

ANNUAL REPORT AND FINANCIAL STATEMENTS

Board of Directors: D J Lynch
M J Thomas

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The directors present the strategic report, their report and the financial statements for the year ended 31 December 2015.

STRATEGIC REPORT

Results

The profit for the year after taxation was \$14,576,000 which, when added to the accumulated loss brought forward at 1 January 2015 of \$6,099,000, gives a total retained profit forward at 31 December 2015 of \$8,477,000.

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:

	2015	2014	Variance
	\$000	\$000	%
Turnover	23,932	28,343	(15.6)
Operating profit / (loss)	1,287	(23,603)	105.5
Profit / (loss) for the year	14,576	(27,508)	153
Total equity	68,669	54,093	27
	2015	2014	Variance
	%	%	
Quick ratio*	2.9	5.5	(2.6)

*Quick ratio is defined as current assets, excluding stock, as a percentage of current liabilities.

Turnover has decreased primarily as a result of a drop in oil price. During 2015 the average realised price for oil was \$55.63/bbl (2014: \$98.61/bbl). The reduction in oil price was partly offset by an increase in production during 2015. Oil and gas production increased to 0.45 mmbbl during 2015 from 0.29 mmbbl in 2014. This was due to an improved operating efficiency during the year as in 2014 the field experienced technical issues resulting in plant shutdowns. The decrease in cost of sales was mainly driven by a reduction in tariff payments associated with the lower oil price and a lower depreciation charge. Reduction in depreciation charge was mainly due to a decrease in the carrying value of assets as a result of the 2014 year end impairment review.

During 2015, the company made an operating profit of \$1,287,000 compared to an operating loss of \$23,603,000. This was mainly driven due to a reduction in amounts provided against fixed assets and insurance claims received. Due to the change in discount rate and revisions to reserves the company was required to perform an impairment review of its fixed assets. The impairment charge of \$12,914,000 (2014: \$28,944,000) primarily arose as a result of a lower commodity price environment in the near term. The company received an insurance claim amounting to \$9,039,000 during 2015 regarding the compressor failure and loss of communication issues on Foinaven fields in previous years. The company received the proceeds from the settlement of an insurance claim amounting to \$9,039,000 during 2015 regarding the compressor failure and loss of communication issues on Foinaven fields in previous years.

BP AMOCO EXPLORATION (FAROEES) LIMITED

STRATEGIC REPORT

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 2015.

Gulf of Mexico oil spill

On 2 July 2015 agreements in principle to settle all federal and state claims and claims made by more than 400 local government entities were signed. See BP Annual Report and Form 20-F 2015 for further information on these agreements. The agreements became effective on 4 April 2016.

The agreements described above significantly reduce the uncertainties faced by BP following the Gulf of Mexico oil spill in 2010. There continues to be uncertainty regarding the outcome or resolution of current or future litigation and the extent and timing of costs relating to the incident not covered by the agreements. The total amounts that will ultimately be paid by BP in relation to the incident will be dependent on many factors, including in relation to any new information or future developments. These uncertainties could have a material impact on the BP group's consolidated financial position, results and cash flows.

Strategic and commercial risks

Prices and markets

The company's financial performance is subject to fluctuating prices of oil, 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.

Digital infrastructure and cybersecurity

Breach of the company's digital security or failure of our digital infrastructure could damage our operations and its reputation.

Climate change and carbon pricing

Public policies could increase costs and reduce future turnover and strategic growth opportunities.

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.

BP AMOCO EXPLORATION (FAROE) LIMITED

STRATEGIC REPORT

Principal risks and uncertainties (continued)

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.

Drilling and production

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

Product quality

Supplying customers with off-specification products could damage the company's reputation, lead to regulatory action and legal liability, and potentially impact its financial performance.

Compliance and control risks

US government settlements

The BP group's settlements with legal and regulatory bodies in the US announced in November 2012 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.

BP AMOCO EXPLORATION (FAROE) LIMITED

STRATEGIC REPORT

Principal risks and uncertainties (continued)

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 and foreign currency exchange rates and interest rates. Further details on these financial risks are included within Note 28 of the BP group Annual Report and Form 20-F for the year ended 31 December 2015.

By Order of the Board



For and on behalf of
Sunbury Secretaries Limited
Company Secretary

6 July 2016

Registered Office:

Chertsey Road
Sunbury on Thames
Middlesex
TW16 7BP
United Kingdom

BP AMOCO EXPLORATION (FAROES) LIMITED

DIRECTORS' REPORT

Directors

The present directors are listed on page 1.

