PremierOil

SC234781

Annual Report and Financial Statements

Year to 31 December 2012

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COMPANIES HOUSE

GROWING VALUE

A GROWTH BUSINESS WITH WORLD-CLASS CAPABILITY, SOUND FINANCIAL DISCIPLINE AND FOCUS ON CREATING UNDERLYING VALUE.

Premier is a leading FTSE 250 independent upstream oil and gas company. Our strategy is to focus on growing the underlying value of the business through disciplined investment in high quality projects where we see the potential for attractive returns to shareholders.

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FINANCIAL HIGHLIGHTS

Total sales reached a new record level of US$1.4 billion, and profit after tax is a record US$252.0 million

Production
2008 – 2012
(kboepd)

Reserves and resources
2008 – 2012
(mmboe)

Operating cash flow
2008 – 2012
($ million)

Profit after tax
2008 – 2012
($ million)

Financial /

- For the fifth successive year, record profit after tax of US$252.0 million (2011: US$171.2 million), an increase of 47 per cent
- Operating cash flow of US$808.2 million (2011: US$485.9 million), an increase of 66 per cent
- Subject to shareholder approval, initial dividend payment of 5 pence per share (2011: nil), reflecting confidence in strong rising cash flows
- Year-end net debt of US$1,110.4 million (2011: US$744.0 million) with stable gearing of 36 per cent (2011: 36 per cent)
- Cash and undrawn facilities (including letters of credit) of US$1.1 billion (2011: US$1.1 billion) with extended debt maturities

OPERATIONAL HIGHLIGHTS

Successful entry into the Falkland Islands added approximately 230 million barrels of net contingent resources at a low upfront cost and significantly extends Premier's future production profile

Operational /

- 2012 production of 57.7 kboepd (2011: 40.4 kboepd), an increase of 43 per cent; Huntington field expected on-stream at the end of March 2013
- Reserves and resources increased to 773 mmboe (2011: 513 mmboe), an increase of 51 per cent
- Four development projects – Solan, Pelikan, Naga and Dua – achieved final approvals in 2012, on track for first oil/gas in 2014
- Significant progress made on the operated Catcher field with the development concept formally agreed in December and key contract negotiations under way
- Successful entry into the Falkland Islands; Sea Lion development planning progressing to mid-year 2013 concept selection
- Play-opening acreage added in Vietnam, the Falkland Islands and Iraq; group prospective resources now in excess of 2.5 bnboe (2011: 1.6 bnboe)

Outlook /

- 2013 production guidance of 65-70 kboepd re-affirmed; run rate of 75 kboepd once Huntington and Rochelle on-stream
- Key project milestones expected in 2013, including completion of the first phase of Solan development drilling, final sanction of the Catcher project and concept selection for the Sea Lion project
- 15 firm exploration and appraisal wells planned for 2013; five high impact wells targeting in excess of 150 mmboe, including Luno II (spudded); Matang and Bonneville well results expected imminently
- Maturing play-opening prospects in Kenya, Norway, the Falkland Islands and Iraq for 2014/15 drilling

WHERE WE OPERATE

Strong Business Units

PREMIER IS ORGANISED INTO SIX COUNTRY UNITS WITH THE EXPLORATION TEAMS REPORTING DIRECTLY TO A CENTRAL EXPLORATION FUNCTION. IN TOTAL WE MANAGE A GROWING RESERVE AND RESOURCE BASE IN EXCESS OF 700 MMBOE.

Norway
Active exploration

UK
Strong production growth

NORWAY

UNITED KINGDOM

IRAQ
Exploration

MAURITANIA

EGYPT
Exploration

KENYA
Exploration

2013 production guidance of 65-70 kboepd re-affirmed

United Kingdom // Norway // Indonesia // Vietnam // Pakistan // Falkland Islands

Vietnam
Optimising Chim Sáo production

PAKISTAN

VIETNAM

INDONESIA

Pakistan
Infield development successes

Indonesia
Building on strong share of Singapore gas market

Falkland Islands
Building development capability

OPERATIONAL OVERVIEW

2012 rising cash flows and new investment opportunities

Robin Allan
Director, Business Units

Neil Hawkings
Operations Director

Andrew Lodge
Exploration Director

Production

Strategy /

We seek to maximise value from our current production base, which is focused around floating production systems and our Asia gas position, to generate cash flows for reinvestment in high return opportunities.

Outlook /

- 2013 production guidance of 65-70 kboepd re-affirmed
- Run rate of 75 kboepd once Huntington and Rochelle on-stream
- Medium-term production target of 100 kboepd underpinned by the Catcher project

Development

Strategy /

We aim to replenish our development portfolio with good quality projects through new acquisitions and/or successful exploration. We focus on projects where we can utilise our strong operatorship and FPSO development capabilities.

Outlook /

- Huntington and Rochelle expected on-stream in 2013
- Key project milestones in 2013, including final sanction of the Catcher project and concept selection for the Sea Lion project
- Four operated projects (Dua, Pelikan, Naga and Solan) on track for first oil/gas in 2014

Exploration

Strategy /

Premier is building an increasingly material exploration programme, targeting known geologies – rifts or frontal fold belts – in existing or new areas focusing on high impact prospects and play-opening opportunities with significant follow-on potential.

Outlook /

- 15 firm exploration and appraisal wells planned for 2013; five high impact wells targeting in excess of 150 mmboe
- Maturing play-opening prospects in Kenya, Norway, Falkland Islands and Iraq for 2014/2015 drilling

CHAIRMAN'S STATEMENT

> "**This strong operational and financial performance supports continuing investment in new opportunities,** an increasingly material exploration programme and the initiation of a dividend payout for the year."

Mike Welton
Chairman

The industry context

2012 was a year of difficult macroeconomic conditions and depressed capital markets. The energy industry, however, has performed strongly and continues to present opportunities for growth. Signs of recovery in western economies and world financial markets are at an early stage, but it is encouraging to start 2013 on a stronger note. Commodity prices have remained remarkably stable, providing a healthy backdrop for continuing investment and new opportunities. Although costs are rising in some areas, good projects are still earning attractive rates of return.

Premier's performance

Premier has again achieved strong growth in the value of the underlying assets of the business. In 2012 we increased production by 43 per cent, cash flow by 66 per cent and report record profitability for a fifth successive year. Reserves and resources now amount to 773 million barrels of oil equivalent (mmboe) compared to 513 mmboe at the end of 2011. Four new projects also received development approval during the course of the year. While we invested in excess of US$250 million in acquisitions and US$772 million in development and exploration projects during the year, balance sheet gearing remained stable at 36 per cent and is well within our target range. We continue to have good access to several sources of debt capital, both reducing our average cost of debt and extending its maturity. This strong operational and financial performance supports continuing investment in new opportunities, an increasingly material exploration programme and the initiation of a dividend payout for the year.

Premier's growth plans

Building on the new fields which came on-stream in Indonesia and Vietnam in late 2011, 2012 saw a significant increase in group production. 2012 average production of 57.7 thousand barrels of oil equivalent per day (kboepd) will rise to a run rate of around 75 kboepd as two new fields, Huntington and Rochelle, come on-stream. Looking further ahead, we have made significant steps in progressing the Solan and Catcher projects, which are expected on-stream in 2014 and 2016 respectively. These new fields, together with our existing producing areas, will underpin our medium-term production target of 100,000 boepd.

We continue to invest in new project opportunities where we see the potential for attractive returns for shareholders. We are delighted to have secured the operatorship and a large equity interest in the Sea Lion field in the Falkland Islands. Our project team is already working closely with both the Falkland Islands and the UK Governments to deliver an approved development plan by the middle of 2014. We also look forward to our first exploration campaign in the Falkland Islands which further builds up our increasingly material drilling programme.

Our 2012 exploration programme delivered successes in the UK, Pakistan and Indonesia. These are valuable additions to the portfolio due to their proximity to existing producing assets. In the UK Central North Sea, our exploration drilling programme attempted to replicate the successes we had in the Catcher area in previous years. However, with the exception of the Carnaby discovery in a new play area west of the Catcher development, the programme was unsuccessful. This serves to underline the necessity, as we grow our production and development asset base, to identify new basin opportunities for future exploration away from the more mature areas in the North Sea and South East Asia. Our exploration and new venture teams have done an excellent job in identifying and negotiating entry into such opportunities offshore Kenya, in the North Falklands Basin, in the Phu Khanh basin in Vietnam, in the Mandal High area in Norway and in Southern Iraq. Over the course of 2012, the team added approximately 1 billion barrels of oil equivalent (bnboe) of prospective resources to the portfolio. We look forward to maturing these for drilling over the next two to three years. Success in any of these locations, because of the nature of their play-opening potential, will be transformational for Premier.

Focus of the Board

As the group and its scope of operations expand, the Board has taken a number of initiatives to ensure longer-term plans can be delivered successfully. A comprehensive strategy review incorporating asset profiles, capital allocation and funding plans was completed in the first half of 2012 and has been reviewed again by the Board in the first quarter of 2013.

Significant progress has been made in the way in which risks are identified, analysed and mitigated throughout our operations, reporting back to the Board via the Audit and Risk Committee. The Board's Nomination Committee has, with the help of the senior management team, taken new initiatives in succession planning, career development and competency programmes. Members of the Remuneration Committee have held a number of meetings with key shareholders and advisory bodies to ensure that our remuneration policies achieve an appropriate balance between reward for our investors and incentives for our employees. At the Board level, we continue to devote significant time to the management of the critical issues of health, safety and the environment. The group's improving record in all of these areas is testament to this effort. However, the tragic accident in December in which a crew member on an emergency standby vessel close to our Balmoral facilities lost his life in extreme weather, is a sad reminder of the need for constant vigilance and determination by all industry participants.

Returns to shareholders

We recognise that the upstream industry is a sector in which substantial capital growth can be achieved by companies focused on short-term exploration success. Such exploration activity yields potentially attractive but inconsistent returns. It is our objective to provide investors with consistent growth, above that of the major companies in our industry, but with the potential for higher returns through our exploration activities.

Premier's share price today stands higher than at 1 January 2012 and over a five-year period has significantly outperformed the FTSE All-Share Oil and Gas Producers Index. However, we recognise that the share price has not kept pace with the growth in value of the underlying assets of the business. The onus is on the Board and the executive team to deliver on our growth plan and to demonstrate an improved return on our exploration programme, so that a higher market rating will be achieved.

The Board has also considered again our policy in respect of shareholder distribution. As foreshadowed at the Annual General Meeting in May 2012, the Board intends to propose a 2012 dividend of 5 pence per share, to be approved by shareholders at the June 2013 Annual General Meeting. The level of future payouts will depend on the progression of cash flow over time and the capital required to fund our investment opportunities, but the Board believes that the payment of a sustainable dividend underlines our confidence in rising cash flows, the strength of our balance sheet and the quality of our asset base. It is a reward too for the loyalty of our shareholders. We also thank our employees, all of whom participate as shareholders through our employee long-term incentive plans, for all of their hard work in 2012. We all look forward to 2013 and the continuing growth in the company as it achieves its medium-term aspirations.

Mike Welton
Chairman

Image page

CHIEF EXECUTIVE'S REVIEW

> "We target in excess of 10 per cent NAV growth per share per year and, over the seven-year period to end-2012, have achieved in excess of 15 per cent."

Simon Lockett
Chief Executive

Q // What is Premier's business model and growth strategy?

We focus on growing the underlying value of the business through disciplined investment in high quality projects. Our skill set and experience give us the confidence and capability to take on complex operated development projects, typically offshore and utilising floating production systems. We believe in offering our investors and our employees continuing growth opportunities reflected in rising production targets. We will judge ourselves, and invite others to judge us, by the growth in our net asset value (NAV) per share year-on-year without relying on a rising oil price. We target in excess of 10 per cent NAV growth per share per year and, over the seven-year period to end-2012, have achieved in excess of 15 per cent. Going forward we will source this growth from the development of existing assets, new acquisitions and material organic exploration, while maintaining a strong balance sheet so that we are well placed to take advantage of attractive opportunities as they arise.

Q // How do you assess Premier's overall performance over the last five years?

In the five-year period since 2007, we have generated impressive growth in all key financial and operational metrics which define our business. Our growing undeveloped reserves and resource base will support substantial future growth.

	Growth	
	2007 – 2012 (%)	Annualised (%)
Revenues	144	19.5
Cash flow	200	24.6
Production	61	10.0
Reserves and resources	109	15.9
Return on capital	98	14.6

Our growth rates have significantly exceeded the 54 per cent rise in the oil price over the same five-year period. The majority of this growth has been financed by the re-investment of internally generated cash flows or new debt funding. With some US$1.1 billion of cash and undrawn facilities on hand and a gearing ratio stable at 36 per cent, our balance sheet continues to provide a strong platform for further material growth.

Q // Were you pleased with Premier's 2012 production performance?

Reservoir performance from all our producing fields in 2012 was encouraging and generated a 43 per cent increase in working interest production year-on-year.

	Working interest		Entitlement	
Production (boepd)	**2012**	**2011**	**2012**	**2011**
Indonesia	14,200	11,450	8,800	8,600
Pakistan	15,600	15,100	15,600	15,100
Mauritania	600	650	500	550
UK	12,100	10,300	12,100	10,300
Vietnam	15,200	2,900	14,600	3,100
Total	**57,700**	**40,400**	**51,600**	**37,650**

Well productivity was supported by improved facility uptime in the UK, Indonesia and Pakistan. We continue to work on the re-development of the Kyle field in the UK which has been shut down since December 2011 following a severe North Sea storm. The supply of additional gas to the Indonesian domestic market which would have generated further gas sales remains under discussion with the Indonesian authorities. These two factors reduced 2012 production by around 4,000 boepd, though value will be recovered by a combination of insurance proceeds and future production. Equipment issues at our Chim Sáo field in Vietnam, notably with power supply, prevented the full application of water injection, limiting our production rates from the field. This is being addressed and overall the field continues to produce above the level originally anticipated in our field development plan.

First oil from the Huntington field is expected at the end of March, in line with our 2013 budget. After a ramp up period, the field is expected to produce 25-30 kboepd (gross), following a successful development drilling programme. The smaller Rochelle field (Premier share: 15 per cent) is now expected on-stream around mid-year after storm damage to the initial development well. The rig is currently drilling the Rochelle West well and will return to Rochelle East after first gas.

Q //
What milestones did Premier achieve in 2012 with respect to its development portfolio?

Further significant milestones were achieved within our development portfolio during the year, especially on our operated development projects. The Pelikan and Naga projects, which will sustain and grow our position in the Singapore gas market, received development approvals and will add to existing volumes in the Natuna Sea from 2014 onwards. The Dua and Solan fields received project sanction during the course of the year and are progressing well towards first oil in 2014. On our operated Catcher development in the UK North Sea, concept selection was formally agreed in December and various tenders are now under way for key contracts. We expect to submit the field development plan for approval to the UK Government once these tender processes are complete. Targeted first oil date will be driven by the contract negotiation process, notably for the floating production, storage and offtake vessel (FPSO). Elsewhere, we increased our equity interest in the Bream area in Norway and are working with the revised partnership group to finalise development plans. In Mauritania, the partnership submitted a development plan for the Banda gas field, though this remains subject to final agreement on a gas sales contract.

Q //
What are the key opportunities and challenges associated with your entry into the Falkland Islands?

In line with our stated strategy, we were delighted to acquire operatorship and a significant equity interest in the Sea Lion development project in the Falkland Islands during the course of the year. With some 350 million barrels of appraised oil in the Sea Lion field and nearby discoveries, a clear fit with our development skills and an attractive fiscal regime, this is a substantial opportunity for Premier. It is also exciting to work in an environment where there is such strong support from both the Falkland Islands and the UK Governments. The location of the islands raises logistical and infrastructure challenges. However, the resourcefulness of our own project team members and that of the Falkland Islanders gives us every confidence that these can be more than adequately addressed.

Building on the work that our partner Rockhopper Exploration plc (Rockhopper) had already commenced, we expect to make key development concept decisions during the course of 2013, with final development approval targeted for mid-2014. This should facilitate first oil from the Sea Lion field during 2017. Whilst the geology of the North Falklands Basin is complex, we also see a large number of prospects and leads which offer potential for future exploration. We are working closely with the Rockhopper team to define the targets for the next exploration programme, now expected in late 2014 or early 2015.

Q // How did your reserve and resource base change over 2012?

The Falkland Islands transaction contributed significantly to a 51 per cent increase in reserves and resources year-on-year. While the Sea Lion field has been fully appraised, our reserve booking policy dictates that resources associated with the field will not be booked into the reserves category until further development milestones have been achieved.

As at 31 December 2012, proven and probable (2P) reserves, on a working interest basis, were 292 mmboe (2011: 285 mmboe) giving a reserve replacement ratio of 134 per cent.

	Proven and probable (2P) reserves (mmboe)	2P reserves and 2C contingent resources (mmboe)
1 January 2012	285	513
Production	(21)	(21)
Net additions and revisions	28	281
31 December 2012	**292**	**773**

The percentage of liquids in total reserves and resources has increased to 67 per cent (2011: 51 per cent). Given that the price we receive for our Indonesian gas volumes exported to Singapore is linked to oil prices, around 88 per cent of our resource base is effectively oil-price driven. Our current development portfolio is dominated by oil-based projects.

Q // What successes have Premier's exploration programme generated?

How would you describe your exploration strategy going forward?

Premier's exploration programme over time has generated notable successes. Indeed, the largest projects in our portfolio – our gas reserves in the Natuna Sea, our Chim Sáo oil field in Vietnam, our Catcher field in the UK – come from Premier exploration drilling initiatives. In 2009 we set a goal of adding 200 mmboe of net 2P reserves over a five-year period. Based on discoveries to date, the follow-on potential which they have generated and the programme still to come, we are confident that this objective will be achieved.

We added four discoveries to the portfolio during 2012. The Carnaby discovery adds additional reserves on the Catcher Block and is encouraging for the ongoing exploitation of the smaller accumulations around the Catcher field itself. The Catcher area near-field exploration has commenced in 2013 with the drilling of the Bonneville prospect.

The Anoa Deep well, underneath our existing Anoa facilities in the Natuna Sea, opened up a new play, the Lama play, which extends across a wide area within Premier's Natuna Sea acreage. Plans to follow up on this success with a new drilling campaign in 2014 and 2015 are advanced. In Pakistan, two notable successes were recorded with the K-30 well on the Kadanwari lease and the BBN-1 well on the Badhra field. These two discoveries added 116 billion cubic feet (bcf) (gross) and have both been brought into production post-discovery.

However, we recognise the need to update the portfolio as prospects are drilled out and as areas like the UK North Sea become mature. This is why we have taken steps to add new areas in Kenya, Iraq, the Falkland Islands, deeper water acreage in Vietnam and the Mandal High area in Norway. We believe in targeting play-opening opportunities which, on success, will deliver not just one discovery but will open up a series of prospects and leads. Success in any of these areas would lead to multiple opportunities and reduced risk over time. Such new acreage additions in 2012 were significant with a total of 30 new licences, amounting to net acreage gain of 11,800 km².

Q //
What is the outlook for Premier's 2013 exploration drilling programme?

In 2013, Premier plans to drill 15 exploration and appraisal wells. This includes five high impact exploration wells targeting in excess of 150 mmboe, including the Luno II well which is currently drilling on the south west margin of the Utsira High, and the Lacewing well, Premier's first high pressure high temperature well in the North Sea. In addition, we look forward to the results of the Kuda Laut and Singa Laut wells in Indonesia and the Ca Voi exploration well in Vietnam. The latter is a true frontier exploration well with the potential to open up a new play in Eastern Vietnam. We also hope to replicate our near field exploration success achieved in 2012 by the drilling of six near field wells in 2013, including the Matang well in Indonesia and the Bonneville well in the UK North Sea, both of which are currently drilling.

Q //
You underwent some organisational change in 2012. Why?

We continuously review the structure of our organisation to get the most out of our assets and to optimise project delivery. During 2012 we reorganised our teams into six country units – UK, Norway, Indonesia, Vietnam, Pakistan and the Falkland Islands – reflecting the growing critical mass of those units and the need to have strong local presence in all our key business areas. At the same time our exploration teams now report directly to a central exploration function, pulling together all the technical skills in the group into one team and allowing us to make better informed choices about where to allocate our exploration funds. We continue to believe that our organisational model – strong local units supported by a head office team, focused on critical decision points – will deliver our ambitious medium and long-term goals.

Simon Lockett
Chief Executive

Image page

Falkland Islands

PREMIER'S ENTRY INTO THE FALKLAND ISLANDS WAS COMPLETED IN THE FOURTH QUARTER OF 2012. OUR PRIMARY FOCUS IS TO DEVELOP THE ESTIMATED 300 MMBOE SEA LION FIELD, CURRENTLY TARGETED FOR PROJECT SANCTION MID-2014. WORKING CLOSELY WITH ROCKHOPPER, WE HAVE ALSO DEFINED THE LEAD AND PROSPECT INVENTORY SUCH THAT A MINIMUM OF THREE EXPLORATION WELLS ARE NOW PLANNED FOR 2014/2015.

Highlights and achievements /

- Completed acquisition of 60 per cent of Rockhopper's licence interests in the Falkland Islands
- Assumed operatorship of the 300 mmboe Sea Lion project
- Lead and prospect inventory defined ahead of a 2014/2015 exploration drilling campaign

Tom Clarence-Smith
Business Unit Manager
Premier Oil Falkland Islands

"One of our greatest achievements last year was our successful entry into the Falkland Islands through the farm-in for 60 per cent of Rockhopper's licence interests in the North Falklands Basin. The current focus of the Falkland Islands Business Unit is the development of the Sea Lion field and the exploitation of the remaining exploration potential in the basin."

PremierOil

Building development capability

DEVELOPMENT //

In July 2012, Premier agreed to farm-in to 60 per cent of Rockhopper's licence interests in the Falkland Islands, including the Sea Lion development project. Following the approval of the Falkland Islands Government, the deal was completed in October with an initial cash payment of US$231 million. In addition, Premier will pay an exploration carry of up to US$48 million and, subject to field development plan approval, a development carry of up to US$722 million. These are fully-funded from a combination of existing cash resources, facilities and cash flow from operations. Premier and Rockhopper also agreed jointly to pursue exploration opportunities in the Falkland Islands and analogous plays in selected areas offshore Southern Africa.

The Sea Lion field is located on the Falklands Plateau, 220 kilometres north of the Falkland Islands and lies in 450 metres of water. The geological setting is a north-south Atlantic failed rift with primarily early Cretaceous to Tertiary fill in a typical half graben structure with a large bounding fault in the east. The Sea Lion accumulation is close to the eastern margin. Stacked Early Cretaceous lacustrine fan reservoirs contain waxy 28 degree API crude oil. Oil-in-place is estimated to be over 1.1 billion barrels with 300 million barrels (gross) recoverable. Including the discoveries at Casper and Casper South, the transaction added approximately 230 million barrels of net contingent resources.

The Sea Lion field is expected to be developed by drilling and completing subsea wells in manifold clusters tied back via flexible risers to an anchored FPSO. Water injection and gas and produced water handling facilities will be provided on the FPSO. Gas will be used for fuel or re-injected to boost recovery. Shuttle tankers will collect the crude oil and ship to international markets. Gross estimated capital expenditure costs remain unchanged at US$5 billion. Premier will fund its share from rising cash flows.

On 1 November, Premier formally became operator of all of the licence interests previously operated by Rockhopper, thereby becoming the operator of the Sea Lion development project. A new dedicated project team is undertaking detailed planning of development drilling and the specification and sourcing of production facilities prior to commencing front-end engineering design. Notably, an FPSO market enquiry, which included visits to ship yards, has been undertaken to assess options of conversions or new builds to meet the design life criteria. Technical reviews have also been undertaken to study the option of gas lift instead of hydraulic submersible pumps while design studies of flow line systems have been completed. Health, safety and environmental management plans are being set to safeguard the development and operations phases. Concept selection is targeted for mid-2013 while project sanction is planned for mid-2014 with first oil targeted for third quarter of 2017. Once on-stream, the Sea Lion development is expected to add 50,000 barrels of oil per day (bopd) of production net to Premier.

Falkland Islands continued

EXPLORATION //

Since the announcement of the farm-in in July 2012, Premier has been working closely with Rockhopper to define the prospect inventory within its acreage in the North Falklands Basin. To date, we have technical agreement on a programme of between three and six exploration wells for the next drilling programme, which is targeted for 2014/15, subject to rig availability. Wells currently included in the proposed programme include play-opening wells targeting prospects beneath the existing Sea Lion sands, prospects from independent feeder systems along the east flank of the basin, as well as Sea Lion look-alike prospects.

Premier has received notification from the Falkland Islands Government that licences PL023 and PL024 (Premier interest 60 per cent) have been extended to November 2013 pending further seismic interpretation work and that licences PL003 and PL004 (Premier interest 4.5 per cent) have been extended to May 2016 with the addition of a one well commitment.

Outlook /

- Sea Lion development planning progressing to mid-year 2013 concept selection; project sanction planned for mid-2014 with first oil targeted for the third quarter of 2017
- A minimum of a three exploration well programme planned for 2014/2015

Indonesia

OUR KEY ASSET IN INDONESIA REMAINS THE OPERATED NATUNA SEA BLOCK A. WITH BOTH FURTHER DEVELOPMENT AND EXPLORATION ACTIVITY IN THE AREA, WE ARE PLANNING TO BUILD ON OUR EXISTING STRONG SHARE OF THE SINGAPORE GAS MARKET. THROUGH OUR INTERESTS IN BLOCK A ACEH AND AN ONGOING PROGRAMME OF EXPLORATION NEW VENTURE WORK, WE ARE SEEKING TO TAKE ADVANTAGE OF OUR LONG-ESTABLISHED RELATIONSHIPS AND GAS MARKETING EXPERTISE TO INCREASE OUR IN-COUNTRY PRESENCE.

Highlights and achievements /

- 2012 gas sales from Block A to Singapore averaged 217 BBtud, up 35 per cent
- Pelikan and Naga projects sanctioned
- Exploration success at Anoa Deep opening up the Lama play

Roberto Lorato
President Premier Oil Indonesia

"2012 saw the sanction of our Pelikan and Naga fields which will build on our strong performing Anoa and Gajah Baru interests. The Anoa Deep discovery offers significant potential for the future."

PremierOil

Building on strong share of Singapore gas market

PRODUCTION AND DEVELOPMENT //

During 2012, the Premier-operated Natuna Sea Block A (Block A) sold an overall average of 217 billion British thermal units per day (BBtud) (gross) (2011: 161 BBtud) from its gas export facilities, a 35 per cent increase, due to a full-year of production from the new Gajah Baru facility and the established Anoa field.

The Anoa facility continued to increase its market share of sales under the first gas sales agreement (GSA1) delivering 7.5 per cent over its contractual market share of 36.9 per cent. In addition, three Anoa development wells were drilled and put on production in 2012, adding 36 million standard cubic feet per day (mmscfd) of gas deliverability. The non-operated Kakap Block contributed a further 33 BBtud (gross) (2011: 42 BBtud). Gross liquids production from the Block A Anoa field was steady at an average 2,400 bopd (2011: 2,400 bopd) with a further 3,500 bopd (2011: 3,400 bopd) from Kakap. Overall, production from Indonesia was up substantially to 14,200 boepd (2011: 11,450 boepd) on a working interest basis.

The Pelikan and Naga projects, also on Block A, were sanctioned in April 2012 and are now in full execution mode. The contract for the engineering, procurement, construction and installation of two wellhead platforms and connecting pipelines was awarded in May 2012. The two projects will involve drilling six new development wells to develop an expected 150 bcf of gas reserves. First gas will be delivered in 2014 to supply existing Indonesia and Singapore sales contracts.

In parallel, a major brownfield development project, to upgrade the compression facilities on the Block A Anoa gas production facility, has also progressed through its first phase. In 2012, two cantilever deck extensions, housing a new gas compressor and turbine generator, were fabricated and installed on the Anoa platform. 2013 will see a second major offshore campaign, during which the existing compression equipment will be reconfigured for low pressure production. The project, when complete in September 2013, will extend the field plateau for another three years and develop 200 bcf of gross field reserves.

On the non-operated Block A Aceh, work continued on the gas development project. The focus has been on improving the economics such that the project can be sanctioned by year-end. The tendering process for most facilities is complete with current efforts towards securing higher gas prices with end buyers and the Indonesian Government progressing well. First gas is targeted for third quarter of 2015.

EXPLORATION //

Premier carried out exploration in five production sharing contracts (PSC) in Indonesia: Natuna Sea Block A, Kakap, Tuna, Block A Aceh and Buton. In 2012, Premier drilled three exploration wells on its Indonesian acreage, one of which was successful and opened up a new play.

The Anoa Deep-1 well, drilled as an exploratory tail to the Anoa WL-5X development well, discovered gas below the Anoa field. The well flowed over 17 mmscfd of gas from fractured sandstones of the Lama formation.

Indonesia continued

The discovery of gas in the Lama sands provides additional gas resources that can be dedicated to existing gas sales agreements and opens up a new proven play type which can be pursued across Premier's Block A and adjacent West Natuna areas. Prospect development continued in Natuna Sea Block A with the overall prospect inventory being upgraded through seismic reprocessing on selected prospects and prospect development in the newly proven Lama play. Premier expects to start to drill out these prospects in 2014/15.

The Biawak Besar-1 well on Natuna Sea Block A was drilled to test a stratigraphic trap which was assessed on seismic data to have a good possibility of containing gas. Biawak Besar-1 encountered good reservoir development and gas shows but was not deemed commercial.

In the Buton PSC, Premier participated in the Benteng-1 exploration well which was aimed at discovering oil in limestone reservoirs in the Cretaceous Tobelo formation. While the well was successful in proving an oil presence in the area with oil shows in the Miocene Tondo limestones, no commercial oil accumulation was found. Premier and partners will not continue exploring in the Buton PSC and the licence will be relinquished shortly.

In the Block A Aceh PSC in Northern Sumatra, the Matang-1 exploration well was spudded in late November 2012. The objective of the Matang-1 well is to discover gas resources in a Miocene Peutu limestone reservoir. The drilling of the top seal sequence has taken longer than expected with the results now anticipated by the end of March 2013.

In 2011 exploration wells Gajah Laut Utara-1 and Belut Laut-1 were drilled in the Tuna PSC to test the Miocene and Oligocene potential of two prospects. The wells did not find commercial hydrocarbons but, utilising the information gained, two new prospects, Kuda Laut and Singa Laut, were matured in 2012. These prospects are approved for drilling in 2013 with the Kuda Laut-1 and Singa Laut-1 wells expected to spud in the second half of the year.

During the year Premier maintained an active programme of exploration new ventures work aimed at capturing new licences. This work entailed a number of regional basin studies as well as three formal joint studies carried out in conjunction with the Indonesian Government agency MIGAS.

Outlook /

- Project sanction of Block A Aceh in 2013
- Block A total sales capacity increasing to 400 BBtud; Pelikan and Naga expected on-stream in 2014
- Active exploration programme with the upcoming Kuda and Singa Laut wells on the Tuna Block
- 2014 drilling campaign targeting the new Lama play following up on the success at Anoa Deep

Norway

PREMIER WAS AWARDED FOUR NEW EXPLORATION LICENCES IN JANUARY 2012 AS A RESULT OF THE AWARDS IN PREDEFINED AREAS (APA) 2011 ROUND AND CONTINUED TO MATURE A NUMBER OF PROSPECTS TOWARDS DRILL DECISIONS IN 2013. THE COMPANY ALSO BUILT ON ITS ACREAGE POSITION IN AND AROUND THE MANDAL HIGH AREA THROUGH THE ACQUISITION OF THREE OPERATED LICENCES, WHICH COMPLETED IN FEBRUARY 2012, AND THE AWARD OF THE SKALA EXPLORATION LICENCE IN THE APA 2012 ROUND. IN ADDITION, THE COMPANY INCREASED ITS INTEREST IN THE BREAM FIELD DEVELOPMENT AND THE ADJACENT BLOCK AT ATTRACTIVE PRICING.

Highlights and achievements /

- Completed agreement with Skeie to increase equity in Bream to 40 per cent
- Completed acquisition of three operated exploration licences on the margin of the Mandal High
- Built further on Mandal High position through the APA 2012 Licensing Round

Chris Craft
Business Unit Manager
Premier Oil Norway

"The Norway Business Unit is focused on bringing on-stream the developments which meet our internal metrics while pursuing high impact exploration. We also continue to seek to actively manage our portfolio, both through acquisitions and disposals."

Active exploration

DEVELOPMENT //

In August, Premier acquired a 20 per cent interest in PL407, which contains the Bream field, and a 40 per cent equity interest in the adjacent PL406 licence. This increased Premier's share in the Bream project to 40 per cent and the company's operated interest in PL406, which contains the Mackerel oil discovery and the Herring exploration prospect, to 80 per cent. Premier paid an upfront consideration of US$10 million with further payments of up to US$17.5 million contingent upon certain milestones being reached.

Engineering studies for the subsea systems and wells for Bream were completed during 2012 but the studies carried out for the lifetime extension and upgrade of the FPSO targeted for the field demonstrated that the vessel was not suitable. The joint venture partnership has investigated alternative production facility options and a new build vessel has been identified. Commercial negotiations are under way with the contractor for this vessel and it is expected that front end engineering studies will start in the second quarter of 2013.

During 2012, Premier completed subsurface evaluations for the Mackerel discovery. Based on the results, a subsea tie-back to the Bream FPSO is the most economic solution. An exploration well on the adjacent prospect, Herring, is also planned to be drilled as part of the development project.

Project sanction and submission of development plans to the authorities for the Bream development are expected in early 2014. First oil is targeted for 2017 with an initial production rate of approximately 14,000 boepd net to Premier.

Elsewhere in Norway, commercial discussions have been held with field owners in the Frøy area with the intent of developing a central processing hub for a number of discoveries close to Frøy. This has proved a slow process, however the pace is expected to pick up in 2013 with equity alignment discussions taking place with the operator of a nearby field.

Norway continued

EXPLORATION //

Work continued in 2012 to evaluate the Grosbeak discovery in PL378. The partnership is participating in an area forum that is evaluating the best way of developing the resources in the area. In addition, a significant oil discovery (Skarfjell) was made in the adjacent licence in 2012. Current mapping indicates that a significant portion of Skarfjell extends into PL378 and preparations for appraisal drilling have been initiated.

In February 2012, Premier completed its acquisition of three operated exploration licences. These licences are close to Premier's existing Freki licence and are on the margin of the Mandal High in the Southern Norwegian North Sea. Evaluation of this acreage has so far resulted in a drill recommendation being brought forward to our partners in PL539 and we are awaiting a decision shortly. Premier built further on its acreage position in and around the Mandal High through the APA 2012 Licensing Round in which it was awarded a 20 per cent operated interest in the Skala exploration licence in January 2013. As a result, Premier now has access to around 200 mmbbls of net prospective resources on and around the Mandal High.

In the operated licence PL622 a 3D survey was successfully acquired during the summer in co-operation with PGS.

Looking forward, the Luno II exploration well in PL359 in the North Sea offshore Norway spudded in March 2013 and the results of the well are expected by the end of April. The well is looking to prove up the Jurassic reservoir sandstones to the south of the Edvard Greig field and is targeting a gross mean unrisked prospective resource of 120 mmboe.

Outlook /

- Bream project sanction planned for early 2014 with first oil targeted for 2017
- Focus on portfolio management
- High impact Luno II well to be drilled in 2013
- Maturing play-opening prospects on the Mandal High for drilling in 2014/15

Pakistan

NATURAL DECLINE IN PRODUCTION FROM OUR PRODUCING FIELDS IN PAKISTAN HAS AGAIN BEEN MORE THAN OFFSET BY SUCCESSFUL INFILL DRILLING AND STEP-OUT EXPLORATION. FURTHER POTENTIAL WILL BE TESTED DURING 2013. PREMIER IS ALSO SEEKING, THROUGH A PROGRAMME OF PILOT WELLS AT KADANWARI, TO TEST THE TIGHT GAS POTENTIAL IN DEEPER HORIZONS.

Mehran Inayat Mirza
Business Unit Manager
Premier Oil Pakistan

Highlights and achievements /

- Enhanced value of Pakistan assets through ongoing field development and compression upgrade projects
- Exploration success at K-30 and Badhra B North-1

"Due to the extremely successful infill drilling programme, well workovers and compression projects, production from our Pakistan assets continue to increase."

PremierOil

Infield development successes

PRODUCTION AND DEVELOPMENT //

Average working interest production in Pakistan during 2012 was 15,600 boepd net to Premier, three per cent higher than in 2011 (15,100 boepd), despite the start of natural production decline in some existing wells. The higher production was mainly due to successful infill drilling and the tie-in of exploration and development wells in the Kadanwari and Bhit/Badhra gas fields.

Production from the Qadirpur gas field was broadly stable in 2012, averaging 3,700 boepd net to Premier compared to 3,750 boepd in 2011. This was due to the good performance of the wellhead compressors and to the better than expected support from the extended reach wells drilled in the northern part of the reservoir. Specifically, the development wells QP-44, QP-45, QP-46 and HRL-6 were successfully drilled, completed and tied-in to production in 2012 while QP-48 and QP-49 are currently being drilled. In addition, the Government of Pakistan has approved a new price for Qadirpur gas, increasing it by 11 per cent, applicable with effect from December 2012.

Production from the Kadanwari gas field averaged 2,600 boepd net to Premier during 2012, 27 per cent higher than in 2011. This was as a result of sustained production from K-19 and the increase in field production following the tie-in to facilities of the successful exploration wells K-27 and K-28 and the K-29 development well.

The pilot programme at Kadanwari to test the tight gas potential in the Lower Goru formation is ongoing. The K-3 DirB vertical well has been tested and is currently being tied-in to the facilities while the testing of the K-1 DirA vertical well commenced in January. Six tight sand intervals were fracked and tested separately at the K-3 DirB well with total initial flow of 3.4 mmscfd which reduced to 1.8 mmscfd upon clean up. This proved that all the tight intervals in the Kadanwari area can flow gas after fracking, while the G-Sand and B-Sand have demonstrated relatively better flow potentials. These two intervals are being tested in the K-1 DirA well where preliminary results are encouraging as the G-Sand flowed 0.5 mmscfd prior to clean up. All fracked B-Sand intervals also flowed gas to the surface while rates are likely to improve after further rigless clean up. The G-Sand will be targeted in the K-31H horizontal pilot well in 2013.

The Zamzama gas field produced 5,800 boepd net to Premier during 2012 (2011: 5,800 boepd). This was mainly due to continuous good performance of front-end compressors and the Zam-8 infill well being tied-in ahead of schedule. Sub-surface studies were completed in early 2012, following which two infill wells, Zam 8 and Zam 9, were drilled back-to-back in the second half of the year. While the Zam-8 infill well was tied-in to the system in November, first gas from the Zam-9 infill well was achieved in January 2013.

Production from the Bhit/Badhra gas fields was stable in 2012, averaging 3,500 boepd net to Premier. This was mainly due to the successful drilling and tie in of the Badhra B North-1 exploration well. In addition, the Bhit-15 development well, which was spudded on 4 November, was tied-in to the facilities in January 2013, further helping to offset the natural decline from the existing wells on the Bhit/Badhra gas fields.

A revised development plan for the Zarghun South gas field was submitted to the Pakistan Government in May 2012 following certification of 64 bcf of tight gas in the Dunghan formation and 12 bcf of conventional gas in the Chiltan/Mughalkot formations by independent consultants DeGolyer and MacNaughton. The revised development plan has been approved for application of premium 'Tight Gas Policy' prices and, as a result, the joint venture commenced development work on the project early in 2013. All costs pertaining to Premier's 3.75 per cent interest in the project are carried by the operator.

Pakistan continued

EXPLORATION //

Two exploration wells, K-30 on the Kadanwari gas field, and Badhra B North-1 (BBN-1) on the Badhra gas field, were drilled in 2012. Both wells were successful and have subsequently been tied-in to infrastructure.

The K-30 exploration well was spudded in January 2012 and tested gas with a flow rate of 52 mmscfd through a 60/64 inch choke. The well was tied-in to the system in April 2012. Following this better than expected result, two more wells are planned in 2013 in the eastern part of the existing lease.

The BBN-1 well was drilled in September 2012 and made a significant gas discovery in the Kirthar Foldbelt. The well was drilled to a total depth of 2,450 metres and encountered a new sand interval, 44 metres thick, in the Mughalkot reservoir formation which tested gas at a flow rate of 31 mmscfd. The well was tied-in to the Bhit facilities in November. The joint venture has agreed to drill an appraisal well, Badhra B North-1 West, in the second quarter of 2013 to assess the full potential of the 100 bcf discovery as part of an appraisal programme submitted to the government. The planned Badhra-6 development well will be deepened in 2013 to test the potential of the Parh Limestone. In addition, the Badhra South-1 Deep exploration well will be drilled in 2013 to test the potential of a deeper lead at the Lower Goru level.

