

BP AMOCO EXPLORATION (FAROE) LIMITED

(Registered No 856444)

ANNUAL REPORT AND ACCOUNTS 2010

Board of Directors J C Skipper
 J W Halliday

REPORT OF THE DIRECTORS

The directors present their report and accounts for the year ended 31 December 2010

Results and dividends

The profit for the year after taxation was \$27.5 million which, when added to the retained profit brought forward at 1 January 2010 of \$24.6 million, gives a total retained profit carried forward at 31 December 2010 of \$52.1 million

The company has not declared any dividends during the year (2009 \$18 million). The directors do not propose the payment of a dividend.

Principal activity and review of the business

The principal activity of the company is the exploration for, and the production of, oil and gas in the United Kingdom from its interest in the Foinaven field. The company was also engaged in the exploration for oil and gas offshore off the Faroe Islands under Licence No. 004 but following an unsuccessful exploration drilling prospect, the directors have progressed with a country exit which has resulted in the closure of the branch office in the Faroe Islands.

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

	2010	2009	Variance
	\$000	\$000	%
Turnover	44,811	40,768	9.9
Operating profit	27,770	24,300	14.3
Profit after taxation	27,523	24,190	13.8
Shareholders' funds	52,335	24,812	110.9
	2010	2009	Variance
	%	%	%
Current assets as % of current liabilities (quick ratio)	2.7	4.0	(1.3)

Turnover has increased primarily due to a rise in the realised average price of a barrel of oil. This was partially offset by a small decrease in the volumes sold. Cost of sales has increased slightly from 2009 to 2010. An increase due to the value of oil stocks at the year end decreasing from 2009 to 2010 was offset by lower foreign exchange losses due to more stable currency markets in 2010 and lower depreciation due to lower production.

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BP AMOCO EXPLORATION (FAROES) LIMITED

REPORT OF THE DIRECTORS

Principal risks and uncertainties

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 categorised against the following areas: strategic, compliance and control, safety and operational, and financial risk management. In addition, we have also set out two further categories of risk for your attention – those resulting from the Gulf of Mexico oil spill (the Incident).

Gulf of Mexico oil spill

The Gulf of Mexico oil spill has had and could continue to have a material adverse impact on BP as a group, and consequently may also have an adverse impact on BP Amoco Exploration (Faroes) Limited.

There is significant uncertainty in the extent and timing of costs and liabilities relating to the Incident, the impact of the Incident on the reputation of the BP group and the resulting possible impact on the company's ability to access new opportunities. There is also significant uncertainty regarding potential changes in applicable regulations and the operating environment that may result from the Incident. These increase the risks to which the group and therefore the company are exposed to. These uncertainties are likely to continue for a significant period. Thus, the Incident has had, and could continue to have, a material adverse impact on the group's business, competitive position, financial performance, cash flows, prospects, liquidity, shareholder returns and/or implementation of its strategic agenda, particularly in the US.

The BP group income statement for the year ended 31 December 2010 includes a pre-tax charge of \$40.9 billion in relation to the Gulf of Mexico oil spill. The total amounts that will ultimately be paid by the BP group in relation to all obligations relating to the Incident are subject to significant uncertainty and the ultimate exposure and cost to the BP group will be dependent on many factors. The risks associated with the Incident could also heighten the impact of the other risks to which the company is exposed as further described below. Further information on the Incident, is included within the BP group Annual Report and Form 20-F for the year ended 31 December 2010.

General macroeconomic outlook

The general macroeconomic outlook can affect BP group results, and consequently may affect BP Amoco Exploration (Faroes) Limited, given the nature of the company's business.

In the continuing uncertain financial and economic environment, certain risks may gain more prominence either individually or when taken together. Oil and gas prices can be very volatile, with average prices and margins influenced by changes in supply and demand. This is likely to exacerbate competition in all businesses, which may impact costs and margins. At the same time, governments are facing greater pressure on public finances, which may increase their motivation to intervene in the fiscal and regulatory frameworks of the oil and gas industry, including the risk of increased taxation, nationalisation and expropriation. The global financial and economic situation may have a negative impact on third parties with whom we do, or may do, business. Any of these factors may affect the company's results of operations, financial condition, business prospects and liquidity.