D J Lynch served as a director throughout the financial year. Changes since 1 January 2015 are as follows:

	<u>Appointed</u>	<u>Resigned</u>
T W Garlick		31 December 2015
M J Thomas	1 January 2016	

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

The company has not declared any dividends during the year (2014: \$45,000,000). The directors do not propose the payment of a dividend.

Financial instruments

In accordance with section 414C of the Companies Act 2006 the directors have included information regarding financial instruments as required by Schedule 7 (Part 1.6) of the Large and Medium-sized Companies and Group Regulations 2008 in the strategic report under Financial risk management.

Future developments

The directors aim to maintain the management policies which have resulted in the company's stability in recent years. They believe that the company is in a good position to take advantage of any opportunities which may arise in the future.

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

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 locations and therefore the legal entities which are expected to benefit from those developments are in the future.

BP AMOCO EXPLORATION (FAROES) 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 2016

Registered Office:

Chertsey Road
Sunbury on Thames
Middlesex
TW16 7BP
United Kingdom

BP AMOCO EXPLORATION (FAROE) 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 (FAROE) LIMITED

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

We have audited the financial statements of BP Amoco Exploration (Faroes) Limited for the year ended 31 December 2015 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 24. 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 7, 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 2015 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 'Reduced Disclosure Framework'; 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

Kevin Weston (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor

Aberdeen

8/7/2016

BP AMOCO EXPLORATION (FAROE) LIMITED

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2015

		2015	2014
	Note	\$000	\$000
Turnover	3	23,932	28,343
Cost of sales		(18,643)	(22,779)
Gross profit		5,289	5,564
Distribution and marketing expenses		(22)	(20)
Administrative expenses		(105)	(203)
Other operating income	4	9,039	-
Amounts provided against tangible fixed assets	7	(12,914)	(28,944)
Operating profit / (loss)	5	1,287	(23,603)
Interest receivable and similar income	8	103	107
Interest payable and similar charges	9	(301)	(417)
Profit / (loss) before taxation		1,089	(23,913)
Taxation	10	13,487	(3,595)
Profit / (loss) for the year		14,576	(27,508)

The profit of \$14,576,000 for the year ended 31 December 2015 was derived in its entirety from continuing operations.

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2015

There is no comprehensive income attributable to the shareholders of the company other than the profit for the year.

BP AMOCO EXPLORATION (FAROE) LIMITED

(Registered No.00856444)

BALANCE SHEET AT 31 DECEMBER 2015

	Note	2015 \$000	2014 \$000
Fixed assets			
Intangible assets	12	-	-
Tangible assets	13	20,114	42,365
		<u>20,114</u>	<u>42,365</u>
Current assets			
Stocks	14	515	1,097
Debtors	15	87,937	73,139
Deferred tax assets	10	9,892	-
		<u>98,344</u>	<u>74,236</u>
Creditors: amounts falling due within one year	16	<u>(10,398)</u>	<u>(17,360)</u>
Net current assets		<u>87,946</u>	<u>56,876</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>108,060</u>	<u>99,241</u>
Provisions for liabilities and charges			
Deferred tax liability	10	-	(3,595)
Other provisions	18	(39,391)	(41,553)
NET ASSETS		<u>68,669</u>	<u>54,093</u>
Capital and reserves			
Called up share capital	19	60,192	60,192
Profit and loss account	20	8,477	(6,099)
TOTAL EQUITY		<u>68,669</u>	<u>54,093</u>

On behalf of the Board


M. J. Thomas
Director
6 July 2016

BP AMOCO EXPLORATION (FAROE) LIMITED

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2015

	Called up share capital (Note 19) \$000	Profit and loss account (Note 20) \$000	Total \$000
Balance at 1 January 2014	60,192	66,409	126,601
Loss for the year, representing total comprehensive loss	-	(27,508)	(27,508)
Dividends paid	-	(45,000)	(45,000)
Balance at 31 December 2014	60,192	(6,099)	54,093
Profit for the year, representing total comprehensive income	-	14,576	14,576
Balance at 31 December 2015	60,192	8,477	68,669

BP AMOCO EXPLORATION (FAROES) LIMITED

NOTES TO THE FINANCIAL STATEMENTS **FOR THE YEAR ENDED 31 DECEMBER 2015**

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 2015 were approved by the board of directors on 6 July 2016 and the balance sheet was signed on the board's behalf by M J Thomas. BP Amoco Exploration (Faroes) Limited is a limited company incorporated in England and Wales. These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and the provisions of the Companies Act 2006.

