

BP AMOCO EXPLORATION (FAROE) LIMITED

(Registered No 00856444)

ANNUAL REPORT AND ACCOUNTS 2012

Sole Directors

J W Halliday



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11/07/2013

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COMPANIES HOUSE

REPORT OF THE DIRECTOR

The director presents his report and accounts for the year ended 31 December 2012

Results and dividends

The profit for the year after taxation was \$17.2 million which, when added to the retained profit brought forward at 1 January 2012 of \$109.0 million less the interim dividend paid to ordinary shareholders of \$80.0 million, gives a total retained profit carried forward at 31 December 2012 of \$46.2 million

During the year the company declared and paid dividends of \$80.0 million (2011: \$50.0 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, and the production of, oil and gas in the United Kingdom from its interest in the Foinaven field.

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

	<u>2012</u>	<u>2011</u>	<u>Variance</u>
	\$000	\$000	%
Turnover	38,727	73,781	(47.5)
Operating profit	17,251	56,401	(69.4)
Profit after taxation	17,240	56,253	(69.4)
Shareholders' funds	46,399	109,159	(57.5)

	<u>2012</u>	<u>2011</u>	<u>Variance</u>
	%	%	
Quick ratio*	24.3	61.0	(36.7)

*Quick ratio is defined as current assets, excluding stock and debtors receivable after one year, as a percentage of current liabilities.

Turnover has decreased primarily due to a drop in oil and gas production. This was partially offset by an increase in gas price. The average oil price has remained static. Cost of sales has increased from 2011 to 2012; lower production has resulted in reduced depreciation and lifting costs which partly offset the debit to cost of sales associated with a decrease in oil underlift volumes at the year end.

BP AMOCO EXPLORATION (FAROES) LIMITED

REPORT OF THE DIRECTOR

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.

We urge you to consider carefully the risks described below. The potential impact of the occurrence or reoccurrence of any of the risks described below could have a material adverse effect on the company's business, financial position, results of operations, competitive position, cash flows, prospects, liquidity, shareholder returns and/or implementation of its strategic agenda.

Company level risks have been categorised against the following areas: strategic and commercial, compliance and control, safety and operational, and financial risk management. In addition, we have also set out a further category of risk for your attention – those resulting from the 2010 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 (Faroës) Limited.

Whilst the BP group recognised significant charges in the income statement since the Incident occurred in 2010, there is significant uncertainty regarding the extent and timing of the remaining costs and liabilities relating to the Incident, the potential changes in applicable regulations and the operating environment that may result from the Incident, the impact of the Incident on the reputation of the group and the resulting possible impact on the group's licence to operate including its ability to access new opportunities. The amount of claims that become payable by the BP group, the amount of fines ultimately levied on the BP group (including any potential determination of the BP group's negligence or gross negligence), the outcome of litigation, the terms of any further settlements including the amount and timing of any payments thereunder, and any costs arising from any longer-term environmental consequences of the Incident, will also impact upon the ultimate cost for the BP group.

Although the provisions recognised represent the current best estimates of expenditures required to settle certain present obligations that can be reasonably estimated at the end of the reporting period, there are future expenditures for which it is not possible to measure the obligations reliably and the total amounts payable by the BP group in relation to all obligations relating to the Incident are subject to significant uncertainty. These uncertainties are likely to continue for a significant period, increase the risks to which the group is exposed and may cause costs to increase. 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 risks associated with the Incident could also heighten the impact of the other risks to which the group 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 2012.

BP AMOCO EXPLORATION (FAROE) LIMITED

REPORT OF THE DIRECTOR

Principal risks and uncertainties (continued)

Strategic and commercial risks

Access and renewal

Successful execution of the company's strategy depends on implementing activities to renew and reposition its portfolio. The challenges to renewal of the company's upstream portfolio are growing due to increasing competition for access to opportunities globally and heightened political and economic risks in certain countries where significant hydrocarbon bases are located. Lack of material positions in new markets could impact the company's future hydrocarbon production.

