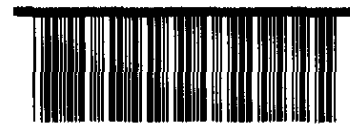


**PREMIER PICT PETROLEUM LIMITED**

**Report and Accounts**

**31 December 2004**



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# Premier Pict Petroleum Limited

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## DIRECTORS' REPORT

The directors submit their report and audited accounts for the year ended 31 December 2004.

### RESULTS AND DIVIDENDS

The Company's loss after tax for the year ended 31 December 2004 was \$5,633,898 (2003 – profit amounting to \$6,631,340).

The directors have recommended and made payment of a dividend amounting to \$4,800,000 during the year and do not recommend a further dividend (2003: Nil).

### PRINCIPAL ACTIVITIES, REVIEW OF THE 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 directors do not foresee any changes in the company's activities in the immediate future.

### DIRECTORS AND THEIR INTERESTS

The directors of the Company during the year ended 31 December 2004 were:

C J A Jamieson (Chairman)	(resigned on 30 June 2005)
J A van der Welle	(resigned on 30 June 2005)
R A Allan	
S C Lockett	
A R C Durrant	(appointed on 30 June 2005)
N Hawkings	(appointed on 30 June 2005)

No director had a disclosable interest in the shares of the Company at 31 December 2004. 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 undertakings 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.

### PAYMENTS POLICY

Payments made by the Company are mainly to joint venture partners and are made in accordance with the relevant Joint Venture agreements. Operating and administrative costs are paid by the parent company on behalf of the Company.

### AUDITORS

Ernst & Young LLP resigned during the year and were replaced by Deloitte & Touche LLP. A resolution to appoint Deloitte & Touche LLP as auditors will be put to shareholders at the forthcoming Annual General Meeting.

By order of the Board

  
A R C Durrant  
DIRECTOR

17 August 2005

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE  
ACCOUNTS

United Kingdom 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 as at the end of the financial year and of the profit or loss 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; and
- prepare the 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.

## **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PREMIER PICT PETROLEUM LIMITED**

We have audited the financial statements of Premier Pict Petroleum Limited Ltd for the year ended 31 December 2004 which comprise the profit and loss account, the balance sheet and the related notes 1 to 15. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

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

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the directors' report for the above year and consider the implications for our report if we become aware of any apparent misstatements.

### **Basis of audit opinion**

We conducted our audit in accordance with United Kingdom 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 financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements 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 financial statements 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 financial statements.

### **Opinion**

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31<sup>st</sup> December 2004 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*Deloitte & Touche LLP*  
Deloitte & Touche LLP

Chartered Accountants and Registered Auditors  
London  
17 August 2005

# Premier Pict Petroleum Limited

## PROFIT AND LOSS ACCOUNT

for the year ended 31 December 2004

		2004	2003
	Notes	\$000	\$000
<b>TURNOVER</b>	2	29,066	48,520
Production costs		(19,368)	(24,314)
Amortisation and depreciation of tangible fixed assets	3	(16,676)	(18,396)
<b>GROSS (LOSS)/ PROFIT</b>		(6,978)	5,810
Other operating income		–	4,364
Operating and administrative costs		(77)	(230)
Exceptional provision for oil and gas assets		–	(800)
<b>OPERATING (LOSS)/ PROFIT</b>	4	(7,055)	9,144
Net interest receivable / (payable)	5	704	(1,629)
Exchange loss		(2,666)	(244)
<b>(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAX</b>		(9,017)	7,271
Tax on (loss)/ profit on ordinary activities	6	3,383	(640)
<b>(LOSS)/ PROFIT ON ORDINARY ACTIVITIES AFTER TAX</b>		(5,634)	6,631
<b>DIVIDENDS</b>		(4,800)	–
<b>TRANSFER (FROM)/TO RETAINED PROFITS</b>		(10,434)	6,631

There were no other recognised gains and losses in the year other than the loss of \$5,633,898 (2003 – profit of \$6,631,340).