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.

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 IFRS 7 Financial Instruments: Disclosures;
- (b) the requirements of paragraphs 10(d), 10(f), 40(a), 111 and 134-136 of IAS 1 Presentation of Financial Statements;
- (c) 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
 - (iii) paragraph 118(e) of IAS 38 Intangible Assets;
- (d) the requirements of IAS 7 Statement of Cash Flows;
- (e) the requirements of paragraph 17 and 18A of IAS 24 Related Party Disclosures;
- (f) 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; and
- (g) the requirements of paragraphs 134(d)-134(f) and 135(c)-135(e) of IAS 36, Impairment of Assets.

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 23.

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

BP AMOCO EXPLORATION (FAROE) LIMITED

NOTES TO THE FINANCIAL STATEMENTS **FOR THE YEAR ENDED 31 DECEMBER 2015**

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

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:

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.

BP AMOCO EXPLORATION (FAROE) LIMITED

NOTES TO THE FINANCIAL STATEMENTS **FOR THE YEAR ENDED 31 DECEMBER 2015**

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

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.

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 2015, the BP group's long-term price assumptions were \$90 per barrel for Brent (2014 \$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 2015**

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

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

Decommissioning

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.

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 2015 was a real rate of 0.75% (2014 0.75%), 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 2015**

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.

BP AMOCO EXPLORATION (FAROE) LIMITED

NOTES TO THE FINANCIAL STATEMENTS **FOR THE YEAR ENDED 31 DECEMBER 2015**

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

Intangible assets (continued)

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.

Licence and property acquisition costs

Exploration licence and leasehold property 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 2015**

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 amounts of tangible assets are 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 intangible and 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 2015

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

Impairment of intangible and 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

Leases where the lessor retains a significant portion of the risks and benefits of ownership of the asset are classified as operating leases and rentals payable are charged in the profit and loss account on a straight line basis over the lease term.

Contingent rents are recognised in the profit and loss account in the period in which they are incurred.

Financial assets

Financial assets within the scope of IAS 39 are classified as loans and receivables. Financial assets may include cash and cash equivalents, trade receivables, 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 directly attributable transaction costs.

The subsequent measurement of financial assets is as follows:

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.

BP AMOCO EXPLORATION (FAROE) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015

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

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.

Financial liabilities

Financial liabilities are classified as financial liabilities measured at amortised cost. Financial liabilities may include trade and other payables, accruals and most items of finance debt. The company determines the classification of its financial liabilities at initial recognition. The measurement of financial liabilities is as follows:

Financial liabilities measured at amortised cost

Financial liabilities are initially recognised at fair value. For interest-bearing loans and borrowings this is the fair value of the proceeds received net of issue costs associated with the borrowing.

After initial recognition, financial liabilities are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement. Gains and losses arising on the repurchase, settlement or cancellation of liabilities are recognised respectively in interest receivable and similar income and interest payable and similar charges. This category of financial liabilities includes trade and other payables and finance debt.

Offsetting of financial assets and liabilities

Financial assets and liabilities are presented gross in the balance sheet unless both of the following criteria are met: the company currently has a legally enforceable right to set off the recognised amounts; and the company intends to either settle on a net basis or realise the asset and settle the liability simultaneously. If both of the criteria are met, the amounts are set off and presented net.

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.

BP AMOCO EXPLORATION (FAROE) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015

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

Provisions (continued)

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 in the profit and loss account. 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.

Decommissioning

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 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 tangible asset of an amount equivalent to the provision is also recognised. The corresponding intangible or tangible asset is subsequently depreciated as part of the asset.

BP AMOCO EXPLORATION (FAROE) LIMITED

NOTES TO THE FINANCIAL STATEMENTS **FOR THE YEAR ENDED 31 DECEMBER 2015**

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

Decommissioning (continued)

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 profit 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.

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 profit 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.

BP AMOCO EXPLORATION (FAROE) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015

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

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, 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 is 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.

Research and development costs

Research and development costs are expensed as incurred.

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.

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.

An analysis of the company's turnover is as follows:

	2015	2014
	\$000	\$000
Sales of goods	24,771	26,211
(Overlift)/underlift	(839)	2,132
	23,932	28,343
Interest receivable and similar income - Note 8	103	107
Other operating income – Note 4	9,039	-
	33,074	28,450

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.

