

APPENDIX 1.1  
(referred to in paragraph 1.1)

**Conduct of the inquiry**

1. On 3 May 1988 the Department of Trade and Industry sent to the Commission the following reference:

Whereas it appears to the Secretary of State that it is or may be the fact that a merger situation qualifying for investigation, as defined in section 64(8) of the Fair Trading Act 1973 ('the Act'), has been created in that:

(a) enterprises carried on by or under the control of THE BRITISH PETROLEUM COMPANY PLC (a body corporate incorporated in the United Kingdom) have, at a time or in circumstances falling within section 64(4) of the Act, ceased to be distinct from enterprises carried on by or under the control of the Government of Kuwait; and

(b) the value of the assets taken over exceeds £30 million;

Now therefore, the Secretary of State, in exercise of his powers under sections 64 and 69(2) of the Act, hereby refers the matter to the Monopolies and Mergers Commission for investigation and report within a period of four months beginning with the date of this reference.

In relation to the question whether a merger situation qualifying for investigation has been created, the Commission shall exclude from consideration section 64(1)(a) of the Act.

(Signed) S W TREADGOLD  
An Under Secretary

Department of Trade and Industry

3 May 1988

2. On 4 May 1988 in a press notice announcing the reference the Department stated that the Secretary of State 'considered that the implications of BP coming under the influence or control of a Government with substantial oil interests, and which is a member of OPEC, raised issues of public interest which warranted investigation by the MMC. The decision to make a reference to the Commission does not in any way prejudice the question whether or not the Kuwaiti shareholding would be against the public interest. It was for the Commission to report on this after investigation'.

3. On 11 May 1988 the Chairman of the Commission directed that the functions of the Commission in relation to the reference should be discharged through a group consisting of six members of the Commission, including himself as Chairman. The composition of the group is indicated in the list of members which prefaces this report.

4. On 5 May the Commission issued a press notice inviting interested parties to submit evidence to the Commission.

5. In addition we sought evidence and views from Government departments; the Confederation of British Industry; the Trades Union Congress and trades unions; and companies in the petroleum and chemical industries.

6. We received submissions from the State of Kuwait (Kuwait) and The British Petroleum Company plc (BP). We also received submissions from other parties whose views are summarized in Chapter 6.

7. We held hearings with representatives of Kuwait, BP, the Treasury, the Department of Energy, the Foreign and Commonwealth Office and the Oxford Institute for Energy Studies.

8. Some of the evidence obtained in the course of our inquiry was of a confidential nature; our report contains only such information as we consider necessary for an understanding of our conclusions.

9. We should like to place on record our thanks to all those who helped us in our inquiry, and particularly to the two parties principally concerned.

APPENDIX 2.1  
(referred to in paragraph 2.4)

**The British Petroleum Company plc: share dealings by Kuwait**

<i>Date</i>	<i>Place</i>	<i>Equivalent number of shares purchased (sold)</i>	<i>Class*</i>	<i>Average unit price (net)</i>	<i>Additional information (All trans- actions KIO unless stated)</i>
30.10.87	London	13,207,907	PP	£1.20	Timeregal
17.11.87	London	(13,207,907)	PP	£0.7965	Timeregal
As at 31.10.87	New York	2,400,000	ADR		Morgan Guaranty
<i>1987</i>					
Oct 21	London	100,000	FP	£2.80	
Nov 4	New York	41,217,600	IPADR	\$15.9942	
4	London	24,717,041	PP	£0.7629	
5	London	24,000,000	PP	£0.8006	
9	London	15,000,000	PP	£0.7527	
10	New York	3,392,400	IPADR	\$16.4157	
10	London	22,500,000	PP	£0.7527	
11	New York	18,000,000	IPADR	\$16.6946	
11	London	6,000,000	PP	£0.7749	
12	London	2,500,000	PP	£0.7964	
13	New York	79,125,600	IPADR	\$16.7746	
13	London	17,082,959	PP	£0.7905	
16	New York	42,992,400	IPADR	\$16.9325	
16	London	93,000,000	PP	£0.8094	
17	London	119,500,000	PP	£0.8456	
18	London	90,972,000	PP	£0.8780	
20	London	10,000,000	PP	£0.7888	
23	London	10,000,000	PP	£0.7863	
Dec 1	London	10,000,000	PP	£0.7259	
2	London	10,000,000	PP	£0.7158	
3	London	12,500,000	PP	£0.7218	
4	London	32,000,000	PP	£0.7259	
7	London	22,000,000	PP	£0.7359	
9	London	11,000,000	PP	£0.7259	
10	London	49,500,000	PP	£0.7256	
11	London	10,000,000	PP	£0.7394	
14	London	5,000,000	PP	£0.7259	
15	London	109,250,000	PP	£0.7245	
16	London	2,000,000	PP	£0.7259	
17	London	25,000,000	PP	£0.7107	
18	London	36,750,000	PP	£0.7107	
22	London	45,000,000	PP	£0.7158	
22	New York	15,426,000	IPADR	\$15.45	
29	London	22,000,000	PP	£0.7107	
30	London	35,074,000	PP	£0.7116	
31	London	10,000,000	PP	£0.710	
31	London	8,500,000	PP	£0.705	
	C/Fwd	<u>1,093,500,000</u>			

<i>Date</i>	<i>Place</i>	<i>Equivalent number of shares Purchased (sold)</i>	<i>Class*</i>	<i>Average unit price (net)</i>	<i>Additional information (All trans- actions KIO unless stated)</i>
1988	B/Fwd	1,093,500,000			
Jan 4	London	10,000,000	PP	£0-710	
5	London	5,000,000	PP	£0-715	
13	London	6,000,000	PP	£0-710	
21	London	9,000,000	PP	£0-710	
21	London	2,250,000	PP	£0-700	
Feb 3	London	2,000,000	PP	£0-765	
5	London	15,500,000	PP	£0-765	
8	London	1,000,000	PP	£0-76	
8	London	3,000,000	PP	£0-75	
9	London	2,000,000	PP	£0-76	
10	London	1,000,000	PP	£0-76	
10	London	5,000,000	PP	£0-765	
12	London	1,000,000	PP	£0-765	
18	London	8,500,000	PP	£0-760	
Mar 7	London	11,000,000	PP	£0-63	
7	London	500,000	PP	£0-63	
8	London	2,500,000	PP	£0-68	
8	London	5,000,000	PP	£0-685	
8	London	7,500,000	PP	£0-690	
10	London	1,000,000	PP	£0-720	
10	London	11,500,000	PP	£0-730	
10	London	5,000,000	PP	£0-735	
10	London	2,500,000	PP	£0-780	
10	London	1,000,000	PP	£0-790	
10	London	2,500,000	PP	£0-800	
10	London	5,000,000	PP	£0-840	
10	London	5,500,000	FP	£2-680	
10	London	1,000,000	FP	£2-700	
10	London	5,000,000	FP	£2-770	
10	London	5,000,000	FP	£2-780	
11	London	5,000,000	PP	£0-830	
11	London	2,500,000	PP	£0-840	
11	London	10,000,000	FP	£2-80	
11	London	10,000,000	FP	£2-820	
11	London	5,000,000	FP	£2-820	
11	London	2,500,000	PP	£0-855	
11	London	9,500,000	PP	£0-860	
11	London	35,000,000	FP	£2-830	
	Total	1,315,750,000			

Source: Kuwait.