BP AMOCO EXPLORATION (FAROEES) LIMITED

REPORT OF THE DIRECTORS

Principal risks and uncertainties (continued)

Strategic risks

Prices and markets

Oil, gas and product prices are subject to international supply and demand. Political developments and the outcome of meetings of OPEC can particularly affect world supply and oil prices. Previous oil price increases have resulted in increased fiscal take, cost inflation and more onerous terms for access to resources. As a result, increased oil prices may not improve margin performance. In addition to the adverse effect on revenues, margins and profitability from any fall in oil and natural gas prices, a prolonged period of low prices or other indicators would lead to further reviews for impairment of the company's oil and natural gas properties. Such reviews would reflect management's view of long-term oil and natural gas prices and could result in a charge for impairment that could have a significant effect on the company's results of operations in the period in which it occurs. Periods of global recession could impact the demand for the company's products, the prices at which they can be sold and affect the viability of the markets in which the company operates.

Compliance and control 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, health and safety controls, controls over the development and decommissioning of a field (including restrictions on production) and, possibly, nationalisation, expropriation, cancellation or non-renewal of contract rights. The company buys, sells and trades oil and gas products in certain regulated commodity markets. Failure to respond to changes in trading regulations could result in regulatory action and damage to the company's reputation. 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, the company could be required to curtail or cease certain operations, or it could incur additional costs.

The Gulf of Mexico oil spill is likely to result in more stringent regulation of oil and gas activities in the US and elsewhere, particularly relating to environmental, health and safety controls and oversight of drilling operations, as well as access to new drilling areas. Regulatory or legislative action may impact the industry as a whole and could be directed specifically towards the BP group. New regulations and legislation, as well as evolving practices, could increase the cost of compliance and may require changes to the company's drilling operations, exploration, development and decommissioning plans, and could impact its ability to capitalise on its assets and limit its access to new exploration properties or operatorship's. In addition, increases in taxes, royalties and other amounts payable to governments or governmental agencies, or restrictions on availability of tax relief, could also be imposed as a response to the Incident.

BP AMOCO EXPLORATION (FAROE) LIMITED

REPORT OF THE DIRECTORS

Principal risks and uncertainties (continued)

Compliance and control risks (continued)

Ethical misconduct and non-compliance

The code of conduct, which applies to all employees, defines the company's commitment to integrity, compliance with all applicable legal requirements, high ethical standards and the behaviours and actions the company expects of its businesses and people wherever it operates. Incidents of ethical misconduct or non-compliance with applicable laws and regulations, including non-compliance with anti-bribery, anti-corruption and other applicable laws could be damaging to the company's reputation and shareholder value. Multiple events of non-compliance could call into question the integrity of the company's operations.

Liabilities and provisions

The company remains exposed to changes in the external environment, such as new laws and regulations (whether imposed by international treaty or by national or local governments in the jurisdictions in which it operates), changes in tax or royalty regimes, price controls, government actions to cancel or renegotiate contracts, market volatility or other factors. Such factors could reduce the company's profitability from operations in certain jurisdictions, limit its opportunities to access new opportunities, require it to divest or write-down certain assets or affect the adequacy of its provisions for pensions, tax, environmental and legal liabilities. Potential changes to pension or financial market regulation could also impact funding requirements of the company.

Reporting

External reporting of financial and non-financial data is reliant on the integrity of systems and people. Failure to report data accurately and in compliance with external standards could result in regulatory action, legal liability and damage to our reputation.

Safety and operational risks

Process safety, personal safety and environmental risks

The nature of the company's operations exposes it to a wide range of significant health, safety, security and environmental risks. The scope of these risks is influenced by the geographic range, operational diversity and technical complexity of the company's activities. In addition, in many of our major projects and operations, risk allocation and management is shared with third parties, such as contractors, sub-contractors, joint venture partners and associates. There are risks of technical integrity failure as well as risk of natural disasters and other adverse conditions in many of the areas in which the company operates, which could lead to loss of containment of hydrocarbons and other hazardous material, as well as the risk of fires, explosions or other incidents.

The company's operations are often conducted in difficult or environmentally sensitive locations, in which the consequences of a spill, explosion, fire or other incident could be greater than in other locations. These operations are subject to various environmental laws, regulations and permits and the consequences of failure to comply with these requirements can include remediation obligations, penalties, loss of operating permits and other sanctions. Accordingly, inherent in the company's operations is the risk that if it fails to abide by environmental and safety and protection standards, such failure could lead to damage to the environment and could result in regulatory action, legal liability, material costs and damage to the company's reputation or licence to operate.