Moreover, the Gulf of Mexico oil spill has damaged the BP group's reputation, which may have a long-term impact on the group's ability to access new opportunities, both in the US and elsewhere. Adverse public, political and industry sentiment towards the BP group, and towards oil and gas drilling activities generally, could damage or impair the company's existing commercial relationships with counterparties, partners and host governments and could impair access to new investment opportunities, exploration properties, operatorships or other essential commercial arrangements with potential partners and host governments, particularly in the US. In addition, responding to the Incident has placed, and will continue to place, a significant burden on cash flow over the next several years, which could also impede the BP group's ability to invest in new opportunities and deliver long-term growth, which in turn may impact the company. More stringent regulation of the oil and gas industry generally, and of the BP group's activities specifically, arising from the Incident, could increase this risk.

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. Rapid material or sustained change in oil, gas and product prices can impact the validity of the assumptions on which strategic decisions are based and, as a result, the ensuing actions derived from those decisions may no longer be appropriate.

Joint ventures and other contractual arrangements

Many of the company's major projects and operations are conducted through joint ventures or associates and through contracting and sub-contracting arrangements. These arrangements often involve complex risk allocation, decision-making process and indemnification arrangements. In certain cases, the company may have less control of such activities than it would have if the company had full operational control.

The company's partners may have economic or business interests or objectives that are inconsistent with, or opposed to, those of the company's and may exercise veto rights to block certain key decisions or actions that the company believes are in its or the joint venture's or associate's best interest, or approve such matters without the company's consent.

BP AMOCO EXPLORATION (FAROE) LIMITED

REPORT OF THE DIRECTOR

Principal risks and uncertainties (continued)

Strategic and commercial risks (continued)

Joint ventures and other contractual arrangements (continued)

Additionally, the company's joint venture partners or associates or contractual counterparties are primarily responsible for the adequacy of the human or technical competencies and capabilities which they bring to bear on the joint project, and in the event these are found to be lacking the company's joint venture partners or associates may not be able to meet their financial or other obligations to their counterparties or to the relevant project, potentially threatening the viability of such projects

Furthermore, should accidents or incidents occur in operations in which the company participates, whether as operator or otherwise, and where it is held that the company's sub-contractors or joint venture partners are legally liable to share any aspects of the cost of responding to such incidents, the financial capacity of these third parties may prove inadequate to fully indemnify the company against the costs it incurs on behalf of the joint venture or contractual arrangement. Should a key sub-contractor, such as a lessor of drilling rigs, be no longer able to make these assets available to the company, this could result in serious disruption to its operations. Where the company does not have operational control of a venture, the company may nonetheless still be pursued by regulators or claimants in the event of an incident.

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 the company's operations. If the company does not respond, or is perceived not to respond, in an appropriate manner to either an external or internal crisis, its business and operations could be severely disrupted.

Compliance and control risks

Regulatory

Due to the Gulf of Mexico oil spill, it is likely that there will be more stringent regulation of the BP group's 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, the terms of the BP group's settlements with US government authorities and future settlements or litigation outcomes related to the Incident, and/or 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 the company's ability to capitalise on its assets and limit its access to new exploration properties or operatorships. 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 (FAROEES) LIMITED

REPORT OF THE DIRECTOR

Principal risks and uncertainties (continued)

Compliance and control risks (continued)

Regulatory (continued)

In addition, the oil industry in general 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

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 could incur additional costs.

Liabilities and provisions

The BP group's potential liabilities resulting from pending and future claims, lawsuits, settlements and enforcement actions relating to the Gulf of Mexico oil spill, together with the potential cost and burdens of implementing remedies sought in the various proceedings, cannot be fully estimated at this time but they have had, and are expected to continue to have, a material adverse impact on the group's business and consequently may also impact the company's business. Further information is included within the BP group Annual Report and Form 20-F for the year ended 31 December 2012.

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.

Changes in external factors

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 the company 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 for new access, 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.