\*Class

1. PP refers to partly-paid shares.
2. FP refers to fully-paid shares.
3. IPADR refers to Installments Payment American Depositary Receipts.
4. ADR refers to American Depositary Receipts.
5. IADR represents 12 ordinary shares.

APPENDIX 3.1  
(referred to in paragraph 3.1)

### Economic and financial aspects of Kuwait

1. This note presents information on the economic and financial situation of Kuwait which is drawn from a report published by the National Bank of Kuwait, which in turn derives from official and semi-official sources, particularly reports of the Central Bank of Kuwait and the Central Statistical Office of Kuwait. All monetary amounts are given in Kuwaiti dinars, for which the exchange rate over the period 1981 to 1986 varied between a low of KD1 = £1.54 and a high of KD1 = £3.06.

#### Gross domestic product

2. GDP for the six years 1981 to 1986 is shown analysed by sector in Table 1, distinguishing between oil and non-oil GDP.

TABLE 1 State of Kuwait: gross domestic product, 1981 to 1986

	1981	1982	1983	1984	1985	1986
						<i>KD million</i>
Oil sector excluding refineries	4,118	2,806	3,089	3,400	2,983	1,842
Petroleum refineries	191	79	152	86	165	346
Non-oil sectors	2,595	3,250	3,050	2,952	2,787	2,796
<b>Total GDP</b>	<b>6,904</b>	<b>6,135</b>	<b>6,291</b>	<b>6,438</b>	<b>5,935</b>	<b>4,984</b>

Source: MMC from National Bank of Kuwait information.

#### Revenue and expenditure

3. Revenue and expenditure for the four fiscal years ending June 1984 to June 1987, and budgeted figure for the year to June 1988, are shown in Table 2.

TABLE 2 State of Kuwait: revenue and expenditure, 1983-84 to 1987-88

	1983-84	1984-85	1985-86	1986-87	1987-88*
Revenue—oil	2,924	2,448	2,060	†	1,726
—non-oil	227	297	285	†	253
<b>Total</b>	<b>3,151</b>	<b>2,745</b>	<b>2,345</b>	<b>1,731</b>	<b>1,979</b>
Investment income	1,280	1,154	2,493	†	†
<b>Income from all sources</b>	<b>4,431</b>	<b>3,899</b>	<b>4,838</b>	<b>†</b>	<b>†</b>
Expenditure—current	2,113	2,426	2,382	†	2,408
—non-current	1,007	779	724	†	750
<b>Total</b>	<b>3,120</b>	<b>3,205</b>	<b>3,106</b>	<b>2,860</b>	<b>3,158</b>
Overall surplus in year	1,311	694	1,732	†	†
Cumulative surplus to date‡	12,182	12,876	14,608	†	†

Source: MMC from National Bank of Kuwait information.

\*Budget figures.

†Figures not reported.

‡Cumulative from 1979-80.

## Balance of payments

4. The balance of payments for the three years 1984 to 1986 is shown in Table 3.

TABLE 3 State of Kuwait: balance of payments, 1984 to 1986

	1984	1985	KD million 1986*
Trade balance (exports less imports)	1,659	1,417	575
Government investment income†	843	864	1,749
Other investment income (net)	627	523	431
Other services (net)	(834)	(883)	(597)
Goods and services (net)	2,295	1,921	2,158
Unrequited transfers	(408)	(473)	(368)
Current account surplus	1,887	1,448	1,790
Government investments (net)‡	(1,670)	(572)	(887)
Other capital flows (net)	(536)	(121)	(348)
Other (net)§	302	(586)	(543)
Overall balance	(17)	169	12

Source: MMC from National Bank of Kuwait information.

\*Provisional figures.

†Includes income generated by foreign assets in both the state general reserve and the fund for future generations, as well as KPC's investment income.

‡Includes investments in foreign assets by both the state general reserve and the fund for future generations, and by KPC.

§Residue reflecting errors and omissions as well as private capital movements not accounted for by banks etc.

## State reserves

5. The reserves of the State of Kuwait, analysed as between the state general reserve and the fund for future generations, are shown in Table 4 at the fiscal year-ends June 1984 to June 1987, together with the rate of return earned on those reserves during the preceding 12-month period. It is understood that, for purposes of these statistics, investments are in the main valued at cost of acquisition.

TABLE 4 State of Kuwait: reserves

	June 1984	June 1985	June 1986	June 1987 KD million
<i>Amount</i>				
State general reserve	11,760	11,433	10,680	9,769
Fund for future generations	10,822	11,843	14,323	15,345
Total reserves	22,582	23,276	25,003	25,114
<i>KD million</i>				
<i>Investment income</i>				
State general reserve	463	452	276	258
Fund for future generations	818	702	2,217	859
Total income	1,281	1,154	2,493	1,117
<i>per cent</i>				
<i>Rate of return</i>				
State general reserve	*	3.9	2.4	2.4
Fund for future generations	*	6.5	18.7	6.0
Total return	*	5.1	10.7	4.5

Source: MMC from National Bank of Kuwait information.

\*Figures not reported.

APPENDIX 3.2  
(referred to in paragraph 3.5)

**KPC subsidiaries**

**Subsidiaries incorporated in Kuwait**

*Kuwait Oil Company KSC:* exploration for and production of petroleum in the State of Kuwait, including processing and export.

*Kuwait National Petroleum Company KSC:* refining and sale of refined production within Kuwait.

*Kuwait Oil Tanker Company KSC:* operation of a fleet of crude oil tankers and liquefied petroleum gas and oil product carriers.

*Petrochemical Industries Company KSC:* production of petrochemical products and their distribution and marketing.

*Kuwait Foreign Petroleum Exploration Company KSC:* exploration for and production of petroleum outside Kuwait.

**Subsidiaries incorporated outside Kuwait**

*KPC (US Holdings) Inc* (incorporated in the USA and the holding company of Santa Fe International Corporation): oil, gas and geothermal exploration development and production, contract drilling of oil and gas wells, process engineering, onshore and offshore construction.

*KPC International NV* (incorporated in the Netherlands and the holding company of the Kuwait Petroleum International companies): refining and marketing of refined products in Europe.

*Petrochemical Industries Holding NV* (incorporated in the Netherlands): investment in petrochemical-related companies, including in particular KPC's holding of some 20 per cent of Hoechst AG.

APPENDIX 3.3  
(referred to in paragraph 3.13)

**Financial aspects of the Kuwait Petroleum Company**

1. This note is based on information drawn from the published Annual Reports and Accounts of the Kuwait Petroleum Company (KPC) and its subsidiaries.

2. KPC presents its accounts on the basis of a financial year ending 30 June, so that the information in this note covers the five-year period to 30 June 1987. The consolidated accounts of KPC and its subsidiaries are drawn up in Kuwaiti dinars, for which the exchange rate between July 1982 and June 1987 varied between a low of KD1 = £1.99 and a high of KD1 = £3.06.

