

BP EXPLORATION COMPANY LIMITED

(Registered No SC792)

ANNUAL REPORT AND ACCOUNTS 2007

Board of Directors W E Armstrong
 M C Daly
 A G Inglis
 F W M Starkie



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COMPANIES HOUSE

REPORT OF THE DIRECTORS

The directors present their report and accounts for the year ended 31 December 2007

Principal activity

The company holds investments in subsidiary undertakings engaged in oil and gas production and exploration world wide

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 £1,379,127,000. During the year, an interim dividend of £1,368,792,000 was paid to equity shareholders. When profit for the year after taxation and dividend is added to the retained profit brought forward at 1 January 2007 of £38,755,000 (together with exchange adjustments taken directly to reserves of £1,457,000), this gives a total retained profit carried forward at 31 December 2007 of £47,633,000. The directors do not propose the payment of a final dividend.

Directors

The present directors are listed above

Mr W E Armstrong, Mr M C Daly and Mr A G Inglis served as directors throughout the financial year. Changes since 1 January 2007 are as follows

	<u>Appointed</u>	<u>Resigned</u>
F W M Starkie	1 July 2007	
A B Hayward		13 March 2007

Directors' indemnity

The company indemnifies the directors in its Articles of Association to the extent allowed under section 309 of the Companies Act, 1985 (effective for the period up to 30 September 2007) and section 232 of the Companies Act, 2006 (effective for the period from 1 October 2007)

BP EXPLORATION COMPANY 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 financial risk management.

Financial Risk Management

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

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.

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 1985 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.

BP EXPLORATION COMPANY LIMITED

REPORT OF THE DIRECTORS

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 the 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 enquiries 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 auditor is 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 auditor is aware of that information



Secretary

10 September 2008

Registered Office

1 Wellheads Avenue
Dyce
Aberdeen
AB21 7PB

BP EXPLORATION COMPANY LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

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

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

BP EXPLORATION COMPANY LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
BP EXPLORATION COMPANY LIMITED

We have audited the company's accounts for the year ended 31 December 2007 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the accounting policies and the related notes 1 to 17. These accounts 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 accounts 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 accounts 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 accounts 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 accounts.

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 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 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 accounts. It also includes an assessment of the significant estimates and judgments 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2007 and of its profit for the year then ended,
- the accounts have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the directors' report is consistent with the accounts.

Ernst & Young LLP

Ernst & Young LLP

Registered auditor

London

25 September 2008

BP EXPLORATION COMPANY LIMITED

ACCOUNTING POLICIES

Accounting standards

These accounts are prepared in accordance with applicable UK accounting standards

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.

Group accounts

Group accounts are not submitted as the company is exempt from the obligation to prepare group accounts under Section 228(1) of the Companies Act 1985. The results of subsidiary and associated undertakings are dealt with in the consolidated accounts of the ultimate parent undertaking, BP plc, a company registered in England and Wales. The accounts present information about the company as an individual undertaking and not about the group.

Dividend income

Dividend income from investments is recognised when the shareholders' right to receive the payment is established.

Foreign currency transactions

Assets and liabilities of foreign currency branches are translated into sterling at rates of exchange ruling at the balance sheet date. The profit and loss account is translated into sterling using average rates of exchange. Exchange differences arising when the opening net assets and the profits for the year retained by foreign currency branches are translated into sterling are taken directly to reserves and reported in the statement of total recognised gains and losses. Exchange gains and losses arising on long term foreign currency borrowings used to finance the company's foreign currency investments are also dealt with in reserves.

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

Interest

Interest is charged against income in the year in which it is incurred.

Dividends payable

Final dividends are recorded in the accounts in the year in which they are approved by the company's shareholders. Interim dividends are recorded in the year in which they are approved and paid.

BP EXPLORATION COMPANY LIMITED

ACCOUNTING POLICIES

Investments

Fixed asset investments in subsidiaries, joint ventures and associates are held at cost. The company assesses investments for impairment whenever events or changes in circumstances indicate that the carrying value of an investment may not be recoverable. If any such indication of impairment exists, the company makes an estimate of its recoverable amount. Where the carrying amount of an investment exceeds its recoverable amount, the investment is considered impaired and is written down to its recoverable amount.

