Year 2000 Problem Financial Statement Disclosures of Oil and Gas Companies

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The scope and magnitude of the Year 2000 problem, commonly perceived as only affecting mainframe legacy systems, actually extends much farther. The Year 2000 problem potentially affects packaged software, operating systems, customized applications, and embedded systems in buildings and equipment, including elevators, bank vaults, security systems, heating controls, navigational systems, medical devices, telephone systems, and many other systems. Any computer system that makes use of dates—and that is most of them—is potentially at risk.

A prominent consulting organization, the Gartner Group, estimates that organizations worldwide will spend between $300 and $600 billion on Year 2000 conversion. In terms of individual organizations, Chase Manhattan Corp. will reportedly spend $250 million on its Year 2000 conversion efforts; American Airlines, $100 million; and GTE, $150 million (Bergen 1997). A study sponsored by the Society of Information Management (SIM) Year 2000 Working Group found that organizations on average were spending about 38% of their annual information systems operating budgets in 1997 on the Year 2000 problem (Kappelman et al. 1998).

The Year 2000 problem is also expected to have a negative impact on the economy. Unlike some systems development projects that may improve efficiency or lead to competitive advantage, addressing the Year 2000 problem is a systems maintenance expense that a company must bear just to stay in business. A Standard and Poor's DSI study commissioned by *Business Week* projected that the Year 2000 problem will lead to lower economic growth, lower productivity, and higher inflation. This study estimated that the economic growth rate of the United States will be 0.3 percent lower in 1999 and 0.5 percent lower in 2000 and early 2001 due to the diversion of resources to fix the Year 2000 problem (Mandel 1998).

The lack of a timely response to the Year 2000 problem can result in systems errors that lead to financial losses or even potentially to business failure. Beyond an organization itself, systems that are not Year-2000-ready could harm a company's trading partners. Since many enterprises today are linked through extended supply chains with their vendors, suppliers, customers, and other parties, non-Year-2000-ready systems could corrupt the systems of other organizations with which a company exchanges data. This may result in various problems such as improper billings, unavailability of parts and supplies, and stalled production. Malfunctioning hardware/software that controls facilities such as chemical plants could also potentially cause environmental damage and pose a threat to health and safety.

Year 2000 Legal Concern

Lawsuits arising from the Year 2000 problem have already begun. For example, class-action lawsuits seeking damages have been filed against software vendors such as Software Business Technologies and Symantec, alleging that they required customers to purchase Year 2000-compliant software upgrades instead of providing them for free like other vendors (Mukherjee 1997; *Reuters News Wire* 1998).

In another case that gained media attention, Produce Palace, a Michigan grocery store, sued its cash register vendors because the systems they sold did not accept credit cards expiring in the Year 2000 (Hamilton and Springen 1998). As a result, Produce Palace allegedly experienced more than 100 system crashes that led to lost business and customer goodwill (*Century Date Program News* 1997). This suit was recently settled out of court for $250,000 ("Market Rids Itself of Bad Y2K Goods," 1998). Lou Marcoccio, who monitors legal developments for the Gartner Group, reports that he already knows of about 200 Year 2000 disputes that have been settled out of court, many in $1 million and $10 million range (Chandrasekaran 1998).

The legal costs of the Year 2000 problem are even estimated to exceed the costs of fixing the problem itself. GIGA International, a large consulting firm, projects that Year-2000-related litigation worldwide could top $1 trillion (Ditchburn 1997). Software vendors are not the only ones at risk. Consultants could be held liable if they fail to fix systems adequately. A recent *Wall Street Journal* article noted that the consulting arms of some Big 5 public accounting firms have not taken on new Year 2000 conversion work due to concern over potential legal liability (MacDonald 1998). Organizations could face product liability lawsuits for Year-2000-related systems failures, or corporate directors and officers could be liable to shareholders if they do not fix Year 2000-related-problems or if they fail to disclose them properly

(Scheier 1996). For example, shareholders of a company might sue directors if Year-2000-related losses lead to falling stock prices. Since one company can negatively impact others in the supply chain, a firm could also sue its suppliers if their Year 2000-related problems cause disruptions in parts that halt production. Finally, it is predicted that companies who have to pay Year 2000 damages will also file cases against their insurance companies to try to get reimbursed for some damages that they are forced to pay out (Chandrasekaran 1998).

