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BP CHEMICALS LIMITED

ANNUAL REPORT AND ACCOUNTS - 1988

Board of Directors: R.R. KNOWLAND (Chairman)
J D CAMPBELL
A.J.S. HOOPER
C.H. THOMPSON

REPORT OF THE DIRECTORS

The Directors submit their report and accounts for the year ended 31 December 1988.

Principal Activity

The company and its subsidiaries operated their chemicals and plastics manufacturing assets either in their own name or as agents of BP International Limited.

Financial Review

The loss for the year was £1,708,000 which has been deducted from profits brought forward of £29,792,000. A dividend for 1988 of £2,000,000 was declared and paid.

The company results were adversely affected by trading difficulties experienced by our overseas branch in recovering higher raw material costs despite a high level of demand. This trend has reversed in 1989 with a return to profitable trading.

Review of Activities

As a result of a reorganisation within the BP Group, effective 1 January 1988, BP Chemicals Limited acquired from BP Oil Limited the entire shareholding in The Robert McBride Group Limited and Young's Paraffin Light and Mineral Oil Company (Limited) and on 3 February 1988 BP Chemicals Limited transferred its shareholding in BP Chemicals (Ireland) Limited to BP Oil Limited. During the year the company acquired a further 5% equity interest in Acell Investments Limited bringing its shareholding to 39%. On 30 November 1988, the company acquired the entire shareholding in BP Chemicals (Korea) Limited.

Research and Development

The company, on behalf of itself and its subsidiaries, was engaged in a wide range of research and development activities in connection with the manufacture of chemicals and plastics.

Directors

Dr. F.C. Newman resigned from the Board on 31 March 1988 and Mr R. Saumann resigned on 31st December 1988. Mr J. N. Turnbull resigned and Mr J. D. Campbell was appointed on 1 September 1989. The other above named were Directors of the Company throughout the financial year.

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BP CHEMICALS LIMITED

REPORT OF THE DIRECTORS (Continued)

The interests of the Directors holding office on 31 December 1988, and their families, in the shares of The British Petroleum Company p.l.c. were as set out below:

	Type of Share	1 January 1988	31 December 1988
A.J.S. Hooper	25p Ordinary	7,956	8,898
R.R. Knowland	25p Ordinary	11,019	11,531
C.H. Thompson	25p Ordinary	5,613	6,125
J.N. Turnbull	25p Ordinary	3,576	4,203

None of the Directors had any interest in the shares or the debentures of subsidiary companies of The British Petroleum Company p.l.c. at 31 December 1988.

Equal Opportunity

It is the policy of the BP Group of Companies to develop and maintain a working environment, terms and conditions, and employment practices and procedures which will ensure that no job applicant or employee receives less favourable treatment on the grounds of race, religion, colour, nationality, ethnic or national origins, sex or marital status.

Employment of Disabled Persons

With respect to disabled persons, the aim is to enable those with the appropriate skills and qualifications to have equal opportunities to seek and maintain employment with the Company. Wherever practicable, the Company will retain in employment those employees who become disabled and, in line with the Company's normal practice, they will be given equal consideration to all other employees for training and career development, to enable them to fulfil their potential.

Employee Involvement

The aim of BP Chemicals Limited's employee involvement policies is to promote a better understanding of the issues influencing the Company's business, to improve performance and productivity, to enhance the quality of working life, and to gain the commitment of all concerned to the Company's objectives, and to provide opportunities for employees to express their views on workplace and other matters of interest or concern to them.

During 1988, the Company completed the training of all UK employees in its Total Quality Management Programme, as a result of which quality work groups were established which provided further opportunities for employee involvement.

BP CHEMICALS LIMITED

REPORT OF THE DIRECTORS (Continued)

However the company does not, in general, impose a uniform set of employee involvement arrangements, preferring that Managers adopt, in consultation with their employees, arrangements best suited to the particular circumstances. There is emphasis at the work-unit level on regular Manager/employee discussion on work-related and other issues, and there is a wide range and variety of consultative committees, at some of which general topics can be and are discussed, while others are for dealing with particular subjects such as health and safety, pension arrangements, or catering facilities.

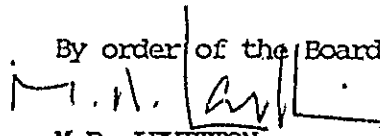
Two Company periodicals give extensive coverage to business issues, as well as social, sporting and other leisure interests of employees and their families. Further information about BP Chemicals and about other Companies in the BP Group is included in the Group magazine "BP Shield" and in the Group's quarterly video programme "Pipeline", both of which are readily available to all employees.

