividend share credits under any ARCO Employee Benefit Plan, including the ARCO 1985 Executive Long-Term Incentive Plan and the ARCO Stock Plan for Outside Directors, as at the Effective Date:

(i) ARCO common stock represented by such dividend share credits will be deemed converted into BP Amoco Ordinary Shares, in the form of BP Amoco ADSs, at the Exchange Ratio; and

(ii) ARCO's obligation to deliver ARCO common stock in respect of prospective dividend share credits under the ARCO 1985 Executive Long-Term Incentive Plan will be satisfied through BP Amoco's delivery of 4.92 BP Amoco Ordinary Shares (subject to any adjustment provided for in the Merger Agreement), in the form of BP Amoco ADSs, for each ARCO Common Share otherwise deliverable.

5.4.3 As at 9 July 1999 (the latest practicable date prior to the printing of this document), stock options over 10,045,467 ARCO Common Shares were outstanding, representing 3 per cent of the issued share capital of ARCO.

6 Principal Undertakings

BP Amoco is the holding company of the BP Amoco Group. The following table shows the principal undertakings of BP Amoco, being those which are considered by BP Amoco to be likely to have a significant effect on the assessment of the assets and liabilities, the financial position and/or the profits and losses of the BP Amoco Group. Except where stated otherwise, each of these undertakings is wholly owned by a member of the BP Amoco Group and the issued share capital is fully paid:

Name of Company and country of incorporation (where not England and Wales)	Registered or principal office	Principal activity	% equity shares held
BP Chemicals Investments	Breakspear Park Breakspear Way Hemel Hempstead Herts HP2 4UL	Chemicals	100
BP International	Britannic House 1 Finsbury Circus London EC2M 7BA	Integrated oil operations	100
BP Oil International	Britannic House 1 Finsbury Circus London EC2M 7BA	Integrated oil operations	100
BP Exploration Operating Company	Britannic House 1 Finsbury Circus London EC2M 7BA	Exploration and production	100
BP Shipping	Breakspear Park Breakspear Way Hemel Hempstead Herts HP2 4UL	Shipping	100
BP Amoco Capital	Breakspear Park Breakspear Way Hemel Hempstead Herts HP2 4UL	Finance	100
BP Chemicals	Britannic House 1 Finsbury Circus London EC2M 7BA	Chemicals	100
BP Oil UK	Witan Gate House 500/600 Witan Gate Central Milton Keynes MK9 1ES	Refining and marketing	100
BP France (France)	8 Rue des Gemeaux Cergy Saint-Christophe 95866 Cergy Pontoise Cedex France	Refining and marketing and chemicals	100
Deutsche BP (Germany)	Ueberseering 2 22297 Hamburg Germany	Refining and marketing and chemicals	100
BP Southern Africa (South Africa)	PO Box 6006 Capetown 8012 South Africa	Refining and marketing	100
BP America Inc (United States)	200 E. Randolph Drive Chicago Illinois 60601 USA	Exploration and production, refining and marketing, pipelines and chemicals	100
BP Amoco Corporation (United States)	200 E. Randolph Drive Chicago Illinois 60601 USA	Exploration and production, refining and marketing, pipelines and chemicals	100

Name of Company and country of incorporation (where not England and Wales)	Registered or principal office	Principal activity	% equity shares held
BP Amoco Company (United States)	200 E. Randolph Drive Chicago Illinois 60601 USA	Exploration and production, refining and marketing, pipelines and chemicals	100
The Standard Oil Company (United States)	200 Public Square Cleveland Ohio 44114 USA	Exploration and production, refining and marketing, pipelines and chemicals	100
Altura Energy (United States)	580 Westlake Park Blvd Houston Texas 77079 USA	Exploration and production	60
BP Nederlands (the Netherlands)	Westblaak 163 3012 KJ Rotterdam The Netherlands	Refining and marketing	100
BP España (Spain)	Maria de Molina 6 28006 Madrid Spain	Refining and marketing	100
BP Singapore (Singapore)	396 Alexandra Road #18-01 BP Tower Singapore 119954	Refining and marketing	100
BP Australia Holdings (Australia)	Level 32 The Tower Melbourne Centre 360 Elizabeth Street Melbourne Victoria 3000 Australia	Integrated oil operations	100
BP Developments Australia (Australia)	Level 32 The Tower Melbourne Centre 360 Elizabeth Street Melbourne Victoria 3000 Australia	Exploration and production	100
Amoco Canada Petroleum Company (Canada)	Suite 800 Purdy's Wharf Tower One 1959 Upper Water Street PO Box 997 Central RPO Halifax Nova Scotia B3J 2X2	Exploration and Production	100
Amoco Trinidad (LNG) (the Netherlands)	Bezuidenhoutseweg 74 2594 AW The Hague The Netherlands	Liquified Natural Gas	100

Name of Company and country of incorporation (where not England and Wales)	Registered or principal office	Principal activity	% equity shares held
BP Amoco Energy Company of Trinidad and Tobago (United States)	5/5A Queens Park West Port of Spain Trinidad	Exploration and production	100
Joint Ventures			
BP/Mobil	—	Refining and Marketing	70/49[a]

Note:

[a] fuels/lubricants

7 Number of Employees

The table below sets out the average number of employees of the BP Amoco Group over the last three financial years:

	United Kingdom	**Rest of Europe**	**USA**	**Rest of World**	**Total**
1998					
Exploration and Production	4,050	900	7,900	6,200	19,050
Refining and Marketing[a]	10,300	9,700	23,600	9,150	52,750
Chemicals	4,650	5,150	11,600	2,450	23,850
Other Businesses and Corporate	950	300	1,550	450	3,250
	19,950	16,050	44,650	18,250	98,900
1997					
Exploration and Production	3,750	900	8,450	5,700	18,800
Refining and Marketing[a]	9,550	10,000	23,650	9,000	52,200
Chemicals	5,000	4,650	11,850	2,550	24,050
Other Businesses and Corporate	900	200	1,950	600	3,650
	19,200	15,750	45,900	17,850	98,700
1996					
Exploration and Production	3,450	950	8,950	5,100	18,450
Refining and Marketing	7,550	9,650	22,850	8,200	48,250
Chemicals	5,200	4,600	13,300	2,400	25,500
Other Businesses and Corporate	750	150	1,850	950	3,700
	16,950	15,350	46,950	16,650	95,900

Note:

[a] Includes 8,550 (1997 7,850) employees assigned to the BP/Mobil joint venture in the UK and 9,350 (1997 9,600) employees in the Rest of Europe.

8 BP Amoco Directors

8.1 The Directors of BP Amoco and their functions are as follows:

Peter Denis Sutherland	Non-Executive Co-Chairman
Harry Laurance Fuller	Executive Co-Chairman
Sir Ian Maurice Gray Prosser	Non-Executive Deputy Chairman
Sir Edmund John Phillip Browne	Group Chief Executive
Rodney Frank Chase	Deputy Group Chief Executive
Dr John Gordon St. Clair Buchanan	Chief Financial Officer
Dr Christopher Shaw Gibson-Smith	Executive Director, Policy and Technology
Richard Lake Olver	Chief Executive, Exploration and Production
Bryan Kaye Sanderson	Chief Executive, Chemicals
Ruth Smolensky Block	Non-Executive Director
John Henry Bryan	Non-Executive Director
Eroll Brown Davis, Jr	Non-Executive Director
Richard Jesse Ferris	Non-Executive Director
Charles Field Knight	Non-Executive Director
Floris Anton Maljers	Non-Executive Director
Dr Walter Eugene Massey	Non-Executive Director
Henry Michael Pearson Miles	Non-Executive Director
Sir Robin Buchanan Nicholson	Non-Executive Director
Michael Holcombe Wilson	Non-Executive Director
Robert Peter Wilson	Non-Executive Director
The Lord (Patrick Richard Henry) Wright of Richmond	Non-Executive Director

The business address of the Directors is Britannic House, 1 Finsbury Circus, London EC2M 7BA.

A short biography of each of the BP Amoco Directors is set out below:

Ruth Block (age 68) joined BP Amoco's board at the end of 1998. She retired as executive vice president and chief insurance officer of The Equitable in 1987. She is a non-executive director of Ecolab and 35 Alliance Capital Mutual Funds.

Sir John Browne (age 51) was appointed an executive director of BP Amoco in 1991 and group chief executive in 1995. He is a non-executive director of The Goldman Sachs Group, SmithKline Beecham and the Intel Corporation, a trustee of the British Museum and a member of the supervisory board of DaimlerChrysler. He is also vice president and a member of the board of the Prince of Wales Business Leaders Forum.

John Bryan (age 62) joined BP Amoco's board at the end of 1998. He is chairman and chief executive officer of Sara Lee Corporation and a non-executive director of Bank One Corporation, The First National Bank of Chicago and General Motors Corporation.

Dr John Buchanan (age 56) was appointed an executive director of BP Amoco in 1996. He is a non-executive director of The Boots Company PLC and a member of the UK Accounting Standards Board.

Rodney Chase (age 56) was appointed an executive director of BP Amoco in 1992. He is a non-executive director of Diageo and the BOC Group.

Erroll B Davis, Jr (age 54) joined BP Amoco's board in 1998. He is president and chief executive officer of Alliant Energy. He is a non-executive director of PPG Industries and a member of the American Society of Corporate Executives, Association of Edison Illuminating Companies, the Wisconsin Association of Manufacturers and Commerce, the Iowa Business Council and the Edison Electric Institute.

Richard Ferris (age 62) joined BP Amoco's board at the end of 1998. He retired as co-chairman of Doubletree Corporation in 1997. He is a non-executive director of The Procter & Gamble Company and Candlewood Hotel Corporation.

H Laurance Fuller (age 60) joined BP Amoco's board at the end of 1998 having been the chairman and chief executive officer of Amoco since February 1991. He is a non-executive director of Chase Manhattan Corporation, Chase Manhattan Bank, Motorola, Security Capital Group and Abbott Laboratories. He also serves on the boards of Catalyst, the American Petroleum Institute and the Rehabilitation Institute of Chicago, and is a trustee of The Orchestral Association.

Dr Christopher Gibson-Smith (age 53) was appointed an executive director of BP Amoco in 1997. He is a non-executive director of Lloyds TSB.

Charles Knight (age 63) joined BP Amoco's board in 1987. He is chairman and chief executive officer of Emerson Electric and is a non-executive director of Anheuser-Busch, Morgan Stanley Dean Witter, SBC Communications and IBM.

Floris Maljers (age 65) joined BP Amoco's board at the end of 1998. He is a member of the supervisory boards of SHV Holding, Vendex and KLM Royal Dutch Airlines. He is chairman of the supervisory board of the Amsterdam Concertgebouw.

Dr Walter Massey (age 61) joined BP Amoco's board at the end of 1998. He is president of Morehouse College and is a non-executive director of Motorola, Bank of America, McDonald's Corporation and the Mellon Foundation.

Michael Miles (age 63) joined BP Amoco's board in 1994. He is chairman of Johnson Matthey and a director of John Swire & Sons, ING Baring Holdings and BICC.

Sir Robin Nicholson (age 64) joined BP Amoco's board in 1987. He retired as chairman of Pilkington Optronics in November 1998. He is a non-executive director of Rolls-Royce and a member of the UK government's Council for Science and Technology.

Richard Olver (age 52) was appointed an executive director of BP Amoco in January 1998. He is a non-executive director of Reuters Group p.l.c.

Sir Ian Prosser (age 56) joined BP Amoco's board in 1997 and was appointed Deputy Chairman in February 1999. He is chairman and chief executive of Bass, a non-executive director of Lloyds TSB and vice president of the council of the Brewers and Licensed Retailers Association.

Bryan Sanderson (age 58) was appointed an executive director of BP Amoco in 1992. He is chairman of Sunderland PLC, a non-executive director of British Steel, president of CEFIC (the European Chemical Industry Council) and vice president of the court of governors of the London School of Economics.

Peter Sutherland (age 53) rejoined the BP Amoco board in 1995, having previously been a non-executive director from 1990 to 1993. He was appointed chairman of BP Amoco in May 1997. He is chairman of Goldman Sachs International and a non-executive director of Investor AB, ABB Asea Brown Boveri and Telefonaktiebolaget LM Ericsson. He is on the advisory board of the Council of Foreign Relations and is chairman of the Overseas Development Council. He is also a trustee of the Royal Academy of Arts.

Michael Wilson (age 61) joined BP Amoco's board at the end of 1998. He is vice chairman and a director of RBC Dominion Securities. He is a non-executive director of Manufacturers Life Insurance Company and Rio Algom.

Robert Wilson (age 55) joined BP Amoco's board in July 1998. He is chairman of Rio Tinto and a non-executive director of Diageo.

The Lord Wright of Richmond (age 68) joined BP Amoco'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 chairman of the Royal Institute of International Affairs.