Outlook /

- Continue the infield development programme
- Ongoing near field exploration drilling planned for 2013
- Three well pilot project to evaluate the tight gas potential at Kadanwari to be completed in 2013

Mauritania

PRODUCTION AND DEVELOPMENT //

In Mauritania, 2012 working interest production from the Chinguetti field averaged 600 bopd (2011: 650 bopd) with a natural decline in the field production.

The undeveloped discovery, Tevet, in PSC B will continue to be held by the joint venture partners until May 2013, development studies are on-going to make a 'develop or drop' decision.

In September 2012, the joint venture submitted an application for grant of an Exclusive Exploitation Authorisation (EAA) for the Banda field along with a gas field development plan (FDP) and Declaration of Commerciality to the Government of Mauritania, subject to various conditions precedent. Subsequently, the government has approved the FDP and awarded the EAA in January 2013. Gas sales arrangements and payment guarantees for Banda are currently under discussion with prospective buyers.

The Tiof discovery was relinquished in November 2012, being sub-commercial, with a request to the government that the partnership group is re-engaged in the event of a future satellite development of the field.

EXPLORATION //

The consolidation of Premier's exploration licences offshore Mauritania was finalised in 2011 with the grant of a new licence, PSC C-10, in which Premier has an equity of 6.23 per cent. Site surveys were completed over two potential drilling locations, and a final decision on the candidate for the first of two commitment wells will be made in the first half of 2013. The well is scheduled for drilling in the fourth quarter of 2013.

United Kingdom

THE PIPELINE OF DEVELOPMENT PROJECTS IN OUR UK PORTFOLIO WILL DRIVE CONTINUING GROWTH FOR A NUMBER OF YEARS. OUR PRINCIPAL FOCUS WILL BE THE SUCCESSFUL EXECUTION OF THESE PROJECTS. WE WILL ALSO PURSUE EXPLORATION OPPORTUNITIES WHERE THE BALANCE OF RISK AND REWARD MEETS IN-HOUSE OBJECTIVES.

Highlights and achievements /

- Significantly higher uptime at the Premier-operated Balmoral facility
- Project sanction of the operated Solan development
- Catcher development concept formally agreed
- Exploration success at Carnaby (Catcher area)

Mike Skitmore
Business Unit Manager
Premier Oil UK

"In the UK, we have a full suite of operated and non-operated exploration, development and production activities. The next generation of UK development projects will drive the company's continuing growth in the medium-term and our key focus will be on delivering the Solan and Catcher projects."

PremierOil

Strong production growth

PRODUCTION AND DEVELOPMENT //

Production from Premier's UK fields increased to 12,100 boepd compared to 10,300 boepd during 2011 despite no contribution from the Kyle field. The Banff FPSO, which handles Kyle production, was damaged during exceptionally bad weather at the end of 2011. Since then it has been off location while repairs are undertaken. The increased production in the North Sea can be attributed to significantly higher uptime at the Balmoral facility, positive results from the Scott field well intervention programme and our increased stake in the Wytch Farm asset.

Production from Premier's Balmoral area averaged 4,500 bopd during 2012 compared to 3,750 bopd in 2011. An active year of work culminated in a highly successful Health, Safety and Environment (HSE) KP4 audit during August, in which a significant improvement in overall integrity was noted. Safety performance at the Premier-operated Balmoral floating production vessel also improved in 2012 with a marked reduction in incident frequency and severity.

At the end of 2011, Premier increased its equity in the Wytch Farm field to 30.1 per cent. Upgrades to the process plant and improvements to management systems have facilitated increased production efficiency. An infill drilling programme commenced in February 2012, ahead of schedule, and has resulted in the completion of three new wells and seven workovers.

On the Huntington field the six well development programme was successfully completed in July 2012 with three of the four producers coming in above expectations. The FPSO Voyageur Spirit sailed away in September and all five risers have subsequently been installed. Adverse weather conditions late in the fourth quarter delayed the commissioning and installation programme. However, the DSV Polaris is nearing completion of the final subsea tie-in in preparation for first oil, which is anticipated by the end of March.

On the Rochelle project the subsea pipeline and umbilical installation programme and upgrades to the host Scott platform were successfully progressed in 2012. The East Rochelle well, the first of the two development wells, was damaged during a North Sea storm in February 2013. As a result, drilling operations were suspended safely pending further analysis and the order of the development wells was reversed with the Prospect rig spudding the West Rochelle well in February. First gas from the Rochelle field is now expected either at the end of the second quarter or in the third quarter of 2013.

Significant progress was achieved on our UK-operated development assets. Premier was appointed operator of the Solan field, which is located West of Shetland, on 31 January 2012. The Solan project received full DECC and partner approvals in April 2012 and is now in full execution mode with all of the significant contracts awarded. The platform is currently being fabricated in Fife, Scotland while the fabrication of the subsea tank is being undertaken in Dubai. Phase 1 of the development drilling is on track to commence in April 2013; the heavy lift installation work is planned for the summer of 2014. First oil is targeted for the fourth quarter of 2014 with an initial production rate of 24,000 bopd (Premier equity 60 per cent).

In January 2012, Premier completed its acquisition of EnCore Oil plc which resulted in the company taking over operatorship of the Catcher project and increasing its stake in the project to 50 per cent. The development concept, which was formally approved by the joint venture in December, consists of a leased FPSO with subsea tie-backs. The project has now entered the design phase and the tender process with the FPSO providers and for the subsea facilities front end engineering and design (FEED) is under way. The design phase is expected to be completed in the third quarter of 2013 and it is anticipated that the partnership will move to joint venture sanction thereafter. Timing of first oil from the Catcher field is dependent on the results of the FPSO tender process. Premier is currently modelling a first oil date during the second half of 2016.

United Kingdom continued

EXPLORATION //

In 2012, Premier drilled seven exploration wells in the UK North Sea, primarily focused on extending the successes of previous years' drilling in the Catcher licence across a wider area of the Central North Sea basin. This resulted in success with the Carnaby well, the first well drilled to date on the western part of the Catcher Block, which encountered 51 feet of net oil in excellent quality sandstones. The remaining UK exploration wells that targeted this play in 2012 were either dry or encountered non-commercial discoveries. As a result, the strategy will now focus exclusively on the prospectivity within the Greater Catcher area. In particular, the Bonneville well spudded in early March with the results expected shortly.

In addition to Bonneville, Premier will drill one other well, Lacewing, in the UK Central North Sea in 2013. Lacewing is targeting Triassic reservoirs and is Premier's first high pressure high temperature (HPHT) well. In 2012, Premier transferred a 37.2 per cent interest in Block 23/22b to ConocoPhillips in exchange for a carry for the Lacewing well. As a result, Premier's retained equity in the well is 20.2 per cent. The well, which will be drilled using the Maersk Resilient rig, is expected to spud in April.

In the 27th UK Licensing Round, the company was awarded a total of 12 licences (six operated), building on our acreage position in the UK North Sea. In particular, Premier was awarded four operated licences adjacent to the Catcher area, which offer both near-field and deeper exploration potential. In addition, Premier reached an agreement with EnCounter Oil (the former management team of EnCore Oil plc) jointly to pursue several Mesozoic prospects and leads, primarily in the Inner Moray Firth. Premier also secured a non-operated licence interest in the west of Shetland Basin. It is anticipated that the leads and prospects identified on this newly captured acreage will be matured during 2013, with drilling in 2014 and beyond.

Outlook /

- Huntington and Rochelle expected on-stream in 2013
- Catcher project sanction anticipated by year-end 2013
- Selective exploration programme; upcoming wells include Bonneville (Catcher area) and Lacewing (Premier's first HPHT well)

Vietnam

THERE IS MUCH STILL TO BE GAINED FROM OPTIMISATION OF THE CHIM SÁO AND NEARBY DUA OIL FIELDS. WE WILL CONTINUE TO TEST THE PROSPECTIVITY ON BLOCK 07/03 TO THE SOUTH OF CHIM SÁO AND LOOK FORWARD TO THE CA VOI EXPLORATION WELL IN THE FIRST HALF OF 2013, A POTENTIAL PLAY-OPENER FOR THE UNDER-EXPLORED PHU KHANH BASIN.

Highlights and achievements /

- Production from Chim Sáo ahead of expectation at sanction
- Partner and Prime Ministerial approval of Dua project
- Farm-in to Block 121, which contains the potentially play-opening Ca Voi prospect, completed

Phil MacLaurin
Business Unit Manager
Premier Oil Vietnam

"In Vietnam we are focused on optimising production from the Chim Sáo field and bringing on-stream the nearby Dua field. We also look forward to the Ca Voi exploration well, a potential play-opener for the under-explored Phu Khanh basin."

PremierOil

Optimising Chim Sáo production

PRODUCTION AND DEVELOPMENT //

The Premier-operated Chim Sáo field was brought on-stream at the end of 2011 and the first full-year of oil and gas production from the field was accomplished safely. 2012 production from the field averaged 15,200 boepd (net to Premier), ahead of the original development plans. The price of oil cargoes sold from the field during the year averaged in excess of US$4.50 per barrel (/bbl) over Brent.

The Chim Sáo development drilling programme, which comprised nine producing wells and six injection wells, was completed safely and under budget in April 2012. This programme was followed by three additional wells aimed at capturing upside resources identified during development. Two wells were targeted at a fault terrace to the north west of the field: one was successful and commenced production at approximately 3,000 bopd in August; the second well, targeting a separate fault segment to the north, was dry. Separately, a third well was drilled to accelerate production from a shallow reservoir with larger reserves than initially evaluated and was brought on-stream in September at a rate of about 2,000 bopd.

The Chim Sáo field is currently producing 30 thousand barrels of oil per day (kbopd), some 5 kbopd ahead of expectation at sanction, with potential for further increases to deliverability when power constraints currently impacting the FPSO are resolved. The plan is to add power generation capacity to allow the water injection pumps to sustain reservoir pressure at higher production levels, and the compressors to export higher volumes of associated gas.

The development of the Premier-operated Dua oil field as a three well subsea tie-back to the Chim Sáo facilities received partner sanction in the second quarter of 2012 and Prime Ministerial approval in August. Installation of the main pipeline commenced in February 2013. The field, which is forecast to average a gross production rate of 8-10 kboepd in the first 12 months, is expected on-stream in 2014.

Vietnam continued

EXPLORATION //

In July 2012, Premier agreed to farm-in to the Origin Energy-operated Block 121, in the northern part of the under-explored Phu Khanh Basin, offshore central Vietnam, for a 40 per cent working interest. The farm-in received government approval in February 2013. Premier will pay its participating interest share in the drilling of the high risk Ca Voi prospect which is planned for May 2013. The prospectivity of Block 121 centres on the untested Oligocene play fairway which Premier recognises as being geologically similar to the Cau formation that it has successfully explored in Blocks 12W and 07/03 in the Nam Con Son Basin.

Immediately after the high risk Ca Voi well, the Ocean General will move to drill CRD-3X, which will appraise the Cá Rồng Đỏ (CRD) discovery, on Block 07/03. The rig will then move to spud the wildcat exploration well on the Silver Sillago prospect also on Block 07/03 in mid-2013. The well, 07-CD-1X, will evaluate the petroleum potential of a new sub-basin within the overall Nam Con Son Basin. The Ocean General will then move to Indonesia where it will spud the Kuda Laut well on the Premier-operated Tuna Block.

Outlook /

- Optimising production from Chim Sáo
- Dua expected on-stream in 2014
- CRD appraisal well to be drilled in 2013
- Play-opening Ca Voi well to be drilled in 2013

New Country Entry – Exploration

IN ADDITION TO EXPLORATION IN THE EXISTING BUSINESS UNIT AREAS, PREMIER LOOKS TO OPEN UP NEW FRONTIER GEOGRAPHIES IN TARGETED NEW COUNTRIES WHERE THE GEOLOGY IS ASSESSED TO BE SIMILAR TO THAT OF THE EXISTING BUSINESS UNITS WHERE PREMIER HAS BUILT EXPERTISE.

Andrew Lodge
Exploration Director

2012 Highlights and achievements /

- Acquired 5,000 square kilometres of new 3D seismic across the western part of our Kenya acreage
- Successful entry into Southern Iraq, one of the world's most prolific basins
- Gained a significant acreage position in the relatively un-drilled, highly prospective North Falklands Basin through the acquisition of 60 per cent of Rockhopper's licence interests
- In total, added in excess of 1 bnboe of gross unrisked prospective resources through new country entry

"Premier is building an increasingly material exploration programme. Our biggest achievement in 2012 was to rebalance the portfolio through the addition of in excess of 1 bnboe of gross unrisked prospective resources through new country entry. We continue to look for opportunities in new countries which meet our criteria of delivering play-opening opportunities with significant follow-on potential."

PremierOil

High impact opportunities

The acreage recently accessed by Premier in new areas is dominated by deepwater environments where an exploration success has the potential to transform the resource base of the company. To date Premier has exposure to frontier exploration acreage in selected areas of Africa and the Middle East. We continue to evaluate new areas for potential entry in 2013.

In East Africa, Premier has equity interests in two blocks offshore Kenya, Blocks L10A and L10B. Processing and interpretation of 2D and 3D seismic data on these blocks continued throughout 2012, and a new 2,250 km² 3D seismic acquisition programme took place over the western part of the blocks in late 2012. A prospect inventory is being prepared with a view to drilling the first exploration well in 2014 or potentially in the fourth quarter 2013.

In November 2012, Premier was formally awarded a 30 per cent non-operated interest in Iraq's Block 12. Block 12, an 8,000 square kilometre block in the foreland of the Zagros fold belt up dip from producing fields, lies in a frontier part of one of the world's more prolific oil and gas basins. The forward plan on Block 12 is to reprocess the existing seismic data in 2013 and then acquire new seismic data in 2014. Subject to the interpretation of the new seismic an exploration well will be drilled in 2015 or 2016.

In Egypt, following the drilling of the Cherry prospect in the North Red Sea-1 licence in 2011, Premier has decided to relinquish its equity share of the licence. Premier has also withdrawn from the South Darag Block in the Gulf of Suez, due to the lack of formal government approval of the licence award.

Premier's exploration rights in the Daora, Haouza, Mahbes, Mijek and Laguara Blocks offshore the Saharawi Arab Democratic Republic (SADR) remain under force majeure, awaiting resolution of sovereignty under a United Nations mandated process.

New Country Entry – Exploration continued

IRAQ EXPLORATION //

KENYA EXPLORATION //

Outlook /

- First exploration well on our Kenya acreage to be drilled in 2014 or potentially in the fourth quarter of 2013
- Minimum three well exploration programme in the North Falklands Basin planned for 2014/15. Potential wells include play-opening wells targeting prospects beneath the existing Sea Lion sands, prospects from independent feeder systems along the east flank of the basin, as well as Sea Lion look-alike prospects
- Maturing play-opening prospects in Block 12 in Iraq for 2015 drilling
- Continue to look for opportunities in new countries which can deliver either high impact prospects or play-opening opportunities with significant follow-on potential

FINANCIAL REVIEW

Tony Durrant
Finance Director

"Profit after tax is a record US$252.0 million resulting in basic earnings per share of 47.9 cents"

Economic background

Oil prices for the year as a whole were unusually stable, averaging US$111.7/bbl against US$111.3/bbl for 2011, and trading in a range of US$126.7/bbl to US$88.7/bbl. Premier's portfolio of crudes traded at a weighted average of US$3.5/bbl premium to Brent, boosted by favourable prices for our Chim Sáo crude in the Asian markets. Premier's average realisations for the year were US$111.4/bbl (2011: US$111.9/bbl) influenced by the timing of actual crude oil liftings. After taking into account the effect of hedging contracts, this reduced to US$107.5/bbl (2011: US$89.6/bbl).

Average gas prices for the group were US$8.34 per thousand standard cubic feet (mscf) (2011: US$8.51/mscf). Gas prices in Singapore, linked to High Sulphur Fuel Oil (HSFO) pricing and in turn, therefore, linked to crude oil pricing, averaged US$18.7/mscf (2011: US$19.5/mscf). Average prices for Pakistan gas (where only a portion of the contract formulae is linked to energy prices) was US$4.3/mscf (2011: US$3.8/mscf).

Income statement

Production in 2012 averaged 57.7 kboepd (2011: 40.4 kboepd) on a working interest basis. On an entitlement basis, which under the terms of our PSCs allows for additional government take at higher oil prices, production was 51.6 kboepd (2011: 37.7 kboepd). Working interest gas production averaged 180 mmscfd (2011: 153 mmscfd) or approximately 54 per cent of total production.

Total sales revenue from all operations reached a new record level of US$1,408.7 million (2011: US$826.8 million), driven by higher production and the sustained high oil prices. Cost of sales rose to US$742.4 million (2011: US$414.9 million). Unit operating costs were US$16.2 per barrel of oil equivalent (boe) (2011: US$15.9/boe) and amounted to US$342.4 million (2011: US$235.2 million). The operating costs per boe in Pakistan and Indonesia remained stable, increased marginally in the UK and were significantly reduced in Vietnam due to one-off production start up costs in the prior year. Underlying unit amortisation (excluding impairment) rose to US$16.4/boe (2011: US$13.8/boe) reflecting increased production from Vietnam, which has a higher amortisation charge per boe compared to the group average.

Exploration expense and pre-licence expenditure costs amounted to US$157.7 million (2011: US$187.5 million) and US$29.2 million (2011: US$23.0 million) respectively. This includes the write-off of the following exploration wells: a Chim Sáo North West well in Vietnam; Benteng in Indonesia, and the Spaniards, East Fyne, Stingray, Cyclone, Bluebell and Coaster wells in the UK North Sea. Net administrative costs were US$24.2 million against 2011 of US$25.8 million.

Operating profits were US$455.2 million (2011: US$175.6 million). Finance costs and other charges, net of interest revenue and other gains, were US$107.6 million (2011: US$68.1 million). The increase reflects historically low levels of interest rates on cash deposits, increased gross debt levels to fund development projects in Asia and the UK, and in the latter parts of 2012, the US$231.0 million funding for the acquisition of the Sea Lion discovery in the Falkland Islands. The charge for the unwinding of the discounted decommissioning provision increased to US$33.2 million (2011: US$28.3 million) reflecting increased provisions for future decommissioning as industry cost estimates rise.

Pre-tax profits of US$359.9 million (2011: US$141.5 million) also show a positive adjustment of US$14.2 million in respect of the group's commodity hedge portfolio (2011: US$34.0 million). This represents the unwinding of prior year provisions in respect of our embedded oil hedging programme, which finished at the end of 2012.

production

kboepd

58

The group tax charge for 2012 is US$107.9 million, an effective tax rate of 30 per cent of our profit before tax. The group's theoretical tax rate is close to 50 per cent, a higher taxation rate in the UK being offset by lower rates in Vietnam and Pakistan. The 2012 tax charge is reduced as a result of a deferred tax credit in the UK, arising from the Ring Fence Expenditure Supplement (RFES) allowance and the small field allowance for the group's Solan field. The group has an estimated US$1.9 billion of carried forward UK corporation tax allowances, which will be utilised against UK ring fence profits over time, and are therefore reflected in the deferred tax asset position at the year-end.

Profit after tax is a record US$252.0 million (2011: US$171.2 million) resulting in basic earnings per share of 47.9 cents (2011: 36.6 cents).

Dividend

The Board is proposing a dividend of 5 pence per share (2011: nil). This dividend is subject to shareholder approval at the Annual General Meeting to be held in London on 7 June 2013. If approved, the dividend will be paid on 14 June 2013 to shareholders on the register as of 17 May 2013.

Cash flow

Cash flow from operating activities was US$808.2 million (2011: US$485.9 million) after accounting for tax payments of US$233.1 million (2011: US$44.0 million). The higher cash flow and tax payments reflect increased production in Gajah Baru, Indonesia and Chim Sáo, Vietnam.

reserves

mmboe

292

Capital expenditure in 2012 totalled US$771.6 million (2011: US$660.5 million).

Capital expenditure (US$ million)	2012	2011
Fields/development projects	**569.0**	428.1
Exploration and evaluation	**187.1**	228.2
Other	**15.5**	4.2
Total	**771.6**	660.5

The principal field and development projects were Solan, Huntington and Rochelle in the UK, Naga and Pelikan in Indonesia and Dua in Vietnam, together with drilling and compression projects in Pakistan.

Exploration and evaluation spend includes costs principally related to the exploration drilling activities in the UK, Vietnam, Pakistan and Norway.

resources

mmboe

481

Acquisitions and disposals

In January, the company completed the acquisition of EnCore Oil plc (EnCore). Shareholders representing 93.5 per cent of EnCore's shares elected to take new Premier shares, resulting in the company paying a total of £14.1 million (US$21.6 million) in cash to EnCore shareholders and issuing 60,931,514 new Ordinary Shares to those who elected to take the share alternative.

Prior to completion of the EnCore transaction, the company reached an agreement to on-sell the 16.6 per cent interest in the Cladhan area, which it acquired via the EnCore acquisition, for an adjusted consideration of US$52.4 million. This on-sale was completed in March 2012.

FINANCIAL REVIEW (continued)

profit after tax

million

US$252

In May, Premier agreed to acquire a 20 per cent interest in PL407 and a 40 per cent interest in the adjacent PL406 licence on the Norwegian Continental Shelf. These interests increased Premier's share of the Bream development project to 40 per cent and the company's operated interest in PL406 to 80 per cent. PL406 contains the Mackerel discovery and the Herring prospect, which could form part of the Bream area development in the future. Upfront consideration for the acquisition was US$10.0 million with contingent payments of US$17.5 million payable upon certain project outcomes. The acquisition was completed in July 2012.

Also in July, Premier announced it had agreed to farm-in to 60 per cent of Rockhopper's licence interests in the Falkland Islands, including the Sea Lion development project. The initial payment was US$231 million in cash. In addition, Premier will pay an exploration carry of up to US$48 million and, subject to field development plan approval, a development carry of up to US$722 million. Premier has also agreed to provide additional stand-by funding to complete the project. In the event that Rockhopper chooses to draw down on this facility, Premier will take an enhanced share of entitlement production and cash flows from the Sea Lion and related fields. This enhanced share continues until Premier realises a 15 per cent post tax internal rate of return on its investment. Thereafter cash flows are shared pro-rata to equity interests. Premier's investment in Sea Lion and related fields will be funded from a combination of Premier's existing cash resources and facilities and future cash flow from operations. Premier and Rockhopper have also agreed to pursue jointly exploration opportunities in the Falkland Islands and analogous plays in selected areas offshore Southern Africa. The transaction, accounted for as an asset purchase, was completed in October 2012.

operating cash flow

million

US$808

Balance sheet position

Net debt at 31 December 2012 amounted to US$1,110.4 million (2011: US$744.0 million), with cash resources of US$187.4 million (2011: US$309.1 million).

Net debt (US$ million)	2012	2011
Cash and cash equivalents	**187.4**	309.1
Convertible bonds	**(220.2)**	(228.2)
Other debt*	**(1,077.6)**	(824.9)
Total net debt	**(1,110.4)**	(744.0)

* Other debt includes €100.0 million of long-term senior notes, which are valued at year-end US$1.319:€ spot rate. However these will be redeemed at an average of US$1.397:€ due to cross currency swap arrangements.

In February 2012, additional bank facilities of US$350.0 million were negotiated and a second issue of senior loan notes was completed. This second issue, with maturities of seven, 10 and 12 years, amounted to US$202.0 million and €25.0 million. A US$175.0 million term bank loan was repaid during March 2012.

In October 2012, further to an offer from the company, holders representing 98.13 per cent of the total principal amount of the US$250.0 million guaranteed convertible bonds due in 2014 (representing a principal amount of approximately US$245.3 million) elected to exchange their existing bonds for guaranteed convertible bonds due in July 2018. The new bonds have a conversion price of US$7.00 (£4.34) per share and a coupon of 2.5 per cent. This compares with the old convertible bonds, which had a conversion price of US$6.69 per share and a coupon of 2.875 per cent. Following completion of the Exchange Offer, Premier exercised its right under the terms and conditions of the old bonds to redeem the remaining outstanding bonds (in an aggregate amount of approximately US$4.7 million) at par plus accrued interest.

Cash and undrawn facilities, including letter of credit facilities, were approximately US$1,100 million at 31 December.

capital investment

million

US$772

cash and undrawn facilities

million

US$1,100

Financial risk management

Commodity prices

The Board's commodity pricing and hedging policy continues to be to lock in oil and gas prices for a proportion of expected future production at a level which ensures that investment programmes for sanctioned projects are adequately funded. Where investment requirements are well covered by cash flows without hedging, it is recognised that there may be an advantage, in periods of strong commodity prices in locking in a portion of forward production at favourable prices on a rolling forward 12-18 month basis.

At year-end, therefore 3.0 million barrels of Dated Brent oil were hedged through forward sales for 2013 at an average price of US$109.0/bbl. This volume represents approximately 25 per cent of the group's expected liquids entitlement production in 2013. 48,000 metric tonnes (mt) of HSFO, which drives our gas contract pricing in Singapore, was subject to collars covering the period to mid-2013 with a cap of US$500/mt (equivalent to around US$85/bbl). An additional 96,000 mt have been sold under monthly forward sales contracts for 2013 at an average price of US$657/mt. These two hedges cover approximately 32 per cent of our expected Indonesian gas working interest production for 2013.

During 2012, embedded oil price collars and forward oil sales of 3.9 million barrels, and fuel oil collars and forward sales for 246,000 mt expired at a cost of US$60.7 million (2011: US$119.1 million) which has been offset against sales revenue.

Oil hedge collars are incorporated within the pricing terms of physical off take agreements, avoiding the requirement to revalue them for accounting purposes. A credit of US$9.6 million (2011: US$28.0 million) occurred in respect of past mark-to-market provisions for oil hedges, which have now fully expired.

Foreign exchange

Premier's functional and reporting currency is US dollars. Exchange rate exposures relate only to local currency receipts, and expenditures within individual business units. Local currency needs are acquired on a short-term basis. During the year, the group recorded a gain of US$1.5 million on such short-term hedging (2011: loss of US$0.4 million). In 2012, the group also issued €25.0 million long-term senior loan notes which have been hedged under a cross currency swap in US dollars at a fixed rate of US$1.328:€.

Interest rates

Although the group's borrowing facilities are defined in floating rate terms, a majority of its current drawings have been converted to fixed interest rates using the interest rate swap markets. On average, therefore, the cost of drawn bank funds for the year was 4.6 per cent. Mark-to-market movements on these interest rate swaps amounted to US$2.5 million (2011: charge of US$6.4 million), which was credited to other comprehensive income.

Cash balances are invested in short-term bank deposits and AAA rated liquidity funds, subject to Board approved limits and with a view to spreading counterparty risks.

Insurance

The group undertakes a significant insurance programme to reduce the potential impact of physical risks associated with its exploration, development and production activities. Business interruption cover is purchased for a proportion of the cash flow from producing fields for a maximum period of 18 months. Due to exceptionally bad weather in December 2011, the Banff FPSO – which handled Kyle production – lost its anchors and the risers were severely damaged, stopping Kyle production for the foreseeable future. A claim for business interruption insurance and property damage is being negotiated with the underwriters.

FINANCIAL REVIEW (continued)

acquisitions

million

US$268

Going concern

The group monitors its capital position and its liquidity risk regularly throughout the year to ensure it has sufficient funds to meet forecast cash requirements. Sensitivities are run to reflect the latest expectations of expenditures, forecast oil and gas prices, and other negative economic scenarios. This is done to manage the risk of funds shortfalls or covenant breaches and to ensure the group's ability to continue as a going concern.

Despite economic volatility, the Board consider the expected operating cash flows of the group and the headroom provided by the available borrowing facilities give them confidence that the group has adequate resources to continue as a going concern. As a result, they continue to adopt the going concern basis in preparing the 2012 Annual Report and Financial Statements.

Business risks

Premier's business may be impacted by various risks leading to failure to achieve strategic targets for growth, loss of financial standing, cash flow and earnings, and reputation. Not all of these risks are wholly within the company's control and the company may be affected by risks which are not yet manifest or reasonably foreseeable.

Effective risk management is critical to achieving our strategic objectives and protecting our assets, personnel and reputation and therefore Premier has a comprehensive approach to risk management.

A critical part of the risk management process is to assess the impact and likelihood of risks occurring so that appropriate mitigation plans can be developed and implemented. Risk severity matrices are developed across Premier's business to facilitate assessment of risk. The specific risks identified by departments, project teams, corporate functions and business units are consolidated to provide an oversight of key risk factors at each level, from operating level through business unit management to Executive Committee and the Board.

For all the known risks facing the business, Premier attempts to minimise the likelihood and mitigate the impact. According to the nature of the risk, Premier may elect to tolerate risk, treat risk with controls and mitigating actions, transfer risk to third parties, or terminate risk by ceasing particular activities or operations. Premier has a zero tolerance to financial fraud or ethics non-compliance, and ensures HSES risks are managed to levels as low as reasonably practicable whilst managing exploration and development risks on a portfolio basis.

The group has identified its principal risks for the next 12 months as being:

- health, safety, environment and security (HSES);
- production and development delivery;
- exploration success and reserves addition;
- host government – political and fiscal risks;
- commodity price volatility;
- organisational capability;
- joint venture partner alignment; and
- financial discipline and governance.

Further information detailing the way in which these risks are managed is provided on pages 52-53.

KEY PERFORMANCE INDICATORS

Premier measures its performance in line with its strategic objectives of growing the value of the underlying assets of the business and creating significant returns for shareholders. Specifically, key performance indicators (KPIs) are used to measure progress against agreed targets in the areas of safe, responsible and sustainable operations; growth through exploration, development, production and acquisitions; and maintaining financial strength. These KPIs also link to senior management's remuneration.

Operating safely, responsibly and sustainably

Premier is committed to operating responsibly in every part of the business. Success in these areas inherently protects our assets, our revenue streams and our reputation.

Health and Safety performance is measured using total recordable injury rate (TRIR) per million man-hours and near miss high potential incidents (HIPO) per million man-hours. Safety performance data includes both Premier employees and contractors.

Premier's TRIR performance improved in 2012 as the company sought to improve performance by reinforcing procedures and standards, frequent training and ongoing communication. A TRIR of 1.8 per million man-hours was achieved in 2012, which is below the TRIR target of 2.0.

Total recordable injuries rate (TRIR)
per million man-hours

High potential incident (HIPO) frequency
per million man-hours

As part of its safety performance management process, Premier tracks HIPOs which include any event that might lead to significant injury, environmental damage, property damage or security breaches. Premier continues to ensure that key lessons are learned and disseminated for all HIPOs and company-wide Safety Alerts are issued, citing key causes and preventative actions required. Premier's HIPO performance, while still within the target of 2.0 HIPOs per million man-hours, declined in 2012: 2012 saw eight HIPOs, which equates to a frequency rate of 1.3 HIPOs per million man-hours. The 2013 target is 1.5 HIPOs per million man-hours.

Building the strong production base

One of the metrics by which Premier's growth performance is measured is by the compound annual growth rate in net asset value per share. Premier targets in excess of 10 per cent NAV growth per share per year and, over the seven-year period to end-2012, the company has achieved in excess of 15 per cent.

Premier also aims to build on the existing production base in order to sustain and continue to deliver growth. This is measured using daily average production and the number of development projects being brought through to sanction. Average daily production increased 43 per cent in 2012 to 57.7 kboepd due to a full-year of production from the new Asia fields, Chim Sáo and Gajah Baru, which came on-stream in late 2011. Premier is targeting average production of 65-70 kboepd for 2013 and a run rate of 100 kboepd once the Catcher project comes on-stream.

KEY PERFORMANCE INDICATORS (continued)

Working interest production
(kboepd)

Reserves and resources
(mmboe)

Premier's production goal is underpinned by the pipeline of development projects being progressed across the portfolio, and the ability to commercialise and bring on-stream these projects is key to the company's success. In 2012, Premier sanctioned four development projects (Solan, Pelikan, Naga and Dua).

Delivering growth

Premier looks to create future growth through exploration in focused geologies and value-led acquisitions. Progress towards this growth ambition is measured by reserves replacement, risked prospective resource added and finding costs.

Premier also undertakes acquisitions to access additional resources. In 2012, the company acquired 60 per cent of Rockhopper's licence interests in the Falkland Islands, including the Sea Lion project, and increased its stake in the Bream project to 40 per cent through a Sale and Purchase Agreement with Skeie Energy AS. Exploration successes, which included the Carnaby discovery in the UK North Sea and Badhra B North-1 and K-30 in Pakistan, also added to Premier's reserve and resource base.

Reserves and resources increased 51 per cent to 773 mmboe giving a reserve replacement ratio of 138 per cent. In addition, 2012 saw Premier add approximately 250 mmboe of contingent resources and in excess of 1.5 billion barrels of unrisked prospective resources to its portfolio.

Premier added reserves and resources through exploration and acquisition at an average cost of around US$2/bbl during 2012.

Realised oil price per barrel
($)

Realised gas price per mscf
($)

Maintaining financial strength

One of Premier's strategic objectives is to maintain financial strength in order to invest in the future of the business and deliver significant returns to shareholders. 2012 was another strong year with record profit after tax of US$252.0 million, an increase of 47 per cent, and operating cash flow of US$808.2 million, an increase of 66 per cent.

Premier's portfolio of crudes was sold at an average of US$111.4/bbl. Realised average gas prices, a significant portion of which tracks oil price movement, achieved US$8.34/mscf in 2012.

Operating costs were stable in 2012 at US$16.2/boe. Rising cash flows, along with successful bank and bond market transactions, provide Premier with the funding required for future growth. Ability to add new capital and sufficient covenant headroom are measured to ensure the company has the funds to meet forecast cash requirements and maintain liquidity throughout the cycle.

Cash flow from operating activities
($ million)

Operating costs
($/boe)

High ethical standards

PREMIER IS COMMITTED TO APPLYING THE HIGH ETHICAL STANDARDS NECESSARY TO MAINTAIN OUR REPUTATION AS A WORLD-CLASS OIL AND GAS EXPLORATION AND PRODUCTION COMPANY.

Our reputation for doing the right thing enables us to access new licences, enter new countries, build lasting relationships with local communities and ultimately to secure our licence to operate. We recognise that our licence to operate as an international upstream oil and gas company has to be earned through responsible behaviour that does not compromise the wellbeing of current or future generations.

We have policies and procedures in place to ensure that our investment and operational decisions take appropriate account of the impacts that might arise from our activities. These policies cover business ethics, human rights, human resources, health, safety and environment, and community investment. All policies are compliant with relevant legislation and take due account of appropriate standards, industry guidance and relevant best practice.

Premier commissions independent reviews or audits of its policies and their supporting management systems to evaluate compliance with the requirements of the following bodies: the Global Reporting Initiative (GRI); the International Petroleum Industry Environmental Conservation Association (IPIECA) Oil and Gas Industry Guidance on Voluntary Sustainability Reporting 2010; the Carbon Disclosure Project; FTSE4Good and the United Nations Global Compact (of which Premier is a signatory). This report summarises how we have evolved, applied and delivered on our stated policies in 2012, and we explain any areas where we have not complied. Additional insight into each area is reported in the Corporate Responsibility Report 2012.

The Corporate Responsibility Report 2012, together with further details on our policies and procedures are available on our website at www.premier-oil.com.

Business ethics

INTEGRITY, HONESTY AND FAIRNESS ARE FUNDAMENTAL TO THE WAY WE CONDUCT OUR BUSINESS. WE WILL NOT ENGAGE IN ANY ACTIVITIES, INCLUDING BRIBERY OR CORRUPTION IN ANY FORM, THAT UNDERMINE THE LEGITIMATE BUSINESS ENVIRONMENT. WE ARE COMMITTED TO TRANSPARENCY IN ALL OF OUR DEALINGS.

Our Global Code of Conduct

In June 2011, Premier issued its Global Code of Conduct and the associated due diligence process. The Code is available in both English and Bahasa Indonesia for those employees and contractors based at our operations in Indonesia. It is compliant with the United Kingdom Bribery Act and covers the following key areas:

- anti-corruption;
- facilitation payments;
- gifts and hospitality (given and received);
- charitable and political donations; and
- appointment of intermediaries.

Scope of application

The Code of Conduct applies to employees at every level in the business and those associated with Premier such as contractors; all of whom are required to behave ethically and with personal integrity. This includes adhering to laws in the countries in which we operate, explore and have joint venture interests. All employees and associates are required to perform their duties in accordance with the Code of Conduct, and to disclose any potential and actual conflicts between personal interests and those of Premier. The Code of Conduct requires all transactions relating to Premier to be recorded in proper detail and according to applicable accounting and reporting standards. Any breach of the Code of Conduct will result in disciplinary action, and in extreme cases will result in instant dismissal. The Audit and Risk Committee assists the Board in monitoring ethical business conduct as well as the effectiveness of the Code of Conduct and its supporting policies.

Training and monitoring

Our Legal team delivered a comprehensive set of workshops on the Code of Conduct and its requirements to all business units worldwide during 2011 and 2012. Each of our business units is analysed for risks relating to corruption, some being more exposed than others depending on geography and area of work. The content of our training was refined to take account of local nuances and cultural norms and thus better equip local teams to manage business ethics risks. An online training course was established in 2012 and was completed by all employees and consultants. All new employees are expected to complete the ethics training programme within one month of joining the company. A briefing on the content of the Code of Conduct is also included in the induction programme for all new employees and consultants.

Whistle-blowing hotline

Premier encourages employees, contractors and agency workers to voice their concerns to line managers if they think the company or anyone working on behalf of the company has not acted in accordance with the Code of Conduct. Premier provides a confidential and well-publicised independent third party reporting hotline for employees that feel unable to raise concerns in the normal way. This hotline is available 24 hours a day, seven days a week. No reports were made through this service in 2012 or at any point over the last three years.

No incidents of corruption or non-compliance with the Code were identified in 2012.

Human rights

IN 2012, PREMIER CONDUCTED A REVIEW OF ITS HUMAN RIGHTS POLICY AGAINST BEST PRACTICE STANDARDS (SUCH AS THE UNITED NATIONS GUIDING PRINCIPLES ON BUSINESS AND HUMAN RIGHTS) AND THE POSITION OF OUR PEERS IN THE OIL AND GAS SECTOR.

Our revised policy more explicitly recognises the moral, reputational and operational value of respecting and promoting human rights both inside and outside of our company. It includes the need to:

- engage with stakeholders in our efforts to respect and promote these rights;
- recognise the development and cultural rights of external stakeholders as basic human rights;
- recognise our responsibility to respect the rights of indigenous people in all countries where we operate;
- help prevent, manage and resolve conflict where we are in a position to do so;
- ensure we are in no way involved or associated with the issue of forced, involuntary or child labour;
- ensure our security practices do not undermine the human rights of local communities;
- encourage joint venture partners to adopt the principles in this policy;
- consider withdrawal from relationships with business partners where there is no evidence that they are moving towards the application of international human rights standards; and
- use our legitimate influence to promote human rights outside our areas of operation.

Our Human Rights Policy is based on the fundamental rights set out in the Universal Declaration of Human Rights and is guided by those rights enshrined in the core labour conventions of the International Labour Organisation and by the United Nations Global Compact principles. Our policy addresses the rights of our employees including their health and safety as well as their security arrangements and working conditions; and the development rights of our external stakeholders, in particular local communities.

Further detail on our performance and alignment with this policy is included in the Corporate Responsibility Report 2012. There were no reported violations of our Human Rights Policy in the review period.

Employees

WE AIM TO PROVIDE OUR STAFF WITH SAFE WORKING CONDITIONS AND JUST AND COMPETITIVE TERMS OF EMPLOYMENT. THIS IS A CORE PART OF OUR BUSINESS AND PEOPLE STRATEGY. THIS MEANS RESPECTING ALL INDIVIDUALS REGARDLESS OF ETHNIC ORIGIN, CREED, AGE OR GENDER.

We are an equal opportunities employer. When recruiting, developing and dealing with employees and service providers, people will be treated fairly, equally and without prejudice. We respect the right of individual employees to join a legitimate trade union. Through training and appraisal, we encourage staff to develop their own professional skills to the advantage of both the individual and the company.

This sentiment is embedded in our employment policies which apply to all permanent, contractual and temporary staff as well as all job applicants. There were no reported violations of these policies in 2012. There were also no reported instances of discrimination and no use was made of our formal grievance procedures.

In 2011, Premier launched a new People Strategy to support its continued growth in exploration and production. The strategy is accompanied by a suite of updated tools and processes to facilitate the recruitment, development, deployment and retention of high calibre employees. It promotes efficiency, innovation, knowledge sharing and leadership all of which are essential to the delivery of our business goals. 2012 saw the continued roll-out of this strategy across the group.

Health and safety

PREMIER IS COMMITTED TO OPERATING RESPONSIBLY AND WILL NEVER KNOWINGLY COMPROMISE OUR HEALTH, SAFETY OR ENVIRONMENTAL STANDARDS TO MEET OUR OPERATIONAL OBJECTIVES. OUR GOALS ARE TO ENSURE THE SAFETY OF EVERYONE INVOLVED WITH OUR OPERATIONS AND TO PROTECT THE ENVIRONMENT.

