Registration number: 02907493

Premier Oil E&P UK EU Limited

Annual Report and Financial Statements

for the year ended 31 December 2019

Premier Oil E&P UK EU Limited

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Premier Oil E&P UK EU Limited

Company Information

Directors	A R C Durrant D G Griffin R A Rose A G Gibb P D Williams G P Webster
Company secretary	D A Rose
Registered office	23 Lower Belgrave Street London SW1W 0NR
Auditors	Ernst & Young LLP Blenheim House Fountainhall Road Aberdeen United Kingdom AB15 4DT

Premier Oil E&P UK EU Limited

Strategic Report for the year ended 31 December 2019

The directors present their strategic report on Premier Oil E&P UK EU Limited (the "company") for the year ended 31 December 2019.

Results
For the year to 31 December 2019 the company made a profit of £23,553,614 (2018: profit of £36,755,971).

Principal activity and business review
The principal activity of the company is natural gas exploration, development and production.

In 2019, production from Ravenspurn North averaged 1.2 kboepd (net, Premier 28.7 per cent interest). Uptime from the field improved significantly following the summer shut down, averaging in excess of 95 percent. The current year production performance of Johnston was in line with 2018.

The company's key financial and other performance indicators during the year were as follows:

	Unit	2019	2018
Production	kboepd	1.5	1.8
Operating cost per boe	£	25.8	23.2
Realised price per therm	£	0.5	0.5

Principal risks and uncertainties
The key business risks are set out below:

Liquidity risk

The company is reliant on group funding and has the risk that sufficient funds are not available to finance the business. The group has an established financial management system to ensure that it is able to maintain an appropriate level of liquidity and financial capacity and to manage the level of assessed risk associated with the financial instruments. The group maintains access to capital markets through the cycle through proactive engagement with banks and lenders. We have analysed this risk further within the going concern section in note 2.

Operational hazards and responsibilities

Oil and gas drilling and producing operations are subject to many risks, including the possibility of fire, explosions, mechanical failure, pipe failure, chemical spills, accidental flows of oil, natural gas or well fluids, sour gas releases, storms or other adverse weather conditions and other occurrences or accidents which could result in personal injury or loss of life, damage or destruction of properties, environmental damage, interruption of business, regulatory investigations and penalties and liability to third parties. The company mitigates insurable risks to protect against significant losses by maintaining a comprehensive insurance program to reduce the potential impact of the physical risks associated with its exploration and production activities. In addition, business interruption cover is purchased for a proportion of the cash flow from producing fields.

Production and development delivery and decommissioning execution

The company manages a variety of projects, including exploration, development and decommissioning projects and the construction or expansion of facilities and pipelines. Project delays may delay expected revenues and project cost overruns could make projects uneconomic. The company's ability to complete projects depends upon numerous factors beyond the company's control. These factors include the uncertain geology and reservoir performance leading to lower production and reserves; the availability of services including FPSOs and rigs; availability of technology and engineering capacity; availability of skilled resources; maintaining project schedules and costs as well as fiscal, regulatory, political and other conditions leading to operation problems.

Commodity price risk

The company is exposed to gas price fluctuations which affect its revenues and the values of its gas interests. Decreases in the gas prices are likely to reduce profitability by decreasing revenue without a proportional decrease in costs; they may necessitate impairment of asset values and may make projects uneconomic. The company's exposure to such fluctuations is managed through the company's participation in the group's hedging arrangements.

Foreign exchange risk

Exchange rate exposures relate only to US Dollar receipts and expenditures. The group's treasury function takes out forward contracts to manage this risk at a group level.

Joint venture partner alignment

The company has the risk that joint venture partners are not aligned in their objectives and drivers which may lead to inefficiencies and/or delays. Several of our projects are operated by our joint venture partners and our ability to influence our partners is sometimes limited due to our small interest in such ventures. The company performs due diligence and has regular engagement with the partners in the joint venture. Premier pursues strategic acquisition opportunities where appropriate to gain a greater deal of influence and control.

Supply chain delivery

We are heavily dependent on supply chain providers to deliver services and products to time, cost and quality criteria. There is a heightened risk of the financial viability of key suppliers during periods of downturn in the upstream services sector which could result in causing delays or cost over-runs on projects or operations. The company manages this risk through enhanced due diligence of supply chain providers and continually monitors contractual performance and delivery.

Brexit

On 23 June 2016 the United Kingdom voted to leave the European Union. The longer term political and economic effects of this event are as yet unclear as negotiations on Britain's future relationship with EU member states are ongoing with the transition period ending on 31 December 2020. Management continue to monitor the situation closely and review potential risks to the group.

COVID-19

After the year end, the spread of COVID-19 and measures introduced by governments across the world to manage the pandemic led to an unprecedented drop in global demand for oil. We have analysed this risk further within the going concern section in note 2.

Approved by the Board on 29 June 2020 and signed on its behalf by:

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R A Rose
Director

Directors' Report for the year ended 31 December 2019

The directors present their annual report on the affairs of the company together with the financial statements and auditor's report, for the year ended 31 December 2019.