8.2 The names of all other companies (other than subsidiaries of BP Amoco) in which the Directors are or have been a director at any time in the previous five years are set out below:

8.2.1 **Current Directorships**

Name of Director	Name of Company
R S Block	Ecolab, Inc.
	Alliance All-Market Advantage Fund, Inc.
	Alliance Bond Fund, Inc.
	Alliance Balanced Shares, Inc.
	ACM Government Income Fund, Inc.
	ACM Government Securities Fund, Inc.
	ACM Government Spectrum Fund, Inc.
	ACM Government Opportunity Fund, Inc.
	ACM Managed Income Fund, Inc.
	ACM Municipal Securities Income Fund Inc.
	ACM Managed Dollar Income Fund Inc.
	Alliance Global Dollar Government Fund, Inc.
	Alliance Global Strategic Income Trust, Inc.
	Alliance High Yield Fund, Inc.
	Alliance Institutional Funds, Inc.
	Alliance International Premier Growth Fund, Inc.
	Alliance Premier Growth Fund, Inc.
	Alliance Utility Income Fund, Inc.
	Alliance Variable Products Series Fund, Inc.
	Alliance Growth & Income Fund, Inc.
	Alliance Global Small Cap Fund, Inc.
	Alliance Municipal Income Fund, Inc.
	Alliance Municipal Income Fund II
	Alliance Limited Maturity Government Fund, Inc.
	Alliance Multi-Market Strategy Trust, Inc.
	Alliance Mortgage Securities Income Fund, Inc.
	Alliance North American Government Income Trust, Inc.
	Alliance Quasar Fund, Inc.
	Alliance Real Estate Investment Fund, Inc.
	Alliance/Regent Sector Opportunity Fund, Inc.
	Alliance Select Investor Series, Inc.
	The Alliance Fund, Inc.
	The Alliance Portfolios
	Alliance World Dollar Government Fund, Inc.
	Alliance World Dollar Government Fund II, Inc.
	Alliance Worldwide Privatization Fund, Inc.
Sir John Browne	Intel Corporation
	SmithKline Beecham p.l.c.
	The Goldman Sachs Group Inc.
	DaimlerChrysler AG
J H Bryan	Bank One Corporation
	First National Bank of Chicago
	General Motors Corporation
	Sara Lee Corporation
Dr J G S Buchanan	The Boots Company PLC
R F Chase	Diageo plc
	The BOC Group plc

Name of Director	Name of Company
E B Davis, Jr	Alliant Energy
	PPG Industries, Inc.
R J Ferris	The Proctor & Gamble Company
	Candlewood Hotel Corporation
H L Fuller	Abbott Laboratories
	Motorola, Inc.
	Security Capital Group
	The Chase Manhattan Bank
	The Chase Manhattan Corporation
Dr C S Gibson-Smith	Lloyds TSB Group plc
C F Knight	Anheuser-Busch Companies Inc.
	Emerson Electric Co.
	IBM Corporation
	Morgan Stanley Dean Witter & Co.
	SBC Communications
F A Maljers	KLM Royal Dutch Airlines
	SHV Holding
	Vendex N.V.
Dr W E Massey	Bank of America
	McDonald's Corporation
	Motorola, Inc.
H M P Miles	BICC plc
	GEMS Oriental & General Fund Limited
	ING Barings Holdings Limited
	Johnson Matthey plc
	John Swire & Sons Limited
	Pacific Assets Trust Limited
	Pacific Assets Trust plc
	Swire Pacific Limited
	The Korea-Europe Fund Limited
Sir Robin Nicholson	Rolls Royce plc
R L Olver	Reuters Group PLC
Sir Ian Prosser	Bass PLC
	Lloyds TSB Group PLC
B K Sanderson	British Steel plc
	Sunderland PLC
P D Sutherland	Goldman Sachs International
	Goldman Sachs Europe Limited
	Goldman Sachs Holdings (U.K.)
	Goldman Sachs (UK) L.L.C.
	ABB Asea Brown Boveri Limited
	ABB AB
	Investor AB
	L.M. Ericsson Holdings Limited
	Telefonaktiebolaget LM Ericsson

Name of Director	**Name of Company**
M H Wilson	Algorithmics, Ltd.
	AmTec, Inc.
	Manufacturers Life Insurance Company
	Michael Wilson International, Inc.
	Newstar Solutions, Ltd.
	Office Specialty, Ltd.
	Quorum Growth International, Ltd.
	RBC Dominion Securities Inc.
	Rio Algom Limited
R P Wilson	Rio Tinto plc
	Rio Tinto Limited
	Diageo plc
The Lord Wright of Richmond	De La Rue PLC

8.2.2 **Previous Directorships**

Name of Director	**Name of Company**
R S Block	Amoco
Sir John Browne	Redland PLC
J H Bryan	Amoco
R F Chase	National City Corporation
E B Davis, Jr	Amoco
	Sentry Insurance
R J Ferris	Amoco
	Promus Hotel Corporation
	Doubletree Hotel Corporation
H L Fuller	Amoco
C F Knight	Baxter International, Inc.
	Caterpillar, Inc.
F A Maljers	Amoco
	Philips Electronics
	Diageo plc
Dr W E Massey	Amoco
H M P Miles	Portals Group PLC
	Sedgwick Lloyds Underwriting Limited
Sir Robin Nicholson	Maenporth Estate Company Limited
	Pilkington plc
	Pilkington Optronics Limited
	Thomson Training & Simulation Limited
	Villamoor Limited
R L Olver	Reuters Holdings Limited
	A O Sidanco
Sir Ian Prosser	Berkhamsted School Enterprises Ltd.
	The Boots Company PLC
	Lloyds Bank PLC
P D Sutherland	Allied Irish Banks, p.l.c.
	Delta Air Lines Inc.
M H Wilson	Amoco
R P Wilson	The Boots Company PLC
The Lord Wright of Richmond	Barclays Bank PLC
	Barclays PLC
	BAA plc
	Unilever (advisory director)

Michael Miles was a director of Barings PLC when administrators were appointed in February 1995.

8.3 BP Amoco Directors' Service Contracts

All Executive Directors other than Mr Fuller have service contracts with BP Amoco. Mr Fuller has a service contract with Amoco. The main terms on which the Executive Directors are employed are set out below:

Name	Date of Agreement	Current Salary ($)[a]	Notice Period from BP Amoco	Unexpired term
H L Fuller	03.09.1998	1,100,000	Fixed term expiring 31.03.2000	8 months and 3 weeks
Sir John Browne	11.11.1993	1,072,500	24 months	—
R F Chase	30.11.1993	721,050	24 months	—
Dr J G S Buchanan	21.10.1998	645,150	12 months	—
B K Sanderson	11.11.1993	660,000	24 months[b]	—
Dr C S Gibson-Smith	01.09.1997	561,000	12 months	—
R L Olver	21.12.1997	561,000	12 months	—

Notes:

[a] A conversion rate of $1.65:£1.00 was used to calculate the dollar amounts of current salary at the date of approval by the Remuneration Committee.

[b] The contract will automatically terminate on the day before Mr Sanderson's 60th birthday, unless terminated earlier.

The remuneration of the Executive Directors comprises three elements: base salary, annual performance bonus and long term incentive. The base salary is the only element which each Executive Director is contractually entitled to receive under the service agreement.

The annual performance bonus is a variable, non-pensionable cash award determined by the Remuneration Committee for achieving demanding annual targets set out in annual performance contracts. The target level of award is set out in annual performance contracts. The target level of award for Executive Directors other than Mr Fuller is 70 per cent, and the maximum bonus opportunity is 105 per cent. Mr Fuller's target and maximum bonus opportunities are 80 per cent and 120 per cent respectively, and his bonus is pensionable, in line with the Amoco Retirement Plan.

The LTPP is the only form of long-term incentive offered to Executive Directors other than Mr Fuller who, as a US based director receives additional share option awards (see below). The LTPP consists of rolling, three year performance periods during which BP Amoco performance is measured against a competitor group of seven major oil companies on challenging shareholder return, profitability and growth measures. Any award of shares made by the Remuneration Committee is taxable and is subject to a minimum period of a further three years retention in trust.

The retention period will be extended, if required, until demanding shareholding guidelines for Executive Directors have been met. The maximum LTPP award can only be considered when performance has been ahead of the competitor group on all three performance measures. No award is made to directors if BP Amoco's performance is below the median of the competitor group. Details of potential awards under the LTPP are set out in paragraph 9.1 of this Part VIII. Mr Fuller, in common with other North American executives below board level, is also eligible to receive awards of share options under the BP Amoco Share Option Plan to bridge the gap between the value of the global LTPP and higher US market practice in long-term incentives.

Each Executive Director other than Mr Fuller is entitled to be a member of the BP Amoco pension scheme on the same terms as other members, save that the yearly accrual rate of the pension is 1/30th of final salary (up to a limit of two thirds of final salary). Sir John Browne, R F Chase and B K Sanderson have reached the two thirds limit. Mr Fuller participates in Amoco's corporate retirement plan. Under this retirement plan, the amount of the annuity which Mr Fuller is eligible to receive on a single-life basis is determined under an annuity benefit formula. The annuity benefit formula (including a percentage of US social security benefits) is calculated at 1 ⅔ per cent multiplied by the employee's years of participation, multiplied by the average annual earnings determined from the three highest consecutive calendar years' salaries and the three highest consecutive calendar years' bonus awards during the ten years preceding retirement. The maximum annuity is 60 per cent of such average annual earnings and years of participation in the plan in excess of 36 do not result in additional benefits. Average annual earnings for retirement plan purposes include salary and bonus where applicable.

The Executive Directors other than Mr Fuller are also provided with the following benefits: a company car, company sick pay in accordance with BP Amoco's sick pay and absence policy from time to time in force. The Executive Directors are eligible to participate in certain BP Amoco Share Schemes, further details of which are set out at paragraph 5 of this Part VIII.

Mr Fuller is eligible to participate in other Amoco corporate benefit plans generally provided to Amoco employees, including an employee savings plan, containing a company matching contribution of up to seven per cent of annual earnings and certain health and welfare plans, including medical and dental coverage, non-contributory group life insurance of one times annual earnings, additional employee paid group life insurance and short and long-term sickness and disability coverage. In certain circumstances Amoco will also gross up for tax purposes payments made to Mr Fuller under his service contract and will indemnify him in respect of taxes and expenses incurred by him as a result of Amoco's decision to contest a tax claim made by the IRS.

Mr Fuller will also receive expatriate benefits in accordance with the most favourable policies of Amoco and its affiliated companies during and after any expatriate assignment. In addition he is entitled to fringe benefits such as tax planning services, payment of club dues and use of a car (including driver service) in accordance with the most favourable policies of Amoco and its affiliated companies in respect of Amoco's US payroll peer executives.

Pursuant to Mr Fuller's service contract, Amoco must pay a severance payment calculated in accordance with a formula set out in the service contract if Amoco terminates Mr Fuller's employment other than for cause, disability or death, or if Mr Fuller terminates his employment with Amoco for Good Reason. Good Reason is defined as any of the following without the express written consent of the executive (i) the assignment to the executive of duties inconsistent with his position, authority and duties as Executive Co-Chairman of BP Amoco, or other action by Amoco which results in a diminution in Mr Fuller's position; (ii) failure to be nominated for and/or elected to be a member and Co-Chairman of the BP Amoco Board; (iii) non-compliance with Amoco's obligations to provide salary and benefits; (iv) requiring Mr Fuller to be based at a location more than 50 miles from Chicago, Illinois, or requesting him to undertake substantially more business travel than before 31 December 1998; (v) any purported termination of the service contract by Amoco in breach of its terms; and (vi) the failure by Amoco to obtain the agreement of any successor to substantially all of the business or assets of Amoco to agree to perform the service contract.

The cash lump sum payment to be paid by Amoco to Mr Fuller on termination by him for Good Reason or by Amoco for a reason other than for cause, disability or death, would be the aggregate of the following: (i) accrued salary and benefits to the date of termination of employment; (ii) an amount equal to three times the sum of Mr Fuller's base salary and the product of Mr Fuller's highest target bonus opportunity percentage during his employment under his service contract and his base salary; (iii) a sum to compensate for pension loss for a three year period from the date of termination; and (iv) an amount equal to the product of three, seven per cent, and the executive's annual base salary, being the contribution which Amoco would have made to a savings plan on behalf of Mr Fuller for a three year period following the date of termination.

In addition, Amoco is contractually obliged to continue to provide benefits to Mr Fuller for a three year period under the welfare benefit plans provided by Amoco (or longer if the terms of the welfare benefit plan so provide). Amoco must also provide executive outplacement services and pay or provide any other amounts and benefits due under other plans or arrangements.

