



**ARCO British
International Inc.**

Financial Statements

for the

Year ended 31 December 1998



FCO17837



ARCO British International Inc.

DIRECTORS' REPORT

The Directors present their report and financial statements for the year ended 31 December 1998. ARCO British International Inc. (ARCO or the Company) is incorporated with limited liability in the State of Delaware, USA and is a wholly owned subsidiary of the Atlantic Richfield Company.

The company does not expect the year 2000 computer issue to have a significant impact on its activities. Any costs associated with this issue have been incurred by a fellow group company.

RESULTS AND DIVIDENDS

The profit and loss account for the year and the financial position as at 31 December 1998 are set out on pages 6 to 15.

There were no dividends declared during the year. (1997: £58,000,000)

REVIEW OF THE BUSINESS

The Company's business is as a Holding Company for:

- companies which explore for, exploit and produce hydrocarbons in the United Kingdom; and
- a company which provides Technical and Administrative services to other affiliates operating in the Europe, North Africa Region.

FUTURE DEVELOPMENTS

The Company will continue as a Holding Company for companies with exploration and development activities in the United Kingdom and on the United Kingdom Continental Shelf and for a company which provides Technical and Administrative services to other affiliates operating in the Europe, North Africa Region.

DIRECTORS

J.B. Cheatham	(Appointed 13/12/93, resigned 07/12/98)
S.G. Suellentrop	(Appointed 13/12/93, resigned 09/10/98)
D. McManus	(Appointed 03/01/95)
K.E. Ives	(Appointed 01/05/95, resigned 06/11/98)
S.L. Hayes	(Appointed 18/04/97)
T.L. Phillips	(Appointed 18/04/97)
A. J. Walker	(Appointed 07/12/98)
R. P. Coe	(Appointed 06/11/98)
G. S. Davis	(Appointed 06/11/98)
J. D. Ottoson	(Appointed 01/05/97, resigned 07/12/98)

DIRECTORS' RESPONSIBILITY

The directors are required by UK company law to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss of the Company for that period. The directors confirm that suitable accounting policies have been used and applied consistently and reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31 December 1998.

The directors also confirm that applicable accounting standards have been followed and that the financial statements have been prepared on the going concern basis. The directors are responsible for keeping proper accounting records, for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Signed on behalf on the Board



Director: D McManus

Date: 3 June 1999

ARCO British International Inc.

REPORT OF THE AUDITORS TO THE MEMBERS OF ARCO BRITISH International Inc.

We have audited the financial statements on pages 6 to 15.

Respective responsibilities of directors and auditors.

The directors are responsible for preparing the Annual Report, including as described on page 3 the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

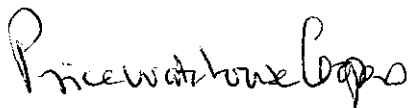
Basis of Opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the Company's affairs at 31 December 1998 and of its loss and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985, applicable to overseas companies.

A handwritten signature in dark ink, appearing to read 'Price Waterhouse Coopers', written in a cursive style.

Price Waterhouse Coopers

Chartered Accountants and Registered Auditors
1 Embankment Place
London WC2N 6NN

3 June 1999

ARCO British International Inc.

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 1998

	<i>Note</i>	1998 £000	1997 £000
Administrative expenses		(12)	(184)
OPERATING LOSS		(12)	(184)
Income from investments		-	58,000
Interest income		6	165
Loss on foreign exchange		-	(1)
(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	2	(6)	57,980
Tax on profit on ordinary activities	4	22	-
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		16	57,980
Dividends paid		-	(58,000)
RETAINED PROFIT/(LOSS) FOR THE FINANCIAL YEAR		16	(20)

STATEMENT OF RETAINED EARNINGS

Retained profit /(loss) for the year	16	(20)
Retained profit brought forward	101,513	101,533
RETAINED PROFIT CARRIED FORWARD	101,529	101,513

- The Company has no recognised gains and losses other than those included in the profit and loss account above and, therefore, no separate statement of total recognised gains and losses has been presented.
- There is no difference between the profit on ordinary activities before taxation and the retained profit for the year stated above, and their historical cost equivalents.

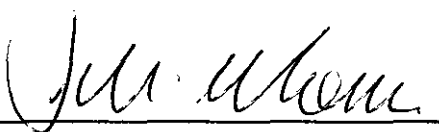
- All of the above results are from continuing operations. There were no discontinued operations during the year and, therefore, no separate disclosure is required.

ARCO British International Inc.

BALANCE SHEET AT 31 DECEMBER 1998

	Note	1998 £000	1997 £000
Fixed Assets			
<i>Investments</i>	5	492,911	492,911
Current Assets			
<i>Debtors</i>	6	1,204	6,397
<i>Cash at bank and in hand</i>		62	56
Creditors: amounts falling due within one year	7	(175)	(5,378)
Net Current Assets		1,091	1,075
Total Assets less Current Liabilities		494,002	493,986
Creditors: amounts falling due after more than one year	8	(267,414)	(267,414)
NET ASSETS		226,588	226,572
Capital and Reserves			
Called up share capital	9	121,007	121,007
Additional paid in capital		4,052	4,052
Profit and loss account		101,529	101,513
EQUITY SHAREHOLDERS' FUNDS		226,588	226,572

Approved on behalf of the Board of Directors



Director: D McManus

Date: 3 June 1999

The notes on pages 10 to 15 form part of these financial statements.

ARCO British International Inc.