A high proportion of employees take part in the BP Group Participating Share Scheme and/or SAYE share option scheme, and on this basis receive all information available to BP Group shareholders.

Auditors

Ernst & Whinney merged their practice with Arthur Young on 1st September 1989 and now practice in the name of Ernst & Young. Accordingly they have signed their audit report in their new name.

Ernst & Young have expressed their willingness to continue in office as Auditors and in accordance with Section 384 of the Companies Act 1985 a resolution proposing their appointment as Auditors of the Company will be put to the members at the annual general meeting.

By order of the Board

M.R. LEVINTON

Secretary

Belgrave House,
76 Buckingham Palace Road,
London SW1W 0SU
6 November 1989

BP CHEMICALS LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 1988

		1988 £'000	1987 £'000
	NOTE		
Turnover	3	338,988	323,362
Cost of sales		333,959	305,416
Gross profit		<u>5,029</u>	<u>17,946</u>
Distribution and administration expenses	4	7,463	11,988
Other income	5	2,171	5,192
Operating (loss)/profit		<u>(263)</u>	<u>11,150</u>
Interest expense	6	3,294	1,226
(Loss)/profit before taxation		<u>(3,557)</u>	<u>9,924</u>
Taxation	11	(1,849)	1,666
(Loss)/profit for the year		<u>(1,703)</u>	<u>8,258</u>
Dividend	12	2,000	4,000
Retained (Loss)/profit for the year		<u>(3,703)</u>	<u>4,258</u>
Retained profit brought forward		29,792	25,402
Exchange gain arising on translation of net investments in the foreign currency branch		1,051	132
Retained profit at 31 December		<u><u>27,135</u></u>	<u><u>29,792</u></u>

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BALANCE SHEET AT 31 DECEMBER 1988

		1988	1988	1987
		£'000	£'000	£'000
Fixed assets	Note			
Tangible assets	13		7,327	6,458
Investments	14		53,519	48,229
Current assets				
Stocks	15	13,815		13,652
Debtors	16	191,872		129,766
Cash at bank and in hand		238		13,330
Less:				
Creditors amounts falling due within one year	17	218,412		160,419
Net current liabilities			(12,487)	(3,671)
Shareholders' interest			48,359	51,016
Represented by:				
Capital and reserves				
Called up share capital	18		12,500	12,500
Share premium			8,724	8,724
Profit and loss account			27,135	29,792
			48,359	51,016

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C. W. Thompson }
 A. J. S. Hooper }
 1989 } Directors

BP CHEMICALS LIMITEDSOURCE AND APPLICATION OF FUNDS
FOR THE YEAR ENDED 31 DECEMBER 1988

	1988 £'000	1987 £'000
SOURCE OF FUNDS		
(Loss)/profit for the year	(1,708)	8,258
Disposal of investment in subsidiary company	416	-
Disposal of investment in related company	-	1,740
Items not involving movements of funds		
Depreciation	1,126	1,738
Deletions in subsidiary companies	-	414
Net book amounts of assets sold	52	21
Exchange adjustments	1,593	564
Working capital movements		
Stocks	(163)	(4,845)
Debtors	(62,106)	13,874
Creditors due within one year	57,993	(18,101)
Funds (required)/generated from operations	<u>(2,797)</u>	<u>3,663</u>
APPLICATION OF FUNDS		
Capital expenditure	(2,589)	(1,298)
Dividend	(2,000)	(4,000)
Investment in subsidiary company	(4,897)	
Investment in related company	(809)	(3,600)
Funds (applied)	<u>(13,092)</u>	<u>(5,235)</u>
Financed by		
Cash at bank and in hand - (decrease)	<u>(13,092)</u>	<u>(5,235)</u>

BP CHEMICALS LIMITED

NOTES TO THE ACCOUNTS

(1) Accounting policies

- (a) The accounts are prepared under the historical cost convention.
- (b) Depreciation on tangible assets is calculated on a straight line basis over their estimated useful lives.
- (c) Stocks of products are valued at the lower of cost, including overheads where applicable, and net realisable value.
- (d) Assets and liabilities of foreign currency branches are translated into sterling at closing rates of exchange; profit and loss accounts are translated at average rates of exchange.

Exchange differences resulting from the translation at closing rates of net investments in foreign currency branches, together with differences between profit and loss accounts translated at average rates and at closing rates, are 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.

- (e) Deferred taxation is calculated using the liability method. Provision is made where timing differences are expected to reverse in the foreseeable future.

