

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

ANNUAL REPORT AND FINANCIAL STATEMENTS 2014

Board of Directors: T W Garlick
 D J Lynch

The directors present the strategic report, their report and the financial statements for the year ended 31 December 2014.

STRATEGIC REPORT

Results

The loss for the year after taxation was \$27,508,000 which, when deducted from the retained profit brought forward at 1 January 2014 of \$66,409,000 together with total paid interim dividends to ordinary shareholders of \$45,000,000, gives a total retained loss carried forward at 31 December 2014 of \$6,099,000.

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:

	2014	2013 Restated	Variance
	\$000	\$000	%
Turnover	28,343	47,756	(40.7)
Operating (loss) / profit	(23,603)	21,368	(210.5)
(Loss) / profit for the year	(27,508)	21,223	(229.6)
Total equity	54,093	126,601	(57.3)

	2014	2013 Restated	Variance
	%	%	
Quick ratio*	5.5	59.7	(54.2)

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

During the year, the company converted its financial statements in accordance with FRS 101 (see Notes 2 and 24). Also during the year, the company took the opportunity to change its accounting policies regarding recognition of deferred tax (see Note 9), recognition of hydrocarbon inventory (Note 23) and the recognition of the movement on hydrocarbon over/underlift (see Note 23).

Turnover has decreased primarily as a result of the decreased oil volumes due to reduced production during the year and the drop in price towards the end of the year; gas revenues have however remained fairly stable. The decrease in cost of sales has been in line with lower production, partially offset by repair and inspection activities during the year, is also impacted by the recognition of a \$1.1 million historic insurance credit.



BP AMOCO EXPLORATION (FAROE) LIMITED

STRATEGIC REPORT

Due to the change in group discount rate at year-end the company was required to perform an impairment review of its fixed assets. The oil price environment at the time of the impairment review, which the company recognised by updating the assumptions applied as part of the review, resulted in the \$28,944,000 impairment charge at year-end.

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 for the group.

The risks listed below, separately or in combination, could have a material adverse effect on the implementation of the company's strategy, business, financial performance, results of operations, cash flows, liquidity, prospects, shareholder value and returns and reputation. Unless stated otherwise, further details on these risks are included within the risk factors in the strategic report of the BP group Annual Report and Form 20-F for the year ended 31 December 2014.

Gulf of Mexico oil spill

The Gulf of Mexico oil spill in 2010 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 the company.

Strategic and commercial risks

Prices and markets

The company's financial performance is subject to fluctuating prices of oil and gas, exchange rate fluctuations and the general macroeconomic outlook.

Access, renewal and reserves progression

The company's inability to access, renew and progress upstream resources in a timely manner could adversely affect its long-term replacement of reserves.

Joint arrangements and contractors

The company may have limited control over the standards, operations and compliance of its partners, contractors and sub-contractors.

Crisis management and business continuity

Potential disruption to the company's business and operations could occur if it does not address an incident effectively.

Insurance

The BP group's insurance strategy could expose the BP group to material uninsured losses which in turn could adversely affect the company.

Safety and operational risks

Process safety, personal safety and environmental risks

The company is exposed to a wide range of health, safety, security and environmental risks that could result in regulatory action, legal liability, increased costs, damage to its reputation and potentially denial of its licence to operate.

BP AMOCO EXPLORATION (FAROEES) LIMITED

STRATEGIC REPORT

Principal risks and uncertainties (continued)

Safety and operational risks (continued)

Drilling and production

Challenging operational environments and other uncertainties can impact drilling and production activities.

Compliance and control risks

US government settlements

The BP group's settlements with legal and regulatory bodies in the US in respect of certain charges related to the Gulf of Mexico oil spill may expose the BP group to further penalties, liabilities and private litigation, which in turn could have adverse impacts on the company or could result in suspension or debarment of the company.

Regulation

Changes in the regulatory and legislative environment could increase the cost of compliance, affect the company's provisions and limit its access to new exploration opportunities.

Reporting

Failure to accurately report the company's data could lead to regulatory action, legal liability and reputational damage.

Financial risk management

The company is exposed to a number of different financial risks arising from natural business exposures, as well as its use of financial instruments, including market risks relating to commodity prices, foreign currency exchange rates and interest rates. Further details on these financial risks are included within Note 27 of the BP group Annual Report and Form 20-F for the year ended 31 December 2014.

By Order of the Board



For and on behalf of
Sunbury Secretaries Limited
Company Secretary

6 July 2015

Registered Office:

Chertsey Road
Sunbury on Thames
Middlesex
TW16 7BP
United Kingdom

BP AMOCO EXPLORATION (FAROE) LIMITED

DIRECTORS' REPORT

Directors

The present directors are listed on page 1.

T W Garlick and D J Lynch served as directors throughout the financial year. Changes since 1 January 2014 are as follows:

J W Halliday

Resigned
9 October 2014

Directors' indemnity

The company indemnifies the directors in its Articles of Association to the extent allowed under section 232 of the Companies Act 2006. Such qualifying third party indemnity provisions for the benefit of the company's directors remain in force at the date of this report.

Dividends

During the year the company has declared and paid dividends of \$45,000,000 (2013: \$Nil). The directors do not propose the payment of a final dividend.

Future developments

The directors consider that, despite the uncertainties deriving from the current economic environment and the loss reported for the year, the company has adequate resources to continue in operational existence for the foreseeable future.

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

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.

BP AMOCO EXPLORATION (FAROEES) LIMITED

DIRECTORS' REPORT

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



For and on behalf of
Sunbury Secretaries Limited
Company Secretary

6 July 2015

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 FINANCIAL STATEMENTS**

The directors are responsible for preparing the Strategic Report, 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 applicable law and United Kingdom accounting standards (United Kingdom Generally Accepted Accounting Practice). 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 financial statements, 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 financial statements.