SEC Revised Staff Legal Bulletin No. 5

The Year 2000 disclosure practices reported on in this study are based upon the U.S. Securities and Exchange Commission's revised *Staff Legal Bulletin No. 5*, (*Bulletin*), issued in January 1998 and in effect for companies' 1997 financial statements. The *Bulletin* was released in response to calls from the American Institute of Certified Public Accountants (AICPA) and others that Year 2000 disclosures were inadequate and that firms needed more detailed guidance on this issue.

The *Bulletin* stated that public companies need "to consider their disclosure obligations relating to anticipated costs, problems and uncertainties associated with the Year 2000 issue." According to the *Bulletin,* a disclosure is required in the MD&A section if the cost of addressing the Year 2000 issue and/or the costs or consequences of incomplete or untimely resolution of the Year 2000 issue are known or reasonably likely to be material, such that current results may not be necessarily indicative of future operating results or future financial condition. The *Bulletin* stated that companies may need to disclose Year 2000 issues materially affecting a company's products, services, or competitive conditions in the "Description of Business" section of their annual report/Form 10-K. Further, the *Bulletin* stated that a company should disclose if it has not conducted an assessment of Year 2000 issues or has not determined whether it has material Year 2000 issues. If the company thinks it has material Year 2000 issues which may impact its business, operations, or financial condition, without regard to countervailing circumstances (e.g., Year 2000 remediation programs or company contingency plans), the company is expected to disclose information on:

(1) The company's general plans to address Year 2000 issues relating to its business; its operations (including operating systems); if material, its relationship with customers, suppliers, and other constituents; and its timetable for carrying out those plans; and

(2) The total dollar amount that the company estimates it will spend to remediate its Year 2000 issues—if such amount is expected to be material to the company's business operations or financial condition—and any material impact these expenditures are expected to have on the company's results of operations, liquidity, and capital resources (SEC *Staff Legal Bulletin No.5*).

The *Bulletin* stated that the disclosure should be reasonably specific and meaningful, rather than "standard boilerplate." The SEC also indicated an intent to request revision of any reviewed filings not containing disclosure on the Year 2000 issue.

Research Approach

The initial sample for this study consisted of the annual reports and Form 10Ks of the top 60 companies in the 1997 *Oil and Gas Journal 200.* Companies filing their Form 10K before the January 1998 release of the revised *SEC Staff Legal Bulletin* and mergers between companies within the top 60 reduced the sample to 53 companies.[1] Table 1 provides a list of the companies in the final sample. The researchers obtained electronic copies of the annual reports and Form 10Ks from the EdgarPlus database in Lexis/Nexis and hard copies of the documents directly from the companies. We reviewed the documents for Year 2000 disclosures by conducting a search for the phrase "year 2000." We analyzed each disclosure using a checklist based on the provisions of the revised *Staff Legal Bulletin No. 5* and the categories of information examined by the SEC's Year 2000 Disclosure Task Force Survey.[2]

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1 EdgarPlus indicated that five companies filed their Form 10Ks prior to January 1998: Ashland Oil Inc., Brooklyn Union Gas Co./Keyspan Energy Corporation, Oneok Inc., National Fuel Gas Co., and Helmerich & Payne Inc. Two companies did not file individual Form 10Ks due to mergers; Louisiana Land & Exploration was acquired by Burlington Resources, while Mesa Inc. merged with Parker and Parsley Petroleum Co. to form Pioneer Natural Resources Co..