To achieve this we will:

- encourage open and honest communication;
- seek ways to continually improve our performance;
- assess and manage risks;
- provide appropriate resources;
- maintain clean, safe and healthy workplaces;
- investigate and learn from any incidents;
- plan and prepare for potential emergencies;
- maintain high-quality documented systems and processes;
- seek external certification of key management systems; and
- meet or surpass statutory requirements.

In 2011, we introduced and communicated our Golden Rules. The Golden Rules reinforce the HSES Policy, associated procedures and standards, and have been established to help prevent the most common causes of serious incidents in our industry. Continued implementation of the Golden Rules during 2012 has been a key part of our commitment to excellence and continuous improvement in health and safety performance. Premier continues to ensure that every employee, contractor and individual at our operations understands company rules and expectations. Every employee is accountable and has a personal responsibility for health, safety and environment. Employees are also expected to 'stop the job' if they see or believe something can be better controlled or is unsafe.

Premier has been certified to OHSAS 18001 and ISO 14001 since 2004 for global drilling and since 2006 for our Indonesian production operations. In 2012, we completed a number of OHSAS 18001 and ISO 14001 surveillance audits on our production and drilling operations. During 2012 Drilling, Anoa and Balmoral Production retained their certifications and Gajah Baru was added to the scope of our Indonesian production operations certificate. Our Chim Sáo production operation in Vietnam is working towards OHSAS 18001 and ISO 14001 certification in 2013.

Occupational safety performance

In 2012, we worked 6.1 million man-hours (2011: 7.2 million man-hours). This decrease on the previous year was due to reductions in drilling man-hours (from 1.7 million in 2011 to 0.8 million in 2012) and in construction (from 2.8 million in 2011 to 2.0 million in 2012). Most of these man-hours (4.3 million vs. 5.9 million in 2011) were worked by contractors on our operations. We expect to see a progressive increase in man-hours during 2013 with a number of new projects continuing and coming into the construction phase.

Key safety parameters and indicators	2012	2011	2010
Fatalities	–	1	1
Lost Work Day Cases (LWDC)	5	7	4
Restricted Work Day Cases (RWDC)	2	3	9
Medical Treatment Cases (MTC)	4	5	10
Total Recordable Injury Rate (TRIR)*	1.8	2.4	2.8
High Potential Incident Rate (HIPOR)*	1.3	0.8	1.6

* per million man-hours worked.

Note: All safety statistics include both Premier employees and contractors.

Total recordable injuries

Our overall TRIR performance improved significantly from 2.4 in 2011 to 1.8 in 2012, showing a continued improvement in performance over the last three years and meeting our 2.0 target. TRIR performance at our construction operations was exceptional at 0.0 (2011: 1.8), much improved at our production operations at 2.8 (2011: 6.1) but poor at our drilling operations at 7.5 (2011: 0.0). This overall positive trend in our TRIR performance was largely due to significant improvements at our North Sea operations where rates improved from 9.4 in 2011 to 4.5 in 2012; following a series of site-specific safety initiatives and leadership courses to address the previously high number of mostly minor accidents including slips, falls and finger injuries at our production facilities. Our operations in Asia continued to perform well with a TRIR score of 0.9 (2011: 1.5). Our TRIR target for 2013 is 2.0.

Process safety performance

Insight into High Potential Incidents (HIPOs) and their rate of occurrence enable us to learn about how to mitigate future incidents, often by addressing the root causes. We believe these HIPOs act as a leading indicator of potential injury and complement the continued testing of asset integrity through our Project Safety Reviews (PSRs) and Safety Case processes.

CORPORATE RESPONSIBILITY REPORT (continued)

High potential incidents

Last year saw a slight increase in HIPOs per million man-hours from 0.8 in 2011 to 1.3 in 2012. This was well within our target of 2.0. The increase in rate from 2011 was due to a significant decrease in the number of man-hours but a small increase in the number of high potential incidents from six in 2011 to eight in 2012, (seven of which occurred at our Asia operations). Performance improved at our construction operations where there were zero high potential incidents in 2012 (2011: one). All of the eight high potentials reported in 2012 were investigated in-depth, corrective actions identified and their implementation monitored. Safety alerts based on each incident were made available to all employees in order to share learning across the group. Safety alerts are mandatory for all HIPOs but may also be issued where there are incidents or events that require heightened awareness and caution. Our HIPOR target for 2013 is 1.5.

Loss of primary containment

Measurement of loss of primary containment (LOPC) is a new metric proposed by the International Association of Oil and Gas Producers (OGP). We recognise further work is required to harmonise process safety performance measurement across the industry; and continue to work with OGP as members of its process safety sub-committee to develop an industry approach to indicators and reporting that includes leading metrics. It is anticipated OGP will publish the first LOPC industry data in 2013, and that this will be able to be used to set future Premier targets.

In 2012, there were 41 LOPC events (2011: 35) at our operations. Of these none were Tier 1 LOPC events (2011: one). There were seven reported Tier 2 events (2011: five). The remaining minor events (34) included small gas leaks and contained oil spills that did not reach the environment. Tier 1 events are those where there is a significant loss of containment from a process system, i.e. gas over 500kg and oil over 1,000kg (outdoor). Tier 2 are those releases of lesser consequence, i.e. gas over 50kg and oil over 100kg (outdoor) and some events defined by American Petroleum Institute (API). We measure the number of incidents or rate per activity man-hour (LOPCR) at both our operated drilling and production operations and sum it as a company metric.

Safety by design

Premier has integrated process safety protocols into the PSRs of all its projects. These reviews provide assurance that material HSE issues have been identified and are being effectively managed throughout the project lifecycle. A typical project lifecycle will require six strategic reviews as a project moves from concept to construction and then to operation. These PSRs align with our project approval gates, at which time strategic decisions are made to either progress a project further towards the operations stage or to delay or divest. Safety cases are in place at all of our operated installations. This safety case regime is aligned with the regulated standards in the United Kingdom. We believe this represents best practice and we are committed to implementing such cases at all of our operated production facilities worldwide, even when not required by the local regulatory regime. A safety case is developed during the early stages of a project and becomes more detailed as a project nears the operation stage. A safety case must be in place before production commences.

Each case includes a review and impact assessment of the relevant process safety risks, the requirement to meet established safety benchmarks and the adoption of further steps to reduce risks to a level that is as low as is reasonably practicable (the ALARP principle). For our operating assets, these are reviewed every five years to ensure continued compliance. Safety cases are reviewed by either the local regulatory authority or a competent independent third party to provide assurance that they comply with our standards.

Environment

ENVIRONMENTAL ASSESSMENT, MANAGEMENT AND REPORTING FORMS A MAJOR PART OF PREMIER'S HSE RISK MANAGEMENT PROCESS. WE CONDUCT BASELINE SURVEYS AND ENVIRONMENTAL AND SOCIAL IMPACT ASSESSMENTS FOR EACH NEW OPERATED ACTIVITY.

This involves an assessment of the physical, socio-economic and biological environments including the rights of indigenous peoples and biodiversity. We measure and review each impact in turn and gauge both its significance and how it can be reduced to a level that is as low as is reasonably practicable. Potential actions to improve environmental performance are screened based on cost, duration and impact to determine which are feasible for implementation. We periodically review these environmental impacts and actions for our existing facilities to ensure we are complying with our policy of continuous improvement.

Environmental indicators and targets

We report our environmental performance in line with the IPIECA Oil and Gas Industry Guidance on Voluntary Sustainability Reporting 2010 and to meet GRI Sustainability Reporting Guidelines. Our emissions performance is benchmarked by contributing our data to an industry database compiled and published by the OGP. As an oil company with production facilities in the North Sea, we also comply with the European Union Emissions Trading Scheme and submit an annual, externally verified report on our emissions profile to the Department of Energy and Climate Change (DECC). We also participate in the Carbon Disclosure Project where we achieved a carbon disclosure score of 66 (out of 100) in 2012 (2011: 66).

Key environmental parameters and indicators	2012	2011	2010
Greenhouse gas intensity (tonnes per thousand tonnes of production)	**242**	305	185
Oil spills (tonnes)	**0.8**	2.7	1.3
Oil in produced water (parts per million)	**10**	14	11
Energy use (gigajoules per tonne of production)	**2.0**	2.6	2.1

Note: Environmental data relates to Premier operations only and does not include non-operated joint ventures unless otherwise stated.

CORPORATE RESPONSIBILITY REPORT (continued)

Climate change and greenhouse gas emissions

Greenhouse gas emissions associated with hydrocarbon combustion at our operations amounted to 890,809 tonnes in 2012 (2011: 615,000 tonnes). This increase in total emissions was largely due to a full year of production from our Gajah Baru and Chim Sáo operations in Asia, versus only a limited number of months in 2011.

Our operated emissions intensity decreased from 305 tonnes per thousand tonnes of production in 2011 to 242 in 2012. This was mainly due to reduced flaring at Chim Sáo versus 2011. Additional contributing factors included a reduction in development drilling and increased overall production from both our Asian and North Sea assets. Our Anoa and Gajah Baru facilities in Indonesia delivered strong performance with an average intensity of 175 tonnes per thousand tonnes of production (2011: 139 tonnes) and 119 tonnes per thousand tonnes of production (2011: 228 tonnes) respectively. Our performance at Gajah Baru was lower than the 159 tonnes industry average published by OGP. Despite the overall reduction of around 20 per cent, we failed to meet our intensity target, mainly due to unexpected flaring at Chim Sáo, in Vietnam.

We calculate our greenhouse gas (CO_2 equivalent or CO_2e) emissions both for operated assets and on an equity basis for production across our global portfolio. Greenhouse gas intensity from flaring and fuel gas combustion associated with our full equity portfolio amounted to 170 tonnes per thousand tonnes of production (2011: 172 tonnes).

Spills and discharges

The total volume of produced water discharged from our operations in 2012 amounted to 3,905,611 tonnes (2011: 2,055,878 tonnes). Over 90 per cent of the total was produced by our North Sea operations, with the increase in 2012 being largely due to the Balmoral field after a period of shut-down in 2011. The average oil in produced water decreased slightly from 13.9 parts per million weight (ppm-wt) in 2011 to 10.0 ppm-wt in 2012. This decrease in the oil concentration of produced water was mainly due to a reduction at Balmoral that averaged 10.3 ppm-wt (2011: 14.0 ppm-wt). The average concentration of oil in produced water discharged by our Anoa facility in Indonesia also reduced to 10.7 ppm-wt from 13.3 ppm-wt in 2011.

In 2012, there were 13 spills to the environment (2011: 20 spills), 11 of these were hydrocarbon spills (2011: 16 spills), eight of which were upsets of the produced water system at Balmoral in the North Sea. The largest of these was three barrels (2011: 5.4 barrels). The total volume of spills amounted to 0.8 tonnes (2011: 2.7 tonnes); 100 per cent (2011: 90 per cent) of which was associated with spills at our production operations. There were zero hydrocarbon spills at our drilling activities in 2012. We maintain oil spill contingency plans for each of our operations and have ongoing contracts with oil spill response specialists to provide support in the unlikely event of a major incident. Two other chemical spills occurred at our drilling operations in 2012 (2011: four spills) totalling 0.02 barrels and 0.002 tonnes (2011: 1.3 tonnes).

Community investment

OUR REVISED COMMUNITY INVESTMENT POLICY RECOGNISES THE VALUE OF BUILDING POSITIVE EXTERNAL RELATIONSHIPS AND PARTNERSHIPS WITH COMMUNITIES, GOVERNMENTS, NON-GOVERNMENTAL ORGANISATIONS (NGOs), JOINT VENTURE PARTNERS AND OTHER STAKEHOLDERS.

It also includes the need to:

- maintain timely, constructive and transparent ongoing engagement with all stakeholders;
- treat neighbours with respect and understanding, acknowledging community governance and seeking free and informed consent prior to initiating operations that have a potentially significant social impact on the community;
- work to achieve a net positive socio-economic impact on local communities, promoting opportunities which enhance sustainable benefit;
- support the socio-economic sustainability and wellbeing of communities through local procurement and other engagement with local business;
- invest in well-planned social projects that support the development priorities of host communities and governments, and seek to ensure that these are implemented in a way that leads to enduring benefit;
- provide fair and adequate compensation for any losses for which we are liable;
- provide local communities access to appropriate grievance mechanisms; and
- encourage joint venture partners to adopt the principles in this policy.

This Community Investment Policy is supported by a community investment management system that is aligned with IPIECA standards and that facilitates the systematic identification, management, evaluation and budgeting of disbursements and engagements in host countries. The procedures in this system have been available to local business units via our business management system since late 2010.

No non-compliances with this policy were reported in 2012.

Increased community investment in 2012

All of our operations are supported by local community engagement and development programmes. In 2012, Premier disbursed a total of US$674,000 on charitable donations and community projects (2011: US$427,000). Approximately 40 per cent (2011: 30 per cent) of this was disbursed in Indonesia on long-standing community and environmental projects. The progressive increase in our community investment reflects the inclusion of charitable donations from our London, Norway and Singapore offices, as well as our more mature operations in country. We expect these investments to increase as Premier develops new upstream production operations in Indonesia, Vietnam, the North Sea and the Falkland Islands.

BOARD OF DIRECTORS

Robin Allan

Joe Darby

Tony Durrant

Neil Hawkings

Jane Hinkley

David Lindsell

Simon Lockett

Andrew Lodge

Professor David Roberts

Michel Romieu

Mike Welton

Robin Allan (53), joined Premier from Burmah Oil in July 1986, working initially as a geologist. After technical and new venture roles he spent six years in South East Asia, initially managing Premier's Asian existing and new venture business and later becoming Premier's Country Manager in Indonesia. He became a member of the Premier Board in December 2003 as Director of Business Development. Mr Allan spent three years in Asia as Director – Asia, before returning to London in October 2012 to take up the role of Director, Business Units.

Joe Darby (64), joined Premier's Board as a non-executive director in September 2007. Mr Darby has over 40 years of experience in the energy sector, including eight years with Shell Petroleum before becoming Managing Director of Thomson North Sea Ltd. He has held a number of senior roles, including Chief Executive, with LASMO plc. Mr Darby is a non-executive director of Alkane Energy plc and Gulfsands Petroleum plc, and has held non-executive roles at Nordaq Energy plc, British Nuclear Fuels plc, Mowlem plc and Centurion Energy Inc. He was Chairman of Mowlem plc (2005-2006) and Faroe Petroleum plc (2003-2007). Mr Darby is Premier's senior independent director, and is a member of Premier's Audit and Risk, Remuneration and Nomination Committees.

Tony Durrant (54), joined Premier in June 2005. After qualifying as a chartered accountant with Arthur Andersen, he joined Lehman Brothers in London, initially as an oil sector analyst. He moved to the investment banking division of Lehman in 1987 and from 1997 was a Managing Director and Head of the European Natural Resources Group. In this role, he managed both client relationships and numerous transactions for a variety of European and North American clients. He joined the Premier Board in July 2005 as Finance Director. In October 2012 he joined the Board of Greenergy Fuels Holdings Limited as a non-executive director and is Chairman of their Audit and Risk Committee.

Neil Hawkings (51), joined Premier in May 2005 after more than 20 years with ConocoPhillips where he worked in a variety of engineering, commercial and management roles around the world, undertaking assignments in the UK, Dubai and Indonesia. He joined the Premier Board in March 2006 as Operations Director.

Jane Hinkley (62), joined Premier's Board in September 2010 as a non-executive director. Ms Hinkley is a qualified chartered accountant with executive experience primarily in international shipping, having held managing directorships at Navion Shipping AS and Gotaas-Larsen Shipping Corporation. She is a non-executive director of Vesuvius plc, which supplies primarily the global steel and foundry industries, and has been an independent director on the board of Teekay GP LLC, an international provider of marine transportation services for LNG, LPG and crude oil, since 2005. Ms Hinkley has previously held a non-executive role at Revus Energy ASA, a Norwegian exploration and production company. Ms Hinkley is the Chairman of Premier's Remuneration Committee and a member of the Nomination Committee.

David Lindsell (65), joined Premier's Board in January 2008 as a non-executive director. He was a partner at Ernst & Young LLP for nearly 30 years and has extensive experience across a range of industry sectors, with a strong knowledge of the oil and gas sector. Mr Lindsell is currently a non-executive director of Drax Group plc and was Deputy Chairman of the Financial Reporting Review Panel (2008-2012). Mr Lindsell is the Chairman of Premier's Audit and Risk Committee and a member of the Remuneration and Nomination Committees.

Simon Lockett (48), Chief Executive, joined Premier in January 1994 from Shell and has worked in a variety of roles for Premier, including the management of investor relations, as Commercial Manager in Indonesia and as Country Manager in Albania. He became a member of the Premier Board in December 2003 as Operations Director. He was appointed Chief Executive in March 2005. Mr Lockett is a member of Premier's Nomination Committee.

Andrew Lodge (56), has been Exploration Director of Premier since April 2009. Prior to joining Premier, Mr Lodge was Vice President – Exploration at Hess, where he was responsible for Europe, North Africa, Asia and Australia for nine years. Previously, he was Vice President – Exploration, Asset Manager and Group Exploration Advisor for BHP Petroleum, based in London and Australia. Prior to joining BHP Petroleum, he worked for BP as a geophysicist. Mr Lodge is a non-executive director of Egdon Resources plc.

Professor David Roberts (69), joined Premier in June 2006 as a non-executive director. Professor Roberts has over 30 years experience in all aspects of exploration worldwide and extensive knowledge of deep water areas, sedimentary basins, stratigraphy and prospect assessment. He spent 22 years with BP in a number of technical roles, including Global Exploration Adviser and Distinguished Exploration Adviser. Professor Roberts is a non-executive director of Medserv plc and has established his own geoscience consultancy. He is a visiting professor and fellow of Royal Holloway, University of London, the University of Southampton and IFP School in Paris. Professor Roberts is a member of Premier's Remuneration and Nomination Committees.

Michel Romieu (73), joined Premier's Board as a non-executive director in January 2008. Mr Romieu has over 30 years experience in the international energy sector, including 25 years with the Elf Group, where he held several senior positions including Chief Executive of Elf UK and the group's gas division. He was elected President of the UK Offshore Operator's Association for the year 1995, and held the position of Director for Gas of CRE, the French energy regulator, from 2000 to 2003. He has established his own consultancy specialising in providing advice to the gas industry, and is a lecturer at the French Petroleum Institute. Mr Romieu is also President of Uprigaz. He is a member of Premier's Audit and Risk and Nomination Committees.

Mike Welton (66), joined Premier's Board in June 2009 as a non-executive director and became Chairman in October 2009. Mr Welton is a director of Morrison Utility Services and High Speed Two, the government owned LLC set up to examine high speed rail connections between London and the West Midlands. He sits on the advisory board of Montrose Associates and Alexander Proudfoot. Mr Welton was previously Chairman of Southern Water Services Ltd (2008-2012), Hanson plc (2005-2007), the Turkish/British Business Council and the UK Government's Railway Sector Advisory Group. He was also Chief Executive of Balfour Beatty plc (1999-2004). Mr Welton is the Chairman of Premier's Nomination Committee.

CORPORATE GOVERNANCE REPORT

The company is required to make certain statements relating to the way it is governed as laid down in the UK Corporate Governance Code (the Code). This report describes the manner in which the company has applied the main principles of governance set out in the Code and complied with the Code provisions. It is the Board's view that the company has fully complied with the Code throughout 2012. While the Board supports the value of the Code, it does not believe that good governance can be defined merely in terms of compliance with a set of rules.

The Board is committed to high standards of governance and aims to create a culture which demands the same commitment and performance in all our business activities. This is enshrined in our Code of Conduct which was updated and rolled out to our employees in 2011.

The Board

The role of the Board

One major purpose of the Board is to ensure that the company's strategic objectives are properly pursued and that the major business risks are actively monitored and managed. This goes beyond regulatory compliance and puts the interests of our shareholders as the Board's primary focus.

The Board is responsible for overall group strategy, acquisition and divestment policy, approval of major capital expenditures, the overall group debt and equity structure and consideration of significant financing matters. The Board has continued to focus its efforts in 2012 on strategic issues which will create shareholder value, monitoring performance against agreed objectives and planning future business opportunities.

Board composition

The Board of Directors comprises the Chairman, Chief Executive, four other executive directors and five independent non-executive directors. Biographical details of each, including membership of Board committees are set out in the Board of Directors section of the Annual Report and Financial Statements. Details of the executive directors' service contracts and the non-executive directors' letters of appointment are laid out in the Remuneration Report.

Chairman and Chief Executive

The Chairman's role is part-time and he is a non-executive director. His key responsibility is the leadership of the Board, ensuring its effectiveness in all aspects of its role and setting its agenda. Between Board meetings the Chairman is responsible for ensuring the integrity and effectiveness of the Board/Executive relationship. This is effected through meetings, as well as contact with other Board members, shareholders, joint venture partners and host governments. The Chief Executive is responsible for the operational management of the business, developing strategy in consultation with the Board and then implementing such strategy.

Non-executive directors

The non-executive directors bring independent judgement to bear on issues of strategy and resources, including key appointments and standards of conduct. The non-executive directors have a particular responsibility to challenge independently and constructively the performance of the executive management and to monitor the performance of the management team in the delivery of the agreed objectives and targets. In meeting this responsibility, the Chairman and the non-executive directors meet periodically without the executive directors present, and the non-executive directors meet once a year without the Chairman.

We require that our non-executive directors are free from any relationship or circumstances that could materially interfere with the exercise of their independent judgement. The Board considers each of the non-executive directors to be independent in character and judgement.

Non-executive directors are appointed for a specified term of three years subject to annual re-election and to Companies Act provisions relating to the removal of a director. The terms and conditions of their appointment are made available for inspection. All non-executive directors undertake that they will have sufficient time to discharge their responsibilities effectively and any significant commitments are disclosed to the Board prior to appointment. Changes to such commitments are disclosed to the Board on an ongoing basis.

Board composition | Board experience | Length of tenure

The Board (continued)

Senior independent director

Mr Joe Darby is the company's senior independent non-executive director. He is available to shareholders who have concerns that cannot be resolved through discussion with the Chairman or Chief Executive.

Appointments and development

Premier is an international business which has to manage a variety of political, technical and commercial risks. It is therefore important that the Board contains the appropriate mix of skills and experience to meet these challenges. To this end, the Nomination Committee reviews the structure, size and composition of the Board and makes recommendations to the Board with regard to any adjustments that are deemed necessary. In selecting new directors, the Committee prepares a description of the role and capabilities required for a particular appointment.

How the Board operates

The Board meets at least eight times each year and in addition a regular update conference call takes place in the months when no formal meeting is scheduled. The agenda for each Board meeting is set by the Chairman in consultation with the Chief Executive and the Company Secretary. Board members receive a monthly report of the company's activities which incorporates an update on progress against objectives and the management of business risks.

The Board has a formal schedule of Matters Reserved for the Board, a copy of which can be found on the company's website (www.premier-oil.com). The schedule is reviewed by the Board regularly. Key matters reserved are the consideration and approval of:

Corporate Strategy	• Overall direction and strategy of the business • New country and/or business entry • Acquisition or disposal of interests
Finance	• Group debt and equity structure • Budget
Expenditure	• Major capital expenditure and budgets • Development plans and projects • Major acquisition
Risk Management	• Recognising high impact business risks and risk mitigating strategies • Internal control systems in respect of finance, operations and Health, Safety, Environment and Security (HSES)
Corporate Governance	• The group's corporate governance and compliance arrangements
Succession planning and appointments	• Appointment and removal of directors and officers of the Board • Appointment and removal of external auditor, brokers and advisers to the company

Delegated authorities

Board committees

The Board has established Audit and Risk, Remuneration and Nomination Committees. Each committee has formal terms of reference approved by the Board which can be found on the company's website (www.premier-oil.com). The Company Secretary provides advice and support to the Board and all Board committees. Board committees are authorised to engage the services of external advisers as they deem necessary.

CORPORATE GOVERNANCE REPORT (continued)

Delegated authorities (continued)
The number of meetings of the Board and its committees during 2012, and individual attendance by directors, is shown below:

	Board	Audit and Risk	Remuneration	Nomination
Number of meetings	**8**	**4**	**7**[1]	**1**
Attendance:				
R A Allan	8/8	–	–	–
J Darby	8/8	4/4	7/7	1/1
A R C Durrant	8/8	–	–	–
N Hawkings	8/8	–	–	–
I J Hinkley	8/8	–	7/7	1/1
D C Lindsell	8/8	4/4	6/7	1/1
S C Lockett	8/8	–	–	1/1
A G Lodge	8/8	–	–	–
D G Roberts	8/8	–	6/7	1/1
M Romieu	8/8	4/4	–	1/1
M W Welton	7/8	–	–	1/1

Notes:

1. There were six scheduled meetings of the Remuneration Committee during the year. The remaining meeting (only attended by Ms I J Hinkley and Mr J Darby) was called to approve the detail of arrangements approved in principle by a prior scheduled meeting of the Remuneration Committee.

Executive Committee and management structure
The Board has delegated the day-to-day running of the group to the Chief Executive who has established an Executive Committee (EXCO) to assist him in this role.

During the year the structure of EXCO was enhanced with the creation of three new roles:

- The role of Director, Business Units was created to manage performance of all Business Units and ensure coordination with the functions. The creation of this role has removed the need for a layer of management at the regional business unit level;
- The role of Strategy and Commercial Manager was created to ensure that the group's longer term strategic needs are properly addressed; and
- The role of Corporate Services Director was created to bring together a number of the critical service functions.

The responsibilities of EXCO include the development of group strategy for approval by the Board, portfolio management and the delivery of performance against the targets set by the Board.

Delegation of authority
Responsibility levels are communicated throughout the group as part of corporate accounting and through an authorisation manual which sets out, inter alia, delegated authority levels, segregation of duties and other control procedures. This manual was updated in 2012 to reflect the new organisational structure and the increased size of the group.

Board performance evaluation
The Board believes that there is benefit in the periodic involvement of an independent external facilitator in the annual Board evaluation process as this brings independent perspective. It has been the Board's practice to engage such an external facilitator every two years and in normal circumstances an externally facilitated evaluation would have taken place in 2012. However, as the Board spent considerable time on strategic issues in 2012, it was decided that an external evaluation will be of more value next year when the new strategy and organisation have bedded down and thus an internal evaluation process was carried out in 2012.

The Board and Committee evaluations were facilitated by the Chairman. The evaluation comprised a series of questions on major issues which were used as the basis for the one-to-one interviews by the Chairman with all directors. The interviews covered a number of key areas including strategy, succession planning, Board size and composition, the roles and responsibilities of the Board and its Committees, risk management and the relationship between the Board and management. The results of the reviews were considered by the Chairman and the Committee chairmen and were then discussed with the relevant Committees and collectively by the Board as a whole.

The performance of individual non-executive directors was evaluated by the Chairman, with input from the Committee chairmen and the other directors. The performance of the Chief Executive and other executive directors was evaluated by the Chairman and non-executive directors.

No major issues arose from the evaluation process and the directors have concluded that the Board and its committees operate effectively. Recommendations were made to further enhance the performance and effectiveness of the Board and a process of continuous improvement led by the Chairman is in place.

Induction, information and support

New directors receive a full induction to the company. This consists of information covering the operations of the Board as well as meetings with the Board, Chief Executive and other executive directors. All non-executives have direct contact with the company's senior management between Board meetings and also visit the company's operations in order to familiarise themselves with its activities and to meet and engage with staff. Shareholders are given the opportunity to meet with new directors upon request or at the next Annual General Meeting (AGM) following their appointment. The company has directors' and officers' liability insurance in place, and details of the policy are given to new directors on appointment. Formal procedures are in place to enable individual Board members to take independent advice where appropriate.

Conflicts of interest

A director has a duty to avoid a situation in which he or she has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the interests of the company. Formal procedures are in place to ensure the Board's powers of authorisation of conflicts or potential conflicts of interest of directors are operated effectively. The Board determined that during 2012 these procedures were enforced and adhered to appropriately.

Risk management and internal controls in Premier

The corporate governance process in Premier is designed to determine the nature and level of risk that the company is willing to take in pursuit of its strategy and to ensure that any risks taken are soundly managed and that the system of internal controls is effective. Any system of internal control can provide only reasonable, and not absolute, assurance that material financial irregularities will be detected or that the risk of failure to achieve business objectives is eliminated.

Business management system

Internal controls within Premier are governed by the Business Management System (BMS). This system is composed of the policies, standards, procedures, processes and guidelines for every function required to carry out Premier's business including Risk, HSES, Corporate Social Responsibility, Operations, Exploration, Business Development, Finance and other business support services. Corporate group functional management systems are complemented by local management systems within the business units which are designed to supplement corporate policies, standards, procedures, processes and guidelines with those specifically required in order to operate and manage the business under local conditions and in compliance with local laws and regulations.

The BMS is designed to manage rather than eliminate the risk of failure to meet our business objectives. The effectiveness of the BMS is a function of both the adequacy of the system and compliance with the system. Premier's audit and review programme includes specific scope to review adequacy of and compliance by component business unit and functional management systems at appropriate regular intervals.

The annual cycle of monitoring in Premier culminates in the completion of declarations by business unit and functional management confirming compliance with the group's BMS as well as identifying enhancements as part of a continuous process for improvement of the effectiveness of management systems.

Risk management

Premier believes that risk management is just part of good management which leads to quality decision making and achievement of targets for growth of the business. The risk management process is central to Premier's BMS.

Since the appointment of a Group Audit and Risk Manager in 2010, Premier's risk management system has been further developed in accordance with the risk management principles and guidelines of ISO 31000 (Risk Management – Principles and Guidelines). The processes developed by the company cover all key elements of ISO 31000:

CORPORATE GOVERNANCE REPORT (continued)

Risk management (continued)
In early 2012, Det Norske Veritas (DNV) carried out an assessment of the extent to which Premier's risk management system is aligned with ISO 31000 and found that Premier had a well structured system of risk management that was strongly aligned.

The **core process** for risk management lies at the heart of the system framework:

This core process is used to manage the spectrum of risks which Premier face from strategic, geopolitical and other external risks to operational, financial and organisational risk.

The **context** for risk management is established by development and communication of **strategy**, growth targets, team performance deliverables and KPIs.

A systematic process for identification and assessment of risk is undertaken across the company business units and functions. Regular workshops are undertaken with input from independent consultants with specialist knowledge and from dialogue with our partners to assist with risk identification and assessment, and risks are reviewed on a regular basis to ensure that new risks or exposures as a result of changes in the business or the business environment are captured.

A standard matrix of impact versus likelihood is used to **assess risks** at all levels in the organisation. Appropriate consideration is given to risk dependency and amalgamation of similar specific risks across the organisation. Risks are categorised according to a scale of Major, Medium, Minor and escalated to the appropriate level.

Risk treatment includes risk acceptance or tolerance and active risk reduction measures. Risk appetite objectives are defined and action plans are implemented. Particular attention is given to safety and environmental factors to ensure that residual risks are at a level that is as low as reasonably practical.

The status of risks and progress with risk treatment plans are **monitored** continuously and **reviewed** periodically via performance reviews, workshops, audits and risk assessments.

The **architecture** of the organisation provides the framework for defining the accountability and responsibility for risk identification and management and links the Board and Audit and Risk Committee to the Executive Committee and functional and business unit management structure and enables risks to be escalated and managed at the appropriate level. The Group Audit and Risk Manager is responsible for the risk management system and the overall running of the process.

The **risk protocols** are the policy, procedures and processes documented as part of the risk management system and key tools used in the process. The corporate risk register is the primary tool for risk management in Premier. The register is a web-based tool which is updated at regular intervals. The register facilitates recording of functional and business unit risks, together with their assessment, definition of existing and new treatment plans for control and mitigation and assignment of responsibility at the appropriate level in the organisation.

A **cycle of continuous improvement** to the risk management system within the organisation is adopted and regularly reviewed with both the Executive Committee via regional and functional performance reviews and the Audit and Risk Committee.

As already noted, Premier's risk management process has been developed significantly over the past three years in accordance with the risk management principles and guidelines of ISO 31000. Initiatives are in hand to further embed risk management in the group's culture and business processes.

Risk management (continued)

Audit and review

The effective operation of internal control procedures is reviewed by planned audits. An annual programme of audit and review is agreed between functional and business unit management and approved by Audit and Risk Committee. The programme adopts a risk based focus and includes audit of management system effectiveness and control as well as targeting key operational, financial and organisational delivery milestones.

A process of business control reviews has been developed and implemented across the group. This process is designed, inter alia, to provide assurance to the Board that Premier is embedding effective risk management into its operations. Significant findings from each review are presented to the Audit and Risk Committee. A rolling three-year plan to cover all operations is in place.

In addition, where the company is the operator, audits of joint venture operations are carried out by our joint venture partners. Where one of our partners is the operator, we participate in audits of these joint venture partners.

The Business Management System, risk management processes and programme of audits and reviews provide the Board with reasonable assurance that appropriate controls are in place to provide effective management of business risks and to safeguard the group's assets from inappropriate use or from loss and fraud.

Communication with shareholders

Communication with shareholders is given significant attention. Extensive information about the group's activities is provided in the Annual Report and Financial Statements, the Interim Report, Trading Updates and Interim Management Statements, all of which are available to shareholders. There is regular dialogue with institutional investors through meetings, presentations and conferences, general presentations to analysts and investors for the full-year and half-yearly results (which are broadcast live via the company's website) as well as other ad hoc investor events. The Chairman, Chief Executive and Finance Director, who are the directors primarily responsible for dealing with shareholders, ensure that other members of the Board receive full reports of these discussions. The company's website (www.premier-oil.com) also provides detailed information on the group's activities.

In accordance with current regulations, the company uses its website as its default method of publication for statutory documents to reduce printing costs and help benefit the environment. All shareholders are offered the choice of receiving shareholder documentation, including the Annual Report, electronically or in paper format, as well as the choice of submitting proxy votes either electronically or by post. All new shareholders receive hard copies of statutory documents until they elect, or are deemed to have elected, otherwise.

The company promotes the use of online shareholder services at www.premier-oil-shares.com. On this website, shareholders are able to access their shareholding and to update their address or submit queries on their account directly to the company's Registrars. Shareholders also have the ability to vote online prior to the 2013 AGM. The share portal also encourages shareholders to register to receive communications by e-mail, rather than by post, thus further reducing the number of documents printed and distributed. Shareholders who have registered receive an e-mail notifying them when the company has added a statutory document to its website. For each new registration processed, the company will donate £1 to PURE the Clean Planet Trust, a UK charity dedicated to combating climate change.

The company has posted guidelines on its website, advising shareholders of how to recognise and deal with potential share scams. Shareholders are advised to be extremely wary of any unsolicited advice or offers, and to only deal with financial services firms that are authorised by the FSA. More information can be found in the Shareholder Information section of the Investors area of the company's website: www.premier-oil.com.

Enquiries from individuals on matters relating to their shareholding and the business of the group are welcomed and are dealt with in a timely manner. All shareholders are encouraged to attend the AGM to discuss the progress of the group.

By order of the Board

S C Huddle
Company Secretary

20 March 2013

AUDIT AND RISK COMMITTEE REPORT

David Lindsell
Chairman of the Audit and Risk Committee

As Chairman of the Audit and Risk Committee it is my responsibility to ensure that the Committee is rigorous and effective in its role of monitoring:

- the integrity of the company's financial statements, and other formal announcements relating to the company's financial performance and the significant financial reporting judgements they contain;
- the effectiveness of the risk management and internal control systems, including the results of the programme of reviews of these systems and management's response to the review findings;
- the effectiveness and objectivity of the company's Group Audit and Risk function;
- the appropriateness of the company's relationship with the external auditor and the effectiveness and objectivity of the audit process;
- the enforcement of the company's code of conduct and the adequacy and security of its whistleblowing procedure.

The terms of reference of the Committee are reviewed annually by the Committee and then by the Board, and are available on the company's website (www.premier-oil.com). Throughout 2012 the Committee consisted of myself, Joe Darby and Michel Romieu all of whom are independent non-executive directors. The Board is satisfied that the membership of the Committee meets the requirement for recent and relevant financial experience.

The meetings of the Committee are normally attended by the Finance Director, the Group Financial Controller, the Corporate Services Director, the Group Audit and Risk Manager and representatives of the external auditor. The Company Secretary acts as secretary to the Committee. Other executive directors or senior managers are required to attend when significant risk management or control issues relating to their area of responsibility are considered by the Committee.

The Committee is required to report its findings to the Board, identifying any matters on which it considers that action or improvement is needed, and make recommendations on the steps to be taken.

Meetings

The Committee is required to meet at least three times per year and has an agenda linked to events in the company's financial calendar.

Activities during the year

The Committee met four times in 2012 and has met twice in 2013 to date.

Its January and March 2012 meetings focused primarily on the status of the 2011 risk management and internal control reviews, the 2012 plan for such reviews, and the 2011 full-year results and Annual Report and Financial Statements together with the Committee's annual review of the effectiveness of internal controls. At its June meeting the Committee considered the results of the group internal control reviews carried out in the first half of the year, together with accounting and reporting issues relating to the half-year results, and in August it reviewed the half-year results. In January 2013 it considered accounting and reporting issues relating to the full-year results, reviewed the status of the 2012 risk management and internal control reviews, focusing on the significant findings and actions, and reviewed and approved the 2013 audit plan for such reviews. In March it reviewed the 2012 full-year results, the Annual Report and Financial Statements and its annual assessment of the effectiveness of internal controls to enable the Board to make its statement on internal control in the Corporate Governance Report.

Activities during the year (continued)
More specifically, the responsibilities of the Committee were discharged as follows:

- The Committee reviewed the group's risk management process designed to identify and mitigate the key risks facing the group. There is an ongoing process of refinement and embedding of risk management best practice through the group in accordance with the principles and guidelines set out in ISO 31000. In particular, following the positive findings of the external review carried out by Det Norske Veritas in early 2012, the Committee noted improved reporting of findings and implementation of control improvements arising from reviews of the risk management and internal control systems. These measures will continue to be developed and reported on to the Committee through 2013 and beyond. We intend during 2013 to invite DNV to re-validate their 2012 assessment and provide a progress report on the development and embedding of risk management process in the group;
- The Corporate Risk Register (CRR) is the principal record of information about identified risks and the controls in place to mitigate them, at departmental, asset/project, business unit and corporate function levels. Ongoing development and refinement of the CRR during 2012 has enabled risks and mitigating processes to be described more completely and the programme of financial and operational control reviews to be prioritised further against the most significant group business risks as ranked in the CRR. CRR functionality has also been improved to allow risks assessed to have a pre-selected potential impact (which can be measured in terms of effect on net present value or other severity of consequence) to be flagged and referred automatically up to the next level(s) in the organisation, enabling more effective top-down monitoring of risk;
- Some 36 reviews of aspects of risk management and internal controls in operations and corporate functions were carried out during the year. In reviewing the findings from these reviews, the Committee noted with approval that reporting had become more directed towards the group's major risks, allowing the Committee to focus on the key issues and challenges facing the group. Recommendations to improve internal controls and/or to mitigate risks were agreed with the relevant business unit or corporate function management after each review and progress in implementing the recommendations was monitored by the Group Audit and Risk Manager;
- The group continues to use both Premier staff with the necessary expertise and experience and third-party specialists to carry out the programme of review. In addition the group obtains independent confirmation of the effectiveness of internal controls from a variety of external sources, including joint venture and governmental financial and operational audits;
- The Committee reviewed the 2012 half-year and full-year financial results announcements and draft 2012 Annual Report and Financial Statements with the Finance Director and Group Financial Controller and considered the findings from the external auditor's review of the interim results and their audit of the 2012 financial statements. The Committee considered in particular the significant assumptions, estimates and forecasts used in measuring items in the financial statements, including future oil and gas price assumptions, oil and gas reserves' estimates, fair valuation of assets for the EnCore acquisition and decommissioning cost estimates, together with the financial statement items directly or indirectly affected by them such as the recoverability of producing and exploration and evaluation assets, deferred tax assets and depletion, depreciation and amortisation charges. The Committee noted that no significant deficiencies in the financial reporting system were identified by the external auditor in the course of their audit. The Committee also reviewed the narrative in the Annual Report and Financial Statements, in particular Section 1 (Directors' Report: Performance), to assess whether the narrative is consistent with the accounting information in the financial statements;
- the fee proposals for the external audit and half-yearly review were considered and agreed, and the Committee reviewed the scope and fees for non-audit assignments awarded to the external auditor to satisfy itself that the assignments concerned did not give rise to threats to the auditor's independence and objectivity;
- the performance and effectiveness of the Committee was reviewed as part of the Board performance evaluation process. The Committee was considered to be operating effectively and in accordance with the Financial Reporting Council Guidance on Audit Committees; and
- the Committee met with the external auditor in the absence of management in March and no matters of significance were drawn to the Committee's attention at this meeting.

AUDIT AND RISK COMMITTEE REPORT (continued)

Group Audit and Risk function

We reported last year that the role of Group Audit and Risk Manager, which was created in 2010, had evolved to the point where the Committee believed that the company had a function substantially equivalent to internal audit. The Group Audit and Risk function has developed further during 2012 and the Committee now considers it to be fully equivalent to an internal audit function. The Committee approves the appointment or termination of appointment of the Group Audit and Risk Manager.