Trade and other debtors

Trade and other debtors are carried at the original invoice amount, less allowances made for doubtful receivables. Provision is made when there is objective evidence that the group will be unable to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote.

Trade and other creditors

Trade and other creditors are carried at payment or settlement amounts. If the effect of the time value of money is material, trade and other creditors are determined by discounting the expected future cash flows at a pre-tax rate.

BP EXPLORATION COMPANY LIMITED

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2007

	Note	<u>2007</u> £000	<u>2006</u> £000
Dividend income	1	1,651,768	2,321,924
Administration expenses		(13,340)	(60,048)
Profit on ordinary activities before interest and tax	2	1,638,428	2,261,876
Interest payable and similar charges	4	(278,290)	(224,786)
Interest receivable	5	18,989	27,054
Profit before taxation		1,379,127	2,064,144
Taxation	6		
Profit for the year		<u>1,379,127</u>	<u>2,064,144</u>

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 31 DECEMBER 2007

	<u>2007</u> £000	<u>2006</u> £000
Profit for the year	1,379,127	2,064,144
Currency translation differences	(1,457)	
Total recognised gains and losses for the year	<u>1,377,670</u>	<u>2,064,144</u>

BP EXPLORATION COMPANY LIMITED

BALANCE SHEET AT 31 DECEMBER 2007

	Note	<u>2007</u> £000	<u>2006</u> £000
Fixed assets			
Investments	8	<u>4,588,755</u>	<u>4,573,059</u>
Current assets			
Debtors	9	363,904	458,088
Creditors: amounts falling due within one year	10	<u>(34,691)</u>	<u>(122,057)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		4,917,968	4,909,090
Creditors: amounts falling due after more than one year	10	<u>(4,090,000)</u>	<u>(4,090,000)</u>
NET ASSETS		<u>827,968</u>	<u>819,090</u>
Represented by			
Capital and reserves			
Called up share capital	11	780,335	780,335
Profit and loss account	12	<u>47,633</u>	<u>38,755</u>
SHAREHOLDERS' FUNDS – EQUITY INTERESTS	13	<u>827,968</u>	<u>819,090</u>



Director

10 September 2008

BP EXPLORATION COMPANY LIMITED

NOTES TO THE ACCOUNTS

1. Dividend income

	<u>2007</u>	<u>2006</u>
	£000	£000
Dividend income from shares in subsidiary undertakings	<u>1,651,768</u>	<u>2,321,924</u>

2. Profit on ordinary activities before interest and taxation

This is stated after charging

	<u>2007</u>	<u>2006</u>
	£000	£000
Exchange loss on foreign currency borrowings less deposits	2,441	55,995
Amounts provided against fixed asset investments	<u>10,851</u>	<u>4,237</u>

3. Auditor's remuneration

	<u>2007</u>	<u>2006</u>
	£000	£000
Fees for the audit of the company	<u>12</u>	<u>12</u>

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 Exploration Company Limited's ultimate parent, BP plc, are required to disclose non audit fees on a consolidated basis

4. Interest payable and similar charges

	<u>2007</u>	<u>2006</u>
	£000	£000
Interest expense on		
Loans from parent and subsidiary undertakings	276,900	223,427
Loans from fellow subsidiary undertakings	1,390	1,359
Total charged against profit	<u>278,290</u>	<u>224,786</u>

5. Interest receivable

	<u>2007</u>	<u>2006</u>
	£000	£000
Interest income from parent undertaking	<u>18,989</u>	<u>27,054</u>

BP EXPLORATION COMPANY LIMITED

NOTES TO THE ACCOUNTS

6. 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 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>2007</u>	<u>2006</u>
	£000	£000
Profit before taxation	1,379,127	2,064,144
Current taxation		
Effective current tax rate	0%	0%
	<u>2007</u>	<u>2006</u>
	%	%
UK statutory corporation tax rate	30	30
Increase / (decrease) resulting from		
Non deductible expenditure / non taxed income	(36)	(34)
Group relief	6	4
Effective current tax rate	<u> </u>	<u> </u>

7. Directors and employees

(a) Remuneration of directors

None of the directors received any fees or remuneration for services as a director of the company during the financial year (2006 £Nil).

