

PREMIER PICT PETROLEUM LIMITED

REPORT AND ACCOUNTS

YEAR ENDED 31 DECEMBER 1998



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 1998.

RESULTS AND DIVIDENDS

The Company's net loss after tax for the year ended 31 December 1998 was £13,797,389 (1997 profit: £6,252,000).

The Directors do not recommend the payment of a dividend (1997: 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.

During the year the company provided for impairment in the value of its fixed assets in line with the new Financial Reporting Standard FRS11 (Impairment of Fixed Assets and Goodwill). This, combined with low oil prices, resulted in a net loss after tax for the year.

DIRECTORS

The Directors of the Company at 31 December 1998 were as follows:

| | |
|----------------|--------------------------|
| C J A Jamieson | (Chairman) |
| E Freeborn | (resigned 24 March 1999) |
| S Lowden | |

In addition, Mr J A van der Welle was appointed as a Director on 30 April 1999.

No Director had a disclosable interest in the shares of the Company at 31 December 1998.

At the year end the Directors were also Directors of the Ultimate Parent Undertaking, 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.

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 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.

PAYMENT POLICY

Payments made by the Company are mainly to Joint Venture partners and are in accordance with the relevant Joint Venture Agreements. Operating and administrative costs are paid by the Parent Company on behalf of the Company.

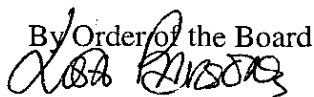
YEAR 2000 COMPLIANCE

Along with many in the industry, the Company's Ultimate Parent Undertaking has established a Year 2000 Project Group. This group will establish the precise scope of any risks posed to the Company by the consequences of the Year 2000 date change and to address those risks, seeking to ensure that the Company will not suffer any adverse impacts.

The Company's objective is to confirm that its computer systems and equipment with embedded computer chips achieve Year 2000 conformity. Also to require suppliers to ensure that their systems achieve the same standard and to seek assurances from partners and alliances that they have similar effective plans in place. To date all hardware, software and communication systems have been successfully tested through multiple independent checks. The Company continues to seek third party assurances and will continue with integrity checks on equipment up to the Year 2000. Any costs relating to the Year 2000 Project have been borne wholly by the Ultimate Parent Undertaking.

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

L PARSONS
Secretary
26 October 1999

**REPORT OF THE AUDITORS
to the Members of Premier Pict Petroleum Ltd**

We have audited the accounts on pages 4 to 15 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 pages 1 and 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.

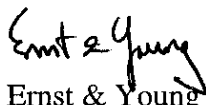
Basis of opinion

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 1998 and of the loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young
Registered Auditor
London

26 October 1999

PREMIER PICT PETROLEUM LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 1998

| | Notes | <u>Year Ended</u> <u>31/12/98</u> £'000 | <u>Year Ended</u> <u>31/12/97</u> £'000 |
|--|-------|---|---|
| TURNOVER | 2 | 11,021 | 19,771 |
| Production Costs | | (4,966) | (6,146) |
| Amortisation | 3 | (6,413) | (6,533) |
| Exceptional provision for oil and gas assets | 3 | <u>(11,767)</u> | <u>—</u> |
| GROSS (LOSS)/PROFIT | | (12,125) | 7,092 |
| Operating and Administrative Costs | | <u>(432)</u> | <u>—</u> |
| OPERATING (LOSS)/PROFIT | 4 | (12,557) | 7,092 |
| Net Interest Payable | 5 | (1,205) | (302) |
| Exchange (Loss)/Gain | | <u>(35)</u> | <u>462</u> |
| (LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAX | | (13,797) | 7,252 |
| Taxation | 6 | <u>—</u> | <u>(1,000)</u> |
| (LOSS)/PROFIT ON ORDINARY ACTIVITIES AFTER TAX | | (13,797) | 6,252 |
| Dividends | | <u>—</u> | <u>—</u> |
| RETAINED (LOSS)/PROFIT FOR THE PERIOD | | <u>(13,797)</u> | <u>6,252</u> |

The operating profit arises wholly on continuing activities.