Dividends
The directors did not recommend the payment of a dividend (2018: £nil).

Directors of the company
The directors who held office during the year were as follows:

R A Allan (resigned 25 June 2020)
A R C Durrant
J E Forsyth (resigned 14 February 2020)
D G Griffin
R A Rose
A G Gibb
P D Williams
G P Webster (appointed 14 February 2020)

Directors' indemnities
The company has made qualifying third party indemnity provisions for the benefit of its directors which were made during the year and remain in force at the date of this report.

Going concern
The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements. The Company is part of the Premier Oil plc group (the "Group") and is reliant on the provision of financial support from its parent and other group companies. In addition, the Company is a guarantor company on the Group's principal financing arrangements.

As disclosed in Note 2 to the Financial Statements, the Directors of the Company have highlighted material uncertainties regarding (1) the Group's compliance with its financial covenants and (2) its ability to refinance its existing loan arrangements in the current economic climate and the potential risk of either of these risks resulting in the Group's and/or the Company's loan arrangements becoming repayable on demand in the next 12 months. These material uncertainties may cast significant doubt on the Company's ability to continue to apply the going concern basis of accounting.

Future developments
The directors do not foresee any changes in the company's activities in the immediate future.

Subsequent events
Pleaser refer to note 19.

Disclosure of information to the auditors
Each director has taken steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information. The directors confirm that there is no relevant information that they know of and of which they know the auditor is unaware.

Premier Oil E&P UK EU Limited

Directors' Report for the year ended 31 December 2019 (continued)

Appointment of auditors
The auditors Ernst & Young LLP are deemed to be reappointed under section 487(2) of the Companies Act 2006.

Approved by the Board on 29 June 2020 and signed on its behalf by:

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R A Rose
Director

Premier Oil E&P UK EU Limited

Statement of Directors' Responsibilities

The directors acknowledge their responsibilities for preparing the Annual 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 United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 'Reduced Disclosure Framework' ('FRS 101'). 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 of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether FRS 101 has 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.

Premier Oil E&P UK EU Limited

Independent Auditor's Report to the Members of Premier Oil E&P UK EU Limited

Opinion

We have audited the financial statements of Premier Oil E&P UK EU Limited for the year ended 31 December 2019, which comprise the Profit and loss account, Balance sheet, Statement of changes in equity and the related notes 1 to 19, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 'Reduced Disclosure Framework' (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to note 2 in the financial statements, which indicates that there is uncertainty regarding (1) the Group's (Premier Oil PLC) compliance with its financial covenants and (2) its ability to refinance its existing loan arrangements in the current economic climate. As stated in note 2, these conditions, indicate that a material uncertainty exists that may cast significant doubt on the company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

We describe below how our audit responded to the risk relating to going concern:

- The audit engagement partner increased her time directing and supervising the audit procedures on going concern;
- Our audit procedures have focused on management's estimation process including the key assumptions used in the Directors' assessment and cash flow model including oil prices, production profiles and future costs. We performed our own sensitivity calculations on key assumptions to test the adequacy of the available headroom;ue.
- We engaged the EY Valuation, Modelling and Economics team to test the integrity of the model;
- We held regular conversation with management to understand the progress of the stable platform agreement, including covenant waivers and continued access to the RCF;
- We held conversations with the advisors to the creditors informal working group and Premier's advisors to substantiate the status of negotiations;

Independent Auditor's Report to the Members of Premier Oil E&P UK EU Limited (continued)

- We considered whether management has exercised any bias in selecting their assumptions. We identified forecast oil prices as the key assumption in the liquidity assessment. We audited management's oil and gas price assumptions in their base case. Our audit procedures included a comparison of management's price assumptions with those of market participants released since 9 March 2020 when significant price volatility was first observed;
- We performed reverse stress testing over prices in response to the recent market volatility, to identify the sensitivity of Premier's liquidity against oil price;
- We compared forecast future cash flows to historical data, ensuring variations are in line with our expectations and understanding of the business and considered the reliability of past forecasts;
- We tested the mathematical accuracy and integrity of the model;
- We tested the covenant calculations to ensure they had been calculated correctly in accordance with the 2017 debt override agreement; and
- We reviewed the disclosures made in the financial statements, as highlighted in the above section of our opinion covering going concern.

Other information
The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:

- 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; and
- the Strategic Report and Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception
In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or Directors' Report.

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.

Independent Auditor's Report to the Members of Premier Oil E&P UK EU Limited (continued)

Responsibilities of directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

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.

Ernst + Young LLP

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Moira Ann Lawrence
Senior Statutory Auditor
For and on behalf of Ernst & Young LLP, statutory auditor
Aberdeen

29 June 2020

Premier Oil E&P UK EU Limited

Profit and loss account for the year ended 31 December 2019

	Note	2019 £ 000	2018 £ 000
Turnover	4	15,282	18,971
Production costs		(13,920)	(14,848)
Depreciation and amortisation	9	(9,631)	14,039
Exploration expense		194	(194)
Gain / (loss) on derivative financial instruments	15	6,733	(9,219)
Gain on sale of non-current assets	9	-	20,104
Operating (loss)/profit		(1,342)	28,853
Net interest receivable	5	3,558	3,240
Foreign exchange loss		(2)	-
Change in expected credit loss	12	2,537	(2,525)
Profit before tax		4,751	29,568
Tax on profit on ordinary activities	8	18,802	7,188
Profit after tax		23,553	36,756

The above results were derived from continuing operations.