2 SEC staff reviewed the Year 2000 disclosure in the filings of 1,023 public companies from twelve industry groups.

Table 1
List of Companies in Sample

Amerada Hess Corp.	Mobil Corp.
Amoco Corp.	Montana Power Co.
Anadarko Petroleum Corp.	Murphy Oil Corp.
Apache Corp.	Noble Affiliates Inc.
ARCO	Nuevo Energy Co.
BP (USA)	Occidental Petroleum Corp.
Burlington Resources Inc	Oryx Energy Co.
Chevron Corp	Parker & Parsley Petroleum Co.
CMS Nomeco Oil & Gas Co.	Pennzoil Co.
Coastal	Phillips Petroleum Co.
Columbia Gas System	Questar Corp.
Conoco	Santa Fe Energy Resources Inc.
Consolidated Natural Gas Co.	Seagull Energy Corp.
Devon Energy Corp	Shell Oil Co.
Enron Corp.	Snyder Oil Corp.
Enserch Corp.	Sonat Inc.
Equitable Resources Inc.	Southwestern Energy Co.
Exxon Corp.	Tesoro Petroleum Corp
Fina Inc.	Texaco
Forcenergy Inc.	Transtexas Gas Corp.
Global Marine Inc.	Union Pacific Resources Group Inc.
HS Resources Inc.	United Meridian Corp.
Kerr-McGee Corp.	Unocal Corp.
Louis Dreyfus Natural Gas Corp.	USX-Marathon Group
Maxus Energy Corp.	Vintage Petroleum Inc.
MCN Investment Corp.	Western Gas Resources
Mitchell Energy & Development Corp.	

Results

As indicated in Table 2, 52 of the 53 companies provided some level of disclosure on the Year 2000 issue. However, the scope and level of detail presented in these disclosures varied considerably. The length of the disclosures provided ranged from a small paragraph containing two sentences to half a page consisting of multiple paragraphs.

Table 2
Location of Year 2000 Disclosure

	Number	Percentage of Year 2000 Disclosures
Management's Discussion and Analysis	52	98.1%
Separate sub-heading/section	39	73.6%
Other sub-heading/section of MD&A	14	26.4%
Safe Harbor Statement	4	7.5%
Description of Business	1	1.9%
Footnote to financial statements	1	1.9%
No disclosure in annual report or Form 10K	1	1.9%
Number of companies in sample	53	100.0%

Location of the Disclosure

The location of companies' Year 2000 disclosures is summarized in Table 2. All of the 52 companies making a Year 2000 disclosure discussed the issue in the Management's Discussion and Analysis (MD&A) section of their annual report and/or Form 10K. Thirty-nine companies gave the disclosure prominence with its own sub-heading within the MD&A section. The names used for the section sub-headings are shown in Table 3. Four companies chose to specifically mention the Year 2000 issue in the safe harbor statement provided under the provisions of the Private Securities Litigation Reform Act of 1995. One company addressed the Year 2000 problem in its Description of Business section, while another covered the Year 2000 issue in a footnote to its financial statements.

Table 3
Sub-headings Used for Year 2000 Disclosures in MD&A

	Number	Percentage of Year 2000 Disclosures
Year 2000	14	35.8%
Year 2000 issue(s)	6	15.3%
Year 2000 compliance	4	10.2%
Impact of the Year 2000 issue	3	7.7%
Year 2000 costs	2	5.1%
Year 2000 project	2	5.1%
Computer modifications for Year 2000	1	2.6%
Impact of Year 2000	1	2.6%
Impact of Year 2000 on computer systems	1	2.6%
Information systems for Year 2000	1	2.6%
Millennium IT risk	1	2.6%
Year 2000 impact	1	2.6%
Year 2000 readiness	1	2.6%
Year 2000 technology issue	1	2.6%

Information Provided By Year 2000 Disclosures

Definition of Year 2000 issue: Table 4 summarizes the information provided in the Year 2000 disclosures. Twenty-nine companies included a brief discussion of the nature of the Year 2000 issue in their disclosure. These descriptions ranged from one sentence mentioning that the Year 2000 issue involved computers ability to process transactions involving the date 2000, to statements that discussed the two-digit date versus the four-digit date dilemma and the potential impact of the inability of computer systems to process transactions after December 31, 1999.

Assessment: Forty-three companies provided information on the progress of their assessment of the potential impact of the Year 2000 issue on their organization. Assessment includes inventorying systems, classifying the systems in terms of risk, and identifying mission critical systems. These processes typically precede systems conversion efforts. It is striking to note that only fourteen of these disclosures indicated that the company had completed its Year 2000 assessment. Twenty-nine companies provided information that the assessment was still in progress.