**Acquisitions and mergers**

3. The principal acquisitions made by KPC during this five-year period were the acquisitions from Gulf Oil of refining and retailing activities in the Benelux countries and in Scandinavia in 1982-83 and in Italy in 1983-84; the purchase from BP of retailing operations in Denmark in 1986-87; and the purchase of three retailing companies in the United Kingdom (Hays Petroleum, Ultramar and Nafta) also in 1986-87. The shareholding in Hoechst was acquired in 1984-85 and placed in a newly-established KPC subsidiary (PIH NV).

**Accounting principles**

4. KPC's accounts are presented under the historical cost convention, but additional amounts are provided out of profits to meet the costs of replacement and renewal of fixed assets. Up until 1983-84, the amount so provided was the difference between historical cost depreciation and replacement cost depreciation; since then, provision has been made on a reduced basis.

5. The group accounts comprise a consolidation of the accounts of the parent company and all its subsidiaries. Newly-acquired subsidiaries have generally been consolidated with effect from the year following the year of acquisition. It should be noted that results for 1985-86 include results over an 18-month period for KPC (US Holdings) and KPC International NV.

6. Assets and liabilities denominated in foreign currencies are translated at closing rates of exchange, and transactions during the year in foreign currencies are converted at the previous month's average rate. In the case of subsidiaries presenting their accounts in foreign currencies, assets and liabilities are translated at the rate ruling at the subsidiary's year-end, and operating results at average rates for the subsidiary's financial year.

7. Exploration expenditure is accounted in accordance with the full cost method, all costs of both producing and non-producing properties being capitalized, subject to the restriction that net capitalized costs may not exceed total estimated future net revenues from proved reserves. Oil and gas assets in production are depreciated according to a unit-of-production method on the basis of proved reserves. Costs amortized in this way include capitalized costs, estimated future costs to complete development of proved reserves, and estimated decommissioning costs.

8. Oil and gas exploration and production activities in Kuwait are conducted on behalf of the Government of Kuwait on a cost reimbursement basis. The costs and revenues of KPC relating to these activities are accounted for to the Ministry of Oil by KPC and are not disclosed in KPC's accounts.

9. In common with normal practice in the oil and gas industry world-wide, KPC's balance sheet does not reflect the value of oil and gas reserves over which the company has rights of exploration and production, but merely the costs incurred in exploration and development as explained above. Goodwill arising on acquisition is, however, capitalized and amortized over periods of up to 40 years.

## Accounting presentation

10. The Annual Report and Accounts of KPC present the results of the parent company and of each of the group's principal subsidiaries, as well as the consolidated accounts of the group. Sales, costs and profits are segmented in the consolidated accounts as between sales of products (including crude oil, gas and refined products) and income from drilling and engineering operations.

## Group income

11. KPC's operating income for the five years to 30 June 1987 is shown in Table 1. The substantial fall in turnover from 1985-86 to 1986-87 will be noted: this reflected the fall in the price of crude oil between these two years. It will also be noted that sales of refined products increased from around half of total sales in 1982-83 to almost two-thirds of total sales in 1985-86.

TABLE 1 KPC: group operating income, 1982-83 to 1986-87

	1982-83	1983-84	1984-85	1985-86	KD million 1986-87
<i>Sales</i>					
Crude oil	1,296	1,949	1,389	1,057	*
LPG and natural gas	168	176	174	162	*
Refined products	1,633	1,848	2,265	2,316	*
Geothermal	—	—	2	22	*
Petrochemicals	30	27	38	25	*
<b>Total</b>	<b>3,127</b>	<b>4,000</b>	<b>3,868</b>	<b>3,582</b>	<b>2,606</b>
Income from drilling, engineering and other operations	432	386	246	493	283
<b>Total</b>	<b>3,559</b>	<b>4,386</b>	<b>4,114</b>	<b>4,075</b>	<b>2,889</b>

Source: KPC.

\*Not reported in this year.

## Profitability

12. KPC's profitability over the five years to 30 June 1987 is shown in Table 2.

TABLE 2 KPC: group profitability, 1982-83 to 1986-87

	1982-83	1983-84	1984-85	1985-86	KD million 1986-87
Sales of oil, gas and other products	3,127	4,000	3,868	3,582	2,606
Cost of sales	2,891	3,721	3,670	3,548	2,493
<b>Profit from sales</b>	<b>236</b>	<b>279</b>	<b>198</b>	<b>34</b>	<b>113</b>
Income from drilling, engineering and other operations	432	386	246	493	283
Cost of operations	360	354	264	515	301
<b>Profit from operations</b>	<b>72</b>	<b>32</b>	<b>(18)</b>	<b>(22)</b>	<b>(18)</b>
Investment and interest income	123	130	148	286	154
Other income (net) *	30	3	18	(83)	(73)
General and administrative expenses	47	60	74	118	77
Taxes on income	37	39	28	23	9
<b>Net profit before replacement and renewal provision</b>	<b>377</b>	<b>345</b>	<b>244</b>	<b>74</b>	<b>90</b>
Provision for renewal and replacement of fixed assets	70	65	35	20	20
<b>Net profit for year</b>	<b>307</b>	<b>280</b>	<b>209</b>	<b>54</b>	<b>70</b>
Distribution to shareholders	—	—	125	43	56
<b>Retained profit for the year</b>	<b>307</b>	<b>280</b>	<b>84</b>	<b>11</b>	<b>14</b>

Source: MMC from KPC information.

\* Net of finance costs, minority interests, and write-down of oil and gas properties, and including share of results of associated companies.

13. Operating profit, ie profit from sales of products and from drilling, engineering and other operations, and before other income and costs, general and administrative expenses, and taxes on income is shown in Table 3.

TABLE 3 KPC: operating profit as a percentage of turnover, 1982-83 to 1986-87

	1982-83	1983-84	1984-85	1985-86	1986-87
Sales of oil, gas and other products	7.5	7.0	5.1	0.9	4.3
Drilling, engineering and other operations	16.7	8.3	(7.3)	(4.5)	(6.4)
Total	8.7	7.1	4.4	0.3	3.3

Source: MMC from KPC information.

### Capital invested

14. KPC's capital invested, long-term liabilities and shareholders' interest are shown for the five years to 30 June 1987 in Table 4.

TABLE 4 KPC: summarized balance sheets, 1982-83 to 1986-87

	June 1983	June 1984	June 1985	June 1986	June 1987
Fixed assets	1,624	2,013	2,431	2,385	2,436
Stocks and debtors	661	912	928	741	908
Investments	841	785	829	690	856
Cash and bank deposits	916	1,203	1,532	1,712	1,686
Total assets	4,042	4,913	5,720	5,528	5,886
Creditors and provisions* excluding finance debt	382	459	624	308	606
Capital invested	3,660	4,454	5,096	5,220	5,280
<i>Financed by:</i>					
Finance debt	274	286	256	295	257
Replacement and renewal provision	601	666	701	721	741
Other non-current liabilities†	141	162	246	182	186
KPC shareholders' interest	2,644	3,340	3,893	4,022	4,096
	3,660	4,454	5,096	5,220	5,280

Source: MMC from KPC information.

\* Except for provision for replacement and renewal of fixed assets.

† Including pension provisions, deferred taxes, and minority interests.

