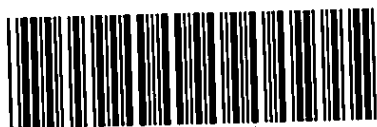


BP AMOCO EXPLORATION (FAROEES) LIMITED

(Registered in England and Wales No 856444)

ANNUAL REPORT AND ACCOUNTS 2006

Board of Directors D J Blackwood
 M T Richards
 J C Skipper



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COMPANIES HOUSE

THURSDAY

REPORT OF THE DIRECTORS

The directors present their report and accounts for the year ended 31 December 2006

Principal activity

The company's principal activities are the exploration for oil and gas offshore the Faroe Islands under Licence No 004 and exploration for and production of oil and gas from its 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

The profit for the year after taxation was \$38.1 million, when added to the retained profit brought forward at 1 January 2006 of \$59.8 million, gives a total retained profit carried forward at 31 December 2006 of \$97.9 million. The directors do not propose the payment of a final dividend.

Directors

The present directors are listed above. D J Blackwood and J C Skipper served as directors throughout the financial year. Changes since 1 January 2006 are as follows:

	<u>Appointed</u>	<u>Resigned</u>
J H Bartlett	-	1 March 2006
G Y Birrell	1 March 2006	1 September 2006
M T Richards	1 March 2006	-

BP AMOCO EXPLORATION (FAROE) LIMITED

REPORT OF THE DIRECTORS

Risks

The company aims to deliver sustainable value by identifying and responding successfully to risks. Risk management is integrated into the process of planning and performance management at a group level. Monitoring and accountability for the management of these risks occur through quarterly performance reviews at a group level.

Company level risks have been identified and classified in four categories: delivery, inherent, enduring and financial.

Delivery risks

Delivery risks are those specific to implementing activities contained in the company plan. Successful execution of this plan depends critically on implementing the set of activities described. The most significant risks affecting the company include:

Upstream renewal

The inability of the company to renew its portfolio and sustain long-term reserves replacement. The challenge is growing due to increasing competition for access to opportunities globally.

Major project delivery

Poor delivery of any major project that underpins production growth and / or a major programme designed to enhance shareholder value.

Inherent risks

There are a number of risks that arise as a result of the business climate, which are not directly controllable.

Competition risk

The oil, gas and petrochemicals industries are highly competitive. There is strong competition, both within the oil and gas industry and with other industries, in supplying the fuel needs of commerce, industry and the home. Competition puts pressure on product prices, affects oil products marketing and requires continuous management focus on reducing unit costs and improving efficiency.

Price risk

Oil, gas and product prices are subject to international supply and demand. Political developments (especially in the Middle East) and the outcome of meetings of OPEC can particularly affect world supply and oil prices. In addition to the adverse effect on revenues, margins and profitability from any future fall in oil and natural gas prices, a prolonged period of low prices or other indicators would lead to a review for impairment of the group's oil and natural gas properties. This review would reflect management's view of long-term oil and natural gas prices. Such a review could result in a charge for impairment that could have a significant effect on the group's results of operations in the period in which it occurs.

BP AMOCO EXPLORATION (FAROEES) LIMITED

REPORT OF THE DIRECTORS

Regulatory risk

The oil industry is subject to regulation and intervention by governments throughout the world in such matters as the award of exploration and production interests, the imposition of specific drilling obligations, environmental protection controls, controls over the development and decommissioning of a field (including restrictions on production) and, possibly, nationalization, expropriation, cancellation or non-renewal of contract rights. The oil industry is also subject to the payment of royalties and taxation, which tend to be high compared with those payable in respect of other commercial activities, and operates in certain tax jurisdictions that have a degree of uncertainty relating to the interpretation of, and changes to, tax law. As a result of new laws and regulations or other factors, we could be required to curtail or cease certain operations, causing our production to decrease, or we could incur additional costs.

Enduring risks

The company sets high standards of corporate citizenship and aspires to contribute to a better quality of life through the products and services it provides. This may create risks to reputation if it is perceived that actions are not aligned to these standards and aspirations.

Social responsibility risk

Risk could arise if it is perceived that the company is not respecting or advancing the economic and social progress of the communities in which it operates.