PREMIER PICT PETROLEUM LIMITED

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

FOR THE YEAR TO 31 DECEMBER 1998

| | <u>Year Ended</u> <u>31/12/98</u> £'000 | <u>Year Ended</u> <u>31/12/97</u> £'000 |
|--|---|---|
| Net (Loss)/Profit for the period after tax | (13,797) | 6,252 |
| Exchange difference on translation of net assets and results of operations accounted for in foreign currencies | (25) | 554 |
| TOTAL RECOGNISED (LOSSES)/GAINS RELATING TO THE PERIOD | <u><u>(13,822)</u></u> | <u><u>6,806</u></u> |

PREMIER PICT PETROLEUM LIMITED

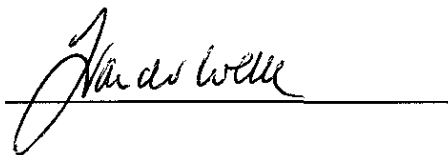
BALANCE SHEET

AS AT 31 DECEMBER 1998

| | Notes | <u>1998</u> £'000 | <u>1997</u> £'000 |
|---|-------|----------------------|----------------------|
| FIXED ASSETS | | | |
| Intangible Assets | 7 | 2,700 | 20,599 |
| Tangible Assets | 8 | <u>45,533</u> | <u>30,710</u> |
| | | 48,233 | 51,309 |
| CURRENT ASSETS | | | |
| Stocks | | 166 | 150 |
| Debtors | 9 | 3,085 | 5,932 |
| Amount due from Group Companies | 9 | 47,033 | 38,315 |
| Short Term Deposits | | 105 | 2,716 |
| Cash at Bank and in Hand | | <u>665</u> | <u>321</u> |
| | | 51,054 | 47,434 |
| CREDITORS: Amounts falling due within one year | 10 | <u>5,934</u> | <u>5,708</u> |
| NET CURRENT ASSETS | | <u>45,120</u> | <u>41,726</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | <u>93,353</u> | <u>93,035</u> |
| CREDITORS: Amounts falling due after one year | 11 | 31,928 | 18,182 |
| PROVISIONS FOR LIABILITIES AND CHARGES | 12 | <u>3,314</u> | <u>2,920</u> |
| NET ASSETS | | <u>58,111</u> | <u>71,933</u> |
| CAPITALS AND RESERVES | | | |
| Share Capital | 13 | 2,629 | 2,629 |
| Share Premium | 14 | 28,285 | 28,285 |
| Profit and Loss Account | 14 | <u>27,197</u> | <u>41,019</u> |
| SHAREHOLDERS' FUND | 15 | <u>58,111</u> | <u>71,933</u> |

Approved on behalf of the Board of Directors by

J van der Welle
Director



26 October 1999

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.

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, including an appropriate share of overheads, is capitalised into appropriate cost pools: UK, Southern Europe, Far East, Australia and International. Proceeds on disposal of an interest are credited to the relevant cost pool.

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 is abandoned, at which point the relevant total is transferred to the relevant tangible cost pool.

Amortisation of expenditure held in the tangible 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. 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.

An estimate of 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 an impairment, tangible and intangible asset values are written down accordingly through the profit and loss account.

Provision for expenditure on the decommissioning of oil and gas production facilities is made using the unit of production method where the Directors consider that there is a material liability for the removal of production facilities and site restoration at the end of the producing life of a field. 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.

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 taxes are provided in respect of material timing differences which, in the opinion of the directors may result in tax becoming payable in the foreseeable future.

Petroleum Revenue Taxes are provided on a unit of production basis over the estimated remaining life of each producing field. The total tax for each producing field is calculated after deducting all expenditure incurred on that field. Deferred Petroleum Taxes are provided for on 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 and liabilities denominated in foreign currencies at the period end are reported at the rates of exchange prevailing at the period end. Transactions denominated 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 it's 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>1998</u> £'000 | <u>1997</u> £'000 |
|---|----------------------|----------------------|
| Amortisation of tangible assets | 6,002 | 6,034 |
| Decommissioning charge | 400 | 477 |
| Depreciation of other fixed assets | 11 | 22 |
| | <u>6,413</u> | <u>6,533</u> |
| Exceptional provision for oil and gas assets | | |
| Impairment write down of – intangible fixed assets | 6,196 | – |
| – tangible fixed assets | 5,571 | – |
| | <u>11,767</u> | <u>–</u> |

The new Financial Reporting Standard FRS11 (Impairment of Fixed Assets and Goodwill) has been applied for the year ended 31 December 1998. The write downs have resulted from the impairment tests performed. The impairment test has been performed with a 10% nominal discount rate, US\$/£ exchange rate of US\$1.60 and oil price forecast of US\$12 (1999) and US\$15 flat real thereafter.

4. OPERATING PROFIT

Auditors remuneration is borne wholly by the Ultimate Parent Company. No staff were employed during the year. The Directors received no remuneration for their services to the Company.