15. In Table 5 the implied return on operating capital is distinguished from the return on investments and liquid resources over the five-year period. For this purpose it is assumed that operating capital is represented by fixed assets, stocks and debtors less creditors, and that the operating profit is net profit less investment and interest income. While in practice it must be accepted that some part of liquid resources would be working capital, and that some part of taxes and general expenses would relate to investment and interest income, it is unlikely that a more exact analysis would give materially different results.

TABLE 5 KPC: returns to operating and non-operating capital, 1982-83 to 1986-87

	1982-83	1983-84	1984-85	1985-86	1986-87
					<i>KD million</i>
Average operating capital *	1,406	2,184	2,600	2,776	2,778
Operating profit †	254	215	96	(212)	(64)
Operating return (%)	18.1	9.8	3.7	(7.6)	(2.3)
Average non-operating capital ‡	1,808	1,872	2,174	2,381	2,472
Investment and interest income §	123	130	148	286	154
Non-operating return (%)	6.8	6.9	6.8	12.0	6.2

Source: MMC from KPC information.

\* The average of opening and closing capital invested for the year as in Table 4, less investments, cash and bank deposits.

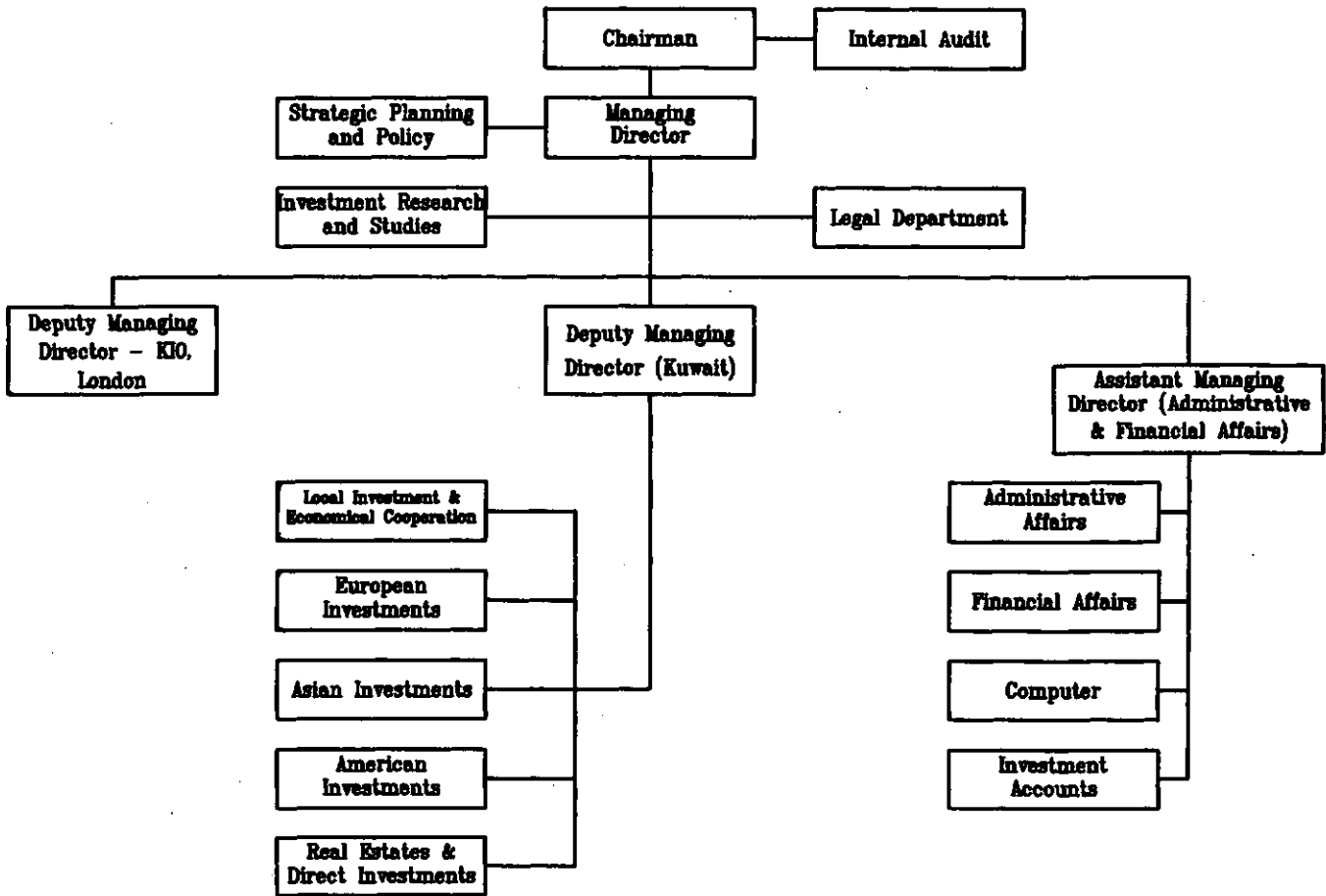
† Net profit before renewal and replacement provision for the year as in Table 2, less investment and interest income.

‡ The average of opening and closing balances for the year in respect of investments, cash and bank deposits.

§ Investment and interest income for the year.

APPENDIX 3.4  
(referred to in paragraph 3.17)

**Kuwait Investment Authority organisation chart**



Source: Kuwait

APPENDIX 4.1  
(referred to in paragraph 4.14)

**Analysis of BP ordinary share ownership by number of shares held  
(as at 15 April 1988)**

<i>No of shares</i>	<i>No of shareholders</i>			<i>Shareholdings (million)</i>		
	<i>Ordinary shares</i>	<i>New ordinary shares (interim rights)</i>	<i>Total</i>	<i>Ordinary shares</i>	<i>New ordinary shares (interim rights)</i>	<i>Total</i>
1 — 50	4,018	3,666	7,684	0.12	0.10	0.22
51 — 100	37,603	123,692	161,295	3.65	11.97	15.62
101 — 150	6,670	3,067	9,737	0.88	0.39	1.27
151 — 200	10,239	50,993	61,232	1.95	10.16	12.11
201 — 250	6,612	2,236	8,848	1.53	0.52	2.05
251 — 1,000	133,333	91,018	224,351	76.66	50.70	127.36
1,001 — 10,000	151,310	22,331	173,641	416.56	60.71	477.27
10,001 — 100,000	7,646	1,552	9,198	179.00	52.73	231.73
100,001 — 1,000,000	1,196	511	1,707	398.39	160.99	545.38
1,000,001 and over	420	125	545	2,857.11	1,778.36	4,649.47
NatWest Bank	1	(1)	—	2,126.63	(2,126.63)	—
	<u>359,048</u>	<u>299,190</u>	<u>658,238</u>	<u>6,062.48</u>	<u>—</u>	<u>6,062.48</u>

Source: BP.

**APPENDIX 4.2**  
(referred to in paragraph 4.14)

**Analysis of BP ordinary shareholdings by classification  
(as at 15 April 1988)**

	<i>No of shareholders</i>			<i>Shareholdings (million)</i>		
	<i>Ordinary shares</i>	<i>New ordinary shares (interim rights)</i>	<i>Total</i>	<i>Ordinary shares</i>	<i>New ordinary shares (interim rights)</i>	<i>Total</i>
Individuals	330,700	296,261	626,961	813.07	282.95	1,096.02
Companies	2,906	456	3,362	260.44	100.43	360.87
Trusts	5,310	486	5,796	319.36	74.84	394.20
Banks and nominees	18,048	1,911	19,959	2,039.61	1,627.81	3,667.42
Insurance	2,083	77	2,160	503.37	40.60	543.97
NatWest Custodian	1	(1)	—	2,126.63	(2,126.63)	—
	<u>359,048</u>	<u>299,190</u>	<u>658,238</u>	<u>6,062.48</u>	<u>—</u>	<u>6,062.48</u>

Source: BP.