Environmental risk

The company seeks to conduct its activities in such a manner that there is no or minimal damage to the environment. Risk could arise if the company does not apply its resources to overcome the perceived trade-off between global access to energy and the protection or improvement of the natural environment.

Compliance risk

Incidents of non-compliance with applicable laws and regulation or ethical misconduct could be damaging to the company's reputation. Inherent in the company's operations are hazards that require continual oversight and control. If operational risks materialized, loss of life, damage to the environment or loss of production could result.

Drilling and production risk

Exploration and production require high levels of investment and have particular economic risks and opportunities and may often involve innovative technologies. They are subject to natural hazards and other uncertainties, including those relating to the physical characteristics of an oil or natural gas field. The cost of drilling, completing or operating wells is often uncertain. The company may be required to curtail, delay or cancel drilling operations because of a variety of factors, including unexpected drilling conditions, pressure or irregularities in geological formations, equipment failures or accidents, adverse weather conditions and compliance with governmental requirements.

Technical integrity risk

There is a risk of loss of containment of hydrocarbons and other hazardous material at operating production facilities sites and pipelines.

Security risk

Acts of terrorism that threaten our plants and offices, pipelines, transportation or computer systems would severely disrupt business and operations.

BP AMOCO EXPLORATION (FAROES) LIMITED

REPORT OF THE DIRECTORS

Financial Risk Management

The main financial risks faced by the company through its normal business activities are market risk, credit risk and liquidity risk. The management of these financial risks is performed at a group (BP plc Group) level. These main financial risks faced by the company through its normal business activities are market risk, currency risk, credit risk and liquidity risk.

Market risk

Market risk is the possibility that changes in currency exchange rates, interest rates or oil, natural gas and power prices will adversely affect the value of the group's financial assets, liabilities or expected future cash flows. The management of such risks is performed at BP group level. The group has developed policies aimed at managing the market risk inherent in its natural business activities and, in accordance with these policies, the group enters into various transactions using derivative financial and commodity instruments (derivatives). Derivatives are contracts whose value is derived from one or more underlying financial instruments, indices or prices that are defined in the contract. The group also trades derivatives in conjunction with these risk management activities.

Currency risk

Fluctuations in exchange rates can have significant effects on the company's reported profit. The company's financial assets and liabilities give rise to transactional currency exposures. Such exposures arise from transactions in a currency other than the company's functional currency. The management of such risks is performed at BP group level.

BP's foreign exchange management policy is to minimize economic and significant transactional exposures arising from currency movements against the US dollar. The group co-ordinates the handling of foreign exchange risks centrally, by netting off naturally occurring opposite exposures wherever possible to reduce the risks, and then dealing with any material residual foreign exchange risks. Significant residual non-dollar exposures are managed using a range of derivatives.

Oil, natural gas and power prices

BP's trading function uses financial and commodity derivatives as part of the overall optimisation of the value of the group's equity oil production and as part of the associated trading of crude oil, products and related instruments. It also uses financial and commodity derivatives to manage certain of the group's exposures to price fluctuations on natural gas and power transactions.

Credit risk

Credit risk is the potential exposure of the company to loss in the event of non-performance by a counter party. The management of such risks is performed at BP group level. The group controls the related credit risk through credit approvals, limits, use of netting arrangements and monitoring procedures. Counterparty credit validation, independent of the dealers, is undertaken before contractual commitment.

Concentrations of credit risk

The primary activities of the company are oil and natural gas exploration and production. The company's principal customers, suppliers and financial institutions with which it conducts business are located throughout the world. The credit ratings of interest rate and currency swap counterparties are all of at least investment grade. The credit quality is actively managed over the life of the swap.

BP AMOCO EXPLORATION (FAROEES) LIMITED

REPORT OF THE DIRECTORS

Liquidity risk

Liquidity risk is the risk that sources of funding for the company's business activities may not be available. This risk is managed by the BP group on the company's behalf and as such the company has access to the resources of the group. The group has long-term debt ratings of Aa1 and AA+, assigned respectively by Moody's and Standard & Poor's.

