

**BG International Limited**  
**(Formerly BG Exploration and Production Limited)**

**Directors' Report and Financial Statements**

**For the year ended 31 December 1998**



**Company Registration Number: 902239**

**BG International Limited**

**Directors' report and Financial Statements  
for the year ended 31 December 1998**

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# **BG International Limited**

## **Directors' report for the year ended 31 December 1998**

The Directors submit their report and the audited financial statements for the year ended 31 December 1998.

### **Principal activities**

The principal activities of the Company are the exploration for and production of oil and gas hydrocarbons in the United Kingdom and overseas, which for the purposes of the Companies Act 1985, constitutes one class of business.

### **Review of business**

On 13<sup>th</sup> July 1999 the Company changed its name to BG International Limited from BG Exploration and Production Limited.

1998 was a successful year for BG International Ltd. The company substantially increased gas and oil production and reduced unit costs offsetting the impact of sharply lower oil prices. Turnover increased by 26% during the year to £589 million (1997 £469 million). Operating Profit increased to £124 million (1997 £102 million). Profit on ordinary activities before tax amounted to £124 million (1997 £192 million).

#### United Kingdom Continental Shelf and Ireland

The United Kingdom Continental Shelf (UKCS) remains a core area of activity for BG International Limited. BG International Ltd's principal UKCS production area is the central sector of the North Sea comprising interests in the Armada, Everest, Lomond and J-Block fields. These deliver hydrocarbons to Teesside through the Central Area Transmission System (CATS) pipeline, in which BG International Ltd is the largest equity holder. BG International Ltd's two other principal production areas are the Brae area in the northern sector and fields supplying to Bacton and Easington in the southern gas basin.

Armada contributed some 14.8 mmboe in its first full year of production (1997 3.0 mmboe). The J Block fields completed their first full year of production following settlement in June 1997 of the dispute with the gas buyer, Enron.

During 1998 the capacity of the CATS terminal was expanded and a further onshore processing train was commissioned in March 1998. There has been a legal dispute with Teesside Gas Transportation Limited (TGTL), a wholly owned subsidiary of Enron, regarding the commencement date under the CATS Capacity Reservation and Transportation Agreement. On 30<sup>th</sup> July 1999 the Court of Appeal ruled in favour of TGTL's appeal against the original 1997 CATS judgement. The Court of Appeal judgement has resulted in the payment by BG International Ltd to TGTL of £26 million together with £9.5 million of interest. The £26 million and some £8 million of the interest have been accrued for the period to 31<sup>st</sup> December 1998 and are reflected in the 1998 results.

In 1998, the largest UKCS investment was in the Elgin/Franklin joint field development, where drilling is ahead of schedule with 9 of the 12 production wells finished. Production is expected to

## **BG International Limited**

commence on schedule in the second half of 2000.

The first phase of the BG operated Easington Catchment Area (ECA) received consent from the UK Department of Trade and Industry in November 1998. ECA was one of the first projects to be approved under new government consultation requirements, involving publication of an Environmental Statement. The first phase of the project involves development of the Neptune and Mercury fields in the southern North Sea. Net gas reserves in the two fields are over 220 bcf.

The principal appraisal drilling activity was on the Blake oil discovery made in the outer Moray Firth in 1997. Three appraisal wells were drilled in 1998 completing the appraisal programme but project sanction has been delayed by low oil prices. Development options are being assessed for the Kate and Tornado oil discoveries in block 22/28a in the central North Sea, which were successfully appraised.

In the southern North Sea, the Brown gas discovery, which was drilled from the Davy Platform, received government consent and was brought onstream in December 1998 and the Bell gas discovery was approved for development in January 1999.

Offshore the Republic of Ireland, a seismic survey was acquired in a Rockall Trough Licence awarded in 1997. The results are being evaluated.

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In Egypt, two substantial gas discoveries, Scarab and Saffron, were made by BG as operator of the West Delta Deep Marine concession offshore the Nile Delta, in water depths of some 610 metres. Scarab was subsequently successfully appraised, bringing the total of consecutive successful exploration and appraisal wells drilled by BG International Ltd to eight in 1998 rising to eleven in 1999. Saffron was successfully appraised in 1999. Planning for development is underway with a view to production commencing in 2002.

In Indonesia, efforts focussed on identifying gas reserves as the basis for the proposed new Tangguh LNG scheme in Irian Jaya. BG International Ltd operates the Muturi block and in 1998 BG International Ltd completed one exploration and four appraisal wells in the Vorwata field which straddles the 3 blocks. Reserves of some 3.1 tcf of gas were independently certified in Muturi (1.6 tcf net to BG International Ltd). In total over 14tcf of gas was certified in the three blocks, with over 10tcf in Vorwata.

In Kazakhstan, the Karachaganak production sharing agreement (signed in November 1997) provides for a staged development of the field. In the first stage, production capacity is planned to rise to some 170,000 barrels of liquids per day and 500 mmscfd of gas in 2001, when the Caspian Pipeline Consortium (CPC) is planned to be available. Engineering design work is on schedule for submission of the field development plan in the second half of 1999 and construction is planned to commence towards the end of the year.

An important milestone for CPC was reached in November 1998, when the Russian government granted permits for the section of the line in Russia. Approvals for the upgrading of the Kazakhstan section were received in October 1998. BG International Ltd and its co-venturer Agip S.p.A each has rights to initial annual capacity entitlements of 2.75 million tonnes per year, some 60,000 barrels of liquids per day, which will be used for transporting production from the Karachaganak field.