Table 4
Information Provided in Year 2000 Disclosure

	Number	Percentage of Year 2000 Disclosures
Provided definition of Year 2000 issue	28	53.8%
Assessment of impact of Year 2000 issue on company		
Still in progress	29	55.8%
Completed	14	26.9%
Plans for remediation of Year 2000 non-compliance		
General description	34	65.4%
More detailed description	2	3.8%
Timetable		
By the end of 1998	13	25.0%
After the end of 1998/before 2000	10	19.2%
Vague completion date	12	23.0%
Relationship with third parties		
Evaluation of material relationships with third parties with regard to Year 2000 issue	24	46.2%
Costs to address Year 2000 issue		
Estimated total dollar amount to be spent on Year 2000 compliance	18	34.6%
Dollars spent to date on Year 2000 compliance	1	1.9%
Expected materiality of Year 2000 remediation costs or impact on operations		
Material	2	3.8%
Materiality unknown	2	3.8%
Not expected to be material	35	67.3%

Y2K Plans: Thirty-six of the companies discussing the Year 2000 issue provided information on their plans to address the issue. The vast majority of companies only described their plans in general terms such as indicating that the company had formed a project team to address the Year 2000 issue and that the company planned to identify and correct systems not Year 2000 compliant. Phillips Petroleum and Enserch Corporation provided the two more detailed descriptions (see Appendix A for Phillip's description of its plans).

Timetable for Carrying Out Plans: Twenty-three of the company disclosures reviewed for this study included a specific timetable for completion of the company's plans to deal with the Year 2000 issue. While many experts recommend that Year 2000 conversion should be completed by the end of 1998 to allow for a full year's cycle of systems testing, only 13 companies indicated that their remediation plans would be completed by year-end 1998. Ten additional companies disclosed completion dates after the end of 1998 but before the year 2000. The remaining 26 companies providing Year 2000 disclosures, chose to either not provide a completion date at all or used vague phrases to indicate the expected completion of their plans. Fifteen of the 26 remaining companies did not discuss expected completion dates. The vague completion dates provided by the other 14 companies included such phrases as "on a timely basis", "before the year 2000," and "no later than December 31, 1999".

Relationship with Customers, Suppliers, and Other Constituents: As noted earlier, companies today have extensive electronic links with other parties including their customers and suppliers. Thus, besides ensuring that a company's own systems are Year-2000-ready, companies need to obtain assurances from third parties that their systems are Year-2000-compliant. These efforts may entail testing the interfaces between the companies' systems in Year 2000 simulations. While coordination with third parties is very important in preventing systems failure, only 20 of the annual reports/Form 10Ks reviewed disclosed the company's relationship with key third parties on the Year 2000 issue. These companies discussed, in varying levels of detail, their efforts to identify the potential impact of the Year 2000 issue from interaction with third parties and highlighted how they were in contact with the third parties for information and reassurances on the third parties' remediation activities.

Costs to Address the Year 2000 Issue: Only about a third of companies (19 of 53 firms) provided estimates of the total costs of the Year 2000 issue to the company. Only one company disclosed historical costs or costs incurred to date for the Year 2000 issue. The fact that only one-third of the companies in the sample chose to provide estimates must be considered in light of companies' completion of Year 2000 assessment and materiality of the expected costs of addressing the Year 2000 issue. Just 14 companies indicated completion of their Year 2000 assessment. Thirty-five companies expected the Year 2000 remediation costs not to be a material amount or expected the Year 2000 issue to not have a material impact on the company's business operations. The companies providing a dollar estimate of Year 2000 costs are shown in Table 5. As indicated, estimates of the total remediation costs provided ranged from $300,000 to $200 million. When expressed as a percentage of 1997 income before taxes, the remediation costs ranged from a low of 0.1% to a high of 36%. The average percentage was approximately 2.5% (excluding the high of 36%).

