BP IRAN LIMITED
(Registered No 3502262)

ANNUAL REPORT AND ACCOUNTS 2006

Board of Directors	J H Bartlett M E Townshend R L Paniguian

REPORT OF THE DIRECTORS

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

Principal activity

The Company acts as a representative of the BP Group in Iran

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 loss for the year after taxation was £774,814 which, when added to the retained deficit brought forward at 1 January 2006 of £3,000,070, together with exchange adjustments taken directly to reserves of £319,878, gives a total retained deficit carried forward at 31 December 2006 of £3,455,006 The directors do not propose the payment of a dividend

BP IRAN LIMITED

REPORT OF THE DIRECTORS

Directors

The present directors are listed on page 1

Mr A C Brayshaw, Mr J H Bartlett and Mr R L Paniguian served as directors throughout the financial year

Changes since 1 January 2006 are as follows.

	Appointed	Resigned
A Brayshaw		1 January 2007
M E Townshend	1 January 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

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

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

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

Financial Risks

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 p l c 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

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.

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 KPI's in individual subsidiary accounts The BP Group KPI's are included within the accounts of the ultimate parent undertaking BP p l c

Post balance sheet events

After the balance sheet date, 1,800,000 ordinary shares of £1 each were issued to the immediate parent company at par value

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

BP IRAN LIMITED

REPORT OF THE DIRECTORS

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

By order of the Board

Secretary

11 October 2007

Registered Office

Chertsey Road
Sunbury on Thames
Middlesex
TW16 7BP

BP IRAN 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 IRAN LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BP IRAN LIMITED

We have audited the company's accounts 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, accounting policies and the related notes 1 to 16 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 other information contained in the Annual Report, and consider whether it is consistent with the audited accounts 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 accounts 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 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 2006 and of its loss 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
17 October 2007

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BP IRAN LIMITED

ACCOUNTING POLICIES

Accounting Standards

These accounts are prepared in accordance with applicable UK accounting standards In preparing the accounts for the current year, the company has adopted Financial Reporting Standard No 20 'Share-based Payments' (FRS 20) This has not had a material effect on the accounts

Accounting convention

The accounts are prepared under the historical cost convention

Basis of Preparation

At 31 December 2006 the company's balance sheet had net liabilities amounting to £794,528 The directors consider it appropriate to prepare the accounts on a going concern basis because since the balance sheet date the company received an injection of cash from its immediate parent of £1,800,000.

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

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 loss for the year

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

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

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

Share-based payments

Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognized as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award. Fair value is determined by using an appropriate valuation model In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the company (market conditions)

No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied

At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions and the number of equity instruments that will ultimately vest or, in the case of an instrument subject to a market condition, be treated as vesting as described above The movement in cumulative expense since the previous balance sheet date is recognized in the income statement, with a corresponding entry in equity

Where the terms of an equity-settled award are modified or a new award is designated as replacing a cancelled or settled award, the cost based on the original award terms continues to be recognized over the original vesting period In addition, an expense is recognized over the remainder of the new vesting period for the incremental fair value of any modification, based on the difference between the fair value of the original award and the fair value of the modified award, both as measured on the date of the modification No reduction is recognized if this difference is negative.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation and any cost not yet recognized in the income statement for the award is expensed immediately Any compensation paid up to the fair value of the award at the cancellation or settlement date is deducted from equity, with any excess over fair value being treated as an expense in the income statement

Cash-settled transactions

The cost of cash-settled transactions is measured at fair value using an appropriate option valuation model Fair value is established initially at the grant date and at each balance sheet date thereafter until the awards are settled. During the vesting period, a liability is recognized representing the product of the fair value of the award and the portion of the vesting period expired as at the balance sheet date From the end of the vesting period until settlement, the liability represents the full fair value of the award as at the balance sheet date Changes in the carrying amount for the liability are recognized in profit or loss for the period.

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BP IRAN LIMITED

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2006

	Note	2006 £	2005 Restated £
Administration expenses		(785,775)	(317,212)
Loss on ordinary activities before interest and tax	1	(785,775)	(317,212)
Profit on disposal of fixed assets		10,961	5,958
Loss before taxation		(774,814)	(311,254)
Taxation	3	-	-
Loss for the year		(774,814)	(311,254)

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

	2006 £	2005 Restated £
Loss for the year	(774,814)	(311,254)
Currency translation differences	319,878	(150,920)
Total recognised gains and losses for the year	(454,936)	(462,174)
Prior year adjustment - as explained in note 13	(584,777)	
Total gains and losses recognised since last annual report	(1,039,713)	

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BP IRAN LIMITED

BALANCE SHEET AT 31 DECEMBER 2006

	Note	2006 £	2005 Restated £
Fixed assets			
Tangible assets	5	-	30,697
Current assets			
Debtors	6	7,584	15,972
Cash at bank and in hand		24,234	29,457
		31,818	45,429
Creditors: amounts falling due within one year	7	(826,346)	(415,718)
Net current assets		(794,528)	(370,289)
TOTAL ASSETS LESS CURRENT LIABILITIES		(794,528)	(339,592)
NET ASSETS		(794,528)	(339,592)
Represented by			
Capital and reserves			
Called up share capital	8	2,660,478	2,660,478
Profit and loss account	9	(3,455,006)	(3,000,070)
SHAREHOLDERS' FUNDS – EQUITY INTERESTS		(794,528)	(339,592)