These payments will only be made upon the effectiveness of a release signed by Mr Fuller in favour of Amoco in respect of his employment with Amoco. Mr Fuller is entitled to these payments whether or not he obtains other employment. If Amoco terminates Mr Fuller's service contract due to disability Mr Fuller will be entitled to receive disability and other benefits at least as favourable as those provided by Amoco to other disabled executives immediately preceding 31 December 1998 or, if more favourable, as provided for Amoco's US payroll peer executive group. Amoco also, to the extent permitted by law, will pay Mr Fuller's legal fees and expenses reasonably incurred in any contest of the enforceability of, or liability under, the service contract provided he has not brought proceedings in bad faith.

8.4 BP Amoco Directors' Remuneration

The BP Amoco Directors' total aggregate remuneration and benefits/emoluments for the year ended 31 December 1998 is shown in the table below.

Name	Basic Salary/Fees[a]	Annual Bonus[b]	Total Base Salary, Annual Bonus and Benefits/ Emoluments[c]
Executive Directors:			
H L Fuller[d]	$1,073,000	$572,000	$1,674,000
Sir John Browne	$895,000	$492,000	$1,514,000
R F Chase	$581,000	$331,000	$962,000
Dr J G S Buchanan	$533,000	$296,000	$899,000
B K Sanderson	$581,000	$331,000	$987,000
Dr C S Gibson-Smith	$506,000	$279,000	$838,000
R L Olver	$506,000	$279,000	$948,000
Non-Executive Directors:			
R S Block[d]	$90,000		
J H Bryan[d]	$90,000		
E B Davis, Jr.[d]	$90,000		
R J Ferris[d]	$90,000		
C F Knight	$52,000		
F A Maljers[d]	$90,000		
Dr W E Massey[d]	$90,000		
H M P Miles	$61,000[e]		
Sir Robin Nicholson	$46,000		
Sir Ian Prosser	$55,000		
P D Sutherland	$266,000		
M H Wilson[d]	$90,000		
R P Wilson	$18,000		
The Lord Wright of Richmond	$61,000		

Notes:

[a] A conversion rate of $1.66: £1.00 (the average rate for 1998) has been used to calculate basic salary/fees.

[b] Paid in 1999, relating to 1998.

[c] Salary and benefits/emoluments were paid in 1998 and annual performance bonus paid in 1999, relating to 1998 performance.

[d] Appointed as director on 31 December 1998.

[e] Paid in part to Mr Miles' employer.

The total remuneration and benefits/emoluments for the year ended 31 December 1998 of the BP Amoco Executive Directors is $7,822,000. The total fees paid to the non-executive directors for the year ended 31 December 1998 are $1,189,000.

In addition, the following amounts were paid to former BP Amoco directors in 1998: W G Lowrie $1,049,000; Dr R Beall $304,000; Sir James Glover $80,000; Dr K N Horn $35,000; A C Martinez $154,000; M R Seger $304,000; Sir Patrick Sheehy $88,000 and T M Solso $124,000.

The remuneration of the Non-Executive Co-Chairman and non-executive Directors is determined by the Board as a whole. The Non-Executive Co-Chairman receives a fixed fee. The other non-executive Directors receive a fixed fee of £40,000 ($66,400) per annum plus an allowance of £3,000 ($4,890) for occasions on which a Director is required to travel trans-Atlantic for a Board or committee meeting.

8.5 Save as disclosed in paragraph 8.3, there are no existing or proposed service contracts between any Directors and BP Amoco or any of its subsidiaries. In addition, no such contract has been or will be varied as a result of the Combination.

8.6 The total emoluments receivable by the Directors will not be varied in consequence of the Combination. These emoluments will be reviewed by the Remuneration Committee, from time to time, in the normal manner.

9 Directors' and Other Interests

9.1 As at 9 July 1999 (the latest practicable date prior to the printing of this document), and immediately following the Combination becoming effective and assuming no dealings by the Directors during the intervening period, the beneficial interests of the Directors (and of persons connected with them within the meaning of section 346 of the Act which would, if the connected person were a Director, be required to be notified in compliance with the Act, and the existence of which is known to or could with reasonable diligence be ascertained by the Director, as the case may be) and their immediate families in the share capital of BP Amoco, as (where applicable) notified to BP Amoco (pursuant to sections 324 or 328 of the Act) and entered in BP Amoco's register of directors' interests maintained under section 325 of the Act, and in the share capital of ARCO were and are anticipated to be as follows:

	Before the Combination			After the Combination[a]	
	Number of BP Amoco Ordinary Shares	Number of BP Amoco Ordinary Shares held in ADS form	Number of ARCO Shares	Number of BP Amoco Ordinary Shares	Number of BP Amoco Ordinary Shares held in ADS form
P D Sutherland	3,392	—	—	3,392	—
H L Fuller	—	683,363	—	—	683,363
Sir Ian Prosser	413	—	—	413	—
Sir John Browne	454,394	24,788	—	454,394	24,788
R F Chase	331,504	—	—	331,504	—
Dr J G S Buchanan	254,139	—	—	254,139	—
Dr C S Gibson-Smith	154,536	—	—	154,536	—
R L Olver	136,270	—	—	136,270	—
B K Sanderson	319,190	—	—	319,190	—
R S Block	—	40,986	—	—	40,986
J H Bryan	—	49,380	—	—	49,380
E B Davis, Jr	—	30,339	—	—	30,339
R J Ferris	—	130,404	—	—	130,404
C F Knight	—	14,250	—	—	14,250
F A Maljers	—	16,764	—	—	16,764
Dr W E Massey	—	22,913	—	—	22,913
H M P Miles	4,621	—	—	4,621	—
Sir Robin Nicholson	1,717	—	—	1,717	—
M H Wilson	—	21,624	—	—	21,624
R P Wilson	2,739	—	—	2,739	—
The Lord Wright of Richmond	1,998	—	—	1,998	—

Note:

[a] Does not take into account the Subdivision.

As at 9 July 1999 (the latest practicable date prior to the printing of this document), details of Directors' participation under the LTPP were as follows:

	Range of potential LTPP awards in BP Amoco Ordinary Shares[a]	
	Minimum	Maximum
Directors		
H L Fuller	0	270,000
Sir John Browne	88,920	485,100
R F Chase	74,550	347,200
Dr J G S Buchanan	72,630	320,800
Dr C S Gibson-Smith	64,740	305,800
B K Sanderson	74,550	311,200
R L Olver	64,740	289,800

Note:

[a] The minimum figures represent the minimum number of BP Amoco Ordinary Shares which may be awarded under the current LTPPs. The LTPPs each have three year performance periods which began in 1997, 1998 and 1999 respectively. Minimum award levels were determined by the Remuneration Committee for the 1997 and 1998 LTPPs prior to the merger of BP and Amoco. However, the minimum award level for the 1999 plan is zero (as it was for plans before 1997, and also will be for plans after 1999). The maximum figures represent the highest level of potential award, based on performance units held at 9 July 1999. These highest level awards will only be made to each Director provided that the performance measures have been met at a maximum level on the dates specified in the LTPP, and also that all other conditions have been fulfilled.

Save as disclosed in this paragraph 9.1, none of the Directors or their immediate families (or any person connected with such Director within the meaning of section 346 of the Act which would, if the connected person were a Director, be required to be notified in compliance with the Act, and the existence of which is known to or could with reasonable diligence be ascertained by the Director, as the case may be) had, at 9 July 1999 (the latest practicable date prior to the printing of this document) or will have, so far as the Directors are aware, immediately following the Combination becoming effective, any interest (beneficial or non-beneficial) in the share capital of BP Amoco, which interest would be required to be notified to BP Amoco pursuant to section 324 or section 328 of the Act or entered in the register maintained by BP Amoco under the provisions of section 325 of the Act.

9.2 As at 9 July 1999 (the latest practicable date prior to the printing of this document), the Directors had been granted and had outstanding options over the BP Amoco Ordinary Shares under the BP Amoco Share Schemes, as follows:

Directors' Executive Share Options[a]

Name	At 1/1/98	Granted	Exercised	At 9/7/99	Average option price £[b]	Dates from which exercisable	Expiry date(s)
Sir John Browne	79,400	–	79,400[c]	–	n/a	n/a	n/a
Dr J G S Buchanan	59,600	–	59,600[d]	–	n/a	n/a	n/a
H L Fuller	6,542,560	1,734,930[e]	746,360[f]	7,531,130	6.05	23/4/93-15/3/01	23/4/01-14/3/09

Notes:

[a] To allow meaningful comparison, all options in the above table are denoted in BP Amoco Ordinary Shares. (Mr Fuller's options up to 1998 were originally denoted in Amoco common stock, at time of grant, but were converted to BP Amoco ADSs at the time of merger. They are shown here for convenience as the equivalent number of BP Amoco Ordinary Shares at a sterling price, using an exchange rate of $1.66: £1.00.)

[b] These are the weighted average prices applicable to all shares under option at 9 July 1999. Full details of directors' shareholdings and options are available for inspection in the Company's register of directors' interests.

[c] Exercise price £3.38 and market price at date of exercise £9.50.

[d] Exercise prices £2.75 for 48,000 shares and £3.38 for 11,600 shares, and market price at date of exercise £9.28.

[e] Grant prices 1,191,000 at £6.61 on 24/3/98 and 543,930 at £10.82 on 24 May 1999.

[f] Exercise prices £3.08 for 349,360 shares, market price at date of exercise £6.25; £3.98 for 397,000 shares, market price at date of exercise £11.02.

The market price of BP Amoco Ordinary Shares at 31 December 1998 was £8.98 ($14.91). The highest and lowest market prices of BP Amoco Ordinary Shares during 1998 were £9.68 and £7.37 respectively, and the market price per BP Amoco Ordinary Share at 9 July 1999 was £12.20.

Directors' SAYE Share Options

Name	At 1/1/98	Granted	Exercised	At 9/7/99	Average option price £[a]	Date(s) from which exercisable	Expiry date(s)
Sir John Browne	2,984	–	–	2,984	5.78	1/9/02	28/2/03
Dr J G S Buchanan	6,201	1,303[b]	3,640[c]	3,864	5.33	1/9/99-1/9/04	29/2/00-28/2/05
R F Chase	4,662	–	–	4,662	3.70	1/9/00	28/2/01
R L Olver	7,809	–	4,381[d]	3,428	5.03	1/9/01-1/9/02	28/2/02-28/2/03
B K Sanderson	4,267	–	–	4,267	4.04	1/9/99-1/9/02	29/2/00-28/2/03

Notes:

[a] These are the weighted average prices applicable to all shares under option at 9 July 1999. Full details of directors' shareholdings and options are available for inspection in the Company's register of directors' interests.

[b] 928 options granted at £7.43 on 3 July 1998, and 375 options granted at £8.99 on 2 July 1999.

[c] Exercise price £2.06, and market price at date of exercise £8.28.

[d] Exercise price £2.06 for 3,640 shares and £2.48 for 741 shares, and market price at dates of exercise £7.95 and £9.11 respectively.

All executive directors are also deemed to have an interest in such shares of the Company held from time to time by BP QUEST Company Limited to facilitate the operation of the Company's SAYE Option Scheme.

9.3 No Director has had any interest, direct or indirect, in any transaction which is unusual in its nature or conditions or significant in relation to the business of the BP Amoco Group and which was effected during the current or immediately preceding financial year or which was effected during any earlier financial year and which remains in any respect outstanding or unperformed.

9.4 No loans or guarantees have been granted or provided to, or for the benefit of, the Directors by any member of the BP Amoco Group.

9.5 Save as set out below, as at 9 July 1999 (the latest practicable date prior to the printing of this document), and immediately following the Combination becoming effective, and assuming no interests in ARCO Shares as at that date and no dealings in the BP Amoco Shares or the ARCO Shares during the intervening period, the Directors are not aware of any interest (within the meaning of Part VI of the Act) which represents three per cent or more of the issued share capital of BP Amoco:

Shareholder	Number of BP Amoco Ordinary Shares held before and after the Combination[a]	Percentage of issued ordinary share capital in BP Amoco held before the Combination	Percentage of issued ordinary share capital in BP Amoco held after the Combination
Prudential Portfolio Managers Ltd	385,243,562	3.96	3.38
Kuwait Investment Office	357,520,000[b]	3.67	3.14
Fidelity Group	333,409,680[c]	3.43	2.92

Notes:

[a] Does not take into account the Subdivision.

[b] Includes 101,174,004 BP Amoco Ordinary Shares held in ADS form.

[c] Includes 243,571,476 BP Amoco Ordinary Shares held in ADS form.

9.6 So far as the Directors are aware, there are no persons who, directly or indirectly, jointly or severally, exercise or could exercise control over BP Amoco.

