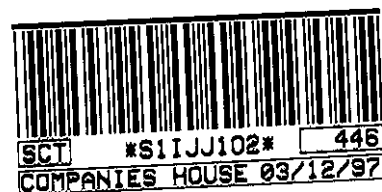


**PREMIER PICT PETROLEUM LIMITED**

**REPORT AND ACCOUNTS**

**YEAR ENDED 31 DECEMBER 1996**

**Registration Number: 48705**



**PREMIER PICT PETROLEUM LIMITED**

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# **PREMIER PICT PETROLEUM LIMITED**

## **REPORT OF THE DIRECTORS**

The Directors submit their report and the audited accounts for the year ended 31 December 1996.

### **RESULTS**

The Company's net profit after tax for the year ended 31 December 1996 was £7,401,000 (18 months ended 31 December 1995: £10,252,000)

The Directors do not recommend the payment of a dividend (18 months ended 31 December 1995: Nil).

### **ACTIVITY, REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS**

The Company is engaged in the exploration for and production of oil and gas on the United Kingdom continental shelf and in the exploration for oil and gas overseas.

The changes in fixed assets during the year are set out in note 9 to the accounts.

### **DIRECTORS**

The Directors of the Company at 31 December 1996 were as follows:

C J A Jamieson	(Chairman)
J A Heath	Resigned 30 June 1997
R N Haythornthwaite	Resigned 30 September 1997

In addition Mr E Freeborn and Mr S Lowden were appointed Directors on 30 June 1997 and 30 September 1997 respectively. Both Directors being eligible offer themselves for election.

No Director had a disclosable interest in the shares of the Company at 31 December 1996. At the year end the Directors were also Directors of the Ultimate Parent Company, Premier Oil plc, in whose accounts their interests in the share capital of that Company and other Group Companies are shown.

No Director held any interest in any contract with the Company.

### **ENVIRONMENT**

The Company is aware of its responsibility to protect the environment and will ensure that its operations meet statutory requirements and regulations and are carried out with minimal environmental impact.

## **PREMIER PICT PETROLEUM LIMITED**

### **STATEMENT OF DIRECTORS' RESPONSIBILITIES**

Company law requires the Directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and of the result, and total recognised losses of the Company for that period. In preparing those accounts, the Directors are required to:

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

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### **AUDITORS**

Ernst & Young have expressed their willingness to continue in office and a resolution proposing their reappointment will be submitted at the Annual General Meeting.

By Order of the Board



N SHEPHERD  
Secretary

28 November 1997

# **PREMIER PICT PETROLEUM LIMITED**

## **REPORT OF THE AUDITORS**

### **to the Members of Premier Pict Petroleum Ltd**

We have audited the accounts on pages 4 to 17 which have been prepared under the historical cost convention and on the basis of the accounting policies set out on pages 7 to 8.

#### **Respective responsibilities of directors and auditors**

As described on page 2 the Company's Directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

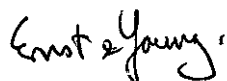
#### **Basis of opinion**

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

#### **Opinion**

In our opinion the accounts give a true and fair view of the state of affairs of the Company as at 31 December 1996 and of the profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young  
Chartered Accountants  
Registered Auditor  
London

28 November 1997

**PREMIER PICT PETROLEUM LIMITED**

**PROFIT AND LOSS ACCOUNT**

**FOR THE YEAR ENDED 31 DECEMBER 1996**

	Notes	<u>Year Ended</u> <u>31/12/96</u> £'000	<u>18 Months Ended</u> <u>31/12/95</u> £'000
TURNOVER	2	22,741	33,421
Production Costs		(5,607)	(8,587)
		<hr/> 17,134	<hr/> 24,834
 GROSS PROFIT			
Amortisation	3	(7,668)	(11,190)
Operating and Administrative Costs	4	(200)	(924)
Exceptional Item - Premier Offer Fees		—	(1,370)
		<hr/> 9,266	<hr/> 11,350
OPERATING PROFIT			
Net Interest Payable	7	(1,201)	(951)
Exchange (Loss)/Gain		(268)	122
		<hr/>	<hr/>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAX		7,797	10,521
Taxation	8	(396)	(269)
		<hr/>	<hr/>
PROFIT ON ORDINARY ACTIVITIES AFTER TAX		7,401	10,252
Dividends		—	—
		<hr/>	<hr/>
RETAINED PROFIT FOR THE PERIOD		<u>7,401</u>	<u>10,252</u>

The operating profit arises wholly on continuing activities.