A statement of comprehensive income has not been presented as there are no items of comprehensive income other than the profit for the financial year. As such, comprehensive profit for the year amounted to £23,553,614 (2018: profit of £36,755,971).

Premier Oil E&P UK EU Limited

(Registration number: 02907493)
Balance sheet as at 31 December 2019

	Note	2019 £ 000	2018 £ 000
Fixed assets			
Tangible assets	9	-	-
Deferred tax assets	10	60,398	41,596
Decommissioning funding asset	11	42,595	38,054
		102,993	79,650
Current assets			
Trade and other receivables	12	111,409	100,771
Creditors: Amounts falling due within one year			
Trade and other payables	13	(3,458)	(7,718)
Short term provisions	14	(251)	(675)
Net current assets		107,700	92,378
Total assets less current liabilities		210,693	172,028
Creditors: Amounts falling due after more than one year			
Deferred income	11	(42,595)	(38,054)
Long term provisions	14	(99,030)	(88,459)
Net assets		69,068	45,515
Capital and reserves			
Called up share capital	16	132,233	132,233
Retained deficit	17	(63,165)	(86,718)
Shareholders' funds		69,068	45,515

These financial statements were authorised for issue by the Board on 29 June 2020 and signed on its behalf by:

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R A Rose

Director

Premier Oil E&P UK EU Limited

Statement of changes in equity for the year ended 31 December 2019

	Called up share capital £ 000	Retained deficit £ 000	Total £ 000
At 1 January 2018	132,233	(123,474)	8,759
Profit and total comprehensive income for the year	-	36,756	36,756
At 31 December 2018	132,233	(86,718)	45,515

	Called up share capital £ 000	Retained deficit £ 000	Total £ 000
At 1 January 2019	132,233	(86,718)	45,515
Profit and total comprehensive income for the year	-	23,553	23,553
At 31 December 2019	132,233	(63,165)	69,068

1 General information

The company is a private company limited by share capital, incorporated and domiciled in England and Wales.

The principal activity of the company is natural gas exploration, development and production.

The address of its registered office is:
23 Lower Belgrave Street
London
SW1W 0NR

The principal place of business is:
Upper Denburn House
Prime Four Business Park
Kingswells
Aberdeen
AB15 8PU

2 Accounting policies

Summary of significant accounting policies and key accounting estimates
The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Adoption of new and revised standards
In the current year the following new and revised Standards and Interpretations have been adopted, none of which have a material impact on the company's annual results.

- Amendment to IFRS 10 and IAS 28 - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- IFRS 16 Leases
- Amendments to IFRS 4 - Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
- IFRIC 23 Uncertainty over Income Tax Treatments
- Amendments to IAS 28 - Long-term Interest in Associates and Joint Ventures
- AIP (2015-2017 Cycle): IFRS 3 Business Combinations - Previously held interests in a joint operation
- AIP (2015-2017 Cycle): IFRS 11 Joint Arrangements - Previously held interests in a joint operation
- AIP (2015-2017 Cycle): IAS 12 Income Taxes - Income tax consequences of payments on financial instruments classified as equity
- AIP (2015-2017 Cycle): IAS 23 Borrowing costs eligible for capitalisation
- Amendments to IAS 19 - Plan Amendment, Curtailment or Settlement

2 Accounting policies (continued)

Adoption of new and revised standards (continued)
At the date of approval of these financial statements, the following standards and interpretations which have not been applied in these financial statements were in issue but not yet effective:

Amendments to Reference to the Conceptual Framework in IFRS Standards
Amendments to IAS 1 and IAS 8 - Definition of Material
Amendments to IFRS 3 - Definition of Business
IFRS 17 Insurance Contracts

The directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the company in future periods.

Basis of preparation
These financial statements were prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework'.

The financial statements are presented in pound sterling, which is the currency of the primary economic environment in which the company operates (its functional currency).

Going concern
The company is part of the Premier Oil plc group (the "Group") and has financial support available to it from its parent and other group companies if required. In addition, the Company is a guarantor company on the Group's principal loan arrangements. The Group monitors its capital position and its liquidity risk regularly throughout the year to ensure that it has sufficient funds to meet forecast cash requirements. Sensitivities are run to reflect latest expectations of expenditures, forecast oil and gas prices and other negative economic scenarios in order to manage the risk of funds shortfalls or covenant breaches and to ensure the Group's ability to continue as a going concern.

After the year end, the spread of COVID-19 and measures introduced by governments across the world to manage the pandemic led to an unprecedented drop in global demand for oil. In addition, a disagreement within OPEC+ on or about 7 March 2020 triggered an oil price war that caused the largest one-day fall in the oil price since 1991.