BP AMOCO EXPLORATION (FAROEES) LIMITED

REPORT OF THE DIRECTORS

Principal risks and uncertainties (continued)

Safety and operational risks (continued)

Process safety, personal safety and environmental risks (continued)

To help address health, safety, security, environmental and operations risks, and to provide a consistent framework within which the BP group can analyse the performance of its activities and identify and remediate shortfalls, BP implemented a group-wide operating management system (OMS). The embedding of OMS continues and following the Gulf of Mexico oil spill a separate Safety and Operational Risk (S&OR) function is being established, reporting directly to the BP group chief executive. There can be no assurance that OMS will adequately identify all process safety, personal safety and environmental risks or provide the correct mitigations, or that all operations will be in compliance with OMS at all times.

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 company's exploration and production activities are often conducted in extremely challenging environments, which heighten the risks of technical integrity failure and natural disasters discussed above. The cost of drilling, completing or operating wells is often uncertain. The company may be required to curtail, delay or cancel drilling operations because of a variety of factors, including unexpected drilling conditions, pressure or irregularities in geological formations, equipment failures or accidents, adverse weather conditions and compliance with governmental requirements.

In addition, exploration expenditure may not yield adequate returns, for example in the case of unproductive wells or discoveries that prove uneconomic to develop. The Gulf of Mexico incident illustrates the risks the company faces in its drilling and production activities.

Financial risk management

Foreign currency exchange risk

Fluctuations in foreign exchange rates can have significant effects on the company's reported results. 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 minimise 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 and then dealing with any material residual foreign exchange risks. For highly probable forecast capital expenditures the group locks in the US dollar cost of non US dollar supplies by using currency forwards and futures.

Crude oil prices are generally set in US dollars, while sales of other products may be in a variety of currencies. Fluctuations in exchange rates can therefore give rise to foreign exchange exposures, with a consequent impact on underlying costs and revenues.

BP AMOCO EXPLORATION (FAROEES) LIMITED

REPORT OF THE DIRECTORS

Principal risks and uncertainties (continued)

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.

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. In relation to the company's activities in the Faroe Islands the directors have progressed with a country exit which has resulted 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.

Directors

The present directors are listed on page 1.

J C Skipper served as a director throughout the financial year. Changes since 1 January 2010 are as follows:

	<u>Appointed</u>	<u>Resigned</u>
M M Auchincloss	-	21 April 2010
J W Halliday	21 April 2010	-

Directors' indemnity

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

Policy and practice on payment of creditors

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 days.

Auditors

In the absence of a notice proposing that the appointment be terminated, Ernst & Young LLP will be deemed to be re-appointed as the company's auditor for the next year.

BP AMOCO EXPLORATION (FAROES) 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 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 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



K C G Eng
For and on behalf of
Sunbury Secretaries Limited
Company Secretary

27 June 2011

Registered Office

Chertsey Road
Sunbury on Thames
Middlesex
TW16 7BP
United Kingdom

BP AMOCO EXPLORATION (FAROEES) LIMITED

**STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE
ACCOUNTS**

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom accounting standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and the profit or loss for that period. In preparing these accounts, the directors are required to

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

The directors are responsible for keeping proper accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. 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 financial statements of BP Amoco Exploration (Faroes) Limited for the year ended 31 December 2010 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 22. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom accounting standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set on page 8, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). These standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements.

Opinion on the financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2010 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us, or
- the company financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit.

Ernst & Young LLP
Moirra Ann Lawrence (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor

Aberdeen

28 June 2011

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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 plc and, as such, the oil and gas reserve quantities of the company are included in the consolidated oil and gas reserve quantities disclosed in the Annual Report and Accounts of BP plc. Consequently the directors have elected not to publish this information for the company;
- (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 differences relate to the SEC requirement to use a twelve-month average price to assess future reserves, being the unweighted average of the price on the first day of the month for the past twelve months. 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 (FAROE) LIMITED

ACCOUNTING POLICIES

Research

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

Interest

Interest is capitalised gross of related tax relief during the period of construction where it relates either to the financing of major projects with long periods of development or to dedicated financing of other projects. All other interest is charged against income in the year in which it is incurred

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. The expected useful lives of the assets are reviewed on an annual basis and, if necessary, changes in useful lives are accounted for prospectively

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 (FAROE) 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 (FAROE) 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.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss. After such a reversal, the depreciation charge is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Stock valuation