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 2014 which comprise the Profit and Loss Account, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and the related notes 1 to 25. 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) including Financial Reporting Standard 101 'Reduced Disclosure Framework'.

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 auditor's 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 auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 6, 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). Those 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 Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on 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 2014 and the loss 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 matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and 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

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

Aberdeen

9 JULY 2015

BP AMOCO EXPLORATION (FAROE) LIMITED**PROFIT AND LOSS ACCOUNT**
FOR THE YEAR ENDED 31 DECEMBER 2014

		2014	2013
		\$000	Restated \$000
Turnover	Note 3	28,343	47,756
Cost of sales		(22,779)	(26,202)
Gross profit		5,564	21,554
Distribution and marketing expenses		(20)	(24)
Administrative expenses		(203)	(162)
Amounts provided against tangible fixed assets	6	(28,944)	-
Operating (loss) / profit	4	(23,603)	21,368
Interest receivable and similar income	7	107	61
Interest payable and similar charges	8	(417)	(206)
(Loss) / profit before taxation		(23,913)	21,223
Taxation	9	(3,595)	-
(Loss) / profit for the year		(27,508)	21,223

The loss of \$27,508,000 for the year ended 31 December 2014 was derived in its entirety from continuing operations (2013: profit \$21,223,000).

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2014

There is no other comprehensive income attributable to the shareholders of the company other than the loss of \$27,508,000 for the year ended 31 December 2014 (2013: profit \$21,223,000).

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

BALANCE SHEET AT 31 DECEMBER 2014

		2014	2013	2012
	Note	2014	Restated	Restated
		\$000	\$000	\$000
Fixed assets				
Intangible assets	11	-	-	-
Tangible assets	12	42,365	76,056	77,018
		42,365	76,056	77,018
Current assets				
Stocks	13	1,097	990	1,303
Debtors	14	73,139	105,666	182,918
		74,236	106,656	184,221
Creditors: amounts falling due within one year	15	(17,360)	(15,423)	(179,611)
Net current assets		56,876	91,233	4,610
TOTAL ASSETS LESS CURRENT LIABILITIES		99,241	167,289	81,628
Provisions for liabilities and charges				
Deferred tax liability	9	(3,595)	-	-
Other provisions	17	(41,553)	(40,688)	(36,250)
NET ASSETS		54,093	126,601	45,378
Capital and reserves				
Called up share capital	18	60,192	60,192	192
Profit and loss account	19	(6,099)	66,409	45,186
TOTAL EQUITY		54,093	126,601	45,378

On behalf of the Board



T W Garlick
Director

6 July 2015

BP AMOCO EXPLORATION (FAROES) LIMITED

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2014

	<u>Called up share capital (Note 18) \$000</u>	<u>Profit and loss account (Note 19) \$000</u>	<u>Total \$000</u>
Balance at 1 January 2013	192	45,186	45,378
Profit for the year	-	21,223	21,223
Issue of share capital	60,000	-	60,000
Balance at 31 December 2013	60,192	66,409	126,601
Loss for the year	-	(27,508)	(27,508)
Dividends paid	-	(45,000)	(45,000)
Balance at 31 December 2014	60,192	(6,099)	54,093

BP AMOCO EXPLORATION (FAROES) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

1. Authorisation of financial statements and statement of compliance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101)

The financial statements of BP Amoco Exploration (Faroes) Limited for the year ended 31 December 2014 were approved by the board of directors on 3 July 2015 and the balance sheet was signed on the board's behalf by T W Garlick. BP Amoco Exploration (Faroes) Limited is a limited company incorporated in England and Wales. The company meets the definition of a qualifying entity under Financial Reporting Standard 100 (FRS 100) issued by the Financial Reporting Council. Accordingly, in the year ended 31 December 2014 the company has changed its accounting framework from previously extant United Kingdom Generally Accepted Accounting Practice (UK GAAP) to FRS 101 as issued by the Financial Reporting Council. These financial statements were prepared in accordance with FRS 101 and the provisions of the Companies Act 2006. A qualifying entity may apply FRS 101 for accounting periods beginning on or after 1 January 2015, however early application is permitted by the standard and as such BP Amoco Exploration (Faroes) Limited has elected to apply FRS 101 early.

There were no material measurement or recognition adjustments on the adoption of FRS 101.

2. Significant accounting policies, judgements, estimates and assumptions

The significant accounting policies and critical accounting judgements, estimates and assumptions of the company are set out below.

Basis of preparation

These financial statements have been prepared in accordance with FRS 101. The financial statements have been prepared under the historical cost convention. Historical cost is generally based on the fair value of the consideration given in exchange for the assets.

The accounting policies that follow have been consistently applied to all years presented. Where retrospective restatements were required as a result of the implementation of new accounting standards or changes to existing accounting standards, these have been applied to all comparative years presented.

BP AMOCO EXPLORATION (FAROE) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

2. Significant accounting policies, judgements, estimates and assumptions (continued)

Basis of preparation (continued)

As permitted by FRS 101, the company has taken advantage of the disclosure exemptions available under that standard in relation to:

- (a) the requirements of paragraphs 10(d), 10(f), 39(c) and 134-136 of IAS 1 Presentation of Financial Statements;
- (b) the requirement in paragraph 38 of IAS 1 Presentation of Financial Statements to present comparative information in respect of:
 - (i) paragraph 79(a)(iv) of IAS 1;
 - (ii) paragraph 73(e) of IAS 16 Property, Plant and Equipment; and
- (c) the requirements of paragraphs 134(d)-134(f) and 135c-135e of IAS 36, Impairment of Assets;
- (d) the requirements of IAS 7 Statement of Cash Flows;
- (e) the requirements of paragraphs 91 – 99 of IFRS 13 Fair Value Measurement;
- (f) the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors in relation to standards not yet effective;
- (g) the requirements of paragraph 17 of IAS 24 Related Party Disclosures; and
- (h) the requirements of IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.