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BG International Ltd's first equity production from the existing facilities started in January 1998. Production and revenues were adversely affected in 1998 by the economic crisis in Russia, the current principal market, which reduced demand and prices. Production was cut to levels consistent with these changed commercial conditions and savings in operating costs were achieved.

BG International Ltd's other production sharing agreement in Kazakhstan (also signed in November 1997) covers exploration of 11 blocks in the north Caspian Sea, close to the major Tengiz onshore oil field. Offshore Kazakhstan International Operating Company, (OKIOC), the joint operator has experienced delays in the major modifications needed to make the drilling barge fit for conditions in the north Caspian Sea. The first well commenced in August 1999. BG International Ltd holds 14.29% in the PSA. In Russia, the economic crisis also adversely affected the oil production operation of KomiArcticOil (KAO), an associate company in which BG International Ltd holds 50% equity. Development investments were deferred and operating costs significantly reduced. Permission to export all of KAO's scheduled production was granted from August 1998, valid until April 1999.

In Trinidad, BG International Ltd made two further gas discoveries as operator near to the producing Dolphin field, offshore in the East Coast Marine Area.

In Bolivia, a potentially significant gas condensate discovery was made by the deep exploration well Margarita X-1. An appraisal well commenced early in 1999 and gas marketing opportunities are being pursued.

## Directors

The following served as Directors during the year:

|                 | <u>Appointed</u>   | <u>Resigned</u>   |
|-----------------|--------------------|-------------------|
| F J Chapman     |                    |                   |
| M A H Brown     |                    |                   |
| D G Doughty     |                    |                   |
| T J Forbes      |                    |                   |
| R T Liddell     |                    | 1 June, 1999      |
| S C B Lucas     |                    | 30 November, 1998 |
| D Preston       |                    | 27 August, 1999   |
| P H Schwarz     |                    | 31 December, 1998 |
| S G C Sutcliffe | 30 June, 1998      |                   |
| B R Thornley    |                    |                   |
| E le M Trafford | 29 September, 1998 |                   |
| E T Walshe      |                    |                   |
| J C Wormley     | 1 December, 1998   |                   |

## Directors' interests

### Capital Re-organisation

Following the capital re-organisation of BG plc on 27 October 1997, shares were consolidated with shareholders receiving 15 new shares for every 17 old shares held, plus either a B share for every old share held or 30p, free of all dealing charges. All directors took the option of 30p per B share. However, shares in Trust also attracted B shares and those shares remain in Trust until

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16 December, 1998 when they were converted to Ordinary shares of the same value, using 389.85p as the value of Ordinary shares at the time of conversion.

### Mr F J Chapman

The interests of Mr F J Chapman, who is also a director of BG plc, in the shares of that company are set out in the BG plc director's report and accounts for 1998.

### Other Directors' Interests

At no time did any Director still holding office at 31 December 1998, have any beneficial interest in the shares of the Company or any other Company within the BG plc group except for those interests in the shares of the parent company, BG plc, stated below.

## Beneficial holdings

\* On appointment

|                  | <u>1.1.98</u>   | <u>1.1.98</u>          | <u>31.12.98</u>        |
|------------------|-----------------|------------------------|------------------------|
|                  | <u>B Shares</u> | <u>Ordinary Shares</u> | <u>Ordinary Shares</u> |
| M A H Brown      | 874             | 4,955                  | 4,946                  |
| D G Doughty      | -               | -                      | -                      |
| T J Forbes       | -               | -                      | 1,956                  |
| R T Liddell      | -               | -                      | 652                    |
| D Preston        | 929             | 6,147                  | 8,194                  |
| S G C Sutcliffe* | 471             | 10,416                 | 7,895                  |
| B R Thornley     | 942             | 24,807                 | 26,855                 |
| E le M Trafford* | -               | -                      | -                      |
| E T Walshe       | 471             | 2,375                  | 4,367                  |
| J C Wormley*     | 1,183           | 2,359                  | 2,794                  |

## Savings-related share options

\* on appointment

|                  | <u>1.1.98</u> | <u>Granted</u> | <u>Lapsed</u> | <u>Exercised</u> | <u>31.12.98</u> |
|------------------|---------------|----------------|---------------|------------------|-----------------|
| M A H Brown      | 8,271         | -              | -             | -                | 8,271           |
| D G Doughty      | -             | 4,062          | -             | -                | 4,062           |
| T J Forbes       | 7,169         | -              | -             | -                | 7,169           |
| R T Liddell      | -             | -              | -             | -                | -               |
| D Preston        | 12,683        | -              | -             | -                | 12,683          |
| S G C Sutcliffe* | 11,584        | -              | -             | -                | 11,584          |
| B R Thornley     | 12,683        | -              | -             | -                | 12,683          |
| E le M Trafford* | -             | -              | -             | -                | -               |
| E T Walshe       | 12,683        | -              | -             | -                | 12,683          |
| J C Wormley*     | -             | -              | -             | -                | -               |

## **Executive share option schemes**

\* On appointment

|                  | <u>1.1.98</u> | <u>Granted</u> | <u>Exercised</u> | <u>31.12.98</u> |
|------------------|---------------|----------------|------------------|-----------------|
| M A H Brown      | -             | -              | -                | -               |
| D G Doughty      | -             | -              | -                | -               |
| T J Forbes       | -             | -              | -                | -               |
| R T Liddell      | -             | -              | -                | -               |
| D Preston        | 21,430        | -              | -                | 21,430          |
| S G C Sutcliffe* | 21,961        | -              | -                | 21,961          |
| B R Thornley     | 67,481        | -              | -                | 67,481          |
| E le M Trafford* | -             | -              | -                | -               |
| E T Walshe       | 37,506        | -              | -                | 37,506          |
| J C Wormley*     | -             | -              | -                | -               |

All options were granted under the terms of the BG plc Executive Share Option Scheme or Savings Related Share Option Scheme, details of which are given in that company's annual report and accounts.

