

2

BP AMOCO EXPLORATION (FAROE) LIMITED
(Registered in England and Wales No 856444)

ANNUAL REPORT AND ACCOUNTS 2003

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 2003.

Principal activity

The company's principal activities are the exploration for oil and gas offshore the Faroe Islands under Licence No.004, which was granted to the company in August 2000, and exploration for and production of oil and gas from its 5% interest in the Foinaven Field.

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

Review of activities and future developments

The company has had a satisfactory year and the directors believe that the trend will continue.

The company is in a good position to take advantage of any opportunities which may arise in the future.

Results and dividends

The profit for the year was £10,341,000 which when added to the retained profit brought forward at 1 January 2003 of £2,218,000 gives a total retained profit carried forward at 31 December 2003 of £12,559,000. The directors do not propose payment of a final dividend.

Directors

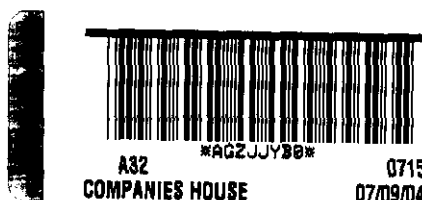
The present directors of the company are listed above. J H Bartlett and R P Rattey served as directors throughout the financial year. Changes since 1 January 2003 are as follows:

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

Directors' interests

The interests of the directors holding office at 31 December 2003, and their families, in the US \$0.25 ordinary shares of BP p.l.c. , were as set out below:

	<u>31 December 2003</u>	<u>1 January 2003</u>
J H Bartlett	69,709	64,392
R P Rattey	10,613	8,236



BP AMOCO EXPLORATION (FAROEES) 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 2003 and 31 December 2003 as follows:

	<u>Granted</u>	<u>Exercised</u>
J H Bartlett	29,646	10,156
R P Rattey	3,807	-

No director had any interest in the shares or debentures of subsidiary undertakings of BP p.l.c. at 31 December 2003.

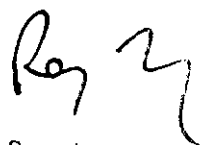
Policy and practice with respect to payment of suppliers

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 continue in office 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

Date: 12 July 2004

Registered Office:

Chertsey Road
Sunbury-on-Thames
Middlesex
TW16 7BP

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 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 2003 which comprise Profit and Loss Account, Balance Sheet, Statement of Total Recognised Gains and Losses, accounting policies and related notes 1 to 21. These accounts have been prepared on the basis of the accounting policies set out 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.

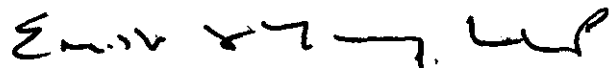
Basis of audit opinion

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 2003 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

2004

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. The SORP recommends that oil and gas reserve quantities be disclosed. The company is a wholly owned subsidiary of BP p.l.c. and, as such, the oil and gas reserve quantities of the company are included in the consolidated oil and gas reserve quantities disclosed in the Annual Report and Accounts of BP p.l.c. Consequently the directors have elected not to publish this information for the Company.

Accounting convention

The accounts are prepared under the historical cost convention.

Statement of cash flows

The Group financial statements of the ultimate parent undertaking contain a consolidated cash flow statement. The Company has taken advantage of the exemption granted by the Financial Reporting Standard No. 1 (Revised), whereby it is not required to publish its own cash flow statement.

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.

Foreign currencies

Transactions in currencies other than sterling are recorded at the rate ruling at the date of the transaction. Assets and liabilities in currencies other than sterling are translated into sterling at closing rates of exchange. All exchange gains and losses on settlement or translation at closing rates of exchange of monetary assets and liabilities are included in the determination of profit/loss for the year.

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.

BP AMOCO EXPLORATION (FAROE) LIMITED

ACCOUNTING POLICIES

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.

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

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.

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 (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.

Comparative Figures

Certain prior year figures have been restated to conform with the 2003 presentation. This restatement relates to the reclassification of certain items from Administration Expenses to Cost of Sales and has no effect on the profit for the year.