10 Material Contracts

10.1 The following contracts (not being contracts entered into the ordinary course of business) have been entered into by members of the BP Amoco Group within the two years immediately preceding the date of this document and are, or may be, material:

10.1.1 The Amoco Agreement and Plan of Merger;

10.1.2 The Amoco Stock Option Agreement;

10.1.3 The Merger Agreement; and

10.1.4 The Stock Option Agreement.

The Merger Agreement and the Stock Option Agreement are summarised in Section A of Part V. The agreements described in paragraphs 10.1.1 and 10.1.2 were summarised in the Listing Particulars in relation to the merger with Amoco dated 30 October 1998. Copies of the above agreements will be available for inspection at the address set out in paragraph 18 of this Part VIII.

10.2 Except for the agreements referred to in paragraphs 10.1.3 and 10.1.4 (particulars of which are summarised in Section A of Part V), no contracts, other than contracts entered into in the ordinary course of business, have been entered into by members of the ARCO Group within the two years immediately preceding the date of this document which are, or may be, material, save for the following:

10.2.1 The agreement and plan of merger dated 4 May 1998 (the "UTP Merger Agreement") between (1) ARCO, (2) VWK Acquisition Corp., a Delaware corporation and wholly-owned subsidiary of ARCO, ("VWK") and (3) UTP pursuant to which VWK was merged with and into UTP (the "UTP Merger") with UTP surviving the merger as a subsidiary of ARCO.

Under the UTP Merger Agreement, prior to the UTP Merger, VWK purchased, on 29 June 1998, more than 90 per cent of the outstanding common stock of UTP for a purchase price of approximately $2.5 billion, or $29 per share. ARCO also purchased substantially all of UTP's 7.14% Series A Cumulative Preferred Stock (1,649,500 shares out of 1,750,000) for approximately $200 million, or $122 per share. The preferred stock becomes redeemable in 2008. ARCO made both purchases pursuant to public tender offers for the two classes of equity securities (the "UTP Offer"). The principal assets of UTP acquired pursuant to the UTP Offer include properties in the United Kingdom North Sea, Indonesia and Venezuela and interests in three oil concessions in the Badin area of Pakistan, the Alpine field in Alaska and a 41.67 per cent interest in the Geismar petrochemical plant in Louisiana.

The UTP Merger Agreement contains certain provisions relevant to the period prior to the UTP Merger being effective including conditions to the merger, non-solicitation of alternate proposals and conduct of business.

The UTP Merger Agreement contains certain customary representations and warranties by ARCO and VWK regarding, *inter alia*, due organisation, good standing, the activities of VWK, corporate authority, lack of conflict, information supplied, financing and litigation. The UTP Merger Agreement also contains certain customary representations and warranties by UTP with respect to itself and its subsidiaries, regarding, *inter alia*, due organisation, good standing, capital structure, corporate authority, lack of conflict, government filings, reports and financial statements, litigation, compliance with environmental laws, absence of certain changes or events, title to properties, tax matters and compliance with the United States Employee Retirement Income Security Act of 1974 ("ERISA").

In the UTP Merger Agreement, ARCO agreed to honour all of UTP's obligations to indemnify the directors and officers of UTP and its subsidiaries for acts or omissions by such directors and officers occurring at or prior to the effective time of the UTP Merger. In addition, ARCO agreed for a period of six years after the effective time of the UTP Merger to cause to be maintained in effect the policies of directors' and officers' liability insurance maintained by UTP, subject to a maximum premium.

In the UTP Merger Agreement, ARCO also agreed to indemnify, defend and hold harmless the officers and directors of UTP and its subsidiaries against all losses, claims, damages, liabilities, fees and expenses, judgements, fines and amounts paid in settlement arising out of actions or omissions at or prior to the effective time of the UTP Merger in connection with the UTP Merger Agreement, a stockholder agreement dated 4 May 1998 between ARCO and KKR Partners II, L.P., the UTP Offer, the UTP Merger and the other transactions contemplated by the UTP Merger Agreement and the stockholder agreement.

The UTP Merger Agreement is governed by the laws of the State of Delaware.

10.2.2 The agreement and plan of merger dated 18 June 1998 (the "Lyondell Merger Agreement") between (1) ARCO Chemical Company, (2) Lyondell Acquisition Corporation ("Acquisition Corp.") a Delaware corporation and wholly-owned subsidiary of Lyondell Petrochemical

Company ("Lyondell") (itself a former subsidiary of ARCO) and (3) Lyondell pursuant to which Acquisition Corp. was merged with and into ARCO Chemical Company (the "Lyondell Merger") with ARCO Chemical Company surviving the merger as a subsidiary of Lyondell.

Under the Lyondell Merger Agreement on 28 July 1998, ARCO completed the sale of its 80,000,001 shares of ARCO Chemical Company stock to Lyondell for $57.75 per share, or total cash proceeds of approximately $4.6 billion. The sale was made by a public tender offer by Lyondell (the "Lyondell Offer") for all of the outstanding shares of ARCO Chemical Company stock.

The Lyondell Merger Agreement contains certain provisions relevant to the period prior to the Lyondell Merger being effected including conditions to the merger, non-solicitation of alternate proposals and conduct of business.

The Lyondell Merger Agreement contains certain customary representations and warranties by ARCO Chemical Company regarding, *inter alia*, due organisation, its subsidiaries, capitalisation, corporate authority, lack of conflicts, government filings, reports and financial statements, information supplied, absence of certain changes or events, litigation, compliance with ERISA, environmental matters, taxes and intellectual property. The Lyondell Merger Agreement also contains customary representations and warranties by Lyondell and Acquisition Corp. regarding, *inter alia*, due organisation, corporate authority, consents and approvals, no violations or conflicts, information supplied and financing.

In the Lyondell Merger Agreement, Lyondell also agreed for a period of not less than six years to indemnify the officers and directors of ARCO Chemical Company from liabilities for acts or omissions occurring at or prior to the effective time of the Lyondell Merger.

In addition, pursuant to the Lyondell Merger Agreement, Lyondell agreed that, for six years after the effective time of the Lyondell Merger, it would indemnify and hold harmless each then present and former director and officer of ARCO Chemical Company against any costs or expenses, judgements, fines, losses, claims, damages or liabilities (to the extent that such were not otherwise covered and paid by insurance) incurred in connection with any claim, action, suit, proceeding or investigation, whether civil, criminal, administrative or investigative, arising out of or pertaining to matters existing or occurring at or prior to the effective time of the Lyondell Merger.

Pursuant to the Lyondell Merger Agreement, ARCO also agreed, for a period of six years after the effective time of the Lyondell Merger, to maintain in effect policies of directors' and officers' liability insurance covering the officers, directors and employees of ARCO Chemical Company covered by ARCO's directors' and officers' liability insurance with similar terms and conditions with respect to claims arising from or related to facts or events which occurred at or before the effective time of the Lyondell Merger, subject to a maximum premium.

The Lyondell Merger Agreement is governed by the laws of the State of Delaware.

In connection with the negotiation of the Lyondell Merger Agreement, ARCO, ARCO Chemical Company, and Lyondell also entered into a tax agreement dated 18 June 1998 (the "Tax Agreement").

The Tax Agreement provides that the parties will make a section 338(h)(10) election for federal income tax purposes and a similar election for certain state income tax purposes to treat the disposal of the shares pursuant to the Lyondell Offer and the Lyondell Merger as, in effect, a sale of assets by the ARCO Chemical Company and its subsidiaries (the "ARCO Chemical Group"). As a result, Lyondell's base cost in the assets of the ARCO Chemical Group for such federal and state income tax purposes is equal to the amount paid by Lyondell for the shares plus the amount of ARCO Chemical Group liabilities (the "Gross Purchase Price"), and the ARCO Chemical Group will recognise taxable gains equal to the excess of the Gross Purchase Price over its adjusted tax base in the assets (the "Sale Gain"). Because ARCO owned more than 80 per cent of the outstanding shares, the ARCO Chemical Group was part of the affiliated group of corporations headed by ARCO that file a US consolidated return (the "ARCO Group"). Accordingly, the entire Sale Gain will be included in the consolidated tax return filed by the ARCO Group, and under the Tax Agreement ARCO will be liable for the tax attributable thereto, even though ARCO owned less than 100 per cent of the outstanding shares.

The Tax Agreement also provides that, other than taxes attributable to the Sale Gain, the ARCO Chemical Company and Lyondell will be responsible for the tax liabilities of the ARCO Group that are attributable to the ARCO Chemical Group. The ARCO Chemical Company and Lyondell will also indemnify ARCO against any taxes attributable to the recapture of dual consolidated losses incurred by the ARCO Chemical Group and reflected on an ARCO Group consolidated return.

ARCO and Lyondell entered into a related guarantee dated 18 June 1998, pursuant to which Lyondell, as of the date of the completion of the Lyondell Offer, guaranteed the obligations of the ARCO Chemical Company under the Tax Agreement and previous tax agreements between the ARCO Chemical Company and ARCO.

10.2.3 The purchase and sale agreement dated 22 March 1998 (the "Purchase and Sale Agreement") between (1) ARCO, (2) ARCO Uinta Coal Company (the "Seller"), (3) Arch Western Acquisition Corporation (the "Buyer") and (4) Arch Coal Inc. ("Arch") pursuant to which the Buyer acquired from the Seller all the shares of Mountain Coal Company LLC ("MCC"), all the shares of a Delaware limited liability company formed by the Seller ("AUS") and 65 per cent of the shares in Canyon Fuel Company LLC ("CFC"). The aggregate purchase price paid under the Purchase and Sale Agreement was approximately $390 million plus certain post-closing adjustments. The principal assets acquired by the

Buyer pursuant to the Purchase and Sale Agreement include Black Thunder and Coal Creek mines in Wyoming, the West Elk mine in Colorado and a 65 per cent interest in three mines in Utah.

The Purchase and Sale Agreement contains certain customary representations and warranties by ARCO and the Seller regarding, *inter alia*, due organisation, its subsidiaries, capitalisation, corporate authority, lack of conflicts, government filings, reports and financial statements, information supplied, absence of certain changes or events, litigation, compliance with ERISA, environmental matters, taxes and authorisations. The Purchase and Sale Agreement also contains customary representations and warranties by Arch and the Buyer regarding, *inter alia*, due organisation, corporate authority, consents and approvals, no violations, information supplied and financing.

In addition, Arch and the Buyer agreed to indemnify and hold harmless the officers and directors of the Seller and ARCO and the Seller agreed to indemnify and hold harmless the officers and directors of Arch and the Buyer, in each case, against losses for acts or omissions occurring at or prior to the effective time of the Purchase and Sale Agreement.

The Purchase and Sale Agreement is governed by the laws of the State of Delaware and is under the jurisdiction of the courts of the State of New York.

In connection with the negotiation of the Purchase and Sale Agreement, (1) ARCO, (2) Delta Housing, Inc., a subsidiary of ARCO, ("Delta"), (3) Arch, (4) the Buyer and (5) Arch Western Resources LLC ("AWR") also entered into a contribution agreement dated 22 March 1998 (the "Contribution Agreement").

Under the Contribution Agreement a joint venture was established by ARCO and the Buyer and a joint venture company, AWR, was constituted to which ARCO and the Buyer contributed certain companies and businesses as follows.

Pursuant to the Contribution Agreement, on 1 June 1998 ARCO transferred its shares in Thunder Basin Coal Company LLC ("TBCC") and Delta transferred its shareholdings in State Leases ("SL") to AWR in exchange for the issue to ARCO of 0.5 per cent of the common shares and 0.5 per cent of the preferred shares in AWR. ARCO then transferred its entire shareholding in AWR to Delta. In return, the Buyer transferred its shareholdings in Arch of Wyoming LLC ("AOW"), AUS, MCC and CFC to AWR in exchange for 99.5 per cent of the common shares in AWR. Thereafter, Delta received a distribution of $675 million from AWR arising from proceeds of a loan incurred by AWR which Delta guaranteed.

The Contribution Agreement contains certain customary representations and warranties by ARCO and Delta to AWR regarding, *inter alia*, due organisation, no violations, approvals and consents, its subsidiaries, capitalisation, taxes, authorisations, litigation and ERISA. The Contribution Agreement also contains customary representations and warranties by Arch and the Buyer to ARCO, Delta and AWR, regarding, *inter alia*, due organisation, no violations, approvals and consents, its subsidiaries, capitalisation, taxes, authorisations, litigation and ERISA.

The Contribution Agreement is governed by the laws of the State of Delaware and is under the jurisdiction of the courts of the State of New York.

11 Taxation

The comments set out below are based on current UK and US law, including the UK-US Income Tax Convention (the "Treaty") and what is understood to be current UK Inland Revenue and US Internal Revenue Service practice as at the date of this document. The comments take into account proposals contained in the Finance Bill 1999 and assume that the Finance Bill will be enacted in its current form. Investors should be aware that the relevant law and practice may change. In particular, it should be noted that the US and the UK have entered into negotiations to update the Treaty. These comments are intended only as a general guide and apply to Ordinary Shareholders and BP Amoco ADS holders who hold their BP Amoco Ordinary Shares or BP Amoco ADSs as an investment and who are the beneficial owners thereof. In particular, they do not address the position of certain classes of Ordinary Shareholders or BP Amoco ADS holders such as dealers in securities.