Table 5
Estimated Total Dollar Amount to Be Spent on Year 2000 Issue
(in millions)

Company	Rank in 1997 *Oil & Gas Journal* 200	Dollar Amount	Pre-tax Income	Percentage of Pre-tax Income
Amoco Corp.	4	$100	$3,776	2.6%
Atlantic Richfield	7	$20	$2,877	0.7%
Conoco (as part of E.I. Dupont)	10	$200	$4,680	4.3%
Coastal Corp.	12	$14	$643	2.2%
BP USA (as part of BP plc)	13	£100	£3,942	2.5%
Unocal	15	$15-20	$771	1.9-2.6%
Amerada Hess	16	$15	$126.6	11.8%
Consolidated Natural Gas	19	$10.0	$545	1.8%
Sonat Inc.	22	$5-10	$256	2.0-3.9%
Enserch Corp.	23	$11.25	$(31)	36.3%
Maxus Energy)as part of YPF)	30	$2*	$1,380*	0.1%
Murphy Oil	32	$5	$211.6	2.4%
Oryx Energy	36	$5	$237	2.1%
MCN Investment (as part of MCN Energy)	39	$5-6	$194	2.6-3.1%
Seagull Energy	40	$0.3	$86	0.3%
Parker & Parsley and Mesa (as part of Pioneer Natural Resources)	N/A	$3	$(1,377)	0.2%
Santa Fe Energy Resources	46	⟨$1	$95.6	⟨1.0%
TransTexas Gas	47	$2	$461.9	0.4%

(*Argentinian pesos)

Cautionary Language Regarding Forward Looking Statement: As shown in Table 6, four companies noted the Year 2000 issue in safe harbor statements available under the provisions of the Private Securities Litigation Reform Act, 1995. These companies included the Year 2000 issue with other risk factors that could lead actual results to differ from the forward-looking statements provided in the annual report. Eighteen companies provided general cautionary language as part of the Year 2000 disclosure. Although 14 of the companies alerted users to the possibility of an adverse impact on operations from third parties' non-compliant computer systems, it is notable that only three of the 14 companies indicated in their disclosure that they had developed or were developing contingency plans for possible disruptions from non-compliant third parties.

Table 6
Cautionary Language Regarding Forward Looking Statements on Year 2000 Issue

	Number	Percentage of Year 2000 Disclosures
Highlighted potential for problems to operations of company if third parties fail to comply with Year 2000 issue	14	26.9%
Discussion of possible disruptions to operations of company from Year 2000 issue	8	15.4%
Explicitly stated they could not guarantee accuracy of estimates provided on costs and/or completion dates of remediation plans	3	5.8%
Stated that company has developed or is developing contingency plans in case third parties are not compliant with Year 2000 issue	3	5.8%

Comparison of Findings to SEC Study

In June 1997, the SEC released results of a study of Year 2000 disclosures contained in SEC filings. In this study, the SEC's Division of Corporate Finance Year 2000 Disclosure Task Force examined the SEC filings of over 1,000 public companies' randomly selected from twelve industry groupings and the *Fortune 100* companies. The industry groups included seventy-four companies selected as representative of the category of "oil and gas utilities"; a selection of companies in the following Standard Industry Classifications: crude petroleum (1311), drilling oil and gas (1381), petroleum refining (2911), and pipelines (4610). Although we reviewed the annual reports of the largest companies, we believe our study supplements the results of the SEC's study. The results of our study provide a more detailed analysis of the section headings, expected costs, materiality (i.e., expected Year 2000 costs as a percentage of income before tax), and cautionary language contained within the oil and gas companies' Year 2000 disclosures.

Despite some differences between the methodology of this study versus the SEC's study, the findings of the two studies are largely consistent. Both studies found that half of the companies indicated that they had not completed an assessment of the potential impact of the Year 2000 at year-end 1997. The SEC survey found that 72% of the assessments were still in progress; our survey showed that among the larger companies 56% were continuing their assessment. The two studies indicate that 66% of companies provided a general description of plans to address the Year 2000 issue. Both studies report that approximately one quarter of oil and gas companies expect to complete their plans by year-end 1998. In addition, over two-thirds of the companies in both samples (72% in the SEC sample vs. 67% in our sample) stated a belief that the Year 2000 issue would not be material to their operating or financial condition. One point of difference between the studies is that only 16% of the companies in the SEC sample reported estimated costs to address the Year 2000 issue, compared to nearly 35% in our study of only the larger companies.