BP AMOCO EXPLORATION (FAROEES) LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2003

		2003	2002
	Note	£'000	Restated £'000
Turnover	1	25,518	30,277
Cost of sales		(13,767)	(14,228)
Gross profit		11,751	16,049
Exploration expenditure		(1,936)	(7,269)
Distribution and marketing		(24)	(45)
		9,791	8,735
Other interest and miscellaneous income	3	640	48
Operating profit	2	10,431	8,783
Profit on ordinary activities before interest and tax		10,431	8,783
Interest payable and similar charges	4	(90)	(100)
Profit before taxation		10,341	8,683
Taxation	5	-	-
Profit for the year		10,341	8,683
Retained profit for the year		10,341	8,683

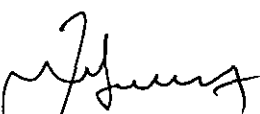
STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 31 DECEMBER 2003

There are no recognised gains or losses attributable to the shareholders of the company other than the profit of £10.341 million for the year ended 31 December 2003 (2002 £8.683 million).

BP AMOCO EXPLORATION (FAROES) LIMITED**BALANCE SHEET AT 31 DECEMBER 2003**

	<u>Note</u>	<u>2003</u> <u>£'000</u>	<u>2002</u> <u>£'000</u>
Fixed assets			
Intangible assets	7	820	1,042
Tangible assets	8	31,437	34,250
Investments	9	30,952	9,503
		<u>63,209</u>	<u>44,795</u>
Current Assets			
Stocks		263	213
Other debtors	10	4,074	4,373
		<u>4,337</u>	<u>4,586</u>
Creditors - amounts falling due within one year			
Finance debt - bank overdraft		-	(7,361)
Other creditors	11	(50,936)	(36,140)
		<u>(46,599)</u>	<u>(38,915)</u>
Net current liabilities			
		<u>(46,599)</u>	<u>(38,915)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>16,610</u>	<u>5,880</u>
Provisions for liabilities and charges	12	(3,951)	(3,562)
SHAREHOLDERS' INTEREST		<u>12,659</u>	<u>2,318</u>
Represented by			
Capital and reserves			
Called up share capital	13	100	100
Profit and loss account	14	12,559	2,218
SHAREHOLDERS' FUNDS - EQUITY INTERESTS		<u>12,659</u>	<u>2,318</u>

By order of the Board



Director

2 July

2004

BP AMOCO EXPLORATION (FAROEES) 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:

	2003 <u>£'000</u>	2002 <u>£'000</u>
Operating lease rentals - plant & machinery	4,201	6,218
Depreciation of owned fixed assets (including amortisation of intangibles)	5,593	11,195
Exchange loss on foreign currency borrowings less deposits	26	471

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

3. Other income

	2003 <u>£'000</u>	2002 <u>£'000</u>
Interest income from fellow subsidiary undertakings	636	42
Other interest and miscellaneous income	4	6
	<u>640</u>	<u>48</u>

4. Interest payable and similar charges

	2003 <u>£'000</u>	2002 <u>£'000</u>
Unwinding of discounts on provisions	82	84
Loans from fellow subsidiary undertakings	8	16
	<u>90</u>	<u>100</u>

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 (FAROE) 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:

	2003 <u>£'000</u>	2002 <u>£'000</u>
Profit before taxation	10,341	8,683
Current taxation	-	-
Effective current tax rate	0%	0%
	2003 %	2002 %
UK statutory corporation tax rate	30	30
Increase/(decrease) resulting from:		
UK Supplementary tax at 10% on North Sea profits	12	-
Timing differences	1	28
Group relief	4	5
IRF tax provided in BPEOC	(47)	(63)
Effective current tax rate	<u>-</u>	<u>-</u>

6. Directors

None of the directors received any fees or remuneration for services as a director of the company during the financial year (2002 £Nil).