BP Amoco Ordinary Shareholders or BP Amoco ADS holders who are in any doubt about their tax position or who are subject to taxation in any jurisdiction other than the UK or the US should consult an appropriate professional adviser immediately.

11.1 Capital Gains

The comments in paragraphs 11.1.1 to 11.1.4 in relation to the taxation of capital gains on a disposal of BP Amoco Ordinary Shares apply equally to a disposal of BP Amoco ADSs.

11.1.1 UK Resident Shareholders

A disposal of BP Amoco Ordinary Shares by a Shareholder resident or ordinarily resident for tax purposes in the UK may, depending on the Shareholder's circumstances, and subject to any available exemption or relief, give rise to a chargeable gain or an allowable loss for the purposes of UK taxation of capital gains. Where the disposal proceeds are received in US dollars, they will be translated into sterling in order to calculate the amount of any chargeable gain or loss.

11.1.2 **Shareholders Temporarily Non-Resident in the UK**

A Shareholder who is an individual and who has, on or after 17 March 1998, ceased to be resident or ordinarily resident for tax purposes in the UK for a period of less than five tax years and who disposes of BP Ordinary Shares during that period may also be liable to UK taxation of capital gains (subject to any available exemption or relief).

11.1.3 **Non-UK Resident Shareholders**

Subject to the provisions set out in paragraph 11.1.2 above, Shareholders who are neither resident nor ordinarily resident for tax purposes in the UK will not be liable to UK tax on capital gains realised on the disposal of their BP Amoco Ordinary Shares unless the Shareholder carries on a trade, profession or vocation in the UK through a branch or agency and has used, held or acquired the BP Amoco Ordinary Shares for the purposes of such trade, profession or vocation or such branch or agency.

A Shareholder resident outside the UK may also be subject to foreign taxation under local law. The US federal income tax consequences for Shareholders resident in the US are discussed at paragraph 11.1.4 below.

11.1.4 **US Resident Shareholders**

A Shareholder resident in the US (for tax purposes) who disposes of BP Amoco Ordinary Shares will recognise a capital gain or loss for US federal income tax purposes in an amount equal to the difference between the US dollar value of the amount realised and the Shareholder's adjusted tax basis (determined in US dollars) in such BP Amoco Ordinary Shares.

11.1.5 **Effect of the Subdivision**

For the purposes of UK taxation of capital gains any disposal of BP Amoco Ordinary Shares on the Subdivision will be regarded as a reorganisation of the share capital of BP Amoco. Accordingly, holders of BP Amoco Ordinary Shares will not be treated as making a disposal of all or part of their holdings of BP Amoco Ordinary Shares as a result of the Subdivision.

For the purposes of UK taxation of capital gains, holders of BP Amoco ADSs will not be treated as making a disposal of all or part of their holdings of BP Amoco ADSs as a result of the Subdivision.

The Subdivision will not be a taxable event for US federal income tax purposes.

11.2 Dividends

The taxation of dividends has recently changed with the abolition of advance corporation tax and the reduction of the tax credit. This paragraph 11.2 applies only to dividends paid on or after 6 April 1999.

11.2.1 **BP Amoco**

Under current UK taxation legislation, no tax will be withheld from dividend payments by BP Amoco. Furthermore, BP Amoco will not be obliged to account to the Inland Revenue for advance corporation tax when it pays a dividend.

11.2.2 **UK Resident Shareholders**

An individual Shareholder who is resident in the UK (for tax purposes) will be entitled to a tax credit in respect of any dividend received from BP Amoco and will be taxable on the aggregate of the dividend received and the tax credit (the "gross dividend"). The value of the tax credit will be equal to a ninth of the dividend received. The gross dividend will be treated as the top slice of an individual's income. Dividends will be subject to tax at the rate of 10 per cent of the gross dividend in the hands of UK resident individual shareholders who are liable to tax at the starting or basic rate, so that the tax credit will match such Shareholder's tax liability and there will be no further tax to pay. A UK resident individual Shareholder who is liable to income tax at the higher rate will be subject to tax at the rate of 32.5 per cent of the gross dividend. The tax credit will be set against but not fully match such Shareholder's tax liability on the gross dividend and he will have to pay additional tax equal to 22.5 per cent of the gross dividend, to the extent such sum when treated as the top slice of his income falls above the threshold for higher rate income tax.

With the exception of investors holding BP Amoco Ordinary Shares through PEPs or in ISAs (defined in paragraph 11.4 below), UK resident Shareholders which are not liable to UK tax on dividends, including pension funds and charities, will not be entitled to reclaim the tax credits in respect of dividends although charities will be entitled to limited compensation for the lack of repayable tax credits. Tax credits associated with dividends on BP Amoco Ordinary Shares held through PEPs or in ISAs can be reclaimed in respect of dividends paid before 6 April 2004, as described in paragraph 11.4 below.

UK resident corporate Shareholders will generally not be subject to corporation tax in respect of dividends received from BP Amoco.

11.2.3 **Non-UK Resident Shareholders**

A Shareholder who is not resident in the UK for tax purposes will not generally be entitled to claim any part of the tax credit. A Shareholder who is not resident in the UK (for tax purposes) should consult his own tax adviser concerning his tax liabilities on dividends received, his entitlement to reclaim any part of the tax credit and, if he is so entitled, the procedure for doing so. A Shareholder resident outside the UK may also be subject to foreign taxation on dividend income under local law. The rights of some classes of US resident Ordinary Shareholders are discussed in paragraph 11.2.4 below.

11.2.4 **US Resident BP Amoco Shareholders**

The comments below in this paragraph 11.2.4 apply only to a US person that is a beneficial owner of BP Amoco Ordinary Shares or BP Amoco ADSs and of the cash dividend paid with respect thereto and that (i) is an individual or a corporation resident in the US for purposes of the Treaty (and, in the case of a corporation, is not also resident in the UK for UK tax purposes), (ii) is not a corporation which, alone or together with one or more associated corporations, controls, directly or indirectly, 10 per cent or more of the voting stock or power of BP Amoco, (iii) holds the BP Amoco Ordinary Shares or BP Amoco ADSs in a manner which is not effectively connected with a permanent establishment in the UK through which such US person carries on business or with a fixed base in the UK from which such person performs independent personal services, and (iv) is not otherwise ineligible for benefits under the Treaty with respect to income and gains delivered in connection with the BP Amoco Ordinary Shares or BP Amoco ADSs. The comments below in relation to Shareholders apply equally to holders of BP Amoco ADSs.

A Shareholder who receives a dividend from BP Amoco will not have any further UK tax to pay in respect of the dividend but, as explained in the paragraph below, will not be able to claim any payment from the UK in respect of the dividend under the Treaty.

Under the Treaty, a Shareholder who receives a dividend from BP Amoco is entitled to a payment from the UK of the tax credit to which an individual resident in the UK would have been entitled, subject to a deduction withheld from such payment. The amount of the deduction withheld is equal to the amount of the tax credit (i.e. a ninth of the cash dividend).

For US tax purposes, the deduction withheld is treated as UK tax withheld from the dividend. Dividends paid by BP Amoco out of its current or accumulated earnings and profits, as calculated for US federal income tax purposes will be treated as income for US federal income tax purposes, and the Shareholder will be taxed on the aggregate of the dividend received and the UK withholding tax treated as paid. The dividend will not be eligible for the dividends received deduction generally allowed to US corporations in respect of dividends received from other US corporations. Subject to certain limitations and the provisions of the next paragraph, the UK withholding tax treated as paid will be creditable against the Shareholder's US federal income tax liability. For foreign tax credit limitation purposes, the dividend will be income from sources outside the US, but generally will be treated separately, together with other items of "passive income" (or, in the case of certain holders, "financial services income"). The rules relating to the determination of the foreign tax credit are complex and Shareholders should consult with their own tax advisers to determine whether and to what extent a credit would be available. If Shareholders do not elect to claim a foreign tax credit they may instead claim a deduction for the UK tax treated as withheld from the dividend payment as described above.

It is possible that, after the Combination, BP Amoco will be at least 50 per cent owned by US persons. If so, it is possible that a portion of the dividends paid by BP Amoco may be treated as US source income (rather than foreign source income) for foreign tax credit purposes. However, Shareholders may elect to treat BP Amoco dividends as foreign source income for foreign tax credit limitation purposes, so long as in calculating their foreign tax credit they apply the rules separately to the dividend and any other foreign income that they may have.

11.3 UK Stamp Duty and Stamp Duty Reserve Tax ("SDRT")

No stamp duty or SDRT should be payable as a result of the Subdivision.

BP Amoco will pay all stamp duties, SDRT and other taxes and similar levies, (if any) imposed in connection with the creation or issue of BP Amoco Ordinary Shares and BP Amoco ADSs (and any BP Amoco ADRs in connection with such BP Amoco ADSs) to be issued (i) to give effect to the Combination, (ii) on the conversion after the Effective Date of ARCO Preference Shares into BP Amoco Ordinary Shares in the form of BP Amoco ADSs (see paragraph 3.3 of Section A of Part V) and (iii) pursuant to the exercise after the Effective Date of ARCO stock options or other rights to acquire ARCO Common Shares that have been converted into options or rights to purchase BP Amoco Ordinary Shares in the form of BP Amoco ADSs (see paragraph 3.1 of Section A of Part V).

No stamp duty will be payable on the acquisition or transfer of BP Amoco ADSs or beneficial ownership of BP Amoco ADSs, provided that any instrument of transfer or written agreement to transfer is executed outside the UK and remains at all times outside the UK. An agreement for the transfer of BP Amoco ADSs or beneficial ownership of BP Amoco ADSs will not give rise to a liability for SDRT. On a transfer of BP Amoco Ordinary Shares from the custodian of the Depositary to a holder of a BP Amoco ADS upon cancellation of the BP Amoco ADS, only a fixed stamp duty of 50p per instrument of transfer will be payable. This fixed duty will be increased to £5 for instruments executed on or after 1 October 1999. Any transfer for value of the underlying BP Amoco Ordinary Shares represented by BP Amoco ADSs or agreement to transfer such shares may give rise to a liability on the transferee to stamp duty or SDRT.

A transfer for value of BP Amoco Ordinary Shares will generally be subject to *ad valorem* stamp duty or to SDRT. Stamp duty will arise on the execution of an instrument to transfer BP Amoco Ordinary Shares and SDRT will arise on the entry into an agreement to transfer BP Amoco Shares.

Stamp duty and SDRT are normally payable by the purchaser. The rate of duty payable is generally 50p per £100 (or part thereof) in the case of stamp duty, or 0.5 per cent. in the case of SDRT, in either case, of the consideration for the transfer of the BP Amoco Ordinary Shares. The stamp duty rate of 50p per £100 (or part thereof) will be replaced by the rate of 0.5 per cent in respect of instruments executed on or after 1 October 1999. If an agreement to transfer BP Amoco Ordinary Shares is completed by a duly stamped transfer within six years, then the charge to SDRT will be cancelled or, where the SDRT charge has been paid, the SDRT will, provided that a claim for repayment is made, be repaid.

Paperless transfers of BP Amoco Ordinary Shares within CREST are generally liable to SDRT, rather than stamp duty. CREST is obliged to collect SDRT on relevant transactions settled within the system. Deposits of BP Amoco Ordinary Shares into CREST generally will not be subject to SDRT, unless the transfer into CREST is itself for consideration.

Special rules apply to issues or transfers of BP Amoco Ordinary Shares into depositary arrangements and clearance services.

The amount of stamp duty payable in respect of instruments executed on or after 1 October 1999 will be rounded up to the nearest multiple of £5 (if necessary).

Special rules apply to market intermediaries.

11.4 Personal Equity Plans ("PEPs") and Individual Savings Accounts ("ISAs")

BP Amoco Ordinary Shares are qualifying investments for the stocks and shares component of an ISA.

The opportunity to invest in shares through an ISA is restricted to certain individuals aged 18 or over. Individuals wishing to invest in BP Amoco Ordinary Shares through an ISA should contact their professional advisers regarding their eligibility.

In their first year of operation (April 1999 to April 2000), ISAs have a maximum annual subscription of £7,000 which will reduce to £5,000 for subsequent years. Investments held in ISAs are free of UK tax on both capital gains and income. In addition any tax credit associated with dividends on UK equities held in ISAs will be repayable in the case of dividends paid before 6 April 2004 but not in the case of dividends paid on or after that date.

BP Amoco Ordinary Shares are qualifying investments for the purposes of both a general and a single company PEP plan, under the current regulations. PEPs have been replaced by ISAs from 6 April 1999. No new PEPs may be set up and no subscriptions to existing PEPs can be made. However, a plan manager may use cash already contributed to a PEP to acquire BP Amoco Ordinary Shares in the market. All PEPs held at 5 April 1999 can continue to be held as PEPs outside the ISA regime with the same tax advantages as are available to ISAs, including the limited repayment of tax credits.