5. INTEREST

| | <u>1998</u> £'000 | <u>1997</u> £'000 |
|---------------------------|----------------------|----------------------|
| Receivable | | |
| Short-term deposits | <u>296</u> | <u>649</u> |
| Payable | | |
| Bank loans and overdrafts | <u>(1,501)</u> | <u>(951)</u> |
| Net Payable | <u>(1,205)</u> | <u>(302)</u> |

PREMIER PICT PETROLEUM LIMITED

NOTES TO THE ACCOUNTS (*Continued*)

6. TAX

| | <u>1998</u> £'000 | <u>1997</u> £'000 |
|-----------------------------------|----------------------|----------------------|
| Corporation Tax | | |
| - Current Year | — | 1,000 |
| - Over provided in previous years | — | — |
| UK Petroleum Revenue Tax | | |
| - Deferred | — | — |
| | <u>—</u> | <u>1,000</u> |
| | <u>—</u> | <u>—</u> |

7. INTANGIBLE FIXED ASSETS

| | <u>Oil and Gas Properties</u> | | |
|-----------------------------------|-------------------------------|---------------------------|-----------------------|
| | <u>UK</u> £'000 | <u>Australia</u> £'000 | <u>Total</u> £'000 |
| At 1 January 1998 | 20,533 | 66 | 20,599 |
| Exchange movements | (147) | — | (147) |
| Additions during the year | 427 | — | 427 |
| Transfer to tangible fixed assets | (11,535) | — | (11,535) |
| Transfer to Group Companies | (448) | — | (448) |
| Provision for impairment | (6,130) | (66) | (6,196) |
| At 31 December 1998 | <u>2,700</u> | <u>—</u> | <u>2,700</u> |

There are no intangible fixed assets in the Southern Europe, Far East, Pakistan or International cost pools.

PREMIER PICT PETROLEUM LIMITED

NOTES TO THE ACCOUNTS (*Continued*)

8. TANGIBLE FIXED ASSETS

| | Oil and gas properties | | | | Other Fixed Assets £'000 | Total £'000 |
|---------------------------------------|------------------------|-----------------------------|-------------------|------------------------|-----------------------------|----------------|
| | UK £,000 | Southern Europe £'000 | Far East £'000 | International £'000 | | |
| Cost | | | | | | |
| At 1 January 1998 | 76,989 | 677 | 925 | 3,690 | 289 | 82,570 |
| Exchange Movements | (358) | – | – | – | – | (358) |
| Additions during the year | 14,214 | (12) | (6) | 267 | – | 14,463 |
| Transfer from intangible fixed assets | 11,535 | – | – | – | – | 11,535 |
| Transfer from other Group Companies | 456 | – | – | – | – | 456 |
| At 31 December 1998 | 102,836 | 665 | 919 | 3,957 | 289 | 108,666 |
| Amortisation and Depreciation | | | | | | |
| At 1 January 1998 | 51,630 | – | – | – | 230 | 51,860 |
| Exchange movements | (311) | – | – | – | – | (311) |
| Charge for the year | 6,002 | – | – | – | 11 | 6,013 |
| Impairment Writedown* | – | 665 | 919 | 3,957 | 30 | 5,571 |
| At 31 December 1998 | 57,321 | 665 | 919 | 3,957 | 271 | 63,133 |
| Net Book Value | | | | | | |
| At 31 December 1998 | 45,515 | – | – | – | 18 | 45,533 |
| At 31 December 1997 | 25,359 | 677 | 925 | 3,690 | 59 | 30,710 |

* Under the new accounting standard FRS11 an impairment writedown of £5,571,000 has been made. Refer to Note 3 of these accounts for further details.

PREMIER PICT PETROLEUM LIMITED

NOTES TO THE ACCOUNTS (*Continued*)

INVESTMENTS (held as fixed assets)

As at 31 December 1998, 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 |

Full provision has been made in the Company's accounts. These are carried in the accounts at a book value of £Nil.