Key performance indicators

The Companies Act requires directors to disclose the company's Key Performance Indicators (KPIs). BP manages its KPIs at a segment and geographical level. As a result the directors have taken the decision not to disclose KPIs in individual subsidiary accounts. The BP group KPIs are included within the accounts of the ultimate parent undertaking BP plc.

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 with payments made in accordance with the relevant contractual payment terms. A copy of the code of practice may be obtained from the CBI.

There were no trade creditors at the year-end.

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.

Directors' statement as to disclosure of information to the auditor

The directors who were members of the board at the time of approving the directors' report are listed on page 1. Having made inquiries of fellow directors and of the company's auditor, each of these directors confirm that:

- To the best of each director's knowledge and belief, there is no information relevant to the preparation of their report of which the company's auditors are unaware, and
- Each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the company's auditors are aware of that information.

Secretary

6 July 2007

Registered Office
Chertsey Road
Sunbury on Thames
Middlesex
TW16 7BP

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BP AMOCO EXPLORATION (FAROES) LIMITED
STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE
ACCOUNTS

The directors are responsible for preparing the financial statements in accordance with applicable United Kingdom law and United Kingdom generally accepted accounting practice.

Company law requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company. In preparing these financial statements, the directors are required.

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

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of 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 financial statements.

BP AMOCO EXPLORATION (FAROES) LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
BP AMOCO EXPLORATION (FAROES) LIMITED

We have audited the company's financial statements for the year ended 31 December 2006 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the accounting policies and the related notes 1 to 24. These financial statements have been prepared under 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

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 1985. We also report to you whether in our opinion the information given in the directors' report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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 other transactions is not disclosed.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the directors' report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments 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.

BP AMOCO EXPLORATION (FAROE) LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
BP AMOCO EXPLORATION (FAROE) LIMITED

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2006 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the directors' report is consistent with the financial statements

Ernst + Young LLP
Ernst & Young LLP
Registered auditor
Aberdeen

10 July 2007

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 provisions of the SORP except that the SORP recommends that oil and gas reserve quantities be disclosed. The company is a wholly owned subsidiary of BP plc 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 plc. 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 accounts 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

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 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 interests in those properties (the entitlement method). Differences between the production sold and the company's share of production (under/over lifts) are included as an adjustment to cost of sales

Foreign currency transactions

Transactions in foreign currencies are initially recorded in dollars by applying the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into dollars at the rate of exchange ruling at the balance sheet date. Any resulting exchange differences are included in the profit and loss account

BP AMOCO EXPLORATION (FAROE) LIMITED

ACCOUNTING POLICIES

Research

Expenditure on research is written off in the year in which it is incurred

Interest

Interest is capitalised gross of related tax relief 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 in the year in which it is incurred

Intangible assets

Intangible assets include expenditure on the exploration for and evaluation of oil and natural gas resources, computer software, patents, licences, trademarks and product development costs. Product development costs are capitalised as intangible assets when a project has obtained sanction and the future recoverability of such costs can reasonably be regarded as assured.

Intangible assets are not depreciated. The infinite life of intangible assets is reviewed on an annual basis and, if necessary, changes in useful lives are accounted for prospectively.

The carrying value of intangible assets is reviewed for impairment if events or changes in circumstances indicate the carrying value 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 asset is written down to its recoverable amount. The value in use is determined from estimated discounted future net cash flows.

Oil and natural gas exploration and development expenditure

Oil and natural gas exploration and development expenditure is accounted for using the successful efforts method of accounting.

Licence and property acquisition costs

Exploration licence and property leasehold acquisition costs are initially capitalised within intangible fixed assets. Upon determination of economically recoverable reserves ('proved reserves' or 'commercial reserves'), the costs are aggregated with exploration expenditure and held on a field-by-field basis as proved properties awaiting approval within intangible assets. When development is sanctioned, the relevant expenditure is transferred to tangible production assets.

Each property is reviewed on an annual basis to confirm that future activity is planned and the property is not impaired. If no future activity is planned, the remaining balance of the licence and property acquisition costs is written off.