# Premier Pict Petroleum Limited

## BALANCE SHEET as at 31 December 2004

	Notes	2004 \$000	2003 \$000
<b>FIXED ASSETS</b>			
Tangible assets	7	57,297	63,080
Investments	8	<u>—</u>	<u>—</u>
		<u>57,297</u>	<u>63,080</u>
<b>CURRENT ASSETS</b>			
Stocks		797	656
Debtors	9	61,853	80,051
Cash at bank		<u>26</u>	<u>2</u>
		62,676	80,709
<b>CREDITORS: amounts falling due within one year</b>	10	<u>(25,636)</u>	<u>(41,283)</u>
<b>NET CURRENT ASSETS</b>		<u>37,040</u>	<u>39,426</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>94,337</u>	<u>102,506</u>
<b>PROVISIONS FOR LIABILITIES AND CHARGES</b>	11	<u>(22,081)</u>	<u>(19,816)</u>
<b>NET ASSETS</b>		<u>72,256</u>	<u>82,690</u>
<b>CAPITAL AND RESERVES</b>			
Share capital	12	3,838	3,838
Share premium	13	41,295	41,295
Profit and loss account	13	<u>27,123</u>	<u>37,557</u>
<b>SHAREHOLDER'S FUNDS</b>	13	<u>72,256</u>	<u>82,690</u>

Approved by the Board and signed on its behalf by:



A R C Durrant  
DIRECTOR  
17 August 2005

NOTES TO THE ACCOUNTS  
for the year to 31 December 2004

**1. ACCOUNTING POLICIES**

***Accounting convention***

The accounts are prepared under the historical cost convention and in accordance with the Oil Industry Accounting Committee Statement of Recommended Practice – ‘Accounting for Oil and Gas Exploration, Development, Production and Decommissioning Activities’ and applicable United Kingdom law and accounting standards.

The accounting policies have been applied consistently in the current and prior year.

***Group accounts***

In accordance with section 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.

***Fixed assets***

The Company follows the full cost method of accounting under which all expenditure relating to the acquisition, exploration, appraisal and development of oil and gas interests is capitalised into appropriate cost pools. Proceeds on disposal of an interest are credited to the relevant cost pool.

The Company has categorised all its current assets in one cost pool - North West Europe. This pool contains company’s assets in the UK and any new production assets in the North Sea.

Intangible fixed assets consisting of expenditure on significant new exploration areas and licences are excluded from the capitalised tangible cost pools pending determination of commercial reserves. Capitalised exploration expenditure is carried forward until either it is declared part of a commercial development or the licence area or prospect is abandoned, at which point the relevant total is transferred to the relevant tangible cost pool. Where there are no development and producing assets within the cost pool, the transferred exploration costs are charged immediately to the profit and loss account.

***Amortisation and depreciation***

Amortisation of expenditure held in the tangible cost pool is provided using the unit of production method based on proved and provable reserves of oil and gas, and estimated future development expenditure expected to be incurred to access these reserves. Changes in reserves are accounted for prospectively. Depreciation on other fixed assets is provided on a straight-line basis to write them off over their estimated useful lives but not exceeding five years.

***Impairment of value***

An estimate of the discounted future net revenues is made where there are indicators of impairment and compared to the net capitalised expenditure held in each cost pool. Where, in the opinion of the directors, there is impairment, tangible asset values are written down accordingly through the profit and loss account.



# Premier Pict Petroleum Limited

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## NOTES TO THE ACCOUNTS for the year to 31 December 2004

### 1. ACCOUNTING POLICIES (continued)

#### *Decommissioning*

Provision for decommissioning is recognised in full at the commencement of oil and gas production. The amount recognised is the present value of the estimated future expenditure. A corresponding tangible fixed asset is also created at an amount equal to the provision. This is subsequently amortised as part of the capital costs of the production facilities. Any change in the present value of the estimated expenditure is reflected as an adjustment to the provision and the fixed asset.

#### *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.

#### *Deferred taxation*

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more tax. The exception to this is that deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Petroleum taxes are provided on a unit of production over the estimated remaining life of each producing field. The total tax for each producing field is calculated after deducting all expenditure incurred on the field. Deferred petroleum taxes are 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 transactions denominated in foreign currencies are recorded in the local currency at actual exchange rates as of the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the period end are reported at the rates of exchange prevailing at the period end. Any gain or loss arising from a change in exchange rate, subsequent to the date of the transaction, is included as an exchange gain or loss in the profit and loss account.

The reporting currency of the Company is United States dollars.