## **Long term incentive scheme**

| * on appointment | <u>1.1.98</u> | <u>Allocated</u> | <u>31.12.98</u> |
|------------------|---------------|------------------|-----------------|
| M A H Brown      | 59,475        | 27,517           | 86,992          |
| D G Doughty      | 38,389        | 31,381           | 69,770          |
| T J Forbes       | 58,264        | 29,063           | 87,327          |
| R T Liddell      | 38,389        | 31,381           | 69,770          |
| D Preston        | 40,508        | 11,542           | 52,050          |
| S G C Sutcliffe* | 51,372        | 11,620           | 62,992          |
| B R Thornley     | 46,336        | 12,212           | 58,548          |
| E le M Trafford* | 203,509       | 52,764           | 256,273         |
| E T Walshe       | 140,975       | 39,575           | 180,550         |
| J C Wormley*     | 35,420        | -                | 35,420          |

## **Review of results and dividend**

The results for the year are set out in the profit and loss account on page 10.

The Directors have authorised an interim dividend payment of £152 million for the year ended 31 December 1998 (1997: £nil). This was paid on 22<sup>nd</sup> December 1998.

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### **Year 2000**

Set against a backdrop where a culture of safety and security of operations is paramount, the Company is ensuring all relevant Year 2000 (Y2K) issues are addressed.

Formal programmes of work have been underway since 1997. The programmes have implemented a standard inventory analysis, remediation, test and implementation approach, together with contingency planning. Progress within that framework is monitored.

The programme has focussed on all operated and non-operated assets and the associated geophysical and business systems. Process control embedded chips are the key issue. The inventory of work is complete and remediation strategies have been identified and verified by third party specialists for key assets.

The total cost of the programme is difficult to assess since some investment programmes have been accelerated in order to resolve the programme, the costs being mitigated by earlier benefits. Direct costs of £4.974m were incurred in 1998 and it is anticipated that up to £5.14m will be spent in 1999.

While the company has been diligent in its approach to the issue and has significantly reduced the risk of business disruption, the complex web of internal and external business links means that it is prudent to have contingency plans. This is the main focus of activity in 1999. Existing business continuity plans are being revised and tested to deal with the key risks arising from the problem and we are working closely with external organisations to ensure alignment where necessary.

### **The euro**

BG International Ltd has little involvement with euro zone countries or currencies that are participants in EMU. Trading is principally in US Dollars and sterling. The introduction of the single currency on 1 January 1999 did not have a material effect on the company.

### **Policy on the payment of creditors**

The Company aims to pay all of its creditors promptly. For trade creditors, it is the Company's policy to:

- i) agree the terms of the payment at the start of business with that supplier;
- ii) ensure that suppliers are aware of the terms of payment; and
- iii) pay in accordance with contractual and other legal obligations.

The company had 6 days purchases outstanding as at 31st December 1998 (28 days 1997) based on the average daily amount invoiced by suppliers during the year.

### **Reserves**

The retained loss for the year after the dividend payment of £152million of £109,098,000 has been transferred from reserves (1997 - profit transferred to reserves: £71,571,000).

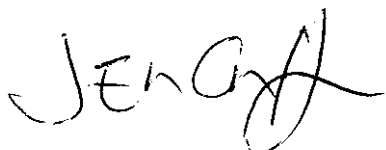


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### **Auditors**

As a result of the merger of Price Waterhouse and Coopers & Lybrand, Price Waterhouse resigned as the Company's auditors on 10 September 1998 and the Board appointed PricewaterhouseCoopers to fill the vacancy thus arising until the conclusion of the Annual General Meeting. PricewaterhouseCoopers have expressed their willingness to be re-appointed as Auditors of the Company.

By order of the Board



**John Edward Henry Griffin**  
**Secretary**

22 September,

1999

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### **Directors' Responsibilities Statement**

The Directors are required by the Companies Act 1985 to prepare financial statements, for each financial year, which 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 for the financial year.

The Directors consider that in preparing the financial statements on pages 10 to 24 the Company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates and that all accounting standards which they consider to be applicable have been followed.

The Directors have responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy the financial position of the Company and which enables them to ensure that the financial statements comply with the Companies Act 1985.

The Directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The Directors, having prepared the financial statements, have requested the auditors to take whatever steps and undertake whatever inspections they consider to be appropriate for the purpose of enabling them to give their audit report.

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### **Auditors' report to the members of BG International Limited**

We have audited the financial statements on pages 10 to 24 which have been prepared under the historical cost convention and the accounting policies set out on pages 12 to 15.

