

BP AMOCO EXPLORATION (FAROEES) LIMITED
(Registered No.856444)

ANNUAL REPORT AND ACCOUNTS 2008

Board of Directors: J C Skipper
M M Auchincloss

REPORT OF THE DIRECTORS

The directors present their report and accounts for the year ended 31 December 2008.

Results and dividends

The profit for the year after taxation was \$14.5 million which, when added to the retained profit brought forward at 1 January 2008 of \$93.9 million, and after deducting the interim dividend paid of \$90.0 million, gives a total retained profit carried forward at 31 December 2008 of \$18.4 million. The directors do not propose the payment of a final dividend.

Principal activity and review of the business

The company is engaged in the exploration for oil and gas offshore off the Faroe Islands under Licence No. 004 and exploration for and production of oil and gas from its interest in the Foinaven field. Following an unsuccessful exploration drilling prospect, the directors are currently progressing with a country exit which will result in the closure of the branch office in the Faroe Islands.

The key financial and other performance indicators during the year were as follows:

	2008	2007	Variance
	\$000	\$000	%
Turnover	61,749	53,265	15.9
Operating profit/ (loss)	8,793	(12,494)	170.4
Profit / (loss) after taxation	14,513	(4,023)	460.8
Shareholders' funds	18,622	94,109	(80.2)

Turnover has increased due to the increase in the realised average price of a barrel of oil from 2007 offset by a decrease in the volume sold. Cost of sales have also increased primarily due to a movement in oil stocks with both the volume of stocks and the value of those stocks being lower at the end of 2008 compared to 2007. Operating profit has also been affected by the write off of costs relating to an unsuccessful exploration well offshore of the Faroe Islands. Costs of \$52.5 million were written off in 2007 and a further \$30.2 million in 2008.

Principal 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: strategic, compliance and ethics, financial risk management and operations.

THURSDAY



AZA8GB7P

A22

02/07/2009

230

COMPANIES HOUSE

341

BP AMOCO EXPLORATION (FAROEES) LIMITED

REPORT OF THE DIRECTORS

Strategic risks

Access and renewal

Successful execution of our group plan depends critically on implementing activities to renew and reposition our portfolio. The challenges to the renewal of our upstream portfolio are growing due to increasing competition for access to opportunities globally. Inability to complete planned disposals and/or lack of material positions in new markets could result in an inability to capture above-average market growth.

Prices and markets

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 price, 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.

Compliance and ethics risks

Regulatory

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. We buy, sell and trade oil and gas products in certain regulated commodity markets. 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.

Ethical misconduct and non-compliance

Our code of conduct, which applies to all employees, defines our commitment to integrity, compliance with all applicable legal requirements, high ethical standards and the behaviours and actions we expect of our business and people wherever we operate. Incidents of non-compliance with applicable laws and regulation or ethical misconduct could be damaging to our reputation and shareholder value. Multiple events of non-compliance could call into question the integrity of our operations.

Financial Risk Management

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

BP AMOCO EXPLORATION (FAROEES) LIMITED

REPORT OF THE DIRECTORS

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 counterparty. 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. Before trading with a new counterparty, its creditworthiness is assessed and a credit rating allocated that indicates the probability of default, along with a credit exposure limit. Creditworthiness continue to be evaluated after transactions have been initiated and a watchlist of higher-risk counterparties is maintained.

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.

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.

BP AMOCO EXPLORATION (FAROEES) LIMITED

REPORT OF THE DIRECTORS

Operations risks

Operations – safety and operations

Process safety

Inherent in our operations are hazards that require continual oversight and control. There are risks of technical integrity failure and loss of containment of hydrocarbons and other hazardous material at operating sites or pipelines. Failure to manage these risks could result in injury or loss of life, environmental damage and/or loss of production.

Personal safety

Inability to provide safe environments for our workforce and the public could lead to injuries or loss of life.

Environmental

If we do not apply our resources to overcome the perceived trade-off between global access to energy and the protection or improvement of the natural environment, we could fail to live up to our aspirations of no or minimal damage to the environment and contributing to human progress.

Drilling and production

Exploration and production require high levels of investment and 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. We 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.