#### *Investments*

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

#### *Derivative financial instruments*

The Company uses derivative financial instruments to manage its exposure to oil price fluctuations. Gains and losses arise on oil price derivatives are recognised in revenues from oil production when hedge volumes are sold.

# Premier Pict Petroleum Limited

## NOTES TO THE ACCOUNTS for the year to 31 December 2004

### *Related party transactions*

The directors have taken advantage of the exemption in paragraph 3(c) of FRS8 from disclosing details of transactions with its ultimate parent, subsidiaries and fellow subsidiary companies.

### 1. ACCOUNTING POLICIES (continued)

#### *Cash flow statement*

The directors have taken advantage of the exemption in paragraph 5(a) of FRS1 (revised) 1996 from producing a cash flow statement.

### 2. TURNOVER

Turnover represents the sale value of the Company's share of petroleum production during the year. All turnover is derived in the United Kingdom.

### 3. AMORTISATION AND DEPRECIATION OF TANGIBLE FIXED ASSETS

	2004	2003
	\$000	\$000
Amortisation and depreciation	15,733	17,770
Decommissioning amortisation charge	943	626
	<u>16,676</u>	<u>18,396</u>

### 4. OPERATING (LOSS)/ PROFIT

The directors did not receive remuneration for their services to the Company in the current or prior year. No staff was employed during the year or the prior year.

	2004	2003
	\$000	\$000
Auditors' remuneration	<u>18</u>	<u>18</u>

### 5. INTEREST

	2004	2003
	\$000	\$000
<i>Receivable:</i>		
Inter-group balances	<u>1,392</u>	<u>3</u>
	1,392	3
<i>Payable:</i>		
Bank loans and overdrafts	—	(1,009)
Unwinding of discount on decommissioning provision	<u>(688)</u>	<u>(623)</u>
	(688)	(1,632)
Net interest receivable / (payable)	<u>704</u>	<u>(1,629)</u>

# Premier Pict Petroleum Limited

## NOTES TO THE ACCOUNTS for the year to 31 December 2004

### 6. TAX ON (LOSS)/ PROFIT ON ORDINARY ACTIVITIES

#### (a) Analysis of tax credit/ (charge) in the period

	2004 \$000	2003 \$000
UK corporation tax		
– prior year over provision	698	308
– current year	–	(7,281)
	<u>698</u>	<u>(6,973)</u>
UK petroleum revenue tax		
– prior year under-provision	(384)	–
	<u>314</u>	<u>(6,973)</u>
Current tax credit/(charge) for the period ( <i>Note 6b</i> )		
	<u>314</u>	<u>(6,973)</u>
Deferred tax		
– UK corporation tax	1,824	6,333
– UK petroleum revenue tax	1,245	–
	<u>3,383</u>	<u>(640)</u>
Total tax credit/ (charge) for the period		
	<u>3,383</u>	<u>(640)</u>

#### (b) Factors affecting tax (credit)/charge for the period

The tax assessed in the period is higher than the standard rate of corporation tax in the UK (30%). The difference is explained below:

	2004 \$000	2003 \$000
(Loss)/ profit on ordinary activities before tax	(9,017)	7,271
	<u>(2,705)</u>	<u>2,181</u>
(Loss)/ profit on ordinary activities before tax, at 30%		
	(2,705)	2,181
Effects of:		
Expenses not deductible for tax purposes	538	433
Accounting depreciation in excess of tax depreciation	1,471	2,771
Supplementary corporation tax	–	1,896
Adjustments in respect of previous periods	(698)	(308)
Current PRT	384	–
Group relief claim in respect of non-ring fence profits	(417)	–
Group relief surrender in respect of ring-fence losses	1,113	–
	<u>(314)</u>	<u>6,973</u>
Current tax (credit)/ charge for the period		
	<u>(314)</u>	<u>6,973</u>

# Premier Pict Petroleum Limited

## NOTES TO THE ACCOUNTS for the year to 31 December 2004

### 7. TANGIBLE FIXED ASSETS

	<i>North West Europe \$000</i>	<i>Total \$000</i>
At 1 January 2004	239,998	239,998
Additions during the year	10,893	10,893
At 31 December 2004	250,891	250,891
Amortisation and Depreciation		
At 1 January 2004	176,918	176,918
Charge for the year	16,676	16,676
At 31 December 2004	193,594	193,594
Net book value		
At 31 December 2004	57,297	57,297
At 31 December 2003	63,080	63,080