The company's stock consists predominately of plant and insurance spares which are valued at cost to the company 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 company 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 AMOCO EXPLORATION (FAROEES) LIMITED

ACCOUNTING POLICIES

Decommissioning

Provision for decommissioning costs are recognised when the company has an obligation to dismantle and remove a facility or an item of plant and to restore the site on which it is located, and when a reasonable estimate of that provision can be made. Where an obligation exists for a new facility, such as oil and natural gas production or transportation facilities, this will be on construction or installation. An obligation for decommissioning may also crystallise during the period of operation of a facility through a change in legislation or through a decision to terminate operations. The amount recognised is the present value of the estimated future expenditure determined in accordance with the local conditions and requirements. A corresponding tangible fixed asset of an amount equivalent to the provision is also created. This is subsequently depreciated as part of the capital costs of the production and transportation facilities.

Any change in the present value of the estimated expenditure is reflected as an adjustment to the provision and the fixed asset.

Discounting

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

Leases

Assets held under leases which transfer to the company substantially all risks and rewards incidental to ownership of the leased item, are capitalised at inception of the lease at the fair value of the leased property or, if significantly lower, at the estimated present value of the minimum lease payments. Lease payments are apportioned between the finance charges and the reduction of the lease liability. The total finance charge is charged over the lease terms so as to achieve a constant rate of interest on the remaining balance of the liability.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Operating lease payments are recognised 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 asset 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 (FAROFIS) LIMITED

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2010

		<u>2010</u>	<u>2009</u>
	Note	\$000	\$000
Turnover	1	44,811	40,768
Cost of sales		<u>(17,595)</u>	<u>(16,888)</u>
Gross profit		27,216	23,880
 Exploration expense		56	372
Distribution and marketing expenses		(29)	(21)
Administration expenses		<u>527</u>	<u>69</u>
Operating profit	2	27,770	24,300
 Interest payable and similar charges	4	(297)	(261)
Interest receivable and similar income	5	<u>50</u>	<u>151</u>
Profit before taxation		27,523	24,190
 Taxation	6	<u>-</u>	<u>-</u>
 Profit for the year		<u>27,523</u>	<u>24,190</u>

The profit of \$27.5 million for the year ended 31 December 2010 has derived in its entirety from continuing operations

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 31 DECEMBER 2010

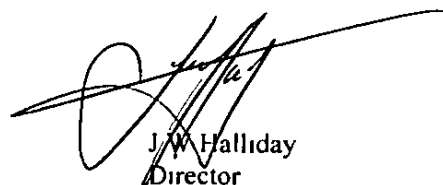
There are no recognised gains or losses attributable to the shareholders of the company other than the profit of \$27.5 million for the year ended 31 December 2010 (2009 profit of \$24.2million)

BP AMOCO EXPLORATION (FAROE) LIMITED
(Registered No 856444)

BALANCE SHEET AT 31 DECEMBER 2010

	Note	2010 \$000	2009 \$000
Fixed assets			
Intangible assets	8	-	-
Tangible assets	9	52,075	49,939
		<u>52,075</u>	<u>49,939</u>
Current assets			
Stocks	10	415	344
Debtors - amounts falling due, <i>within one year</i>	11	4,204	6,589
<i>after one year</i>	11	188,206	158,545
		<u>192,825</u>	<u>165,478</u>
Creditors: amounts falling due within one year	12	<u>(174,363)</u>	<u>(173,920)</u>
Net current assets / (liabilities)		18,462	(8,442)
TOTAL ASSETS LESS CURRENT LIABILITIES		70,537	41,497
Provisions for liabilities and charges			
Other Provisions	14	<u>(18,202)</u>	<u>(16,685)</u>
NET ASSETS		<u>52,335</u>	<u>24,812</u>
Represented by			
Capital and reserves			
Called up share capital	15	192	192
Profit and loss account	16	<u>52,143</u>	<u>24,620</u>
SHAREHOLDERS' FUNDS – EQUITY INTERESTS		<u>52,335</u>	<u>24,812</u>

On behalf of the Board


J.W. Halliday
Director
27/6/

2011

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BP AMOCO EXPLORATION (FAROE) 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 production and sale of hydrocarbon products

2. Operating profit

This is stated after charging

	<u>2010</u>	<u>2009</u>
	\$000	\$000
Hire charges under operating leases		
Plant & machinery	4,872	5,007
Exchange loss on foreign currency borrowings less deposits	32	1,384
Expenditure on research	88	237
Depreciation of owned fixed assets	<u>5,699</u>	<u>5,946</u>