Transportation

All modes of transportation of hydrocarbons contain inherent risks. A loss of containment of hydrocarbons and other hazardous material could occur during transportation by road, rail or sea. Given the high volumes involved this is a significant risk due to the potential impact of a release on the environment and people.

Operations – planning and performance management

Investment efficiency

Our organic growth is dependent on creating a portfolio of quality options and investing in the best options. Ineffective investment selection could lead to loss of value and higher capital expenditure.

Reserves replacement

Successful execution of our group plan depends critically on sustaining long-term reserves replacement. If upstream resources are not progressed to proved reserves in a timely and efficient manner, we will be unable to sustain long-term replacement of reserves.

Operations – enterprise systems, security and continuity

Digital infrastructure

The reliability and security of our digital infrastructure are critical to maintaining our business applications availability. A breach of our digital security could cause serious damage to business operations and, in some circumstances, could result in injury to people, damage to assets, harm to the environment and breaches of regulations.

BP AMOCO EXPLORATION (FAROE) LIMITED

REPORT OF THE DIRECTORS

Security

Security threats require continual oversight and control. Acts of terrorism that threaten our plants, offices, pipelines, transportation or computer systems would severely disrupt business and operations and could cause harm to people.

Business continuity and disaster recovery

Contingency plans are required to continue or recover operations following a disruption or incident. Inability to restore or replace critical capacity to an agreed level within an agreed timeframe would prolong the impact of any disruption and could severely affect business and operations.

Crisis management

Crisis management plans and capability are essential to deal with emergencies at every level of our operations. If we do not respond or are perceived not to respond in an appropriate manner to either an external or internal crisis, our business and operations could be severely disrupted.

Operations – people management

People and capability

Employee training, development and successful recruitment of new staff are key to the implementation of our plans. Inability to develop the human capacity and capability across the organisation could jeopardise performance delivery.

Research and development

Research and development costs relate to the company's share of group led research and development programmes and initiatives. The cost of these group projects are absorbed by the fields and therefore the legal entities which are expected to benefit from these developments in the future.

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.

The number of days' purchases represented by trade creditors at the year-end was 30.

Future developments

The directors aim to maintain the management policies which have resulted in the company's growth in recent years with regards to the company's interest in the Foinaven field. With regards to the company's activities in the Faroe Islands, following the write off of costs incurred in relation to an unsuccessful exploration well, the directors are progressing with a country exit which will result in the closure of the branch office in the Faroe Islands. They believe that the company is in a good position to take advantage of any opportunities which may arise in the future.

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

BP AMOCO EXPLORATION (FAROEES) LIMITED

REPORT OF THE DIRECTORS

Directors

The present directors are listed on page 1.

J C Skipper served as a director throughout the financial year. Changes since 1 January 2008 are as follows:

	<u>Appointed</u>	<u>Resigned</u>
D J Blackwood	-	31 December 2008
M T Richards	-	3 September 2008
M M Auchincloss	12 June 2009	

Directors' indemnity

The company indemnifies the directors in its Articles of Association to the extent allowed under section 232 of the Companies Act 2006.

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 confirms 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.

By order of the Board



ASSISTANT

Secretary
26 June 2009
Registered Office:
Chertsey Road
Sunbury on Thames
Middlesex
TW16 7BP

BP AMOCO EXPLORATION (FAROES) 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 and the profit for the year. 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; and
- 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 AMOCO EXPLORATION (FAROES) LIMITED

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

We have audited the company's accounts for the year ended 31 December 2008 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains, the Balance Sheet, the accounting policies and the related notes 1 to 25. 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 2008 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
Aberdeen

30 JUNE 2009

BP AMOCO EXPLORATION (FAROEES) 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 with the exception of the following:

- (i) The SORP recommends that oil and gas reserve quantities be disclosed. The company is a wholly owned subsidiary of BP p.l.c. and, as such, the oil and gas reserve quantities of the company are included in the consolidated oil and gas reserve quantities disclosed in the Annual Report and Accounts of BP p.l.c. Consequently the directors have elected not to publish this information for the company;
- (ii) The SORP contains rules around the estimation of future oil and gas reserves. The company, as part of the BP Group, estimates and calculates its reserves in accordance with the US Securities and Exchange Commission (SEC) rules. The main difference relates to the SEC requirement to use year-end prices to assess future reserves. This is the basis applied in the BP Group reporting and is comparable with other oil majors. It is not possible for the company to quantify the impact of this departure as SORP estimates of reserves are no longer maintained.