APPENDIX 4.3  
(referred to in paragraph 4.16)

**Financial aspects of The British Petroleum Company plc**

1. This note is based principally on information drawn from the published Annual Reports and Accounts of BP, but also includes certain additional information which has been provided to us by BP.

2. BP presents its accounts on a calendar year basis, so that the information in this note covers the five-year period to 31 December 1987. BP's statutory accounts are drawn up in sterling, but results in terms of dollars are also shown in notes to the accounts, reflecting the fact that more than 50 per cent of BP's capital employed is in the USA.

**Acquisitions and mergers**

3. In April 1987 BP made an offer to acquire the 45 per cent minority share interest in Standard Oil of the US which BP did not already own. The acquisition was completed during May 1987 at a cost to BP of £4,672 million. Accordingly the profit for the year 1987 includes BP's interest of 55 per cent in Standard Oil for the period to 13 May and its 100 per cent interest thereafter. It should, however, be noted that for purposes of reporting turnover, income and capital employed Standard Oil has been included at 100 per cent in the group results throughout the five-year period, with the 45 per cent minority interest being deducted from profit after tax.

4. During the closing weeks of 1987 BP acquired a 29.8 per cent holding in the ordinary shares of Britoil at a cost of £568 million. For the purposes of BP's balance sheet at 31 December 1987 the cost of this holding was treated as a fixed asset investment with a corresponding amount included as a liability under creditors within one year. During January 1988 BP made a full-scale bid for Britoil which was declared fully unconditional on 24 February. BP owns over 99 per cent of Britoil's ordinary shares.

**Accounting policies**

5. BP's accounts are presented under the historical cost convention as far as the group results are concerned, and as such reflect stockholding gains and losses which have had significant effect on individual years' results over the five-year period, reflecting volatility in the price of crude oil. For purposes of showing the results of individual businesses and geographical areas in notes to the accounts, however, accounts are drawn up on a replacement cost basis, excluding stockholding gains or losses and reflecting the average cost of supplies incurred during the year.

6. Movements in exchange rates have a significant effect on BP's reported results. Assets and liabilities denominated in foreign currencies are translated into sterling at closing rates of exchange, and income and application of funds statements are translated at average rates of exchange.

7. Exploration expenditure is accounted in accordance with the successful efforts method, with expenditure being initially capitalized as an intangible fixed asset, and then either transferred to tangible production assets when reserves are proved, or written off if unsuccessful. Oil and minerals assets in production are depreciated according to a unit-of-production method on the basis of proved reserves. Provision is made for the ultimate decommissioning of production facilities on the basis of estimated costs. Interest during the construction of major projects is capitalized.

8. Following normal practice in the oil and gas industry world-wide, BP's balance sheet does not reflect the value of oil and gas reserves over which BP has exploration and production rights, but merely the capitalized costs of exploration and development as explained above. Goodwill arising on acquisition is, however, capitalized and written off over a maximum period of five years.

### Group turnover

9. BP's turnover for the five years to 31 December 1987 is shown in Table 1 in sterling and also in dollars. Turnover is quoted net of customs duties and sales taxes. These figures include Standard Oil at 100 per cent over the entire period. The substantial fall in turnover from 1985 to 1986 reflected the fall in the price of crude oil from over \$26 to under \$10 per barrel during the year. In terms of sterling, recovery in 1987 has been offset by the appreciation of sterling against the dollar.

TABLE 1 BP: group turnover 1983 to 1987

	1983	1984	1985	1986	1987
£ million	32,381	37,933	40,986	27,171	27,578
\$ million	49,219	50,830	53,281	39,941	45,228

Source: BP.

10. Turnover for the same period in sterling is analysed by business and by geographical area in Annex 1.

### Profitability

11. BP's profitability over the five years to 31 December 1987 is shown in Table 2.

TABLE 2 BP: group profitability, 1983 to 1987

	1983	1984	1985	1986	£ million 1987
Turnover	32,381	37,933	40,986	27,171	27,578
Operating expenses	29,618	34,657	34,347	25,326	25,577
	2,763	3,276	3,639	1,845	2,001
Other income	526	625	799	786	784
Replacement cost operating profit	3,289	3,901	4,438	2,631	2,785
Stockholding gain/(loss)	(143)	121	(249)	(1,173)	133
Historical cost operating profit	3,146	4,022	4,189	1,458	2,918
Interest expense	553	567	576	500	531
Profit before taxation	2,593	3,455	3,613	958	2,387
Taxation	1,214	1,426	1,382	42	785
Profit after taxation	1,379	2,029	2,231	916	1,602
Minority shareholders' interest	513	627	633	99	211
Profit before extraordinary items	866	1,402	1,598	817	1,391
Extraordinary items	165	(298)	(929)	(318)	—
Profit for the year	1,031	1,104	669	499	1,391
Distribution to shareholders	438	548	622	642	726
Retained profit/(deficit) for the year	593	556	47	(143)	665

Source: BP.

12. Sterling operating profit, ie profit before interest, tax and minority interests, as a percentage of turnover is shown in Table 3.

TABLE 3 BP: operating profit as a percentage of turnover, 1983 to 1987

	1983	1984	1985	1986	1987
Replacement cost basis	10.2	10.3	10.8	9.7	10.1
Historical cost basis	9.7	10.6	10.2	5.4	10.6

Source: MMC study from BP information.

### Capital invested

13. BP's capital invested, finance debt, minority interests and own shareholders' interest are shown for the five years to December 1987 in Table 4.

TABLE 4 BP: summarized balance sheets, 1983 to 1987

	1983	1984	1985	1986	1987
					<i>£ million</i>
Fixed assets*	17,143	21,238	18,236	17,881	18,306
Stocks and debtors	9,116	10,661	9,780	7,965	7,115
Liquid resources	915	2,315	2,205	2,529	1,283
<b>Total assets</b>	<b>27,174</b>	<b>34,214</b>	<b>30,221</b>	<b>28,375</b>	<b>26,704</b>
Creditors and provisions excluding finance debt	8,547	11,248	11,807	9,875	10,036
<b>Capital invested</b>	<b>18,627</b>	<b>22,966</b>	<b>18,414</b>	<b>18,500</b>	<b>16,668</b>
<i>Financed by:</i>					
Finance debt	5,468	7,058	5,130	5,072	5,331
Minority shareholders' interest	3,521	4,365	3,376	3,456	576
BP shareholders' interest	9,638	11,543	9,908	9,972	10,761
	18,627	22,966	18,414	18,500	16,668

Source: BP.

\*Goodwill arising on acquisitions is included by BP under fixed assets. At 31 December 1987 it amounted to £109 million.

14. The ratios in Table 5 show return on capital invested measured in sterling in terms both of replacement cost and historical cost and return on BP shareholders' own interest.