It is possible that the rules of a particular PEP plan or ISA could restrict holdings in that PEP plan or ISA to sterling-denominated shares. BP Amoco Ordinary Shares cannot be held through any such PEP plans or in such ISAs.

12 Consents

Morgan Stanley and Ernst & Young have given and have not withdrawn their respective written consents to the inclusion herein of the references to their respective names (and, in the case of Ernst & Young, the letters in Parts III and IV) in the form and context in which they are included and Ernst & Young have authorised the letters in Parts III and IV for the purposes of section 152(1)(e) of the Financial Services Act 1986.

13 Financial and Trading Position

13.1 Save as disclosed in "Current Trading and Prospects" and "Recent Developments" set out in paragraphs 10 and 11 of Part I of this document, since 31 March 1999, being the date to which its most recent interim financial statements have been published, there has been no significant change in the financial or trading position of the BP Amoco Group.

13.2 Save as disclosed in "Current Trading and Prospects" set out in paragraph 10 of Part I of this document, since 31 March 1999, being the date to which its most recent interim financial statements have been published, there has been no significant change in the financial or trading position of the ARCO Group.

14 Litigation

14.1 BP Amoco

Other than as set out below, no member of the BP Amoco Group is or has been engaged in any legal or arbitration proceedings nor, so far as the Directors are aware, are any such proceedings pending or threatened which may have, or have had during the 12 months preceding the date of this document, a significant effect on the BP Amoco Group's financial position.

14.1.1 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 Amoco owns a 50 per cent 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 proportion of the costs and damages which it has incurred. If any claims are asserted by Exxon which affect Alyeska and its owners, BP Amoco would defend the claims vigorously.

14.1.2 The IRS has challenged the application of certain foreign income taxes as credits against BP Amoco Corporation's US taxes that otherwise would have been payable for the years 1980 to 1992. On 18 June 1992, the IRS issued a statutory Notice of Deficiency for additional taxes in the amount of $466 million, plus interest, relating to 1980 to 1982. BP Amoco filed a petition in the US Tax Court contesting the IRS statutory Notice of Deficiency. Trial on the matter was held in April 1995, and a decision was rendered by the US Tax Court in March 1996, in BP Amoco's favour. The IRS has appealed the Tax Court's decision to the US Court of Appeals for the Seventh Circuit and on 11 March 1998 the Seventh Circuit affirmed the Tax Court's prior decision. A comparable adjustment of foreign tax credits for each year has been proposed for the years 1983 to 1992 based upon subsequent IRS audits. BP Amoco Corporation believes that the foreign income taxes have been reflected properly in its US federal tax returns. Consequently, this dispute is not expected to have a material adverse effect on liquidity, results of operations or the financial position of the BP Amoco Group.

14.2 ARCO

Other than as set out below, no member of the ARCO Group is or has been engaged in any legal or arbitration proceedings nor, so far as the directors of ARCO are aware, are any such proceedings pending or threatened which may have, or have had during the 12 months preceding the date of this document, a significant effect on the ARCO Group's financial position.

14.2.1 The State of Montana, along with the United States and the Salish and Kootenai Tribes (the "Tribes"), have been seeking recovery from ARCO for alleged injuries to natural resources resulting from mining and mineral processing businesses formerly operated by the Anaconda Company. In April 1999, the court approved two consent decrees pursuant to which ARCO has agreed to pay $135 million for settlement of $561 million of the State of Montana's $767 million natural resource damage claim relating to the Clark Fort River Basin, $86 million for clean-up and related liabilities at Silver Bow Creek and $20 million to resolve claims by the Tribes and the United States. As at the date of this document, ARCO is unable to predict the scope or amount of any such liability.

14.2.2 Following the Exxon Valdez oil spill in Prince William Sound in March 1989, a number of federal, state and private plaintiff law suits were brought against Exxon, Alyeska Pipeline Service Company ("Alyeska"), and Alyeska's owner companies (including ARCO which has a 22 per cent interest). As at the date of this document, while all of the federal, state and private plaintiff law suits have been settled, certain issues relating to the liability for the spill remain unresolved between Exxon and Alyeska (including its owner companies).

14.2.3 Lawsuits, including purported class actions, are pending or threatened against ARCO and others seeking damages, abatement of the housing units, and compensation for medical problems arising out of the presence of lead-based paint in certain housing units. As at the date of this document, ARCO is unable to predict the scope or amount of any such liability.

14.2.4 In June 1994, a purported class action was filed by several individuals in Pittsburg, Pennsylvania against ARCO and Babcock & Wilcox Company ("B&W") on behalf of persons who lived or worked in Apollo and Parks Township, Pennsylvania and areas downwind of those places, from 1957 up to the present day. The claim relates to exposure to releases of radioactive and other toxic substances from two nuclear materials processing facilities and seeks damages for death and personal injury, diminution in property values, costs of decontamination of property, injunctive relief requiring the defendants to establish a fund for medical monitoring and punitive damages. On 17 September 1998, in a trial of eight "test-case" plaintiffs, a verdict of $33.7 million was returned jointly and severally against ARCO and B&W and another $2.8 million against B&W alone. On 24 September 1998, these eight "test-case" plaintiffs withdrew their claim for punitive damages against ARCO. On 29 June 1999, the court granted ARCO's and B&W's motions for a new trial as to these eight test-case plaintiffs. As at the date of this document, the claims of these and other plaintiffs remain for trial and ARCO is unable to predict the scope or amount of any such liability.

14.2.5 (a) In June 1996, a case was brought in the Superior Court of California for the County of San Diego against ARCO and eight other refiner-marketers of CARB reformulated gasoline claiming that ARCO and the eight other refiner-marketers conspired to restrict the supply and thereby raise the price of CARB gasoline in violation of California State anti-trust and unfair competition law. In October 1997 the court granted a motion for summary judgement and in January 1998 granted a motion for a new trial. These motions are under appeal as at the date of this document.

(b) In January 1998, a case was brought in the District Court for the Southern District of California on behalf of a purported class of wholesale purchasers of CARB gasoline claiming violations of federal anti-trust laws based upon factual allegations that are essentially the same as those in paragraph 14.2.5(a) above.

(c) In October 1998, ARCO was served with a complaint filed in the Superior Court of California for the County of Sacramento on behalf of a purported class of all direct or indirect purchasers of California diesel fuel between 19 March 1996 and 31 December 1997 against all California refiners of California diesel fuel. The complaint alleges violations of various state statutes by alleged conspiracy to fix prices of California diesel fuel.

As at the date of this document, ARCO is unable to predict the scope or amount of any liability for cases (a) to (c) set out in this paragraph 14.2.5.

15 Year 2000 Issue

15.1 BP Amoco

BP Amoco has conducted a risk-based review of its computer systems and computer-controlled processes and has developed a programme to remediate Year 2000-related faults by replacement or repair. Apart from some global and regional systems, which are handled centrally, implementation of this programme is devolved to the management of operating units and associates so as to ensure complete coverage. The programme is designed to minimise risks arising from the Year 2000 issue which might endanger health, safety, the environment, the BP Amoco Group's reputation or its cash flow.

The estimated total cost of BP Amoco's Year 2000 programme is approximately $300 million to be incurred by the end of 1999. As at 31 March 1999, approximately $240 million had been incurred, and the balance is expected to be spent in 1999. This estimate excludes the costs of existing major systems replacement projects launched independently of the Year 2000 programme. The Year 2000 costs are charged against income in the period in which they are incurred.

The BP Amoco programme covers all areas that are known to be impacted by the Year 2000 issue including IT application systems and infrastructure, process control systems and embedded microprocessors in plants, oil and gas fields and building facilities. It also includes the ongoing assessment of Year 2000 readiness of critical suppliers, customers, joint ventures and partners.

BP Amoco has finished the global inventory and risk analysis work, and a substantial part of the remediation and testing effort is also complete. A small amount of remediation dependent on planned plant shutdowns and other remediation work consisting mainly of implementation of package software releases is scheduled for completion by 30 September 1999. Systems rationalisation and organisational restructuring made necessary by the merger of BP and Amoco in 1998 are being managed to avoid risks which might reduce the BP Amoco Group's ability to meet 2000 with confidence. BP Amoco is providing information on the progress of its Year 2000 project to third parties on request.

Because of the BP Amoco Group's widespread use of standardised hardware and global package software, in many instances the bulk of the work is achieved by upgrading to the supplier's most recent software release. BP Amoco believes its Year 2000 programme is in line with best practice and is underpinned by an internal assurance process.

The Year 2000 programme has caused the deferral of some other computer systems work. Other systems projects continue to be assessed on their economic value and are resourced from internal and external personnel. BP Amoco has not experienced significant difficulties in retaining the necessary IT skills internally or obtaining them in the market.

The Year 2000 problem may affect the operation of automated non-IT systems such as those used to control certain processes in oil production facilities, pipelines, refineries and chemicals plants. In relation to the engineering process control risk in these operations, BP Amoco has made some use of external engineering consultancies to help develop the methodology of risk assessment and analysis, to review progress and to ensure that the work has been carried out to an acceptable standard. The BP Amoco Group has also commissioned some of its engineering equipment suppliers to perform reviews of site systems adaptations where the supplier's expertise provides the most cost-effective means of completing this work. Emergency response systems are generally not dependent on IT and IT-related processes.

To meet any unexpected Year 2000 failure in the BP Amoco Group or by key third parties, contingency plans are being developed to deliver a flexible response, especially for critical systems in the first days of 2000. Each business entity within the BP Amoco Group is accountable for identifying, categorising, and prioritising risks associated with the Year 2000 transition and developing and implementing appropriate contingency plans to mitigate those risks. BP Amoco intends to use existing crisis management, emergency response and business continuity organisations, plans and procedures in Year 2000 contingency planning.

The BP Amoco Group's objective is to ensure "business as usual" in respect of its own operations. However the BP Amoco Group's detailed plans are based on assumptions about the robustness of infrastructure supply such as power and telecommunications, upon which its businesses are dependent. BP Amoco, together with other companies, remains exposed, to an unquantifiable degree, to the risk of major non-compliance by those suppliers and other third parties, and also to any abnormal customer demand patterns resulting from concerns about supply constraints around the 1999 year-end.

A failure by third parties to correct a material Year 2000 problem could result in an interruption in, or a failure of, certain of BP Amoco's normal business activities or operations. Due to the general uncertainty inherent in the Year 2000 problem, BP Amoco is unable to determine at this time whether any such interruptions and failures will have a material impact on the BP Amoco Group's results of operations. They are not, however, expected to have a material effect on the BP Amoco Group's liquidity or financial condition.

BP Amoco's Year 2000 programme will not be directly affected by integration with ARCO. BP Amoco intends to run its Year 2000 programme as a separate programme with appropriate sharing.

15.2 ARCO

ARCO is addressing the Year 2000 issue in three major areas: (i) computing integrity; (ii) asset integrity; and (iii) commercial integrity. Computing integrity refers to functionality of information technology, including computer hardware and software used throughout ARCO's facilities. Asset integrity refers to functionality of ARCO's worldwide exploration and production operations, shipping operations, and its refining and marketing operations, all of which use embedded systems in the automated equipment and associated software responsible for the movement of product. Commercial integrity refers to the functionality of non-ARCO operated joint ventures and third party operated production operations, including the Trans Alaska Pipeline System, as well as third party vendors of goods and services.

ARCO is managing the project internally and is working to assure Year 2000 readiness by conducting internal audits. ARCO has also hired outside consultants to do certain minor audits. ARCO's implementation of the Year 2000 project has not impacted other technology projects.

In all three areas, ARCO has identified critical items and prioritised their remediation based on the likelihood that failure attributable to Year 2000 issues would have a material adverse effect on ARCO's operations. Critical items are those believed by ARCO to be those that could, in the event of failure, pose a risk to the health and safety of ARCO employees and other people, cause damage to property or the environment, adversely affect revenues, or affect ARCO's business relationships.

ARCO is addressing its Year 2000 efforts in four phases: (i) inventory of Year 2000 items; (ii) assessment of criticality of these items and prioritisation of remediation efforts; (iii) evaluation of various remediation strategies; and (iv) the remediation and testing of modifications or new software.

The total cost associated with required modifications to achieve Year 2000 compliance is not expected to be material to ARCO's financial position. The approximate total cost of the Year 2000 project is $27 million, an 8 per cent increase since year-end 1998 due to increased work in 1999, primarily in the asset integrity area, and increased budgets for follow-up work in the Year 2000. This estimate does not include ARCO's potential share of Year 2000 costs that may be incurred by partnerships and joint ventures in which ARCO participates but is not the operator.

The table below shows ARCO's progress in addressing the Year 2000 issue as at 31 March 1999.