BP AMOCO EXPLORATION (FAROEES) LIMITED

ACCOUNTING POLICIES

Exploration expenditure

Geological and geophysical exploration costs are charged against income as incurred. Costs directly associated with an exploration well are capitalised as an intangible asset until the drilling of the well is complete and the results have been evaluated. These costs include employee remuneration, materials and fuel used, rig costs, delay rentals and payments made to contractors. If hydrocarbons are not found, the exploration expenditure is written off as a dry hole. If hydrocarbons are found and, subject to further appraisal activity, which may include the drilling of further wells, are likely to be capable of commercial development, the costs continue to be carried as an asset. All such carried costs are subject to regular technical, commercial and management review to confirm the continued intent to develop or otherwise extract value from the discovery. When this is no longer the case, the costs are written off. When proved reserves of oil and natural gas are determined and development is sanctioned, the relevant expenditure is transferred to tangible production assets.

Development expenditure

Expenditure on the construction, installation or completion of infrastructure facilities such as platforms, pipelines and the drilling of development wells, including unsuccessful development or delineation wells, is capitalised within tangible production assets.

Tangible fixed assets

Tangible fixed assets are stated at cost, less accumulated depreciation and accumulated impairment losses.

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of any decommissioning obligation, if any, and, for qualifying assets, borrowing costs. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. The capitalised value of a finance lease is also included within property, plant and equipment.

Oil and natural gas properties are depreciated using a unit-of-production method. The cost of producing wells is depreciated over proved developed reserves. Licence acquisition, decommissioning and field development costs are depreciated over total proved reserves. The unit-of-production rate for the depreciation of field development costs takes into account expenditures incurred to date, together with future development expenditure required to access the total proved reserves.

Other tangible assets, with the exception of freehold land, are depreciated on the straight line method over their estimated useful lives.

Maintenance expenditure

Expenditure on major maintenance refits or repairs comprises the cost of replacement assets or parts of assets, inspection costs and overhaul costs. Where an asset or part of an asset that was separately depreciated and is now written off is replaced and it is probable that future economic benefits associated with the item will flow to the company, the expenditure is capitalised. All other maintenance costs are expensed as incurred.

BP AMOCO EXPLORATION (FAROES) LIMITED

ACCOUNTING POLICIES

Impairment of intangible assets and tangible fixed assets

The company assesses assets or groups of assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Individual assets are grouped for impairment assessment purposes at the lowest level at which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets. If any such indication of impairment exists or when annual impairment testing for an asset group is required, the company makes an estimate of its recoverable amount. An asset group's recoverable amount is the higher of its net realisable value and its value in use. Where the carrying amount of an asset group exceeds its recoverable amount, the asset group is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are adjusted for the risks specific to the asset group and are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money.

Fixed asset investments

All other fixed asset investments are stated in the financial statements at cost less provisions for permanent diminution in value.

Stock valuation

The company's stock consists predominately of plant and insurance spares which are valued at cost to the company mainly using the weighted average method or net realisable value whichever is lower.

Provisions

Provisions are recognised when the company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the company expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the profit and loss account net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate.

A contingent liability is disclosed where the existence of an obligation will only be confirmed by future events or where the amount of the obligation cannot be measured with reasonable reliability. Contingent assets are not recognised, but are disclosed where an inflow of economic benefits is probable.

BP AMOCO EXPLORATION (FAROES) LIMITED

ACCOUNTING POLICIES

Decommissioning

Provision for decommissioning costs are recognised when the company has an obligation to dismantle and remove a facility or an item of plant and to restore the site on which it is located, and when a reasonable estimate of that provision can be made. Where an obligation exists for a new facility, such as oil and natural gas production or transportation facilities, this will be on construction or installation. An obligation for decommissioning may also crystallise during the period of operation of a facility through a change in legislation or through a decision to terminate operations. 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.

Discounting

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

Leases

Operating lease payments are recognised either as an expense in the profit and loss account on a straight-line basis over the lease term or capitalised where in support of fixed assets development.

Pensions

The disclosures of Financial Reporting Standard No 17 "Retirement Benefits" have been made in the accounts of the ultimate parent undertaking.

Financial liabilities and equity

Financial liabilities and equity are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

Use of estimates

The preparation of accounts requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as well as the disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Actual outcomes could differ from those estimates.

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.