The Group has prepared forecast cash flows for the 12 months to 30 June 2021 using an oil price assumption of US$30 for the rest of 2020 and US$40 for 2021 and has deferred capital expenditure of c.US$100 million. Using these assumptions, under the Base case the Group has sufficient liquidity for the rest of 2020; however, a covenant breach is expected to arise for the 12 month period ending 30 June 2020. Given the extreme volatility in current oil prices, the Directors have performed reverse stress testing with the breakeven price for liquidity, assuming the Stable Platform (see below) is agreed and the debt maturity in May 2021 is extended, being an average of c.$20bbl in the 12 months to 30 June 2021.

2 Accounting policies (continued)

Going concern (continued)
A breach of one or more of the Group's financial covenants would cause an event of default under the loan arrangements, which could in turn trigger cross-defaults into the other Group companies. Since this company is a guarantor company on the Group's principal loan arrangements, the event of default could result in an acceleration of the repayment of the loan arrangements of the entire group, with the outstanding loan balances becoming repayable on demand within the going concern period and the cancellation of the relevant facilities. If an event of default were to occur at the Group, the Company would not be able to rely on the support of the Group and may not be able to meet its liabilities as they fall due.

In addition to the risk of a covenant breach, the Group's financing facilities are due for maturity in May 2021 which is within the going concern period. In the current global economic environment, there is no guarantee that the Group will be able to extend its current loan arrangements on favourable terms.

Therefore, management have already commenced discussions with the Group's major lenders regarding an extension of its existing loan arrangements and waiving of the existing financial covenants until the extension is agreed. The Group has made good progress with a subset of its major creditors representing over 40% of its debt facilities in agreeing principal terms to a "Stable Platform" agreement, which includes the waiving of its financial covenants until 30 September 2020 and to provide continued access to its revolving credit facilities. Management believe it is likely that further covenant waivers would be received if required beyond this date. This agreement has been submitted to the entire lender group for their consent, which is expected to be received in early July 2020. Discussions continue over the proposed amendments to the Group's existing credit facilities and are expected to conclude in Q3 2020, with the expectation being that the debt maturities will be extended or restructured prior to May 2021.

The uncertainties regarding (1) the Group's compliance with its financial covenants and (2) its ability to refinance its existing loan arrangements in the current economic climate and the potential risk of either of these risks resulting in the Group's and/or the Company's loan arrangements becoming repayable on demand in the next 12 months creates material uncertainties which therefore may cast significant doubt on the Company's ability to continue to apply the going concern basis of accounting.

However, based on the expectation that the Stable Platform agreement will be completed in early July 2020 management has every expectation a covenant waiver would be received prior to any acceleration of repayment of the Group's loan arrangements during the going concern period. In addition, management expect that an extension or restructuring of the Group's loan arrangements will be agreed prior to May 2021.

Therefore, the directors of the Company have concluded that it is appropriate to prepare these financial statements on a going concern basis.

Summary of disclosure exemptions
The company has taken advantage of the following disclosure exemptions under FRS 101:

(a) the requirements of paragraph 33(c) of IFRS 5 Non Current Assets Held for Sale and Discontinued Operations;
(b) the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement;
(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; (iii) paragraph 118(e) of IAS 38 Intangible Assets; (iv) paragraphs 76 and 79(d) of IAS 50 Investment Property; and (v) paragraph 50 of IAS 41 Agriculture;

2 Accounting policies (continued)

Summary of disclosure exemptions (continued)

(d) the requirements of paragraphs 10(d), 10(f), 39(c) and 134-136 of IAS 1 Presentation of Financial Statements;
(e) the requirements of IAS 7 Statement of Cash Flows;
(f) the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
(g) the requirements of paragraph 17 of IAS 24 Related Party Disclosures;
(h) the requirements in 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;
(i) the requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d)-134(f) and 135(c)-135(e) of IAS 36 Impairment of Assets;
(j) the requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119 (a) to (c), 120 to 127 and 129 of IFRS 15; and
(k) the requirements of paragraph 52, the second sentence of paragraph 89, and paragraphs 90, 91 and 93 of IFRS 16 as well as the requirements of paragraph 58 of IFRS 16, provided that the disclosure of details of indebtedness required by paragraph 61(1) of Schedule 1 to the Regulations is presented separately for lease liabilities and other liabilities, and in total.

Foreign currency transactions and balances

The financial statements are presented in pound sterling rounded to the nearest thousand. All transactions denominated in foreign currencies, being currencies other than the functional currency, are recorded in the functional currency at actual exchange rates as of the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date. Any gain or loss arising from a change in exchange rate, subsequent to the dates of the transactions, is included as an exchange gain or loss in the profit and loss account.

Revenue recognition

Revenue from contracts with customers is recognised when or as the company satisfies a performance obligation by transferring a promised good or service to a customer. A good or service is transferred when the customer obtains control of that good or service. The transfer of control of oil, natural gas, natural gas liquids, and other items sold by the company usually coincides with title passing to the customer and the customer taking physical possession. The company principally satisfies its performance obligations at a point in time and the amounts of revenue recognised relating to performance obligations satisfied over time are not significant.

Interest in joint arrangements

A joint arrangement is one in 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.