#### **Respective responsibilities of Directors and Auditors**

The Directors are responsible for preparing the Annual Report, including, as described on page 8, the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board and by 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 affairs of the Company as at 31 December 1998 and of the results for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

  
**PricewaterhouseCoopers**

Chartered Accountants  
and Registered Auditors  
London

Date: 22 September 1999

**Profit and loss account for the year ended 31 December 1998**

|   | Notes | 1998<br>£000     | 1997<br>(as restated) <sup>i</sup><br>£000 |
|---|-------|------------------|--|
| <b>Company Turnover</b>   | 3     | 589,328          | 469,476                                    |
| Operating costs   |       | (209,526)        | (125,928)                                  |
| Exploration expenditure   |       | (49,508)         | (80,550)                                   |
| Depreciation  |       | (206,203)        | (161,098)                                  |
| <b>Operating profit</b>   |       | <u>124,091</u>   | <u>101,900</u>                             |
| Profit on disposal of fixed assets  |       | 17,676           | 90,892                                     |
| Net interest payable  | 6     | <u>(18,064)</u>  | <u>(859)</u>                               |
| <b>Profit on ordinary activities before taxation</b>                                  | 4     | 123,703          | 191,933                                    |
| Taxation  | 7     | (80,801)         | (120,362)                                  |
| <b>Profit on ordinary activities after taxation and profit for the financial year</b> |       | <u>42,902</u>    | <u>71,571</u>                              |
| Dividend on equity shares   |       | (152,000)        | -  |
| <b>Retained (loss) / profit for the year</b>  | 17    | <u>(109,098)</u> | <u>71,571</u>                              |

The results for the year are derived solely from continuing operations.

There are no recognised gains and losses other than those reported in the profit and loss account. The adoption of Financial Reporting Standard 12, "Provisions, Contingent Liabilities and Contingent Assets", has increased brought forward reserves by £32,111,000. There is no difference between the historical cost profits and losses and the results presented.

The notes on pages 12 to 24 form part of these financial statements.

<sup>i</sup> See note 2, page 12

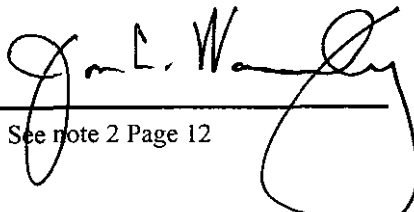
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## Balance sheet at 31 December 1998

|   | Notes | 1998<br>£000     | 1997<br>(as restated) <sup>i</sup><br>£000 |
|---|-------|------------------|--|
| <b>Fixed assets</b>   |       |                  |  |
| Intangible assets   | 8     | 163,575          | 69,854                                     |
| Tangible assets   | 9     | 1,293,496        | 1,329,351                                  |
| Investments in subsidiary undertakings                          | 10    | 376,320          | -  |
| Investments in associated undertakings                          | 10    | 31,659           | 31,655                                     |
|   |       | <u>1,865,050</u> | <u>1,430,860</u>                           |
| <b>Current assets</b>   |       |                  |  |
| Stocks  | 11    | 9,617            | 6,058                                      |
| Debtors   | 12    | 1,808,235        | 1,916,035                                  |
| Cash at bank and in hand  |       | 2,274            | 5,043                                      |
|   |       | <u>1,820,126</u> | <u>1,927,136</u>                           |
| <b>Creditors (amounts falling due within one year)</b>          | 13    | (1,652,808)      | (1,277,237)                                |
| <b>Net current assets</b>                                       |       | <u>167,318</u>   | <u>649,899</u>                             |
| <b>Total assets less current liabilities</b>                    |       | 2,032,368        | 2,080,759                                  |
| <b>Creditors (amounts falling due after more than one year)</b> | 14    | (77,763)         | (79,222)                                   |
| <b>Provisions for liabilities and charges</b>                   | 15    | <u>(262,911)</u> | <u>(200,745)</u>                           |
| <b>Net assets</b>   |       | <u>1,691,694</u> | <u>1,800,792</u>                           |
| <b>Capital and reserves</b>                                     |       |                  |  |
| Called up share capital   | 16    | 1,688,110        | 1,688,110                                  |
| Profit and loss account   | 17    | 3,584            | 112,682                                    |
| <b>Equity shareholder's funds</b>                               | 18    | <u>1,691,694</u> | <u>1,800,792</u>                           |

The financial statements on pages 10 to 24 were approved by the Board of Directors on 22nd September, 1999 and were signed on its behalf by:

**Jon C Wormley**  
Director

  
<sup>i</sup> See note 2 Page 12

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## **Notes to the financial statements**

### **1 Ultimate parent company**

BG plc, a company registered in England and Wales is the immediate and ultimate holding company. BG plc has a 100% interest in the equity capital of BG International Limited.

Copies of the parent company's consolidated accounts can be obtained from BG plc, 100 Thames Valley Park Drive, Reading, Berkshire, RG6 1PT.

### **2 Principal accounting policies**

The financial statements have been prepared in accordance with applicable accounting standards. A summary of the more important accounting policies, which have been applied consistently, is set out below.

#### **Basis of accounting**

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

Where the Company has entered into joint operating agreements with other companies to participate in exploration, development and production activities, the Company records the expenditure incurred by the operator in respect of the Company's share in each licence group and includes its share of the capital commitments arising from the joint operations.

#### **Restatement of prior period**

In September 1998 the Accounting Standards board issued Financial Reporting Standard 12 (FRS 12): 'Provisions, Contingent Liabilities and Contingent Assets'. In accordance with FRS 12, full provision has been made for the net present value of the Company's decommissioning costs. Previously the provision for decommissioning costs had been built up on a unit of production basis. An asset has been recognised in respect of decommissioning costs. The unwinding of the discount is included in the profit and loss account as a financial item and is added to the net interest charge (see note 6, page 16). The implementation of FRS 12 has increased tangible fixed assets as at 31 December 1997 by £30,777,000 and decreased provisions for liabilities and charges as at 31 December 1997 by £1,434,000. The effect on reserves in respect of prior years is an increase of £32,211,000 as at 31 December 1997 and the effect on 1997 results is to increase operating profit by £8,853,000 and to increase the interest charge by £5,700,000. The effect on current year results is to increase operating profit by £12,300,000 and to increase the interest charge by £8,967,000.