BP AMOCO EXPLORATION (FAROES) LIMITED

ACCOUNTING POLICIES

Comparative figures

Certain prior year figures have been restated to conform with the 2006 presentation. This restatement relates to the reclassification of certain items within Debtors from Other to Parent and fellow subsidiary undertakings, and within Creditors from Other to Parent and fellow subsidiary undertakings. This has no net effect on the results for the year.

BP AMOCO EXPLORATION (FAROES) LIMITED
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2006

		2006	2005
	Note	\$000	\$000
Turnover	2	51,216	33,511
Cost of sales		(18,564)	(10,956)
Gross profit		32,652	22,555
Exploration expense		(171)	(3,889)
Distribution and marketing expenses		(36)	-
Administration expenses		-	(82)
		32,445	18,584
Other interest receivable and similar income	5	5,917	2,830
Operating profit	3	38,362	21,414
Profit on ordinary activities before interest and tax		38,362	21,414
Interest payable and similar charges	6	(218)	(196)
Profit before taxation		38,144	21,218
Taxation	7	-	-
Profit for the year		38,144	21,218

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 31 DECEMBER 2006

There are no recognised gains or losses attributable to the shareholders of the company other than the profit of \$38.1 million for the year ended 31 December 2006 (2005 profit of \$21.2 million)

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BP AMOCO EXPLORATION (FAROES) LIMITED

BALANCE SHEET AT 31 DECEMBER 2006

	Note	<u>2006</u> \$000	<u>2005</u> \$000
Fixed assets			
Intangible assets	9	1,964	382
Tangible assets	10	47,520	50,755
Investments	11	<u>142,429</u>	<u>94,554</u>
		191,913	145,691
Current assets			
Stocks	12	325	405
Debtors – amounts falling due within one year	13	<u>8,609</u>	<u>6,959</u>
		8,934	7,364
Creditors: amounts falling due within one year	14	<u>(87,405)</u>	<u>(82,673)</u>
Net current liabilities		(78,471)	(75,309)
TOTAL ASSETS LESS CURRENT LIABILITIES		113,442	70,382
Provisions for liabilities and charges	15	<u>(15,310)</u>	<u>(10,394)</u>
NET ASSETS		<u>98,132</u>	<u>59,988</u>
Represented by:			
Capital and reserves			
Called up share capital	16	192	192
Profit and loss account	17	<u>97,940</u>	<u>59,796</u>
SHAREHOLDERS' FUNDS – EQUITY INTERESTS		<u>98,132</u>	<u>59,988</u>


Director
6 July 2007

BP AMOCO EXPLORATION (FAROE) LIMITED

NOTES TO THE ACCOUNTS

1. Oil and natural gas reserves estimates

At the end of 2006, the company adopted the US Securities and Exchange Commission (SEC) rules for estimating oil and natural gas reserves for all accounting and reporting purposes instead of the UK accounting rules contained in the Statement of Recommended Practice Accounting for Oil and Gas Exploration, Development, Production and Decommissioning Activities' (UK SORP).

The main differences relate to the SEC requirement to use year-end prices, the application of SEC interpretations of SEC regulations relating to the use of technology (mainly seismic) to estimate reserves in the reservoir away from wellbores and the reporting of fuel gas (i.e. gas used for fuel in operations) within proved reserves. Consequently, reserves quantities under SEC rules differ from those that would be reported under application of the UK SORP. The change to SEC reserves will align the UK statutory accounts with the BP group accounts. The change to SEC reserves in the group accounts represents a simplification of the group's reserves reporting as in future only one set of reserves estimates will be disclosed in the group accounts, as well as making the group results more comparable with those of our major competitors.

This change in accounting estimate has a direct impact on the amount of depreciation, depletion and amortization (DD&A) charged in the profit and loss account in the year in respect of oil and natural gas properties which are depreciated on a unit-of-production basis. The change in estimate is applied prospectively, with no restatement of prior years' results. The company's actual DD&A charge for the year is \$9.9m, whereas the charge based on UK SORP reserves would have been \$9.9m. Over the life of the field this change will have no overall effect on DD&A.

2. Turnover

Turnover, which is stated net of value added tax, where applicable, represents the selling value of petroleum products produced during the year. Turnover is attributable to one continuing activity, the purchasing and selling of petroleum products.

All turnover is related to exploration and production.