Where required, equivalent disclosures are given in the group financial statements of BP p.l.c. The group financial statements of BP p.l.c. are available to the public and can be obtained as set out in Note 25.

The financial statements are presented in US dollars and all values are rounded to the nearest thousand dollars (\$000), except where otherwise indicated.

Critical accounting policies: use of judgements, estimates and assumptions

Inherent in the application of many of the accounting policies used in preparing the financial statements is the need for management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual outcomes could differ from the estimates and assumptions used. The critical judgements and estimates that could have a significant impact on the results of the company are set out below and should be read in conjunction with the information provided in the Notes to the financial statements:

BP AMOCO EXPLORATION (FAROE) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

2. Significant accounting policies, judgements, estimates and assumptions (continued)

Critical accounting policies: use of judgements, estimates and assumptions (continued)

Development expenditure

The determination of whether potentially economic oil and natural gas reserves have been discovered by an exploration well is usually made within one year after well completion, but can take longer, depending on the complexity of the geological structure. Exploration wells that discover potentially economic quantities of oil and natural gas and are in areas where major capital expenditure (e.g. offshore platform or a pipeline) would be required before production could begin, and where the economic viability of that major capital expenditure depends on the successful completion of further exploration work in the area, remain capitalised on the balance sheet as long as additional exploration appraisal work is under way or firmly planned.

It is not unusual to have exploration wells and exploratory-type stratigraphic test wells remaining suspended on the balance sheet for several years while additional appraisal drilling and seismic work on the potential oil and natural gas field is performed or while the optimum development plans and timing are established. All such carried costs are subject to regular technical, commercial and management review on at least an annual basis to confirm the continued intent to develop, or otherwise extract value from, the discovery. Where this is no longer the case, the costs are immediately expensed.

In accordance with section 844(3) of the Companies Act 2006 development costs that have been capitalised are not treated as realised losses in determination of distributable reserves as these costs are capitalised in accordance with applicable accounting standards.

Tangible assets

The determination of the company's estimated oil and natural gas reserves requires significant judgements and estimates to be applied and these are regularly reviewed and updated. Factors such as the availability of geological and engineering data, reservoir performance data, acquisition and divestment activity, drilling of new wells and commodity prices all impact on the determination of the company's estimates of its oil and natural gas reserves. The company bases its proved reserves estimates on the requirement of reasonable certainty with rigorous technical and commercial assessments based on conventional industry practice and regulatory requirements.

Estimates of oil and natural gas reserves are used to calculate depreciation, depletion and amortisation charges for the company's oil and gas properties. The impact of changes in estimated proved reserves is dealt with prospectively by amortizing the remaining carrying value of the asset over the expected future production. Oil and natural gas reserves also have a direct impact on the assessment of the recoverability of asset carrying values reported in the financial statements. If proved reserves estimates are revised downwards, earnings could be affected by higher depreciation expense or an immediate write-down of the property's carrying value.

Impairment of intangible assets and tangible assets

Determination as to whether, and how much, an asset is impaired involves management estimates on highly uncertain matters such as future commodity prices, the effects of inflation on operating expenses, discount rates, production profiles and the outlook for global or regional market supply-and-demand conditions for crude oil, natural gas and refined products.

BP AMOCO EXPLORATION (FAROE) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

2. Significant accounting policies, judgements, estimates and assumptions (continued)

Critical accounting policies: use of judgements, estimates and assumptions (continued)

Impairment of intangible assets and tangible assets (continued)

For oil and natural gas properties, the expected future cash flows are estimated using management's best estimate of future oil and natural gas prices and reserves volumes. Prices for oil and natural gas used for future cash flow calculations are based on market prices for the first five years and the BP group's long-term price assumptions thereafter. As at 31 December 2014, the BP group's long-term price assumptions were \$90 per barrel for Brent (2013 \$90 per barrel). These long-term price assumptions are subject to periodic review and revision. The estimated future level of production is based on assumptions about future commodity prices, production and development costs, field decline rates, current fiscal regimes and other factors.

For value in use calculations, future cash flows are adjusted for risks specific to the cash-generating unit and are discounted using a pre-tax discount rate. The discount rate is derived from the BP group's post-tax weighted average cost of capital and is adjusted where applicable to take into account any specific risks relating to the country where the cash-generating unit is located, although other rates may be used if appropriate to the specific circumstances. The discount rates applied in assessments of impairment are reassessed each year. In cases where fair value less costs to sell is used to determine the recoverable amount of an asset, where recent market transactions for the asset are not available for reference, accounting judgements are made about the assumptions market participants would use when pricing the asset.

Impairment of financial assets

Judgements are required in assessing the recoverability of overdue trade receivables and determining whether a provision against the future recoverability of those receivables is required. Factors considered include the credit rating of the counterparty, the amount and timing of anticipated future payments and any possible actions that can be taken to mitigate the risk of non-payment.

Provisions and contingent liabilities

The provision recognised is the best reliable estimate of expenditures required to settle certain present obligations at the end of the reporting period, however there are future expenditures for which it is not possible to measure the obligation reliably. These are not provided for and are disclosed as contingent liabilities. Accounting judgement is required to identify when a provision can be measured reliably, which can be especially challenging when complex litigation activities are ongoing.

In addition, for those provisions which are recognised, there is significant estimation uncertainty about the amounts that will ultimately be paid. A provision is made for these costs when the amount can be measured reliably; this requires an analysis of claims received and processed and consideration of the status of ongoing legal activity.