Mr A G Inglis is a director of BP plc (the ultimate parent undertaking) in whose accounts the information required by the Companies Act 1985 as to emoluments is given. The remaining directors are senior executives of, and are remunerated by, BP plc and received no remuneration for services to this company or its subsidiary undertakings.

(b) Employee costs

The company had no employees during the year (2006 Nil).

BP EXPLORATION COMPANY LIMITED

NOTES TO THE ACCOUNTS

8. Fixed assets – investments

	Subsidiary undertaking shares	Associate undertaking shares	Joint ventures shares	Total
Cost	£000	£000	£000	£000
At 1 January 2007	4,689,541	3,976	325	4,693,842
Additions	26,547			26,547
At 31 December 2007	<u>4,716,088</u>	<u>3,976</u>	<u>325</u>	<u>4,720,389</u>
Amounts provided				
At 1 January 2007	117,137	3,646		120,783
Charge for the year	10,851			10,851
At 31 December 2007	<u>127,988</u>	<u>3,646</u>		<u>131,634</u>
Net book amount				
At 31 December 2007	<u>4,588,100</u>	<u>330</u>	<u>325</u>	<u>4,588,755</u>
At 31 December 2006	<u>4,572,404</u>	<u>330</u>	<u>325</u>	<u>4,573,059</u>

The investments in the subsidiary and associated undertakings are unlisted

The subsidiary and associated undertakings and joint ventures of the company at 31 December 2007 and the percentage of equity capital held are set out below. The principal country of operation is generally indicated by the company's country of incorporation or by its name.

On 14 November 2007, the company acquired an additional 12,000,000 £1 ordinary shares in BP CHP (UK) Limited at par for £12,000,000.

On 14 November 2007, the company acquired an additional 14,547,006 £1 ordinary shares in BP Exploration Company (Middle East) Limited at par for \$30,000,000.

The provision of £10,851,000 is in respect of the investment in BP Exploration Company (Middle East) Limited.

BP EXPLORATION COMPANY LIMITED

NOTES TO THE ACCOUNTS

8. Fixed assets – investments (continued)

Subsidiary Undertakings	%	Country of incorporation	Principal activity	
Agencia Operadora Guarapiche S A	100	Venezuela	Exploration and production	
BP (Abu Dhabi) Ltd	100	England and Wales	Exploration and production	
BP Caribbean (Holdings) Ltd	100	Trinidad and Tobago	Exploration and production	
BP CHP (UK) Ltd	100	England and Wales	Exploration and production	
BP Energy Ltd	100	England and Wales	Exploration and production	
BP Exploration Company (Middle East) Ltd	100	England and Wales	Exploration and production	
BP Exploration (Finance) Ltd	100	England and Wales	Exploration and production	
BP Exploration Mexico Ltd	100	England and Wales	Exploration and production	
BP Exploration Operating Company Ltd	100	England and Wales	Exploration and production	
BP Exploration Orinoco Ltd	100	England and Wales	Exploration and production	
BP Services International Ltd	100	England and Wales	Exploration and production	
Associated Undertakings	%	Country of incorporation	Issued Share capital	Principal activity
Bunduq Company Ltd	33 33	Abu Dhabi	25,000 'A' Shares of £1 each	Crude oil production
Joint Ventures	%	Principal place of business	Principal activities	
BP Japan Oil Company Development Ltd	50	Abu Dhabi	Refining and marketing	
Kuwait Oil Company Ltd	50	England and Wales	Corporate	