Most of the company's activities are conducted through joint operations, whereby the parties that have joint control of the arrangement have the rights to the assets, and obligations for the liabilities, relating to the arrangement. The company reports its interests in joint operations using proportionate consolidation – the company's share of the assets, liabilities, income and expenses of the joint operation are combined with the equivalent items in the financial statements on a line-by-line basis.

2 Accounting policies (continued)

Interest in join arrangements (continued)
A joint venture, which normally involves the establishment of a separate legal entity, is a contractual arrangement whereby the parties that have joint control of the arrangement have the rights to the arrangement's net assets. The results, assets and liabilities of a joint venture are incorporated in the financial statements using the equity method accounting. During 2019, the company did not have any material interests in joint ventures.

Where the company transacts with its joint operations, unrealised profits and losses are eliminated to the extent of the company's interest in the joint operation.

Tax
Tax is recognised in profit or loss, except that a change attributable to an item of income or expense recognised as other comprehensive income is also recognised directly in other comprehensive income.

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill/excess of fair value over cost or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. The company reassesses its unrecognised deferred tax asset each year taking into account changes in oil and gas prices, the company's proven and probable reserve profile and forecast capital and operating expenditures.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantially enacted at the balance sheet date.

Tangible assets
The company follows the 'successful efforts' method of accounting for tangible fixed assets.

Development and production assets are accumulated generally on a field by field basis and represent the cost of developing the commercial reserves discovered and bringing them into production, together with the E&E expenditures incurred in finding commercial reserves transferred from intangible fixed assets.

The cost of development and production assets also includes the cost of acquisitions and purchases of such assets, directly attributable overheads, finance costs capitalised, and the cost of recognising provisions for future restoration and decommissioning.

2 Accounting policies (continued)

Depreciation
The net book values of producing assets are depreciated generally on a field by field basis using the unit-of-production (UOP) method by reference to a ratio of production in the period and the related commercial reserves of the field, taking into account future development expenditures necessary to bring those reserves into production.

Producing assets are generally grouped with other assets that are dedicated to serving the same reserves for depreciation purposes, but are depreciated separately from producing assets that serve other reserves.

Pipelines are depreciated on a straight line basis over the remaining life of the asset of 15 years.

Impairment of development and production assets
An impairment test is performed whenever events and circumstances arising during the development or production phase indicate that the carrying value of a development or production asset may exceed its recoverable amount.

The carrying value is compared against the expected recoverable amount of the asset, generally by reference to the present value of the future net cash flows expected to be derived from production of commercial reserves. The cash generating unit applied for impairment test purposes is generally the field, except that a number of field interests may be grouped as a single cash generating unit where the cash inflows of each field are interdependent.

Provisions
Provision for decommissioning is recognised in full when the related facilities are installed. 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 depreciated 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.

Trade and other receivables
Trade and other receivables are stated net of any allowances for expected credit losses.

Decommissioning funding asset
Decommissioning funding asset is recognised based on the present value of the estimated future cash inflows. A corresponding liability is booked as deferred income, and any change in the present value of the estimated cash inflows is reflected as an adjustment to deferred income and the decommissioning funding asset.

2 Accounting policies (continued)

Derivatives and hedging

The company uses derivative financial instruments ('derivatives') to manage its exposure to changes in foreign currency exchange rates, interest rates and oil and gas price fluctuations. All derivatives are initially recorded at cost, including transaction costs. Derivatives are subsequently carried at fair value. All changes in fair value are recorded as interest payable or receivable in the year in which they arise unless they qualify for hedge accounting, as discussed further below.

For the purposes of hedge accounting, hedging relationships may be of three types: fair value hedges are hedges of particular risks that may change the fair value of a recognised asset or liability; cash flow hedges are hedges of particular risks that may change the amount or timing of future cash flows; and hedges of net investment in a foreign entity are hedges of particular risks that may change the carrying value of the net assets of a foreign entity. Currently the company only has cash flow hedge relationships.

To qualify for hedge accounting the hedging relationship must meet several strict conditions on documentation, probability of occurrence, hedge effectiveness and reliability of measurement. If these conditions are not met, then the relationship does not qualify for hedge accounting. In this case the hedging instrument and the hedged item are reported independently as if there were no hedging relationship. In particular any derivatives are reported at fair value, with changes in fair value included in financial income or expense.

For qualifying cash flow hedges, the hedging instrument is recorded at fair value. The portion of any change in fair value that is an effective hedge is included in equity, and any remaining ineffective portion is reported in financial income. If the hedging relationship is the hedge of a firm commitment or highly probable forecasted transaction, the cumulative changes of fair value of the hedging instrument that have been recorded in equity are included in the initial carrying value of the asset or liability at the time it is recognised. For all other qualifying cash flow hedges, the cumulative changes of fair value of the hedging instrument that have been recorded in the equity are included in financial income at the time when the forecasted transaction affects net income.

Derivatives embedded in other financial instruments or non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not carried at fair value with unrealised gains or losses reported in the profit and loss account. Embedded derivatives which are closely related to host contracts, including in particular price caps and floors within the group's oil sales contracts, are not separated and are not carried at fair value.