BP AMOCO EXPLORATION (FAROE) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

2. Significant accounting policies, judgements, estimates and assumptions (continued)

Critical accounting policies: use of judgements, estimates and assumptions (continued)

Decommissioning and environmental liabilities

The company holds provisions for the future decommissioning of oil and natural gas production facilities and pipelines at the end of their economic lives. The largest decommissioning obligations facing the company relate to the plugging and abandonment of wells and the removal and disposal of oil and natural gas platforms and pipelines. Most of these decommissioning events are many years in the future and the precise requirements that will have to be met when the removal event actually occurs are uncertain. Decommissioning technologies and costs are constantly changing, as well as political, environmental, safety and public expectations. If oil and natural gas production facilities and pipelines are sold to third parties and the subsequent owner is unable to meet their decommissioning obligations, judgement must be used to determine whether the company is then responsible for decommissioning, and if so the extent of that responsibility. Consequently, the timing and amounts of future cash flows are subject to significant uncertainty. Any changes in the expected future costs are reflected in both the provision and the asset.

The provision for environmental liabilities is estimated based on current legal and constructive requirements, technology, price levels and expected plans for remediation. Actual costs and cash outflows can differ from estimates because of changes in laws and regulations, public expectations, prices, discovery and analysis of site conditions and changes in clean-up technology.

Other provisions and liabilities are recognised in the period when it becomes probable that there will be a future outflow of funds resulting from past operations or events and the amount of cash outflow can be reliably estimated. The timing of recognition and quantification of the liability require the application of judgement to existing facts and circumstances, which can be subject to change. Since the actual cash outflows can take place many years in the future, the carrying amounts of provisions and liabilities are reviewed regularly and adjusted to take account of changing facts and circumstances.

The timing and amount of future expenditures are reviewed annually, together with the interest rate used in discounting the cash flows. The interest rate used to determine the balance sheet obligation at the end of 2014 was a real rate of 0.75% (2013 1.0%, 2012 0.5%), which was based on long-dated government bonds.

Deferred tax

Management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with an assessment of the net effect of future tax planning strategies.

Going concern

The directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future and the financial statements have therefore been prepared under the going concern basis.

BP AMOCO EXPLORATION (FAROE) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

2. Significant accounting policies, judgements, estimates and assumptions (continued)

Foreign currency

The functional and presentation currency of the financial statements is US dollars. The functional currency is the currency of the primary economic environment in which an entity operates and is normally the currency in which the entity primarily generates and expends cash.

Transactions in foreign currencies are initially recorded in the functional currency by applying the rate of exchange ruling at the date of the transaction, where this is not practical and exchange rates do not fluctuate materially the average rate has been used. Monetary assets and liabilities denominated in foreign currencies are retranslated into the functional currency at the rate of exchange ruling at the balance sheet date. Any resulting exchange differences are included in the profit and loss account. Non-monetary assets and liabilities, other than those measured at fair value, are not retranslated subsequent to initial recognition.

Interests in joint arrangements

A joint arrangement is an arrangement of which two or more parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. The company recognises, on a line-by-line basis its share of the assets, liabilities and expenses of these joint operations incurred jointly with the other partners, along with the company's income from the sale of its share of the output and any liabilities and expenses that the company has incurred in relation to the joint operation.

Intangible assets

Intangible assets, , include expenditure on the exploration for and evaluation of oil and natural gas resources, computer software, patents, licences and trademarks and are stated at the amount initially recognised, less accumulated amortisation and accumulated impairment losses. For information on accounting for expenditures on the exploration for and evaluation of oil and natural gas resources, see the accounting policy for oil and natural gas exploration, appraisal and development expenditure below.

The expected useful lives of assets are 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 whenever events or changes in circumstances indicate the carrying value may not be recoverable.

Oil and natural gas exploration, appraisal and development expenditure

Oil and natural gas exploration, appraisal and development expenditure is accounted for using the principles of the successful efforts method of accounting.

BP AMOCO EXPLORATION (FAROE) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

2. Significant accounting policies, judgements, estimates and assumptions (continued)

Intangible assets (continued)

Licence and property acquisition costs

Exploration licence acquisition costs are initially capitalised within intangible assets and are reviewed at each reporting date to confirm that there is no indication that the carrying amount exceeds the recoverable amount. This review includes confirming that exploration drilling is still under way or firmly planned or that it has been determined, or work is under way to determine, that the discovery is economically viable based on a range of technical and commercial considerations and sufficient progress is being made on establishing development plans and timing. If no future activity is planned, the remaining balance of the licence and property acquisition costs is written off. Upon recognition of proved reserves and internal approval for development, the relevant expenditure is transferred to tangible assets.

Exploration and appraisal expenditure

Geological and geophysical exploration costs are charged to the profit and loss account 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 potentially commercial quantities of hydrocarbons are not found, the exploration well is written off as a dry hole. If hydrocarbons are found and, subject to further appraisal activity, are likely to be capable of commercial development, the costs continue to be carried as an asset.

Costs directly associated with appraisal activity, undertaken to determine the size, characteristics and commercial potential of a reservoir following the initial discovery of hydrocarbons, including the costs of appraisal wells where hydrocarbons were not found, are initially capitalised as an intangible asset. When proved reserves of oil and natural gas are determined and development is approved by management, the relevant expenditure is transferred to tangible assets.

Development expenditure

Expenditure on the construction, installation or completion of infrastructure facilities such as platforms, pipelines and the drilling of development wells, including service and unsuccessful development or delineation wells, is capitalised within tangible assets and is depreciated from the commencement of production as described below in the accounting policy for tangible assets.