TABLE 5 BP: financial ratios, 1983 to 1987

	1983	1984	1985	1986	per cent 1987
Return on average capital invested					
—historical cost	10.5	12.5	13.6	7.7	12.1
—replacement cost	11.3	11.9	14.8	14.0	11.4
(based on profit after taxation before deducting interest expense)					
Return on average BP shareholders' interest	9.5	13.2	14.9	8.2	13.4
(based on historical cost profit before extraordinary items)					

Source: BP.

### Segmented return

15. Capital invested as measured in sterling at 31 December 1986 and 1987 is analysed by business and by geographical area in Annex 3. It will be seen that, subject to adjustment for tax liabilities, this analysis reconciles to total capital invested as shown above. By relating the replacement cost operating profits for 1987 as in Annex 2 to the average of the opening and closing operating capital invested for the year as in Annex 3, the following figures are obtained for return in 1987 by business and by geographical area.

TABLE 6 BP: analysis by business in 1987

	Turnover £m	Operating profit £m	Average capital invested £m	Return %
Exploration and production	6,970	1,998	8,307	24.1
Refining and marketing	19,128	429	4,369	9.8
Chemicals	2,559	218	1,324	16.4
Minerals	446	125	1,591	7.9
Nutrition	1,843	52	679	7.7
Coal	627	(29)	385	(7.6)
Other businesses and corporate	631	(8)	1,255	(0.6)
	32,204			
Less sales between businesses	(4,626)			
<b>Total</b>	<b>27,578</b>	<b>2,785</b>	<b>17,910</b>	<b>15.5</b>

Source: MMC study from BP information.

TABLE 7 BP: analysis by geographical area in 1987

	Turnover £m	Operating profit £m	Average capital invested £m	Return %
United Kingdom	11,655	750	2,727	27.5
Rest of Europe	8,180	313	3,013	10.4
United States	8,478	1,462	9,432	15.5
Rest of world	3,519	260	2,738	9.5
	31,832	2,785	17,910	15.5
Less: sales between areas	(4,254)			
<b>Total</b>	<b>27,578</b>	<b>2,785</b>	<b>17,910</b>	<b>15.5</b>

Source: MMC study from BP information.

16. The information above shows the importance of exploration and production as the source of over 70 per cent of group operating profit, earning a return of 24.1 per cent, and the favourable return earned from production activities in the United Kingdom.

### Oil and gas exploration and production

17. The results of operations in 1986 and 1987 concerned solely with oil and gas exploration and production are summarized in Table 8, and given in more detail in Annex 5. This presentation follows the requirements of the United Kingdom Statement of Recommended Practice issued by the Oil Industry Accounting Committee.

TABLE 8 Results of oil and gas exploration and production\*

	United Kingdom	Rest of Europe	United States	Rest of world	£ million Total
<b>1985</b>					
Profit before taxation	987	(66)	1,486	(65)	2,342
Allocable taxes	298	1	454	34	787
Results of operations	689	(67)	1,032	(99)	1,555
<b>1986</b>					
Profit before taxation	639	(49)	(368)	(105)	117
Allocable taxes	133	—	(378)	10	(235)
Results of operations	506	(49)	10	(115)	352
<b>1987</b>					
Profit before taxation	684	3	725	(17)	1,395
Allocable taxes	189	—	167	16	372
Results of operations	495	3	558	(33)	1,023

Source: BP.

\*Oil and gas exploration and production activities as here defined exclude upstream transportation/pipeline activities which are included with exploration and production in Table 6.

### Source and application of funds

18. BP's source and application of funds over the five years to 31 December 1987 are shown in Annex 6. It will be seen that surpluses were generated from operations in 1983, 1984 and 1985, whereas in 1987 a massive requirement for funds arose in order to finance the acquisition of the balance of shares in Standard Oil.

### Capital expenditure and acquisitions

19. BP's expenditure on capital projects and on acquisitions over the five years to 31 December 1987 is analysed by business and by geographical area in Annex 7. The preponderance of investment in the business of exploration and production, and in the USA, will be noted as a consistent trend over the entire period except in 1987, when United Kingdom investment exceeded that in the USA owing mainly to expenditure for the acquisition of Britoil.

### Earnings and dividends per share

20. BP's earnings and dividends per share over the five years (adjusted to reflect the two for one capitalization issue in 1987) are shown in Table 9.

TABLE 9 BP: earnings and dividends per share

	1983	1984	1985	1986	1987
Earnings per share	15.8	25.6	29.1	14.9	24.9
Dividends per share	8.0	10.0	11.3	11.7	12.5

Source: BP.

### Consolidated balance sheet for BP and Britoil

21. The pro forma statement below shows the combined net assets of BP and of Britoil at 31 December 1987, based on the respective audited balance sheets of the two groups at that date, and adjusted to reflect the acquisition of Britoil by BP on the assumption that all Britoil ordinary shares not already owned by BP at 31 December 1987 are acquired on the Increased Offer terms as to 75 per cent for cash and as to 25 per cent for cash and BP shares.

TABLE 10 BP and Britoil: pro forma combined balance sheets at 31 December 1987

	BP	Britoil	Combined	£ million Adjusted
Fixed assets	18,306	1,668	19,974	20,856
Stocks and debtors	7,115	119	7,234	7,234
Liquid resources	1,283	297	1,580	580
Total assets	26,704	2,084	28,788	28,670
Creditors and provisions excluding finance debt	10,036	870	10,906	10,338
Capital invested	16,668	1,214	17,882	18,332
Financed by:				
Finance debt	5,331	328	5,659	6,778
Minority shareholders' interest	576	—	576	576
BP shareholders' interest	10,761	886	11,647	10,978
	16,668	1,214	17,882	18,332

Source: BP.

## BP: group turnover statement analysis \*

	1983	1984	1985	1986	£ million 1987
<i>By business</i>					
Exploration and production	9,725	11,411	12,251	6,105	6,970
Refining and marketing	25,455	27,928	30,891	19,170	19,128
Chemicals	2,256	2,589	2,520	2,278	2,559
Minerals	786	684	581	477	446
Nutrition	723	941	958	1,363	1,843
Coal	656	811	795	738	627
Other businesses and corporate †	792	947	1,055	1,105	631
	<u>40,393</u>	<u>45,311</u>	<u>49,051</u>	<u>31,236</u>	<u>32,204</u>
Less: sales between businesses	(8,012)	(7,378)	(8,065)	(4,065)	(4,626)
Total	<u>32,381</u>	<u>37,933</u>	<u>40,986</u>	<u>27,171</u>	<u>27,578</u>
<i>By geographical area</i>					
United Kingdom ‡	16,052	18,893	18,280	10,280	11,655
Rest of Europe	10,277	11,301	11,484	8,518	8,180
USA	9,193	10,908	12,962	8,696	8,478
Rest of world	3,817	4,442	5,286	3,700	3,519
	<u>39,339</u>	<u>45,544</u>	<u>48,012</u>	<u>31,194</u>	<u>31,832</u>
Less: sales between areas	(6,958)	(7,611)	(7,026)	(4,023)	(4,254)
Total	<u>32,381</u>	<u>37,933</u>	<u>40,986</u>	<u>27,171</u>	<u>27,578</u>

Source: BP.