External auditor

Deloitte LLP (Deloitte) was initially appointed as external auditor of the company in 2004.

The Committee regularly reviews the issue of the independence of the external auditor. This review considers the overall relationship between the auditor and the company, based on feedback from the company's finance team and from the auditor, and the nature and extent of non-audit services provided by the auditor, and takes account of the safeguards established by the auditor against loss of audit independence, including rotation of the audit partner and other key members of the audit team.

The Committee believes that in certain limited circumstances non-audit work may be carried out by the external auditor. The allocation of non-audit work is considered by reference to the company's policy on the provision of non-audit services by the auditor, which can be found on the company's website. This policy is aimed at ensuring their continued independence.The use of the external auditor for services relating to accounting systems or financial statements is not permitted, nor are various other services which could give rise to conflicts of interest or other threats to the auditor's objectivity that cannot be reduced to an acceptable level by applying safeguards. The Committee believes that there is non-audit work such as certain assurance and advisory services that may be best performed by the auditor as a result of their unique knowledge of the company. Any material non-audit work of this nature requires approval by the Committee. The policy and overall fees paid to our auditor are also reviewed on an annual basis by the Committee.

Deloitte are required to confirm to the Committee that they have both the appropriate independence and objectivity to allow them to continue to serve the members of the company. The Committee also requires the external auditor to confirm that in providing non-audit services, they comply with the Ethical Standards for auditor issued by the UK Auditing Practices Board. This confirmation was received for 2012.

In accordance with the Ethical Standards for auditor, the audit engagement partner rotates at least every five years. The current audit engagement partner is David Paterson who has been in the role since the auditor's limited review of the 2012 half-year results.

The Committee reviews the expertise, performance and effectiveness of the auditor. On the basis of the reviews carried out, the Committee recommended to the Board that it should propose the reappointment of Deloitte as the external auditor of the company.

By order of the Board

D C Lindsell
Chairman of the Audit and Risk Committee

20 March 2013

COMPANY RISK FACTORS

Premier's business may be impacted by various risks leading to failure to achieve strategic targets for growth, loss of financial standing, cash flow and earnings, and reputation. Not all of these risks are wholly within the company's control and the company may be affected by risks which are not yet manifest or reasonably foreseeable.

Effective risk management is critical to achieving our strategic objectives and protecting our personnel, assets, the communities where we operate and with whom we interact and our reputation. Premier therefore has a comprehensive approach to risk management as set out in more detail in the Corporate Governance Report.

A critical part of the risk management process is to assess the impact and likelihood of risks occurring so that appropriate mitigation plans can be developed and implemented. Risk severity matrices are developed across Premier's business to facilitate assessment of risk. The specific risks identified by departments, project and asset teams, business units and corporate functions are consolidated and amalgamated to provide an oversight of key risk factors at each level from operations through business unit management to Executive Committee and Board level.

For all the known risks facing the business, Premier attempts to minimise the likelihood and mitigate the impact. According to the nature of the risk, Premier may elect to take or tolerate risk, treat risk with controls and mitigating actions, transfer risk to third parties or terminate risk by ceasing particular activities or operations. Premier has a zero tolerance to financial fraud or ethics non-compliance, and ensures that HSES risks are managed to levels that are as low as reasonably practicable, whilst managing exploration and development risks on a portfolio basis.

The key risk factors identified from this approach are represented in the matrix below and the accompanying table summarises their potential impacts and our approach to managing them. The assessment of the impact and likelihood takes into account the risk mitigation measures currently applied.

COMPANY RISK FACTORS (continued)

Key risk factor	Risk detail	How is it managed?
Health, safety, environment and security (HSES)	Major process safety incident or operational accident, natural disasters, pandemics, social unrest, civil war. Consequences may include accidents resulting in loss of life, injury and/or significant pollution of the local environment, destruction of facilities and disruption to business activities.	Comprehensive HSES and operations management systems including emergency response and oil spill response capability and asset integrity. Active security monitoring and management and regular testing of business continuity plans. Learning from company and third-party incidents.
Production and development delivery	Uncertain geology and reservoir performance leading to lower production and reserves recovery. 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 operational problems and production loss or development delay. Consequences may include lower production and/or recovery of reserves, production delays, cost overruns and/or failure to fulfil contractual commitments.	Geoscience and reservoir engineering management systems, including rigorous production forecasting and independent reserves auditing processes. Operations, development and project execution management systems and cost controls together with capable project teams. Long-term development planning to ensure timely access to FPSOs, rigs and other essential services.
Exploration success and reserves addition	Failure to identify and capture acreage and resource opportunities to provide a portfolio of drillable exploration prospects and sufficient development projects to achieve reserves addition targets. Consequences may be that specific exploration programmes may fail to add reserves and hence value. Failure to negotiate access rights or close transactions could slow growth of reserves and production and lead to loss of competitive advantage.	Strong portfolio management and alignment with strategic growth targets. Appropriate balance between growth by exploration and acquisition. Exploration management systems including comprehensive peer review with focus on geologies in core areas we know well and in which we can build a competitive advantage. Focused mergers and acquisitions effort focusing on geographical and technical areas aligned with our strategy. Diligence in acquisition process and post-acquisition integration to ensure targeted returns.
Host government – political and fiscal risks	Premier operates in some countries where political, economic and social transition is taking place or there are current sovereignty disputes. Developments in politics, laws and regulations can affect our operations and earnings. Consequences may include forced divestment of assets; limits on production or cost recovery; import and export restrictions; international conflicts, including war, civil unrest and local security concerns that threaten the safe operation of company facilities; price controls, tax increases and other retroactive tax claims; expropriation of property; cancellation of contract rights; and increase in regulatory burden. It is difficult to predict the timing or severity of these occurrences or their potential impact.	Premier's portfolio includes operations in both low and higher risk environments. Premier actively monitors the local situation and has business continuity plans in each area which can be activated depending on predefined levels of alert. Premier strives to be a good corporate citizen globally, and fosters reputation by strong and positive relationships with government and communities where we do business. Premier engages in respectful industry-wide lobby and sustainable corporate responsibility and community investment programmes. Rigorous adherence to Premier's business ethics policy and code of conduct. Continuous monitoring of the external environment for emerging risks to the business.

Key risk factor	Risk detail	How is it managed?
Commodity price volatility	Oil and gas prices are affected by global supply and demand and price can be subject to significant fluctuations. Factors that influence these include operational issues, natural disasters, weather, political instability, or conflicts and economic conditions or actions by major oil-exporting countries. Price fluctuations can affect our business assumptions and can effect investment decisions and financial capability.	Oil and gas hedging programmes to underpin our financial strength and capacity to fund our future developments and operations. Premier investment guidelines ensure that our development programmes are robust to downside sensitivity price scenarios.
Organisational capability	Risk that the capability of the organisation is not adequate to deliver plans for strategic growth. The capability of the organisation is a function of both the strength of its human resources and its business management systems. Inadequate systems or lack of compliance may lead to loss of value and failure to achieve growth targets. Loss of personnel to competitors, inability to attract and retain quality human resources and competency gaps could affect our operational performance and delivery of growth strategy.	Premier has created a competitive remuneration and retention package including bonus and long-term incentive plans to incentivise loyalty and good performance from the existing, highly skilled workforce. Premier is continuing to strengthen its organisational capability to achieve strategic objectives. This includes resource planning, competency development, training and development programmes, succession planning including leadership development. Continuous strengthening of business management systems and controls as appropriate to the size and market position of the company.
Joint venture partner alignment	Global operations in the oil and gas industry are conducted in a joint venture environment. There is a risk that joint venture partners are not aligned in their objectives and drivers and this may lead to inefficiencies and/or delays. Many of our major projects are operated by our joint venture partners and our ability to influence our partners is sometimes limited due to our small shares in such ventures.	Due diligence and continuous and regular engagement with partners in joint ventures in both operated and non-operated projects. Premier takes strategic acquisition opportunities where appropriate to gain a greater degree of influence and control.
Financial discipline and governance	Risk that sufficient funds are not available to finance the business. Risk of financial fraud.	Strong financial discipline and balance sheet. Premier 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. Premier maintains access to capital markets through the cycle. The management system includes policies and a delegation of authority manual to reasonably protect against risk of financial fraud in the group. An insurance programme is put in place to reduce the potential impact of the physical risks associated with exploration and production activities. In addition, business interruption cover is purchased for a proportion of the cash flow from producing fields. Cash balances are invested in short-term deposits with minimum A credit rating banks, AAA managed liquidity funds and A1/P1 commercial paper, subject to Board approved limits.

NOMINATION COMMITTEE REPORT

Mike Welton
Chairman

On behalf of the Nomination Committee, I am pleased to present our report in relation to the financial year ended 31 December 2012.

Composition and role of the Nomination Committee

The Committee meets under my chairmanship and, in addition to myself, comprises Joe Darby, Jane Hinkley, David Lindsell, Simon Lockett, Michel Romieu and David Roberts. The Board considers the membership of the Committee to be in compliance with the Code.

The role of the Committee includes:

- reviewing the structure, size and composition of the Board and making recommendations to the Board with regard to any adjustments that are deemed necessary. This requires an ongoing assessment of the appropriate skills-mix required at Board level in light of the strategy of the company in the medium-term;
- responsibility for identifying and nominating candidates, subject to Board approval, to fill Board vacancies as and when they arise and to prepare a description of the role and capabilities required for a particular appointment; and
- reviewing the development and leadership potential of senior executives below Board level and ensuring that appropriate succession plans are in place for both Board and senior positions.

The Committee met once in 2012 to discuss and agree on:

- Management Succession – with emphasis on the new leadership development programme which was rolled out in the organisation during the year and which is designed to develop the competence of our staff; and
- The Challenges Facing the Leadership of the Business - with emphasis on the need for good governance, clear accountabilities and communication. These issues influenced discussions at the Board which resulted in organisational changes in 2012, key elements of which are summarised in the Corporate Governance Report.

By order of the Board

M W Welton
Chairman of the Nomination Committee

20 March 2013

REPORT OF THE DIRECTORS

The directors present their annual report on the affairs of the group, together with the audited group financial statements for the year ended 31 December 2012. The Corporate Governance Report set out on pages 42 to 47 forms part of this report.

Results and dividends

The group's net profit for the year amounted to US$252.0 million (2011: profit of US$171.2 million).

The directors propose a final dividend of 5 pence per ordinary share. Subject to shareholder approval at the 2013 AGM, the final dividend will be paid on 14 June 2013 to shareholders whose names appear on the Register of Members on 17 May 2013.

Principal activities

The principal activities of the group are oil and gas exploration, development and production. The group operates through subsidiary undertakings and joint ventures, details of which are shown in note 10 in the notes to the consolidated financial statements.

Business review

The company is required by the Companies Act 2006 to set out in this report a fair review of the business of the group during the financial year-ended 31 December 2012 and of the position of the group at the end of the year (the business review). The information that fulfils the requirements of the business review can be found in the following sections of the Annual Report and Financial Statements:

- Chief Executive's Review
- Financial Review
- Company Risk Factors
- Key Performance Indicators
- Environmental, employee, social and community matters, within the Corporate Responsibility Report

The Chairman's Statement, Chief Executive's Review and the Financial Review also include details of expected future developments in the business of the group.

Annual General Meeting (AGM)

The company's 11th AGM will be held on Friday 7 June 2013 at 11.00am. The Notice of the AGM, together with details of all resolutions which will be placed before the meeting accompanies this report.

Directors

The directors who served throughout the year (except as noted) were as follows:

- Mr Mike Welton (Chairman)[3]
- Mr Robin Allan
- Mr Joe Darby (senior independent non-executive director)[4, 5, 6]
- Mr Tony Durrant
- Mr Neil Hawkings
- Ms Jane Hinkley[1, 6]
- Mr David Lindsell[2, 4, 6]
- Mr Simon Lockett (Chief Executive)[6]
- Mr Andrew Lodge
- Professor David Roberts[4, 6]
- Mr Michel Romieu[5, 6]

Notes:

1. Chairman of the Remuneration Committee
2. Chairman of the Audit and Risk Committee
3. Chairman of the Nomination Committee
4. Member of the Remuneration Committee
5. Member of the Audit and Risk Committee
6. Member of the Nomination Committee

Biographical details of all directors can be found in the Board of Directors section of the Annual Report and Financial Statements.

REPORT OF THE DIRECTORS (continued)

Directors' election

In accordance with best practice for FTSE 350 companies as published in the Financial Reporting Council's UK Corporate Governance Code (the Code), all directors will stand for annual re-election by shareholders.

With regard to the appointment and replacement of directors, the company is governed by its Articles of Association, the Code, the Companies Act 2006 and related legislation. The powers of directors are described in the Corporate Governance Report and in the Matters Reserved for Board Decision, a copy of which can be found on the company's website (www.premier-oil.com). The company's Articles of Association may only be amended by special resolution at a General Meeting of the shareholders.

Directors' interests

The table below summarises the directors' interests in shares that are owned outright. This includes any shares owned by a spouse, and, for executive directors, also includes Share Incentive Plan (SIP) Partnership shares and SIP Matching shares held for more than three years.

Name	At 1 January 2012	At 31 December 2012	At 20 March 2013
R A Allan	185,310	139,229	139,467
J Darby	23,108	23,108	23,108
A R C Durrant	631,185	849,273	849,511
N Hawkings[1]	340,485	548,282	548,520
I J Hinkley	4,000	4,000	4,000
D C Lindsell	17,332	17,332	17,332
S C Lockett	937,573	1,188,692	1,188,930
A G Lodge	139,078	213,732	213,970
D G Roberts	–	–	–
M Romieu	–	–	–
M W Welton	22,531	22,531	22,531

Notes:

1. This includes Ordinary Shares held by Mr N Hawkings' wife (138,416 Ordinary Shares held as at 1 January 2012, 31 December 2012 and as at 20 March 2013).

Directors' interests in share options, deferred bonus shares, Deferred and Matching Share Awards under the Asset and Equity Plan, Performance Share Awards, Deferred and Matching Share Awards under the Long Term Incentive Plan and Share Incentive Plan entitlements are shown in the Remuneration Report together with details of the remuneration of all directors who served during the year.

Directors' indemnities

The company has granted an indemnity to all of its directors under which the company will, to the fullest extent permitted by law and to the extent provided by the Articles of Association, indemnify them against all costs, charges, losses and liabilities incurred by them in the execution of their duties.

Share capital

Details of the issued share capital, together with details of the movements in the company's issued share capital during the year are shown in note 19 to the consolidated financial statements. The company has one class of Ordinary Share which carries no right to fixed income. Each share carries the right to one vote at General Meetings of the company.

There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provisions of the Articles of Association and prevailing legislation. The directors are not aware of any agreements between holders of the company's shares that may result in restrictions on the transfer of securities or on voting rights. Details of employee share schemes are set out in note 19. The voting rights in relation to the shares held within the Employee Benefit Trust are exercisable by the trustees. Details of the number of shares held by the Employee Benefit Trust are set out in the Remuneration Report on pages 58 to 79. No person has any special rights of control over the company's share capital and all issued shares are fully-paid.

Substantial shareholders

At 20 March 2013 the company had received notification from the following institutions, in accordance with Chapter 5 of the Disclosure and Transparency Rules, of interests in excess of three per cent of the company's issued Ordinary Shares with voting rights:

Name of shareholder	Notified number of voting rights	Notified percentage of voting rights	Nature of holding[1]
BlackRock Inc†	11,224,700	9.790%	Indirect
AXA SA & group companies*	40,173,814	8.580%	Indirect
Schroders plc	27,072,247	5.118%	Indirect
Ameriprise Financial Inc	24,666,346	4.663%	Indirect
Aviva plc*	3,859,897	4.870%	Direct
Bear, Stearns International Trading Ltd†	2,552,847	3.109%	Direct
BNP Paribas Investment Partners S.A.	16,219,276	3.070%	Direct
Norges Bank	15,905,661	3.010%	Direct

Notes:

† Where notifications were made prior to the Share Split in May 2011, numbers have not been adjusted.

* Where notifications were made prior to the issue of shares in respect of the EnCore transaction, numbers have not been adjusted.

1. Where the nature of the holding is both direct and indirect, the larger holding has been quoted.

Supplier payment policy

The group's policy in respect of its suppliers is to establish terms of payment when agreeing the terms of business transactions and to abide by the terms of payment. The group's normal payment terms are four weeks.

Hedging and risk management

Details of the group's policy on hedging and risk management are provided in the Financial Review. A further disclosure has been made in note 17 of the notes to the consolidated financial statements related to various financial instruments and exposure of the group to price, credit, liquidity and cash flow risk.

Subsequent events

Post balance sheet events are disclosed in note 26 of the notes to the consolidated financial statements.

Charitable and political donations

During the year the group made charitable contributions amounting to US$396,443 (2011: US$302,221). No political contributions were made during the year (2011: US$nil).

Significant agreements – change of control

There are a number of agreements that take effect, alter or terminate upon a change of control of the company such as commercial contracts, bank loan agreements, property lease arrangements and employees' share plans. None of these individually is considered to be significant in terms of their likely impact on the business of the group as a whole.

Furthermore, the directors are not aware of any agreements between the company and its directors or employees that provide for compensation for loss of office or employment that occurs because of a takeover bid.

Auditor

Each of the persons who is a director at the date of approval of this Annual Report and Financial Statements confirms that:

- so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- the director has taken all the 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.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.
A resolution to reappoint Deloitte LLP as auditor will be put to shareholders at the forthcoming AGM.

By Order of the Board

S C Huddle
Company Secretary

20 March 2013

REMUNERATION REPORT

Dear fellow shareholder

On behalf of the Board, I am pleased to present the 2012 Directors' Remuneration Report, for which we are seeking approval from shareholders at our Annual General Meeting.

The Remuneration Committee aims to ensure that our remuneration policy serves shareholder interests and closely reflects the group's business strategy. The Committee is mindful of the need to demonstrate the link between remuneration and performance and to incentivise its employees. To this end, Premier operates a similar philosophy to pay throughout the organisation and all employees, including executive directors, receive awards under the same incentive schemes, thus ensuring group-wide focus on common business goals.

Jane Hinkley
Chairman of the Remuneration Committee

During 2012, the Committee undertook a full review of the executive remuneration arrangements at Premier, taking into account shareholder views from the 2011 consultation, the company's strategy, market practice and evolving best practice guidelines. The review concluded that:

- The pay mix, being heavily weighted towards long-term variable elements, is in the best interests of shareholders as it ensures a long-term focus, direct alignment with shareholders and a highly performance-oriented culture;
- The annual bonus, based on a corporate scorecard capturing financial, operational and strategic objectives, helps reward shorter-term objectives key to achieving our long-term strategy;
- The Long Term Incentive Plan (LTIP) ensures alignment with shareholders, being based on both absolute and relative Total Shareholder Return (TSR), and measured over a total of six years;
- The significant deferral requirement of vested LTIP Equity Pool and LTIP Performance Share awards helps support staff retention and lengthens the incentive time horizon;
- Against our comparators, total cash (i.e. salary plus bonus) for our executive directors is below market. The LTIP is geared to provide the opportunity to achieve above market levels of pay only through exceptional sustained relative TSR performance over six years; and
- The review of the company's underlying performance before LTIP payouts are finalised ensures that the impact of external factors are taken into account where appropriate. The Committee reviews a range of measures, and not just those specified in the plan, to ensure this assessment is robust.

As a result of the review, the Committee concluded that the aims and structure of the remuneration packages are embodied in the existing policy and therefore it remains appropriate for 2013.

The LTIP is structured so as to reward both absolute and relative share price performance, thereby directly aligning the interests of executives and shareholders. Over the 2010 LTIP cycle ending in December 2012, even though Premier's absolute share price performance was positive (at 5.1 per cent p.a.), the LTIP Equity Pool threshold of 10 per cent p.a. was not met and consequently no awards were earned for this element. Over the same period, however, Premier's relative performance against its sector peers was strong (at just below upper quartile) and consequently 2010 LTIP Performance Share Awards and 2010 LTIP Matching Share Awards will partially vest in early 2013 (at approximately 90 per cent and approximately 65 per cent of maximum respectively). As detailed later in the report, the Committee also considered the underlying performance of Premier over the three-year period and concluded that the performance merits the awards made.

Remuneration issues across all sectors continue to be in the spotlight. To stay ahead of requirements we have incorporated a number of changes in this report consistent with the draft proposals that have been tabled by the Department for Business Innovation & Skills (BIS) during 2012. However, as set out in the Notice of Annual General Meeting this year there will continue to be a single advisory vote on this report.

On behalf of the Board I would like to thank shareholders for their continuing support.

Yours sincerely

I J Hinkley
Chairman of the Remuneration Committee

20 March 2013

Compliance

This report has been prepared in accordance with schedule 8 of the Companies Act 2006 and the Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008. The company complied with the provisions of the UK Corporate Governance Code (the Code) regarding best practice on the design of performance-related remuneration. The report has been divided into separate sections for unaudited and audited information.

In line with the Association of British Insurers' Guidelines on Responsible Investment Disclosure, the Committee has reviewed the company's remuneration policy and concluded that the policy will not raise environmental, operational, social or governance risks by inadvertently motivating irresponsible behaviour (e.g. one of the important factors in determining annual bonus performance is the achievement of specific HSES targets).

Remuneration Committee

The Committee currently comprises four non-executive directors and met six times during the year. The members of the Committee and their attendance are summarised below:

Committee member	Member throughout 2012	Number of meetings attended
Ms I J Hinkley	✓	7
Mr J Darby	✓	7
Mr D C Lindsell	✓	6
Professor D G Roberts	✓	6

Note:

There were six scheduled meetings of the Remuneration Committee during the year. The remaining meeting (attended by only Ms I J Hinkley and Mr J Darby) was called to approve the details of arrangements approved in principle by a prior scheduled meeting of the Remuneration Committee.

The Board considers that the membership of the Committee is compliant with the Code recommendations. Stephen Huddle, Company Secretary acts as secretary to the Committee. Nigel Wilson, Corporate Services Director and Lee Johnson, Group Head of HR attend Committee meetings as appropriate. No individual is involved in determining his own remuneration. The determination of the remuneration of the non-executive directors is a matter reserved for the Board excluding the non-executive directors.

The Committee acts within its agreed written terms of reference, which are published on the company's website (www.premier-oil.com).

Committee's main responsibilities

- Considering and determining the remuneration policy for executive directors and senior management
- Considering and determining the total compensation package of each executive director, within this agreed policy
- Considering and advising on the general principles under which remuneration is applied to employees
- Considering the design of, and determining targets for, the annual bonus plan for senior management
- Determining the quantum and performance conditions for the long-term incentive awards
- Determining the policy for pension arrangements, service agreements and termination payments to executive directors and senior management
- Determining the Chairman's fee

Kepler Associates (Kepler) is the independent adviser to the Remuneration Committee. Kepler provides advice on remuneration for executives, analysis on all elements of the remuneration policy, regular market and best practice updates, and also attends Remuneration Committee meetings. Kepler reports directly to the Remuneration Committee and is a signatory to the Code of Conduct for Remuneration Consultants (see www.remunerationconsultantsgroup.com). Kepler provides no other services to the company.

During the year the Committee also took advice from Capita Employee Benefits, in relation to pension policy.

REMUNERATION REPORT (continued)

Remuneration policy for all employees, including executive directors

The company's remuneration policy for all employees is to provide remuneration packages which reward them fairly and responsibly for their contributions. Remuneration packages are intended to be sufficiently competitive to attract, retain and motivate individuals of the quality required to achieve the group's objectives and thereby enhance shareholder value. The Committee takes account of the level of remuneration paid in respect of comparable positions in similar companies. The Committee is informed of pay and conditions throughout the group, including how company-wide pay tracks against the market. When awarding salary increases to executive directors, the Committee takes account of the salary increases across the group.

While all employees participate in the company's incentive structures, the package of executive directors in particular is structured such that the greater part of total remuneration is delivered through long-term share-based incentives to ensure maximum alignment with shareholders. These schemes provide a clear link between pay and performance ensuring that superior remuneration is paid only if superior performance is delivered over a six-year period.

Remuneration in 2012

The table below reports a single figure for total remuneration for each executive director for 2012, calculated in accordance with the methodology set out in the draft regulations issued by BIS in 2012. The value of LTIP awards shown here is different to what has been disclosed under the Directors' emoluments table on page 71. The table below shows the value of LTIP awards for which the performance period ended during 2012, but will be released to participants at a future date. The Directors' emoluments table on page 71 shows the value of LTIP awards that were released to participants during the year.

Remuneration element	S C Lockett £	R A Allan[1] £	A R C Durrant £	N Hawkings £	A G Lodge £
Base salary	530,000	330,000	360,000	330,000	330,000
Annual bonus	238,500	148,500	162,000	148,500	148,500
LTIP Awards[2]	1,539,166	951,441	978,982	951,411	532,859
Pension	251,800	166,900	172,200	140,400	128,700
Benefits	22,022	258,674	23,645	21,395	24,102
Total remuneration	**2,581,488**	**1,855,515**	**1,696,827**	**1,591,706**	**1,164,161**

Notes:

1. Mr R A Allan received additional benefits for the year until 30 September 2012, relating to his expatriate position in Singapore. Mr Allan returned to London in October 2012. Full details of such benefits are disclosed in the Directors' emoluments table on page 71.
2. LTIP awards reflect an estimated value of the 2010 Performance Share Awards (PSA) and 2010 Matching Share Awards. On 19 March 2013, the Committee determined that the 2010 PSA and 2010 Matching Share Award will vest, as soon as the company enters an open period for dealing in shares. An average share price over the three months to 31 December 2012 (£3.45) has been used to calculate the value of the LTIP awards.

Summary of executive director remuneration policy and structure

The key elements of the remuneration packages for executive directors are set out below:

Component	Objective(s)	Policy
Salary	• Support recruitment and retention	• Set with reference to three relevant comparator groups, comprising: (i) international oil and gas sector companies, (ii) the constituents of the LTIP TSR comparator group, and (iii) UK-listed companies of a similar market capitalisation and revenue to Premier • Executive director salaries to be around the mid-market of comparators • When awarding increases, the Committee takes account of company and individual performance, the external market for talent, and salary increases across the group • Adjustments are effective 1 January
Annual bonus	• Reinforces the delivery of key short-term financial and operational objectives	• Opportunity of up to 100 per cent of salary for executive directors • Based on the KPI scorecard. For 2012, consisting of production, exploration, business development, finance and HSES measures. For 2013, the KPI scorecard is largely the same as 2012, but with NAV growth now included. In addition, payout will be partly based (with a 20 per cent weighting) on performance against personal targets • Final bonus outcome is based on the Committee's overall assessment of performance against the scorecard and overall company performance
Deferred bonus	• Extends the time horizon of the bonus	• Any annual bonus earned in excess of 50 per cent of salary is paid in shares and deferred for three years, subject to claw-back (which is explained on page 63)
Long Term Incentive Plan	• Reinforces the delivery of absolute and relative returns to shareholders • Provides alignment with shareholders	• Three LTIP elements: equity pool allocation, performance shares and matching awards • Awards under the equity pool are up to 100 per cent of salary (awards greater than 100 per cent of salary can be made at the Committee's discretion); and performance share grants are 125 per cent of salary (150 per cent for the CEO) • 50 per cent of the shares vesting from the equity pool and performance shares are subject to compulsory deferral for three years and are eligible for a potential match of up to 2.5 : 1 • Vesting is based on (i) the change in equity value per share, (ii) Premier's TSR performance relative to oil and gas sector peers, and (iii) the Committee's assessment of underlying performance • Performance is measured over a total of up to six years • All LTIP awards are subject to claw-back
Pension and benefits	• Provide competitive benefit and pension provision	• Executive directors receive a final salary pension or equivalent contributions • Other benefits include medical cover and life assurance
Share ownership guidelines	• Provides alignment with shareholders	• Executive directors are required to acquire a shareholding worth at least 100 per cent of base salary (200 per cent for the CEO) through the retention of deferred bonus and LTIP shares
Service contracts and exit payment policy	• Provides alignment with best practice	• Service contract for each executive director may be terminated on 12 months' notice • Termination payments will be limited to one year's base salary and benefits, including pension rights • Annual bonus will be payable only for the portion of the notice period worked • LTIP awards vest subject to good and bad leaver provisions

REMUNERATION REPORT (continued)

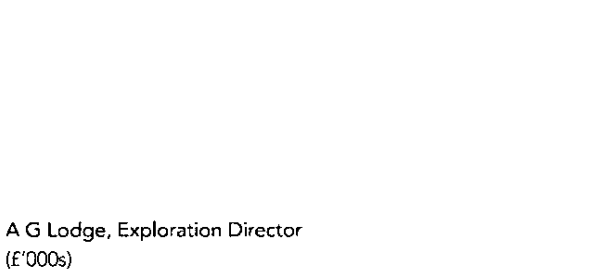
Executive director pay mix

The charts below illustrate the potential reward opportunities for executive directors for 'low', 'median' and 'stretch' performance (see below for assumptions on performance scenarios) based on long-term incentive grants made in 2012. Remuneration is significantly geared towards performance-oriented pay, with particular emphasis on long-term performance. For example, at 'median' performance approximately 54 per cent of the CEO's remuneration package is delivered through variable components, rising to approximately 90 per cent at 'stretch' performance. The maximum value is delivered only if upper quartile TSR is delivered against sector peers over six years, with a requirement for upper decile performance in the last three years. The charts also include the actual remuneration delivered to the executive directors in respect of performance for 2012, for comparison.

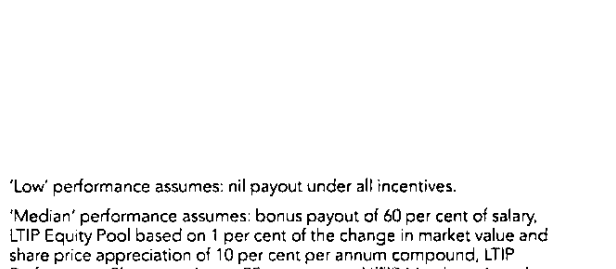
S C Lockett, Chief Executive
(£'000s)

A R C Durrant, Finance Director
(£'000s)

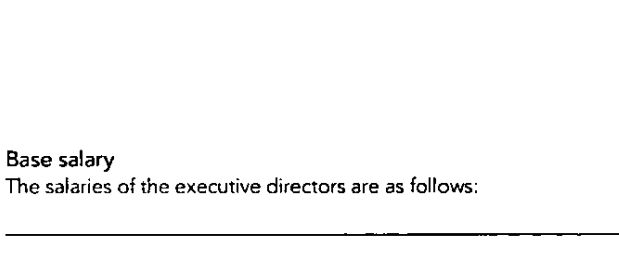
R A Allan, Director, Business Units
(£'000s)



N Hawkings, Operations Director
(£'000s)



A G Lodge, Exploration Director
(£'000s)



'Low' performance assumes: nil payout under all incentives.

'Median' performance assumes: bonus payout of 60 per cent of salary, LTIP Equity Pool based on 1 per cent of the change in market value and share price appreciation of 10 per cent per annum compound, LTIP Performance Shares vesting at 25 per cent, and LTIP Matching Award vesting at 62.5 per cent.

'Stretch' performance assumes all bonus, Performance Shares and Matching Awards vest in full and equity pool share price growth of 20 per cent per annum compound. The value of all long-term incentives is their net present value.

Base salary

The salaries of the executive directors are as follows:

Director	Position	Salary from 1 January 2012 £	Salary from 1 January 2013 £	Percentage increase %
S C Lockett	Chief Executive	530,000	555,000	4.7
R A Allan	Director, Business Units	330,000	345,000	4.5
A R C Durrant	Finance Director	360,000	377,000	4.7
N Hawkings	Operations Director	330,000	345,000	4.5
A G Lodge	Exploration Director	330,000	345,000	4.5

The above increases are lower than the average increases across the group's operations of five per cent.

The Committee will continue to review salaries annually to ensure they remain appropriate, particularly given the current highly competitive talent market in this sector and the fact that it is critical to the company's future success that we retain key talent.

Annual bonus scheme

In line with previous years, executive directors participate in non-pensionable bonus arrangements. The Committee sets yearly targets on the basis of a balanced scorecard comprising KPIs and other corporate objectives. Payout is determined with reference to the balanced scorecard after careful assessment by the Committee and subject to the Committee's discretion based on a broader assessment of overall company performance. Bonuses for executive directors are subject to a maximum of 100 per cent of base salary.

For executive directors and other senior management, any annual bonus earned above 50 per cent of salary is deferred in shares for three years. Deferred bonus shares remain subject to a 'bad leaver' provision. Annual bonus awards are subject to a claw-back provision in the event of a material misstatement of the company's financial results, gross misconduct or error in the calculation of performance conditions.

2012 annual bonus outcome

In assessing 2012 performance, the Committee has taken into account the various measures of the five criteria below, against specific targets. Targets were set at the beginning of 2012 and designed to be stretching but achievable. The exact targets are not disclosed for reasons of commercial sensitivity, however performance in relation to threshold, base and stretch levels is detailed:

		Performance achievement			
Metric	**Measures**	**Below threshold**	**Between threshold and base**	**Between base and stretch**	**At or above stretch**
Health, Safety, Environment and Security (HSES)	Group Total Recordable Injury Rate (TRIR)			✓	
Production	Daily average (mboepd)		✓		
	Exit rate (mboepd)	✓			
	Final Investment Decisions (FIDs) approved in year		✓		
Exploration	Risked prospective resources added (mmboe)				✓
	Finding costs for 2C ÷ 2P resource adds ($/boe)	✓			
	Reserves replacement		✓		
Finance	Net operating cash flow				✓
Business development	Strategic acquisitions				✓

In addition to the achievement against specific targets, the Committee considered the wider overall company performance and awarded annual bonuses of 45 per cent of salary to the executive directors.

The 2013 annual bonus structure is broadly similar to that used for 2012, but with NAV growth now included. In addition, a new element based on personal objectives will be included, with a 20 per cent weighting.

Long Term Incentive Plan (LTIP)

All employees participate in the company's LTIP, approved by shareholders at the 2009 AGM, thereby encouraging a focus throughout the company on longer-term performance and alignment with shareholders.

The LTIP is structured to reinforce the delivery of strong share price growth and relative stock market out-performance over the long-term. Performance is assessed over a minimum of three years, and over six years including the matching scheme. Vesting is based on a combination of the absolute change in the company's equity value per share and the company's relative Total Shareholder Return (TSR) (i.e. share price plus dividends) performance against peers.

During the year, the Committee reviewed the choice of performance measures and in particular, the sensitivity of TSR to changes in oil price. The Committee concluded that TSR remains an appropriate performance measure as it rewards the delivery of the company's strategy and also aligns management's interests with those of shareholders. Absolute TSR captures the absolute return delivered to shareholders and relative TSR measures performance on a relative basis, thereby helping to negate the impact of uncontrollable factors such as oil price movements on the reward delivered through the LTIP.

REMUNERATION REPORT (continued)

Long Term Incentive Plan (LTIP) (continued)
To optimise the link between reward and performance, the plan allows the Committee certain discretions on determining the outcome of the LTIP. Based on its assessment of the company's underlying financial and operational performance, the Committee may:

- reduce the size of the equity pool;
- allow for the equity pool to be fully funded when growth in equity value exceeds 20 per cent p.a.;
- lift the cap of 100 per cent of salary under the equity pool;
- decide whether or not to grant matching shares; and
- reduce the level of vesting for performance shares and matching shares.

In assessing the underlying performance of the company the Committee has previously considered performance against the five metrics noted below, which are specified in the plan. As a result of the review undertaken in 2012, the Committee has broadened the 'inputs' used to determine whether the TSR performance is reflective of the company's underlying financial and operational performance and from 2013 will also consider other measures, such as Net Asset Value per share, finding and development costs per barrel, delivery of the strategy and relative TSR.

Underpin measures
Return on invested capital
Reserves replacement
Operating cash flow
Earnings per share growth
Health and safety record

Further, all LTIP awards are subject to claw-back in the event of a material misstatement of the company's financial results, gross misconduct or material error in the calculation of the performance conditions.

Awards under the LTIP comprise three elements:

Equity Pool Awards:	vest after a three-year performance period and are based on a share of a pool which is subject to annualised growth in the company's equity value per share; the vested award is delivered in shares and 50 per cent of the vested award is deferred for a further three years.
Performance Share Awards:	vest after a three-year performance period based on the company's TSR relative to a comparator group of international oil and gas companies; 50 per cent of the vested award is deferred for a further three years.
Matching Awards:	Deferred Equity Pool Awards and Performance Share Awards are eligible for a Matching Award of up to 2.5 times the number of shares deferred, vesting after a further three years, based on the company's TSR relative to a comparator group of international oil and gas companies.

A single cycle of the LTIP covers a total of six years:

2012	2013	2014	2015	2016	2017	2018
1. LTIP Equity Pool cycle						
2. LTIP Performance Share cycle						
Performance period			***Deferral period***			
Award			50% of vested award is released			Balance is released
			3. LTIP Matching Share cycle			
			Performance period			
			Award			Vested award is released

For participants below senior management, the deferral period is restricted to six months, unless the employee elects to extend the deferral period to three years in return for a grant of an LTIP Matching Award.

The structure of each element of the 2012 LTIP is described in more detail below and it is the Committee's intention that awards granted in 2013 will also be based on this structure.

Equity Pool Award

The value of the LTIP Equity Pool is based on the growth in the company's equity value per share over the performance period (see below). If the company's compound annualised growth is equal to 10 per cent per annum, one per cent of the growth will be credited to the LTIP Equity Pool. For growth of 20 per cent per annum or more, 2.5 per cent of the growth will be credited. For growth of more than 10 per cent but less than 20 per cent, between one per cent and 2.5 per cent of the growth will be credited on a straight-line basis. All employees are eligible to participate in the LTIP Equity Pool.The value of an entitlement is calculated at the end of the performance period and is delivered in shares. Allocations awarded under the 2012 LTIP Equity Pool are detailed on page 75.

Equity Pool funding schedule

Performance Share Award

Performance Share Awards vest subject to the company's three-year TSR relative to a comparator group of oil and gas companies. The oil sector comparators have been selected on the basis of their similarity to Premier with regard to several factors, including business mix and geographic location, and are detailed on page 66.

Matching Award

For executive directors and senior management, 50 per cent of the shares vesting from the LTIP Equity Pool Award and LTIP Performance Share Award are subject to compulsory deferral over three years and, subject to the Committee's discretion, are eligible for a potential match of up to 2.5 : 1 dependent on the TSR performance of the company against the same comparator group used for coterminous LTIP Performance Share Awards as detailed on page 66.

Percentage Share Award and Matching Award vesting schedule

REMUNERATION REPORT (continued)

TSR comparator group constituents, by Performance Share Award cycle

Company	2010	2011	2012	Company	2010	2011	2012
Afren	✓	✓	✓	JKX Oil & Gas	✓	✓	✓
Anadarko Petroleum	✗	✗	✓	Lundin Petroleum	✓	✓	✓
Apache	✗	✗	✓	Medco Energi Internasional	✓	✓	✓
AWE	✓	✓	✗	Melrose Resources	✓	✓	✗
Bankers Petroleum	✗	✗	✓	Newfield Exploration	✗	✗	✓
Beach Energy	✓	✓	✓	Nexen	✓	✓	✓
Cairn Energy	✓	✓	✓	Niko Resources	✓	✓	✗
Cairn India	✓	✓	✓	Noble Energy	✓	✓	✓
Calvalley Petroleum	✓	✓	✗	Noreco	✓	✓	✗
Carrizo Oil & Gas	✓	✓	✓	Oil Search	✓	✓	✓
Coastal Energy	✗	✗	✓	Ophir Energy	✗	✗	✓
Dana Gas	✓	✓	✗	Origin Energy	✗	✗	✓
Det Norske Oljeselskap	✓	✓	✓	PA Resources	✓	✓	✗
Devon Energy	✗	✗	✓	PTT EP	✗	✗	✓
DNO International	✓	✓	✓	Rockhopper Exploration	✗	✗	✓
Dragon Oil	✗	✗	✓	Roc Oil	✓	✓	✗
Endeavour International	✓	✓	✗	Salamander Energy	✓	✓	✓
Energen	✗	✗	✓	Santos	✓	✓	✓
Enquest	✗	✗	✓	Serica Energy	✓	✓	✗
Etab. Maurel et Prom	✓	✓	✓	SOCO International	✓	✓	✓
Faroe Petroleum	✗	✗	✓	Talisman Energy	✓	✓	✓
Gulf Keystone	✗	✗	✓	Tullow Oil	✓	✓	✓
Hardy Oil & Gas	✓	✓	✗	Vaalco Energy	✓	✓	✗
Heritage Oil	✓	✓	✓	Woodside Petroleum	✗	✗	✓

LTIP vesting outcomes in 2012

The 2010 LTIP award cycles completed their three-year performance periods on 31 December 2012 as follows:

- 2010 LTIP Equity Pool cycle: over the performance period, the company's market capitalisation increased from £1,341.7 million to £1,822.7 million, equivalent to growth in equity value per share of 5.1 per cent per annum (after including a £250.0 million adjustment to reflect the increase in the company's share capital as a result of the acquisition of EnCore in January 2012). As a result, awards under the 2010 Equity Pool will not vest as the threshold was not met;
- 2010 LTIP Performance Share cycle: over the performance period the company's TSR relative to its peers was between the median and upper quartile, warranting vesting of 89.9 per cent; and
- 2010 Matching Award cycle (matched over deferred shares granted in 2010 under the AEP 2007 award): over the performance period the company's TSR relative to its peers was between the median and upper quartile, warranting a matching ratio of 1.64 : 1.