Fair value is the amount for which a financial asset, liability or instrument could be exchanged between knowledgeable and willing parties in an arm's length transaction. It is determined by reference to quoted market prices adjusted for estimated transaction costs that would be incurred in an actual transaction, or by the use of established estimation techniques such as option pricing models and estimated discounted values of cash flows.

3 Critical accounting judgements and key sources of estimation uncertainty

Details of the company's significant accounting judgements and critical accounting estimates are set out in these financial statements and are considered to be:

3 Critical accounting judgements and key sources of estimation uncertainty (continued)

Fair value of derivatives
The company make an estimate of the fair value of derivatives at the balance sheet date. This is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It is determined by reference to quoted market prices adjusted for estimated transaction costs that would be incurred in an actual transaction, or by the use of established estimation techniques such as option pricing models and estimated discounted values of cash flows.

Carrying value of tangible assets along with proved and probable reserve estimates
Proved and probable reserve estimates are based on a number of underlying assumptions including oil and gas prices, future established industry techniques to generate its estimates and regularly references its estimates against those of joint venture partners or external consultants. However, the amount of reserves that will ultimately be recovered from any field cannot be known with certainty until the end of the field's life.

Decommissioning estimates
The decommissioning provision represents the present value of estimated decommissioning costs relating to oil and gas interests in the UK which are expected to be incurred up to 2034. This provision has been created based on the company's internal estimates and, where available, operators' estimates. Based on the current economic environment, assumptions have been made which the management believe are a reasonable basis upon which to estimate the future liability. These estimates are reviewed regularly to take into account any material changes to the assumptions.

Tax and recognition of deferred tax assets
The company's deferred tax assets are recognised to the extent that the taxable profits are expected to arise in the future against which tax losses and allowances in the company can be utilised. In accordance with paragraph 37 of IAS 12 – 'Income Taxes', the company re-assessed its deferred tax assets with respect to ring fence tax losses and allowances. The corporate model used to access the extent to which it is appropriate to recognise the company's tax losses as deferred assets was re-run, using an oil price assumption of Dated Brent and a gas price assumption of forward curve for three years, and assumptions in 'real' terms thereafter.

4 Turnover

Turnover is stated net of sales related taxes and trade discounts and represents the sale value of the company's share of petroleum production during the year and after adjusting for any realised hedging gains or losses. All turnover is derived from production and sales made in the United Kingdom.

5 Net interest receivable

	Note	2019 £ 000	2018 £ 000
Interest payable:			
Unwinding of decommissioning provision	14	(3,450)	(3,945)
Bank facility interest		(1,722)	(1,081)
		(5,172)	(5,026)
Interest receivable:			
Interest receivable from group companies		8,730	8,266
		8,730	8,266
Net interest receivable		3,558	3,240

6 Staff costs and directors' remuneration

The company employed no staff during the year (2018: none).

The directors received no remuneration for their services to the company in either the current or preceding years. The directors are also directors of other group entities, it is therefore not possible to allocate the remuneration across entities.

7 Auditors' remuneration

	2019 £ 000	2018 £ 000
Audit of the financial statements	27	23

This audit fee was borne by the ultimate parent company in the current year. No non-audit services were provided in the year (2018: £nil).

8 Income tax

Tax credited in the profit and loss account

	2019 £ 000	2018 £ 000
Current taxation		
UK corporation tax	-	-
Deferred taxation		
Credit to the profit and loss account in the year	(18,802)	(7,188)
Tax credit in the profit and loss account	(18,802)	(7,188)

Corporation tax is calculated at the standard ring fence UK corporation tax rate for the year of 40% (2018: 40%).

The charge for the year can be reconciled to the profit per the profit and loss account as follows:

	2019 £ 000	2018 £ 000
Profit before tax	4,751	29,568
Corporation tax at ring fence rate	1,900	11,827
Adjustments in respect of prior periods	(75)	14
Investment allowance recognised	(157)	(257)
Tax rate differences	(2,880)	(10,243)
Taxable income not included in profit before tax/expenses not deductible for tax purposes	(528)	(4,126)
Group relief claimed	(1,659)	(4,694)
Deferred tax asset arising in the year recognised	-	(3,355)
Ring fence expenditure supplement	(181)	-
Recognition of deferred tax asset	(15,222)	-
Deferred tax related to asset disposals/transfers	-	1,250
Chargeable gain on disposal	-	2,396
Total tax credit	(18,802)	(7,188)

9 Tangible assets

	Oil and gas properties £ 000
Cost or valuation	
At 1 January 2018	423,717
Additions	4,036
Disposals	(223,534)
Revision to decommissioning assets	(18,099)
At 31 December 2018	186,120
At 1 January 2019	186,120
Additions	2,509
Revision to decommissioning assets	7,122
At 31 December 2019	195,751
Depreciation	
At 1 January 2018	397,160
Charge for year	(14,039)
Eliminated on disposal	(197,001)
At 31 December 2018	186,120
At 1 January 2019	186,120
Charge for the year	9,631
At 31 December 2019	195,751
Carrying amount	
At 31 December 2019	-
At 31 December 2018	-

9 Tangible assets (continued)

Amortisation and depreciation of oil and gas properties is calculated on a unit-of-production basis, using the ratio of oil and gas production in the period to the estimated quantities of proved and probable reserves on an entitlement basis at the end of the period plus production in the period, on a field-by-field basis.