7. Intangible assets

	Exploration expenditure <u>£'000</u>
Cost	
At 1 January 2003	1,042
Additions	234
Deletions	(456)
At 31 December 2003	<u>820</u>
Depreciation	
At 1 January 2003	-
Charge for the year	456
Deletions	(456)
	<u>-</u>
Net book amount	
At 31 December 2003	<u>820</u>
At 31 December 2002	<u>1,042</u>

BP AMOCO EXPLORATION (FAROEES) LIMITED

NOTES TO THE ACCOUNTS

8. Tangible assets

	Production Assets £'000
Cost	
At 1 January 2003	56,638
Additions	2,324
	<u>-----</u>
At 31 December 2003	<u>58,962</u>
Depreciation	
At 1 January 2003	22,388
Charge for the year	5,137
	<u>-----</u>
At 31 December 2003	<u>27,525</u>
Net book amount	
At 31 December 2003	<u>31,437</u>
	<u>-----</u>
At 31 December 2002	<u>34,250</u>

Included within tangible assets:

	Cost £'000	Depreciation £'000	Net £'000
Capitalised interest			
At 31 December 2003	<u>1,794</u>	<u>1,148</u>	<u>646</u>
At 31 December 2002	<u>1,794</u>	<u>1,034</u>	<u>760</u>

9. Fixed Assets - Investments

	Other £'000	Total £'000
Cost		
At 1 January 2003	9,503	9,503
Additions	21,449	21,449
	<u>-----</u>	<u>-----</u>
At 31 December 2003	<u>30,952</u>	<u>30,952</u>

BP AMOCO EXPLORATION (FAROE) LIMITED

NOTES TO THE ACCOUNTS

10. Debtors

	2003	2002
	Within	Within
	1 year	1 year
	<u>£'000</u>	<u>£'000</u>
Parent and fellow subsidiary undertakings	2,700	3,092
Other	1,374	1,281
	<u>4,074</u>	<u>4,373</u>

11. Other creditors

	2003	2002
	Within	Within
	1 year	1 year
	<u>£'000</u>	<u>£'000</u>
Trade	7,891	2,994
Parent and fellow subsidiary undertakings	42,193	31,843
Accruals and deferred income	377	1,060
Other	475	243
	<u>50,936</u>	<u>36,140</u>

12. Provisions for liabilities and charges

	Decommissioning <u>£'000</u>
At 1 January 2003	3,562
Unwinding of discount	82
Change in cost of abandonment	307
At 31 December 2003	<u>3,951</u>

The group makes full provision for the future cost of decommissioning oil and natural gas production facilities and related pipelines on a discounted basis at the commencement of production. At 31 December 2003, the provision for the costs of decommissioning these production facilities and pipelines at the end of their economic lives was £3.9 million (2002: £3.5 million). The provision has been estimated using existing technology, at current prices and discounted using a real discount rate of 2.5% (2002: 2.5%). These costs are expected to be incurred over the next 9 years. While the provision is based on the best estimate of future costs and the economic lives of the facilities and pipelines, there is uncertainty regarding both the amount and timing of incurring these costs.

BP AMOCO EXPLORATION (FAROEES) LIMITED

NOTES TO THE ACCOUNTS

13. Called up share capital

	2003 <u>£'000</u>	2002 <u>£'000</u>
Authorised, issued and fully paid: 100,000 ordinary shares of £1 each	100	100

14. 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 2003	100	2,218	2,318
Profit for the year	-	10,341	10,341
At 31 December 2003	100	12,559	12,659

15. Reconciliation of movements in shareholders' interest

	2003 <u>£'000</u>	2002 <u>£'000</u>
Profit for the year	10,341	8,683
Net increase in shareholders' interests	10,341	8,683
Shareholders' interest at 1 January	2,318	(6,365)
Shareholders' interest at 31 December	12,659	2,318

16. Operating lease commitments

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

	2003 Other <u>£'000</u>	2002 Other <u>£'000</u>
Expiring: Between 2 to 5 years	4,043	5,167
	4,043	5,167

17. Capital commitments

Authorised and contracted future capital expenditure is estimated at £1.76 million (2002 £2.2 million).

BP AMOCO EXPLORATION (FAROES) LIMITED

NOTES TO THE ACCOUNTS

18. Contingent liabilities

There were contingent liabilities at 31 December 2003 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.

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.