Tangible assets

Tangible 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 the location and condition necessary for it to be capable of operating in the manner intended by management, the initial estimate of any decommissioning obligation, if any, and, for assets that necessarily take a substantial period of time to get ready for their intended use, 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 assets.

BP AMOCO EXPLORATION (FAROE) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

2. Significant accounting policies, judgements, estimates and assumptions (continued)

Tangible assets (continued)

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 is replaced and it is probable that future economic benefits associated with the item will flow to the company, the expenditure is capitalised and the carrying amount of the replaced asset is derecognised. Inspection costs associated with major maintenance programmes are capitalised and amortised over the period to the next inspection. Overhaul costs for major maintenance programmes, and all other maintenance costs are expensed as incurred.

Oil and natural gas properties, including related pipelines, are depreciated using a unit-of-production method. The cost of producing wells is amortised over proved developed reserves. Licence acquisition, common facilities and future decommissioning costs are amortised over total proved reserves. The unit-of-production rate for the depreciation of common facilities takes into account expenditures incurred to date, together with estimated future capital expenditure expected to be incurred relating to as yet undeveloped reserves expected to be processed through these common facilities.

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

The carrying amount of tangible assets is reviewed for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable.

An item of tangible assets is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the profit and loss account in the period in which the item is derecognised.

Impairment of tangible 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, for example, changes in the company's business plans, changes in commodity prices leading to sustained unprofitable performance, low plant utilisation, evidence of physical damage or, for oil and gas assets, significant downward revisions of estimated reserves or increases in estimated future development expenditure. If any such indication of impairment exists, the company makes an estimate of the asset's recoverable amount. 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. An asset group's recoverable amount is the higher of its fair value less costs to sell 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.

BP AMOCO EXPLORATION (FAROE) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

2. Significant accounting policies, judgements, estimates and assumptions (continued)

Impairment of tangible assets (continued)

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 an 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

Stock is stated at the lower of cost and net realisable value. Cost is determined by the first-in first-out method and comprises direct purchase costs, cost of production, transportation and manufacturing expenses. Net realisable value is determined by reference to prices existing at the balance sheet date.

Supplies are valued at cost to the company mainly using the average method or net realisable value, whichever is the lower.

Leases

Finance leases, which transfer to the company substantially all risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease term at the fair value of the leased item or, if lower, at the present value of the minimum lease payments. Finance charges are allocated to each period so as to achieve a constant rate of interest on the remaining balance of the liability and are charged directly to the profit and loss account.

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 developments. For both finance and operating leases, contingent rents are recognised in the profit and loss account in the period in which they are incurred.

Financial assets

Financial assets are classified as loans and receivables. Financial assets may include cash and cash equivalents, trade receivables and other receivables. The company determines the classification of its financial assets at initial recognition. Financial assets are recognised initially at fair value, normally being the transaction price plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

The subsequent measurement of financial assets depends on their classification, as follows:

BP AMOCO EXPLORATION (FAROE) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

2. Significant accounting policies, judgements, estimates and assumptions (continued)

Financial assets (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method if the time value of money is significant. Gains and losses are recognised in the profit and loss account when the loans and receivables are derecognised or impaired, as well as through the amortisation process. This category of financial assets includes trade and other receivables. Cash and cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash, are subject to insignificant risk of changes in value and have a maturity of three months or less from the date of acquisition.

Impairment of financial assets

The company assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

Loans and receivables

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced, with the amount of the loss recognised in the profit and loss account.

Provisions

Provisions are recognised when the company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

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 risk-free rate that reflects current market assessments of the time value of money. Where discounting is used, the increase in the provision due to the passage of time is recognised within finance costs. Contingent liabilities are possible obligations whose existence will only be confirmed by future events not wholly within the control of the company, or present obligations where it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured with sufficient reliability.

Contingent liabilities are not recognised in the financial statements but are disclosed unless the possibility of an outflow of economic resources is considered remote. Contingent assets are not recognised, but are disclosed where an inflow of economic benefits is probable.

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.

BP AMOCO EXPLORATION (FAROE) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

2. Significant accounting policies, judgements, estimates and assumptions (continued)

Decommissioning

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 2014, the provision for the costs of decommissioning these production facilities and pipelines at the end of their economic lives was \$41,553,000 (2013: \$40,688,000 and 2012: \$36,250,000). The provision has been estimated using existing technology, at current prices and discounted using a real discount rate of 0.75% (2013: 1.0% and 2012: 0.5%). These costs are expected to be incurred over the next 9 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.

Liabilities for decommissioning costs are recognised when the company has an obligation to plug and abandon a well, dismantle and remove a facility or an item of plant and to restore the site on which it is located, and when a reliable estimate of that liability can be made. Where an obligation exists for a new facility or item of plant, such as oil and natural gas production or transportation facilities, this liability will be recognised on construction or installation. Similarly, where an obligation exists for a well, this liability is recognised when it is drilled. An obligation for decommissioning may also crystallise during the period of operation of a well, facility or item of plant through a change in legislation or through a decision to terminate operations; an obligation may also arise in cases where an asset has been sold but the subsequent owner is no longer able to fulfil its decommissioning obligations, for example due to bankruptcy. The amount recognised is the present value of the estimated future expenditure determined in accordance with the local conditions and requirements.

A corresponding intangible asset (in the case of an exploration or appraisal well) or item of tangible asset of an amount equivalent to the provision is also recognised. The item of intangible or tangible asset is subsequently depreciated as part of the asset.

Other than the unwinding of discount on the provision, any change in the present value of the estimated expenditure is reflected as an adjustment to the provision and the corresponding asset. Such changes include foreign exchange gains and losses arising on the retranslation of the liability into the functional currency of the reporting entity, when it is known that the liability will be settled in a foreign currency.