The Committee is satisfied that the recorded TSR is reflective of the underlying performance of the company. In assessing the underlying performance of the company the Committee took into account, amongst other factors, the company's earnings per share growth, cash flow, return on invested capital, reserve replacement and health and safety record as shown below.

Earnings per share ($)	Operating cash flow ($m)	Return on invested capital	Reserves and resources (mmboe)	Total recordable injuries rate (per million man-hours)
Earnings per share Increased profitability due to increased production and high oil prices	**Operating cash flow** Net operating cash flow after tax is also increasing in the same context	**Return on invested capital** The number for 2012 has been affected by share issuance for Encore acquisition (which had no income stream)	**Reserves and resources** Significant increase in 2012 mainly due to farm in to Sea Lion discovery	**Total recordable injuries rate** 2012 performance of 1.79 against a budgeted target of 2.0

LTIP vesting outcomes in 2012 (continued)

On 19 March 2013, the Committee determined that the 2010 Performance Share Award (PSA) and 2010 Matching Share Award will vest as soon as the company enters an open period for dealing in shares. For the executive directors, 50 per cent of the PSA will be released immediately on vesting, with the remaining 50 per cent deferred for three years. The LTIP Matching Shares will be released immediately on vesting. The number of shares to vest in 2013 for each of the executive directors is shown in the table below:

Director	Value of vested Equity Pool allocation (£)	Vested Performance Shares	Lapsed Performance Shares	Vested Matching Shares	Lapsed Matching Shares
S C Lockett	–	208,381	23,411	237,754	124,674
R A Allan	–	119,757	13,455	156,023	81,817
A R C Durrant	–	127,740	14,352	156,023	81,817
N Hawkings	–	119,757	13,455	156,023	81,817
A G Lodge	–	119,757	13,455	34,695	18,193

LTIP awards granted in 2012

The table below summarises the LTIP awards granted to executive directors in 2012. The performance for these awards will be measured between 1 January 2012 and 31 December 2014.

LTIP		S C Lockett	R A Allan	A R C Durrant	N Hawkings	A G Lodge
Equity Pool	Vesting subject to change in equity value per share	6% of 2012 Equity Pool	4.25% of 2012 Equity Pool each			
Performance Share Awards	Vesting subject to three-year relative TSR. 25% vests for median performance, with full vesting for upper quartile	150% of salary 186,532 shares	125% of salary 96,785 shares	105,584 shares	96,785 shares	96,785 shares
Matching Share	Vesting subject to three-year relative TSR. 25% vests for median performance, with full vesting for upper decile	568,952 shares	Up to 2.5 x 50% of actual vested awards from 2009 Equity Pool Awards and Performance Share Awards 397,467 shares	407,287 shares	397,467 shares	385,202 shares

TSR performance

The chart below compares the value of £100 invested in Premier shares, including re-invested dividends, on 31 December 2007 compared to the equivalent investment in the FTSE All-Share Oil & Gas Producers Index, over the last five financial years. The FTSE All-Share Oil & Gas Producers Index has been chosen as it comprises companies who are exposed to broadly similar risks and opportunities as Premier.

Five-year TSR performance
Value of £100 invested on 31 December 2007

REMUNERATION REPORT (continued)

Executive directors' interests in shares

The table below summarises the executive directors' interests in shares, including those held under outstanding LTIP, Save As You Earn and Share Incentive Plan awards, as at 31 December 2012. Full details of all outstanding awards are disclosed on pages 74 to 79:

Director	Owned outright as at 31 December 2012[1]	Deferred shares held as at 31 December 2012	Unvested shares or shares subject to performance conditions held as at 31 December 2012	Total as at 31 December 2012
S C Lockett	1,188,692	487,561	1,793,381	**3,469,634**
R A Allan	139,229	335,427	1,195,105	**1,669,761**
A R C Durrant	849,273	347,357	1,191,944	**2,388,574**
N Hawkings	548,282	352,050	1,141,599	**2,041,931**
A G Lodge	213,732	251,445	877,931	**1,343,108**
Total	**2,939,208**	**1,773,840**	**6,199,960**	**10,913,008**

Note:

1. Owned outright includes SIP Partnership shares, SIP Matching shares held for more than three years, and any shares owned by a spouse.

Formal shareholding guidelines exist which encourage the executive directors and other members of the Executive Committee to retain no less than 50 per cent of the net value of shares vesting under the company's deferred bonus and long-term incentive arrangements until such time as they have achieved a holding worth 100 per cent of salary (200 per cent for the CEO). As the graph below shows, all the executive directors hold shares with a value substantially higher than these threshold shareholding requirements.

Shareholdings at 31 December 2012 against guidelines

Note:

Includes value of deferred awards under the annual bonus, Asset and Equity Plan and LTIP (where performance conditions have been achieved and such awards are subject to a holding period). The value of shareholdings is based on the closing price of a Premier share on 31 December 2012 (£3.365).

Sourcing of shares and dilution limits

Awards under all the company's share schemes may be met using a combination of market purchases, financed by the company through the Premier Oil plc Employee Benefit Trust, and newly-issued shares. The company complies with the Association of British Insurers' recommended guidelines on shareholder dilution through employee share schemes: awards under the group's discretionary schemes which may be satisfied by new issue shares must not exceed five per cent of the company's issued share capital in any rolling 10-year period, and the total of all awards satisfied via new issue shares under all plans must not exceed 10 per cent of the company's issued share capital in any rolling 10-year period.

Sourcing of shares and dilution limits (continued)

As of 31 December 2012, 7,640,386 shares were held by the Employee Benefit Trust (2011: 1,973,998) and the commitments to issue new shares are summarised below:

Number of shares issued or committed to be issued in the 10-year period to 31 December 2012		Percentage of issued share capital	Dilution limit	Percentage of dilution limit used
New issue shares under Asset and Equity Plan, LTIP and Executive				
Share Option Schemes within 5 per cent limit	9,427,112	1.78%	26,455,545	35.6%
As above plus Save As Your Earn within 10 per cent limit	10,764,724	2.03%	52,911,091	20.3%

Executive directors' contracts of service and exit payments policy

Details of the service contracts of the executive directors of the company are as follows:

Director	Contract Date	Notice Period	Unexpired term of contract	Potential termination payment
S C Lockett	09.12.03	12 months	Rolling contract	12 months' salary and benefits
R A Allan	09.12.03	12 months	Rolling contract	12 months' salary and benefits
A R C Durrant	01.07.05	12 months	Rolling contract	12 months' salary and benefits
N Hawkings	23.03.06	12 months	Rolling contract	12 months' salary and benefits
A G Lodge	20.04.09	12 months	Rolling contract	12 months' salary and benefits

The service contract of each executive director may be terminated on 12 months' notice in writing by either party, in accordance with current market practice. In such an event, the compensation commitments in respect of their contracts could amount to one year's remuneration based on base salary and benefits in kind and pension rights during the notice period. In line with normal market practice, an individual may receive an annual bonus for the proportion of a financial year worked before cessation of employment but there will be no right to any bonus for any period of notice not worked. There are provisions for termination with less than 12 months' notice by the company in certain circumstances. If such circumstances were to arise, the executive director concerned would have no claim against the company for damages or any other remedy in respect of the termination. The Committee would apply general principles of mitigation to any payment made to a departing executive director and would consider each case on an individual basis.

In the event of an executive leaving the company the LTIP rules provide for vesting in certain circumstances, as follows:

- If the executive leaves as a 'good leaver' (e.g. through retirement, death, injury, disability, redundancy, or for any other reason if the Committee decides) unvested awards will vest on the normal vest date (or earlier if the Committee decides) to the extent that any performance conditions had been satisfied. For awards other than those deferred into the LTIP Matching plan, there will also be a pro-rata reduction in the value of the awards to take into account the proportion of the vesting period not served; and
- If the executive leaves for any other reason (i.e. is a 'bad leaver') unvested awards will lapse.

In the event of a change of control of the company, unvested LTIP awards will vest immediately to the extent that any performance conditions had been satisfied. For awards other than those deferred into the LTIP Matching plan, there will also be a pro-rata reduction in the value of the awards to take into account the proportion of the vesting period not served.

External appointments

Executive directors are entitled to accept non-executive appointments outside the company providing that the Board's approval is sought. Mr A R C Durrant was appointed a non-executive director of Greenergy Fuels Holdings Limited on 1 October 2012 and has retained associated fees for 2012 of £10,000. As a result of the acquisition of EnCore, the company has a 29.65 per cent interest in Egdon Resources plc (Egdon) and is entitled to board representation. Mr A G Lodge was appointed to the board of Egdon as a non-executive director on 9 March 2012 and has elected to donate his fees to several charities (2012: £12,346).

REMUNERATION REPORT (continued)

Non-executive directors

Non-executive directors have letters of appointment, which are all effective for a period of three years (subject to annual reappointment by the members in the Annual General Meeting), all of which have a notice period of three months. There are no arrangements under which any non-executive director is entitled to receive compensation upon the early termination of his or her appointment.

Director	Year appointed director	Number of complete years on the Board	Date of current appointment letter	Notice period	Expiry of current term
M W Welton	2009	3	16.10.12	3 months	16.10.15
D G Roberts	2006	6	19.09.12	3 months	29.06.15
J Darby	2007	5	01.09.10	3 months	01.09.13
I J Hinkley	2010	2	01.09.10	3 months	01.09.13
D C Lindsell	2008	5	17.01.11	3 months	16.01.14
M Romieu	2008	5	17.01.11	3 months	16.01.14

The company's Articles of Association provide that the remuneration paid to non-executive directors is to be determined by the Board within the limits set by the shareholders. Fees for non-executives are reviewed at least every two years, having regard to the size of the company and the time commitments of the non-executives. The Board reviewed the fees of the non-executives, including the Chairman, and decided to increase them for 2013 by six per cent, on the basis that the next review will not be effective until 1 January 2015. The increase is broadly in line with comparable businesses. The fees for 2012 and 2013 are set out below:

		Other non-executive directors		
	Chairman £	Basic fee £	Committee chairmanship £	Senior independent director £
2012	160,000	50,000	10,000	10,000
2013	169,600	53,000	10,600	10,600

The information in this part of the report has been audited

Directors' emoluments

Total emoluments paid to directors (executive and non-executive) for the year ended 31 December 2012 was £4,209,600 (2011: £3,838,900).

The remuneration paid to the executive directors during the year under review is summarised in the table below:

	Salary 2012 £'000	Benefits 2012* £'000	Cash bonus 2012 £'000	Pension benefits 2012• £'000	Other 2012 £'000	Total Emoluments 2012 £'000	Total Emoluments 2011 £'000	Pension contributions 2012• £'000	Shares vested and realisable 2012** £'000	Total remuneration 2012† £'000
S C Lockett[1]	530.0	22.0	238.5	202.1	–	**992.6**	876.0	49.7	2,239.8	**3,282.1**
R A Allan[2]	330.0	21.6	148.5	116.9	237.1	**854.1**	808.0	50.0	1,598.4	**2,502.5**
A R C Durrant[3]	360.0	23.6	162.0	172.2	–	**717.8**	659.6	–	1,617.4	**2,335.2**
N Hawkings[4]	330.0	21.4	148.5	140.4	–	**640.3**	540.7	–	1,669.5	**2,309.8**
A G Lodge[5]	321.5	24.1	148.5	74.7	–	**568.8**	495.1	54.0	655.5	**1,278.3**
Total	**1,871.5**	**112.7**	**846.0**	**706.3**	**237.1**	**3,773.6**	**3,379.4**	**153.7**	**7,780.6**	**11,707.9**

Notes:

* The main benefits provided are medical and dental insurance, car allowance, life assurance, health insurance and a subsidised gym membership.

• Pension benefits include non-bonusable salary supplements and target funding payments which are paid direct to the executive. Pension contributions are paid into a pension scheme and therefore are excluded from the emoluments section in the above table. Full details of pension arrangements for each director are given on page 72 of this report.

** Shares vested and realisable is the sum of the value of various share awards (as at the date of vesting) which have vested during 2012. These relate to the deferred annual bonus, LTIP and AEP matching shares, based on performance periods stretching back as far as 2007 in some cases.

† Total remuneration receivable is the sum of the salary, annual bonus, cash-based benefits, pension benefits, pension contributions and shares vested which became realisable in the year (at the share price on the date of vesting of the award).

1. Mr S C Lockett was paid a non-bonusable salary supplement of £55,185, and a target funding payment of £146,928 as part of his pension arrangements.
2. Mr R A Allan was paid a non-bonusable salary supplement of £14,064, and a target funding payment of £102,839 as part of his pension arrangements. Mr Allan received £175,186 of expatriate benefits in the year to 30 September 2012 and was also paid a non-pensionable and non-bonusable overseas premium of £61,875, relating to his position in Singapore. The company deducted a hypothetical tax equivalent to UK tax rates on Mr Allan's salary, annual bonus and long-term incentive payments. This was offset against local Singapore tax due. As the maximum tax rate in Singapore is lower than in the UK, the difference is retained by the company.
3. Mr A R C Durrant was paid a non-bonusable salary supplement of £63,264 and a target funding payment of £108,884 as part of his pension arrangements.
4. Mr N Hawkings received a non-bonusable salary supplement of £57,996 and a target funding payment of £82,350 as part of his pension arrangements.
5. Mr A G Lodge sacrificed £8,499 of his salary into his pension scheme. He also received a non-bonusable salary supplement of £10,548 and a target funding payment of £64,169 as part of his pension arrangements.

Remuneration paid to the non-executive directors during the year under review is summarised in the table below:

	Total emoluments	
	2012 £'000	2011 £'000
M W Welton (Chairman)	**160.0**	160.0
J Darby	**60.0**	56.1
I J Hinkley	**60.0**	56.1
D C Lindsell	**60.0**	60.0
D G Roberts	**50.0**	50.0
M Romieu	**50.0**	50.0
Former director[1]	–	27.3
Total	**440.0**	459.5

Note:

1. Relates to non-executive director fees for Mr J R W Orange, who retired from the Board in 2011.

REMUNERATION REPORT (continued)

Pension schemes

The company operates a group personal pension plan in the UK together with a funded, registered, defined benefit pension scheme, the Premier Oil plc Retirement and Death Benefits Plan (the 'Scheme') which was closed to new members in 1997. The Scheme provides a pension on broadly a fiftieths accrual basis of up to two-thirds salary at the normal pension age of 60. Benefits are actuarially reduced on early retirement before age 60 and pensions in payment increase in line with the lower of inflation, or five per cent per annum.

The company has operated its own cap on pensionable earnings since April 2006, when the external cap was removed. In the Scheme, the cap is determined at 1 January each year and, for the year to 31 December 2012, this was set at £129,600, and will increase to £137,400 for the year to 31 December 2013.

The company has agreed to provide Messrs S C Lockett, R A Allan, A R C Durrant, N Hawkings and A G Lodge with a pension substantially as if they were contributing members of the Scheme and, in regard to service completed subsequent to their appointment as directors, not subject to the cap. The value of this target pension provision is made available at each director's option in the form of an enhanced level of pension contributions and/or a non-pensionable salary supplement. Regular reviews are carried out to assess the extent to which the payments already made to each director are projected to be sufficient to provide the accrued component of their target pension; where such reviews indicate a shortfall, the company provides an additional, non-pensionable target funding payment.

In respect of 2012, Messrs A R C Durrant and N Hawkings elected to receive a salary supplement, whilst Messrs S C Lockett, R A Allan and A G Lodge elected to receive a combination of pension contributions and a salary supplement.

Messrs R A Allan, N Hawkings and A G Lodge are members of the company's group personal pension plan whilst Mr S C Lockett is a member of the Scheme and also has a personal pension policy.

These payments by the company in respect of pension benefits are summarised below:

	Salary supplements £'000	Pension contributions £'000	Target funding payments £'000	Total £'000
S C Lockett[1]	55.2	49.7	146.9	251.8
R A Allan	14.1	50.0	102.8	166.9
A R C Durrant	63.3	–	108.9	172.2
N Hawkings	58.0	–	82.4	140.4
A G Lodge	10.5	54.0	64.2	128.7

Note:

1. The company's pension contribution for Mr S C Lockett comprised a payment of £17,300 made to his personal pension policy and £32,400 made to the Scheme in respect of his membership thereof.

Pension schemes (continued)

The accrued pension entitlements of the directors who were members (or deemed members) of the Scheme during 2012 are as follows:

	(a) Accrued pension as at 31 December 2012 £'000 pa	(b) Transfer value in respect of (a) as at 31 December 2012 £'000	(c) Accrued pension as at 31 December 2011 £'000 pa	(d) Transfer value in respect of (c) as at 31 December 2011 £'000	(e) Increase from (d) to (b) less contributions by director during 2012 £'000	(f) Transfer value of increase in accrued benefit £'000	(g) Increase in accrued pension (excluding inflation) £'000
S C Lockett	107.6	1,838.8	92.4	1,342.9	465.4	181.1	10.6
R A Allan	53.2	1,073.3	45.8	802.5	252.3	102.9	5.1
A R C Durrant	48.3	1,005.8	40.2	731.7	253.8	127.0	6.1
N Hawkings	39.9	773.0	32.9	550.8	203.7	104.6	5.4
A G Lodge	21.7	485.4	14.8	292.9	174.0	138.7	6.2

Notes:

1. The amounts of accrued pension under (a) and (c) represent the accrued pension entitlements of the director as at the stated dates.
2. The transfer values under (b), (d) and (f) have been calculated in line with the Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 (SI 2008/1050)
3. The increases under (e) are principally due to the additional pension accrued over the year.
4. The amounts under (f) represent the increase in value of the directors' benefits in terms of the value, on the transfer value basis in force at the end of the year, of the excess of the end-year accrued benefits over the start-year accrued benefits (as revalued by price inflation) less contributions by the directors.
5. The values stated above correspond with the target level of final salary pension provision; in practice, the pension benefits for these directors are principally established through individual money purchase arrangements and salary supplements.
6. In addition to the current provision noted above, Mr R A Allan is entitled to a deferred pension under the Scheme in respect of a prior service period with the company between September 1986 and November 1999.
7. Members of the Scheme have the option to pay additional voluntary contributions; none of the directors have elected to do so.

The following payments were made to a former director of the company in respect of unfunded pension liabilities:

	Amount of unfunded pension paid during 2012 £	Amount of unfunded pension paid during 2011 £
J A Heath	**36,910**	35,354

REMUNERATION REPORT (continued)

Annual bonus scheme

Details of shares held in trust in respect of the deferred element of previous annual bonus awards for directors are as follows:

	Date of grant	Number of shares held at 1 January 2012	Number of shares made subject to award during 2012	Event and number of shares	Market price of shares on date of award	Number of shares held at 31 December 2012	Earliest vesting date
S C Lockett	22.01.09	42,312*	–	42,312[a]	185.38p	–	22.01.12
	07.01.10	34,764*	–	–	313.75p	34,764	07.01.13
	25.03.11	26,256	–	–	499.75p	26,256	25.03.14
	19.01.12	–	5,876	–	425.40p	5,876	19.01.15
		103,332	**5,876**	**42,312**		**66,896**	
R A Allan	22.01.09	30,528*	–	30,528[a]	185.38p	–	22.01.12
	07.01.10	23,972*	–	–	313.75p	23,972	07.01.13
	25.03.11	18,108	–	–	499.75p	18,108	25.03.14
	19.01.12	–	3,643	–	425.40p	3,643	19.01.15
		72,608	**3,643**	**30,528**		**45,723**	
A R C Durrant	22.01.09	31,064*	–	31,604[a]	185.38p	–	22.01.12
	07.01.10	25,572*	–	–	313.75p	25,572	07.01.13
	25.03.11	19,312	–	–	499.75p	19,312	25.03.14
	19.01.12	–	3,996	–	425.40p	3,996	19.01.15
		75,948	**3,996**	**31,604**		**48,880**	
N Hawkings	22.01.09	47,204	–	47,204[b]	185.38p	–	22.01.12
	07.01.10	40,636	–	–	313.75p	40,636	07.01.13
	25.03.11	18,108	–	–	499.75p	18,108	25.03.14
	19.01.12	–	3,643	–	425.40p	3,643	19.01.15
		105,948	**3,643**	**47,204**		**62,387**	
A G Lodge	07.01.10	15,408*	–	–	313.75p	15,408	07.01.13
	25.03.11	18,108	–	–	499.75p	18,108	25.03.14
	19.01.12	–	3,643	–	425.40p	3,643	19.01.15
		33,516	**3,643**	**–**		**37,159**	

Notes:

* On 29 March 2010, these awards were changed from conditional awards of shares to restricted shares. Some of the shares were sold to pay income tax and National Insurance contributions payable by Messrs S C Lockett, A R C Durrant and A G Lodge upon the accelerated vesting of the awards, but the amounts received from the sale remain subject to claw-back in the event of the participant leaving Premier other than as a 'good leaver'. In the case of Mr R A Allan, who was an expatriate and therefore not subject to UK tax, a percentage of the shares equal to the percentage tax rate that would have applied had he been subject to UK income tax were withheld. These shares reverted to the Employee Benefit Trust and the company will pay any overseas duties payable by Mr Allan as a result of the vesting of his shares, but the amount paid remains subject to claw-back if Mr Allan leaves Premier other than as a 'good leaver'. The remaining shares are held in a nominee account within the Employee Benefit Trust until the end of the original deferral period, and are forfeitable if the director leaves other than as a 'good leaver'.

(a) Shares released from nominee account on 22 March 2012.

(b) Shares released on 22 March 2012. The mid-market closing price on 22 March 2012 was 426.2p.

Annual bonuses for the year-ended 31 December 2012 were awarded on 23 January 2013. Details of the bonuses awarded to executive directors are given on page 63.

Details of outstanding LTIP awards

LTIP Equity Pool Awards

As at 31 December 2012, three Equity Pools were outstanding, as follows:

			Outstanding Equity Pool allocation (% of Pool)				
Cycle	Performance period	Starting market capitalisation	S C Lockett	R A Allan	A R C Durrant	N Hawkings	A G Lodge
2010	01.01.10 – 31.12.12	£1,342m	5.00%	4.00%	4.00%	4.00%	4.00%
2011	01.01.11 – 31.12.13	£2,101m	6.00%	4.25%	4.25%	4.25%	4.25%
2012	01.01.12 – 31.12.14	£1,703m	6.00%	4.25%	4.25%	4.25%	4.25%

LTIP Performance Shares

In each of 2010, 2011 and 2012, the executive directors were granted LTIP Performance Share Awards over shares with a value of 150 per cent of salary for the CEO and 125 per cent of salary for the other executive directors. As at 31 December 2012, the executive directors have the following allocations under the outstanding Performance Share Awards:

	Date of grant	Awards held at 1 January 2012	Granted	Lapsed	Vested	Awards held at 31 December 2012	Market price of shares on date of award	Performance period	Earliest vesting date
S C Lockett	28.08.09	204,864	–	–	204,864[1]	–	318.50p	01.06.09 – 31.12.11	01.01.12
	27.05.10	231,792	–	–	–	231,792[2]	281.50p	01.01.10 – 31.12.12	01.01.13
	28.06.11	174,337	–	–	–	174,337	428.60p	01.01.11 – 31.12.13	01.01.14
	22.03.12	–	186,532	–	–	186,532	426.20p	01.01.12 – 31.12.14	01.01.15
		610,993	**186,532**	**–**	**204,864**	**592,661**			
R A Allan	28.08.09	117,736	–	–	117,736[1]	–	318.50p	01.06.09 – 31.12.11	01.01.12
	27.05.10	133,212	–	–	–	133,212[2]	281.50p	01.01.10 – 31.12.12	01.01.13
	28.06.11	90,074	–	–	–	90,074	428.60p	01.01.11 – 31.12.13	01.01.14
	22.03.12	–	96,785	–	–	96,785	426.20p	01.01.12 – 31.12.14	01.01.15
		341,022	**96,785**	**–**	**117,736**	**320,071**			
A R C Durrant	28.08.09	125,588	–	–	125,588[1]	–	318.50p	01.06.09 – 31.12.11	01.01.12
	27.05.10	142,092	–	–	–	142,092[2]	281.50p	01.01.10 – 31.12.12	01.01.13
	28.06.11	98,791	–	–	–	98,791	428.60p	01.01.11 – 31.12.13	01.01.14
	22.03.12	–	105,584	–	–	105,584	426.20p	01.01.12 – 31.12.14	01.01.15
		366,471	**105,584**	**–**	**125,588**	**346,467**			
N Hawkings	28.08.09	117,736	–	–	117,736[1]	–	318.50p	01.06.09 – 31.12.11	01.01.12
	27.05.10	133,212	–	–	–	133,212[2]	281.50p	01.01.10 – 31.12.12	01.01.13
	28.06.11	90,074		–	–	90,074	428.60p	01.01.11 – 31.12.13	01.01.14
	22.03.12	–	96,785	–	–	96,785	426.20p	01.01.12 – 31.12.14	01.01.15
		341,022	**96,785**	**–**	**117,736**	**320,071**			
A G Lodge	28.08.09	107,924	–	–	107,924[1]	–	318.50p	01.06.09 – 31.12.11	01.01.12
	27.05.10	133,212	–	–	–	133,212[2]	281.50p	01.01.10 – 31.12.12	01.01.13
	28.06.11	90,074	–	–	–	90,074	428.60p	01.01.11 – 31.12.13	01.01.14
	22.03.12	–	96,785	–	–	96,785	426.20p	01.01.12 – 31.12.14	01.01.15
		331,210	**96,785**	**–**	**107,924**	**320,071**			

Notes:

1. Shares vested on 19 January 2012, as disclosed in the 2011 Annual Report and Financial Statements. The mid-market closing price on the date of vesting was 425.4p.
2. On 19 March 2013, the Committee determined that the 2010 Performance Share Awards will vest as soon as the company enters an open period for dealing in shares. Details of the anticipated vesting schedule for the 2010 LTIP are given on page 67 of this report.

REMUNERATION REPORT (continued)

Outstanding awards under the LTIP

At 31 December 2012, the executive directors held outstanding awards of Deferred Shares and Matching Awards granted under the LTIP as set out below:

	Date of grant	Type of award	Awards held at 1 January 2012	Number of shares made subject to award during 2012[1]	Number of Matching Awards granted during 2012[2]	Event and number of shares	Awards held at 31 December 2012	Market price of shares on date of award	Performance period	Earliest vesting date
S C Lockett	20.01.12	Deferred Share	–	227,581	–	–	227,581	430.10p	–	01.01.15
	22.03.12	Matching Award	–	–	568,952	–	568,952	426.20p	01.01.12 – 31.12.14	01.01.15
			–	**227,581**	**568,952**	**–**	**796,533**			
R A Allan	20.01.12	Deferred Share	–	158,987	–	–	158,987	430.10p	–	01.01.15
	22.03.12	Matching Award	–	–	397,467	–	397,467	426.20p	01.01.12 – 31.12.14	01.01.15
			–	**158,987**	**397,467**	**–**	**556,454**			
A R C Durrant	20.01.12	Deferred Share	–	162,913	–	–	162,913	430.10p	–	01.01.15
	22.03.12	Matching Award	–	–	407,282	–	407,282	426.20p	01.01.12 – 31.12.14	01.01.15
			–	**162,913**	**407,282**	**–**	**570,195**			
N Hawkings	20.01.12	Deferred Share	–	158,987	–	–	158,987	430.10p	–	01.01.15
	22.03.12	Matching Award	–	–	397,467	–	397,467	426.20p	01.01.12 – 31.12.14	01.01.15
			–	**158,987**	**397,467**	**–**	**556,454**			
A G Lodge	20.01.12	Deferred Share	–	154,081	–	–	154,081	430.10p	–	01.01.15
	22.03.12	Matching Award	–	–	385,202	–	385,202	426.20p	01.01.12 – 31.12.14	01.01.15
			–	**154,081**	**385,202**	**–**	**539,283**			

Notes:

1. There are no performance criteria for the Deferred Shares.
2. Matching Awards granted are the maximum award possible under the Matching Award scheme, subject to performance criteria based on TSR against a comparator group of approximately 35 listed companies in the oil and gas sector. Full vesting requires upper decile performance.

Outstanding awards under previous long-term incentive arrangements

Asset and Equity Plan (AEP)

The AEP preceded the LTIP as the company's main long-term incentive and expired in 2009. The AEP had two elements: the Asset Pool and the Equity Pool. The value of the Asset Pool was based on the increase in the net asset value per share of the company over a three-year period and the value of the Equity Pool was based on the increase in equity value per share of the company over a three-year period. In both cases, no pool was created for growth (in asset value or share price) of less than 10 per cent per annum. At growth of 10 per cent per annum, the pools were funded by one per cent of the growth. The funding of the pools was capped at 2.5 per cent of the growth at growth of 20 per cent per annum. The funding rate of the pools increased on a straight-line basis between these two points. In addition, the vesting of awards was subject to the Committee being satisfied that there has been satisfactory improvement in the performance of the company.

The pools were allocated to eligible employees based on their pro-rata entitlement. 50 per cent of vested AEP awards were released in shares at the end of the performance period. The remaining 50 per cent were deferred in shares over three years and are eligible for a Matching Award of up to 2.5 : 1, dependant on the TSR performance of the company relative to a comparator group of oil and gas companies (i.e. on the same basis as LTIP Matching Awards).

Outstanding awards under previous long-term incentive arrangements (continued)
Asset and Equity Plan (AEP) (continued)
At 31 December 2012, the executive directors held several outstanding awards of Deferred Shares and Matching Awards granted under the Asset and Equity Plan as set out below:

	Date of grant	Type of award	Awards held at 1 January 2012	Number of shares made subject to award during 2012[1]	Number of Matching Awards granted during 2012[2]	Event and number of shares	Awards held at 31 December 2012	Market price of shares on date of award	Performance period	Earliest vesting date
S C Lockett	20.04.09	Deferred Share	48,972*	–	–	48,972[3]	–	307.00p	–	01.01.12
	29.05.09	Matching Award	207,528	–	–	207,528[4]	–	284.00p	01.01.09 – 31.12.11	01.01.12
	26.03.10	Deferred Share	85,528*	–	–	–	85,528[5]	302.75p	–	01.01.13
	17.06.10	Matching Award	362,428	–	–	–	362,428[5]	303.50p	01.01.10 – 31.12.12	01.01.13
	25.03.11	Deferred Share	106,344	–	–	–	106,344	499.75p	–	01.01.14
	28.06.11	Matching Award	265,860	–	–	–	265,860	428.60p	01.01.11 – 31.12.13	01.01.14
			1,076,660	**–**	**–**	**256,500**	**820,160**			
R A Allan	20.04.09	Deferred Share	35,544*	–	–	35,544[3]	–	307.00p	–	01.01.12
	29.05.09	Matching Award	150,624	–	–	150,624[4]	–	284.00p	01.01.09 – 31.12.11	01.01.12
	26.03.10	Deferred Share	56,128*	–	–	–	56,128[5]	302.75p	–	01.01.13
	17.06.10	Matching Award	237,840	–	–	–	237,840[5]	303.50p	01.01.10 – 31.12.12	01.01.13
	25.03.11	Deferred Share	73,340	–	–	–	73,340	499.75p	–	01.01.14
	28.06.11	Matching Award	183,350	–	–	–	183,350	428.60p	01.01.11 – 31.12.13	01.01.14
			736,826	**–**	**–**	**186,168**	**550,658**			
A R C Durrant	20.04.09	Deferred Share	35,544*	–	–	35,544[3]	–	307.00p	–	01.01.12
	29.05.09	Matching Award	150,624	–	–	150,624[4]	–	284.00p	01.01.09 – 31.12.11	01.01.12
	26.03.10	Deferred Share	56,128*	–	–	–	56,128[5]	302.75p	–	01.01.13
	17.06.10	Matching Award	237,840	–	–	–	237,840[5]	303.50p	01.01.10 – 31.12.12	01.01.13
	25.03.11	Deferred Share	78,228	–	–	–	78,228	499.75p	–	01.01.14
	28.06.11	Matching Award	195,570	–	–	–	195,570	428.60p	01.01.11 – 31.12.13	01.01.14
			753,934	**–**	**–**	**186,168**	**567,766**			

REMUNERATION REPORT (continued)

Outstanding awards under previous long-term incentive arrangements (continued)
Asset and Equity Plan (AEP) (continued)

	Date of grant	Type of award	Awards held at 1 January 2012	Number of shares made subject to award during 2012[1]	Number of Matching Awards granted during 2012[2]	Event and number of shares	Awards held at 31 December 2012	Market price of shares on date of award	Performance period	Earliest vesting date
N Hawkings	20.04.09	Deferred Share	35,544*	–	–	35,544[3]	–	307.00p	–	01.01.12
	29.05.09	Matching Award	150,624	–	–	150,624[4]	–	284.00p	01.01.09 – 31.12.11	01.01.12
	26.03.10	Deferred Share	56,128*	–	–	–	56,128[5]	302.75p	–	01.01.13
	17.06.10	Matching Award	237,840	–	–	–	237,840[5]	303.50p	01.01.10 – 31.12.12	01.01.13
	25.03.11	Deferred Share	73,340	–	–	–	73,340	499.75p	–	01.01.14
	28.06.11	Matching Award	183,350	–	–	–	183,350	428.60p	01.01.11 – 31.12.13	01.01.14
			736,826	–	–	**186,168**	**550,658**			
A G Lodge	26.03.10	Deferred Share	12,480*	–	–	–	12,480[5]	302.75p	–	01.01.13
	17.06.10	Matching Award	52,888	–	–	–	52,888[5]	303.50p	01.01.10 – 31.12.12	01.01.13
	25.03.11	Deferred Share	46,516	–	–	–	46,516	499.75p	–	01.01.14
	28.06.11	Matching Award	116,290	–	–	–	116,290	428.60p	01.01.11 – 31.12.13	01.01.14
			228,174	–	–	–	**228,174**			

Notes:

* On 29 March 2010, these awards were changed from conditional awards of shares to restricted shares. Some of the shares were sold to pay income tax and National Insurance contributions payable by Messrs S C Lockett, A R C Durrant, N Hawkings and A G Lodge upon the accelerated vesting of the awards, but the amounts received from the sale remain subject to claw-back in the event of the participant leaving Premier other than as a 'good leaver'. In the case of Mr R A Allan, who was an expatriate and therefore was not subject to UK tax, a percentage of the shares were withheld equal to the percentage tax rate that would have applied had he been subject to UK income tax. These shares reverted to the Trust and the company will pay any overseas duties payable by Mr Allan as a result of the vesting of his shares, but the amount paid remains subject to claw-back if Mr Allan leaves Premier other than as a 'good leaver'. The remaining shares are held in a nominee account within the Employee Benefit Trust until the end of the original deferral period, and are forfeitable if the director leaves other than as a 'good leaver'.

1. There are no performance criteria for the Deferred Shares.
2. Matching Awards granted are the maximum award possible under the Matching Award scheme, subject to performance criteria based on TSR against a comparator group of approximately 35 listed companies in the oil and gas sector. Full vesting requires upper decile performance.
3. Awards released net on 19 January 2012, as disclosed in the 2011 Annual Report and Financial Statements.
4. Awards vested 19 January 2012, as disclosed in the 2011 Annual Report and Financial Statements. The mid-market closing price on the date of vesting was 425.4p.
5. On 19 March 2013, the Committee determined that the 2010 Matching Award will vest as soon as the company enters an open period for dealing in shares. Details of the anticipated vesting schedule for the 2010 Matching Award are given on page 67 of this report.

Share option schemes

The executive directors may also participate, on the same terms as all other eligible employees, in a Share Incentive Plan (SIP) and a Save As You Earn (SAYE) scheme.

Savings Related Share Option Scheme 2003

Directors' interests under this scheme are shown below:

	Date of grant	Exercisable dates	Acquisition price per share (£)[1]	Options held at 1 January 2012	Granted	Exercised	Lapsed	Options held at 31 December 2012
R A Allan	03.05.07	01.06.12 – 30.11.12	2.0343	8,048	–	8,048[1]	–	–

Notes:

1. The mid-market closing price was 360.1p on the day of exercise (5 November 2012).

Savings Related Share Option Scheme 2009

Directors' interests under this scheme are shown below:

	Date of grant	Exercisable dates	Acquisition price per share (£)	Options held at 1 January 2012	Granted	Exercised	Lapsed	Options held at 31 December 2012
S C Lockett	05.05.10	01.06.13 – 30.11.13	2.6050	3,480	–	–	–	3,480
R A Allan	03.05.12	01.06.17 – 30.11.17	3.1344	–	4,785	–	–	4,785
A R C Durrant	03.05.12	01.06.17 – 30.11.17	3.1344	–	4,785	–	–	4,785
N Hawkings	03.05.12	01.06.15 – 30.11.15	3.1344	–	2,871	–	–	2,871
A G Lodge	05.05.10	01.06.13 – 30.11.13	2.6050	3,480	–	–	–	3,480

Share Incentive Plan

Shares held beneficially in this plan by the directors during the financial year were as follows:

	Shares held on 1 January 2012	Total Partnership Shares purchased in 2012 at prices between 334p and 441p	Total Matching Shares awarded in 2012 at prices between 334p and 441p, vesting from 2015	Shares held on 31 December 2012	Partnership and Matching Shares acquired between 1 January and 20 March 2013
S C Lockett	17,014	403	403	17,820	204
R A Allan	16,980	403	403	17,786	204
A R C Durrant	6,826	403	403	7,632	204
N Hawkings	6,826	403	403	7,632	204
A G Lodge	2,196	403	403	3,002	204

Share price movements during 2012

The mid-market closing price of the company's shares at 31 December 2012 was £3.365 (31 December 2011: £3.63). The intra-day trading price of the company's shares during 2012 was between £3.143 and £4.527.

By order of the Board

I J Hinkley
Chairman of the Remuneration Committee

20 March 2013

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Annual Report and Financial Statements in accordance with applicable law and regulations.

Group financial statements

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors are required to prepare the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have elected to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the accounts 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 the parent company financial statements, the directors are required to:

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

In preparing the group financial statements, International Accounting Standard 1 – 'Presentation of Financial Statements' - requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the company's and group's ability to continue as a going concern.

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 group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website (www.premier-oil.com). Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' responsibility statement

We confirm to the best of our knowledge:

1. the financial statements, prepared in accordance with the applicable international financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and
2. the business review, which is incorporated into the Directors' Report, includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face.

By order of the Board

S C Lockett
Chief Executive
20 March 2013

A R C Durrant
Finance Director
20 March 2013

ACCOUNTING POLICIES

General information

Premier Oil plc is a limited company incorporated in Scotland and listed on the London Stock Exchange. The address of the registered office is Premier Oil plc, 4th Floor, Saltire Court, 20 Castle Terrace, Edinburgh, EH1 2EN. The principal activities of the company and its subsidiaries (the group) are oil and gas exploration and production in the North Sea, Asia, the Falkland Islands, Middle East, Africa and Pakistan.

These financial statements are presented in US dollars since that is the currency in which the majority of the group's transactions are denominated.

Adoption of new and revised standards

In the current year the following new and revised Standards and Interpretations have been adopted, these have no material impact on the group's annual results:

- IAS 1 (amended) – 'Presentation of Items of Other Comprehensive Income'
- IAS 12 (amended) – 'Deferred Tax: Recovery of Underlying Assets'
- IAS 19 (revised) – 'Employee Benefits'
- IFRS 7 (amended) – 'Disclosures – Transfers of Financial Assets'

At the date of authorisation 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 (and in some cases had not yet been adopted by the European Union):

- IFRS 1 (amended) – 'Government Loans'
- IFRS 7 (amended) – 'Disclosures – Offsetting Financial Assets and Financial Liabilities'
- IFRS 9 – 'Financial Instruments'
- IFRS 10 – 'Consolidated Financial Statements'
- IFRS 10, IFRS 12 and IAS 27 – 'Investment Entities (amended)'
- IFRS 11 – 'Joint Arrangements'
- IFRS 12 – 'Disclosure of Interests in Other Entities'
- IFRS 13 – 'Fair Value Measurement'
- IAS 27 (revised) – 'Separate Financial Statements'
- IAS 28 (revised) – 'Investments in Associates and Joint Ventures'
- IAS 32 (amended) – 'Offsetting Financial Assets and Financial Liabilities'
- IFRIC 20 – 'Stripping Costs in the Production Phase of a Surface Mine'

Other than to expand certain disclosures within the financial statements, the directors do not expect that the adoption of the other standards and interpretations listed above will have a material impact on the financial statements of the group in future periods.

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

The financial statements are prepared under the historical cost convention except for the revaluation of financial instruments and certain oil and gas properties at the transition date to IFRS.

The financial statements have been prepared on the going concern basis. Further information relating to the going concern assumption is provided in the Financial Review.