- (2) Group accounts are not submitted as BP Chemicals Limited is wholly-owned by BP Chemicals (International) Limited. Income of related companies is dealt with in the accounts of the ultimate holding company. Only dividend income received from these companies is reflected in these accounts. Dividend income from subsidiaries both received and receivable is reflected in these accounts. Provisions are made against accumulated losses of subsidiary and related companies where it is considered that such losses will not be eliminated in the foreseeable future.

	1988	1987
	£'000	£'000

(3) Turnover

Turnover comprises gross proceeds, royalties, recoverable expenditure and management fee.

Geographical analysis

United Kingdom	213,306	203,526
Rest of Europe	125,682	119,836
	<u>338,988</u>	<u>323,362</u>

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(10) Directors and employees		1988	1987		
		£'000	£'000		
Employee costs					
Wages and salaries		94,072	85,859		
Social security costs		9,081	8,219		
Pension costs		18,973	19,160		
		<u>122,126</u>	<u>113,238</u>		
Average employee numbers					
		1988	1987		
		UK	Non-UK	UK	Non-UK
Manufacturing		4,749	318	4,580	316
Distribution and marketing		276	43	300	46
Administration		248	37	227	38
		<u>5,273</u>	<u>398</u>	<u>5,107</u>	<u>400</u>

Directors' emoluments (not including pension contributions) in respect of five directors amounted to £504,579 (1987 - £482,542). Of these the highest paid director received £160,953 - (1987 - £124,826). The remaining director received no emoluments from this Company as he was a senior executive of an overseas registered fellow subsidiary company. The others were in the groups set out below:-

£	£	1988	1987
100,001 - 105,000		1	-
95,001 - 100,000		1	-
90,001 - 95,001		1	2
85,001 - 90,000		-	2
45,001 - 50,000 (part period only)		1	-

Pensions to past and present directors are paid from a funded BP Group Pension Scheme.

The number of employees in the UK whose emoluments exceeded £30,000 were in the following groups:

£	£	1988	1987
90,001 - 95,000		1	-
85,001 - 90,000		2	-
80,001 - 85,000		-	1
75,001 - 80,000		2	1
70,001 - 75,000		2	2
65,001 - 70,000		6	2
60,001 - 65,000		14	7
55,001 - 60,000		9	8
50,001 - 55,000		16	12
45,001 - 50,000		27	21
40,001 - 45,000		63	24
35,001 - 40,000		68	78
30,001 - 35,000		83	56

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(11) Taxation

	1988 £'000	1988 £'000	1987 £'000
United Kingdom Taxation			
Current at 35% (35%)		-	947
Overseas Tax Relief		-	(947)
		<u>-</u>	<u>-</u>
Tax Credit on UK Dividends Received		4	4
Overseas taxation			
Current year	716		947
Adjustment in respect of prior year	(2,569)	(1,853)	-
Exchange difference non-taxable		-	(91)
Payment on account for the surrender of Group relief by a subsidiary company		-	806
		<u>(1,849)</u>	<u>1,666</u>

The company is a member of a group for the purposes of relief under Section 402 of the Income and Corporation Taxes Act 1988. No corporation tax liability arises.

Provision for deferred taxation has been made in the accounts of BP International Limited, having regard to the group deferred taxation position.

The gross potential liability of this company for deferred taxation at 31 December 1988 of £429,000 (1987 £663,000) comprises tax at 35% on timing differences principally between the accounting and tax treatment of depreciation. If provision for deferred taxation had been made in the accounts on the basis of the gross potential liability there would have been a credit for the year of £234,000 (1987 credit of £384,000).

(12) Dividends

Interim dividend paid during 1988 amounted to £2,000,000.

(13) Tangible assets

Chemicals assets	£'000
Cost	
At 1 January 1988	20,135
Exchange adjustments	(1,690)
Additions	2,589
Deletions	(229)
At 31 December 1988	<u>20,805</u>

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(13) Tangible Assets (Continued)

Depreciation:	£'000
At 1 January 1988	13,677
Exchange adjustments	(1,148)
Provided for year	1,126
Deletions	(177)
At 31 December 1988	<u>13,478</u>
Net book amount	
At 31 December 1988	<u>7,327</u>
At 31 December 1987	<u>6,458</u>
Depreciation rates: 5% to 25%	
Included within above assets:	
Freehold land at net book amount	
At 31 December 1987	731
Exchange adjustment	(61)
At 31 December 1988	<u>670</u>