In 2018, there was a £14.0 million depreciation credit for the year as a result of reductions in the decommissioning estimates for Ravenspurn North and Johnston. On 1 January 2018, the company disposed of its 50 percent interest in the Babbage field to Premier Oil UK Limited.

The sale of Premier Oil E&P UK EU Limited's equity interest in the Esmond Transportation System pipeline to CATS Management limited was completed on 26 June 2018. This resulted in a gain on sale of £18.3 million.

On 26 October 2018 a contingent consideration of £1.9 million was received following the approval of the FDP of the Arran field.

10 Deferred tax

The movement on the deferred taxation balance is as follows:

	2019 £ 000	2018 £ 000
Net deferred tax asset at 1 January	41,596	34,332
Credit/(charge) to the income statement in the year	18,802	7,264
Net deferred tax asset at 31 December	60,398	41,596

The company's deferred tax assets are recognised to the extent that they can be utilised against tax attributes from the wider Premier Oil Plc UK group and to the extent that taxable profits are expected to arise in the future against which tax losses and allowances in the company can be utilised. In accordance with paragraph 37 of IAS 12 - 'Income Taxes', the company re-assessed its deferred tax assets with respect to ring fence tax losses and allowances. The corporate model used to access the extent to which it is appropriate to recognise the company's tax losses as deferred assets was re-run, using an oil price assumption of US65/bbl in 2020 and 2021 and US$70/bbl 'real' terms thereafter.

	2019 £ 000	2018 £ 000
Fixed asset temporary differences	1,588	2,117
Ring fence tax losses	14,166	12,995
Fair value of derivative financial instruments	(1,490)	1,203
Investment allowance	1,026	869
Temporary differences in respect of decommissioning	45,108	24,412
Total	60,398	41,596

11 Decommissioning funding asset

The decommissioning funding asset relates to the Decommissioning Liability Agreement entered into with E.ON, whereby E.ON agreed to part fund Premier's share of decommissioning the Johnston and Ravenspurn North assets. Under the terms of the agreement, E.ON will provide funding for 70 percent of the decommissioning costs between the expenditure range £40 million to £130 million, based on Premier's net share of the total decommissioning cost of the two assets. This results in a maximum possible funding of £63 million from E.ON.

The present value of the estimated cash inflows based on the agreement have been recognised in the year, with the corresponding liability booked to deferred income. Any change in the present value of the estimated cash inflows is reflected as an adjustment to deferred income and the decommissioning funding asset in equal proportion.

12 Trade and other receivables

	2019 £ 000	2018 £ 000
Trade debtors	1,215	940
Amounts owed by group companies*	105,036	98,412
Prepayments	1,432	1,419
Derivative financial instruments	3,726	-
	111,409	100,771

*The amounts due from other group companies at 31 December 2019 and 2018 comprise of loans denominated in US dollars and falling due for repayment in 2021. The company has loans with interest rates of LIBOR plus 6.75 percent and LIBOR plus 6.45 percent. An impairment provision of £381,399 (2018: £2,918,328) is included as required under IFRS 9 and was calculated using 12 month expected credit losses (ECL). The movement in the ECL has resulted in a £2,536,928 credit (2018:£2,524,611 charge) to the profit and loss account.

13 Trade and other payables

	2019 £ 000	2018 £ 000
Accrued expenses	3,458	4,711
Derivative financial instruments	-	3,007
	3,458	7,718

14 Long term provisions

	Note	Decommissioning £ 000
At 1 January 2019		89,134
Changes in estimates	9	7,122
Spend against provision		(425)
Unwinding of discount	5	3,450
At 31 December 2019		99,281
Non-current liabilities		99,030
Current liabilities		251

The decommissioning provision represents the present value of estimated decommissioning costs relating to oil and gas interests in the UK which are expected to be incurred up to 2034. This provision has been created based on the company's internal estimates and, where available, operators' estimates. Based on the current economic environment, assumptions have been made which the management believe are a reasonable basis upon which to estimate the future liability. These estimates are reviewed regularly to take into account any material changes to the assumptions and following the review in 2019, there was a change in accounting estimate of £7.1 million (2018: £18.2 million).

However, actual decommissioning costs will ultimately depend upon future market prices for the necessary decommissioning works required, which will reflect market conditions at the relevant time. Furthermore, the timing of decommissioning is likely to depend on when the fields cease to produce at economically viable rates. This in turn will depend upon future oil and gas prices, which are inherently uncertain.

15 Financial instruments

Financial risk management objectives and policies

The company's principal financial liabilities, other than derivative financial instruments (derivatives), comprise trade and other creditors. The main purpose of the derivatives is to manage commodity price fluctuations. The company has various financial assets such as accounts receivable and other financial assets, which arise directly from its operations.