3. Auditor's remuneration

	<u>2010</u>	<u>2009</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 (Faroes) Limited's ultimate parent, BP plc, are required to disclose non-audit fees on a consolidated basis

The fees were borne by another group company

4. Interest payable and similar charges

	<u>2010</u>	<u>2009</u>
	\$000	\$000
Interest expense on		
Loans from group undertakings	-	1
Other interest	-	1
Unwinding of discount on provisions	<u>297</u>	<u>259</u>
	<u>297</u>	<u>261</u>

BP AMOCO EXPLORATION (FAROEES) LIMITED

NOTES TO THE ACCOUNTS

5. Interest receivable and similar income

	<u>2010</u>	<u>2009</u>
	\$000	\$000
Interest income from group undertakings	50	150
Other interest	-	1
	<u>50</u>	<u>151</u>

6. Taxation

The Company is a member of a group for the purposes of relief within Part 5, Corporation Tax Act 2010

In his Budget of 23 March 2011 the Chancellor of the Exchequer announced a change in the rate of Supplementary Charge to corporation tax applicable to the company's oil extraction activity in the UK and UK Continental Shelf. The Budget proposed an increase in the rate of supplementary charge from 20% to 32%. The increase to 32% was substantively enacted on 24 March 2011 and accordingly this rate change has not been reflected in the Company's financial statements at 31 December 2010.

It was also announced the rate of Supplementary Charge in respect of relief for decommissioning costs would be restricted to 20%. This change is expected to be enacted in the Finance Bill 2012.

No corporation tax has been provided in respect of the company's oil extraction activity in the UK and UK Continental Shelf because another group company, BP Exploration Operating Company Limited, has undertaken to provide for any current or deferred tax that arises.

In respect of the company's other activities, no corporation tax has been provided because another group company, BP International Limited, has undertaken to procure the claim or surrender of group relief to the extent it is required and to provide for any current or deferred tax that arises without charge.

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

BP AMOCO EXPLORATION (FAROES) LIMITED

NOTES TO THE ACCOUNTS

6. Taxation (continued)

	<u>2010</u>	<u>2009</u>
	\$000	\$000
Profit before taxation	27,523	24 190
Current taxation	-	-
Effective current tax rate	0%	0%
	<u>2010</u>	<u>2009</u>
	%	%
UK statutory corporation tax rate	28	28
Increase / (decrease) resulting from		
Fixed asset timing differences	(2)	(3)
UK supplementary tax at 20% (2009 20%) on North Sea		
Profits	19	18
Group relief	-	(1)
IRF tax provided in BP Exploration Operating Company Ltd	(47)	(45)
IRF tax rate differences (30% IRF v 28% ORF)	2	2
Permanent differences	-	(1)
Other timing differences	-	2
Effective current tax rate	<u>0</u>	<u>0</u>

7. Directors and employees

(a) Remuneration of directors

J W Halliday is a director of BP Exploration Operating Company Limited in whose accounts information required by the Companies Act 2006 as regards to emoluments is given. The remaining director is a senior executive of the BP Plc Group and received no remuneration for services to this company.

(b) Employee costs

The company had no employees during the year (2009 Nil)

BP AMOCO EXPLORATION (FAROEES) LIMITED

NOTES TO THE ACCOUNTS

8. Intangible assets

	Exploration expenditure
Cost	\$000
At 1 January 2010	1,471
Additions	2
Deletions	(2)
At 31 December 2010	<u>1,471</u>
Amortisation	
At 1 January and 31 December 2010	<u>1,471</u>
Net book value	
At 31 December 2010	<u>-</u>
At 31 December 2009	<u>-</u>

9. Tangible assets

	Oil and gas properties	Of which assets under construction
Cost	\$000	\$000
At 1 January 2010	156,850	1,223
Additions	7,835	6,920
At 31 December 2010	<u>164,685</u>	<u>8,143</u>
Depreciation		
At 1 January 2010	106,911	-
Charge for the year	5,699	-
At 31 December 2010	<u>112,610</u>	<u>-</u>
Net book value		
At 31 December 2010	<u>52,075</u>	<u>8,143</u>
At 31 December 2009	<u>49,939</u>	<u>1,223</u>

Assets under construction are not depreciated.