During the year, management changed the organisational structure of the group and the previous three regional setups were restructured to form seven business units; namely the Falkland Islands, Indonesia, Norway, Pakistan, the United Kingdom, Vietnam and Rest of the World. The segmental information for the comparative year contained within these financial statements has been re-presented to reflect this change.

ACCOUNTING POLICIES (continued)

The principal accounting policies adopted are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the company and entities controlled by the company (its subsidiaries) made up to 31 December each year. Control is achieved where the company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by other members of the group.

All significant inter-company transactions and balances between group entities are eliminated on consolidation.

Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition date fair value. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments (see below). All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with relevant IFRSs. Changes in the fair value of contingent consideration classified as equity are not recognised.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3(2008) are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively;
- liabilities or equity instruments related to the replacement by the group of an acquiree's share-based payment awards are measured in accordance with IFRS 2 Share-based Payment; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see below), or additional assets or liabilities are recognised to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

The measurement period is the period from the date of acquisition to the date the group obtains complete information about facts and circumstances that existed as of the acquisition date, and is subject to a maximum of one year.

Goodwill

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred over the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed.

If, after reassessment, the group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the excess is recognised immediately in profit or loss as a bargain purchase gain.

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication the unit may be impaired. If the recoverable amount of the cash generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Interest in joint ventures

A joint venture is a contractual arrangement whereby the group and other parties undertake an economic activity that is subject to joint control.

Where a group company undertakes its activities under joint venture arrangements directly, the group's shares of jointly controlled assets and any liabilities incurred jointly with other venturers are recognised in the financial statements of the relevant company and classified according to their nature.

Liabilities and expenses incurred directly in respect of interests in jointly controlled assets are accounted for on an accrual basis. Income from the sale or use of the group's share of the output of jointly controlled assets, and its share of joint venture expenses, are recognised when it is probable that the economic benefits associated with the transactions will flow to/from the group and their amount can be measured reliably.

Joint venture arrangements which involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities. The group reports its interests in jointly controlled entities using proportionate consolidation – the group's share of the assets, liabilities, income and expenses of jointly controlled entities are combined with the equivalent items in the consolidated financial statements on a line-by-line basis.

Where the group transacts with its jointly controlled entities, unrealised profits and losses are eliminated to the extent of the group's interest in the joint venture.

Sales revenue and other income

Sales of petroleum production are recognised when goods are delivered or the title has passed to the customer.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Oil and gas assets

The company applies the successful efforts method of accounting for exploration and evaluation (E&E) costs, having regard to the requirements of IFRS 6 –'Exploration for and Evaluation of Mineral Resources'.

(a) **Exploration and evaluation assets**

Under the successful efforts method of accounting, all licence acquisition, exploration and appraisal costs are initially capitalised in well, field or specific exploration cost centres as appropriate, pending determination. Expenditure incurred during the various exploration and appraisal phases is then written off unless commercial reserves have been established or the determination process has not been completed.

Pre-licence costs

Costs incurred prior to having obtained the legal rights to explore an area are expensed directly to the income statement as they are incurred.

Exploration and evaluation costs

Costs of E&E are initially capitalised as E&E assets. Payments to acquire the legal right to explore, costs of technical services and studies, seismic acquisition, exploratory drilling and testing are capitalised as intangible E&E assets.

Tangible assets used in E&E activities (such as the group's vehicles, drilling rigs, seismic equipment and other property, plant and equipment used by the company's exploration function) are classified as property, plant and equipment. However, to the extent that such a tangible asset is consumed in developing an intangible E&E asset, the amount reflecting that consumption is recorded as part of the cost of the intangible asset. Such intangible costs include directly attributable overhead, including the depreciation of property, plant and equipment utilised in E&E activities, together with the cost of other materials consumed during the exploration and evaluation phases.

E&E costs are not amortised prior to the conclusion of appraisal activities.

Treatment of E&E assets at conclusion of appraisal activities

Intangible E&E assets related to each exploration licence/prospect are carried forward, until the existence (or otherwise) of commercial reserves has been determined subject to certain limitations including review for indications of impairment. If commercial reserves have been discovered, the carrying value, after any impairment loss, of the relevant E&E assets, is then reclassified as development and production assets. If, however, commercial reserves have not been found, the capitalised costs are charged to expense after conclusion of appraisal activities.

(b) **Development and production 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 E&E assets, as outlined in accounting policy (a) above.

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.

ACCOUNTING POLICIES (continued)

Oil and gas assets (continued)

(b) **Development and production assets** (continued)

Depreciation of producing assets

The net book values of producing assets are depreciated generally on a field-by-field basis using the unit-of-production method by reference to the ratio of production in the year 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 unit-of-throughput basis.

(c) **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 flows of each field are interdependent.

Any impairment identified is charged to the income statement as additional depreciation. Where conditions giving rise to impairment subsequently reverse, the effect of the impairment charge is also reversed as a credit to the income statement, net of any depreciation that would have been charged since the impairment.

(d) **Acquisitions, asset purchases and disposals**

Acquisitions of oil and gas properties are accounted for under the acquisition method when the assets acquired and liabilities assumed constitute a business.

Transactions involving the purchase of an individual field interest, or a group of field interests, that do not constitute a business, are treated as asset purchases irrespective of whether the specific transactions involve the transfer of the field interests directly or the transfer of an incorporated entity. Accordingly, no goodwill and no deferred tax gross up arises, and the consideration is allocated to the assets and liabilities purchased on an appropriate basis.

Proceeds on disposal are applied to the carrying amount of the specific intangible asset or development and production assets disposed of and any surplus is recorded as a gain on disposal in the income statement.

(e) **Decommissioning**

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 amount equivalent to the provision is also recognised as part of the cost of the related oil and gas property. 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 dealt with prospectively as an adjustment to the provision and the oil and gas property. The unwinding of the discount is included as a finance cost.

Inventories

Inventories, except for petroleum products, are valued at the lower of cost and net realisable value. Petroleum products and under and over lifts of crude oil are recorded at net realisable value, under inventories and other debtors or creditors respectively.

Tax

The tax expense/credit represents the sum of the tax currently payable/recoverable and deferred tax movements during the year.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The group's liability for current tax is calculated using tax rates 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.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Tax (continued)
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 group reassesses its unrecognised deferred tax asset each year taking into account changes in oil and gas prices, the group'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 at the balance sheet date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same tax authority and the group intends to settle its current tax assets and liabilities on a net basis.

Translation of foreign currencies
In the accounts of individual companies, transactions denominated in foreign currencies, being currencies other than the functional currency, are recorded in the local 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 the balance sheet date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. 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 income statement. Non-monetary assets held at historic cost are translated at the date of purchase and are not retranslated.

On consolidation, the assets and liabilities of the group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are generally translated at the average exchange rates for the year. Exchange differences arising, if any, are classified as equity and transferred to the group's translation reserve. Such translation differences are recognised as income or as expenses in the year in which the operation is disposed of.

Group retirement benefits
Payments to defined contribution retirement benefit plans are charged as an expense as they fall due. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution plans where the group's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit plan.

The group operates a defined benefit pension scheme, which requires contributions to be made to a separately administered fund. The cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at each balance sheet date. Actuarial gains and losses are recognised immediately in the statement of comprehensive income. Past service cost is also recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested.

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost, and as reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to unrecognised past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

Royalties
Royalties are charged as production costs to the income statement in the year in which the related production is recognised as income.

Leasing
Rentals payable for assets under operating leases are charged to the income statement on a straight-line basis over the lease term.

Financial instruments
Financial assets and financial liabilities are recognised in the group's balance sheet when the group becomes a party to the contractual provisions of the instrument.

Trade receivables
Trade receivables are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

Bank borrowings
Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accrual basis to the income statement using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the year in which they arise.

ACCOUNTING POLICIES (continued)

Borrowing costs
Borrowing costs directly relating to the construction or production of a qualifying capital project under construction are capitalised and added to the project cost during construction until such time as the assets are substantially ready for their intended use, i.e. when they are capable of commercial production. Where the funds used to finance a project form part of general borrowings, the amount capitalised is calculated using a weighted average of rates applicable to relevant general borrowings of the group during the period. All other borrowing costs are recognised in the income statement in the period in which they are incurred.

Trade payables
Trade payables are stated at their nominal value.

Derivative financial instruments
The group uses derivative financial instruments (derivatives) to manage its exposure to changes in foreign currency exchange rates, interest rates and oil price fluctuations.

All derivative financial instruments are initially recorded at cost, including transaction costs. Derivatives are subsequently carried at fair value. Apart from those derivatives designated as qualifying cash flow hedging instruments, all changes in fair value are recorded as financial income or expense in the year in which they arise.

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 group 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 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 income statement. 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.

Cash and cash equivalents
Cash comprises cash in hand and short-term deposits, less overdrafts.

Cash equivalents comprise funds held in term deposit accounts with an original maturity not exceeding three months.

Share-based payments
The group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

Fair value is measured by use of a Monte Carlo simulation. The main assumptions are provided in note 19.

Convertible bonds

The net proceeds received from the issue of convertible bonds are split between a liability element and an equity component at the date of issue. The fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible debt. The difference between the proceeds of issue of the convertible bonds and the fair value assigned to the liability component, representing the embedded option to convert the liability into equity of the group, is included in equity and is not re-measured. The liability component is carried at amortised cost.

Issue costs are apportioned between the liability and equity components of the convertible bonds based on their relative carrying amounts at the date of issue. The portion relating to the equity component is charged directly against equity.

The interest expense on the liability component is calculated by applying the prevailing market interest rate, at the time of issue, for similar non-convertible debt to the liability component of the instrument. The difference between this amount and the interest paid is added to the carrying amount of the convertible bonds.

Critical accounting judgements and key sources of estimation uncertainty

Details of the group's significant accounting judgements and critical accounting estimates are set out in these financial statements and include:

- carrying value of intangible exploration and evaluation assets (note 8);
- carrying value of property, plant and equipment (note 9);
- proved and probable reserves estimates (note 9);
- decommissioning costs (note 16);
- derivative financial instruments (note 17);
- tax and recognition of deferred tax assets (note 18);
- share-based payments (note 19);
- pensions (note 23); and
- fair value of subsidiaries acquired/business combinations (note 25).

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PREMIER OIL PLC

We have audited the group financial statements of Premier Oil plc for the year ended 31 December 2012 which comprise the Group Income Statement, the Group Statement of Comprehensive Income, the Group Balance Sheet, the Group Cash Flow Statement, the Group Statement of Changes in Equity and the related notes 1 to 26. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the group financial statements:

- give a true and fair view of the state of the group's affairs as at 31 December 2012 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the group financial statements are prepared is consistent with the group financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- 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.

Under the Listing Rules we are required to review:

- the directors' statement, contained within the Financial Review, in relation to going concern;
- the part of the Corporate Governance Statement relating to the company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on directors' remuneration.

Other matter

We have reported separately on the parent company financial statements of Premier Oil plc for the year ended 31 December 2012 and on the information in the Directors' Remuneration Report that is described as having been audited.

David Paterson ACA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom

20 March 2013

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2012

	Note	2012 $ million	2011 $ million
Sales revenues	1	**1,408.7**	826.8
Cost of sales	2	**(742.4)**	(414.9)
Exploration expense	8	**(157.7)**	(187.5)
Pre-licence exploration costs		**(29.2)**	(23.0)
General and administration costs		**(24.2)**	(25.8)
Operating profit		**455.2**	175.6
Share of loss in associate	10	**(1.9)**	–
Interest revenue, finance and other gains	5	**3.2**	5.5
Finance costs and other finance expenses	5	**(110.8)**	(73.6)
Gain on derivative financial instruments	17	**14.2**	34.0
Profit before tax		**359.9**	141.5
Tax	6	**(107.9)**	29.7
Profit after tax		**252.0**	171.2
Earnings per share (cents):			
Basic	7	**47.9**	36.6
Diluted	7	**46.9**	31.5

The results relate entirely to continuing operations.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	Note	2012 $ million	2011 $ million
Profit for the year		**252.0**	171.2
Cash flow hedges on commodity swaps*:			
Losses arising during the year		**(19.1)**	(24.5)
Less: reclassification adjustments for losses in the year		**39.6**	17.8
		20.5	(6.7)
Cash flow hedges on interest rate and foreign exchange swaps*		**4.7**	(6.5)
Exchange differences on translation of foreign operations		**15.3**	(3.4)
Actuarial gains on long-term employee benefit plans	23	**1.2**	1.4
Other comprehensive income/(expense)		**41.7**	(15.2)
Total comprehensive income for the year		**293.7**	156.0

* No deferred tax asset has been recognised on the losses arising on cash flow hedges in either the current or preceding years as insufficient non-ring fence taxable profits are expected to arise in the future against which the deferred tax asset could reverse.

All comprehensive income is attributable to the equity holders of the parent.

CONSOLIDATED BALANCE SHEET

As at 31 December 2012

	Note	2012 $ million	2011 $ million
Non-current assets:			
Intangible exploration and evaluation assets	8	**658.0**	315.5
Property, plant and equipment	9	**2,692.9**	2,257.8
Goodwill	25	**240.8**	–
Investment in associate	10	**6.1**	–
Long-term employee benefit plan surplus	23	**4.2**	–
Long-term receivables		**2.5**	–
Deferred tax assets	18	**568.9**	500.8
		4,173.4	3,074.1
Current assets:			
Inventories		**34.6**	27.7
Trade and other receivables	11	**351.3**	389.9
Tax recoverable		**87.1**	39.5
Derivative financial instruments	17	**9.8**	49.1
Cash and cash equivalents	12	**187.4**	309.1
		670.2	815.3
Total assets		**4,843.6**	3,889.4
Current liabilities:			
Trade and other payables	13	**(450.0)**	(381.2)
Current tax payable		**(114.9)**	(146.5)
Short-term borrowings	14	**–**	(183.7)
Provisions	16	**(68.8)**	(35.1)
Derivative financial instruments	17	**(43.8)**	(154.8)
Deferred revenue	17	**–**	(8.4)
		(677.5)	(909.7)
Net current liabilities		**(7.3)**	(94.4)
Non-current liabilities:			
Convertible bonds	14	**(219.6)**	(226.5)
Other long-term debt	14	**(1,064.4)**	(626.5)
Deferred tax liabilities	18	**(297.1)**	(219.1)
Long-term provisions – decommissioning	16	**(613.3)**	(565.4)
Long-term employee benefit plan deficit	23	**(18.2)**	(18.6)
		(2,212.6)	(1,656.1)
Total liabilities		**(2,890.1)**	(2,565.8)
Net assets		**1,953.5**	1,323.6
Equity and reserves:			
Share capital	19	**110.5**	98.8
Share premium account		**649.2**	274.5
Retained earnings		**1,150.1**	922.9
Other reserves		**43.7**	27.4
		1,953.5	1,323.6

The financial statements were approved by the Board of Directors and authorised for issue on 20 March 2013.

They were signed on its behalf by:

S C Lockett
Chief Executive

A R C Durrant
Finance Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

		Attributable to the equity holders of the parent						
					Other reserves			
	Note	Share capital $ million	Share premium account $ million	Retained earnings $ million	Capital redemption reserve $ million	Translation reserves $ million	Equity reserve $ million	Total $ million
At 1 January 2011		98.3	254.8	738.7	4.3	5.2	28.9	1,130.2
Issue of Ordinary Shares		0.5	19.7	(20.0)	–	–	–	0.2
Net sale of ESOP Trust shares		–	–	2.6	–	–	–	2.6
Provision for share-based payments	19	–	–	34.6	–	–	–	34.6
Transfer between reserves*		–	–	7.6	–	–	(7.6)	–
Total comprehensive income		–	–	159.4	–	(3.4)	–	156.0
At 31 December 2011		98.8	274.5	922.9	4.3	1.8	21.3	1,323.6
Issue of Ordinary Shares		11.7	374.7	–	–	–	–	386.4
Net purchase of ESOP Trust shares		–	–	(89.3)	–	–	–	(89.3)
Provision for share-based payments	19	–	–	30.5	–	–	–	30.5
Incremental equity component of new convertible bonds		–	–	–	–	–	8.6	8.6
Transfer between reserves*		–	–	7.6	–	–	(7.6)	–
Total comprehensive income		–	–	278.4	–	15.3	–	293.7
At 31 December 2012		**110.5**	**649.2**	**1,150.1**	**4.3**	**17.1**	**22.3**	**1,953.5**

* The transfer between reserves relates to the non-cash interest on the convertible bonds, less the amortisation of the issue costs that were charged directly against equity.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2012

	Note	2012 $ million	2011 $ million
Net cash from operating activities	21	**808.2**	485.9
Investing activities:			
Capital expenditure		**(771.6)**	(660.5)
Pre-licence exploration costs		**(29.2)**	(23.0)
Net cash inflow from acquisition of subsidiaries	25	**4.6**	–
Disposal of oil and gas properties		**52.4**	–
Acquisition of oil and gas properties		**(267.5)**	(89.9)
Net cash used in investing activities		**(1,011.3)**	(773.4)
Financing activities:			
Proceeds from issuance of Ordinary Shares		**0.4**	0.2
Net (purchase)/sale of ESOP Trust shares		**(89.3)**	2.6
Proceeds from drawdown of long-term bank loans		**217.6**	33.8
Proceeds from issuance of senior loan notes		**235.2**	350.7
Debt arrangement fees		**(5.0)**	(2.5)
Repayment of long-term bank loans		**(202.0)**	(35.1)
Convertible bonds partial repayment/arrangement fee for new bonds		**(7.9)**	–
Interest paid		**(65.6)**	(54.6)
Net cash from financing activities		**83.4**	295.1
Currency translation differences relating to cash and cash equivalents		**(2.0)**	1.8
Net (decrease)/increase in cash and cash equivalents		**(121.7)**	9.4
Cash and cash equivalents at the beginning of the year		**309.1**	299.7
Cash and cash equivalents at the end of the year	21	**187.4**	309.1

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

1. Operating segments

During the year, management changed the organisational structure of the group and the three previous regional setups were restructured to form seven business units; namely the Falkland Islands, Indonesia, Norway, Pakistan (including Mauritania), the United Kingdom, Vietnam and Rest of the World. The segmental information for 2011 has been re-presented to reflect this change. Some of the business units currently do not generate revenue or has any material operating income.

The group is only engaged in one business of upstream oil and gas exploration and production, therefore all information is being presented for geographical segments.

	2012 $ million	2011 $ million
Revenue:		
Indonesia	**305.1**	300.1
Pakistan (including Mauritania)	**175.2**	151.6
Vietnam	**509.4**	121.3
United Kingdom	**419.0**	253.8
Total group sales revenue	**1,408.7**	826.8
Interest and other finance revenue	**1.7**	2.0
Total group revenue	**1,410.4**	828.8
Group operating profit/(loss):		
Indonesia	**134.6**	142.8
Norway	**(7.7)**	(49.1)
Pakistan (including Mauritania)	**103.0**	102.7
Vietnam	**261.7**	58.3
United Kingdom	**6.7**	1.2
Rest of the World	**(1.9)**	(40.2)
Unallocated*	**(41.2)**	(40.1)
Group operating profit	**455.2**	175.6
Share of loss in associate	**(1.9)**	–
Interest revenue, finance and other gains	**3.2**	5.5
Finance costs and other finance expenses	**(110.8)**	(73.6)
Gain on derivative financial instruments	**14.2**	34.0
Profit before tax	**359.9**	141.5
Tax	**(107.9)**	29.7
Profit after tax	**252.0**	171.2
Balance sheet		
Segment assets:		
Falkland Islands	**242.6**	–
Indonesia	**692.2**	696.2
Norway	**253.5**	206.8
Pakistan (including Mauritania)	**140.7**	138.2
Vietnam	**705.2**	742.9
United Kingdom	**2,594.3**	1,738.3
Rest of the World	**18.0**	8.8
Unallocated*	**197.1**	358.2
Total assets	**4,843.6**	3,889.4

1. Operating segments (continued)

	2012 $ million	2011 $ million
Liabilities:		
Falkland Islands	**(3.3)**	–
Indonesia	**(326.0)**	(354.8)
Norway	**(111.9)**	(107.2)
Pakistan (including Mauritania)	**(103.3)**	(104.2)
Vietnam	**(196.9)**	(123.8)
United Kingdom	**(801.4)**	(668.4)
Rest of the World	**(19.4)**	(8.4)
Unallocated*	**(1,327.9)**	(1,199.0)
Total liabilities	**(2,890.1)**	(2,565.8)
Other information		
Capital additions and acquisitions:		
Falkland Islands	**242.4**	–
Indonesia	**94.0**	154.8
Norway	**65.2**	76.8
Pakistan (including Mauritania)	**28.3**	21.0
Vietnam	**133.1**	185.2
United Kingdom	**720.3**	439.3
Rest of the World	**13.7**	20.5
Total capital additions and acquisitions	**1,297.0**	897.6
Depreciation, depletion, amortisation and impairment:		
Indonesia	**72.2**	43.8
Pakistan (including Mauritania)	**27.3**	16.2
Vietnam	**149.7**	26.7
United Kingdom	**122.9**	93.0
Rest of the World	**0.7**	0.4
Total depreciation, depletion, amortisation and impairment	**372.8**	180.1

* Unallocated expenditure, assets and liabilities include amounts of a corporate nature and not specifically attributable to a geographical segment. These items include corporate general and administration costs, pre-licence exploration costs, cash and cash equivalents, mark-to-market valuations of commodity contracts and interest rate swaps, convertible bonds and other short-term and long-term debt.

Out of the total group worldwide sales revenues of US$1,408.7 million (2011: US$826.8 million), revenues of US$419.0 million (2011: US$253.8 million) arose from sales of oil and gas to customers located in the UK.

Included in assets arising from the United Kingdom segment are non-current assets (excluding deferred tax assets) of US$1,855.7 million (2011: US$1,128.6 million) located in the UK.

Revenue from five customers (2011: four customers) each exceeded 10 per cent of the group's consolidated revenue and amounted respectively to US$169.5 million, US$157.6 million, US$157.5 million and US$279.4 million arising from sales of crude oil (2011: US$161.5 million and US$194.3 million) and US$303.7 million arising from sales of gas (2011: US$228.2 million and US$89.7 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2012

2. Cost of sales

	Note	2012 $ million	2011 $ million
Operating costs		**342.4**	235.2
Stock overlift/underlift movement		**(17.1)**	(22.8)
Royalties		**44.3**	22.4
Amortisation and depreciation of property, plant and equipment:			
Oil and gas properties	9	**345.4**	203.2
Other fixed assets	9	**6.7**	2.8
Impairment charge/(reversal) on oil and gas properties	9	**20.7**	(25.9)
		742.4	414.9

3. Auditor's remuneration

	2012 $ million	2011 $ million
Audit fees:		
Fees payable to the company's auditor for the company's annual report	**0.7**	0.7
Audit of the company's subsidiaries pursuant to legislation	**0.1**	0.1
	0.8	0.8
Non-audit fees:		
Other services pursuant to legislation – interim review	**0.1**	0.1
Corporate finance services*	**0.1**	0.7
Tax services	**0.2**	0.2
Information technology subscription fees for upstream data	**0.1**	0.1
Other services**	**0.1**	-
	0.6	1.1

* Corporate finance services in the prior year comprised of work performed in relation to the acquisition of the additional equity interest in the Wytch Farm field and to the acquisition of EnCore Oil plc. In 2012 work was performed on the exchange offer related to the new convertible bonds.

** The 2012 other services fee comprised of audit work performed in relation to non-operated joint ventures in Norway.

The Audit and Risk Committee has a policy on the use of auditors in a non-audit capacity which is aimed at ensuring their continued independence. This policy is available on the group's website. The use of the external auditor for services relating to accounting systems or financial statements is not permitted, as are various other services that could give rise to conflicts of interest or other threats to the auditor's objectivity that cannot be reduced to an acceptable level by applying safeguards.

4. Staff costs

	2012 $ million	2011 $ million
Staff costs, including executive directors:		
Wages and salaries	**144.8**	144.3
Social security costs	**10.6**	12.3
Pension costs:		
Defined contribution	**4.2**	3.5
Defined benefit	**7.9**	1.1
	167.5	161.2

Staff costs above are recharged to joint venture partners or capitalised to the extent that they are directly attributable to capital projects. The above costs include share-based payments to employees as disclosed in note 19.

	2012	2011
Average number of employees during the year*:		
Technical and operations	**502**	441
Management and administration	**230**	197
	732	638

* Staff numbers include executive directors.

5. Interest revenue and finance costs

	Note	2012 $ million	2011 $ million
Interest revenue, finance and other gains:			
Short-term deposits		**0.5**	0.9
Exchange differences and others		**2.7**	4.6
		3.2	5.5
Finance costs and other finance expenses:			
Bank loans and overdrafts		**(35.0)**	(38.0)
Payable in respect of convertible bonds	14	**(15.2)**	(15.6)
Payable in respect of senior loan notes		**(28.5)**	(10.9)
Unwinding of discount on decommissioning provision	16	**(33.2)**	(28.3)
Long-term debt arrangement fees		**(6.6)**	(6.4)
Exchange differences and others		**(5.8)**	(0.7)
Gross finance costs and other finance expenses		**(124.3)**	(99.9)
Finance costs capitalised during the year	9	**13.5**	26.3
		(110.8)	(73.6)

The amount of finance costs capitalised was determined by applying the weighted average rate of finance costs applicable to the borrowings of the group of 5.21 per cent (2011: 5.44 per cent) to the expenditures on the qualifying assets.

During the year a charge of US$3.6 million for currency exchange losses was made by the group to income (2011: credit of US$3.5 million of currency exchange gains). This excluded exchange gains and losses arising on financial instruments measured at fair value through profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2012

6. Tax

	Note	2012 $ million	2011 $ million
Current tax:			
UK corporation tax on profits		–	–
UK petroleum revenue tax		**83.1**	17.2
Overseas tax		**137.0**	60.1
Adjustments in respect of prior years*		**(11.9)**	70.0
Total current tax		**208.2**	147.3
Deferred tax:			
UK corporation tax		**(162.2)**	(222.6)
UK petroleum revenue tax		**(6.2)**	11.0
Overseas tax		**68.1**	34.6
Total deferred tax	18	**(100.3)**	(177.0)
Tax on profit on ordinary activities		**107.9**	(29.7)

* For 2012, the adjustments in respect of prior years consist principally of a UK tax refund relating to decommissioning costs incurred and carried back to prior period.

The tax charge for the year can be reconciled to the profit per the consolidated income statement as follows:

	2012 $ million	2011 $ million
Group profit on ordinary activities before tax	**359.9**	141.5
Group profit on ordinary activities before tax at 41.1% weighted average rate (2011: 32.6%)	**148.1**	46.1
Tax effects of:		
Income/expenses that are not taxable/deductible in determining taxable profit	**7.5**	22.9
Tax and tax credits not related to profit before tax	**(103.6)**	(42.5)
Unrecognised tax losses	**27.3**	31.8
Utilisation and recognition of tax losses not previously recognised	**(1.4)**	(96.4)
Adjustments in respect of prior years	**(11.9)**	70.0
Effect of change in tax rates	**41.9**	(61.6)
Tax charge/(credit) for the year	**107.9**	(29.7)
Effective tax rate for the year	**30.0%**	(21.0%)

The weighted average rate is calculated based on the tax rates weighted according to the profit or loss before tax earned by the group in each jurisdiction. The change in the weighted average rate year-on-year relates to the mix of profit and loss in each jurisdiction. The standard tax rate on UK ring fence profits is 62 per cent (2011: 59.3 per cent).

Tax not related to profit before tax includes the impact of the ring fence expenditure supplement (US$80.0 million) and small field allowances (US$46.0 million) in the UK, partially offset by the impact of the UK PRT charge.

7. Earnings per share

The calculation of basic earnings per share is based on the profit after tax and on the weighted average number of Ordinary Shares in issue during the year.

Basic and diluted earnings per share are calculated as follows:

	Profit after tax		Weighted average number of shares		Earnings per share	
	2012 $ million	2011 $ million	**2012 million**	2011 million	**2012 cents**	2011 cents
Basic	**252.0**	171.2	**526.4**	467.4	**47.9**	36.6
Contingently issuable shares	**11.2**	–	**35.3**	75.8	*	*
Diluted	**263.2**	171.2	**561.7**	543.2	**46.9**	31.5

* The inclusion of the contingently issuable shares in the 2012 and 2011 calculations produces diluted earnings per share. At 31 December 2012 35,035,495 (2011: 37,349,360) potential Ordinary Shares in the company that are underlying the company's new convertible bonds and that may dilute earnings per share in the future have been included in the calculation of diluted earnings per shares (2011: anti-dilutive). For 2011 the contingently issuable shares include expected additional share issues due to future share-based payments and for the acquisition of EnCore Oil plc.

8. Intangible exploration and evaluation (E&E) assets

	Oil and gas properties
	Total $ million
Cost:	
At 1 January 2011	310.8
Exchange movements	(0.3)
Additions during the year	273.0
Transfer to property, plant and equipment	(80.5)
Exploration expense	(187.5)
At 31 December 2011	315.5
Exchange movements	11.0
Acquisitions*	322.3
Additions during the year	213.5
Transfer to property, plant and equipment	(46.6)
Exploration expense	(157.7)
At 31 December 2012	**658.0**

* Acquisitions in the current year mainly comprise of US$74.6 million relating to the acquisition of EnCore (note 25) and US$231.0 million relating to the purchase of a 60 per cent interest in the Falkland Islands Sea Lion development project.

The amounts for intangible E&E assets represent costs incurred on active exploration projects. These amounts are written off to the income statement as exploration expense unless commercial reserves are established or the determination process is not completed and there are no indications of impairment. The outcome of ongoing exploration, and therefore whether the carrying value of E&E assets will ultimately be recovered, is inherently uncertain.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2012

9. Property, plant and equipment

	Oil and gas properties $ million	Other fixed assets $ million	Total $ million
Cost:			
At 1 January 2011	2,692.7	15.7	2,708.4
Exchange movements	–	(0.1)	(0.1)
Acquisitions	124.0	–	124.0
Additions during the year*	493.7	6.9	500.6
Disposals	–	(0.1)	(0.1)
Transfer from intangible E&E assets	80.5	–	80.5
At 31 December 2011	3,390.9	22.4	3,413.3
Exchange movements	–	0.7	0.7
Acquisitions**	150.5	–	150.5
Additions during the year*	595.2	15.5	610.7
Disposals	–	(0.1)	(0.1)
Transfer from intangible E&E assets	46.6	–	46.6
At 31 December 2012	**4,183.2**	**38.5**	**4,221.7**
Amortisation and depreciation:			
At 1 January 2011	965.6	10.0	975.6
Exchange movements	–	(0.1)	(0.1)
Charge for the year	203.2	2.8	206.0
Impairment reversal	(25.9)	–	(25.9)
Disposals	–	(0.1)	(0.1)
At 31 December 2011	1,142.9	12.6	1,155.5
Exchange movements	–	0.6	0.6
Charge for the year	345.4	6.7	352.1
Impairment charge	20.7	–	20.7
Disposals	–	(0.1)	(0.1)
At 31 December 2012	**1,509.0**	**19.8**	**1,528.8**
Net book value:			
At 31 December 2011	2,248.0	9.8	2,257.8
At 31 December 2012	**2,674.2**	**18.7**	**2,692.9**

* Finance costs that have been capitalised within oil and gas properties during the year total US$13.5 million (2011: US$26.3 million), at a weighted average interest rate of 5.21 per cent (2011: 5.44 per cent).

** Acquisitions in the current year mainly relate to the acquisition of EnCore (note 25)

Other fixed assets include items such as leasehold improvements, motor vehicles and office equipment.

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. Proved and probable reserve estimates are based on a number of underlying assumptions including oil and gas prices, future costs, oil and gas in place and reservoir performance, which are inherently uncertain. Management uses 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.

The 2012 impairment charge relates to assets on the Block A Aceh Production Sharing Contract in Indonesia due to application of a higher discount rate. The impairment charge was calculated by comparing the future discounted cash flows expected to be derived from production of commercial reserves (the value-in-use) against the carrying value of the asset. The future cash flows were estimated using an oil price assumption equal to the Dated Brent forward curve in 2013 and 2014, and US$85/bbl in 'real' terms thereafter and were discounted using a discount rate of 12.5 per cent (2011: 10 per cent). Assumptions involved in impairment measurement include estimates of commercial reserves and production volumes, future oil and gas prices and the level and timing of expenditures, all of which are inherently uncertain.

9. Property, plant and equipment (continued)

Goodwill

In January 2012, the group completed the acquisition of the entire issued share capital of EnCore. This transaction has resulted in recognition of US$240.8 million goodwill which arose principally due to the difference between the fair value of the assets and the consideration transferred and the requirement to recognise deferred UK corporation tax liabilities for the difference between the assigned fair values and the tax bases of assets acquired and liabilities assumed in a business combination. None of the goodwill recognised is expected to be deductible for tax purposes. Goodwill has been assigned to the UK business segment and more specifically to the Catcher field, which will be considered the cash generating unit for the purpose of any impairment testing of this goodwill.

The group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired. The recoverable amounts are determined from value in use calculations with the same key assumptions as noted for the impairment calculations above. The discount rate in 2012 is 10 per cent. The value in use forecast, which is formerly approved by management, takes into consideration cash flows which are expected to arise during the life of the Catcher field as a whole, currently expected to be around 2026. This period exceeds five years but is believed to be appropriate as it is underpinned by estimates of commercial reserves provided by our in-house reservoir engineers using industry standard reservoir estimation techniques.

10. Investments

Principal subsidiary undertakings

At 31 December 2012, the company had investments in the following 100 per cent owned subsidiaries which principally affected the profits or net assets of the group. To avoid a statement of excessive length, details of investments which are not significant have been omitted.

Name of company	Business and area of operation	Country of incorporation or registration
Premier Oil Group Ltd*	Intermediate holding company, UK	Scotland
Premier Oil Finance (Jersey) Ltd*	Convertible bond issuing company, Jersey	Jersey
Premier Oil Holdings Ltd	Intermediate holding company, UK	England and Wales
Premier Oil Overseas BV	Intermediate holding company, Netherlands	Netherlands
Premier Oil UK Ltd	Exploration, production and development, UK	Scotland
Premier Oil Natuna Sea BV	Exploration, production and development, Indonesia	Netherlands
Premier Oil Kakap BV	Exploration, production and development, Indonesia	Netherlands
Premier Oil Sumatra (North) BV	Exploration, production and development, Indonesia	Netherlands
Premier Oil Pakistan Holdings BV	Intermediate holding company, Netherlands	Netherlands
PKP Exploration Ltd	Exploration, production and development, Pakistan	England and Wales
PKP Kadanwari 2 Ltd	Exploration, production and development, Pakistan	Cayman Islands
PKP Kirthar 2 BV	Exploration, production and development, Pakistan	Netherlands
Premier Oil Vietnam Offshore BV	Exploration, production and development, Vietnam	Netherlands
Premier Oil (Vietnam) Ltd	Exploration, production and development, Vietnam	British Virgin Islands
Premier Oil Norge AS	Exploration, production and development, Norway	Norway
Premier Oil Exploration and Production Ltd	Exploration, production and development, Falkland Islands	England and Wales

* Held directly by Premier Oil plc. All other companies are held through subsidiary undertakings.

Joint ventures

The group has a 49 per cent interest in Premco Energy Projects Company LLC, a company registered in the United Arab Emirates and a 50 per cent interest in Premco Energy Projects BV, a company registered in The Netherlands.The results of these two jointly controlled entities, which are indirectly held through subsidiary undertakings and which are involved in business development opportunities across the Middle East and North Africa region, are accounted for using proportionate consolidation and were immaterial to the group in 2012 and 2011.

Associate company

The group acquired a 29.65 per cent interest in Egdon Resources plc, a company registered in the United Kingdom, as part of the acquisition of EnCore (note 25). The results of Egdon Resources plc are accounted for using the equity method. Egdon Resources plc prepare financial statements to 31 July, a loss of US$1.9 million has been included in the group's 2012 Income Statement to represent the expected share of associate company results.

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11. Trade and other receivables

	2012 $ million	2011 $ million
Trade receivables	**207.3**	205.2
Other receivables	**125.9**	166.1
Prepayments	**18.1**	18.6
	351.3	389.9

The carrying values of the trade and other receivables are equal to their fair value as at the balance sheet date.

12. Cash and cash equivalents

	Note	2012 $ million	2011 $ million
Cash at bank and in hand		**57.0**	56.2
Short-term deposits		**130.4**	252.9
	21	**187.4**	309.1

13. Trade and other payables

	2012 $ million	2011 $ million
Trade payables	**101.2**	58.9
Accrued expenses	**312.4**	253.1
Other payables	**36.4**	69.2
	450.0	381.2

The carrying values of the trade and other payables are equal to their fair value as at the balance sheet date.

14. Borrowings

	Note	2012 $ million	2011 $ million
Short-term borrowings - bank loans	17	**–**	183.7
Convertible bonds*		**220.2**	228.2
Other long-term debt – bank loans*	17	**500.0**	300.0
Other long-term debt – senior loan notes*	17	**577.6**	341.2
Total borrowings		**1,297.8**	1,053.1

* The carrying values of the convertible bonds and the other long-term debt on the balance sheet are stated net of the unamortised portion of the issue costs of US$0.6 million (2011: US$1.7 million) and debt arrangement fees of US$13.2 million (2011: US$14.7 million) respectively.

A maturity analysis showing the ageing profile of the total borrowings is shown in note 17.

During the year, the group undertook a private placement of senior loan notes of US$202.0 million and €25.0 million. At the year-end date, the group's principal credit facilities comprised a US$300.0 million term loan, a US$695.0 million revolving credit facility and a £216.0 million (US$351.1 million) letter of credit facility, all maturing in 2015. In addition, in March 2012, group also entered into a US$350.0 million revolving credit facility maturing in 2017. Senior loan notes have various maturities starting from 2018 to 2024.

Convertible bonds exchange offer

In October 2012, the group invited holders of the outstanding US$250.0 million guaranteed convertible bonds ('old bonds') to exchange their existing bonds (due 2014) for guaranteed convertible bonds due 2018 ('new bonds'). The new bonds have a conversion price of US$7.00 per share and a coupon of 2.5 per cent. This compared with the old bonds which had a conversion price of US$6.69 per share and a coupon of 2.875 per cent. Bond holders representing 98.13 per cent of the total aggregate principal amount of the US$250.0 million (approximately US$245.3 million) elected to exchange their old bonds for the new bonds. The remainder of the old bonds were settled in cash (US$4.6 million) or company shares (US$0.1 million) at par.

14. **Borrowings** (continued)

Convertible bonds exchange offer (continued)

The new bonds were issued on 1 November 2012, with a par value of US$245.3 million which are convertible into Ordinary Shares of the company at any time from 11 August 2016 until six days before their maturity date of 27 July 2018. At the conversion price of £4.34 (US$7.00 at fixed exchange rate) per share there are 35,035,495 Ordinary Shares of the company underlying the bonds. If the bonds have not been previously purchased and cancelled, redeemed or converted, they will be redeemed at par value on 27 July 2018. Interest of 2.50 per cent per annum will be paid semi-annually in arrears up to that date.

The group has derecognised the book value of the old bonds as the new bonds have significantly different terms. The equity component and liability portion of the new bonds has been calculated based on the last day market price of the old bonds and effective yield of a similar maturity corporate bond. US$8.6 million difference between equity component of the old bonds and the new bonds have been assigned to the equity reserves and a US$1.9 million residual difference has been charged to income statement.

Issue costs were apportioned between the liability and equity components of the convertible bonds based on their relative carrying amounts at the date of issue. The portion relating to the equity component was charged directly against equity.

	$ million
Old bonds – net	
Liability component at 1 January 2011	**218.1**
Interest charged	**15.6**
Interest paid	**(7.2)**
Liability component at 1 January 2012	**226.5**
Interest charged (10 months until time of exchange)	**13.4**
Interest paid (10 months until time of exchange)	**(6.0)**
Amount paid in cash or shares to bond holders for partial redemption	**(4.7)**
Liability derecognised at 1 November 2012	**229.2**
New bonds – net	
Liability recognised 1 November 2012	**218.9**
Interest charged	**1.7**
Interest paid	**(1.0)**
Total liability component at 31 December 2012	**219.6**

The total interest charged on the new bonds has been calculated by applying an effective annual interest rate of 4.58 per cent to the liability component for the period since the new bonds were issued. The effective annual interest rate on the old bonds was 6.73 per cent. The non-cash accrual of interest will increase the liability component (as the cash interest is only paid at 2.5 per cent) to US$245.3 million at maturity. There is no material difference between the carrying amount of the liability component of the convertible bonds and its fair value. This fair value is calculated by discounting the future cash flows at the market rate.

Capital management

The primary objective of the group's capital management policy is to ensure that it maintains healthy capital ratios in order to support its business and increase shareholder value. The group manages its capital structure and makes adjustments to it in light of changes in economic conditions. No changes were made in the objectives, policies or processes during the years ended 31 December 2012 and 31 December 2011.