Turnover is generated by UK oil and gas operations, however sales are made to customers in various geographical locations.

An analysis of turnover by geographical market is given below.

	<u>2006</u>	<u>2005</u>
	\$000	\$000
By geographical area		
UK	<u>51,216</u>	<u>33,511</u>

BP AMOCO EXPLORATION (FAROE) LIMITED

NOTES TO THE ACCOUNTS

3. Operating profit

This is stated after charging/(crediting)

	<u>2006</u>	<u>2005</u>
	\$000	\$000
Hire charges under operating leases		
Plant & machinery	4,934	7,581
Exchange losses and (gains) charged / (credited) to the profit and loss account	92	(64)
Expenditure on research	70	173
Depreciation of owned fixed assets (including amortisation of intangibles)	9,869	12,373
	<u> </u>	<u> </u>

4. Auditors' remuneration

	<u>2006</u>	<u>2005</u>
	\$000	\$000
Fees for the audit of the company	6	8
	<u> </u>	<u> </u>

The audit fee was borne by another group company in both years

Fees paid to the company's auditor, Ernst & Young LLP, and its associates for services other than the statutory audit of the company are not disclosed in these accounts since the consolidated accounts of BP Amoco Exploration (Faroes) Limited's parent, BP plc, are required to disclose non-audit fees on a consolidated basis

5. Other interest receivable and similar income

	<u>2006</u>	<u>2005</u>
	\$000	\$000
Interest income from fellow subsidiary undertakings	5,911	2,825
Other interest	6	5
	<u>5,917</u>	<u>2,830</u>

6. Interest payable and similar charges

	<u>2006</u>	<u>2005</u>
	\$000	\$000
Interest expense on		
Loans from fellow subsidiary undertakings	8	20
Unwinding of discount on provisions	210	176
Total charged against profit	<u>218</u>	<u>196</u>

BP AMOCO EXPLORATION (FAROES) LIMITED

NOTES TO THE ACCOUNTS

7. 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 group relief to the extent it is required and to provide for any current or deferred tax that arises without charge

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

	<u>2006</u>	<u>2005</u>
	<u>\$000</u>	<u>\$000</u>
Profit on ordinary activities before taxation	38,144	21,218
Current taxation	-	-
Effective current tax rate	0%	0%
	<u>2006</u>	<u>2005</u>
	<u>%</u>	<u>%</u>
UK statutory corporation tax rate	30	30
Increase / (decrease) resulting from		
UK supplementary tax at 20% (2005 10%) on North Sea profits	17	11
Group relief	(4)	(1)
IRF tax provided in BPEOC	(43)	(44)
Other timing differences	0	4
Total current year	<u>0</u>	<u>0</u>

8. Directors

None of the directors received any fees or remuneration for services as a director of the company during the financial year (2005 \$Nil)

BP AMOCO EXPLORATION (FAROE) LIMITED

NOTES TO THE ACCOUNTS

9. Intangible assets

	Exploration expenditure
Cost	<u>\$000</u>
At 1 January 2006	1,853
Additions	<u>1,582</u>
At 31 December 2006	<u>3,435</u>
Depreciation	
At 1 January 2006	1,471
Charge for the year	<u>-</u>
At 31 December 2006	<u>1,471</u>
Net book value	
At 31 December 2006	<u>1,964</u>
At 31 December 2005	<u>382</u>

10. Tangible assets

	Oil and gas properties	Of which assets under construction
	<u>\$000</u>	<u>\$000</u>
Cost		
At 1 January 2006	127,088	-
Additions	<u>6,634</u>	<u>1,067</u>
At 31 December 2006	<u>133,722</u>	<u>1,067</u>
Depreciation		
At 1 January 2006	76,333	-
Charge for the year	<u>9,869</u>	<u>-</u>
At 31 December 2006	<u>86,202</u>	<u>-</u>
Net book value		
At 31 December 2006	<u>47,520</u>	<u>1,067</u>
At 31 December 2005	<u>50,755</u>	<u>-</u>