#### **Exemptions**

The Company has taken advantage of the exemptions available to wholly owned UK subsidiaries under Financial Reporting Standard No.1 (Revised) "Cash Flow Statements", and accordingly has not prepared a cash flow statement; and within Financial Reporting Standard No.8 "Related Party Disclosures" from disclosure of

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transactions with other group companies.

The company has taken advantage of the exemption available under S228 Companies Act 1985, and accordingly has not prepared consolidated financial statements for the year ended 31 December 1998.

### **Intangible fixed assets**

In accordance with the successful efforts method of accounting, the costs of licence acquisition and exploration wells are capitalised as intangible assets pending determination of whether the well has found proved reserves. Unless the well is determined to have found proved reserves which can be developed economically using existing technology, the costs are written off to the profit and loss account. All other exploration costs are charged to the profit and loss account when incurred.

### **Tangible fixed assets**

Tangible fixed assets are stated at historic cost less accumulated depreciation, representing their value to the business.

Depreciation is calculated so as to write off the cost of tangible fixed assets, less their estimated residual values, over the expected useful economic lives of the assets concerned.

Expenditure on the exploration and development of hydrocarbon reserves is not depreciated until such time as commercial production commences from the field concerned.

When production has commenced, the historic cost of exploration and development expenditure is depreciated on a throughput basis by reference to the volume of hydrocarbons produced each year from the fields, compared with the total proved developed reserves of those fields. The costs of acquisition of exploration and development properties are depreciated on a throughput basis by reference to the total proved reserves of the fields concerned. The effects of revisions to reserve estimates are accounted for prospectively.

Other tangible assets are depreciated in equal annual instalments at rates calculated to write off the assets on a straight-line basis over their estimated useful lives as follows:

Leasehold buildings and improvement - the shorter of the lease term and fifty years

Furniture, fittings, office equipment and motor vehicles - five years

### **Finance and operating leases**

Costs in respect of operating leases are charged on a straight-line basis over the lease term.

Leasing arrangements, which transfer to the Company substantially all the benefits and risks of ownership of an asset are treated as if the asset had been purchased outright.

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The assets are included in fixed assets and the capital element of the leasing commitments is shown as obligations under finance leases. The lease rentals are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligations and the interest element is charged against profit in proportion to the reducing capital element outstanding. Assets held under finance leases are depreciated over the shorter of the lease term and the useful lives of equivalent owned assets.

### **Stocks**

Stocks are valued at weighted average historical cost less provision for obsolescence and deterioration.

### **Take or pay gas**

A number of other companies contract to purchase a given volume of gas from the Company each year. In any year when the contracted volume is not taken, they are obliged to pay the Company the full contractual value. In subsequent years, the Company is required to deliver this volume of gas, without payment, when the volume of gas taken by the purchaser equals or exceeds the contract volume.

Credit is taken in the profit and loss account for the sale of the gas, at the original contract price, when it is delivered.

### **Government grants**

Grants that relate to specific capital expenditure are treated as deferred income, which is then credited to the profit and loss account over the useful life of the related asset. Other grants are credited to the profit and loss account when received.

### **Decommissioning costs**

Operators of oil and gas fields on the United Kingdom Continental Shelf are required to remove installations to the extent considered acceptable to the Department of Trade and Industry.

Provision is made for the net present value of the estimated cost of decommissioning at the end of producing lives of fields. When this provision gives access to future economic benefits an asset is recognised; otherwise the provision is charged to the profit and loss account. The unwinding of the discount is reported in the profit and loss account as a financial item and is added to the net interest charge.

### **Deferred taxation**

Provision is made for deferred corporation tax, in respect of accelerated capital allowances and other timing differences, to the extent that it is probable that a liability or asset will crystallise.

Provision is made on a unit of production basis for petroleum revenue tax expected to



## BG International Limited

arise in the foreseeable future. Changes in estimates are dealt with prospectively.

### Foreign currencies

Transactions in foreign currencies are translated into sterling at the rates of exchange ruling at the date of the transaction. Foreign currency monetary assets and liabilities are translated into sterling at the rates of exchange ruling at the balance sheet date. Differences arising from changes in exchange rates are taken to the profit and loss account in the year in which they arise.

## 3 Turnover

Turnover, which excludes value added tax and is stated gross of royalties, represents amounts receivable for sales of hydrocarbons and tariff income as follows:

|   | 1998<br>£000   | 1997<br>£000   |
|---|----------------|----------------|
| Gas, condensate and liquified petroleum gas | 399,904        | 245,365        |
| Oil   | 100,265        | 113,353        |
| Tariff income                               | 89,159         | 110,758        |
|   | <u>589,328</u> | <u>469,476</u> |

## 4 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after accounting for:

|   | 1998<br>£000 | 1997<br>Re-stated<br>£000 |
|---|--------------|---------------------------|
| Historic cost depreciation charge for the year: |              |                           |
| Tangible owned fixed assets                     | 206,203      | 161,098                   |
| Auditors' remuneration for:                     |              |                           |
| Audit services                                  | 153          | 155                       |
| Non audit services                              | 46           | 43                        |
| Charges under operating leases:                 |              |                           |
| Land and Buildings                              | 725          | 611                       |

The Company has no employees and the ultimate parent company and a fellow group undertaking make charges for the service of their employees engaged on the Company's business.