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

Foreign currency transactions are initially recorded in dollars by applying the exchange rate ruling on the date of transaction. Foreign currency monetary assets and liabilities are translated into dollars at the rate of exchange ruling at the balance sheet date. Exchange differences are included in the profit and loss account.

BP AMOCO EXPLORATION (FAROEES) 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.

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.

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 indefinite 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, 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 tangible fixed assets.

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 and assets under construction, are depreciated on the straight line method over their estimated useful lives.

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 (FAROEES) LIMITED

ACCOUNTING POLICIES

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.

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.

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.

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.

Provisions

Provisions are recognised when the group 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.

BP AMOCO EXPLORATION (FAROEES) LIMITED

ACCOUNTING POLICIES

Provisions (continued)

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.

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.

Use of estimates

The preparation of accounts in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the accounts and the reported amounts of revenues and expenses during the reporting period. Actual outcomes could differ from those estimates.

BP AMOCO EXPLORATION (FAROE) LIMITED

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2008

		<u>2008</u>	<u>2007</u>
	Note	\$000	\$000
Turnover	1	61,749	53,265
Cost of sales		<u>(19,487)</u>	<u>(11,327)</u>
Gross profit		42,262	41,938
Exploration expense		(30,518)	(54,417)
Distribution and marketing expenses		(17)	(34)
Administration expenses		<u>(2,934)</u>	<u>-</u>
		8,793	(12,513)
Other income	4	-	19
Operating profit / (loss)	2	<u>8,793</u>	<u>(12,494)</u>
Profit on disposal of fixed assets	5	-	72
Profit / (loss) on ordinary activities before interest and tax		8,793	(12,422)
Interest payable and similar charges	6	(271)	(288)
Interest receivable and similar income	7	<u>5,991</u>	<u>8,687</u>
Profit / (loss) before taxation		14,513	(4,023)
Taxation	8	-	-
Profit / (loss) for the year		<u>14,513</u>	<u>(4,023)</u>

The profit of \$14.5 million for the year ended 31 December 2008 has derived in its entirety from continuing operations.

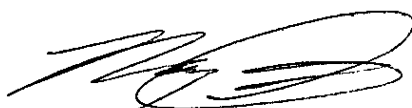
STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 31 DECEMBER 2008

There are no recognised gains or losses attributable to the shareholders of the company other than the profit of \$14.5 million for the year ended 31 December 2008 (2007 loss of \$4.0 million).

BP AMOCO EXPLORATION (FAROEES) LIMITED**BALANCE SHEET AT 31 DECEMBER 2008**

	Note	<u>2008</u> \$000	<u>2007</u> \$000
Fixed assets			
Intangible assets	10	-	-
Tangible assets	11	<u>46,812</u>	<u>39,474</u>
		46,812	39,474
Current assets			
Stocks	12	337	325
Debtors - amounts falling due:			
<i>Within one year</i>	13	2,429	27,757
<i>After more than one year</i>	13	<u>166,846</u>	<u>188,667</u>
		169,612	216,749
Creditors: amounts falling due within one year	14	<u>(182,403)</u>	<u>(147,145)</u>
Net current (liabilities)/assets		(12,791)	69,604
TOTAL ASSETS LESS CURRENT LIABILITIES		34,021	109,078
Provisions for liabilities and charges	15	<u>(15,399)</u>	<u>(14,969)</u>
NET ASSETS		<u>18,622</u>	<u>94,109</u>
Represented by:			
Capital and reserves			
Called up share capital	16	192	192
Profit and loss account	17	<u>18,430</u>	<u>93,917</u>
SHAREHOLDERS' FUNDS - EQUITY INTERESTS		<u>18,622</u>	<u>94,109</u>

On behalf of the Board



Director

26 June 2009

BP AMOCO EXPLORATION (FAROES) LIMITED

NOTES TO THE ACCOUNTS

1. Turnover

Turnover, which is stated net of value added tax, represents amounts invoiced to third parties and group companies.