The group monitors capital using a gearing ratio, which is net debt divided by net assets plus net debt. The group's policy is to keep the long-term gearing ratio below 50 per cent. Net debt comprises interest-bearing bank loans, senior loan notes and convertible bonds, less cash and short-term deposits.

	Note	2012	2011
Net debt ($ million)	21	**(1,110.4)**	(744.0)
Net assets ($ million)		**1,953.5**	1,323.6
Net assets plus net debt ($ million)		**3,063.9**	2,067.6
Gearing ratio (%)		**36.2**	36.0

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
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15. Obligations under leases

	2012 $ million	2011 $ million
Minimum lease payments under operating leases recognised as an expense in the year	**51.7**	21.3
Outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:		
Within one year	**74.9**	83.2
In two to five years	**278.6**	272.4
Over five years	**50.6**	248.0
	404.1	603.6

Operating lease payments represent the group's share of lease costs payable by the group for FPSOs and for certain rentals of its office properties, office equipment and motor vehicles.

16. Long-term provisions

	Note	2012 $ million	2011 $ million
Decommissioning costs:			
Total provisions at 1 January		**600.5**	496.9
Acquisitions		**–**	26.0
Revision arising from:			
New provisions, changes in estimates and payments		**22.7**	52.2
Exchange differences		**25.7**	(2.9)
Unwinding of discount on decommissioning provision	5	**33.2**	28.3
Total provisions at 31 December		**682.1**	600.5
Reclassification of short-term provisions to current liabilities		**(68.8)**	(35.1)
Long-term provisions at 31 December		**613.3**	565.4

The decommissioning provision represents the present value of decommissioning costs relating to oil and gas interests in the UK, Indonesia, Vietnam, Pakistan and Mauritania which are expected to be incurred up to 2038. These provisions have been created based on Premier's internal estimates and, where available, operator's estimates. Based on the current economic environment, assumptions have been made which are believed to be 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. 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.

New provisions and changes in estimates result from an increase in decommissioning estimates for operated fields in the UK, Indonesia and Vietnam.

17. Financial instruments

Financial risk management objectives and policies

The group's principal financial liabilities, other than derivative financial instruments (derivatives), comprise accounts payable, bank loans, convertible bonds and senior loan notes. The main purpose of these financial instruments is to manage short-term cash flow and to raise finance for the group's capital expenditure programme. The group has various financial assets such as accounts receivable and cash and short-term deposits, which arise directly from its operations.

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

The main risks that could adversely affect the group's financial assets, liabilities or future cash flows are commodity price risk, cash flow interest rate risk, foreign currency exchange risk, credit risk and liquidity risk. The group uses derivative financial instruments to hedge certain risk exposures. The use of financial derivatives is governed by the group's policies and approved by the Board of Directors, which provide written principles on the use of financial derivatives.

17. Financial instruments (continued)

Derivative financial instruments

The group uses derivatives to manage its exposure to oil and gas price fluctuations and to changes in interest rates and foreign currency.

Oil and gas hedging is undertaken with collar options, reverse collars, swaps and hedges embedded in long-term crude offtake agreements. Oil is hedged using Dated Brent oil price options. Indonesian gas is hedged using HSFO Singapore 180cst which is the variable component of the gas price.

The group's exposure to interest rates is managed by maintaining an appropriate mix of both fixed and floating interest rate borrowings within its debt portfolio. However, given the very low level of fixed interest rates available relative to historical rates, a substantial portion of the current drawings have been converted to fixed interest rates using the interest rate swap markets.

As the group reports in US dollars, since that is the currency in which the majority of the group's transactions are denominated, significant exchange rate exposures currently relate only to certain local currency (such as Pound Sterling, Norwegian Kroner) receipts and expenditures within individual business units. Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts.

Fair value hierarchy

In line with IAS 39 – 'Financial Instruments: Recognition and Measurement' the group 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.

As at 31 December 2012, the group held the following financial instruments measured at fair value (excluding any primary financial instruments such as cash and bank loans):

Assets measured at fair value

Financial assets at fair value through profit and loss:

	At 31 December $ million	Level 1 $ million	Level 2 $ million	Level 3 $ million
2012:				
Oil forward sales contracts	6.1	–	6.1	–
Gas forward sale contracts	3.2	–	3.2	–
Forward foreign exchange contracts	0.5	–	0.5	–
Total	**9.8**	**–**	**9.8**	**–**
2011:				
Oil reverse collars	48.8	–	48.8	–
Gas forward sale contracts	0.3	–	0.3	–
Total	49.1	–	49.1	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
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17. Financial instruments (continued)

Liabilities measured at fair value

Financial liabilities at fair value through profit and loss:

	At 31 December $ million	Level 1 $ million	Level 2 $ million	Level 3 $ million
2012:				
Oil collars	8.8	–	8.8	–
Oil forward sale contracts	4.7	–	4.7	–
Gas collars	7.2	–	7.2	–
Interest rate swaps	16.7	–	16.7	–
Cross currency swap	6.4	–	6.4	–
Total	**43.8**	**–**	**43.8**	**–**
2011:				
Oil collars	100.8	–	100.8	–
Oil forward sale contracts	0.4	–	0.4	–
Gas collars	23.7	–	23.7	–
Interest rate swaps	19.3	–	19.3	–
Forward foreign exchange contracts	1.0	–	1.0	–
Cross currency swap	9.6	–	9.6	–
Total	154.8	–	154.8	–

All of the above fair values are based on Level 2 techniques.

Commodity price risk

Oil

At 31 December 2012, the group had 3.0 million barrels of Dated Brent oil hedged through forward sales at an average floor price of US$109.0/bbl. The forward sales have been designated as cash flow hedges and were assessed to be effective, with a fair value movement of US$5.1 million recognised directly in retained earnings. A residual fair value movement of US$1.2 million was credited to the income statement.

The group's long-term oil collars expired on 31 December 2012, resulting in a US$50.0 million credit to the income statement.

During the year, embedded oil price collars and foward oil sales contracts for 3.9 million barrels matured generating a net cost of US$34.4 million (2011: US$101.3 million). This cost has been offset against sales revenues.

Indonesian gas

At the year-end date, 48,000 metric tonnes (mt) of Singapore 180 HSFO, which underlies the pricing mechanism for Indonesian gas sold into the Singapore market, was subject to collars covering the period to mid-year 2013, with a floor of US$250.0/mt and a cap of US$500.0/mt. An additional 96,000 mt have been sold under monthly forward sales contracts for 2013 at an average price of US$657.0/mt.

During the year, Singapore 180 HSFO contracts for 246,000 mt matured generating a cash cost of US$26.3 million (2011: US$17.8 million) which have been offset against sales revenues. All of these contracts have been designated as cash flow hedges and were assessed to be effective. In the current year, US$3.2 million of the movement in the fair value of these contracts was credited to the income statement (2011: credit of US$6.0 million), as this movement related to the time-value portion of hedges under IAS 39. The remaining movement, being a credit of US$15.4 million (2011: charge of US$6.3 million), related to the intrinsic value of such instruments and was recognised directly in retained earnings.

17. Financial instruments (continued)

Movement in commodity collar and swap contracts

Asset/(liability)	Oil $ million	Gas $ million	Total $ million
At 1 January 2011	(74.1)	(21.5)	(95.6)
Cash settlement for swaps and collars	57.2	16.3	73.5
Deduction against sales revenues	(101.3)	(17.8)	(119.1)
Credit to income statement for the year	17.4	6.0	23.4
Credit/(charge) to retained earnings for the year	(0.4)	(6.3)	(6.7)
At 31 December 2011	(101.2)	(23.3)	(124.5)
Cash settlement for swaps and collars	71.8	27.1	98.9
Deduction against sales revenues	(34.4)	(26.3)	(60.7)
Credit to income statement for the year	51.2	3.2	54.4
Credit to retained earnings for the year	5.1	15.4	20.5
At 31 December 2012	**(7.5)**	**(3.9)**	**(11.4)**

Movement in commodity reverse collars

Asset/(liability)	Oil $ million	Gas $ million	Total $ million
At 1 January 2011	65.7	–	65.7
Charge to income statement for the year	(16.9)	–	(16.9)
At 31 December 2011	48.8	–	48.8
Charge to income statement for the year	(48.8)	–	(48.8)
At 31 December 2012	**–**	**–**	**–**

In 2011 the fair values were determined from counterparties with whom the trades have been concluded. The collars expired on 31 December 2012.

Commodity contract sensitivity analysis

The key variable which affects the fair value of the group's hedging instruments is market expectations about future commodity prices. The following illustrates the sensitivity of net income and equity to a 10 per cent increase and a 10 per cent decrease in this variable:

Increase/(decrease) in mark-to-market value	Oil $ million	Gas $ million	Total $ million
Ten per cent increase	(20.5)	(8.8)	(29.3)
Ten per cent decrease	20.5	8.4	28.9

Deferred revenue related to oil reverse collars

Deferred revenue has been created due to first-day gains arising from offtake agreements and related oil reverse collars which fully expired in 2012. This deferred revenue is being released to the income statement over the life of each individual offtake agreement as shown below:

Asset/(liability)	Oil $ million	Gas $ million	Total $ million
At 1 January 2011	(35.9)	–	(35.9)
Credit to income statement for the year	27.5	–	27.5
At 31 December 2011	(8.4)	–	(8.4)
Credit to income statement for the year	8.4	–	8.4
At 31 December 2012	**–**	**–**	**–**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
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17. Financial instruments (continued)

Interest rate risk

At 31 December 2012, US$300.0 million of the group's long-term bank borrowings have been swapped from floating rate to fixed rate. Under these interest rate swap contracts, the group has agreed to exchange the difference between fixed and floating interest amounts calculated on agreed notional principal amounts. Such contracts enable the group to mitigate the risk of changing interest rates and the cash flow exposure on the issued variable rate debt held.

These contracts have been designated as cash flow hedges and are assessed to be effective. The fair value of interest rate swaps at the reporting date is determined by discounting the future cash flows using the forward curves at this date. The movement in fair values is shown in the table below:

Asset/(liability)	Total $ million
At 1 January 2011	(12.9)
Cash settlement for swaps	8.9
Charge to income statement for the year recorded within finance costs and other finance expenses	(8.9)
Charge to retained earnings for the year	(6.4)
At 31 December 2011	(19.3)
Cash settlement for swaps	6.9
Charge to income statement for the year recorded within finance costs and other finance expenses	(6.9)
Credit to retained earnings for the year	2.5
At 31 December 2012	**(16.8)**

Interest rate swaps sensitivity analysis

The key variable which affects the fair value of the group's hedging instruments is market expectations about future interest rates. The following illustrates the sensitivity of comprehensive income to an increase of 50 basis points in this variable:

Increase/(decrease) in mark-to-market value	Total $ million
Increase of fifty basis points	(3.4)

A decrease of 50 basis points in this variable has not been considered appropriate due to the current very low level of floating interest rates.

Foreign currency exchange risk

During the year, the group issued €25.0 million long-term senior loan notes which have been hedged under a cross currency swap in US dollars at a fixed rate of US$1.328:€. This is in addition to existing swaps of €75.0 million at a fixed rate of US$1.423:€. The fair value of these cross currency swaps at the reporting date is shown below:

Asset/(liability)	Total $ million
At 1 January 2011	–
Charge to income statement for the year	(9.5)
Charge to retained earnings for the year	(0.1)
At 31 December 2011	(9.6)
Credit to income statement for the year	1.2
Credit to retained earnings for the year	2.0
At 31 December 2012	**(6.4)**

To cover sterling exposures an amount of £497.0 million was purchased with forward contracts during the year (2011: £182.0 million) to cater for its North Sea developments and operations, all of which were closed out by year end. The group's activities are largely conducted in US dollars. The majority of borrowings at year-end were denominated in US dollars to match the currency of the assets.

The impact of any reasonably possible variation in foreign exchange rates on the group's results would be immaterial.

17. Financial instruments (continued)

Other financial instruments

Credit risk

The group's credit risk is attributable to its trade receivables and its bank deposits. The amount of receivables presented in the balance sheet is net of allowances for doubtful receivables, which were immaterial in 2012 and 2011. The group does not require collateral or other security to support receivables from customers or related parties. The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with at least single A credit ratings assigned by international credit rating agencies.

An indication of the concentration of credit risk is shown in note 1, whereby the revenue from five customers each exceeded 10 per cent of the group's consolidated revenue in 2012 (2011: four).

The ageing profile of the group's trade and other receivables and trade and other payables as at 31 December, including the related undiscounted interest amounts, was:

	Less than 1 month $ million	2 to 3 months $ million	3 months to 1 year $ million	1 to 5 years $ million	Over 5 years $ million	Total $ million
2012:						
Long term receivables	–	–	–	–	2.5	2.5
Trade and other receivables	278.4	46.8	8.0	–	–	333.2
Trade and other payables	(110.5)	(14.9)	(11.9)	(0.3)	–	(137.6)
Bank loans	–	(3.8)	(11.7)	(519.5)	–	(535.0)
Convertible bonds	(1.0)	–	(3.0)	(24.5)	(251.9)	(280.4)
Senior loan notes	–	(6.0)	(24.9)	(123.5)	(662.4)	(816.8)
Total	**166.9**	**22.1**	**(43.5)**	**(667.8)**	**(911.8)**	**(1,434.1)**
2011:						
Trade and other receivables	299.0	18.1	54.2	–	–	371.3
Trade and other payables	(88.1)	(28.9)	(11.1)	–	–	(128.1)
Bank loans	–	–	(201.5)	(336.2)	–	(537.7)
Convertible bonds	–	–	(7.2)	(260.8)	–	(268.0)
Senior loan notes	–	–	(18.8)	(75.2)	(398.2)	(492.2)
Total	210.9	(10.8)	(184.4)	(672.2)	(398.2)	(1,054.7)

Liquidity risk

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the group's short, medium and long-term funding and liquidity management requirements. The group manages liquidity risk by maintaining adequate reserves, banking facilities and borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities and future capital and operating commitments.

Borrowing facilities

The group has committed borrowing facilities of US$1,345.0 million and letter of credit facilities of £216.0 million (US$351.1 million), in addition to the convertible bonds and senior loan notes. The undrawn cash balance from the committed borrowing facilities as at 31 December was:

	2012 $ million	2011 $ million
Expiring in more than one year, but not more than two years	–	16.4
Expiring in more than two years, but not more than five years	**845.0**	456.8

The undrawn balance on the letter of credit facilities as at 31 December 2012 was £47.0 million (US$76.4 million) (2011: £215.4 million (US$333.9 million)).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
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17. Financial instruments (continued)

Interest rate risk profile of financial liabilities

The interest rate profile of the financial liabilities of the group as at 31 December (excluding trade and other payables which are interest free) was:

	Fixed rate $ million	Floating rate $ million	Total $ million	Fixed rate weighted average interest rate %
2012:				
Bank loans*	300.0	200.0	500.0	5.200
Convertible bonds	245.3	–	245.3	2.500
Senior loan notes	577.6	–	577.6	5.315
Total	**1,122.9**	**200.0**	**1,322.9**	**–**
2011:				
Bank loans*	450.0	33.7	483.7	5.171
Convertible bonds	250.0	–	250.0	2.875
Senior loan notes	341.2	–	341.2	5.506
Total	1,041.2	33.7	1,074.9	–

* At 31 December 2012, US$300.0 million of the group's long-term bank borrowings have been swapped from floating interest rate to fixed interest rate and are therefore included as a fixed rate liability in the table above (2011: US$450.0 million).

The carrying values on the balance sheet of the bank loans and the convertible bonds, which are stated net of debt arrangement fees and issue costs, are as follows:

	2012 $ million	2011 $ million
Bank loans	**489.6**	470.8
Senior loan notes	**574.8**	339.4
Convertible bonds:		
Liability component	**219.6**	226.5
Equity component	**25.1**	21.3

The floating rate financial liabilities at 31 December 2012 comprised bank borrowings bearing interest at rates set by reference to US$ LIBOR, exposing the group to a cash flow interest rate risk.

Interest rate risk profile of financial assets

The interest rate profile of the financial assets of the group as at 31 December (excluding trade and other receivables which are interest free) was:

	Floating rate $ million	Interest free $ million	Total $ million
2012:			
Cash and short-term deposits:			
Sterling	1.0	0.6	1.6
US dollar	144.2	11.8	156.0
Other	27.1	2.7	29.8
Total	**172.3**	**15.1**	**187.4**
2011:			
Cash and short-term deposits:			
Sterling	5.4	0.6	6.0
US dollar	266.6	16.7	283.3
Other	8.4	11.4	19.8
Total	280.4	28.7	309.1

The floating rate cash and short-term deposits consist of cash held in interest-bearing current accounts and deposits placed on the money markets for periods ranging from overnight to three months.

17. Financial instruments (continued)

Fair value of financial assets and financial liabilities

The carrying values of the financial assets and financial liabilities (excluding current assets, current liabilities and derivative financial instruments), which are considered to be materially equivalent to their fair value are:

	2012 Carrying amount $ million	2011 Carrying amount $ million
Primary financial instruments held or issued to finance the group's operations:		
Cash and short-term deposits	**187.4**	309.1
Bank loans	**500.0**	483.7
Senior loan notes	**577.6**	341.2
Liability component of convertible bonds	**220.2**	228.2

Fair value is the amount at which a financial instrument could be exchanged in an arm's length transaction, other than in a forced or liquidated sale. Where available, market values have been used to determine fair values. The estimated fair values have been determined using market information and appropriate valuation methodologies. Values recorded are as at the balance sheet date, and will not necessarily be realised. Non-interest bearing financial instruments, which include amounts receivable from customers and accounts payable are recorded materially at fair value reflecting their short-term maturity and are not shown in the above table.

18. Deferred tax

	2012 $ million	2011 $ million
Deferred tax assets	**568.9**	500.8
Deferred tax liabilities	**(297.1)**	(219.1)
	271.8	281.7

	At 1 January 2012 $ million	Exchange movements $ million	Acquisition of EnCore Oil plc $ million	(Charged)/ credited to income statement $ million	At 31 December 2012 $ million
UK deferred corporation tax:					
Fixed assets and allowances	(221.2)	–	(132.1)	(248.3)	(601.6)
Decommissioning	268.3	–	1.3	(16.8)	252.8
Deferred petroleum revenue tax	2.4	–	–	(3.9)	(1.5)
Tax losses and allowances	444.1	–	27.0	390.6	861.7
Small field allowance	–	–	–	45.8	45.8
Deferred revenue	7.2	–	–	(5.2)	2.0
Total UK deferred corporation tax	**500.8**	**–**	**(103.8)**	**162.2**	**559.2**
UK deferred petroleum revenue tax[1]	**(3.9)**	**–**	**–**	**6.2**	**2.3**
Overseas deferred tax[2]	**(215.2)**	**(6.4)**	**–**	**(68.1)**	**(289.7)**
Total	**281.7**	**(6.4)**	**(103.8)**	**100.3**	**271.8**

1. The UK deferred petroleum revenue tax relates mainly to temporary differences associated with decommissioning provisions.
2. The overseas deferred tax relates mainly to temporary differences associated with fixed asset balances.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2012

18. Deferred tax (continued)

	At 1 January 2011 $ million	Exchange movements $ million	(Charged)/ credited to income statement $ million	At 31 December 2011 $ million
UK deferred corporation tax:				
Fixed assets and allowances	14.8	–	(236.0)	(221.2)
Decommissioning	188.6	–	79.7	268.3
Deferred petroleum revenue tax	(3.6)	–	6.0	2.4
Tax losses and allowances	138.7	–	305.4	444.1
Unrecognised tax losses and allowances	(70.2)	–	70.2	–
Deferred revenue	9.9	–	(2.7)	7.2
Total UK deferred corporation tax	278.2	–	222.6	500.8
UK deferred petroleum revenue tax[1]	7.1	–	(11.0)	(3.9)
Overseas deferred tax[2]	(183.7)	3.1	(34.6)	(215.2)
Total	101.6	3.1	177.0	281.7

1. The UK deferred petroleum revenue tax relates mainly to temporary differences associated with decommissioning provisions.
2. The overseas deferred tax relates mainly to temporary differences associated with fixed asset balances.

The group's unutilised tax losses and allowances at 31 December 2012 are recognised to the extent that taxable profits are expected to arise in the future against which the tax losses and allowances can be utilised. In accordance with paragraph 37 of IAS 12 – 'Income Taxes' the group re-assessed its unrecognised deferred tax assets at 31 December 2012 with respect to ring fence tax losses and allowances. The corporate model used to assess whether additional deferred tax assets should be recognised was re-run, using an oil price assumption of Dated Brent forward curve in 2013 and 2014, and US$85/bbl in 'real' terms. The results of the corporate model concluded that it was appropriate to recognise all of the group's UK ring fence deferred tax assets in respect of tax losses and allowances in full.

In addition to the above, there are non-ring fence UK tax losses of approximately US$327.6 million (2011: US$181.2 million) and current year non-UK tax losses of approximately US$26.9 million (2011:$69.4 million) for which a deferred tax asset has not been recognised.

None of the UK tax losses (ring fence and non-ring fence) have a fixed expiry date for tax purposes.

No deferred tax has been provided on unremitted earnings of overseas subsidiaries, following a change in UK tax legislation in 2009 which exempted foreign dividends from the scope of UK corporation tax, where certain conditions are satisfied.

On 23 March 2011 it was announced that tax relief on decommissioning expenditure would be restricted to 50 per cent rather than 62 per cent. This restriction was substantially enacted in the 2012 Finance Bill and has resulted in a deferred tax charge to the income statement of $27.2 million.

19. Share capital

	2012 12.5p shares	2012 £	2011 12.5p shares	2011 £
Ordinary Shares:				
Called-up, issued and fully-paid	**529,110,917**	**66,138,865**	468,059,828	58,507,479

	2012 $ million	2011 $ million
At 1 January	**98.8**	98.3
Shares issued to the Premier Oil plc Employee Benefit Trust (nominal value)	**–**	0.5
Acquisition of subsidiary (note 25)	**11.7**	–
At 31 December	**110.5**	98.8

19. Share capital (continued)

Ordinary Shares

The rights and restrictions attached to the Ordinary Shares are as follows:

Dividend rights: the rights of the holders of Ordinary Shares shall rank pari passu in all respects with each other in relation to dividends.

Winding up or reduction of capital: on a return of capital on a winding up or otherwise (other than on conversion, redemption or purchase of shares) the rights of the holders of Ordinary Shares to participate in the distribution of the assets of the company available for distribution shall rank pari passu in all respects with each other.

Voting rights: the holders of Ordinary Shares shall be entitled to receive notice of, attend, vote and speak at any General Meeting of the company.

Share-based payments and share incentive plans

The group currently operates a Long Term Incentive Plan (LTIP) for all employees and a Share Incentive Plan and a Save As You Earn Scheme for UK-based and expatriate employees only.

For the year ended 31 December 2012, the total cost recognised by the group for equity-settled share-based payment transactions is US$30.5 million. A credit of US$30.5 million has been recorded in retained earnings (2011: US$34.6 million) for all equity-settled payments of the group. Like other elements of remuneration, this charge is processed through the time-writing system which allocates cost, based on time spent by individuals, to various entities within the Premier Oil plc group. Part of this cost is therefore capitalised as directly attributable to capital projects and part is charged to the income statement as operating costs, pre-licence exploration costs or general and administration costs.

Details of the different share incentive plans currently in operation are set out below:

(i) Long Term Incentive Plan

The Long Term Incentive Plan (LTIP) was introduced in 2009 to provide a long-term all employee scheme which motivates all employees and provides a longer-term perspective to the total remuneration package. Awards under the LTIP comprise three elements: Equity Pool Awards and Performance Share Awards that vest after the expiry of a three-year performance period, and a potential Matching Award that vests at the expiry of a further three-year performance period, commencing at the end of the three-year performance period for Equity Pool and Performance Share Awards.

Full details about this plan have been provided in the Remuneration Report.

The company uses a Monte Carlo simulation model to calculate the value of the Equity bonus pool of the plan and of the Performance Share Awards. The main assumptions used for the calculations are as follows:

Volatility:	41.0% to 42.0%
Risk free rate of interest:	1.1% to 3.7%
Correlation factor with comparator group:	0.30 to 0.35

(ii) Share Incentive Plan

Under the Share Incentive Plan employees are invited to make contributions to buy partnership shares. If an employee agrees to buy partnership shares the company currently matches the number of partnership shares bought with an award of shares (matching shares), on a one-for-one basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2012

19. Share capital (continued)

(iii) Savings Related Share Option Scheme

Under the Savings Related Share Option Scheme, eligible employees with six months or more continuous service can join the scheme. Employees can save to a maximum of £250 per month through payroll deductions for a period of three or five years, after which time they can acquire shares at up to a 20 per cent discount.

	2012		2011	
	Options	**Weighted average exercise price**	Options	Weighted average exercise price
Outstanding at the beginning of the year	**368,400**	**£2.55**	418,684	£2.08
Granted during the year	**152,188**	**£3.13**	63,936	£4.17
Lapsed during the year	**(13,288)**	**£4.08**	(14,716)	£2.75
Exercised during the year*	**(104,636)**	**£1.91**	(99,504)	£1.59
Outstanding at the end of the year	**402,664**	**£2.89**	368,400	£2.55
Exercisable at the end of the year	**–**	**–**	–	–

* 104,636 Ordinary Shares with a nominal value of £13,080 (US$20,814) were issued under the group's share option schemes during the year (2011: 76,180 Ordinary Shares with a nominal value of £9,523 (US$15,436)).

The weighted average share price at the date of exercise for share options exercised during the year was £3.41. The options outstanding at 31 December 2012 had a weighted average exercise price of £2.89 and a weighted average remaining contractual life of 2.57 years.

The fair value of the options granted during the year was determined using the Black-Scholes valuation model and is not material.

20. Own shares

	Note	**Total $ million**
At 1 January 2011		31.7
Issuance of Ordinary Shares (market value)*	19	20.0
Net sale of ESOP Trust shares		(2.6)
Release of shares for long-term incentive arrangements		(36.6)
At 31 December 2011		12.5
Net purchase of ESOP Trust shares		89.3
Release of shares for long-term incentive arrangements		(57.2)
At 31 December 2012		**44.6**

* In April 2011, prior to the 4:1 share split, the company issued 600,000 Ordinary Shares of 50 pence each to the Premier Oil plc Employee Benefit Trust.

The own shares reserve represents the net cost of shares in Premier Oil plc purchased in the market or issued by the company into the Premier Oil plc Employee Benefit Trust. This ESOP Trust holds shares to satisfy awards under the group's share incentive plans. At 31 December 2012, the number of Ordinary Shares of 12.5 pence each held by the Trust was 7,640,386 (2011: 1,973,998 Ordinary Shares of 12.5 pence each).

21. Notes to the cash flow statement

	2012 $ million	2011 $ million
Profit before tax for the year	**359.9**	141.5
Adjustments for:		
Depreciation, depletion, amortisation and impairment	**372.8**	180.1
Exploration expense	**157.7**	187.5
Pre-licence exploration costs	**29.2**	23.0
Provision for share-based payments	**10.1**	8.5
Share of loss in associate	**1.9**	–
Interest revenue and finance gains	**(3.2)**	(5.5)
Finance costs and other finance expenses	**110.8**	73.6
Gain on derivative financial instruments	**(14.2)**	(34.0)
Operating cash flows before movements in working capital	**1,025.0**	574.7
Increase in inventories	**(6.8)**	(9.1)
Decrease/(increase) in receivables	**36.3**	(120.2)
(Decrease)/increase in payables	**(15.1)**	82.5
Cash generated by operations	**1,039.4**	527.9
Income taxes paid	**(233.1)**	(44.0)
Interest income received	**1.9**	2.0
Net cash from operating activities	**808.2**	485.9

Analysis of changes in net debt:

	Note	2012 $ million	2011 $ million
a) Reconciliation of net cash flow to movement in net debt:			
Movement in cash and cash equivalents		**(121.7)**	9.4
Proceeds from drawdown of long-term bank loans		**(217.6)**	(33.8)
Proceeds from issuance of senior loan notes		**(235.2)**	(350.7)
Repayment of long-term bank loans		**202.0**	35.1
Non-cash movements on debt and cash balances		**6.1**	1.7
Increase in net debt in the year		**(366.4)**	(338.3)
Opening net debt		**(744.0)**	(405.7)
Closing net debt		**(1,110.4)**	(744.0)
b) Analysis of net debt:			
Cash and cash equivalents	12	**187.4**	309.1
Borrowings*	14	**(1,297.8)**	(1,053.1)
Total net debt		**(1,110.4)**	(744.0)

* Borrowings consist of the short-term borrowings, the convertible bonds and the other long-term debt. The carrying values of the convertible bonds and the other long-term debt on the balance sheet are stated net of the unamortised portion of the issue costs of US$0.6 million (2011: US$1.7 million) and debt arrangement fees of US$13.2 million (2011: US$14.7 million) respectively.

22. Capital commitments and guarantees

At 31 December 2012, the group had capital commitments on exploration and development licences totalling US$407.7 million (2011: US$164.5 million) and performance guarantees of US$4.1 million (2011: US$4.1 million). In addition, the group had issued letters of credit for future decommissioning liabilities totalling £214.0 million (US$348.8 million) (2011: £209.5 million (US$324.7 million)).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2012

23. Group pension schemes

Balance sheet

	2012 $ million	2011 $ million
UK funded pension scheme	**4.2**	–
Total surplus in balance sheet	**4.2**	–

	2012 $ million	2011 $ million
UK funded pension scheme	–	2.9
UK unfunded pension scheme	**0.9**	0.9
Indonesia unfunded termination benefit scheme	**17.3**	14.8
Total liability in balance sheet	**18.2**	18.6

Other comprehensive income

	At 31 December 2012 $ million	At 31 December 2011 $ million
Actuarial gains	**1.2**	1.4
Cumulative amount of actuarial gains/(losses) recognised in other comprehensive income	**(10.8)**	(12.0)

Funded pensions

The group operates a defined benefit pension scheme in the UK - The Premier Oil plc Retirement and Death Benefits Plan (the Scheme). The Scheme was closed to new members (aside from the provision of insured death in service benefits) in 1997 and a new scheme, providing benefits on a defined contribution basis, was started. Both schemes are funded by the payment of contributions to separately administered trust funds.

The disclosures set out below are based on calculations carried out as at 31 December 2012 by a qualified independent actuary. The figures have been prepared in compliance with IAS 19 - 'Employee Benefits'.

The Scheme's assets are held in a separate trustee-administered fund to meet long-term pension liabilities to past and present employees. The Trustee of the Scheme is required to act in the best interest of the Scheme's beneficiaries. The appointment of members of the Trustee Board is determined by the trust documentation.

The liabilities of the defined benefit Scheme are measured by discounting the best estimate of future cash flows to be paid out of the Scheme using the projected unit credit method. This amount is reflected in the surplus or the deficit in the balance sheet. The projected unit credit method is an accrued benefits valuation method in which the Scheme liabilities make allowance for the projected earnings.

The liabilities set out in this note have been calculated using membership data current as at 31 December 2012. The results of the calculations and the assumptions adopted are shown below.

As at 31 December 2012, contributions are payable to the Scheme by the group at the rates set out in the schedule of contributions dated 24 July 2012. Under this schedule, the company contributes on a monthly basis at the rate of 30 per cent of the aggregate of members' pensionable salaries.

23. Group pension schemes (continued)

Principal assumptions

The principal actuarial assumptions at the balance sheet date were:

	At 31 December 2012	At 31 December 2011
Discount rate	**4.4% pa**	4.6% pa
Expected return on Scheme assets	**4.4% pa**	5.0% pa
RPI inflation	**2.9% pa**	3.0% pa
CPI inflation	**2.2% pa**	2.3% pa
Rate of increase in salaries	**4.9% pa**	5.0% pa
Rate of increase in pensions in payment: LPI (max 5.0%)	**2.9% pa**	3.0% pa
Pre and post-retirement mortality	**PCA00 YOB MC**	PCA00 YOB MC
Withdrawals	**No allowance**	No allowance
Cash commutation	**2.0 x pre-commutation pension**	2.0 x pre-commutation pension
Life expectancy of male aged 65 now	**21.9**	21.8
Life expectancy of male aged 65 in 20 years	**23.0**	22.9
Life expectancy of female aged 65 now	**24.1**	24.1
Life expectancy of female aged 65 in 20 years	**25.0**	25.0

Asset breakdown

The major categories of Scheme assets as a percentage of total Scheme assets are:

	At 31 December 2012	At 31 December 2011
Equities	**49.9%**	43.8%
Gilts	**22.7%**	30.0%
Corporate bonds	**23.4%**	26.2%
Cash	**4.0%**	0.0%
Total	**100.0%**	100.0%

Reconciliation of funded status and amount recognised in balance sheet:

	At 31 December 2012 $ million	At 31 December 2011 $ million
Fair value of Scheme assets	**38.2**	28.4
Present value of defined benefit obligation	**(34.0)**	(31.3)
Surplus/(Deficit)	**4.2**	(2.9)

Components of pension expense for year:

	2012 $ million	2011 $ million
Current service cost	**0.2**	0.2
Interest cost	**1.5**	1.8
Expected return on Scheme assets	**(1.5)**	(1.6)
Net actuarial gain recognised	**(1.2)**	(1.3)
Total	**(1.0)**	(0.9)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2012

23. Group pension schemes (continued)

Changes in the present value of the defined benefit obligation:

	2012 $ million	2011 $ million
Present value of defined benefit obligation at 1 January	**31.3**	32.3
Service cost	**0.2**	0.2
Interest cost	**1.5**	1.8
Actuarial (gains)/losses	**0.2**	(2.0)
Benefits paid	**(0.9)**	(0.8)
Currency translation effects	**1.7**	(0.2)
Present value of defined benefit obligation at 31 December	**34.0**	31.3

Changes in the fair value of Scheme assets:

	2012 $ million	2011 $ million
Fair value of Scheme assets at 1 January	**28.4**	28.2
Expected return	**1.5**	1.6
Actuarial (losses)/gains	**1.4**	(0.7)
Contributions by employer	**6.1**	0.2
Benefits paid	**(0.9)**	(0.8)
Currency translation effects	**1.7**	(0.1)
Fair value of Scheme assets at 31 December	**38.2**	28.4
Actual return on Scheme assets	**2.9**	0.9

Reconciliation of balance sheet liability/(asset):

	2012 $ million	2011 $ million
At 1 January	**2.9**	4.1
Pension expense for year	**(1.0)**	(0.9)
Total contributions paid	**(6.1)**	(0.2)
Currency translation effects	**–**	(0.1)
At 31 December	**(4.2)**	2.9

History of experience adjustments:

	2012 $ million	2011 $ million	2010 $ million	2009 $ million	2008 $ million
Defined benefit obligation	**(34.0)**	(31.3)	(32.3)	(31.2)	(22.7)
Scheme assets	**38.2**	28.4	28.2	25.6	20.7
Surplus/(deficit)	**4.2**	(2.9)	(4.1)	(5.6)	(2.0)
Experience adjustments on Scheme liabilities:					
Amount of (gain)/loss	**(0.1)**	0.9	0.6	(0.6)	0.1
Percentage of Scheme liabilities	**–**	3%	2%	(2%)	–
Changes in the assumptions for value of Scheme liabilities:					
Amount of (gain)/loss	**0.3**	(2.9)	0.6	5.5	(2.2)
Percentage of Scheme liabilities	**1%**	(9%)	2%	18%	(10%)
Experience adjustments on Scheme assets:					
Amount of gain/(loss)	**1.4**	(0.7)	1.5	1.9	(5.1)
Percentage of Scheme assets	**4%**	(2%)	5%	7%	(25%)
Net actuarial gain/(loss) recognised	**1.2**	1.3	0.3	(3.0)	(3.0)

23. Group pension schemes (continued)

Projected components of pension expense for year to 31 December 2013

The significant volatility in investment markets means that it is difficult to project forward the IAS 19 figures for the next year with confidence. The following projections should therefore be treated with caution. Assumptions implicit in the following projections are:

- the return on assets from 31 December 2012 is 4.4 per cent per annum;
- contributions to the Scheme will continue throughout 2013 in accordance with the current schedule of contributions in place at the date of signing this report; and
- there will be no changes to the terms of the Scheme.

The amounts recognised in the components of pension expense are:

	2013 $ million
Current service cost	0.3
Interest cost	(0.2)
Expected return on Scheme assets	–
Total	0.1

Unfunded pensions

In Indonesia, the group operates a Service, Severance and Compensation pay scheme under a Collective Labour Agreement with the local workforce. This is an unfunded post-employment defined benefit scheme in nature.

In addition, the group is paying an unfunded pension to a former director in the UK in regard to which annual increases and a reversionary spouse's pension apply on the same basis as to pensions paid under the Scheme. On the same actuarial basis as used to assess the Scheme's pension costs, the present value as at 31 December 2012 of the future payments projected to be made in respect of UK unfunded pensions is US$0.9 million (2011: US$0.9 million).

Defined contribution benefit scheme

The group operates a defined contribution retirement benefit scheme. The only obligation of the group with respect to the retirement benefit scheme is to make specified contributions. Payments to the defined contribution scheme are charged as an expense as they fall due. The total cost charged to income of US$4.2 million (2011: US$3.5 million) represents contributions payable to these schemes by the group at rates specified in the rules of the scheme.

24. Related party transactions

Transactions between the company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

Directors and executive remuneration

The remuneration of directors and other key members of management during the year is highlighted below. Further information regarding the remuneration of individual directors is provided in the audited part of the Remuneration Report.

	2012 $ million	2011 $ million
Short-term employee benefits	**6.6**	6.1
Post-employment benefits	**1.1**	0.6
Other long-term benefits: share-based payments	**13.1**	17.0
	20.8	23.7

At 31 December 2012 the company had an outstanding loan receivable of US$1.6 million (£1.0 million) from Egdon Resources plc, an associate company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2012

25. Acquisition of subsidiaries

In January 2012, the company completed the acquisition of the entire issued share capital of EnCore Oil plc (EnCore).

EnCore was an AIM listed oil and gas exploration and production company focused on the offshore UK Continental Shelf where its portfolio of assets included interests in the Catcher and Cladhan discoveries, exploration acreage and a 29.65 per cent holding in Egdon Resources plc, an AIM listed exploration and production company focused on onshore assets with interests in the UK and Europe.

Under the terms of the agreement announced on 5 October 2011, shareholders in EnCore were offered a consideration of 70 pence in cash for each EnCore share held. Alternatively, EnCore shareholders could elect to receive 0.2067 new shares in the company for each EnCore share held instead of part or all of the cash consideration.

On completion, shareholders representing 93.5 per cent of EnCore's shares elected to take new Premier shares, resulting in the company paying a total of £14.1 million (US$21.6 million) in cash to EnCore shareholders and issuing 60,931,514 new Ordinary Shares to those who chose the share alternative. The new shares began trading on 17 January 2012.

As a result of the acquisition, the group increased its stake in the Catcher project from 35 to 50 per cent and became operator of the development.

Prior to completion of the EnCore transaction, the company reached an agreement to on-sell the 16.6 per cent interest in the Cladhan area which it indirectly acquired from the EnCore acquisition for an adjusted consideration of US$52.4 million. The buyer also agreed to farm-in to a 50 per cent interest in EnCore's wholly-owned Block 28/10a on a promoted basis whereby it paid 80 per cent of certain well costs and 50 per cent of back costs on the Coaster prospect, which was drilled as part of the company's 2012 drilling programme. The on-sale of these assets was completed in March 2012.

The transaction has been accounted for by the purchase method of accounting with an effective date of 16 January 2012, being the date on which the group gained control of EnCore. Information in respect of assets acquired and the fair value allocation to the EnCore assets in accordance with the provisions of IFRS 3 - 'Business Combinations' is as follows:

	Fair values $ million
Net assets acquired:	
Intangible exploration and evaluation assets	74.6
Property, plant and equipment	138.8
Investment in associate	7.5
Trade and other receivables	3.4
Restricted cash	7.2
Cash and cash equivalents	19.0
Assets held for sale	52.4
Trade and other payables	(30.1)
Deferred tax liabilities	(103.8)
Long-term provisions	(2.2)
Total identifiable assets	166.8
Goodwill	240.8
Total consideration	**407.6**

25. Acquisition of subsidiaries (continued)

	$ million
Satisfied by:	
Cash	21.6
Equity instruments (60,931,514 Ordinary Shares)	386.0
Total consideration transferred	**407.6**

	$ million
Net cash inflow arising on acquisition:	
Cash consideration	21.6
Less: cash and restricted cash balances acquired	(26.2)
Net cash inflow	**(4.6)**

These fair values have been finalised based on a detailed review of the exploration portfolio and a reassessment of the Catcher area discoveries in December 2012.

Goodwill arises due to the difference between the fair value of the assets and the consideration transferred and also due to the requirement to recognise deferred UK corporation tax liabilities in respect of for the difference between the assigned fair values and the tax bases of assets acquired and liabilities assumed in a business combination. None of the goodwill recognised is expected to be deductible for tax purposes.

Acquisition-related expenses of US$6.9 million had been incurred by the group in 2011 and 2012 and were included within general and administration costs.