It is the company's policy that all transactions involving derivatives must be directly related to the underlying business of the company. The company does not use derivative financial instruments for speculative exposures.

The main risks that could adversely affect the company's financial assets, liabilities or future cash flows are commodity price risk, credit risk and liquidity risk. The company uses derivative financial instruments to hedge some of these risk exposures.

15 Financial instruments (continued)

Derivative financial instruments

The company uses derivatives to manage its exposure to gas price fluctuations. Gas price hedging is undertaken using embedded derivative sales contracts.

Fair value hierarchy
In line with IFRS 13 - 'Fair Value Measurement' the company uses the following hierarchy for determining the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded value that are not based on observable market data.

Assets / (liabilities) measured at fair value
The company held the following derivative financial instruments measured at fair value and have been designated as level 2 as at 31 December 2019 and 31 December 2018:

	2019 £ 000	2018 £ 000
Embedded derivative contracts	3,726	(3,007)

Impact on income statement:

	2019	2018
Net fair value at:	**£ 000**	**£ 000**
1 January	(3,007)	6,212
Net movement in fair value during the year	6,733	(9,219)
31 December	3,726	(3,007)

16 Called up share capital

Allotted, called up and fully paid shares

	2019 No. 000	2019 £ 000	2018 No. 000	2018 £ 000
Ordinary shares of £1 each	132,233	132,233	132,233	132,233

17 Retained deficit

The balance held on this account is the accumulated losses of the company.

18 Parent and ultimate parent undertaking

The company's immediate parent is Premier Oil E&P UK Limited.The ultimate parent and controlling party is Premier Oil Plc, a company incorporated in Great Britain and registered in Scotland. Premier Oil Plc is the parent undertaking of the largest and smallest group of which the company is a member and for which group financial statements are prepared. Copies of these financial statements are available upon request from 23 Lower Belgrave Street, London, SW1W 0NR.

19 Subsequent events

<u>Corporate Actions</u>

In January 2020, the Company's ultimate parent company, Premier Oil plc (the "Group") publicly announced the agreement it had reached to undertake the following corporate actions (together the 'Corporate Actions'):

• an amend and extend ('A&E') of all the Group's refinancing facilities, including extension of maturities from May 2021 to November 2023;
• the proposed acquisition of a 25 per cent working interest in Tolmount from Dana and interests in Andrew and Shearwater (together the 'Acquisitions' or 'Acquired Assets');
• entering into a US$300 million bridge facility to partly finance the Acquisitions (the 'Bridge Facility'). Based on current forecasts it is not expected that the Bridge Facility will be utilised; and
• raising equity from shareholders via a combination of a placing and a rights issue (the 'Equity Raise'), which is fully underwritten.

Lender consents were obtained from the required proportion of lenders for the above Corporate Actions, prior to their announcement and the Scheme process was launched, with more than 75 per cent of the Group's lenders approving the Scheme in February 2020.

In April 2020, the Court of Session in Edinburgh approved the Scheme to implement the proposed Acquisitions, and the A&E. However, a single dissenting creditor (the "Single Creditor") announced its intention to appeal the Court's judgment. This, combined with significant changes in the macro-economic environment, resulted in the Group entering into further negotiations with BP regarding the Andrew Area and Shearwater acquisitions and also conversations with its principal lenders around the proposed transactions and the 2021 maturity of its debt facilities.

In June 2020, the Group announced it had:

• reached agreement with BP over amended terms for the acquisition of the Andrew Area and Shearwater assets (together the "BP Acquisitions"), with reduced upfront cash consideration now payable at completion;
• reached agreement with a subset of its principal creditors representing over 40 per cent of its debt facilities to waive the Company's financial covenants through to 30 September 2020 and to provide continued access to its revolving credit facilities (the "Stable Platform"). The terms of the Stable Platform are agreed and are in the process of receiving formal support from the wider lender group; and,
• agreed a settlement with the Single Creditor, under which the Single Creditor will withdraw its appeal of the Court's judgment approving the Schemes and will support the BP Acquisitions and the Stable Platform Agreement through the lender consent process. As part of this agreement, the Group has issued 82.2 million new shares to the Single Creditor at a price of 26.69 pence per share. The agreement also provides for a comprehensive settlement of all claims relating to the schemes and related matters (including costs).

19 Subsequent events (continued)

Macro-economic environment

The company is exposed to macro-economic risks, including pandemic disease that could have a material adverse effect on our operations. The company continues to monitor the COVID-19 outbreak which is causing economic disruption and may impact our performance in 2020. Premier remains extremely vigilant and focused on the welfare, health and safety of all of its staff and contractors. To date production operations have not been materially impacted by COVID-19. In addition, a disagreement within OPEC+ on or about 7 March 2020 has triggered an oil price war that caused the largest one-day fall in the oil price since 1991.

Significant estimates and judgements

The significant estimates and judgements that will be made in preparing future financial statements may also be impacted if the current macro-economic uncertainty continues and estimates of long-term commodity prices decrease. In particular, we expect the estimated recoverable amount of our cash generating units (CGUs) would reduce. There is a greater risk of impairments in those CGUs that were subject to impairment previously.