The accounting policies and notes on pages 7 to 17 form part of these accounts.

**PREMIER PICT PETROLEUM LIMITED**  
**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES**  
**FOR THE YEAR TO 31 DECEMBER 1996**

	<u>Year Ended</u> <u>31/12/96</u> £'000	<u>18 Months Ended</u> <u>31/12/95</u> £'000
Net Profit for the period after tax	7,401	10,252
Exchange difference on translation of net assets and results of operations accounted for in foreign currencies	(3,099)	975
<b>TOTAL RECOGNISED GAINS RELATING TO THE PERIOD</b>	<u>4,302</u>	<u>11,227</u>

GAS

The accounting policies and notes on pages 7 to 17 form part of these accounts.

PREMIER PICT PETROLEUM LIMITED


BALANCE SHEET

AS AT 31 DECEMBER 1996

	Notes	<u>1996</u> £'000	<u>1995</u> £'000
FIXED ASSETS			
Tangible Assets	9	51,922	62,725
CURRENT ASSETS			
Stocks		155	252
Debtors	10	6,129	3,639
Amount Falling due from Group Companies	10	15,027	2,558
Undertakings			
Short Term Deposits		2,485	19,077
Cash at Bank and in Hand		293	1
		<hr/>	<hr/>
		24,089	25,527
CREDITORS: Amounts Falling Due Within One Year	11	2,809	7,037
		<hr/>	<hr/>
NET CURRENT ASSETS		21,280	18,490
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITES		73,202	81,215
		<hr/>	<hr/>
CREDITORS: Amounts Falling Due After One Year	12	5,917	19,193
		<hr/>	<hr/>
PROVISIONS FOR LIABILITIES AND CHARGES	13	2,411	1,450
		<hr/>	<hr/>
NET ASSETS		64,874	60,572
		<hr/>	<hr/>
CAPITALS AND RESERVES			
Share Capital	14	2,629	2,629
Share Premium	15	28,285	28,285
Profit and Loss Account	15	33,960	29,658
		<hr/>	<hr/>
SHAREHOLDERS' FUND	16	64,874	60,572
		<hr/>	<hr/>

Approved on behalf of the Board of Directors by

E Freeborn  
Director



28 November 1997

The accounting policies and notes on pages 7 to 17 form part of these accounts.



NOTES TO THE ACCOUNTS

1. ACCOUNTING POLICIES

**Accounting Convention**

The accounts are prepared under the historical cost convention and in accordance with applicable accounting standards.

**Group Accounts**

In accordance with S.228 of the Companies Act 1985 group accounts have not been prepared for the Company and its subsidiary undertakings because the Company's accounts have been included in the consolidated accounts of the Ultimate Parent Company.

**Tangible Fixed Assets**

The accounting policy for oil and gas assets provides for capitalisation and amortisation within a single cost pool.

Expenditure incurred on the exploration for and development of oil and gas is accounted for by the full cost method and capitalised as tangible fixed assets. Capitalised expenditure represents expenditure on acquiring licences, exploring for and testing exploration prospects, and acquiring, appraising and developing oil and gas reserves.

Capitalised exploration expenditure is carried forward until a licence area is evaluated at which point expenditure in the area is transferred to the cost pool. Amortisation of expenditure held in the cost pool is provided using the unit of production method based on proven and probable reserves of oil and gas, and estimated future development expenditure expected to be incurred to access these reserves.

An estimate of the undiscounted future net revenues, using period end prices, is made at each balance sheet date and compared to the net capitalised expenditure held in the cost pool. Provision is made to the extent that any permanent diminution in value is considered to have occurred.

Provision for expenditure on the decommissioning of oil and gas production facilities is made over the life of the field using the unit of production method. The expenditure is estimated at current price levels based on the extent of decommissioning expected to be required, with the costs allocated over the remaining proven and probable reserves of the field.

The financing cost of borrowings in respect of a field development and related foreign exchange gains and losses are capitalised until production commences from that field.

**Other Fixed Assets**

Depreciation on other fixed assets is provided on a straight line basis to write them off over their estimated useful life.