\* Transfers between group companies are made at market prices taking into account the volumes involved.

† Other businesses comprise Scicon Corporation (sold in 1988), Engineered Materials and Chase Brass. Corporate includes BP Ventures and the management and financial activities of group head office and of major subsidiary holding companies, centrally sponsored research and development and inter-business profit eliminations.

‡ United Kingdom area includes United Kingdom North Sea crude oil activities and the United Kingdom-based international activities of BP Oil International.

## BP: group operating profit analysis

	1983	1984	1985	1986	£ million 1987
<i>By business</i>					
Exploration and production	2,981	3,674	3,636	1,005	1,998
Marketing	457	243	771	1,307	429
Chemicals	(81)	100	107	238	218
Minerals	(75)	(126)	(126)	45	125
Nutrition	27	29	37	56	52
Coal	14	46	34	65	(29)
Other businesses and corporate †	(34)	(65)	(21)	(85)	(8)
	<u>3,289</u>	<u>3,901</u>	<u>4,438</u>	<u>2,631</u>	<u>2,785</u>
<i>By geographical area</i>					
United Kingdom ‡	725	968	1,044	986	750
Rest of Europe	55	32	337	690	313
USA	2,236	2,611	2,752	594	1,462
Rest of world	273	290	305	361	260
	<u>3,289</u>	<u>3,901</u>	<u>4,438</u>	<u>2,631</u>	<u>2,785</u>

Source: BP.

\* Replacement cost operating profit is before stockholding gains and losses, interest expense and taxation, all of which are attributable to the corporate function.

† Other businesses comprise Scicon Corporation (sold in 1988), Engineered Materials and Chase Brass. Corporate includes BP Ventures and the management and financial activities of group head office and of major subsidiary holding companies, centrally sponsored research and development and inter-business profit eliminations.

‡ United Kingdom area includes United Kingdom North Sea crude oil activities and the United Kingdom-based international activities of BP Oil International.

**BP: group balance sheet analysis**

	<i>£ million</i>	
	<i>Capital invested ‡</i>	
	<i>1986</i>	<i>1987</i>
<i>By business</i>		
Exploration and production	8,540	8,073
Refining and marketing	4,471	4,268
Chemicals	1,206	1,441
Minerals	1,478	1,705
Nutrition	722	635
Coal	449	322
Other businesses and corporate*	1,883	627
Total	<u>18,749</u>	<u>17,071</u>
<i>By geographical area</i>		
United Kingdom†	2,853	2,601
Rest of Europe	3,515	2,511
USA	9,548	9,316
Rest of world	2,833	2,643
Total	<u>18,749</u>	<u>17,071</u>

Source: BP.

\*Other businesses comprise Scicon Corporation (sold in 1988), Engineered Materials and Chase Brass. Corporate includes BP Ventures and the management and financial activities of group head office and of major subsidiary holding companies, centrally sponsored research and development and internal pension and insurance provisions.

†United Kingdom area includes United Kingdom North Sea crude oil activities and the United Kingdom-based international activities of BP Oil International.

	<i>1986</i>	<i>1987</i>
‡Capital invested (as above)	18,749	17,071
Liabilities for current and deferred taxation	<u>(249)</u>	<u>(403)</u>
Capital invested (see Appendix 4.3, Table 4)	<u>18,500</u>	<u>16,668</u>

## BP: results by business within geographical area in 1987

	<i>Operating profit*</i>				<i>£ million</i>
	<i>United Kingdom</i>	<i>Rest of Europe</i>	<i>United States</i>	<i>Rest of world</i>	<i>Total</i>
	Exploration and production	617	58	1,298	25
Refining and marketing	(13)	112	167	163	429
Chemicals	113	78	20	7	218
Minerals	(10)	(2)	43	94	125
Nutrition	—	38	14	—	52
Coal	(4)	1	15	(41)	(29)
Other business and corporate	47	28	(95)	12	(8)
<b>Total</b>	<b>750</b>	<b>313</b>	<b>1,462</b>	<b>260</b>	<b>2,785</b>
	<i>Average capital invested†</i>				
Exploration and production	805	839	5,868	795	8,307
Refining and marketing	608	1,376	1,515	870	4,369
Chemicals	546	464	301	13	1,324
Minerals	1	15	904	671	1,591
Nutrition	22	326	331	—	679
Coal	9	21	164	191	385
Other business and corporate	736	(28)	349	198	1,255
	<b>2,727</b>	<b>3,013</b>	<b>9,432</b>	<b>2,738</b>	<b>17,910</b>
	<i>Return on capital invested</i>				<i>per cent</i>
Exploration and production	76.6	6.9	22.1	3.1	24.1
Refining and marketing	(2.1)	8.1	11.0	18.7	9.8
Chemicals	20.7	16.8	6.6	53.8	16.5
Minerals	‡	‡	4.8	14.0	7.9
Nutrition	‡	11.7	4.2	—	7.7
Coal	‡	‡	9.1	‡	(7.5)
Other business and corporate	6.4	‡	‡	6.1	(0.6)
	<b>27.5</b>	<b>10.4</b>	<b>15.5</b>	<b>9.5</b>	<b>15.6</b>

Source: MMC study from BP information.

\*Measured on the basis of replacement cost.

†Measured as the average of capital invested at 31 December 1986 and 31 December 1987.

‡Not calculated.

## BP: oil and gas exploration and production activities

TABLE 1 Capitalized costs at 31 December

	£ million									
	1986					1987				
	United Kingdom	Rest of Europe	USA	Rest of world	Total	United Kingdom	Rest of Europe	USA	Rest of world	Total
Gross capitalized costs:										
proved properties	4,258	616	6,932	929	12,735	4,698	607	6,697	833	12,835
unproved properties	184	39	533	271	1,027	239	16	453	178	886
	4,442	655	7,465	1,200	13,762	4,937	623	7,150	1,011	13,721
Accumulated depreciation	1,987	69	2,730	393	5,179	2,229	118	2,520	308	5,175
Net capitalized costs	2,455	586	4,735	807	8,583	2,708	505	4,630	703	8,546

TABLE 2 Costs incurred for the year ended 31 December

	£ million									
	1986					1987				
	United Kingdom	Rest of Europe	USA	Rest of world	Total	United Kingdom	Rest of Europe	USA	Rest of world	Total
Acquisition of properties:										
proved	16	—	1	—	17	4	—	1,166*	—	1,170
unproved	—	1	20	11	32	17	1	—	21	39
	16	1	21	11	49	21	1	1,166	21	1,209
Exploration and appraisal costs †	219	64	214	127	624	159	48	243	96	546
Development costs	313	135	694	134	1,276	418	35	302	130	885
Total costs	548	200	929	272	1,949	598	84	1,711	247	2,640

\* Represents the part of the total cost of the purchase of the Standard Oil minority which has been allocated on a fair value basis to oil and gas exploration and production assets.

† All exploration and appraisal costs are initially capitalized within intangible fixed assets in accordance with BP group accounting policy.