BP AMOCO EXPLORATION (FAROE) LIMITED**NOTES TO THE FINANCIAL STATEMENTS**
FOR THE YEAR ENDED 31 DECEMBER 2015**4. Other operating income**

	2015	2014
	\$000	\$000
Other operating income	9,039	-

The company received the proceeds from the settlement of an insurance claim amounting to \$9,039,000 during 2015 regarding the compressor failure and loss of communication issues on Fomaven fields in previous years.

5. Operating profit / (loss)

This is stated after charging / (crediting):

	2015	2014
	\$000	\$000
Operating lease payments:		
Plant & machinery	5,731	6,766
Net foreign exchange gains	(196)	(394)
Research and development costs expensed	105	361
Depreciation of tangible assets – Note 13	8,113	9,596
Impairment of tangible assets – Note 7	12,914	28,944

6. Auditor's remuneration

	2015	2014
	\$000	\$000
Fees for the audit of the company	6	6

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) 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.

7. Amounts provided against fixed assets

	2015	2014
	\$000	\$000
Impairment – Note 13	12,914	28,944

Due to the change in discount rate and revisions to reserves the company was required to perform an impairment review of its fixed assets. The impairment charge of \$12,914,000 (2014: \$28,944,000) primarily arose as a result of a lower price environment in the near term.

8. Interest receivable and similar income

	2015	2014
	\$000	\$000
Interest income from amounts owed by group undertakings	103	107

BP AMOCO EXPLORATION (FAROE) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015

9. Interest payable and similar charges

	2015	2014
	\$000	\$000
Unwinding of discount on provisions – Note 18	301	417

10. Taxation

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

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

	2015	2014
Origination and reversal of temporary differences	(9,841)	3,595
Effect of decreased tax rate on opening liability	(3,647)	-
Adjustment to prior year temporary differences	1	-
Total deferred tax (credited) / charged	(13,487)	3,595
Tax (credited) / charged on profit on ordinary activities	(13,487)	3,595

(a) Reconciliation of the effective tax rate

The tax assessed on the profit on ordinary activities for the year is lower (2014: lower) than the standard rate of corporation tax in the UK of 20% for the year ended 31 December 2015 (2014: 21%). The differences are reconciled below:

	2015	2014
	\$000	\$000
Profit / (loss) before taxation	1,089	(23,913)
Taxation	13,487	(3,595)
Effective tax rate	(1,238)%	(15)%
	2015	2014
	%	%
UK statutory corporation tax rate:	20	21
Decrease resulting from:		
Non-deductible expenditure	-	1
Free group relief	(381)	8
UK Supplementary tax on North Sea profits	(361)	40
Ring Fence Tax rate differences	(181)	13
Adjustments to tax charge in respect of previous years	(335)	-
Opening deferred tax recognised in current year	-	(98)
Effective tax rate	(1,238)	(15)

Change in corporation tax rate

The UK corporation tax rate was reduced from 21% to 20% with effect from 1 April 2015, and will further reduce to 19% from 1 April 2017 and to 18% from 1 April 2020. Deferred tax has been measured using the rates substantively enacted at 31 December 2015.

BP AMOCO EXPLORATION (FAROE) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015

10. Taxation (continued)

(b) Provision for deferred tax

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

<u>Deferred tax asset</u>	<u>Profit and loss account</u>		<u>Balance sheet</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
	<u>\$000</u>	<u>\$000</u>	<u>\$000</u>	<u>\$000</u>
Decommissioning and other provisions	(1,082)	20,776	19,695	20,776
Net provision for deferred tax assets	<u>(1,082)</u>	<u>20,776</u>	<u>19,695</u>	<u>20,776</u>

<u>Deferred tax liability</u>	<u>Profit and loss account</u>		<u>Balance sheet</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
	<u>\$000</u>	<u>\$000</u>	<u>\$000</u>	<u>\$000</u>
Accelerated capital allowances	14,569	(24,371)	(9,803)	(24,371)
Net provision for deferred tax liabilities	<u>14,569</u>	<u>(24,371)</u>	<u>(9,803)</u>	<u>(24,371)</u>

Analysis of movements during the year

	<u>2015</u>
	<u>\$000</u>
At 1 January 2015	3,595
Deferred tax credit in the profit and loss account	(13,487)
At 31 December 2015	<u>(9,892)</u>

11. Directors and employees

(a) Remuneration of directors

Directors D J Lynch, M J Thomas and T W Garlick are also directors of BP Exploration Operating Company Limited in whose accounts information required by the Companies Act 2006 as regards to emoluments is given. (2014: Nil).