### 8. INVESTMENTS

As at 31 December 2004, the company had the following wholly owned subsidiary undertakings, whose share capital consists solely of ordinary shares:

<i>Company</i>	<i>Country of incorporation or registration</i>	<i>Business and area of operation</i>	<i>Issued share capital</i>
Caber Oil Limited	Scotland	Dormant, Scotland	£434,000
Pict Petroleum (Tunisia) Limited	Scotland	Oil and gas exploration, Tunisia	£2

Full provision has been made in the Company's accounts. These are carried in the accounts at a book value of \$nil (2003: nil).

# Premier Pict Petroleum Limited

## NOTES TO THE ACCOUNTS for the year to 31 December 2004

### 9. DEBTORS

	2004	2003
	\$000	\$000
Trade debtors	13,036	2,722
Amounts due from parent company	–	72,077
Amounts due from fellow subsidiary undertakings	48,166	2,253
Other debtors	–	2,312
Taxation and social security	–	68
Prepayments	651	619
	<u>61,853</u>	<u>80,051</u>

### 10. CREDITORS: amounts falling due within one year

	2004	2003
	\$000	\$000
Trade creditors	3,357	1,619
Amounts due to fellow subsidiary undertakings	6,387	26,545
Corporation tax	–	1,376
Other taxes and social security	–	990
Other creditors	384	251
Accruals	15,508	10,502
	<u>25,636</u>	<u>41,283</u>

### 11. PROVISION FOR LIABILITIES AND CHARGES

	2004	2003
	\$000	\$000
Decommissioning costs	13,034	7,700
Deferred petroleum revenue tax	–	1,245
Deferred corporation tax	9,047	10,871
	<u>22,081</u>	<u>19,816</u>

Decommissioning costs have been provided as follows:

	2004	2003
	\$000	\$000
At 1 January	7,700	5,436
Addition due to change in estimates	4,646	418
Unwinding of discount on decommissioning provision	688	623
Foreign exchange	–	1,223
	<u>13,034</u>	<u>7,700</u>

All decommissioning costs relate to UK oil and gas interests and are provisionally expected to be incurred between 2005 and 2025.

# Premier Pict Petroleum Limited

## NOTES TO THE ACCOUNTS for the year to 31 December 2004

### 11. PROVISION FOR LIABILITIES AND CHARGES (continued)

Deferred Petroleum Revenue Tax has been provided as follows:

	2004 \$000	2003 \$000
At 31 December	-	1,245

Deferred corporation tax has been provided as follows:

	2004 \$000	2003 \$000
At 1 January	10,871	17,204
Released	(1,824)	(6,333)
At 31 December	9,047	10,871

### 12. SHARE CAPITAL

	2004 No.	2004 \$000	2003 No.	2003 \$000.
Authorised:				
Ordinary shares of 5p each	68,000,00 0	4,964	68,000,000	4,964
Called up, issued and fully paid				
Ordinary shares of 5p each	52,568,65 0	3,838	52,568,650	3,838

## Premier Pict Petroleum Limited

### NOTES TO THE ACCOUNTS for the year to 31 December 2004

#### 13. RECONCILIATION OF SHAREHOLDER'S FUNDS AND MOVEMENT ON RESERVES

	<i>Share capital \$000</i>	<i>Share premium account \$000</i>	<i>Profit and loss account \$000</i>	<i>Total share- holder's funds \$000</i>
At 1 January 2004	3,838	41,295	37,557	82,690
Loss for the year	—	—	(5,634)	(5,634)
Dividend	—	—	(4,800)	(4,800)
At 31 December 2004	3,838	41,295	27,123	72,256

#### 14. CAPITAL COMMITMENTS AND GUARANTEES

At 31 December 2004 there are no capital commitments on exploration and production licences (2003: \$90,000) all of which have been contracted.

#### 15. ULTIMATE PARENT COMPANY

The Company's ultimate parent company and controlling party is Premier Oil plc a company registered in Scotland. It is a parent undertaking of the largest and the smallest group of which the Company is a member and for which group accounts are prepared. Copies of these group accounts are available from Premier Oil plc, 23 Lower Belgrave Street, London, SW1W 0NR.