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 1998

	<i>Note</i>	1998 £000	1997 £000
Net Cash Inflow/(Outflow) from Operating Activities	11	5,075	(165)
Returns on Investments and Servicing of Finance	13	6	58,165
Taxation		(5,075)	-
		<hr/>	<hr/>
Cash Inflow Before Equity Dividends Paid		6	58,000
Equity Dividends Paid		-	(58,000)
		<hr/>	<hr/>
Increase in Cash		6	-
		<hr/>	<hr/>

ARCO British International Inc.

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 1998

1. ACCOUNTING POLICIES

Basis of Preparation of the Financial Statements

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom.

The Company has taken advantage of exemptions available under The Oversea Companies (Accounts) (Modifications and Exemptions) Order 1990.

The financial statements are prepared in accordance with the historical cost convention.

Deferred Taxation

Deferred corporation tax is provided for using the liability method, on all material timing differences to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

Basis of Foreign Currency Transition

Foreign currency assets and liabilities are translated into sterling at year end exchange rates. Revenue and expense items are translated at monthly rates of exchange prevailing during the year. All foreign exchange differences are taken to the profit and loss account in the year they arise.

2. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

This is stated after charging :

	1998 £000	1997 £000
Auditors' remuneration	4	4

ARCO British International Inc.

NOTES TO THE FINANCIAL STATEMENTS *continued* AT 31 DECEMBER 1998

3. **EMPLOYEE INFORMATION**

The Company has no employees.

The aggregate directors' emoluments were as follows:

	1998 £000	1997 £000
Other emoluments	7	6
	<hr/>	<hr/>

4. **TAXATION**

	1998 £000	1997 £000
UK Corporation tax	22	-
	<hr/>	<hr/>

5. **INVESTMENTS**

	1998 £000	1997 £000
At 1 January	492,911	492,911
Acquired during the year	-	-
	<hr/>	<hr/>
At 31 December 1998	492,911	492,911
	<hr/>	<hr/>

6. **DEBTORS**

	1998 £000	1997 £000
Amounts Due from Parent Company and Fellow Subsidiaries	1,193	6,268
Prepayments and accrued income	11	129
	<hr/>	<hr/>
	1,204	6,397
	<hr/>	<hr/>

ARCO British International Inc.

NOTES TO THE FINANCIAL STATEMENTS *continued* AT 31 DECEMBER 1998

7. CREDITORS - AMOUNTS FALLING DUE WITHIN ONE YEAR

	1998 £000	1997 £000
ACT payable	-	5,075
Corporation tax	-	56
Amounts owed to parent company and subsidiaries	175	247
	<hr/>	<hr/>
	175	5,378
	<hr/>	<hr/>

8. CREDITORS - AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	1998 £000	1997 £000
Amounts owed to parent company	267,414	267,414
	<hr/>	<hr/>

The intercompany loans are all interest free and are repayable by the Company.

9. SHARE CAPITAL

AUTHORISED:

100,000 Shares of Common Stock of \$10,000 each

ALLOTTED, CALLED UP AND FULLY PAID:

	1998 £000	1997 £000
18,029.758 Shares of Common Stock of \$10,000 each	121,007	121,007
	<hr/>	<hr/>

ARCO British International Inc.

NOTES TO THE FINANCIAL STATEMENTS *continued* AT 31 DECEMBER 1998

10. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	1998 £000	1997 £000
Profit for the Financial Year	16	57,980
Dividends	-	(58,000)
	<hr/> 16	<hr/> (20)
<i>Opening Shareholders' Funds</i>	226,572	226,592
	<hr/>	<hr/>
<i>Closing Shareholders' Funds</i>	226,588	226,572
	<hr/>	<hr/>

11. RECONCILIATION OF OPERATING LOSS TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	1998 £000	1997 £000
Operating Loss	(12)	(184)
Foreign exchange loss	-	(1)
<i>Changes in Working capital :</i>		
Debtors	5,193	8,371
Creditors	(106)	(8,351)
	<hr/>	<hr/>
Net Cash Inflow/(Outflow) from Operating Activities	5,075	(165)
	<hr/>	<hr/>

ARCO British International Inc.

NOTES TO THE FINANCIAL STATEMENTS *continued* AT 31 DECEMBER 1998

12. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	1998 £000	1997 £000
Increase in cash in the period	6	-
Change in net debt	-	-
Net funds at 1 January	56	56
Net funds at 31 December	62	56

13. GROSS CASH FLOWS

	1998 £000	1997 £000
Returns on investments and servicing of finance		
Interest received	6	165
Dividends received	-	58,000
	6	58,165

14. ANALYSIS OF CHANGES IN NET DEBT

	At 1 Jan 1998 £000	Cash flows £000	Other Changes £000	At 31 Dec 1998 £000
Cash in hand, at bank	56	6	-	62
Total	56	6	-	62

ARCO British International Inc.

NOTES TO THE FINANCIAL STATEMENTS *continued* **AT 31 DECEMBER 1998**

15. CAPITAL COMMITMENTS

At 31 December 1998, the Company had no capital commitments (1997: *£nil*).

16. RELATED PARTY TRANSACTIONS

In accordance with FRS 8, Related Party Disclosures, the Company is exempt from disclosing transactions with entities that are part of the group, as it is a wholly owned subsidiary of a parent publishing consolidated financial statements.

17. ULTIMATE HOLDING COMPANY

ARCO British International Inc. is incorporated with limited liability in the state of Delaware, USA. The Company is an indirect wholly owned subsidiary of Atlantic Richfield Company, incorporated in the USA. Atlantic Richfield Company is the ultimate controlling party.

Copies of the parents' consolidated financial statements may be obtained from 515 South Flower Street, Los Angeles, California 90071-2256.