The country of origin and destination is substantially the UK geographic area.

Turnover is attributable to one continuing activity, the purchasing and selling of petroleum products.

2. Operating profit / (loss)

This is stated after charging / (crediting):

	<u>2008</u>	<u>2007</u>
	\$000	\$000
Hire charges under operating leases:		
Plant & machinery	4,116	4,546
Exchange loss / (gain) charged/(credited) to the profit and loss account	20	(923)
Expenditure on research	545	83
Depreciation of owned fixed assets	5,790	9,082
	<u> </u>	<u> </u>

3. Auditor's remuneration

	<u>2008</u>	<u>2007</u>
	\$000	\$000
Fees for the audit of the company	<u>6</u>	<u>6</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 Amoco Exploration (Faroer) Limited's ultimate parent, BP p.l.c., are required to disclose non-audit fees on a consolidated basis.

The fees were borne by another group company.

4. Other income

	<u>2008</u>	<u>2007</u>
	\$000	\$000
Miscellaneous income	<u>-</u>	<u>19</u>

5. Exceptional items

Exceptional items comprise the profit on disposal of fixed assets as follows:

	<u>2008</u>	<u>2007</u>
	\$000	\$000
Profit on disposal of fixed assets	-	72
Taxation charge	-	(36)
Exceptional items (net of tax)	<u>-</u>	<u>36</u>

BP AMOCO EXPLORATION (FAROEES) LIMITED

NOTES TO THE ACCOUNTS

6. Interest payable and similar charges

	<u>2008</u>	<u>2007</u>
	<u>\$000</u>	<u>\$000</u>
Interest expense on:		
Loans from group undertakings	4	-
Other interest	1	1
Unwinding of discount on provisions	266	287
Total charged against profit /(loss)	<u>271</u>	<u>288</u>

7. Interest receivable and similar income

	<u>2008</u>	<u>2007</u>
	<u>\$000</u>	<u>\$000</u>
Interest income from group undertakings	5,850	8,597
Other interest	141	90
	<u>5,991</u>	<u>8,687</u>

8. 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 without charge. 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.

BP AMOCO EXPLORATION (FAROES) LIMITED

NOTES TO THE ACCOUNTS

8. Taxation (continued)

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

	<u>2008</u>	<u>2007</u>
	\$000	\$000
Profit /(loss) on ordinary activities before taxation	14,513	(4,023)
Current taxation	-	-
Effective current tax rate	0%	0%
	<u>2008</u>	<u>2007</u>
	%	%
UK statutory corporation tax rate:	28	30
Increase / (decrease) resulting from:		
Fixed asset timing differences	(90)	(45)
UK supplementary tax at 20% (2007: 20%) on North Sea profits	47	(234)
Group relief	69	(335)
Transfer pricing adjustments	-	1
IRF tax provided in BPEOC	(118)	584
IRF tax rate differences (30% IRF v 28% ORF)	5	-
Permanent differences	58	-
Other timing differences	1	(1)
Effective current tax rate	<u>-</u>	<u>-</u>

9. 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 (2007 \$Nil).

(b) Employee costs

The company had no employees during the year (2007 Nil).

BP AMOCO EXPLORATION (FAROE) LIMITED

NOTES TO THE ACCOUNTS

10. Intangible assets

	<u>Exploration expenditure</u>
Cost	\$000
At 1 January 2008	1,471
Additions	30,218
Deletions	<u>(30,218)</u>
At 31 December 2008	<u>1,471</u>
Amortisation	
At 1 January and 31 December 2008	<u>1,471</u>
Net book value	
At 31 December 2008	<u>-</u>
At 31 December 2007	<u>-</u>

11. Tangible assets

	<u>Oil and gas properties</u>	<u>Of which: assets under construction</u>
	\$000	\$000
Cost		
At 1 January 2008	134,649	2,848
Additions	13,128	9,924
Transfers	-	<u>(9,269)</u>
At 31 December 2008	<u>147,777</u>	<u>3,503</u>
Depreciation		
At 1 January 2007	95,175	-
Charge for the year	5,790	-
At 31 December 2007	<u>100,965</u>	<u>-</u>
Net book value		
At 31 December 2008	<u>46,812</u>	<u>3,503</u>
At 31 December 2007	<u>39,474</u>	<u>2,848</u>

Assets under construction are not depreciated.