SEC Interpretation, July 1998

Based on the brevity and variation of companies' Year 2000 disclosures, it is not surprising that the SEC deemed it necessary to issue a July 1998 *Interpretation* that supercedes *Staff Legal Bulletin No. 5*. The *Interpretation* provides more extensive guidance regarding when a disclosure is required and what elements need to be disclosed.

The discussion below highlights the *Interpretation*'s key points. Readers who seek more detailed information are urged to consult the SEC's Website (www.sec.gov).

The *Interpretation* notes that companies already disclose in the MD&A "their assessment of known trends, demands, commitments, events or uncertainties that are likely to have a material impact . . . (and) investors deserve no less with respect to management's assessment of their company's Year 2000 problems" (clarification added). The *Interpretation* points out that while the number of companies making Year 2000 problem disclosures has increased, "many companies are not providing the quality of disclosures that we believe investors expect."

The *Interpretation* provides a two-part test regarding when a Year 2000 disclosure is required that is substantially similar to *Staff Legal Bulletin No. 5*. This test holds that a company must provide Year 2000 disclosure if:

(1) Its assessment of its Year 2000 issues is not complete, or

(2) Management determines that the consequences of its Year 2000 issues would have a material effect on the company's business, results of operations, or financial condition, without taking into account the company's efforts to avoid those consequences.

Importantly, while the results of our study and the SEC's disclosure study found that many companies reported that their Y2K costs were not material, the *Interpretation* states, "we expect that for the vast majority of companies Year 2000 issues are likely to be material, and therefore disclosure would be required."

According to the *Interpretation*, a "full and fair disclosure" should address four key issues:

(1) *The company's state of readiness.* A full description of a company's Year 2000 preparedness must include at least three elements. First, the discussion should address information technology (IT) systems as well as "non-IT" systems including embedded technology such as microcontrollers. Second, organizations need to disclose the status of their companies' progress toward becoming Year-2000-ready. This progress is to be identified by phase including an estimated timetable for the completion of each remaining phase. Third, companies should disclose the nature and importance of

their material relationships with third parties and assess the status of these third party risks.

(2) *The costs to address the company's Year 2000 issues.* Companies are expected to disclose material historical and estimated costs of Year 2000 remediation.

(3) *The risks of the company's Year 2000 issues.* Companies must include a reasonable description of their most likely worst-case Year 2000 scenarios.

(4) *The company's contingency plans.* Companies must describe their plans for handling the likely worst-case scenarios.

Finally, the *Interpretation* emphasizes that each company should consider whether its own Year 2000 circumstances require the disclosure of other matters. Thus, the *Interpretation* cautions firms that providing the minimal level of disclosure put forth in these four categories may not be sufficient in meeting their disclosure obligations.

Recent actions by the SEC have further demonstrated the importance it attaches to Year 2000 disclosures. In early August, the chairman of the SEC, Arthur Levitt, sent a letter to executives at over 9,000 publicly traded companies. Levitt asked the executives to focus their attention on disclosures regarding their companies' Year 2000 readiness and specifically the expectations of the *Interpretation*. He emphasized the importance of the disclosures by stating that a lack of information on preparations for the Year 2000 "could seriously undermine the confidence investors place in your company." Levitt called for "thorough" and "meaningful" disclosure on the Year 2000 issue. The SEC provided clear evidence of its willingness to enforce its regulations regarding Year 2000 disclosures when it announced in late October 1998 that it had taken disciplinary action against 37 securities firms for insufficient Year 2000 disclosures. Nineteen of these companies agreed to pay fines of between $5,000 and $25,000 for either failing to file information about their Y2K efforts or for filing their forms late or incomplete. The cases against the remaining 18 companies are still pending. The SEC's Enforcement Director, Richard Walker, vowed that the agency will continue to be "vigilant" in policing companies' Year 2000 disclosures and that it "will not wait until the new millennium" to take further action (Hoffman 1998, p. 90).