NOTES TO THE ACCOUNTS  
(Continued)

**Stores, Crude Oil and Products**

These are valued at the lower of cost and net realisable value. Under and over lifts of crude oil are recorded at market value.

**Taxation**

Deferred Corporation Taxation is provided on the liability method. Where it is considered that no liability will arise in the foreseeable future, no provision is made.

UK Petroleum Revenue Tax is provided on a unit of production basis over the remaining life of each producing field. The total tax for each such producing field is calculated after deducting all expenditure incurred on that field and oil allowance. Deferred Petroleum Revenue Tax is provided for the difference between the amount of tax calculated on the unit of production basis and current tax payable.

**Translation of Foreign Currencies**

All monetary assets denominated in foreign currencies are retranslated at the rates ruling at the year end date. Transactions in foreign currencies are recorded at the rate ruling at the date of transactions. All differences are taken to the profit and loss account, with the exception of differences on foreign currency borrowings to the extent that they are used to finance foreign oil and gas development and producing interests, which are taken directly to reserves together with the exchange difference on the carrying amount of the related assets.

**Investments**

Investments held as fixed assets are included at the lower of cost and directors' valuation. Where the directors consider that a permanent impairment of the value of the investment has occurred, the investment value is written down through the profit and loss account.

Investments held as current assets are included at the market value at the balance sheet date. Increases in value above costs are taken to the revaluation reserve and decreases are charged to the profit and loss account.

**Hedging Instruments**

Instruments entered into in respect of corporate cash balances are revalued at the year end and gains or losses are provided in the profit and loss account. Transactions entered into in respect of future revenues and interest rates are recorded at the hedged rates when the instruments mature.

**Related Party Transactions**

The Directors have taken advantage of the exemption in paragraph 3 (c) of Financial Reporting Standard 8 from disclosing details of transactions with its Ultimate Parent, Subsidiaries and fellow Subsidiary Companies.

**Cash Flow Statement**

The Directors have taken advantage of the exemption in paragraph 5(a) of Financial Reporting Standard 1 (revised) 1996 from producing a cashflow statement.

NOTES TO THE ACCOUNTS  
(Continued)

2. TURNOVER

Turnover represents amounts invoiced exclusive of value added tax for the Company's share of oil and gas sales. All turnover is derived in the United Kingdom.

3. AMORTISATION

	<u>Year Ended</u> <u>31/12/96</u> £'000	<u>18 Months Ended</u> <u>31/12/95</u> £'000
Amortisation of cost pool	7,171	10,745
Decommissioning charge	496	364
Depreciation of other fixed assets	1	81
	<u>7,668</u>	<u>11,190</u>

4. OPERATING AND ADMINISTRATIVE COSTS

Include:

	<u>Year Ended</u> <u>31/12/96</u> £'000	<u>18 Months Ended</u> <u>31/12/95</u> £'000
Auditor's Remuneration	—	2
Other Fees paid to Auditors	—	33

Since the acquisition of the Company by Premier Oil plc, auditors fees have been borne by the Parent Company.

5. DIRECTORS EMOLUMENTS

	<u>Year Ended</u> <u>31/12/96</u> £'000	<u>18 Months Ended</u> <u>31/12/95</u> £'000
Fees	—	8
Bonus Payments	—	23
Other Emoluments	—	155
Pension Contributions	—	31
	<u>—</u>	<u>217</u>

NOTES TO THE ACCOUNTS  
(Continued)

The emoluments of the Chairman and highest paid director were as follows:

	<u>Year Ended</u> <u>31/12/96</u> £'000	<u>18 Months Ended</u> <u>31/12/95</u> £'000
Chairman - Emoluments	—	22
- Bonus Payments	—	9
- Other Emoluments	—	81
- Pension Contributions	—	22

The emoluments of the directors, excluding pension contributions, were in the following ranges:

	<u>1996</u> £'000	<u>1995</u> £'000
£ Nil - £5,000	—	2
£20,001 - £25,000	—	1
£65,001 - £70,000	—	1
£90,001 - £95,000	—	1

In the year to 31 December 1996, no director received remuneration for their services to the company.