BP AMOCO EXPLORATION (FAROES) LIMITED

REPORT OF THE DIRECTOR

Principal risks and uncertainties (continued)

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 the company's major projects and operations, risk allocation and management is shared with third parties, such as contractors, sub-contractors, joint venture partners and associates. See 'Joint ventures and other contractual arrangements'.

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's group-wide operating management system (OMS) intends to address health, safety, security, environmental and operations risks, and to provide a consistent framework within which the group can analyse the performance of its activities and identify and remediate shortfalls. There can be no assurance that OMS will adequately identify all process safety, personal safety and environmental risk or provide the correct mitigations, or that all operations will be in conformance 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.

Transportation

All modes of transportation of hydrocarbons involve inherent risks. An explosion or fire or loss of containment of hydrocarbons or other hazardous material could occur during transportation by road, rail, sea or pipeline. This is a significant risk due to the potential impact of a release on the environment and people and given the high volumes involved.

BP AMOCO EXPLORATION (FAROE) LIMITED

REPORT OF THE DIRECTOR

Principal risks and uncertainties (continued)

Financial risk management

The main financial risks faced by the company through its normal business activities, as well as its use of financial instruments, are market risk, commodity price risk, foreign currency exchange risk and interest rate risk. The management of these financial risks is performed at BP group level. The company seeks to maintain a financial framework to ensure that it is able to maintain an appropriate level of liquidity and financial capacity. This framework constrains the level of assessed capital at risk for the purposes of positions taken in financial instruments. Failure to accurately forecast or maintain sufficient liquidity and credit to meet these needs could impact the company's ability to operate and result in a financial loss.

Market risk

Market risk is the risk or uncertainty arising from possible market price movements and their impact on the future performance of a business. This includes the possibility that changes in foreign currency exchange rates, interest rates or oil and natural gas prices will adversely affect the value of the company's financial assets, liabilities or expected future cash flows. The management of such risks is performed at BP group level. The group has developed a control framework aimed at managing the volatility inherent in certain of its natural business exposures. In accordance with this control framework the group enters into various transactions using derivatives for risk management purposes.

Commodity price risk

The group's integrated supply and trading function uses conventional financial and commodity instruments and physical cargoes available in the related commodity markets. Oil and Natural gas swaps, options and futures are used to mitigate price risk. This activity is on both a standalone basis and in conjunction with gas derivatives in relation to gas-generated power.

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. The main underlying economic currency of the BP group's cash flows is the US dollar. This is because the BP group's major product, oil, is priced internationally in US dollars. The BP group'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 refined 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.

Interest rate risk

The company is exposed to interest rate risk from the possibility that changes in interest rates will affect future cash flows or the fair values of its financial instruments, principally finance debt.

BP AMOCO EXPLORATION (FAROEES) LIMITED

REPORT OF THE DIRECTOR

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

It is the intention of the director that the interest in the Foinaven field and associated working capital balances held by the company be transferred to another BP group company at no gain, no loss during the next twelve months. The director is currently considering how to best utilise this company.

Directors

The present director is listed on page 1.

J W Halliday served as a director throughout the financial year. Changes since 1 January 2012 are as follows:

	<u>Appointed</u>	<u>Resigned</u>
J C Skipper	-	14 December 2012

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.

Auditor

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 DIRECTOR

Directors' statement as to the disclosure of information to the auditor

The director who was a member of the board at the time of approving the director's 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



For and on behalf of
Sunbury Secretaries Limited
Company Secretary

01 - JULY - 2013

Registered Office

Chertsey Road
Sunbury on Thames
Middlesex
TW16 7BP
United Kingdom

BP AMOCO EXPLORATION (FAROES) 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 adequate 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 financial statements of BP Amoco Exploration (Faroes) Limited for the year ended 31 December 2012 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 director and auditor

As explained more fully in the Statement of Directors' Responsibilities set on page 10, 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. In addition, we read all the financial and non-financial information in the Annual Report and Accounts to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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 2012 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, or returns adequate for our audit have not been received from branches not visited by us, or
- the 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