On behalf of the Board

Director

11 October 2007

BP IRAN LIMITED

NOTES TO THE ACCOUNTS

1. Operating loss

This is stated after charging

	2006	2005
	£	£
Depreciation of owned fixed assets	1,958	3,879

2. Auditor's remuneration

	2006	2005
	£	£
Audit of the financial statements		
UK	10,185	9,600
Overseas	12,067	5,673
	22,252	15,273

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 Iran Limited's ultimate parent, BP p l.c., are required to disclose non-audit fees on a consolidated basis

3. Taxation

UK 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 UK tax that arises without charge

Overseas Taxation

(a) Tax on profit on ordinary activities

The tax charge is made up as follows

	2006	2005
<u>Current tax</u>	£	£
Overseas tax on income for the year	-	-
Overseas tax overprovided / underprovided in prior years	-	-
Total current tax	-	-

6-4

3. Taxation (continued)

(b) Factors affecting the current tax charge

The tax assessed on the profit on ordinary activities for the year is lower than the standard rate of corporation tax in the UK of 30% (2005 – 30%). The differences are reconciled below

	2006	2006	2005	2005
	UK	Overseas	UK	Overseas
	£	£	£	£
Loss on ordinary activities before tax	(774,814)	(774,814)	(311,254)	(311,254)
Current taxation	-	-	-	-
Effective current tax rate	0%	0%	0%	0%

	2006	2006	2005	2005
	UK	Overseas	UK	Overseas
	%	%	%	%
UK statutory corporation tax rate	30	30	30	30
Decrease resulting from Other timing differences	(30)	(30)	(30)	(30)
Effective current tax rate	-	-	-	-

4. 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 (2005 £Nil)

(b) Employee costs

	2006	2005
	£	£
Wages and salaries	387,676	145,078
Social security costs	5,754	(4,103)
	393,430	140,975

(c) Average monthly number of employees during the year

	2006	2005
	No	No
Administration	5	5
	5	5

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5. Tangible assets

	Motor Vehicles
Cost	£
At 1 January 2006	45,316
Exchange adjustments	(4,854)
Disposals	(40,462)
At 31 December 2006	-
Depreciation and impairment	
At 1 January 2006	14,619
Exchange adjustments	(1,566)
Charge for the year	1,958
Disposals	15,011
At 31 December 2006	-
Net book value	
At 31 December 2006	-
At 31 December 2005	30,697
Principal rates of depreciation	25%

6. Debtors

	2006	2005 Restated
	Within 1 year	Within 1 year
	£	£
Prepayments and accrued income	-	13,745
Other	7,584	2,227
	7,584	15,972

7. Creditors

	2006	2005 Restated
	Within 1 year	Within 1 year
	£	£
Social security	240	3,051
Accruals and deferred income	82,390	125,804
Parent and fellow subsidiary undertakings	737,420	276,192
Other	6,296	10,671
	826,346	415,718

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8. Called up share capital

	2006	2005
	£	£
Authorised share capital		
100,000,000 Ordinary shares of £1 each	100,000,000	100,000,000
Allotted, called up and fully paid		
2,660,478 shares of £1 each	2,660,478	2,660,478

9. Capital and reserves

	Equity share capital	Profit and loss account	Total
	£	£	£
At 1 January 2006 as previously reported	2,660,478	(2,415,293)	245,185
Prior year adjustment see note 14	-	(584,777)	(584,777)
At 1 January 2006 restated	2,660,478	(3,000,070)	(339,592)
Currency translation differences	-	319,878	319,878
Loss for the year	-	(774,814)	(774,814)
At 31 December 2006	2,660,478	(3,455,006)	(794,528)

10. Reconciliation of movements in shareholders' funds

	2006	2005
	£	£
Loss for the year as previously reported	(774,814)	(406,961)
Prior year adjustment see note 13	-	(584,777)
Loss for the year	(774,814)	(991,738)
Currency Translation differences	319,878	527,928
Net (decrease) / increase in shareholders' interests	(454,936)	(463,810)
Shareholders' interest at 1 January as previously reported	(339,592)	124,218
Shareholders' interest at 31 December as previously reported	(794,528)	(339,592)

11. 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

12. Share based payments

Effect of share-based payment transactions on the company's result and financial position

	2006	2005
	£	£
Total expense recognized for equity-settled share-based payment transactions	-	-
Total expense recognized for cash-settled share-based payment transactions	3,591	2,564
Total expense recognized for share-based payment transactions	3,591	2,564
Closing balance of liability for cash-settled share-based payment transactions	502	2,920

The share-based payment plans that existed during the year are detailed below All plans are ongoing unless otherwise stated.

BP ShareMatch Plans

Matching share plans, under which BP matches employees' own contributions of shares up to a predetermined limit The plans are run in the UK and in over 70 other countries In Iran, the plan is run on an annual basis with shares being held in trust for three years When the employee leaves BP, all shares must be removed from trust

6-4

13. Prior year adjustment

The prior year financial statements did not include accrued expenses related to the company A prior year adjustment has been made to correct this error

Current liabilities at 31 December 2005 were understated by £584,777 The loss for the year ended 31 December 2005 was overstated by £95,707

14. Post balance sheet event

After the balance sheet date, 1,800,000 ordinary shares of £1 each were issued to the immediate parent company at par value

15. Contingent liabilities

There is a contingent liability in respect to social security contributions, the amount of which will be determined after the inspection of the books of accounts by the Iranian social security organisation

16. 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 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

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