

BP AMOCO EXPLORATION (FAROES) LIMITED

Registered in England and Wales No 856444)

ANNUAL REPORT AND ACCOUNTS 2002

Board of Directors: - J H Bartlett
R P Rattey

REPORT OF THE DIRECTORS

The directors present their report and accounts for the year ended 31 December 2002.

Principal activity, review of the business and results

The company's principal activity is related to the exploration for oil and gas offshore the Faroe Islands under Licence No.004, which was granted to the company in August 2000. In addition, a 5% interest in the Foinaven Field was acquired in December 2001 from another group company.

It is the intention of the directors that the above business of the company will continue for the foreseeable future.

The profit for the year was £8,683,000 which when added to the retained deficit brought forward at 1 January 2002 of £6,465,000 gives a total retained profit carried forward at 31 December 2002 of £2,218,000. The directors do not propose payment of a final dividend.

Directors

The present directors of the company are listed above. J H Bartlett, R P Rattey and S D Urban served as directors throughout the financial year. Changes since 1 January 2002 are as follows:

	<u>Appointed</u>	<u>Resigned</u>
S D Urban		1 June 2003

Directors' interests

The interests of the directors holding office at 31 December 2002, and their families, in the US \$0.25 ordinary shares of BP p.l.c. , were as set out below:

	<u>31 December 2002</u>	<u>1 January 2002</u>
J H Bartlett	64,392	60,497
R P Rattey	8,236	2,517
S D Urban	17,472*	17,472*

* These holdings include shares held in the form of ADRS (American Depository Receipts).



BP AMOCO EXPLORATION (FAROES) LIMITED

REPORT OF THE DIRECTORS

In addition, rights to subscribe for US \$0.25 ordinary shares in BP p.l.c. were granted to, or exercised by, those directors between 1 January 2002 and 31 December 2002 as follows:

	<u>Granted</u>	<u>Exercised</u>
J H Bartlett	5,000	-
R P Rattey	2,750	10,362
S D Urban	119,010	93,684

No director had any interest in the shares or debentures of subsidiary undertakings of BP p.l.c. at 31 December 2002.

Policy and practice with respect to payment of suppliers

It is the company's policy to follow the CBI's prompt payment code of practice for all suppliers to the company. A copy of the code of practice may be obtained from the CBI. The number of days' purchases represented by the trade creditors at the year-end was 30.

Auditors

Ernst & Young LLP will be reappointed as the company's auditor in accordance with the elective resolution passed by the company under Section 386 of the Companies Act 1985.

By order of the Board



SECRETARY

7 August 2003

Registered Office:
Britannic House
1 Finsbury Circus
London EC2M 7BA

BP AMOCO EXPLORATION (FAROES) LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are also responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and which enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for taking reasonable steps to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

The directors confirm that they have complied with these requirements and having a reasonable expectation that the company has, or has access within the BP Group to, adequate resources to continue in operational existence for the foreseeable future, continue to adopt the going concern basis in preparing the company's accounts.

BP AMOCO EXPLORATION (FAROES) LIMITED

REPORT OF THE AUDITORS TO THE MEMBERS OF BP AMOCO EXPLORATION (FAROES) LIMITED

We have audited the accounts for the year ended 31 December 2002 which comprise Profit and Loss Account, Balance Sheet, Statement of Total Recognised Gains and Losses and related notes 1 to 21. These accounts have been prepared on the basis of the accounting policies set out on therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities, the company's directors are responsible for the preparation of the accounts in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the accounts in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act 1985. 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 with the company is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

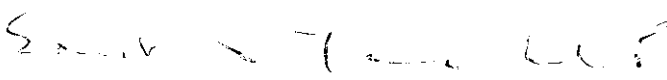
Basis of audit opinion

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 accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, 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 accounts 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 accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company as at 31 December 2002 and of the profit of the company for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


Ernst & Young LLP
Registered Auditor
ABERDEEN
7 August 2003

BP AMOCO EXPLORATION (FAROE) LIMITED

ACCOUNTING POLICIES

Accounting Standards

These accounts are prepared in accordance with applicable UK accounting standards.

In addition to the requirements of accounting standards, the accounting for exploration and production activities is governed by the Statement of Recommended Practice ('SORP') – 'Accounting for Oil and Gas Exploration, Development, Production and Decommissioning Activities' issued by the UK Oil Industry Accounting Committee on 7 June 2001. These accounts have been prepared in accordance with the SORP's provisions except :

1. All oil and gas reserves disclosures are included in the ultimate parent accounts of BP p.l.c.

Accounting convention

The accounts are prepared under the historical cost convention.