4 July 2013

Ernst & Young

BP AMOCO EXPLORATION (FAROES) LIMITED

ACCOUNTING POLICIES

Accounting standards

The financial statements of BP Amoco Exploration (Faroes) Limited were approved for issue by the Board of Directors on *01 - June -* 2013

These accounts are prepared on a going concern basis and in accordance with the Companies Act 2006 and 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 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

BP AMOCO EXPLORATION (FAROES) LIMITED

ACCOUNTING POLICIES

Foreign currency transactions

Foreign currency transactions are initially recorded in US 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.

Research

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

Capitalisation of finance costs and 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.

Interest income

Interest income is recognised on an accruals basis.

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.

BP AMOCO EXPLORATION (FAROE) LIMITED

ACCOUNTING POLICIES

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.

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.

BP AMOCO EXPLORATION (FAROES) LIMITED

ACCOUNTING POLICIES

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

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 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.

BP AMOCO EXPLORATION (FAROES) LIMITED

ACCOUNTING POLICIES

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

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

Decommissioning

Provision for decommissioning costs is 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 recognised. 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.

Environmental liabilities

Environmental expenditures that relate to current or future revenues are expensed or capitalised as appropriate. Expenditures that relate to an existing condition caused by past operations and that do not contribute to current or future earnings are expensed.

Liabilities for environmental costs are recognised when environmental assessments or clean-ups are probable and the associated costs can be reasonably estimated. Generally, the timing of these provisions coincides with the commitment to a formal plan of action or, if earlier, on divestment or on closure of inactive sites. The amount recognised is the best estimate of the expenditure required. Where the time value of money is material, the amount recognised is the present value of the estimated future expenditure.

BP AMOCO EXPLORATION (FAROES) LIMITED

ACCOUNTING POLICIES

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, apart from decommissioning provisions where the change is adjusted against the decommissioning asset.

Leases

Assets held under leases which transfer to the company substantially all risks and rewards incidental to ownership of the leased item, are classified as finance leases, and 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 term 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.

All other lease arrangements are classified as operating leases. 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 developments.

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 (FAROES) LIMITED

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2012

		2012	2011
	Note	\$000	\$000
Turnover	1	38,727	73,781
Cost of sales		(21,162)	(17,180)
Gross profit		17,565	56,601
Distribution and marketing expenses		(19)	(15)
Administration expenses		(289)	(208)
Other operating income	4	(6)	23
Operating profit	2	17,251	56,401
Interest payable and similar charges	5	(193)	(373)
Interest receivable and similar income	6	182	225
Profit before taxation		17,240	56,253
Taxation	7	-	-
Profit for the year	17	17,240	56,253

The profit of \$17.2 million for the year ended 31 December 2012 was derived in its entirety from continuing operations

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 31 DECEMBER 2012

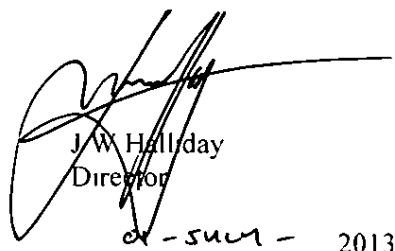
There are no recognised gains or losses attributable to the shareholders of the company other than the profit of \$17.2m for the year ended 31 December 2012 (2011 profit of \$56.3m)

BP AMOCO EXPLORATION (FAROES) LIMITED
(Registered No 00856444)