9. Debtors

	<u>2007</u>	<u>2007</u>	<u>2006</u>	<u>2006</u>
	Within	After	Within	After
	1 year	1 year	1 year	1 year
	£000	£000	£000	£000
Parent and fellow subsidiary undertakings	274,965		367,292	
Associated undertakings	468	2,401	523	2,752
Joint ventures	3	86,063		87,521
Other	4			
	<u>275,440</u>	<u>88,464</u>	<u>367,815</u>	<u>90,273</u>

BP EXPLORATION COMPANY LIMITED

NOTES TO THE ACCOUNTS

10. Creditors

	<u>2007</u>	<u>2007</u>	<u>2006</u>	<u>2006</u>
	Within	After	Within	After
	1 year	1 year	1 year	1 year
	£000	£000	£000	£000
Parent and fellow subsidiary undertakings	30,332	4,090,000	117,939	4,090,000
Joint ventures	2,527		2,527	
Accruals and deferred income	11		17	
Other	1,821		1,574	
	<u>34,691</u>	<u>4,090,000</u>	<u>122,057</u>	<u>4,090,000</u>

11. Called up share capital

	<u>2007</u>	<u>2006</u>
	£000	£000
Authorised, allotted, called up and fully paid 260,335,000 Ordinary shares of £1 each	<u>260,335</u>	<u>260,335</u>

	<u>2007</u>	<u>2006</u>
	£000	£000
Authorised share capital 5,400,000 redeemable cumulative preference shares of £100 each	<u>540,000</u>	<u>540,000</u>

	<u>2007</u>	<u>2006</u>
	£000	£000
Allotted, called up and fully paid 5,200,000 redeemable cumulative preference shares of £100 each	<u>520,000</u>	<u>520,000</u>

The redeemable cumulative preference shares are redeemable on four days' notice and are entitled to a fixed cumulative preference dividend, but carry no right to vote. The preference shareholders waived their rights to a dividend.

12. Capital and reserves

	<u>Equity share capital</u>	<u>Profit and loss account</u>	<u>Total</u>
	£000	£000	£000
At 1 January 2007	780,335	38,755	819,090
Currency translation differences		(1,457)	(1,457)
Profit for the year		1,379,127	1,379,127
Dividends – current year interim		(1,368,792)	(1,368,792)
At 31 December 2007	<u>780,335</u>	<u>47,633</u>	<u>827,968</u>

BP EXPLORATION COMPANY LIMITED

NOTES TO THE ACCOUNTS

13. Reconciliation of movements in shareholders' funds

	<u>2007</u>	<u>2006</u>
	£000	£000
Profit for the year	1,379,127	2,064,144
Currency translation differences	(1,457)	
Dividends – current year interim	<u>(1,368,792)</u>	<u>(2,581,924)</u>
Net increase/ (decrease) in shareholders' interests	8,878	(517,780)
Shareholders' interest at 1 January	819,090	1,336,870
Shareholders' interest at 31 December	<u>827,968</u>	<u>819,090</u>

14. 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

Other related party transactions took place in the current and prior year as follows

Company	Relationship	Description	<u>Debtor</u>	<u>Creditor</u>
			2007	2007
			£000	£000
BP Japan Oil Company Development Ltd	Joint venture	Refining and marketing	86,066	
Kuwait Oil Company Ltd	Joint venture	Corporate		2,527
Bunduq Company Ltd	Associate	Crude oil production	2,870	
			<u> </u>	<u> </u>
Company	Relationship	Description	<u>Debtor</u>	<u>Creditor</u>
			2006	2006
			£000	£000
BP Japan Oil Company Development Ltd	Joint venture	Refining and marketing	87,521	
Kuwait Oil Company Ltd	Joint venture	Corporate		2,527
Bunduq Company Ltd	Associate	Crude oil production	3,275	
			<u> </u>	<u> </u>

15. Pensions

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

16. Immediate and ultimate parent undertaking

The immediate parent undertaking of this company is BP International Limited, a company registered in England and Wales. The ultimate parent undertaking of the largest 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

BP EXPLORATION COMPANY LIMITED

NOTES TO THE ACCOUNTS

17. Comparative figures

Certain prior year figures have been reclassified to conform to the 2007 presentation. This had no impact on the profit and loss for the year or net assets.