As the ultimate parent undertaking has published a group cash flow statement in compliance with Financial Reporting Standard No. 1 (Revised), a cash flow statement is not presented in these accounts.

Exploration expenditure

Exploration expenditure is accounted for in accordance with the successful efforts method. Exploration and appraisal drilling expenditure is initially classified as an intangible fixed asset. When proved reserves of oil and gas are determined and development is sanctioned, the relevant expenditure is transferred to tangible production assets. All exploration expenditure determined as unsuccessful is charged against income. Exploration licence acquisition costs are amortised over the estimated period of exploration. Geological and geophysical exploration costs are charged against income as incurred.

Stock valuation

Stocks are valued at cost to the company, using the first-in first-out method or at net realisable value, whichever is the lower.

Revenue Recognition

Revenues associated with the sale of oil, natural gas liquids, liquefied natural gas, petroleum and chemical products and all other items are recognised when the title passes to the customer. Generally, revenues from the production of natural gas and oil properties in which the company has an interest with other producers are recognised on the basis of the company's working interest in those properties (the entitlement method). Differences between the production sold and the group's share of production are not significant.

BP AMOCO EXPLORATION (FAROES) LIMITED

ACCOUNTING POLICIES

Depreciation

Oil and gas production assets are depreciated using a unit-of-production method based upon estimated proven reserves. Other tangible and intangible assets, other than freehold land, are depreciated on the straight-line method over their estimated useful lives. The company undertakes a review for impairment of a fixed asset or goodwill if events or changes in circumstances indicate that the carrying amount of the fixed asset or goodwill may not be recoverable. To the extent that the carrying amount exceeds the recoverable amount, that is, the higher of net realisable value and value in use, the fixed asset or goodwill is written down to its recoverable amount. The value in use is determined from estimated discounted future net cash flows.

Decommissioning

Provision for decommissioning is recognised in full at the commencement of oil and natural gas production. The amount recognised is the present value of the estimated future expenditure determined in accordance with the local conditions and requirements. A corresponding tangible fixed asset of an amount equivalent to the provision is also created. This is subsequently depreciated as part of the capital costs of the production and transportation facilities. Any change in the present value of the estimated expenditure is reflected as an adjustment to the provision and the fixed asset.

Changes in unit-of-production factors

Changes in factors which affect unit-of-production calculations are dealt with prospectively not by immediate adjustment of prior years' amounts.

Environmental liabilities

Environmental expenditures that relate to current or future revenues are expensed or capitalised as appropriate. Expenditures that relate to an existing condition caused by past operations and that do not contribute to current or future earnings are expensed.

Liabilities for environmental costs are recognised when environmental assessments or clean-ups are probable and the associated costs can be reasonably estimated. Generally, the timing of these provisions coincides with the commitment to a formal plan of action or, if earlier, on divestment or on closure of inactive sites. The amount recognised is the best estimate of the expenditure required.

Leases

Assets held under leases which result in the company receiving substantially all risks and rewards of ownership (finance leases) are capitalised as tangible fixed assets at the estimated present value of underlying lease payments. The corresponding finance lease obligation is included with borrowings. Rentals under operating leases are charged against income as incurred.

Interest

Interest is capitalised gross during the period of construction where it relates either to the financing of major projects with long periods of development or to dedicated financing of other projects. All other interest is charged against income.

BP AMOCO EXPLORATION (FAROEES) LIMITED

ACCOUNTING POLICIES

Discounting

The unwinding of the discount on provisions is included within interest expense. Any change in the amount recognized for environmental and other provisions arising through changes in discount rates is included within interest expense.

Foreign currencies

Assets and liabilities of foreign currency branches are translated into sterling at closing rates of exchange. Income statements are translated at average rates of exchange.

Exchange differences resulting from the retranslation of net investments in foreign currency branches at closing rates, together with differences between income statements translated at average rates and at closing rates of exchange and differences on long term monetary items, are dealt with in reserves.

All exchange gains or losses on settlement or translation at closing rates of exchange of monetary assets and liabilities are included in the determination of the profit/loss for the year.

Comparative Figures

Certain prior year figures have been restated to conform with the 2002 presentation.