**6. EMPLOYEES**

a) Employee costs, including executive directors

	<u>1996</u> £'000	<u>1995</u> £'000
Wages and Salaries	—	591
Pension Contributions	56	92
Social Security Costs	—	72
	<u>56</u>	<u>755</u>

NOTES TO THE ACCOUNTS  
(Continued)

- b) Pension contributions for the year ended 31 December 1996 related to outstanding payments owed in respect of employees of Pict Petroleum Ltd prior to the takeover of Premier Pict Petroleum Ltd by Premier Oil plc.
- c) After the change of ownership employees were transferred to the employment of Premier Oil plc.

7. INTEREST

	<u>Year Ended</u> <u>31/12/96</u> £'000	<u>18 Months Ended</u> <u>31/12/95</u> £'000
Receivable		
Short-term deposits	1,261	1,531
Payable		
Bank loans and overdrafts	1,636	2,482
Intercompany Loans	826	
Net Payable	1,201	951

8. TAX

	<u>Year Ended</u> <u>31/12/96</u> £'000	<u>18 Months Ended</u> <u>31/12/95</u> £'000
Corporation Tax		
- Over provided in previous years	(142)	—
UK Petroleum Revenue Tax		
- Current year	—	—
- Deferred	538	269
	396	269

There is no liability to Corporation Tax for the current year due to the availability of Group losses.

NOTES TO THE ACCOUNTS  
(Continued)

9. TANGIBLE FIXED ASSETS

	<u>Oil &amp; Gas Properties Unamortised £'000</u>	<u>Oil &amp; Gas Properties Amortised £'000</u>	<u>Other Assets £'000</u>	<u>Total £'000</u>
<b>TANGIBLE FIXED ASSETS</b>				
<b>COST</b>				
Balance at 1 January 1996	37,738	63,713	294	101,745
Exchange Movements	-	(3,971)	-	(3,971)
Additions	1,578	3,359	-	4,937
Disposals	(197)	(5,052)	(5)	(5,254)
Transfers to Amortised Pool	(20,868)	20,868	-	-
Balance at 31 December 1996	18,251	78,917	289	97,457
<b>AMORTISATION</b>				
Balance at 1 January 1996	-	38,814	207	39,021
Exchange	-	(658)	-	(658)
Charge for year	-	7,172	1	7,172
Balance at 31 December 1996	-	45,327	208	45,535
<b>NET BOOK VALUE</b>				
31 December 1996	18,251	33,590	81	51,922
31 December 1995	37,738	24,899	87	62,724

The accounting treatment for oil and gas properties under Premier Group accounting policies has been adopted for Pict Petroleum's accounts. The single cost pool as disclosed previously in Pict Petroleum's accounting policy has been separated into amortised and unamortised assets.

NOTES TO THE ACCOUNTS  
(Continued)

INVESTMENTS (held as fixed assets)

As at 31 December 1996, the company had the following wholly-owned subsidiary undertakings, whose share capital consists solely of ordinary shares:

Company	Country of Incorporation or Registration	Business and Area of Operation	Issued Share Capital
Caber Oil Limited	Scotland	Dormant, Scotland	£434,000
Pict Petroleum (Tunisia) Limited*	Scotland	Oil and Gas Exploration, Tunisia	£2
Pict Petroleum (Ireland) Limited*	Republic of Ireland	Dormant, Republic of Ireland	£2

\* The principal activity of the above Companies is oil and gas exploration.

10. DEBTORS

	Year Ended 31/12/96 £'000	18 Months Ended 31/12/95 £'000
Trade debtors	3,005	2,842
Other debtors	2,376	32
Prepayments	748	749
Taxation recoverable	-	16
	<hr/> 6,129	<hr/> 3,639
Amounts falling due within one year:		
Amount due from Subsidiary Undertakings	3,038	2,558
Amounts due from Fellow Subsidiary Undertakings	4,369	-
Amounts due from Parent Company	7,620	-
	<hr/> 15,027	<hr/> 6,197

NOTES TO THE ACCOUNTS  
(Continued)

11. CREDITORS - Amounts Falling Due  
Within One Year

	Year Ended 31/12/96 £'000	18 Months Ended 31/12/95 £'000
Amounts owed to Parent Company	-	4,690
Amounts owed to Fellows Subsidiary Undertakings	-	171
Corporation tax	-	142
Other taxes and social security	273	12
Accruals	2,489	1,975
Interest payable	47	47
	<u>2,809</u>	<u>7,037</u>

Included within Accruals are amounts relating to exploration and development activities.