BALANCE SHEET AT 31 DECEMBER 2012

	Note	<u>2012</u> \$000	<u>2011</u> \$000
Fixed assets			
Intangible assets	9	-	-
Tangible assets	10	<u>77,018</u>	<u>79,696</u>
		77,018	79,696
Current assets			
Stocks	11	414	423
Debtors - amounts falling due			
<i>within one year</i>	12	43,522	108,002
<i>after one year</i>	12	<u>140,615</u>	<u>136,082</u>
		184,551	244,507
Creditors: amounts falling due within one year	13	<u>(178,920)</u>	<u>(177,735)</u>
Net current assets		5,631	66 772
TOTAL ASSETS LESS CURRENT LIABILITIES		82,649	146,468
Provisions for liabilities and charges			
Other provisions	15	<u>(36,250)</u>	<u>(37,309)</u>
NET ASSETS		<u>46,399</u>	<u>109,159</u>
Represented by			
Capital and reserves			
Called up share capital	16	192	192
Profit and loss account	17	<u>46,207</u>	<u>108,967</u>
SHAREHOLDERS' FUNDS – EQUITY INTERESTS		<u>46,399</u>	<u>109,159</u>

On behalf of the Board


J.W. Halliday
Director
21 - June - 2013

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 production and sale of hydrocarbon products

2. Operating profit

This is stated after charging / (crediting)

	<u>2012</u>	<u>2011</u>
	\$000	\$000
Hire charges under operating leases		
Plant & machinery	6,452	7,214
Currency exchange (gains) and losses	182	(164)
Expenditure on research	116	99
Depreciation of owned fixed assets	<u>6,681</u>	<u>7,988</u>

3. Auditor's remuneration

	<u>2012</u>	<u>2011</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. Other operating income

	<u>2012</u>	<u>2011</u>
	\$000	\$000
Miscellaneous income	<u>(6)</u>	<u>23</u>

BP AMOCO EXPLORATION (FAROES) LIMITED

NOTES TO THE ACCOUNTS

5. Interest payable and similar charges

	<u>2012</u>	<u>2011</u>
	<u>\$000</u>	<u>\$000</u>
Unwinding of discount on provisions (note 15)	<u>193</u>	<u>373</u>

6. Interest receivable and similar income

	<u>2012</u>	<u>2011</u>
	<u>\$000</u>	<u>\$000</u>
Interest income from group undertakings	<u>182</u>	<u>225</u>

7. Taxation

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

No UK 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 ("BPEOC"), has undertaken to provide for any current or deferred UK tax that arises

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

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

	<u>2012</u>	<u>2011</u>
	<u>\$000</u>	<u>\$000</u>
Profit on ordinary activities before tax	17,240	56,253
Current taxation	-	-
Effective current tax rate	0%	0%

BP AMOCO EXPLORATION (FAROEES) LIMITED

NOTES TO THE ACCOUNTS

7. Taxation (continued)

	<u>2012</u>	<u>2011</u>
	%	%
UK corporation tax rate	24	26
Increase / (decrease) resulting from		
Fixed asset timing differences	2	2
UK supplementary tax at 32% on North Sea profits	34	33
IRF tax provided in BPEOC	(66)	(64)
Ring Fence tax rate differences	<u>6</u>	<u>3</u>
Effective current tax rate	<u>-</u>	<u>-</u>

8. 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 J C Skipper was 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 (2011 Nil)

9. Intangible assets

	<u>Exploration expenditure</u>
Cost	\$000
At 1 January 2012 and 31 December 2012	<u>1,471</u>
Amortisation	
At 1 January 2012 and 31 December 2012	<u>1,471</u>
Net book value	
At 31 December 2012	<u>-</u>
At 31 December 2011	<u>-</u>

BP AMOCO EXPLORATION (FAROE) LIMITED

NOTES TO THE ACCOUNTS

10. Tangible assets

	Oil and gas properties	Of which AUC*
Cost	\$000	\$000
At 1 January 2012	201,833	1,699
Additions	4,003	5,294
At 31 December 2012	<u>205,836</u>	<u>6,993</u>
Depreciation		
At 1 January 2012	122,137	-
Charge for the year	6,681	-
At 31 December 2012	<u>128,818</u>	<u>-</u>
Net book value		
At 31 December 2012	<u>77,018</u>	<u>6,993</u>
At 31 December 2011	<u>79,696</u>	<u>1,699</u>