(14) Fixed assets - Investments

	Subsidiary Shares £'000	Related Companies Shares £'000	Companies Loans £'000	Trade Investment Shares £'000	Total £'000
Cost:					
At 1 January 1988	45,989	3,600	-	157	49,746
Additions	4,897	500	309	-	5,706
Disposals	(416)	-	-	-	(416)
Deletions	-	-	-	-	-
At 31 December 1988	<u>50,470</u>	<u>4,100</u>	<u>309</u>	<u>157</u>	<u>55,036</u>
Amounts provided					
At 1 January 1988	1,517	-	-	-	1,517
Released for year	-	-	-	-	-
Deletions	-	-	-	-	-
At 31 December 1988	<u>1,517</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,517</u>
Net book amount					
At 31 December 1988	<u>48,953</u>	<u>4,100</u>	<u>309</u>	<u>157</u>	<u>53,519</u>
At 31 December 1987	<u>44,472</u>	<u>3,600</u>	<u>-</u>	<u>157</u>	<u>48,229</u>

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In the opinion of the directors, the aggregate value of shares in the company's subsidiaries is not less than the amounts at which these are shown in the balance sheet.

Listed below are the more important subsidiary and related companies at 31 December 1988, all of which are engaged in chemical activities. A full list of investments in subsidiary companies will be attached to the Company's annual return.

The investments in subsidiary and related companies are entirely unlisted. The trade investment is valued by the directors at cost.

Subsidiary Companies:	Country of Incorporation	Shares held	Percentage
BP Chemicals (Additives) Ltd.	England	Ordinary	100
BXL Plastics Ltd.	England	Ordinary	100
BXL Plastics Ltd.	England	Deferred	100
Honeywill & Stein Ltd.	England	Ordinary	100
Hythe Chemicals Ltd.	England	Ordinary	100
Mebon Holdings Ltd.	England	Ordinary	100
Mebon Holdings Ltd.	England	Preference	100
Robert McBride Group Ltd	England	Ordinary	100
Robert McBride Group Ltd	England	Preference	100
Young's Paraffin Light and Mineral Oil Co. (Ltd.)	Scotland	Ordinary	100
BP Chemicals (Korea) Limited	England	Ordinary	100

Related Companies:

Acell Investments Ltd.	England	Ordinary	39
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The aggregate amount of the capital and reserves, together with profits or losses of the above related company is as shown below. The figures quoted represent 100% of the position shown in the latest annual accounts received in respect of periods terminating not later than 31 December 1988.

	Capital and reserves £'000	Profit/(loss) for year £'000
Acell Investments Ltd	2,060	(1,036)

(15) Stocks

	1988 £'000	1987 £'000
Raw materials	3,750	4,133
Finished products	9,053	8,352
Stores	1,012	1,167
	<u>13,815</u>	<u>13,652</u>

BP CHEMICALS LIMITED

(16) Debtors

	1988		1987	
	Due within 1 Year £'000	Due after 1 Year £'000	Due within 1 Year £'000	Due after 1 Year £'000
Trade	1,650	-	7,810	-
Subsidiaries	92,961	-	31,803	-
Holding company	67,867	-	69,969	-
Fellow Subsidiaries	16,265	-	6,892	-
Other	8,753	4,376	8,735	4,557
	<u>187,496</u>	<u>4,376</u>	<u>125,209</u>	<u>4,557</u>

(17) Creditors

	1988	1987
	Within 1 Year £'000	Within 1 Year £'000
Bank overdrafts	4,546	212
Trade	3,152	3,979
Subsidiaries	2,002	3,893
Holding and fellow subsidiaries	205,157	144,963
Accruals	29	321
Proposed dividend	-	4,000
Other	3,526	3,051
	<u>218,412</u>	<u>160,419</u>

(18) Called up share capital - ordinary shares

	1988	1988	1987	1987
	Shares	£'000	Shares	£'000
Authorised	12,500,000	12,500	12,500,000	12,500
Allotted and fully paid	<u>12,500,000</u>	<u>12,500</u>	<u>12,500,000</u>	<u>12,500</u>

(19) Financial commitments

Authorised future capital expenditure is estimated at £5,437,000 (1987 - £1,573,000) including approximately £2,505,000 (1987 - £504,000) for which contracts have been placed.

(20) Ultimate holding company

The ultimate holding company is The British Petroleum Company p.l.c., a company incorporated in England.

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BP CHEMICALS LIMITED

REPORT OF THE AUDITORS TO THE MEMBERS
OF BP CHEMICALS LIMITED

We have audited the accounts set out on pages 4 to 13 in accordance with Auditing Standards.

In our opinion the accounts give a true and fair view of the state of affairs of the company at 31 December 1988 and of the loss, changes in retained profit and source and application of funds for the year then ended and comply with the Companies Act 1985.

c.f.

Frank Young

Chartered Accountants,
London
6 November 1989