Capitalised interest included above:

	<u>Cost</u>	<u>Depreciation</u>	<u>Net book amount</u>
	\$000	\$000	\$000
At 31 December 2008	<u>3,447</u>	<u>3,165</u>	<u>282</u>
At 31 December 2007	<u>3,447</u>	<u>3,060</u>	<u>387</u>

EM

BP AMOCO EXPLORATION (FAROE) LIMITED

NOTES TO THE ACCOUNTS

12. Stocks

	<u>2008</u>	<u>2007</u>
	\$000	\$000
Raw materials and consumables	<u>337</u>	<u>325</u>

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

13. Debtors

	<u>2008</u>	<u>2008</u>	<u>2007</u>	<u>2007</u>
	Within	After	Within	After
	1 year	1 year	1 year	1 year
	\$000	\$000	\$000	\$000
Trade debtors	525	-	5,342	-
Amounts owed by group undertakings	1,474	166,846	3,723	188,667
Prepayments and accrued income	58	-	58	-
Other debtors	364	-	18,634	-
Taxation	8	-	-	-
	<u>2,429</u>	<u>166,846</u>	<u>27,757</u>	<u>188,667</u>

14. Creditors

	<u>2008</u>	<u>2007</u>
	Within	Within
	1 year	1 year
	\$000	\$000
Trade creditors	18	-
Amounts owed to group undertakings	180,519	110,985
Accruals and deferred income	1,747	36,116
Other creditors	119	44
	<u>182,403</u>	<u>147,145</u>

15. Other provisions

	<u>Decommissioning</u>	<u>Other</u>	<u>Total</u>
	\$000	\$000	\$000
At 1 January 2008	14,969	-	14,969
Charge for the year	-	1,458	1,458
Unwinding of discount	266	-	266
Change in decommissioning estimate	(1,294)	-	(1,294)
At 31 December 2008	<u>13,941</u>	<u>1,458</u>	<u>15,399</u>

617

BP AMOCO EXPLORATION (FAROE) LIMITED

NOTES TO THE ACCOUNTS

15. Other provisions (continued)

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 2008, the provision for the costs of decommissioning these production facilities and pipelines at the end of their economic lives was \$13.9 million (2007: \$15 million). The provision has been estimated using existing technology, at current prices and discounted using a real discount rate of 2% (2007: 2%). These costs are expected to be incurred over the next 12 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.

Other provisions relate to contractual disputes.

16. Called up share capital

	<u>2008</u>	<u>2007</u>
	\$000	\$000
Authorised, allotted, called up and fully paid:		
100,000 Ordinary shares of £1 each	<u>192</u>	<u>192</u>

17. Capital and reserves

	<u>Equity share capital</u>	<u>Profit and loss account</u>	<u>Total</u>
	\$000	\$000	\$000
At 1 January 2008	192	93,917	94,109
Profit for the year	-	14,513	14,513
Dividends – current year interim paid: \$900 per share	-	(90,000)	(90,000)
At 31 December 2008	<u>192</u>	<u>18,430</u>	<u>18,622</u>

18. Reconciliation of movements in shareholders' funds

	<u>2008</u>	<u>2007</u>
	\$000	\$000
Profit /(loss) for the year	14,513	(4,023)
Dividends – current year interim paid	(90,000)	-
Net decrease in shareholders' interests	(75,487)	(4,023)
Shareholders' interest at 1 January	94,109	98,132
Shareholders' interest at 31 December	<u>18,622</u>	<u>94,109</u>

BP AMOCO EXPLORATION (FAROES) LIMITED

NOTES TO THE ACCOUNTS

19. Operating lease commitments

Annual commitments under non-cancellable operating leases are set out below:

	<u>2008</u>	<u>2007</u>
	Other	Other
	\$000	\$000
Expiring:		
Within 1 year	4,353	-
Between 2 to 5 years	<u>3,671</u>	<u>16,938</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 2008 is estimated at \$12.0 million (2007: \$30.6 million).

21. Contingent liabilities

There were contingent liabilities at 31 December 2008 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.

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.

24. Pensions

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

25. 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.