BP AMOCO EXPLORATION (FAROEES) LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2002

	<u>Note</u>	2002 £'000	2001 Restated £'000
Turnover	1	30,277	1,686
Cost of sales		(13,757)	(582)
Gross profit		16,520	1,104
Exploration expenditure		(7,269)	(2,875)
Distribution and marketing		(45)	-
Administration expenses		(471)	(113)
		8,735	(1,884)
Other interest and miscellaneous income	3	48	37
Operating profit/ (loss)	2	8,783	(1,867)
Profit/ (loss) on ordinary activities before interest and tax		8,783	(1,867)
Interest payable and similar charges	4	(100)	(8)
Profit/ (loss) before taxation		8,683	(1,855)
Taxation	5	-	-
Profit/(loss) for the year		8,683	(1,855)
Retained profit/ (loss) for the year		8,683	(1,855)

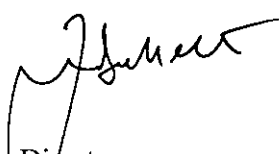
STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 31 DECEMBER 2002

There are no recognised gains or losses attributable to the shareholders of the company other than the profit of £8,683,000 for the year ended 31 December 2002 (2001 loss of £1,855,000).

BP AMOCO EXPLORATION (FAROES) LIMITED**BALANCE SHEET AT 31 DECEMBER 2002**

	<u>Note</u>	<u>2002</u> <u>£'000</u>	<u>2001</u> <u>£'000</u>
Fixed assets			
Intangible assets	7	1,042	5,919
Tangible assets	8	34,250	38,927
Investments	9	9,503	-
		-----	-----
		44,795	44,846
Current Assets			
Stocks		213	-
Other debtors	10	4,373	4,353
		-----	-----
		4,586	4,353
Creditors - amounts falling due within one year			
Finance Debt	11	(7,361)	(12,835)
Other creditors	12	(36,140)	(37,442)
		-----	-----
Net current liabilities		(38,915)	(45,924)
		-----	-----
TOTAL ASSETS LESS CURRENT LIABILITIES		5,880	(1,078)
Provisions for liabilities and charges	13	(3,562)	(5,287)
		-----	-----
SHAREHOLDERS' INTEREST		2,318	(6,365)
		=====	=====
Represented by			
Capital and reserves			
Called up share capital	14	100	100
Profit and loss account	15	2,218	(6,465)
		-----	-----
SHAREHOLDERS' FUNDS - EQUITY INTERESTS		2,318	(6,365)
		=====	=====

By order of the Board



Director

August 2003

BP AMOCO EXPLORATION (FAROES) LIMITED

NOTES TO THE ACCOUNTS

1. Turnover

Turnover represents the selling value of petroleum products produced during the year attributable to the company and of petroleum purchased for resale, both of which are continuing, stated net of value added tax where applicable. The country of origin and destination is substantially the United Kingdom.

2. Operating profit

This is stated after charging:

	2002 £'000	2001 £'000
Depreciation of owned fixed assets (including amortisation of intangibles)	11,195	896
Exchange loss on foreign currency borrowings less deposits	471	113
Operating lease rentals:		
Plant & Machinery	6,218	541

Auditors' remuneration is dealt with in the accounts of the ultimate parent undertaking. No fees were paid to auditors for other services.

3. Other income

	2002 £'000	2001 £'000
Interest income from fellow subsidiary undertakings	42	-
Other interest and miscellaneous income	6	37
	-----	-----
	48	37
	=====	=====

4. Interest payable and similar charges

	2002 £'000	2001 £'000
Unwinding of discounts on provisions	84	8
Loans from fellow subsidiary undertakings	16	-
	-----	-----
	100	8
	=====	=====

5. Taxation

The Company is a member of a group for the purposes of relief under Section 402 of the Income & Corporation Taxes Act 1988. No corporation tax has been provided in respect of the company's oil extraction activity in the UK and UK Continental Shelf because another group company, BP Exploration Operating Company Limited, has undertaken to provide for any current or deferred tax that arises.

In respect of the company's other activities, no corporation tax has been provided because another group company, BP International Limited, has undertaken to procure the claim or surrender of free group relief to the extent it is required and to provide for any current or deferred tax that arises.

BP AMOCO EXPLORATION (FAROEES) LIMITED

NOTES TO THE ACCOUNTS

The following table provides a reconciliation of the UK statutory corporation tax rate to the effective current tax rate on profit before taxation.

	<u>2002</u>	<u>2001</u>
	%	%
UK statutory corporation tax rate:	<u>30</u>	<u>30</u>
Increase/(decrease) resulting from:		
Timing differences	28	156
Permanent differences	-	1
Group relief	5	(214)
IRF tax provided in BPEOC	(63)	26
Effective current tax rate	<u>0</u>	<u>0</u>

6. Directors

None of the directors received any fees or remuneration for services as a director of the company during the financial year (2001 £Nil).