Deferred tax

Deferred tax liabilities are recognised for all taxable temporary differences except where the deferred tax liability arises on the initial recognition of goodwill or on the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable profit or loss.

Deferred tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profits will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised except where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit or loss nor taxable profit or loss.

BP AMOCO EXPLORATION (FAROE) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

2. Significant accounting policies, judgements, estimates and assumptions (continued)

Deferred tax (continued)

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

Deferred income tax assets and liabilities are offset, only if a legally enforcement right exists to set off taxation assets against taxation liabilities, the deferred income taxes relate to the same taxation authority and that authority permits the company to make a single net payment.

Customs duties and sales taxes

Customs duties and sales taxes which are passed on to customers are excluded from turnover and expenses. Assets and liabilities are recognised net of the amount of customs duties or sales tax except:

- Where the customs duty or sales tax incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the customs duty or sales tax is recognised as part of the cost of acquisition of the asset.
- Receivables and payables are stated with the amount of customs duty or sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included within receivables or payables in the balance sheet.

Turnover

Turnover is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods provided in the normal course of business, net of discounts, customs duties and sales taxes.

Turnover associated with the sale of oil and natural gas and all other items are recognised when title passes to the customer.

Generally, turnover from the production of oil and natural gas properties in which the company has an interest with joint operation partners 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 turnover and held on the balance sheet at market value.

Interest income

Interest income is recognised as the interest accrues (using the effective interest rate that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

Research

Research costs are expensed as incurred.

BP AMOCO EXPLORATION (FAROE) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

2. Significant accounting policies, judgements, estimates and assumptions (continued)

Finance costs

Finance costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use, are added to the cost of those assets until such time as the assets are substantially ready for their intended use. All other finance costs are recognised in the profit and loss account in the period in which they are incurred.

Dividends payable

Final dividends are recorded in the financial statements 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.

3. Turnover

Sales of goods, which is stated net of value added tax, represents amounts invoiced to third parties and group companies. Turnover is realised entirely in the upstream business.

	<u>2014</u>	<u>2013</u>
	\$000	\$000
Sales of goods	26,211	48,312
Over/underlift	2,132	(556)
Interest receivable and similar income (Note 7)	107	61
	<u>28,450</u>	<u>47,817</u>

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.

4. Operating (loss) / profit

This is stated after charging / (crediting):

	<u>2014</u>	<u>2013</u>
	\$000	\$000
Operating lease payments:		
Plant & machinery	6,766	6,753
Net foreign exchange gains	(394)	(52)
Research and development costs expensed	361	526
Depreciation of tangible assets – Note 12	9,596	11,366
Impairment of tangible assets – Note 6	<u>28,944</u>	<u>-</u>

BP AMOCO EXPLORATION (FAROES) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

5. Auditor's remuneration

	<u>2014</u>	<u>2013</u>
	<u>\$000</u>	<u>\$000</u>
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 financial statements since the consolidated financial statements of BP Amoco Exploration (Faroes) Limited's ultimate parent, BP p.l.c., are required to disclose non-audit fees on a consolidated basis.

The fees were borne by another group company.

6. Amounts provided against fixed assets

	<u>2014</u>	<u>2013</u>
	<u>\$000</u>	<u>\$000</u>
Impairment – Note 12	<u>28,944</u>	<u>-</u>

Due to the change in group discount rate at year-end the company was required to perform an impairment review of its fixed assets. The oil price environment at the time of the impairment review, which the company recognised by updating the assumptions applied as part of the review, resulted in the \$28,944,000 impairment charge at year-end.

7. Interest receivable and similar income

	<u>2014</u>	<u>2013</u>
	<u>\$000</u>	<u>\$000</u>
Interest income from amounts owed by group undertakings	<u>107</u>	<u>61</u>

8. Interest payable and similar charges

	<u>2014</u>	<u>2013</u>
	<u>\$000</u>	<u>\$000</u>
Unwinding of discount on provisions – Note 17	<u>417</u>	<u>206</u>

BP AMOCO EXPLORATION (FAROE) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

9. Taxation

In the prior year, no UK corporation tax had 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"), had agreed to provide for any current or deferred UK tax that arose. During the period that agreement was terminated and as a result for 2014 UK corporation tax in respect of the company's oil extraction activity in the UK and UK Continental Shelf has been provided for this company.

In respect of the company's other activities, in the prior year no UK corporation tax had been provided because another group company, BP International Limited ("BPI"), had agreed to procure the claim or surrender of group relief to the extent it was required and to provide for any current or deferred tax that arose without charge. During the period that agreement was terminated and as a result for 2014 UK corporation tax in respect of the company's other activities has also been provided for this company.

The taxation charge in the profit and loss account is made up as follows:

	2014	2013
<u>Deferred tax</u>	<u>\$000</u>	<u>\$000</u>
Origination and reversal of temporary differences	3,595	-
Total deferred tax charged	3,595	-
 Tax charge	 <u>3,595</u>	 <u>-</u>

(a) Reconciliation of the effective tax rate

The tax assessed on the (loss) / profit for the year is lower (2013: Nil) than the standard rate of corporation tax in the UK of 21% for the year ended 31 December 2014 (2013: 23%). The differences are reconciled below:

	2014	2013 Restated
	<u>\$000</u>	<u>\$000</u>
(Loss) / profit before taxation	(23,913)	21,223
Taxation	(3,595)	-
Effective tax rate	(15)%	0%
	 <u>2014</u>	 <u>2013</u>
	<u>%</u>	<u>%</u>
UK statutory corporation tax rate:	21	23
Non-deductible expenditure / (non-taxable income)	1	(1)
Free group relief	8	-
UK Supplementary tax on North Sea profits	40	39
Ring Fence Tax rate differences	13	7
Current tax previously recognised by BPEOC	-	(75)
Deferred tax previously recognised by BPI and BPEOC	-	7
Opening deferred tax recognised in current year	(98)	-
Effective tax rate	<u>(15)</u>	<u>-</u>

BP AMOCO EXPLORATION (FAROE) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

9. Taxation (continued)

Change in corporation tax rate

The UK corporation tax rate was reduced from 23% to 21% effective 1 April 2014 and will reduce to 20% from 1 April 2015. Deferred tax has been measured using the rates substantively enacted at 31 December 2014.