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### 5 Directors' emoluments

|                               | 1998         | 1997         |
|-------------------------------|--------------|--------------|
|                               | £000         | £000         |
| Emoluments                    | 1,176        | 774          |
| Performance bonuses           | 122          | 94           |
| Pension scheme contributions  | 42           | 20           |
| Payments to retiring Director | -            | 136          |
|                               | <u>1,340</u> | <u>1,024</u> |

The Directors were employed as officers of either BG plc or other companies within the BG group and this note discloses the proportion of their total emoluments received in connection with their services to the Company.

12 of the 13 directors who served during the year are members of the BG Staff Pension Scheme. This scheme is of the defined benefit final salary type. The remaining director is a participant in the Company's USA Defined Contribution Plan (401K).

The highest paid director was Mr F J Chapman. The pension contributions for the year and the value of the pension contributions accruing for Mr F J Chapman are detailed in the BG plc accounts.

### 6 Net interest (payable)/receivable

|   | 1998            | 1997              |
|---|-----------------|-------------------|
|   | £000            | Re-stated<br>£000 |
| Interest payable:   |                 |                   |
| On bank loans, overdrafts and other loans, repayable within 5 years, not by instalments | (1,974)         | (265)             |
| Interest payable to subsidiary  | (12,164)        | -                 |
| Interest payable on legal judgement   | (8,266)         | -                 |
| Unwinding of discount   | (8,967)         | (5,700)           |
| Interest receivable   | 1,754           | 5,783             |
| Interest receivable from subsidiary   | 12,107          | -                 |
| Foreign exchange losses   | (554)           | (677)             |
|   | <u>(18,064)</u> | <u>(859)</u>      |

Foreign exchange losses or gains relating to financing arrangements are disclosed as interest payable or receivable.

The interest payable to subsidiary is calculated on an intercompany loan from Alie Investments Limited. The interest receivable from subsidiary is based on perpetual loan notes issued by Alie Investments Limited. The loan notes were redeemed on 25<sup>th</sup> June 1999 and new shares issued by Alie Investments (See Note 10 Investments page 19).

The interest payable on legal judgement is as a result of the Court of Appeal's decision on 30<sup>th</sup> July 1999 in favour of TGTL concerning the CATS Capacity Reservation and Transportation Agreement.

## **7 Taxation on ordinary activities**

|  | <b>1998</b>     | <b>1997</b>      |
|--|-----------------|------------------|
|  | <b>£000</b>     | <b>£000</b>      |
| <b>United Kingdom corporation tax at 31 % (1997: 31.5%)</b>    |                 |                  |
| Current  | (68,617)        | (127,608)        |
| Group Relief   | 40,397          | 19,485           |
| Deferred (note 15)   | (44,157)        | 52,049           |
| Under provision in respect of prior years                      | (10,661)        | (300)            |
| <b>United Kingdom petroleum revenue tax at 50% (1997: 50%)</b> |                 |                  |
| Current  | 5,127           | (9,299)          |
| Deferred (note 15)   | (2,890)         | (54,687)         |
| <b>Overseas Tax</b>  | -               | (2)              |
|  | <u>(80,801)</u> | <u>(120,362)</u> |

## **8 Intangible assets**

|                                       | <b>Unproved Properties</b> |
|---------------------------------------|----------------------------|
|                                       | <b>£000</b>                |
| At 1 January 1998                     | 69,854                     |
| Additions                             | 116,182                    |
| Disposals                             | (207)                      |
| Transfers to tangible assets (note 9) | (11,576)                   |
| Unsuccessful exploration expenditure  | (10,678)                   |
| At 31 December 1998                   | <u>163,575</u>             |

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## 9 Tangible assets

|   | Proved oil &<br>gas<br>properties<br>£000 | Other<br>£000 | Total<br>Cost<br>£000 |
|---|---|---------------|-----------------------|
| At 1 January 1998 restated                  | 2,004,496                                 | 51,866        | 2,056,362             |
| Development expenditure                     |   |               |                       |
| Additions                                   | 163,717                                   | 2,619         | 166,336               |
| Transfer from intangible assets<br>(note 8) | 11,576                                    | -             | 11,576                |
| Disposals                                   | (14,322)                                  | (32)          | (14,354)              |
| At 31 December 1998                         | <u>2,165,467</u>                          | <u>54,453</u> | <u>2,219,920</u>      |
| <b>Accumulated depreciation</b>             |   |               |                       |
| At 1 January 1998 restated                  | 679,298                                   | 47,713        | 727,011               |
| Provision for the year                      | 204,143                                   | 2,060         | 206,203               |
| Disposals                                   | (6,790)                                   | -             | (6,790)               |
| At 31 December 1998                         | <u>876,651</u>                            | <u>49,773</u> | <u>926,424</u>        |
| <b>Net book value</b>                       |   |               |                       |
| At 31 December 1998                         | <u>1,288,816</u>                          | <u>4,680</u>  | <u>1,293,496</u>      |
| At 31 December 1997 restated                | <u>1,325,198</u>                          | <u>4,153</u>  | <u>1,329,351</u>      |

The net book value of the decommissioning asset is £24,725,000 (1997:£30,777,000)

## 10 Investments

### Investments in subsidiaries

|                  | 1998<br>£000   | 1997<br>£000 |
|------------------|----------------|--------------|
| Alie Investments | 376,320        | -            |
|                  | <u>376,320</u> | <u>-</u>     |

### Investments in Associates

|  | 1998<br>£000  | 1997<br>£000  |
|--|---------------|---------------|
| KomiArcticOil JSC – associate          | 31,655        | 31,655        |
| Karachaganak Petroleum Operating<br>BV | 4             | -             |
|  | <u>31,659</u> | <u>31,655</u> |

## **BG International Limited**

The principal subsidiaries and associated undertakings at 31<sup>st</sup> December 1998 and their activities are as follows:

### **Alie Investments Limited**

Alie Investments Limited, a financing company, was acquired by BG International Ltd on 30<sup>th</sup> June 1998. BG International Ltd owns 100% of the equity share capital which comprises 28,000,000 shares of nominal value of £1 each and £369,881,800 of interest bearing perpetual loan notes. On 25<sup>th</sup> June 1999 the perpetual loan notes were redeemed and new £1 shares issued. BG International Limited now owns 397,881,800 shares of nominal value of £1.