12. CREDITORS - Amounts Falling Due  
After One Year

	Year Ended 31/12/96 £'000	18 Months Ended 31/12/95 £'000
Bank loans - less than two years		
Bank loans - two to five years	<u>5,917</u>	<u>19,193</u>

Bank loans in existence, which are all denominated in US dollars, are net of any set-off cash balances and are as follows:

a) **Scott** - At 31 December 1995 the net amount outstanding on this loan was £19,193,000.

The loan was repaid in full on 14 March 1996 out of funds provided by Premier Oil plc. The funds provided by Premier Oil plc were repaid by Premier Pict Petroleum Ltd on 31 December 1996.

b) **Corporate Credit Facility**

On 11 March 1996 a US\$200 million unsecured loan facility was agreed with a consortium of banks led by Chase Manhattan Bank. US\$115 million was drawn down at the end of 1996 by Premier Consolidated group of Companies of which US\$10 million was drawn down by Premier Pict Petroleum Ltd. Repayments commence in 2000 and the loan is repayable by 2002.



NOTES TO THE ACCOUNTS  
(Continued)

13. PROVISION FOR LIABILITIES AND CHARGES

	Year Ended 31/12/96 £'000	18 Months Ended 31/12/95 £'000
Abandonment costs	1,571	1,110
Deferred petroleum revenue tax	840	340
	<u>2,411</u>	<u>1,450</u>

Abandonment costs have been provided as follows:

	Year Ended 31/12/96 £'000	18 Months Ended 31/12/95 £'000
At 1 January 1996/1 July 1994	1,110	809
Exchange Movements	(15)	—
Charge for one year/18 months	496	364
Transfer to amortised pool	(20)	(63)
	<u>1,571</u>	<u>1,110</u>
At 31 December 1996/1995		

Deferred Petroleum Revenue Tax has been provided as follows:

	Year Ended 31/12/96 £'000	18 Months Ended 31/12/95 £'000
At 1 January 1996/ 1 July 1994	340	71
Exchange Movements	(38)	—
Charge for one year/18 months	538	269
	<u>840</u>	<u>340</u>
At 31 December 1996/1995		

NOTES TO THE ACCOUNTS  
(Continued)

14. SHARE CAPITAL

	Number	Year ended 31/12/96 £'000	Number	18 Months Ended 31/12/95 £'000
Authorised Ordinary Share of 5p each	68,000,000	3,400	68,000,000	3,400
<b>Called up, issued and fully paid</b>				
Ordinary Shares of 5p each at 1 January 1996/1 July 1994	52,568,650	2,629	51,732,581	2,587
Issued on exercise of executive share options	-	-	836,069	42
At 31 December 1996/1995	52,568,650	2,629	52,568,650	2,629

15. RESERVES

	1996 £'000
<b>Share premium account</b>	
At 1 January and 31 December 1996	28,285
<b>Profit and loss account</b>	
1 January 1996	29,658
Transfer from Profit and Loss account for the year	7,401
Difference on translation of net assets of operations and results accounted for in foreign currencies	(3,099)
Accumulated profit at 31 December 1996	33,960
<b>Total Reserves at 31 December 1996</b>	62,245

NOTES TO THE ACCOUNTS  
(Continued)

16. RECONCILIATION OF SHAREHOLDERS' FUNDS

	Year ended 31/12/96 £'000	18 Months ended 31/12/95 £'000
Profit relating to the year	7,401	10,252
Unrealised exchange (loss)/gain	(3,099)	975
New shares issued	-	906
Total movements during the year	4,302	12,133
Shareholders' funds at 1 January 1996/1 July 1994	60,572	48,439
Shareholders' funds at 31 December 1996/1995	64,874	60,572

17. CAPITAL COMMITMENTS AND GUARANTEES

At 31 December 1996 capital commitments on exploration and production licences totalled £7,792,000 (1995: £5,824,000).

18. PENSIONS

The Company no longer has employees. All previous employees are now employed by Premier Oil plc. Funds that were held in the PICT defined contributions pension scheme have been transferred out by previous employees.

19. ULTIMATE PARENT COMPANY

The Ultimate Parent Company is Premier Oil plc, a company registered in Scotland. Copies of the Group accounts are available from Premier Oil plc, 23 Lower Belgrave Street, London, SW1W 0NR.