(b) Provision for deferred tax

The deferred tax included in the profit and loss account and balance sheet is as follows:

	Profit and loss account		Balance sheet	
<u>Deferred tax asset</u>	2014	2013	2014	2013
	\$000	\$000	\$000	\$000
Decommissioning and other provisions	20,776	-	20,776	-
Net provision for deferred tax assets	<u>20,776</u>	<u>-</u>	<u>20,776</u>	<u>-</u>

	Profit and loss account		Balance sheet	
<u>Deferred tax liability</u>	2014	2013	2014	2013
	\$000	\$000	\$000	\$000
Accelerated capital allowances	(24,371)	-	(24,371)	-
Net provision for deferred tax liabilities	<u>(24,371)</u>	<u>-</u>	<u>(24,371)</u>	<u>-</u>

Analysis of movements during the year

	2014
	\$000
At 1 January 2014	-
Deferred tax charge in the profit and loss account	(3,595)
At 31 December 2014	<u>(3,595)</u>

10. Directors and employees

(a) Remuneration of directors

Directors of BP Exploration Operating Company Limited, T W Garlick, D J Lynch and J W Halliday received no remuneration for their services to this company.

(b) Employee costs

The company had no employees during the year (2013: Nil).

BP AMOCO EXPLORATION (FAROE) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

11. Intangible assets

	Exploration expenditure
Cost	\$000
At 1 January 2014 and 31 December 2014	<u>1,471</u>
Amortisation	
At 1 January 2014 and 31 December 2014	<u>1,471</u>
Net book value	
At 31 December 2014	<u>-</u>
At 31 December 2013	<u>-</u>
At 31 December 2012	<u>-</u>

12. Tangible assets

	Oil & gas properties	Of which AUC*
Cost	\$000	\$000
At 1 January 2014	216,240	5,210
Additions	4,849	3,648
Transfers		(2,870)
At 31 December 2014	<u>221,089</u>	<u>5,988</u>
Depreciation and impairment		
At 1 January 2014	140,184	-
Charge for the year	9,596	-
Impairment	28,944	2,431
At 31 December 2014	<u>178,724</u>	<u>2,431</u>
Net book value		
At 31 December 2014	<u>42,365</u>	<u>3,557</u>
At 31 December 2013	<u>76,056</u>	<u>5,210</u>
At 31 December 2012	<u>77,018</u>	<u>6,993</u>

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

BP AMOCO EXPLORATION (FAROE) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

12. Tangible assets (continued)

Due to the change in group discount rate at year-end the company was required to perform an impairment review of its fixed assets. The oil price environment at the time of the impairment review, which the company recognised by updating the assumptions applied as part of the review, resulted in the \$28,944,000 impairment charge at year-end.

Capitalised interest included above:

	<u>Cost</u>	<u>Depreciation</u>	<u>Net book Amount</u>
	\$000	\$000	\$000
At 31 December 2014	<u>3,447</u>	<u>3,404</u>	<u>43</u>
At 31 December 2013	<u>3,447</u>	<u>3,351</u>	<u>96</u>
At 31 December 2012	<u>3,447</u>	<u>3,335</u>	<u>112</u>

13. Stock

	<u>2014</u>	<u>2013 Restated</u>	<u>2012 Restated</u>
	\$000	\$000	\$000
Raw materials and consumables	101	160	414
Crude oil	<u>996</u>	<u>830</u>	<u>889</u>
	<u>1,097</u>	<u>990</u>	<u>1,303</u>

14. Debtors

Amounts falling due within one year:

	<u>2014</u>	<u>2013 Restated</u>	<u>2012 Restated</u>
	\$000	\$000	\$000
Trade debtors	964	97	23
Amounts owed by group undertakings	-	8,997	42,261
Other debtors	-	112	19
	<u>964</u>	<u>9,206</u>	<u>42,303</u>

Amounts falling due after one year:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
	\$000	\$000	\$000
Amounts owed by group undertakings	<u>72,175</u>	<u>96,460</u>	<u>140,615</u>
Total debtors	<u>73,139</u>	<u>105,666</u>	<u>182,918</u>

BP AMOCO EXPLORATION (FAROE) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

15. Creditors

Amounts falling due within one year:

	2014	2013 Restated	2012 Restated
	\$000	\$000	\$000
Trade creditors	-	1,248	691
Amounts owed to group undertakings	16,883	12,958	178,365
Other creditors	265	281	278
Accruals and deferred income	212	936	277
	<u>17,360</u>	<u>15,423</u>	<u>179,611</u>

16. Obligations under leases

Operating leases

At the balance sheet date, the company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2014	2013
	Other	Other
	\$000	\$000
Operating leases:		
Within 1 year	5,718	5,962
Between 2 to 5 years	<u>6,030</u>	<u>9,031</u>

17. Other provisions

	<u>Decom- missioning</u>
	\$000
At 1 January 2013	36,250
Exchange adjustments	1,091
New or increased provisions:	
Recognised within tangible assets	5,472
Unwinding of discount	206
Change in discount rate	<u>(2,331)</u>
At 31 December 2013	<u>40,688</u>
At 1 January 2014	40,688
Exchange adjustments	(1,803)
New or increased provisions:	
Recognised within tangible assets	1,317
Unwinding of discount	417
Change in discount rate	<u>934</u>
At 31 December 2014	<u>41,553</u>

BP AMOCO EXPLORATION (FAROE) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

18. Called up share capital

	<u>2014</u>	<u>2013</u>	<u>2012</u>
	\$000	\$000	\$000
Issued and fully paid:			
37,346,259 Ordinary shares of £1 each for a total nominal value of £37,346,259 (2013: £37,346,259, 2012: £100,000)	<u>60,192</u>	<u>60,192</u>	<u>192</u>

On 19 November 2013, 37,246,259 ordinary shares of £1 each for a total nominal value of £37,246,259 were allotted to the immediate parent company at par value.