Summary and Conclusion

In the past year, the SEC has taken a series of actions to draw greater attention to the importance of companies' Year 2000 disclosures. The commission issued *Staff Legal Bulletin No. 5* in January 1998 intended to provide more detailed guidance for companies in making Year 2000 disclosures. However, as the results of this study and others indicate, this action did not lead to the "full and fair disclosure" on this issue that the SEC had envisioned. In most cases, the disclosures provided by companies in the oil and gas industries, as well as those by firms in other industries, were general and omitted a number of key issues that could be of interest to investors in assessing a company's Year-2000-readiness.

For this reason, the SEC issued the July 1998 *Interpretation* to specify in considerably more detail when a disclosure is required and what elements constitute a "full and fair disclosure." Moreover, the SEC has sent a powerful message via its press releases, Web site, and enforcement actions that it expects companies to adhere to its most recent pronouncements on this issue. This article has provided perspective on why the SEC has taken the recent actions that is has and what issues companies must address to meet their current Y2K disclosure obligations. As a final note, Appendix B provides a list of World Wide Web resources that readers may wish to consult as they address the Year 2000 issue in financial reporting.

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Appendix A

Phillips Petroleum's 1997 Annual Report, *Management's Discussion and Analysis of Financial Condition and Results of Operations.*

Year 2000 Readiness. . .

. . . In April 1996, Phillips initiated a company-wide Year 2000 Project to address this issue. Utilizing internal and external resources, the company is in the process of defining, assessing and converting, or replacing, various programs, hardware and instrumentation systems to make them Year 2000 compatible. The company's Year 2000 Project is composed of two components:

Business Applications
In 1995, Phillips began a worldwide business systems replacement project. Based on a recent inventory of business computer programs within Phillips, these new systems, which are Year 2000 compliant, will replace approximately 70 percent of the company's business computer programs. An additional 12 percent of business programs will be made compliant through the Year 2000 Project, and 7 percent will be retired. The remaining non-compliant programs are to be brought into compliance by the vendors who supply the programs. The company is the process of identifying and prioritizing critical third parties and customers and will follow up with them concerning their plans and progress in addressing the Year 2000 Problem.

The company's business applications Year 2000 Project is scheduled to be completed by mid-1999 when the final phases of the worldwide business systems replacement project are completed.

Process Control and Instrumentation (PC&I)
The company is currently evaluating the Year 2000 readiness of PC&I with a comprehensive inventory of monitoring and control devices for plants, refineries, pipelines, platforms, safety systems and other similar operating installations. Plans detailing the tasks and resources required to ensure PC&I Year 2000 readiness by the end of 1998 are expected to be in place by the end of the second quarter. Costs associated with the PC&I upgrades are included in existing operating budgets. . . .

Appendix B
Year 2000 Related Websites

Site	Address	Description
Year 2000 Home Page	www.year2000.com	Lists service providers, tool vendors, articles, events, frequently asked questions, etc.
Information Technology Association of America (ITAA)	www.itaa.org	Offers free trade publications such as white papers and a buyer's guide for Year 2000 tools and services
Year 2000 Conferences & Expositions Communications Links, Inc.	www.spgnet.com	Sponsors Year 2000 conferences
U.S. Securities and Exchange Commission	www.sec.gov	Contains SEC Year 2000 disclosure requirements and Year 2000 news
The American Institute of Certified Public Accountants	www.aicpa.org	Contains a Year 2000 Resources Page providing accounting and auditing guidance on the issue and links to a number of other Year 2000 websites
Accounting for the Year 2000 Problem, College of Business, Oregon State University	www.bus.orst.edu/faculty/brownc/year20000/year2000.htm	Provides links to sites on a number of accounting issues related to Year 2000 problem
Dr. Ed Yardeni's Economics Network Y2K Corporate Disclosure	www.progsys.com/yardeni/y2kfind.asp	Provides access to searchable database of Year 2000 disclosure statements of S&P 500 corporations