(b) Employee costs

The company had no employees during the year (2014: None).

BP AMOCO EXPLORATION (FAROE) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015

12. Intangible assets

	Exploration expenditure
Cost	\$000
At 1 January 2015 and 31 December 2015	1,471
Amortisation and impairment	
At 1 January 2015 and 31 December 2015	1,471
Net book value	
At 31 December 2014 and 31 December 2015	-

13. Tangible assets

	Oil & gas properties	Of which AUC*
Cost	\$000	\$000
At 1 January 2015	221,089	5,988
Additions	1,240	1,225
Changes in decommissioning provision	(2,464)	-
Transfer	-	(5,228)
At 31 December 2015	219,865	1,985
Depreciation and impairment		
At 1 January 2015	178,724	2,431
Charge for the year	8,113	-
Impairment	12,914	659
Transfer	-	(2,132)
At 31 December 2015	199,751	958
Net book value		
At 31 December 2015	20,114	1,027
At 31 December 2014	42,365	3,557

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

Capitalised interest included above, are:

	Cost	Depreciation	Net book Amount
	\$000	\$000	\$000
At 31 December 2015	3,447	3,423	24
At 31 December 2014	3,447	3,404	43

Due to the change in discount rate and revisions to reserves the company was required to perform an impairment review of its fixed assets. The impairment charge primarily arose as a result of a lower price environment in the near term.

BP AMOCO EXPLORATION (FAROE) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015

14. Stocks

	2015	2014
	\$000	\$000
Raw materials and consumables	110	101
Crude oil	405	996
	<u>515</u>	<u>1,097</u>

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

15. Debtors

Amounts falling due within one year:

	2015	2014
	\$000	\$000
Trade debtors	300	964
Other debtors	2	-
	<u>302</u>	<u>964</u>

Amounts falling due after one year:

	2015	2014
	\$000	\$000
Amounts owed by group undertakings	<u>87,635</u>	<u>72,175</u>
Total debtors	<u>87,937</u>	<u>73,139</u>

16. Creditors

Amounts falling due within one year:

	2015	2014
	\$000	\$000
Amounts owed to group undertakings	10,059	16,883
Other creditors	253	265
Accruals and deferred income	86	212
	<u>10,398</u>	<u>17,360</u>

BP AMOCO EXPLORATION (FAROE) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015

17. Obligations under leases

Operating leases

Operating lease payments represent rentals payable by the company for certain of its plant and machinery. Leases are negotiated for an average term of two years and rentals are reviewed annually with an option to extend for a further two years at the then prevailing market rate.

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:

	2015 Other \$000	2014 Other \$000
Operating leases:		
Within 1 year	4,877	5,718
Between 2 to 5 years	18,913	6,030

18. Other provisions

	<u>Decom- missioning</u> \$000
At 1 January 2015	41,553
Changes in provision – recognised in tangible assets:	
Exchange adjustments	(1,201)
Cost estimate reduction	(1,262)
Unwinding of discount	301
At 31 December 2015	<u>39,391</u>
At 31 December 2015	
Current	22
Non-current	39,369
	<u>39,391</u>
At 31 December 2014	
Current	-
Non-current	41,553
	<u>41,553</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 2015, the provision for the costs of decommissioning these production facilities and pipelines at the end of their economic lives was \$39,391,000 (2014: \$41,553,000). The provision has been estimated using existing technology, at current prices and discounted using a real discount rate of 0.75% (2014: 0.75%). These costs are expected to be incurred over the next 8 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.

BP AMOCO EXPLORATION (FAROE) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015

19. Called up share capital

	<u>2015</u>	<u>2014</u>
	\$000	\$000
Issued and fully paid:		
37,346,259 Ordinary shares of £1 each for a total nominal value of £37,346,259 (2014: 37,346,259)	<u>60,192</u>	<u>60,192</u>

20. 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 losses of the company.

In 2015 the company paid interim ordinary dividends of \$Nil (2014: \$45 million). The dividend per share was \$Nil (2014 dividend per share: \$1.21).

21. 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 2015 is estimated at \$257,000 (2014: \$300,000).

22. Related party transactions

The company has taken advantage of the exemption contained within paragraphs 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.

23. 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 5 and the whole obligation under these arrangements are disclosed in Note 17. There are no other material off-balance sheet arrangements.

24. 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