19. Reserves

Called up share capital

The balance on the called up share capital account represents the aggregate nominal value of all ordinary shares in issue.

Profit and loss account

The balance held on this reserve is the accumulated retained profits and losses of the company.

In 2014 the company paid interim ordinary dividends of \$45 million (2013: \$Nil, 2012: \$80 million). The dividend per share was \$1.20 (2013 dividend per share: \$Nil, 2012 dividend per share was \$800).

20. Capital commitments

Authorised and contracted future capital expenditure by the company for which contracts had been placed but not provided in the financial statements at 31 December 2014 is estimated at \$300,000 (2013: \$3,000,000).

21. Related party transactions

The company has taken advantage of the exemption contained within paragraph 8(k) and (j) of FRS 101, and has not disclosed transactions entered into with wholly-owned group companies or key management personnel. There were no other related party transactions in the year.

BP AMOCO EXPLORATION (FAROE) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

22. Off-balance sheet arrangements

The company enters into operating lease arrangements for the rental of plant and equipment as these arrangements are a cost efficient way of obtaining the short-term benefits of these assets. The operating lease charges for the year are disclosed in Note 4 and the whole obligation under these arrangements are disclosed in Note 16. There are no other material off-balance sheet arrangements.

23. Prior year adjustment – changes in accounting policy

During the year, the company changed its accounting policy with respect to the recognition of hydrocarbon inventory. The company now values the barrels of hydrocarbon liquids identified as not available for lifting as inventory and values these barrels at the lower of cost and market price. Prior to this change, the company applied the “pure” entitlement method of accounting, whereby the company’s share of production was deemed to be cost of sales and valued at market price, regardless of lifting pattern.

The impact of this voluntary change in accounting policy on the company’s financial statements is to predominantly defer when these hydrocarbon volumes are recognised at market price and as such unwind over time.

In addition, the company has also changed its accounting policy with respect to the recognition of the movement on hydrocarbon over/underlift. The company now recognises this movement through revenue. Prior to this change, the company recognised this movement through Cost of sales in accordance with 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.

The impact of this voluntary change in accounting policy on the company’s financial statements is purely a matter of disclosure and has no impact on the profit or net assets.

The company believes these new policies are preferable as they more closely align to the accounting policies applied by BP group.

BP AMOCO EXPLORATION (FAROE) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

23. Prior year adjustment – changes in accounting policy (continued)

The following table summarises the impact of the above changes on the company's balance sheet and profit and loss account.

For the year ended 31
December 2012

	Impact of changes in accounting policies			
	As previously reported	Inventory/ Revenue Recognition	Movements in Hydrocarbon Under/Over lift	As restated
	\$000	\$000	\$'000	\$'000
Profit & loss account				
Turnover	38,727	(1,910)	1,105	37,922
Cost of sales	(21,162)	889	(1,105)	(21,378)
Profit for the year	17,240	(1,021)	-	16,219
Balance sheet				
Stocks	414	889	-	1,303
Debtors	184,137	(1,219)	-	182,918
Creditors	(178,920)	(691)	-	(179,611)
Reserves	46,207	(1,021)	-	45,186

For the year ended 31
December 2013

	Impact of changes in accounting policies			
	As previously reported	Inventory/ Revenue Recognition	Movements in Hydrocarbon Under/Over lift	As restated
	\$000	\$000	\$000	\$000
Profit & loss account				
Turnover	48,312	235	(791)	47,756
Cost of sales	(26,934)	(59)	791	(26,202)
Profit for the year	21,047	176	-	21,223
Balance sheet				
Stocks	160	830	-	990
Debtors	106,093	(427)	-	105,666
Creditors	(14,175)	(1,248)	-	(15,423)
Reserves	67,254	(845)	-	66,409

BP AMOCO EXPLORATION (FAROES) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

24. Explanation of transition to FRS 101

For all periods up to and including the year ended 31 December 2013, the company prepared its financial statements in accordance with previously extant United Kingdom generally accepted accounting practice (UK GAAP). These financial statements, for the year ended 31 December 2014, are the first the company has prepared in accordance with FRS 101.

Accordingly, the company has prepared individual financial statements which comply with FRS 101 applicable for periods beginning on or after 1 January 2013 and the significant accounting policies meeting those requirements are described in the relevant notes.

On transition to FRS 101, the company has applied the requirements of paragraphs 6 – 33 of IFRS 1 'First time adoption of International Financial Reporting Standards'.

Exemptions applied

IFRS 1 allows first time adopters certain exemptions from the general requirements to apply IFRSs as effective for December 2014 year ends retrospectively. The company has taken advantage of the following exemption, deemed cost (paragraphs D8A).

There were no material measurement or recognition adjustments on adoption of FRS 101.

25. Immediate and ultimate controlling 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 p.l.c., 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 p.l.c. can be obtained from 1 St James's Square, London, SW1Y 4PD.