			$ million	
Areas addressed	**Per cent complete at 31 March 1999**	**Expected date of completion**	**Total cost up to 31 March 1999**	**Total estimated cost**
Computing integrity	79[a]	June 1999	9	12
Asset integrity	50	September 1999	6	11
Commercial integrity	27[b]	June 1999	1	4
Total costs			16	27

Notes:

[a] Internal mission critical components substantially complete with most of the remaining work outside of the direct control of ARCO.

[b] Commercial integrity remediation work largely involves contingency planning which is underway.

After completion of its Year 2000 efforts, ARCO will continue to monitor changes to remediated systems. In addition, ARCO is developing contingency plans to mitigate any disruption that might occur. Because ARCO has no control over third party remediation efforts, a large portion of ARCO's contingency planning is focusing on its external commercial relationships. ARCO is also identifying alternate sources of software and alternate vendors of goods and services. In addition, ARCO's contingency planning is focusing in part on existing business interruption plans to determine their applicability to Year 2000 items.

ARCO believes that the impact of any Year 2000 failure will most likely be localised. However, as a result of the general uncertainty inherent in the Year 2000 problem, particularly the possible failure of critical third parties to address successfully their Year 2000 problems, ARCO is unable to assess the likelihood of significant business disruptions in one or more of its locations. Such disruptions could cause ARCO to be unable to produce or transport crude oil or natural gas, or to manufacture and deliver refined products to wholesale and retail customers. As a result, ARCO is currently unable to predict the aggregate financial or other consequences of such interruptions.

Risks and Assumptions

The statements made above are based on a number of assumptions: (i) that ARCO will be able to identify and locate all relevant Year 2000 items in time; (ii) that ARCO's repair and replacement programme will be completed in time, including work to be performed by third-party vendors and contractors; and (iii) that representations by third parties regarding their readiness are correct. Actual results could differ materially if any of these assumptions are incorrect.

Moreover, due to the general uncertainty as to the Year 2000 readiness of third parties and as to the reaction of the general population to any perceived gasoline shortages, as well as the general interconnectedness of businesses and their dependency on computers and embedded computer chips, ARCO cannot provide any assurance that its operations and business will not be affected by the Year 2000 issue.

16 General

16.1 The costs and expenses of, and incidental to, the Combination of BP Amoco and ARCO are estimated to amount to $155 million (exclusive of VAT).

16.2 The SDRT payable as a result of the issue of BP Amoco ADRs evidencing the BP Amoco ADSs issued in connection with the Combination will be 1.5 per cent of the value of the Consideration Shares underlying the BP Amoco ADSs, at the time the Consideration Shares are transferred to the Depositary (or its nominee). ARCO Common Shareholders may elect to take their entitlement to Consideration Shares in the form of BP Amoco Ordinary Shares. However, if all ARCO Common Shareholders receive BP Amoco ADSs in connection with the Combination (including in the number of BP Amoco ADSs received, the number of BP Amoco ADSs which may be issued in respect of outstanding ARCO options and contingent stock and on conversion of ARCO Preference Shares) the estimated SDRT payable would be $475 million (£306 million), assuming a share price of £12.20 (being the closing middle market quotation for BP Amoco Ordinary Shares as derived from the Daily Official List on 9 July 1999 (being the latest practicable date prior to the printing of this document)) and applying an exchange rate of $1.5515: £1.00 (being the Noon Buying Rate on 9 July 1999).

16.3 The financial information contained in this document in relation to BP Amoco does not constitute statutory accounts within the meaning of section 240 of the Act, but constitutes non-statutory accounts within the meaning of such section. The auditors of BP Amoco are Ernst & Young, Registered Auditors, of Becket House, 1 Lambeth Palace Road, London SE1 7EU, who have audited BP Amoco's consolidated accounts for the three financial years ended 31 December 1998 in accordance with auditing standards and have made reports under section 235 of the Act in respect of each set of statutory accounts and each such report was unqualified and did not contain a statement under section 237(2) or (3) of the Act.

16.4 The registrars of BP Amoco are Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 6DA.

16.5 CREST is a paperless settlement procedure enabling securities to be evidenced otherwise than by written instrument. CREST is a voluntary system and BP Amoco Shareholders who wish to receive and retain share certificates will be able to do so.

17 Bases and Sources of Financial and Other Information

17.1 The aggregate value of the consideration to be paid by BP Amoco pursuant to the Combination, calculated on the basis of the per share price of £12.20, being the closing middle market quotation for BP Amoco Ordinary Shares as derived from the Daily Official List on 9 July 1999 (being the latest practicable date prior to the printing of this document) multiplied by 1,672 million (being the estimated maximum number of Consideration Shares to be issued, which includes the number of BP Amoco ADSs which may be issued in respect of outstanding ARCO options and contingent stock and on conversion of ARCO Preference Shares) less the expected consideration receivable on the issue of shares under option ($605 million) is approximately $31 billion (£20 billion) after applying an exchange rate of $1.5515: £1.00 (being the Noon Buying Rate on 9 July 1999).

17.2 References in the section entitled "Strengthened Strategic Position" in Part I of this document to the Combination making BP Amoco "the largest non-state owned oil producer in the world" and "the largest oil and gas producer in both the US and the UK" and "the second largest non-state owned gas producer in the world" have been derived from the 1998 financial and operating information publications of BP Amoco, ARCO, Shell

Transport & Trading Company p.l.c., Mobil Corporation and Exxon Corporation, "Petroleum Intelligence Weekly" dated 14 December 1998 and "Oil & Gas Journal" dated 17 August 1998.

17.3 The information set out in Part III of this document has been extracted from the ARCO audited Annual Reports filed on Form 10-K with the SEC for each of the three years ended 31 December 1998, 1997 and 1996.

17.4 The information set out in Part VII of this document has been extracted from the ARCO audited Annual Reports filed on Form 10-K with the SEC for the year ended 31 December 1998 and the ARCO unaudited report filed on Form 10-Q for the three-month period ended 31 March 1999.

18 Documents Available for Inspection

Copies of the following documents may be inspected at the offices of Linklaters at One Silk Street, London EC2Y 8HQ during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) until the Effective Date and at the EGM:

18.1 the Memorandum and Articles of Association of BP Amoco in their current form;

18.2 the Memorandum and Articles of Association of BP Amoco in their proposed form, assuming the relevant resolution proposed at the EGM which amends the Articles of Association is passed and that the Combination and the Subdivision have occurred;

18.3 the audited consolidated accounts of the BP Amoco Group for the two financial years ended 31 December 1998 and the quarterly results announcement for the three-month period ended 31 March 1999;

18.4 the audited consolidated accounts of the ARCO Group for the two financial years ended 31 December 1998 and the Form 10-Q filed with the SEC for the three-month period ended 31 March 1999;

18.5 the Form 6-K of BP Amoco filed with the SEC on 7 July 1999;

18.6 the letter from Ernst & Young regarding the summary of differences between US GAAP and UK GAAP for Amoco set out in Part III;

18.7 the letter from Ernst & Young regarding the Pro Forma Financial Information set out in Part IV;

18.8 the Proxy Statement/Prospectus;

18.9 the Circular to BP shareholders relating to the merger of BP and Amoco dated 30 September 1998;

18.10 the Share Exchange Agreement;

18.11 the letter from Morgan Stanley to BP Amoco dated 30 March 1999 giving its opinion as of that date that the Exchange Ratio was fair from a financial point of view to BP Amoco;

18.12 the service contracts of the directors of BP Amoco referred to in paragraph 8 of this Part VIII;

18.13 the material contracts referred to in paragraph 10 of this Part VIII; and

18.14 the written consents referred to in paragraph 12 of this Part VIII.

15 July 1999

Definitions

The following definitions apply throughout this document, unless the context requires otherwise:

“Act”	the Companies Act 1985, as amended
“Adjusted EBITDA”	replacement cost profit before exceptional items and before interest, tax, depreciation and amortisation
“Amoco”	Amoco Corporation, before being renamed BP Amoco Corporation
“Amoco Agreement and Plan of Merger”	the agreement dated 11 August 1998 (amended on 22 October 1998) between BP, Amoco and Eagle Holdings, Inc., pursuant to which the parties agreed to merge their respective businesses as BP Amoco and to conduct their operations on a unified basis
“Amoco Stock Option Agreement”	the agreement dated 11 August 1998 between Amoco and BP pursuant to which Amoco granted BP an unconditional and irrevocable option to purchase up to 19.9 per cent of the common shares of Amoco
“ARCO”	Atlantic Richfield Company
“ARCO Common Shareholders”	holders of ARCO Common Shares
“ARCO Common Shares”	shares of ARCO common stock, par value $2.50 each
“ARCO DSC II”	ARCO DSC II, Inc., a special purpose subsidiary of ARCO
“ARCO Employee Benefit Plans”	the ARCO 1985 Executive Long-Term Incentive Plan, the Stock Plan for Outside Directors, the ARCO Executive Deferral Plan and the ARCO Enhanced Retirement Programme
“ARCO Group”	ARCO and its subsidiaries
“ARCO Preference Shares”	shares of $3.00 cumulative convertible preference stock, par value $1.00 each, and shares of $2.80 cumulative convertible preference stock, par value $1.00 each
“ARCO Preferred Shares”	shares of ARCO preferred stock, par value $0.01 each
“ARCO Shareholders”	holders of ARCO Shares
“ARCO Shares”	the ARCO Common Shares, the ARCO Preferred Shares and/or the ARCO Preference Shares
“Bearer Share”	any share warrants to bearer treated in respect of BP Amoco Ordinary Shares pursuant to sections 188 and 355 of the Act and the Articles of Association of the Company
“Board” or “Board of Directors”	the board of directors of BP Amoco or the board of directors of ARCO, as the context requires
“BP”	The British Petroleum Company p.l.c., before being renamed BP Amoco with effect from 31 December 1998
“BP Amoco”	BP Amoco p.l.c.
“BP Amoco ADRs”	American depositary receipts evidencing BP Amoco ADSs
“BP Amoco ADS”	an American depositary share representing six BP Amoco Ordinary Shares
“BP Amoco Group”	BP Amoco and its subsidiary undertakings and, where the context requires, its interests in joint ventures and associated undertakings
“BP Amoco Option Schemes”	the BP Amoco Share Schemes numbered (i) to (vii), (xii) and (xxvii)
“BP Amoco Ordinary Shareholder”	a holder of BP Amoco Ordinary Shares
“BP Amoco Ordinary Shares”	either the Existing BP Amoco Ordinary Shares or the New BP Amoco Ordinary Shares, as the context requires

"BP Amoco Participating Schemes"	the BP Amoco Share Schemes which are not BP Amoco Option Schemes
"BP Amoco Preference Shares"	8 per cent Cumulative First Preference Shares of £1 each and 9 per cent Cumulative Second Preference Shares of £1 each in the capital of BP Amoco
"BP Amoco Share Dividend Plan"	the plan whereby BP Amoco Ordinary Shareholders elected to receive BP Amoco Ordinary Shares in lieu of their gross dividend
"BP Amoco Shareholders" or "Shareholders"	holders of any BP Amoco Shares
"BP Amoco Shares"	the BP Amoco Ordinary Shares and the BP Amoco Preference Shares
"BP Amoco Share Schemes"	(i) the BP Amoco Group International Savings Related Share Option Scheme 1997; (ii) the BP Amoco Group Executive Share Option Scheme 1994; (iii) the BP Amoco Group Overseas Executive Share Option Scheme 1994; (iv) the BP Amoco Group Overseas Executive Share Option Scheme 1984; (v) the BP Amoco Group Executive Share Option Scheme 1984; (vi) the BP Amoco Group Savings Related Share Option Scheme 1991; (vii) the BP Amoco Long-Term Performance Plan; (viii) the BP Amoco Group Participating Share Scheme 1979; (ix) the BP Amoco Group Overseas Participating Share Scheme 1988; (x) the BP Amoco Group International Participating Share Scheme 1997; (xi) the BP Amoco Group Overseas Share Option Scheme (Supplemental) 1988; (xii) the BP Amoco Australia Employee Share Plan; (xiii) the BP Amoco Austria Employee Share Scheme; (xiv) the BP Amoco Botswana Employee Share Scheme; (xv) the BP Amoco Deutsche Employee Share Scheme; (xvi) the BP Amoco Far East Employee Share Scheme; (xvii) BP Amoco Group in France Mutual Fund; (xviii) the BP Amoco Hong Kong Employee Share Plan; (xix) the BP Amoco Malaysia Employee Share Plan; (xx) the BP Amoco Namibia Employee Share Scheme; (xxi) the BP Amoco New Zealand Share Scheme; (xxii) the BP Amoco Norway Share Scheme; (xxiii) the BP Amoco Singapore Employee Share Plan; (xxiv) the BP Amoco Southern Africa Employee Share Scheme; (xxv) the Share Scheme for BP Amoco Group Employees in Spain; (xxvi) the BP America Capital Accumulation Plan; (xxvii) the BP Amoco Option Plan; (xxviii) the Amoco Employee Savings Plan; (xxix) the Amoco Fabrics and Fibers Company Salaried 401(k) Savings Plan;