9. DEBTORS

| | <u>1998</u> £'000 | <u>1997</u> £'000 |
|---|----------------------|----------------------|
| Trade debtors | 940 | 3,105 |
| Other debtors | 800 | 722 |
| Prepayments | <u>1,345</u> | <u>2,105</u> |
| | <u>3,085</u> | <u>5,932</u> |
| Amounts due from group companies: | | |
| Amount due from Subsidiary Undertakings | 3,068 | 3,071 |
| Amounts due from Fellow Subsidiary Undertakings | 2,513 | 4,538 |
| Amounts due from Parent Company | <u>41,452</u> | <u>30,706</u> |
| | <u>47,033</u> | <u>38,315</u> |

10. CREDITORS - Amounts Falling Due Within One Year

| | <u>1998</u> £'000 | <u>1997</u> £'000 |
|---------------------------------|----------------------|----------------------|
| Corporation tax | 1,000 | 1,000 |
| Other taxes and social security | 80 | 220 |
| Accruals | 4,740 | 4,441 |
| Interest payable | <u>114</u> | <u>47</u> |
| | <u>5,934</u> | <u>5,708</u> |

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

PREMIER PICT PETROLEUM LIMITED

NOTES TO THE ACCOUNTS (Continued)

**11. CREDITORS - Amounts Falling Due
After One Year**

| | <u>1998</u> £'000 | <u>1997</u> £'000 |
|---|----------------------|----------------------|
| Bank loans – repayable in two to five years | <u>31,928</u> | <u>18,182</u> |

Corporate Credit Facility

The Premier group has a US\$200 million unsecured loan facility with a consortium of banks led by Chase Manhattan Bank. US\$200 million was drawn down at the end of 1998 by Premier Consolidated group of Companies of which US\$53 million was drawn down by Premier Pict Petroleum Ltd. Repayments commence in December 2000 and the loan is repayable by 2002.

12. PROVISION FOR LIABILITIES AND CHARGES

| | <u>1998</u> £'000 | <u>1997</u> £'000 |
|--------------------------------|----------------------|----------------------|
| Decommissioning costs | 2,474 | 2,080 |
| Deferred petroleum revenue tax | <u>840</u> | <u>840</u> |
| | <u>3,314</u> | <u>2,920</u> |

Decommissioning costs have been provided as follows:

| | <u>1998</u> £'000 | <u>1997</u> £'000 |
|--------------------|----------------------|----------------------|
| At 1 January | 2,080 | 1,571 |
| Exchange movements | (6) | 32 |
| Charge for year | <u>400</u> | <u>477</u> |
| At 31 December | <u>2,474</u> | <u>2,080</u> |

Deferred Petroleum Revenue Tax has been provided as follows:

| | <u>1998</u> £'000 | <u>1997</u> £'000 |
|-----------------|----------------------|----------------------|
| At 1 January | 840 | 840 |
| Charge for year | <u>—</u> | <u>—</u> |
| At 31 December | <u>840</u> | <u>840</u> |

PREMIER PICT PETROLEUM LIMITED

NOTES TO THE ACCOUNTS (Continued)

13. SHARE CAPITAL

| | 1998 Number | 1998 £'000 | 1997 Number | 1997 £'000 |
|---|----------------|---------------|----------------|---------------|
| Authorised | | | | |
| Ordinary Shares of 5p each | 68,000,000 | 3,400 | 68,000,000 | 3,400 |
| Called up, issued and fully paid | | | | |
| Ordinary Shares of 5p each | | | | |
| at 1 January | 52,568,650 | 2,629 | 52,568,650 | 2,629 |
| At 31 December | 52,568,650 | 2,629 | 52,568,650 | 2,629 |

14. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENT ON RESERVES

| | Share capital £'000's | Share premium account £'000's | Profit and loss account £'000's | Total shareholders' funds £'000's |
|--------------------------|-----------------------------|--|---------------------------------------|--|
| At 1 January 1997 | 2,629 | 28,285 | 34,213 | 65,127 |
| Profit for the year | — | — | 6,252 | 6,252 |
| Unrealised exchange gain | — | — | 554 | 554 |
| At 31 December 1997 | 2,629 | 28,285 | 41,019 | 71,933 |
| Loss for the year | — | — | (13,797) | (13,797) |
| Unrealised exchange loss | — | — | (25) | (25) |
| At 31 December 1998 | 2,629 | 28,285 | 27,197 | 58,111 |

15. CAPITAL COMMITMENTS AND GUARANTEES

At 31 December 1998 capital commitments on exploration and production licences totalled £1,962,000 (1997: £15,759,000) of which £1,962,000 (1997: £4,538,000) had been contracted.

Premier Pict Petroleum Limited together with other Premier Oil plc subsidiaries have jointly guaranteed borrowings by Premier Oil plc amounting to US\$480 million, maturing between 2000 and 2010.

PREMIER PICT PETROLEUM LIMITED

NOTES TO THE ACCOUNTS (*Continued*)

16. ULTIMATE PARENT COMPANY

The Company's Ultimate Parent Undertaking 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 the Group accounts are available from Premier Oil plc, 23 Lower Belgrave Street, London, SW1W 0NR.