TABLE 3 Results of operations for the year ended 31 December

	£ million									
	1986					1987				
	United Kingdom	Rest of Europe	USA	Rest of world	Total	United Kingdom	Rest of Europe	USA	Rest of world	Total
Turnover:*										
Third parties	1,573	38	1,393	157	3,161	1,624	190	2,071	240	4,125
Sales between businesses	470	14	74	380	938	391	34	109	437	971
	2,043	52	1,467	537	4,099	2,015	224	2,180	677	5,096
Exploration expenditure	111	57	660	178	1,006	109	42	190	98	439
Production costs †	888	20	623	434	1,965	917	98	660	568	2,243
Depreciation	315	23	477	30	845	237	78	533	28	876
Abandonment	90	1	75	—	166	68	3	72	—	143
	1,404	101	1,835	642	3,982	1,331	221	1,455	694	3,701
Profit before taxation	639	(49)	(368)	(105)	117	684	3	725	(17)	1,395
Allocable taxes	133	—	(378)	10	(235)	189	—	167	16	372
Results of operations ‡	506	(49)	10	(115)	352	495	3	558	(33)	1,023

Source: BP.

\*Turnover includes sales of gross production except in the USA where the convention is that turnover is net of royalty.

†Includes royalties, petroleum revenue tax and other production taxes.

‡Income from the group's share of oil and gas produced by related companies is included within results of operations.

**BP: group source and application of funds statements**

	<i>£ million</i>				
	1983	1984	1985	1986	1987
Profit after taxation	1,379	2,029	2,231	916	1,602
Extraordinary items	165	(298)	(929)	(318)	—
Items not involving the movement of funds	2,443	2,680	4,231	3,630	2,279
Working capital movements	126	580	83	591	1,033
Other movements	474	743	454	(358)	303
Funds generated from operations	4,587	5,734	6,070	4,461	5,217
Capital expenditure	3,237	3,610	3,875	3,303	2,762
Acquisitions	64	205	523	484	794
Standard Oil share purchases	—	418	—	—	4,672
Dividends paid:					
—BP shareholders	384	493	585	623	670
—Minority shareholders	201	223	229	202	93
Funds generated or (required)	701	785	858	(151)	(3,774)
<i>Financial movements:</i>					
Shares issued	(21)	(7)	(14)	(15)	(1,481)
Changes in external financing	1,456	(451)	769	(350)	(1,197)
External funding decrease/(increase)	1,435	(458)	755	(365)	(2,678)
Liquid resources (decrease)/increase	(734)	1,243	103	214	(1,096)
	701	785	858	(151)	(3,774)

Source: BP.

**BP: capital expenditure and acquisitions**

	<i>£ million</i>				
	1983	1984	1985	1986	1987
<i>By business</i>					
Exploration and production	2,337	2,556	2,750	1,970	1,976
Refining and marketing	341	542	910	566	503
Chemicals	115	117	119	201	390
Minerals	198	274	265	243	431
Nutrition	40	42	34	477	72
Coal	93	53	74	115	31
Other businesses/corporate	177	231	246	215	153
Total	3,301	3,815	4,398	3,787	3,556
<i>By geographical area</i>					
United Kingdom*	616	525	702	820	1,511
Rest of Europe	303	346	520	535	351
USA	1,902	2,244	2,600	1,781	1,055
Rest of world	480	700	576	651	639
Total	3,301	3,815	4,398	3,787	3,556

Source: BP.

\*United Kingdom area includes United Kingdom North Sea crude oil activities and the United Kingdom-based international activities of BP Oil International.

APPENDIX 7.1  
(referred to in paragraph 7.59)

**Deed of Covenant between the State of Kuwait and the Secretary of State  
for Trade and Industry**

THIS DEED is made between

THE STATE OF KUWAIT, acting by His Excellency Sheik Ali Khalifa Al-Sabah, Minister of Oil in the Government of the State of Kuwait and

THE SECRETARY OF STATE FOR TRADE AND INDUSTRY

By this Deed the State of Kuwait covenants with the Secretary of State for Trade and Industry of the United Kingdom in relation to its interest in the issued voting share capital of the British Petroleum Company plc (BP) as follows:—

(i) The State of Kuwait holds and will hold any interest that it now has or may hereafter acquire in the issued voting share capital of BP for investment purposes only and neither the State of Kuwait nor any of its agencies will use any interest in the issued voting share capital of BP to further any interest of the State of Kuwait or of its agencies other than its interest as an investor in the issued voting share capital of BP.

(ii) Neither the State of Kuwait nor any of its agencies will acquire any interest in any of the issued voting share capital of BP that causes the total interests of the State of Kuwait and its agencies in the issued voting share capital of BP to exceed 21.68 per cent thereof.

(iii) In the event of the State of Kuwait disposing of any of the shares in the issued voting share capital of BP which it presently owns neither the State of Kuwait nor any of its agencies will thereafter acquire any further interest in the issued voting share capital of BP if the effect of such acquisition would be to cause the State of Kuwait to be interested in more than 20 per cent in total of the issued voting share capital of BP.

It is stipulated that for the purpose of Clauses (i), (ii) and (iii) above and in relation to the covenants given in the said clauses the State of Kuwait or its agencies shall be deemed not to have an interest in such of the issued voting share capital of BP as is owned by (a) a person or company that is not a subsidiary of or whose policy is not controlled by the State of Kuwait or any of its agencies; or (b) any pension fund or similar fund that is associated with but not under the control of any of the agencies of the State of Kuwait.

(iv) Neither the State of Kuwait nor any of its agencies will at any general meeting of BP exercise in person or by proxy voting rights representing more than 14.9 per cent of the total voting rights of all the members of BP having the right to vote at such meeting.

(v) Neither the State of Kuwait nor any of its agencies will propose or procure the proposal of any person for election or appointment as a director of BP or vote against the election as such director of any person who is proposed by the Board of BP.

It is stipulated that for the purpose of Clauses (i), (ii), (iii), (iv) and (v) above and in relation to the covenants given in the said Clauses

(a) The agencies of the State of Kuwait shall be deemed to include any company which would if the State of Kuwait was a holding company be a subsidiary company thereof, the expressions holding company and subsidiary company having the meanings ascribed to them by Section 736 of the Companies Act 1985;

(b) The issued voting share capital of BP means all the issued share capital of BP carrying rights to vote in all circumstances at general meetings of BP.

(c) Nothing in the said Clauses shall oblige the State of Kuwait or any of its agencies to exercise any voting rights at any general meeting of BP.

(vii) [sic] The State of Kuwait hereby consents to the giving of relief against it by way of injunction or order for specific performance for the enforcement of the covenants contained in Clauses (i) to (v) above in any case where the High Court of Justice of England and Wales or any court on appeal therefrom determines that the only reason why such relief should otherwise not be granted is the provision contained in section 13(2)(a) of the State Immunity Act 1978 or any re-enactment thereof.

This Deed shall be construed according to the laws of England.

IN WITNESS of which the State of Kuwait, acting by H E Sheik Ali Al Khalifa Al-Sabah its Minister having the authority of the State of Kuwait to act in this matter has sealed this Deed at St Vedast House, 150 Cheapside, London, EC2 on 8 August 1988.

SIGNED by the said Sheik Ali Khalifa as a Minister of the State of Kuwait

*(Signed)* A Al Sabah

In the presence of

*(Signed)* Ruth M Campbell  
Notary Public, London, England  
(Ruth M Campbell)