	(xxx) the Amoco Fabrics and Fibers Company Hourly 401(k) Savings Plan; and
	(xxxi) the Amoco Canada Employee Savings Plan
"business cycle"	the variable cycle of rising and falling profits experienced by companies operating in the same business as BP Amoco
"Business Day"	a day on which banks are generally open for business in England and Wales (excluding Saturdays, Sundays and public holidays)
"certificated" or "in certificated form"	a share or other security which is not in uncertificated form
"Combination"	the proposed combination of BP Amoco and ARCO, details of which are set out in this document
"common stock"	the US equivalent of ordinary shares in a UK company
"Company"	BP Amoco
"Competition Commission"	a public body established by the Competition Act 1998, which replaced the Monopolies and Mergers Commission of the UK from 1 April 1999
"Consideration Shares"	BP Amoco Ordinary Shares to be issued, credited as fully paid, in connection with the Combination
"CREST"	a relevant system (as defined in the Regulations) in respect of which CRESTCo Limited is Operator (as defined in the Regulations) being a paperless settlement system enabling securities to be evidenced otherwise than by certificate and transferred otherwise than by way of a written instrument
"Daily Official List"	the daily official list of the London Stock Exchange
"Depositary"	Morgan Guaranty Trust Company of New York, in its capacity as depositary
"Directors"	the board of directors of the Company
"EBITDA"	earnings before interest, tax, depreciation and amortisation
"Effective Date"	the date the Combination becomes effective
"European Commission"	the commission established by Article 4 of the Treaty of Rome
"Exchange Agent"	Morgan Guaranty Trust Company of New York, in its capacity as Exchange Agent, or failing them, another agent acceptable to ARCO
"Exchanged Amoco Options"	the options granted pursuant to the Amoco Agreement and Plan of Merger over BP Amoco Ordinary Shares to holders of outstanding options over shares in Amoco under the Amoco share incentive plans
"Exchange Ratio"	4.92 Existing BP Amoco Ordinary Shares for each ARCO Common Share held at the Effective Date or, if the Subdivision is completed prior to the Effective Date, 9.84 New BP Amoco Ordinary Shares for each ARCO Common Share held at the Effective Date
"Executive Directors"	H L Fuller, Sir John Browne, R F Chase, Dr J G S Buchanan, Dr C S Gibson-Smith, R L Olver and B K Sanderson
"Existing BP Amoco Ordinary Shares"	the existing ordinary shares of $0.50 in the Company
"Exon-Florio"	the Exon-Florio provisions of the Omnibus Trade and Competitiveness Act of 1988
"Extraordinary General Meeting" or "EGM"	the extraordinary general meeting of BP Amoco convened for 11.00 am on 1 September 1999 for the purpose, *inter alia*, of giving approval to the Combination and the Subdivision
"FIFO"	"first-in-first-out", a method of stock valuation
"gearing"	the ratio of net debt (calculated as debt less cash and current asset investments) to the aggregate of net debt plus equity expressed as a percentage
"HSR Act"	the Hart-Scott-Rodino Antitrust Improvements Act of 1976 (as amended)

"IRS"	The United States Internal Revenue Service
"LIBOR"	London Interbank Offered Rate
"LIFO"	"last-in-first-out", a method of stock valuation
"Listing Rules"	the listing rules of the London Stock Exchange
"London Stock Exchange"	London Stock Exchange Limited
"Lower 48 States"	the contiguous 48 states of the United States of America
"LTPP"	the BP Amoco Long-Term Performance Plan
"Material Adverse Effect"	with respect to any entity, a material adverse effect on the financial condition, properties, business or operating income of such entity and its subsidiaries taken as a whole, other than any such effect to the extent arising out of changes in general US, UK or international economic conditions or changes in or affecting the US, UK or international oil and gas industry including changes in market prices (and other than as qualified in paragraph 5.1.8 of Section A of Part V)
"Member State"	a member country of the European Community
"Merger Agreement"	the agreement and plan of merger dated 31 March 1999 between BP Amoco, ARCO and Prairie Holdings (as amended)
"Merger Regulation"	Council Regulation (EEC) No 4064/89 (as amended)
"Morgan Stanley"	Morgan Stanley & Co. Limited
"New BP Amoco Ordinary Shares"	the new ordinary shares of $0.25 each in the capital of BP Amoco
"New York Stock Exchange"	The New York Stock Exchange, Inc.
"Noon Buying Rate"	the noon buying rate in New York City for cable transfers in sterling as certified for customs purposes by the Federal Reserve Bank of New York
"Official List"	the official list of the London Stock Exchange
"Ordinary Shareholder"	a holder of BP Amoco Ordinary Shares
"Prairie Holdings"	Prairie Holdings, Inc., a wholly-owned subsidiary of BP Amoco incorporated under the laws of Delaware which will merge with and into ARCO upon the conditions to the Combination having been satisfied or waived
"preference stock" or "preferred stock"	the US equivalent of preference shares in a UK company
"Proxy Statement/Prospectus"	the proxy statement/prospectus distributed to ARCO Shareholders to seek their approval to the Combination
"Record Date"	in respect of the BP Amoco Ordinary Shares, the close of business of Lloyds TSB Registrars in the United Kingdom on 1 October 1999 and, in respect of the BP Amoco ADSs, the close of business of the Depositary in New York on 1 October 1999
"Regulations"	the Uncertificated Securities Regulations 1995 (SI 1995 No. 95/3272)
"Remuneration Committee"	the remuneration committee of the BP Amoco Board
"Resolution 1"	the resolution set out as Resolution 1 in paragraph 16(a) of Part 1
"Resolution 3"	the resolution set out as Resolution 3 in paragraph 16(c) of Part 1
"Resolution 6"	the resolution set out as Resolution 6 in paragraph 16(f) of Part 1
"SDRT"	stamp duty reserve tax
"SEC"	Securities and Exchange Commission

"Share Exchange Agreement"	the share exchange agreement dated as at 12 July 1999 between BP Amoco, ARCO and ARCO DSC II
"sterling", "£" and "p"	the lawful currency of the UK
"Stock Option Agreement"	the stock option agreement dated 31 March 1999 between BP Amoco and ARCO
"Subdivision"	the effective one for one subdivision or share split of the ordinary share capital of BP Amoco
"UK GAAP"	generally accepted accounting practice in the UK
"uncertificated" or "in uncertificated form"	in relation to a share or other security, title to which is recorded on the relevant register of the share or security concerned as being held in uncertificated form in CREST, and title to which by virtue of the Regulations may be transferred by means of CREST
"United Kingdom" or "UK"	the United Kingdom of Great Britain and Northern Ireland
"United States", "US" or "USA"	the United States of America, its territories and possessions, any state of the United States of America and the District of Columbia and all other areas subject to its jurisdiction
"US dollars", "US$" or "$"	the lawful currency of the United States
"US GAAP"	generally accepted accounting principles in the United States
"UTP"	Union Texas Petroleum Holdings, Inc.
"Vastar"	Vastar Resources, Inc., an 82 per cent owned subsidiary of ARCO

For the purposes of the above definitions, "subsidiary undertaking", "associated undertaking" and "undertaking" have the meanings given by the Act (but for these purposes ignoring paragraph 20(1)(b) of Schedule 4A of the Act).

Glossary

"analogies"	estimation of ultimate recovery based on experience from similar pools or wells
"API"	unit of oil gravity
"applicable volumes"	the net or entitlement volumes received
"bbl"	barrel
"bcf"	billion cubic feet
"b/d"	barrels per day
"billion"	one thousand million (1,000,000,000)
"boe/d"	barrels of oil equivalent per day
"compression"	the practice of injecting fluids into the reservoir in order to maintain reservoir pressure for the purpose of maximising hydrocarbon recovery
"condensate"	product which is in gaseous state in the reservoir and is liquid at surface conditions
"DD&A"	depletion, depreciation and amortisation
"decline curve"	estimation of ultimate recovery by extrapolation of a performance trend
"developed acreage"	acreage within the natural or legal boundary of a reservoir or field in which development wells have been drilled to produce the reserves
"enhanced oil recovery operations"	a range of methods of improving oil recovery by means other than waterfloods
"equity affiliate"	an interest which is equity accounted
"ETAP"	Eastern Trough Area Project
"exploration expense"	costs associated with geology and geophysics including seismic exploration plus the capital cost write-off of field exploration including drilling and other costs
"heavy oil"	crude oil with lower gravities, generally 20° API or less
"impairment charge"	an additional charge for depreciation made to recognise a reduction in the recoverable amount of a fixed asset below its carrying amount
"improved recovery techniques"	includes all methods for supplementing natural reservoir energy to increase ultimate recovery from a reservoir. Such methods include pressure maintenance, gas cycling, water flooding, thermal methods, chemical flooding and use of miscible and immiscible displacement fluids
"LNG"	liquefied natural gas
"material balance"	estimation of ultimate recovery using the volume and lithology characteristics of a reservoir and the pressure behaviour of the reservoir fluids
"mcf"	thousand cubic feet
"mmb"	million barrels
"mmboe"	million barrels of oil equivalent
"mmcf/d"	million cubic feet of gas production per day
"net proved reserves"	an equity interest in proved reserves net of royalty
"NGL"	natural gas liquids

"oil-equivalent barrels"	gas converted to oil equivalent at 1 million barrels of oil equivalent = 5.8 bcf of gas (in the case of BP Amoco) or 6 bcf of gas (in the case of ARCO)
"probable reserves"	in respect of mineral companies primarily involved in the extraction of oil and gas resources, those reserves which are not yet "proven" but which on the available evidence and taking into account technical and economic factors have a better than 50 per cent chance of being produced
"proved developed reserves"	reserves that can be expected to be recovered through existing wells with existing equipment and operating methods. Additional oil and gas expected to be obtained through the application of fluid injection or other improved recovery techniques for supplementing the natural forces and mechanisms of primary recovery should be included as "proved developed reserves" only after testing by a pilot project or after the operation of an installed programme has confirmed through production response that increased recovery will be achieved
"proved reserves"	estimated quantities of crude oil, natural gas and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions i.e. prices and costs as of the date the estimate is made. Prices include consideration of changes in existing prices provided only by contractual arrangements but not on escalations based upon future conditions Reservoirs are considered proved if economic productibility is supported by either actual production or conclusive formation test. The area of a reservoir considered proved includes (i) that portion delineated by drilling and defined by gas-oil and/or oil-water contacts, if any, and (ii) the immediately adjoining portions not yet drilled, but which can be reasonably judged as economically productive on the basis of available geological and engineering data. In the absence of information on fluid contacts, the lowest known structural occurrence of hydrocarbons controls the lower proved limit of the reservoir Reserves which can be produced economically through application of improved recovery techniques (such as fluid injection) are included in the "proved" classification when successful testing by a pilot project, or the operation of an installed programme in the reservoir, provides support for the engineering analysis on which the project or programme was based Estimates of proved reserves do not include the following: (i) oil that may become available from known reservoirs but is classified separately as "indicated additional reserves"; (ii) crude oil, natural gas and natural gas liquids, the recovery of which is subject to reasonable doubt because of uncertainty as to geology, reservoir characteristics or economic factors; (iii) crude oil, natural gas and natural gas liquids, that may occur in undrilled prospects; and (iv) crude oil, natural gas and natural gas liquids, that may be recovered from oil shales, coal, gilsonite and other such sources
"proven reserves"	in respect of mineral companies primarily involved in the extraction of oil and gas resources, those reserves which on the available evidence and taking into account technical and economic factors have a better than 90 per cent chance of being produced
"risk service contract"	under a risk service contract, the contractor is responsible for providing capital and technology for the redevelopment of the fields along with costs of operating existing production. In exchange for providing and funding overall operation and field development, the contractor is paid a per barrel service fee to cover reimbursement of costs plus profit. There are two components to the fees, which include (i) a set fee for contractual baseline production and (ii) a fee for incremental production. The fee for incremental production is based on a sliding scale incentive mechanism, which is indexed to a basket of international oil prices and overall field profitability

"solution gas drive"	a recovery mechanism in which oil is produced solely due to the expansion of gas liberated from solution in the oil
"tcf"	trillion cubic feet
"trillion"	one million million (1,000,000,000,000)
"undeveloped acreage"	either exploration acreage where there are no proved reserves or field acreage in which development wells have not yet been drilled
"volumetric mechanism"	a gas recovery mechanism involving simple pressure depletion with no water influx
"volumetrics"	estimation of ultimate recovery based on the area and height of a reservoir and a recovery factor
"waterdrive"	pressure support to a reservoir from an aquifer
"waterfloods"	an improved recovery technique in which water is injected into the reservoir to push the oil towards the producing wells

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