BP AMOCO EXPLORATION (FAROE) LIMITED

NOTES TO THE ACCOUNTS

10. Tangible assets (continued)

Capitalised interest included above

	<u>Cost</u>	<u>Depreciation</u>	<u>Net book amount</u>
	<u>\$000</u>	<u>\$000</u>	<u>\$000</u>
At 31 December 2006	<u>3,447</u>	<u>2,901</u>	<u>546</u>
At 31 December 2005	<u>3,447</u>	<u>2,707</u>	<u>740</u>

11. Fixed assets - investments

Cost	<u>Other \$000</u>
At 1 January 2006	94,554
Additions	47,875
At 31 December 2006	<u>142,429</u>

12. Stocks

	<u>2006</u>	<u>2005</u>
	<u>\$000</u>	<u>\$000</u>
Raw materials and consumables	<u>325</u>	<u>405</u>

The difference between the carrying value of stocks and their replacement cost is not material

13. Debtors

	<u>2006</u>	<u>2005</u>
	<u>Within 1 year</u>	<u>Restated Within 1 year</u>
	<u>\$000</u>	<u>\$000</u>
Trade debtors	3,634	1,679
Parent and fellow subsidiary undertakings	3,956	4,425
Prepayments and accrued income	58	58
Other	961	797
	<u>8,609</u>	<u>6,959</u>

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BP AMOCO EXPLORATION (FAROEES) LIMITED

NOTES TO THE ACCOUNTS

14. Creditors

	2006	2005
	Within	<u>Restated</u>
	1 year	Within
	\$000	1 year
Parent and fellow subsidiary undertakings	85,465	80,961
Accruals and deferred income	1,747	1,712
Other	193	-
	<u>87,405</u>	<u>82,673</u>

15. Provisions for liabilities and charges

	<u>Decommissioning</u>
	\$000
At 1 January 2006	10,394
Unwinding of discount	210
Change in decommissioning estimate	4,706
At 31 December 2006	<u>15,310</u>

The company makes full provision for the future cost of decommissioning oil and natural gas production facilities and related pipelines on a discounted basis on the installation of those facilities. At 31 December 2006, the provision for the costs of decommissioning these production facilities and pipelines at the end of their economic lives was \$15.3 million (2005 \$10.4 million). The provision has been estimated using existing technology, at current prices and discounted using a real discount rate of 2% (2005 2%). These costs are expected to be incurred over the next 14 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.

16. Called up share capital

	2006	2005
	\$000	\$000
Authorised, allotted, called up and fully paid 100,000 ordinary shares of £1 each	<u>192</u>	<u>192</u>

BP AMOCO EXPLORATION (FAROE) LIMITED

NOTES TO THE ACCOUNTS

17. Capital and reserves

	Equity share capital	Profit & loss account	Total
	\$000	\$000	\$000
At 1 January 2006	192	59,796	59,988
Profit for the year	-	38,144	38,144
At 31 December 2006	<u>192</u>	<u>97,940</u>	<u>98,132</u>

18. Reconciliation of movements in shareholders' funds

	2006	2005
	\$000	\$000
Profit for the year	38,144	21,218
Shareholders' interests at 1 January	59,988	38,770
Shareholders' interests at 31 December	<u>98,132</u>	<u>59,988</u>

19. Operating lease commitments

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

	2006	2005
	Other	Other
	\$000	\$000
Expiring		
Within 1 year	11,200	209
Between 2 to 5 years	3,843	4,140
	<u>15,043</u>	<u>4,349</u>

20. Capital commitments

Authorised and contracted future capital expenditure by the company for which contracts had been placed but not provided in the accounts at 31 December 2006 is estimated at \$14.4 million (2005 \$35.0 million)

21. Contingent liabilities

There were contingent liabilities at 31 December 2006 in respect of guarantees and indemnities entered into as part of the ordinary course of the company's business. No material losses are likely to arise from such contingent liabilities.

BP AMOCO EXPLORATION (FAROEES) LIMITED

NOTES TO THE ACCOUNTS

22. 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. There were no other related party transactions in the year.

23. Pensions

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

24. Immediate and ultimate parent undertaking

The immediate parent undertaking of this company is BP Exploration Operating Company Limited, a company registered in England and Wales. 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 plc, a company registered in England and Wales. Copies of BP plc's accounts can be obtained from 1 St James's Square, London, SW1Y 4PD.