Capitalised interest included above

	Cost	Depreciation	Net book amount
	\$000	\$000	\$000
At 31 December 2010	<u>3,447</u>	<u>3,307</u>	<u>140</u>
At 31 December 2009	<u>3,447</u>	<u>3,245</u>	<u>202</u>

BP AMOCO EXPLORATION (FAROE) LIMITED

NOTES TO THE ACCOUNTS

10. Stocks

	<u>2010</u>	<u>2009</u>
	\$000	\$000
Raw materials and consumables	<u>415</u>	<u>344</u>

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

11. Debtors

	<u>2010</u>	<u>2010</u>	<u>2009</u>	<u>2009</u>
	Within	After	Within	After
	1 year	1 year	1 year	1 year
	\$000	\$000	\$000	\$000
Trade debtors	266	-	946	-
Amounts owed by group undertakings	3,894	188,206	5,356	158,545
Other debtors	<u>44</u>	<u>-</u>	<u>287</u>	<u>-</u>
	<u>4,204</u>	<u>188,206</u>	<u>6,589</u>	<u>158,545</u>

12. Creditors

	<u>2010</u>	<u>2009</u>
	Within	Within
	1 year	1 year
	\$000	\$000
Trade creditors	2,148	-
Amounts owed to group undertakings	171,754	170,130
Other creditors	252	293
Accruals and deferred income	<u>209</u>	<u>3,497</u>
	<u>174,363</u>	<u>173,920</u>

13. Obligations under leases

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

	<u>2010</u>	<u>2009</u>
	Plant &	Plant &
	Machinery	Machinery
	\$000	\$000
Expiring		
Within 1 year	-	873
Between 2 to 5 years	<u>9,529</u>	<u>7,547</u>

BP AMOCO EXPLORATION (FAROE) LIMITED

NOTES TO THE ACCOUNTS

14. Other provisions

	<u>Decom- missioning</u> \$000
At 1 January 2010	16,685
Unwinding of discount	297
Change in decommissioning estimate	602
Change in discount rate	618
At 31 December 2010	<u>18,202</u>

The company makes full provision for the future cost of decommissioning oil and natural gas production facilities and related pipelines on a discounted basis on the installation of those facilities. At 31 December 2010, the provision for the costs of decommissioning these production facilities and pipelines at the end of their economic lives was \$18.2 million (2009 \$16.7 million). The provision has been estimated using existing technology, at current prices and discounted using a real discount rate of 1.5% (2009 1.75%). These costs are expected to be incurred over the next 14 years. While the provision is based on the best estimate of future costs and the economic lives of the facilities and pipelines, there is uncertainty regarding both the amount and timing of incurring these costs.

15. Called up share capital

	<u>2010</u> \$000	<u>2009</u> \$000
Allotted, called up and fully paid 100,000 Ordinary shares of £1 each for a total nominal value of £100,000	<u>192</u>	<u>192</u>

16. Capital and reserves

	<u>Equity share capital</u> \$000	<u>Profit and Loss Account</u> \$000	<u>Total</u> \$000
At 1 January 2010	192	24,620	24,812
Profit for the year	-	27,523	27,523
At 31 December 2010	<u>192</u>	<u>52,143</u>	<u>52,335</u>

BP AMOCO EXPLORATION (FAROE) LIMITED

NOTES TO THE ACCOUNTS

17. Reconciliation of movements in shareholders' funds

	<u>2010</u>	<u>2009</u>
	\$000	\$000
Profit for the year	27,523	24,190
Dividends	-	(18,000)
Net increase in shareholders' funds	<u>27,523</u>	<u>6,190</u>
Shareholders' funds at 1 January	24,812	18,622
Shareholders' funds at 31 December	<u>52,335</u>	<u>24,812</u>

18. 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 2010 is estimated at \$0.3 million (2009 \$9.7 million)

19. Guarantees and other financial commitments

There were contingent liabilities at 31 December 2010 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.

20. 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 entered into with other 100% group companies. There were no other related party transactions in the year.

21. Pensions

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

22. Immediate and ultimate parent undertaking

The immediate parent undertaking of this company is BP Exploration Operating Company Limited, a company registered in England and Wales. The ultimate parent undertaking of the group of undertakings for which group accounts are drawn up, and of which the company is a member, is BP plc, a company registered in England and Wales. Copies of BP plc's accounts can be obtained from 1 St James's Square, London, SW1Y 4PD.