### **Karachaganak Petroleum Operating BV**

This company was incorporated in July 1998 and a branch established in Kazakhstan in October 1998. The purpose of the company is to operate and develop the Karachaganak field on behalf of and for the account of the Contractors under the FPSA effective 27<sup>th</sup> January 1998. BG International Ltd have 32.5% of the share capital and hold 6500 shares of nominal value of 10 Netherlands Guilders each.

### **Karachaganak Project Development Limited**

This company was established in August 1998. The objectives of the company are to provide project development, planning, engineering and procurement services for the Karachaganak Petroleum Operating BV. This is carried out under a service agreement between the two companies. As at 31<sup>st</sup> December 1998, BG International Ltd held 2 shares of nominal value of £1 each which represent 50% of the share capital.

### **BG Karachaganak Limited**

This is a 100% owned company which has been set up to hold the Karachaganak asset in future. The date for transferring the asset from BG International Ltd to this company has not yet been finalised. BG International Ltd holds 2 shares of nominal value of £1 each which represent 100% of the share capital.

### **BG Karachaganak Distribution LLP**

This is a 100% owned Kazakh Legal entity which has been set up to act as agent (under an agency agreement) to market Karachaganak product to the Russian Market. This service has been extended to the other contractors under an agreement, which extends to 31 December 1999. The company was registered in October 1998 and has a Board of four BG personnel. The company cannot sign or make any sales without approval of the Karachaganak Joint Marketing Committee consisting of 50% Kazakh Representation and 50% Contractor representation. BG International Ltd hold 3250 shares of nominal value of 1 Kazakhstan Tenge each.

### **Offshore Kazakhstan International Operating Company (OKIOC)**

OKIOC is the operating company for the North Caspian Sea. BG International Ltd owns 14.29% of the shares in OKIOC and the shares were acquired on 18<sup>th</sup> December 1998. BG International Ltd holds 15000 shares of nominal value of 1 Netherlands Guilders each.

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### KGK Services Ltd

This company is 99.9% owned by BG International Ltd and was set up for the Karachaganak project. BG International Ltd hold 999 shares of nominal value of 1 Cyprus Pound each. It had not commenced trading as at 31<sup>st</sup> December 1998.

### BG Gas Services Ltd

BG Gas Services was acquired on 20<sup>th</sup> January 1999 and holds a gas shipping license. BG International Ltd own 100% of the share capital and this comprises of 2 shares nominal value of £1 each.

### KomiArcticOil JSC

Investment in associate undertaking represents a 50% share in the equity of KomiArcticOil, a joint stock company registered in the Komi Republic of Russia. The investment is carried at cost (Company share of net equity £31.298 million [1997: £44.527 million]). The Directors do not view the net equity figure (£31.298 million) as reflecting a permanent impairment of the investment.

KomiArcticOil is involved in the appraisal and development of the Upper Vozey Field, which is located in the Komi Republic, Russia. KomiArcticOil has negotiated a financing package with the European Bank of Reconstruction and Development for ongoing field development. As part of the securities documentation BG International Limited has signed a pledge of its shares in KomiArcticOil JSC.

## 11 Stocks

|                               | 1998<br>£000 | 1997<br>£000 |
|-------------------------------|--------------|--------------|
| Raw materials and consumables | <u>9,617</u> | <u>6,058</u> |

## 12 Debtors

|  | 1998<br>£000     | 1997<br>£000     |
|--|------------------|------------------|
| Amounts falling due within one year:           |                  |                  |
| Trade debtors                                  | 78,426           | 72,110           |
| Amounts owed by fellow subsidiary undertakings | 1,657,116        | 1,812,749        |
| Other debtors                                  | 5,846            | 3,601            |
| Prepayments and accrued income                 | 66,847           | 27,575           |
|  | <u>1,808,235</u> | <u>1,916,035</u> |

**13 Creditors (amounts falling due within one year)**

|  | <b>1998</b>      | <b>1997</b>      |
|--|------------------|------------------|
|  | <b>£000</b>      | <b>£000</b>      |
| Trade creditors  | 2,577            | 6,628            |
| Due to parent company and fellow subsidiary undertakings | 1,181,050        | 758,869          |
| Corporation tax  | 306,709          | 346,535          |
| Other creditors  | 10,543           | 25,408           |
| Accruals and deferred income                             | 151,929          | 139,797          |
|  | <u>1,652,808</u> | <u>1,277,237</u> |

**14 Creditors (amounts falling due after more than one year)**

|                 | <b>1998</b>   | <b>1997</b>   |
|-----------------|---------------|---------------|
|                 | <b>£000</b>   | <b>£000</b>   |
| Loan            | 14,686        | 1,920         |
| Deferred Income | 63,077        | 77,302        |
|                 | <u>77,763</u> | <u>79,222</u> |

The loan is for the purpose of funding a feeder pipeline in the North Sea. The loan is equal to the total of BG International Ltd ownership share of all relevant cash calls. The loan was scheduled to be repaid in 84 monthly repayments from the earlier of the completion of the Production Test and 31st January 2001. Interest accrued at 7% per annum. The Loan was repaid in full in February 1999.