*AUC = assets under construction Assets under construction are not depreciated

Capitalised interest included above

	Cost	Depreciation	Net book amount
	\$000	\$000	\$000
At 31 December 2012	<u>3,447</u>	<u>3,335</u>	<u>112</u>
At 31 December 2011	<u>3,447</u>	<u>3,324</u>	<u>123</u>

11. Stocks

	2012	2011
	\$000	\$000
Raw materials and consumables	<u>414</u>	<u>423</u>

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

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BP AMOCO EXPLORATION (FAROE) LIMITED

NOTES TO THE ACCOUNTS

12. Debtors

	<u>2012</u>	<u>2012</u>	<u>2011</u>	<u>2011</u>
	Within	After	Within	After
	1 year	1 year	1 year	1 year
	\$000	\$000	\$000	\$000
Trade debtors	1,242	-	2,560	-
Amounts owed by group undertakings	42,261	140,615	105,312	136,082
Other debtors	19	-	130	-
	<u>43,522</u>	<u>140,615</u>	<u>108,002</u>	<u>136,082</u>

13. Creditors

	<u>2012</u>	<u>2011</u>
	Within	Within
	1 year	1 year
	\$000	\$000
Amounts owed to group undertakings	178,365	176,785
Other creditors	278	511
Accruals and deferred income	277	439
	<u>178,920</u>	<u>177,735</u>

14. Obligations under leases

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

	<u>2012</u>	<u>2011</u>
	Plant &	Plant &
	Machinery	Machinery
	\$000	\$000
Operating leases which expire		
Within 1 year	1,172	-
Between 2 to 5 years	<u>5,947</u>	<u>5,233</u>

During 2012 a lease commitment transferred from another subsidiary of the group as a result of a change in activities associated with the use of the leased asset

End

BP AMOCO EXPLORATION (FAROEES) LIMITED

NOTES TO THE ACCOUNTS

15. Other provisions

	Decom- missioning
	\$000
At 1 January 2012	37,309
Exchange adjustments	1,043
Decreased in cost estimates	(2,295)
Unwinding of discount	193
At 31 December 2012	<u>36,250</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 2012, the provision for the costs of decommissioning these production facilities and pipelines at the end of their economic lives was \$36.3 million (2011 \$37.3 million). The provision has been estimated using existing technology, at current prices and discounted using a real discount rate of 0.5% (2011 0.5%). 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.

16. Called up share capital

	2012	2011
	\$000	\$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>

17. Capital and reserves

	Called up share capital	Profit and loss account	Total
	\$000	\$000	\$000
At 1 January 2012	192	108,967	109,159
Profit for the year	-	17,240	17,240
Dividends – current year interim paid	-	(80,000)	(80,000)
At 31 December 2012	<u>192</u>	<u>46,207</u>	<u>46,399</u>

In 2012 the company paid interim ordinary dividends of \$80.0 million (2011 \$50.0 million). The dividend per share was \$800 (2011 dividend per share \$500).

804

BP AMOCO EXPLORATION (FAROES) LIMITED

NOTES TO THE ACCOUNTS

18. Reconciliation of movements in shareholders' funds

	<u>2012</u>	<u>2011</u>
	\$000	\$000
Profit for the year	17,240	56,253
Dividends – current year interim paid	<u>(80,000)</u>	<u>(50,000)</u>
Net increase/(decrease) in shareholders' funds	(62,760)	6,253
Shareholders' funds at 1 January	109,159	102,906
Shareholders' funds at 31 December	<u>46,399</u>	<u>109,159</u>

19. 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 2012 is estimated at \$3.2 million (2011: \$4.5 million)

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 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 is BP Exploration Operating Company Limited, a company registered in England and Wales. The ultimate controlling parent undertaking is BP plc, a company registered in England and Wales, which is the parent undertaking of the smallest and largest group to consolidate these financial statements. Copies of the consolidated financial statements of BP plc accounts can be obtained from 1 St James's Square, London, SW1Y 4PD.