7. Intangible assets

	Exploration expenditure £'000
Cost	
At 1 January 2002	5,919
Additions	974
Deletions	(5,851)

At 31 December 2002	1,042
	=====
Depreciation	
At 1 January 2002	-
Charge for the year	5,851
Deletions	(5,851)

At 31 December 2002	-
	=====
Net book amount	
At 31 December 2002	1,042
	=====
At 31 December 2001	5,919
	=====

BP AMOCO EXPLORATION (FAROES) LIMITED

NOTES TO THE ACCOUNTS

8. Tangible assets

	Production Assets £'000
Cost	
At 1 January 2002	55,971
Additions	2,476
Deletions	(1,809)

At 31 December 2002	56,638
	=====
Depreciation	
At 1 January 2002	17,044
Charge for the year	5,344

At 31 December 2002	22,388
	=====
Net book amount	
At 31 December 2002	34,250
	=====
At 31 December 2001	38,927
	=====

Included within tangible assets:

	Cost £'000	Depreciation £'000	Net £'000
Capitalised interest			
	1,794	1,034	760
	=====	=====	=====
At 31 December 2002			
	1,794	882	912
	=====	=====	=====
At 31 December 2001			

9. Fixed Assets - Investments

	Other £'000	Total £'000
Cost		
At 1 January 2002	-	-
Additions	9,503	9,503
Disposals	-	-
	-----	-----
At 31 December 2002	9,503	9,503
	=====	=====

BP AMOCO EXPLORATION (FAROEES) LIMITED

NOTES TO THE ACCOUNTS

10. Debtors

	2002 Within 1 year <u>£'000</u>	2001 Within 1 year <u>£'000</u>
Trade	-	1,364
Parent and fellow subsidiary undertakings	3,092	676
Other	1,281	2,313
	<u>4,373</u>	<u>4,353</u>

11. Finance debt

	2002 Within 1 year <u>£'000</u>	2001 Within 1 year <u>£'000</u>
Bank loans and overdrafts	<u>7,361</u>	<u>12,835</u>

12. Other creditors

	2002 Within 1 year <u>£'000</u>	2001 Within 1 year <u>£'000</u>
Trade	2,994	138
Parent and fellow subsidiary undertakings	31,843	33,780
Accruals and deferred income	1,060	2,424
Other	243	1,100
	<u>36,140</u>	<u>37,442</u>

13. Provisions for liabilities and charges

	Decommissioning <u>£'000</u>
At 1 January 2002	5,287
Unwinding of discount	84
Effect of change in discount rate	185
Change in abandonment estimate	(1,994)
At 31 December 2002	<u>3,562</u>

BP AMOCO EXPLORATION (FAROEES) LIMITED

NOTES TO THE ACCOUNTS

14. Called up share capital

	2002 <u>£'000</u>	2001 <u>£'000</u>
Authorised, issued and fully paid: 100,000 ordinary shares of £1 each	100 <u> </u>	100 <u> </u>

15. Reconciliation of shareholders' funds and movements on reserves

	Share capital <u>£'000</u>	Profit & loss account <u>£'000</u>	Total <u>£'000</u>
At 1 January 2001	100	(4,610)	(4,510)
Loss for the year	-	(1,855)	(1,855)
	-----	-----	-----
At 1 January 2002	100	(6,465)	(6,365)
Profit for the year	-	8,683	8,683
	-----	-----	-----
At 31 December 2002	100 <u> </u>	2,218 <u> </u>	2,318 <u> </u>

16. Operating lease commitments

At 31 December the company had annual commitments under non-cancellable operating leases as set out below:

	2002 Other <u>£'000</u>	2001 Other <u>£'000</u>
Expiring:		
Within 1 year	-	-
Between 2 to 5 years	5,167	-
Thereafter	-	-
	-----	-----
	5,167 <u> </u>	- <u> </u>

17. Capital commitments

Authorised future capital expenditure is estimated at £ 2.2 million (2001 £nil) including approximately £2.1 million (2001 £nil) for which contracts have been placed.

18. Contingent liabilities

There were contingent liabilities at 31 December 2002 in respect of guarantees and indemnities entered into as part of, and claims arising from, the ordinary course of the company's business, upon which no material losses are likely to arise.

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BP AMOCO EXPLORATION (FAROE) LIMITED

NOTES TO THE ACCOUNTS

19. Related party transactions

The company has taken advantage of the exemption contained within Financial Reporting Standard No 8 "Related Party Disclosures", and has not disclosed transactions with group companies.

20. Pensions

The company does not directly employ any staff and therefore does not directly bear any pension charge.

21. Ultimate parent undertaking

The ultimate parent undertaking of the group of undertakings for which group accounts are drawn up, and of which the company is a member, is BP p.l.c., a company registered in England and Wales. Copies of BP p.l.c.'s accounts can be obtained from 1 St. James's Square, London SW1Y 4PD.