**15 Provisions for liabilities and charges**

|                            | <b>Deferred Taxation</b> | <b>Decommissioning</b> | <b>Other</b> | <b>Total</b>   |
|----------------------------|--------------------------|------------------------|--------------|----------------|
|                            | <b>£000</b>              | <b>£000</b>            | <b>£000</b>  | <b>£000</b>    |
| At 1 January 1998 restated | 110,856                  | 89,889                 | -            | 200,745        |
| Use of provision           | -                        | (477)                  | -            | (477)          |
| Disposal of site           | -                        | (398)                  | -            | (398)          |
| Unwinding of discount      | -                        | 6,794                  | -            | 6,794          |
| Additional provisions      | 47,047                   | -                      | 9,200        | 56,247         |
| At 31 December 1998        | <u>157,903</u>           | <u>95,808</u>          | <u>9,200</u> | <u>262,911</u> |

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### Deferred Tax

The Deferred Taxation Provisions comprise:

|  | 1998<br>£000   | 1997<br>£000   |
|--|----------------|----------------|
| Accelerated capital allowances                                       | 120,554        | 64,286         |
| Net Provisions for liabilities allowable for tax in future years     | (9,321)        | 2,790          |
| Other timing differences   |                |                |
| Deferred petroleum revenue tax net of related corporation tax relief | 46,670         | 43,780         |
|  | <u>157,903</u> | <u>110,856</u> |

### Potential deferred taxation liabilities

The major components of potential deferred corporation tax not provided, calculated at 31% (1997 - 31%) are as follows:

|  | 1998<br>£000   | 1997<br>£000   |
|--|----------------|----------------|
| Accelerated capital allowances                               | 182,259        | 175,248        |
| Provisions for liabilities allowable for tax in future years | (38,042)       | (59,356)       |
|  | <u>144,217</u> | <u>115,892</u> |

### Decommissioning costs

The estimated cost of decommissioning at the end of the producing lives of fields is based on engineering estimates and reports from independent experts. Provision is made for the estimated cost of decommissioning at the balance sheet date. The payment dates of total expected future decommissioning costs is uncertain, but are currently anticipated to be between 2000 and 2019.

### Other

Relates primarily to the estimated liability of unrecoverable amounts on a long-term rig contract.

## 16 Called up share capital

|                                   | 1998<br>£000     | 1997<br>£000     |
|-----------------------------------|------------------|------------------|
| <b>Ordinary shares of £1 each</b> |                  |                  |
| Authorised                        | <u>3,000,000</u> | <u>3,000,000</u> |
| Allotted and fully paid           | <u>1,688,110</u> | <u>1,688,110</u> |



## BG International Limited

### 17 Reserves

|  | <b>Profit &amp; Loss<br/>account<br/>£000</b> |
|--|---|
| Balance at 1 January 1998 as previously reported                               | 80,471  |
| Adjustment in respect of change in accounting policy ( see note 2<br>page 12 ) | 32,211  |
| As restated  | <u>112,682</u>                                |
| Transfer from profit and loss account for the year                             | (109,098)                                     |
| Balance at 31 December 1998  | <u>3,584</u>                                  |

### 18 Reconciliation of movements in shareholders' funds

|  | <b>1998<br/>£000</b> | <b>1997<br/>£000</b> |
|--|----------------------|----------------------|
| Opening shareholders' funds as<br>previously reported                          | 1,768,581            | 1,700,163            |
| Adjustment in respect of change in<br>accounting policy ( see note 2 page 12 ) | 32,211               | 29,058               |
| Opening shareholders' funds restated   | <u>1,800,792</u>     | <u>1,729,221</u>     |
| (Loss) / profit transferred  | (109,098)            | 71,571               |
| Closing shareholders' funds  | <u>1,691,694</u>     | <u>1,800,792</u>     |

### 19 Capital commitments and contingencies

#### (a) Capital Expenditure

|                                | <b>1998<br/>£000</b> | <b>1997<br/>£000</b> |
|--------------------------------|----------------------|----------------------|
| In respect of contracts placed | <u>145,246</u>       | <u>204,977</u>       |

#### (b) Contingent Liabilities

##### Future Well Costs

It is a condition of the licences received by the consortia, in which the Company is a participant, that a well or wells should be drilled in each licence area during the period for which the licence is issued. The Company's share of the estimated future costs of drilling such wells amounted to £72,400,000 at 31 December 1998 (1997: £51,540,000) for which no provision has been made in the financial statements.

**20 Commitments under operating leases**

As at 31 December 1998 the company was committed to making the following payments on land and buildings operating leases during the year ended 31 December 1999:

|                             | <b>1998</b> | <b>1997</b> |
|-----------------------------|-------------|-------------|
|                             | <b>£000</b> | <b>£000</b> |
| Lease commitments expiring: |             |             |
| Between one and five years  | 80          | -           |
| After five years            | 645         | 611         |
|                             | <u>725</u>  | <u>611</u>  |

Other operating lease commitments are as follows

|                             | <b>1998</b> | <b>1997</b> |
|-----------------------------|-------------|-------------|
|                             | <b>£000</b> | <b>£000</b> |
| Lease commitments expiring: |             |             |
| Within one year             | 482         | -           |
| After five years            | 96          | 74          |
|                             | <u>578</u>  | <u>74</u>   |