Premier acquired exploration interests as part of the acquisition and fair valued these assets within the EnCore portfolio. During 2012 three exploration prospects were drilled, two of which were unsuccessful. The unsuccessful drilling resulted in an exploration write-off of US$49.0 million income statement, being the only significant impact on the group's 2012 profit arising from the acquisition.

26. Events after the balance sheet date

Letter of Credit Facilities

In March 2013, the company negotiated an additional £100 million (US$163.0 million) letter of credit facility, increasing them to £316.0 million (US$515.1 million). This facility will expire in 2015.

Dividends

On the 19 March 2013 the Board proposed a final dividend of 5 pence per share (2011: nil). This dividend is subject to shareholder approval at the Annual General Meeting to be held in London on 7 June 2013. If approved, the dividend will be paid on 14 June 2013 to shareholders on the register as of 17 May 2013.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PREMIER OIL PLC

We have audited the parent company financial statements of Premier Oil plc for the year ended 31 December 2012 which comprises the Company Balance Sheet, the Company Statement of Total Recognised Gains and Losses, and the related notes 1 to 12. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the parent company financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2012;
- 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.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the parent company financial statements.

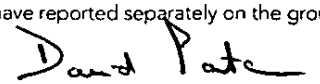
Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited 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.

Other matter

We have reported separately on the group financial statements of Premier Oil plc for the year ended 31 December 2012.



David Paterson ACA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom

20 March 2013

COMPANY FINANCIAL STATEMENTS: BALANCE SHEET

As at 31 December 2012

	Note	2012 $ million	2011 $ million
Investments in subsidiaries	3	563.5	553.2
Long-term employee benefit plan surplus	6	4.2	–
Total fixed assets		567.7	553.2
Current assets:			
Debtors			
Amounts falling due within one year	4	–	4.3
Amounts falling due after more than one year	4	512.1	81.2
Total current assets		512.1	85.5
Creditors: amounts falling due within one year	5	(8.4)	(2.0)
Net current assets		503.7	83.5
Total assets less current liabilities		1,071.4	636.7
Pension liability	6	(0.9)	(3.8)
Net assets including pension liability		1,070.5	632.9
Capital and reserves:			
Called-up share capital	8	110.5	98.8
Share premium account	9	649.2	274.5
Profit and loss account	9	244.4	203.5
Capital redemption reserve	9	4.3	4.3
Equity reserve	9	62.1	51.8
Total equity shareholders' funds	10	1,070.5	632.9

The financial statements of Premier Oil plc (registered number SC234781) were approved by the Board of Directors and authorised for issue on 20 March 2013.

They were signed on its behalf by:

S C Lockett
Chief Executive

A R C Durrant
Finance Director

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the year ended 31 December 2012

	Note	2012 $ million	2011 $ million
Profit for the financial year	2	98.5	8.0
Pension costs – actuarial gains	6	1.2	1.4
Total recognised gains and losses relating to the year		99.7	9.4

NOTES TO THE COMPANY FINANCIAL STATEMENTS

For the year ended 31 December 2012

1. Significant accounting policies

Basis of accounting

The separate financial statements of the company are presented as required by the Companies Act 2006. They have been prepared under the historical cost convention and in accordance with applicable United Kingdom Accounting Standards and law. The results relate entirely to continuing operations.

The financial statements have been prepared on the going concern basis. Further information relating to the going concern assumption is provided in the Financial Review.

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year.

Investments

Fixed asset investments in subsidiaries are shown at cost less provision for impairment.

Pension costs

The company operates a defined benefit pension scheme, which requires contributions to be made to a separately administered fund. The scheme was closed to new members (aside from the provision of insured death in service benefits) in 1997. The company accounts for pension costs in line with Financial Reporting Standard (FRS) 17 - 'Retirement Benefits'.

The amounts charged to operating profit regarding the defined benefit scheme are the current service costs and gains and losses on settlements and curtailments. Past service costs are recognised immediately in the profit and loss account if the benefits have vested. If the benefits do not vest immediately, the costs are recognised over the period until vesting occurs. The interest costs and the expected return on the assets are shown as a net amount of other financial costs or credits adjacent to interest. Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses.

Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit credit method, and discounted at a rate equivalent to the current rate of return on a high-quality corporate bond of equivalent currency and term to the scheme liabilities.

The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The resulting defined benefit asset or liability, net of related deferred tax, is presented separately after other net assets on the face of the balance sheet.

Foreign exchange

The local currency of the company is US dollars. All transactions denominated in foreign currencies, being currencies other than the local currency, are recorded in the local currency at actual exchange rates as of the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the year-end are reported at the rates of exchange prevailing at the year-end. 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.

Cash flow statement

No cash flow statement is prepared for the company under FRS 1 - 'Cash Flow Statements' as the cash flows of the company have been included in the group cash flow statement of Premier Oil plc.

Related party transactions

The company has taken advantage of the exemption available under FRS 8 - 'Related Party Disclosures' with regard to the non-disclosure of transactions between group companies.

Share-based payments

The company issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the company's estimate of shares that will eventually vest.

Fair value is measured by use of a Monte Carlo simulation. The main assumptions are provided in note 8.

Tax

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

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.

2. Profit for the year

As permitted by section 408 of the Companies Act 2006, the company has elected not to present its own profit and loss account for the year. The company reported a profit for the financial year ended 31 December 2012 of US$98.5 million (2011: profit of US$8.0 million).

The auditor's remuneration for audit and other services is disclosed in note 3 to the consolidated financial statements.

3. Fixed asset investments

	2012 $ million	2011 $ million
Cost and net book value:		
Subsidiary undertakings	553.2	553.2
Additions	10.3	–
Acquisition of EnCore	414.6	–
Value of investment transferred*	(414.6)	–
	563.5	553.2

A list of the significant investments in subsidiaries held at 31 December 2012, including the name and type of business, the country of operation and the country of incorporation or registration, is given in note 10 to the consolidated financial statements.

In January 2012, the company completed the acquisition of the entire issued share capital of EnCore.

EnCore was an AIM listed oil and gas exploration and production company focused on the offshore UK Continental Shelf where its portfolio of assets included interests in the Catcher and Cladhan discoveries, exploration acreage and a 29.65 per cent holding in Egdon Resources plc, an AIM listed exploration and production company focused on onshore assets with interests in the UK and Europe.

Under the terms of the agreement announced on 5 October 2011, shareholders in EnCore were offered a consideration of 70 pence in cash for each EnCore share held. Alternatively, EnCore shareholders could elect to receive 0.2067 new shares in the company for each EnCore share held instead of part or all of the cash consideration.

On completion, shareholders representing 93.5 per cent of EnCore's shares elected to take new Premier shares, resulting in the company paying a total of £14.1 million (US$21.6 million) in cash to EnCore shareholders and issuing 60,931,514 new Ordinary Shares to those who chose the share alternative. The new shares began trading on 17 January 2012.

Prior to completion of the EnCore transaction, the company reached an agreement to on-sell the 16.6 per cent interest in the Cladhan area which it indirectly acquired from the EnCore acquisition for an adjusted consideration of US$52.4 million. The buyer also agreed to farm-in to a 50 per cent interest in EnCore's wholly-owned Block 28/10a on a promoted basis whereby it paid 80 per cent of certain well costs and 50 per cent of back costs on the Coaster prospect, which was drilled as part of the company's 2012 drilling programme. The on-sale of these assets was completed in March 2012.

Further details are provided in note 25 to the consolidated financial statements.

* Immediately post acquisition as part of combining all assets related to the UK in one subsidiary, EnCore and its subsidiaries licence interests were transferred to Premier Oil UK Limited for the market value of those assets.

4. Debtors

	2012 $ million	2011 $ million
Other debtors	–	4.2
Prepayments and accrued income	–	0.1
Total debtors due within one year	–	4.3
Amounts owed by subsidiary undertakings due after more than one year	512.1	81.2
Total debtors	512.1	85.5

The amounts owed by subsidiary undertakings comprise a loan which bears interest based on LIBOR and which is not secured. This loan is denominated in US dollars and falls due for repayment in 2020.

The carrying values of the company's debtors approximate their fair value.

NOTES TO THE COMPANY FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2012

5. Creditors: amounts falling due within one year

	2012 $ million	2011 $ million
Accruals and deferred income	8.4	2.0

The carrying values of the company's creditors approximate their fair value.

6. Pension schemes

Balance sheet

	2012 $ million	2011 $ million
UK funded pension scheme	4.2	–
Total surplus in balance sheet	4.2	–

	2012 $ million	2011 $ million
UK funded pension scheme	–	2.9
UK unfunded pension scheme	0.9	0.9
Total liability in balance sheet	0.9	3.8

Statement of total recognised gains and losses (STRGL)

	At 31 December 2012 $ million	At 31 December 2011 $ million
Actuarial gains including currency translation effects	1.2	1.4
Cumulative amount of actuarial gains/(losses) recognised in the STRGL including currency translation effects	(10.8)	(12.0)

Funded pensions

The company operates a defined benefit pension scheme in the UK - The Premier Oil plc Retirement and Death Benefits Plan (the Scheme). The Scheme was closed to new members (aside from the provision of insured death in service benefits) in 1997 and a new scheme, providing benefits on a defined contribution basis, was started. Both schemes are funded by the payment of contributions to separately administered trust funds.

The disclosures set out below are based on calculations carried out as at 31 December 2012 by a qualified independent actuary. The figures have been prepared in compliance with FRS 17 – 'Retirement Benefits' (incorporating the amendment announced in December 2006).

The Scheme's assets are held in a separate trustee-administered fund to meet long-term pension liabilities to past and present employees. The Trustee of the Scheme is required to act in the best interest of the Scheme's beneficiaries. The appointment of members of the Trustee Board is determined by the trust documentation.

The liabilities of the defined benefit Scheme are measured by discounting the best estimate of future cash flows to be paid out of the Scheme using the projected unit credit method. This amount is reflected in the surplus or the deficit in the balance sheet. The projected unit credit method is an accrued benefits valuation method in which the Scheme liabilities make allowance for the projected earnings.

The liabilities set out in this note have been calculated using membership data current as at 31 December 2012. The results of the calculations and the assumptions adopted are shown below.

As at 31 December 2012, contributions are payable to the Scheme by the company at the rates set out in the schedule of contributions dated 27 July 2012. Under this schedule, the company contributes on a monthly basis at the rate of 30 per cent of the aggregate of the members' pensionable salaries.

6. **Pension schemes** (continued)

Principal assumptions

The principal actuarial assumptions at the balance sheet date were:

	At 31 December 2012	At 31 December 2011
Discount rate	4.4% pa	4.6% pa
Expected return on Scheme assets	4.8% pa	5.0% pa
RPI inflation	2.9% pa	3.0% pa
CPI inflation	2.2% pa	2.3% pa
Rate of increase in salaries	4.9% pa	5.0% pa
Rate of increase in pensions in payment LPI: (max 5.0%)	2.9% pa	3.0% pa
Pre and post-retirement mortality	PCA00 YOB MC	PCA00 YOB MC
Withdrawals	No allowance	No allowance
Cash commutation	2.0 x pre-commutation pension	2.0 x pre-commutation pension
Life expectancy of male aged 65 now	21.9	21.8
Life expectancy of male aged 65 in 20 years	23.0	22.9
Life expectancy of female aged 65 now	24.1	24.1
Life expectancy of female aged 65 in 20 years	25.0	25.0

Asset breakdown

The major categories of Scheme assets as a percentage of total Scheme assets are:

	At 31 December 2012	At 31 December 2011
Equities	49.9%	43.8%
Gilts	22.7%	30.0%
Corporate bonds	23.4%	26.2%
Cash	4.0%	0.0%
Total	100.0%	100.0%

Employee benefit obligations

The amounts recognised in the balance sheet are as follows:

	At 31 December 2012 $ million	At 31 December 2011 $ million
Fair value of Scheme assets	38.2	28.4
Present value of funded obligations	(34.0)	(31.3)
Surplus/(deficit)	4.2	(2.9)

Total expense recognised in profit or loss:

	2012 $ million	2011 $ million
Current service cost	0.2	0.2
Interest on obligation	1.5	1.8
Expected return on Scheme assets	(1.5)	(1.6)
Total	0.2	0.4

NOTES TO THE COMPANY FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2012

6. **Pension schemes** (continued)

Changes in the present value of the defined benefit obligation:

	2012 $ million	2011 $ million
Present value of defined benefit obligation at 1 January	31.3	32.3
Service cost	0.2	0.2
Interest cost	1.5	1.8
Actuarial (gains)/losses	0.2	(2.0)
Benefits paid	(0.9)	(0.8)
Currency translation effects	1.7	(0.2)
Present value of defined benefit obligation at 31 December	34.0	31.3

Changes in the fair value of Scheme assets:

	2012 $ million	2011 $ million
Fair value of Scheme assets at 1 January	28.4	28.2
Expected return	1.5	1.6
Actuarial (losses)/gains	1.4	(0.7)
Contributions by employer	6.1	0.2
Benefits paid	(0.9)	(0.8)
Currency translation effects	1.7	(0.1)
Fair value of Scheme assets at 31 December	38.2	28.4
Actual return on Scheme assets	2.9	0.9

Movements over previous five year period:

	2012 $ million	2011 $ million	2010 $ million	2009 $ million	2008 $ million
Defined benefit obligation	(34.0)	(31.3)	(32.3)	(31.2)	(22.7)
Scheme assets	38.2	28.4	28.2	25.6	20.7
Surplus/(deficit)	4.2	(2.9)	(4.1)	(5.6)	(2.0)
Experience (gain)/loss on Scheme liabilities	(0.1)	0.9	0.6	(0.6)	0.1
(Gain)/loss from changes in the assumptions for value of Scheme liabilities	0.3	(2.9)	0.6	5.5	(2.2)
Experience gain/(loss) on Scheme assets	1.4	(0.7)	1.5	1.9	(5.1)

Projected components of pension expense for year to 31 December 2013

The significant volatility in investment markets means that it is difficult to project forward the FRS 17 figures for the next year with confidence. The following projections should therefore be treated with caution. Assumptions implicit in the following projections are:

- the return on assets from 31 December 2012 is 4.4 per cent per annum;
- contributions to the Scheme will continue throughout 2013 in accordance with the current schedule of contributions in place at the date of signing this report; and
- there will be no changes to the terms of the Scheme.

The amounts recognised in the components of pension expense are:

	2013 $ million
Current service cost	0.3
Interest cost	1.5
Expected return on Scheme assets	(1.8)
Total	-

6. **Pension schemes** (continued)

Sensitivity and risk

The results of the calculations are sensitive to the assumptions used. The balance sheet position revealed by FRS 17 calculations must be expected to be volatile, principally because the market value of assets (with a significant exposure to equities) is being compared with a liability assessment derived from corporate bond yields.

The table below illustrates the sensitivity of the FRS 17 balance sheet position to small changes in some of the assumptions. Where one assumption has been changed all the other assumptions are kept the same as disclosed.

	Revised Surplus/ (Deficit) $ million	Change from disclosed Surplus/ (Deficit) $ million
Discount rate less 0.1% pa	3.5	(0.7)
RPI inflation and linked assumptions plus 0.1% pa	3.5	(0.7)
Members living one year longer than expected	3.5	(0.9)

The key risks which could significantly impact the balance sheet, and to a lesser extent the profit and loss account, are as follows:

- a reduction in the discount rate, which will increase the value placed on the Scheme's liabilities;
- an increase in price inflation and/or salary inflation; and
- improving life expectancy (lower mortality rates) resulting in benefits being paid for longer.

Unfunded pensions

The company is paying an unfunded pension to a former director in regard to which annual increases and a reversionary spouse's pension apply on the same basis as to pensions paid under the Scheme. On the same actuarial basis as used to assess the Scheme's pension costs, the present value as at 31 December 2012 of the future payments projected to be made in respect of UK unfunded pensions is US$0.9 million (2011: US$0.9 million).

7. **Commitments and guarantees**

At the year-end date the company, together with certain subsidiary undertakings, had jointly guaranteed the group's borrowing facilities which consist of a US$300.0 million term loan, a US$695.0 million revolving credit facility and a £216.0 million (US$351.1 million) letter of credit facility, all maturing in 2015, a US$350.0 million revolving credit facility maturing in 2017, and private placements of senior notes of US$244.0 million and €75.0 million, and US$202.0 million and €25.0 million with various maturities starting from 2018 to 2024.

8. **Share capital**

	2012 12.5p shares	2012 £	2011 2.5p shares	2011 £
Ordinary Shares:				
Called-up, issued and fully-paid	529,110,917	66,138,865	468,059,828	58,507,479

	2012 $ million	2011 $ million
At 1 January	98.8	98.3
Shares issued to the Premier Oil plc Employee Benefit Trust (nominal value)	–	0.5
Acquisition of subsidiary (note 3)	11.7	–
At 31 December	110.5	98.8

NOTES TO THE COMPANY FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2012

8. Share capital (continued)

Ordinary Shares

The rights and restrictions attached to the Ordinary Shares are as follows:

Dividend rights: the rights of the holders of Ordinary Shares shall rank pari passu in all respects with each other in relation to dividends.

Winding up or reduction of capital: on a return of capital on a winding up or otherwise (other than on conversion, redemption or purchase of shares) the rights of the holders of Ordinary Shares to participate in the distribution of the assets of the company available for distribution shall rank pari passu in all respects with each other.

Voting rights: the holders of Ordinary Shares shall be entitled to receive notice of, attend, vote and speak at any General Meeting of the company.

Share-based payments and share incentive plans

The group currently operates a Long Term Incentive Plan (LTIP) for all employees and a Share Incentive Plan and a Save As You Earn Scheme for UK-based and expatriate employees only.

For the year ended 31 December 2012, the total cost recognised by the company for equity-settled share-based payment transactions is US$30.5 million. A credit of US$30.5 million has been recorded in retained earnings (2011: US$34.6 million) for all equity-settled payments of the group. Like other elements of remuneration, this charge is processed through the time-writing system which allocates cost, based on time spent by individuals, to various entities within the Premier Oil plc group. Part of this cost is therefore recharged to the relevant subsidiary undertaking where it is capitalised as directly attributable to capital projects and part is charged to the income statement as operating costs, pre-licence exploration costs or general and administration costs.

Details of the different share incentive plans currently in operation are set out below:

(i) Long Term Incentive Plan

The Long Term Incentive Plan (LTIP) was introduced in 2009 to provide a long-term all employee scheme which motivates all employees and provides a longer-term perspective to the total remuneration package. Awards under the LTIP comprise three elements: Equity Pool Awards and Performance Share Awards that vest after the expiry of a three-year performance period, and a potential Matching Award that vests at the expiry of a further three-year performance period, commencing at the end of the three-year performance period for Equity Pool and Performance Share Awards.

Full details about this plan have been provided in the Remuneration Report.

The company uses a Monte Carlo simulation model to calculate the value of the Equity bonus pool of the plan and of the Performance Share Awards. The main assumptions used for the calculations are as follows:

Volatility:	41.0% to 42.0%
Risk free rate of interest:	1.1% to 3.7%
Correlation factor with comparator group:	0.30 to 0.35

(ii) Share Incentive Plan

Under the share incentive plan employees are invited to make contributions to buy partnership shares. If an employee agrees to buy partnership shares the company currently matches the number of partnership shares bought with an award of shares (matching shares), on a one-for-one basis.

8. Share capital (continued)

(iii) Savings Related Share Option Scheme

Under the Savings Related Share Option Scheme, eligible employees with six months or more continuous service can join the scheme. Employees can save to a maximum of £250 per month through payroll deductions for a period of three or five years, after which time they can acquire shares at up to a 20 per cent discount.

	2012		2011	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Outstanding at the beginning of the year	368,400	£2.55	418,684	£2.08
Granted during the year	152,188	£3.13	63,936	£4.17
Lapsed during the year	(13,288)	£4.08	(14,716)	£2.75
Exercised during the year*	(104,636)	£1.91	(99,504)	£1.59
Outstanding at the end of the year	402,664	£2.89	368,400	£2.55
Exercisable at the end of the year	–	–	–	–

* 104,636 Ordinary Shares with a nominal value of £13,080 (US$20,814) were issued under the group's share option schemes during the year (2011: 76,180 Ordinary Shares with a nominal value of £9,523 (US$15,436)).

The weighted average share price at the date of exercise for share options exercised during the year was £3.41. The options outstanding at 31 December 2012 had a weighted average exercise price of £2.89 and a weighted average remaining contractual life of 2.57 years.

The fair value of the options granted during the year was determined using the Black-Scholes valuation model and is not material.

9. Share capital and reserves

	Share capital $ million	Share premium account $ million	Profit and loss account $ million	Capital redemption reserve $ million	Equity reserve $ million	Total $ million
At 1 January 2011	98.3	254.8	176.9	4.3	51.8	586.1
Issue of Ordinary Shares	0.5	19.7	(20.0)	–	–	0.2
Net sale of ESOP Trust shares	–	–	2.6	–	–	2.6
Profit for the year	–	–	8.0	–	–	8.0
Provision for share-based payments	–	–	34.6	–	–	34.6
Pension costs – actuarial gains	–	–	1.4	–	–	1.4
At 31 December 2011	98.8	274.5	203.5	4.3	51.8	632.9
Issue of Ordinary Shares	11.7	374.7	–	–	–	386.4
Net purchase of ESOP Trust shares	–	–	(89.3)	–	–	(89.3)
Profit for the year	–	–	98.5	–	–	98.5
Provision for share-based payments	–	–	30.5	–	–	30.5
Incremental equity component of convertible bonds	–	–	–	–	10.3	10.3
Pension costs – actuarial gains	–	–	1.2	–	–	1.2
At 31 December 2012	110.5	649.2	244.4	4.3	62.1	1,070.5

In October 2012, the group invited holders of the outstanding US$250.0 million guaranteed convertible bonds ('old bonds') to exchange their existing bonds (due 2014) for guaranteed convertible bonds due 2018 ('new bonds'). The new bonds have a conversion price of US$7.00 per share and a coupon of 2.5 per cent. This compared with the existing convertible bonds which had a conversion price of US$6.69 per share and a coupon of 2.875 per cent. Bond holders representing 98.13 per cent of the total aggregate principal amount of the US$250.0 million (approximately US$245.3 million) elected to exchange their old bonds for the new bonds. The remainder of the old bonds were settled in cash (US$4.6 million) or company shares (US$0.1 million) at par.

The new bonds were issued on 1 November 2012, with a par value of US$245.3 million which are convertible into Ordinary Shares of the company at any time from 11 August 2016 until six days before their maturity date of 27 July 2018. At the conversion price of £4.34 (US$7.00 at fixed exchange rate) per share there are 35,035,495 Ordinary Shares of the company underlying the bonds. If the bonds have not been previously purchased and cancelled, redeemed or converted, they will be redeemed at par value on 27 July 2018.

NOTES TO THE COMPANY FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2012

10. Reconciliation of movements in shareholders' funds

	2012 $ million	2011 $ million
Opening shareholders' funds	632.9	586.1
Issue of Ordinary Shares	386.4	0.2
Net (purchase)/sale of ESOP Trust shares	(89.3)	2.6
Profit for the year	98.5	8.0
Provision for share-based payments	30.5	34.6
Additional equity of new convertible bond	10.3	–
Pension costs – actuarial gains	1.2	1.4
Net addition to shareholders' funds	437.6	46.8
Closing shareholders' funds	1,070.5	632.9

11. Own shares

	Note	Total $ million
At 1 January 2011		31.7
Issuance of Ordinary Shares (market value)*	8	20.0
Net sale of ESOP Trust shares		(2.6)
Release of shares for long-term incentive arrangements		(36.6)
At 31 December 2011		12.5
Net purchase of ESOP Trust shares		89.3
Release of shares for long-term incentive arrangements		(57.2)
At 31 December 2012		44.6

* In April 2011, prior to the 4:1 share split, the company issued 600,000 Ordinary Shares of 50 pence each to the Premier Oil plc Employee Benefit Trust.

The own shares reserve represents the net cost of shares in Premier Oil plc purchased in the market or issued by the company into the Premier Oil plc Employee Benefit Trust. This ESOP Trust holds shares to satisfy awards under the group's share incentive plans. At 31 December 2012, the number of Ordinary Shares of 12.5 pence each held by the Trust was 7,640,386 (2011: 1,973,998 Ordinary Shares of 12.5 pence each).

12. Subsequent events

Letter of Credit Facilities

In March 2013, the company negotiated an additional £100 million (US$163.0 million) letter of credit facility, increasing them to £316.0 million (US$515.1 million). This facility will expire in 2015.

Dividends

On the 19 March 2013 the Board proposed a final dividend of 5 pence per share (2011: nil). This dividend is subject to shareholder approval at the Annual General Meeting to be held in London on 7 June 2013. If approved, the dividend will be paid on 14 June 2013 to shareholders on the register as of 17 May 2013.

FIVE YEAR SUMMARY

Financials		2012	2011	2010	2009	2008
Sales revenues	($ million)	**1,408.7**	826.8	763.6	621.1	655.2
Profit before tax	($ million)	**359.9**	141.5	100.8	79.9	277.6
Net profit for the year after tax	($ million)	**252.0**	171.2	129.8	113.0	98.3
Cash flow from operating activities	($ million)	**808.2**	485.9	436.0	347.7	352.3
Shareholders' funds	($ million)	**1,953.5**	1,323.6	1,130.2	971.3	598.9
Net (debt)/cash	($ million)	**(1,110.4)**	(744.0)	(405.7)	(315.6)	117.3
Per share statistics:						
Revenue per share	(cents/share)	**267.6**	176.9	164.6[2]	571.9	659.8[3]
Earnings per share – basic	(cents/share)	**47.9**	36.6	28.0[2]	104.1	99.0[3]
Earnings per share – diluted	(cents/share)	**46.9**	31.5	25.8[2]	103.9	98.2[3]
Cash flow from operating activities per share	(cents/share)	**153.5**	104.0	94.0[2]	320.2	354.8[3]
Reserves per share – year-end	(boe/share)	**0.55**	0.63[1]	0.56[2]	2.35	2.29[3]
Issued Ordinary Shares – average	(million)	**526.4**	467.4	464.0[2]	108.6	99.3[3]
Operations:						
Production (working interest basis)	(kboepd)	**57.7**	40.4	42.8	44.2	36.5
Proved and probable reserves (working interest basis)	(mmboe)	**291.9**	296.3	260.8	255.2	227.5
Employees (average) – UK	(number)	**181**	136	119	110	62
– Overseas	(number)	**551**	502	442	398	406
Key indices:						
Realised average oil price – pre hedging	($/bbl)	**111.40**	111.90	79.70	66.30	94.50
Average exchange rates	($/£)	**1.59**	1.60	1.55	1.57	1.85
Closing exchange rates	($/£)	**1.63**	1.55	1.56	1.62	1.46

Notes:

1. The working interest reserves for 2011 are proforma reserves which include the reserves acquired from the acquisition of EnCore Oil plc, excluding Cladhan. This acquisition was completed in January 2012.
2. The average issued Ordinary Shares for 2010 have been adjusted to reflect the 4:1 share split that occurred in 2011. The 2010 'per share statistics' have been restated accordingly. The 'per share statistics' for 2009 and 2008 have not been adjusted for the 4:1 share split.
3. The average issued Ordinary Shares for 2008 have been adjusted to reflect the bonus element related to the rights issue in 2009. The 2008 'per share statistics' have been restated accordingly.

OIL AND GAS RESERVES

Working interest reserves at 31 December 2012

	Working interest basis												
	Indonesia		Mauritania		Pakistan		United Kingdom		Vietnam		TOTAL		
	Oil and NGLs mmbbls	Gas bcf	Oil and NGLs mmbbls	Gas bcf	Oil and NGLs mmbbls	Gas bcf	Oil and NGLs mmbbls	Gas bcf	Oil and NGLs mmbbls	Gas bcf	**Oil and NGLs mmbbls**	**Gas[4] bcf**	**Oil, NGLs and gas mmboe**
Group proved plus probable reserves:													
At 1 January 2012	4.8	498.7	0.7	0.8	0.8	235.1	103.9	54.0	28.6	32.2	**138.8**	**820.8**	**284.8**
Revisions[1]	0.7	2.0	0.1	14.1	(0.1)	(11.0)	2.5	4.8	4.9	8.9	**8.1**	**18.8**	**12.0**
Discoveries and extensions[2]	–	20.9	–	–	–	8.8	–	–	–	–	**–**	**29.7**	**5.1**
Acquisitions and divestments[3]	–	–	–	–	–	–	10.6	2.8	–	–	**10.6**	**2.8**	**11.1**
Production	(0.5)	(24.8)	(0.3)	(14.2)		(21.9)	(4.2)	(1.2)	(4.8)	(3.5)	**(9.8)**	**(65.6)**	**(21.1)**
At 31 December 2012	**5.0**	**496.8**	**0.5**	**0.7**	**0.7**	**211.0**	**112.8**	**60.4**	**28.7**	**37.6**	**147.7**	**806.5**	**291.9**
Total group developed and undeveloped reserves:													
Proved on production	1.2	135.3	0.1	0.2	0.5	117.6	19.6	5.8	17.5	17.5	**38.9**	**276.4**	**87.2**
Proved approved/ justified for development	2.2	219.7	–	–	–	16.2	52.3	26.9	4.0	15.5	**58.5**	**278.3**	**109.7**
Probable on production	0.6	48.2	0.4	0.5	0.1	54.3	8.3	4.3	6.3	3.4	**15.7**	**110.7**	**34.9**
Probable approved/ justified for development	1.0	93.6	–	–	0.1	22.9	32.6	23.4	0.9	1.2	**34.6**	**141.1**	**60.1**
At 31 December 2012	**5.0**	**496.8**	**0.5**	**0.7**	**0.7**	**211.0**	**112.8**	**60.4**	**28.7**	**37.6**	**147.7**	**806.5**	**291.9**

Notes:

1. Includes reserves moved from contingent resources at Dua (Vietnam) and Wytch Farm (UK).
2. Includes reserves discovered at Anoa (Indonesia), Kadanwari and Bhit (Pakistan).
3. Includes change in net equity in the Catcher area following the acquisition of EnCore, and an adjustment to the assumed equity interest in the Solan project. Acquisition of assets in the Falkland Islands and the increased working interests in Bream and Block 18-10 in Norway are currently contingent resources and do not appear in this table.
4. Proved plus probable gas reserves include 83 bcf fuel gas.

Premier Oil plc categorises petroleum resources in accordance with the 2007 SPE/WPC/AAPG/SPEE Petroleum Resource Management System (SPE PRMS).

Proved and probable reserves are based on operator, third party reports and internal estimates and are defined in accordance with the Statement of Recommended Practice (SORP) issued by the Oil Industry Accounting Committee (OIAC), dated July 2001.

The group provides for amortisation of costs relating to evaluated properties based on direct interests on an entitlement basis, which incorporates the terms of the PSCs in Indonesia, Vietnam and Mauritania. On an entitlement basis reserves were 255.5 mmboe as at 31 December 2012 (2011: 263.8 mmboe). This was calculated in 2012 using an oil price assumption equal to the Dated Brent forward curve in 2013 and 2014 and US$85/bbl in 'real' terms thereafter (2011: Dated Brent forward curve in 2012 and 2013 and US$75/bbl in 'real' terms thereafter).

WORLDWIDE LICENCE INTERESTS

As at 20 March 2013

	Licence	Block	Operator	PO Equity %	Field/Discovery
Egypt		North Red Sea Block 1	Hess	20.00[1]	
Falkland Islands	PL003a	14/14 (part) & 14/19 (part)	Desire	4.50	
	PL003b	14/14 (part) & 14/19 (part)	Desire	4.50	
	PL004a	14/15 (part), 14/20, 15/11 (part) & 15/16 (part)	Desire	4.50	
	PL004b	14/15 (part)	**Premier**	36.00	
	PL004c	14/15 (part)	Desire	15.00	
	PL023	25/14 (part), 25/19, 25/24 (part) & 25/30 (part)	**Premier**	60.00	
	PL024	26/1, 26/6, 26/21, 26/22 (part), 26/26 (part) & 26/27	**Premier**	60.00	
	PL032	14/5, 14/10	**Premier**	60.00	Sea Lion
	PL033	15/1, 15/2, 15/6 & 15/7	**Premier**	60.00	
Indonesia		Block A Aceh	Medco	41.67	Alur Siwah
		Buton Block	JAPEX	30.00[1]	
		Kakap Block	Star Energy	18.75	Kakap
		Natuna Sea Block A	**Premier**	28.67	Anoa, Gajah Baru
		Tuna Block	**Premier**	65.00	
Iraq		Block 12	JSOC Bashneft	30.00	
Ireland	PEL 4/05[2]	49/17 (part), 49/22 (part) & 49/23 (part)	Island Expro	15.00	Old Head of Kinsale
	PEL 5/05[2]	48/26 (part), 48/27 (part), 57/1 (part) & 57/2	Island Expro	12.50	Schull
Kenya		L10A	BG	20.00	
		L10B	BG	25.00	
Mauritania	PSC A	(Banda area EEA)	Tullow	4.62	Banda[3]
	PSC B	(Chinguetti EEA)	Petronas	8.12	Chinguetti
	PSC B		Tullow	8.12	Tevet
	PSC C-10		Tullow	6.23	
Norway	PL359	16/1 (part) & 16/4 (part)	Lundin	30.00	
	PL364	25/2 (part) &25/5 (part)	Det Norske	50.00	Frøy
	PL374S	34/2 (part) & 34/5 (part)	BG	15.00	Blåbaer
	PL378	35/12 (part)	Wintershall	20.00	Grosbeak
	PL378B	35/12 (part)	Wintershall	20.00	
	PL406	18/10 (part)	**Premier**	80.00	
	PL407	17/9 (part) & 17/12 (part)	BG	40.00	Bream
	PL539	3/7 (part)	**Premier**	40.00	
	PL565	1/9 (part)	**Premier**	60.00	
	PL566S	2/8 (part), 2/9 (part) & 2/11 (part)	**Premier**	50.00	
	PL567	2/6 (part)	**Premier**	60.00	
	PL617	2/9 (part)	Valiant	35.00	
	PL622	15/12 (part), 16/10 (part) & 16/11 (part)	**Premier**	60.00	
	PL623	15/8 (part), 15/9 (part), 15/11 (part) & 15/12 (part)	Talisman	20.00	
	PL647	6507/4 (part) & 6507/5 (part)	Maersk	30.00	
	PL663	2/6 (part) & 3/4 (part)	Det Norske	20.00	

Notes:

1. Premier has decided to relinquish its equity share in this licence. The relinquishment is subject to government approval.
2. A two year lease undertaking is being sought for this licence, which expired in October 2011.
3. Unitised share of 4.671 per cent.

WORLDWIDE LICENCE INTERESTS (continued)

As at 20 March 2013

	Licence	Block	Operator	PO Equity %	Field/Discovery
Pakistan	Production Leases	Tajjal	ENI	15.79	Kadanwari
		Qadirpur	OGDCL	4.75	Qadirpur
		Kirthar	ENI	6.00	Bhit
		Dadu	BHP	9.38	Zamzama
		Kirthar	ENI	6.00	Badhra
		Bolan	Mari Gas	3.75	Zarghun South
Saharawi Arab Democratic Republic		Daora, Haouza, Mahbes, Mijek[1] Laguera[1]	Ophir **Premier**	50.00 100.00	
United Kingdom	P077	22/12a	Shell	50.00	Nelson[2]
	P087	22/7a	**Premier**	46.50	Nelson[3]
	P101	23/21 (North & South Moth – below bottom chalk)	BG	25.00	Moth
	P110	22/14a (non-Everest deep)	BG	27.24	Mallory
	P110	22/14a (non-Everest shallow)	**Premier**	25.04	Huntington East
	P119	15/29a (area P)	**Premier**	60.00[4]	Ptarmigan
	P164	205/26a	**Premier**	60.00	Solan
	P185	15/22 (rest of block, non-Palaeocene formation)	Nexen	50.00	
	P201	16/21a	**Premier**	85.00	Balmoral[5], Stirling[6] & Glamis
	P201	16/21a (Brenda Field Area, Above 7500 feet)	**Premier**	100.00	Brenda (above 7500 feet)
	P213	16/26 (Area P)	**Premier**	100.00	Caledonia
	P218	15/21a (Scott field area)	Nexen	45.83	Scott[7]
	P218	15/21a (Telford field area)	Nexen	7.30	Telford[8]
	P218	15/21a (Gamma sub-area)	**Premier**	28.00	
	P233	15/25a	**Premier**	70.00	Nicol
	P257	14/25a	Talisman	1.52	
	P300	14/26a (Oddjob area)	Nexen	25.00	
	P344	16/21b (Northern area)	**Premier**	55.00	
	P344	16/21b & 16/21c	**Premier**	44.20	Balmoral[5] & Stirling[6]
	P354	22/2a (non-Chestnut field area)	**Premier**	30.00	
	P489	15/23b	Nexen	50.00	
	P534	98/6a & 98/7a	Perenco	30.39	Wytch Farm (offshore)[9]
	P640	15/24b (area b)	ConocoPhillips	50.00	
	P748	29/2c	CNR	40.00	Kyle
	P1042	15/25b	**Premier**	100.00	Brenda
	P1114	22/14b & 22/19b	E.ON E&P	40.00	Huntington
	P1181	23/22b	**Premier**	20.20	

Notes:

1. These PSCs were signed in 2006 and will be ratified by the SADR Government once the SADR has been internationally recognised as an independent state.
2. Unitised share of 1.31404 per cent.
3. Unitised share of 0.348750 per cent.
4. Partners are withdrawing from this licence. Subject to government approval this will leave Premier with 100 per cent interest on completion.
5. Unitised share of 78.115421 per cent.
6. Unitised share of 68.68 per cent.
7. Unitised share of 21.83458 per cent.
8. Unitised share of 1.58677 per cent.
9. Unitised share of 30.09625 per cent.

	Licence	Block	Operator	PO Equity %	Field/Discovery
United Kingdom	P1260	22/2b	**Premier**	100.00	Shelley
(continued)	P1298	15/26b	Nexen	50.00	Kildare & West Rochelle[1]
	P1335	43/13a	**Premier**	100.00	Esmond
	P1420	22/13b	**Premier**	72.73	
	P1430	28/9a & 28/10c	**Premier**	50.00	Catcher, Varadero & Burgman
	P1463	14/30a	**Premier**	40.00	Tudor Rose
	P1475	113/29c & 113/30	Nautical	50.00	
	P1577	201/5, 202/24, 202/25, 202/29, 202/30, 203/16, 203/21 & 203/26	**Premier**	100.00	
	P1615	15/26c	Endeavour	25.00	West Rochelle[2]
	P1655	15/21g	**Premier**	28.00	
	P1770	14/30b	Nexen	50.00	
	P1771	15/9, 15/10, 15/14 & 15/15	Nexen	50.00	
	P1784	21/7b	**Premier**	70.00	
	P1804	22/21c & 22/26d	Maersk	30.00	
	P1812	28/5, 28/10a & 29/1d	**Premier**	50.00	
	P1875	21/29d	Antrim	50.00	
	P1886	12/14, 12/19a & 12/20a	**Premier**	100.00	
	P1887	12/16b & 12/17b	First Oil	25.00	
	PL089	SY87b, SY88b, SY89b, SY97b, SY98a, SY99a, SZ/7 & SZ/8a	Perenco	30.39	Wytch Farm (onshore)[3]
	P1920	12/30	Echo	50.00	
(27th Round)	P1990[4]	14/23a & 14/28a	Endeavour	50.00	
	P1992[4]	15/8b	Nexen	50.00	
	P1994[4]	15/17b	Ithaca	50.00	
	P1998[4]	21/9b & 21/10b	Apache	40.00	
	P2001[4]	22/6e	Apache	40.00	
	P2018[4]	214/24b, 214/29a & 214/30c	RWE	33.33	
	P2028[4]	15/18d & 15/19d	**Premier**	50.00	
	P2040[4]	29/11	**Premier**	35.00	
	P2063[4]	28/3a	**Premier**	100.00	
	P2070[4]	28/4a	**Premier**	54.00	
	P2077[4]	28/8	**Premier**	54.00	
	P2086[4]	28/14 & 28/9b	**Premier**	35.00	
Vietnam		Block 12W	**Premier**	53.13	Chim Sáo & Dua
		Block 07/03	**Premier**	30.00	Cá Rồng Đỏ
		Block 121	Origin	40.00	
		Block 104-109/05	**Premier**	50.00[5]	

Notes:

1. Unitised share of 9.289175 per cent.
2. Unitised share of 5.710825 per cent.
3. Unitised share of 30.09625 per cent.
4. This block was awarded in the 27th round and this licence is subject to government approval.
5. Premier has decided to relinquish its equity share in this licence and is subject to government approval.

SHAREHOLDER INFORMATION

Registrars
All enquiries concerning your shareholding should be directed to Capita Registrars:

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Northern House
Woodsome Park
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Email: shareholder.services@capitaregistrars.com

Share portal
As a shareholder you have direct access to the online Share Portal operated by Capita Registrars at www.premier-oil-shares.com. You will need your Investor Code (IVC) which can be found on your share certificate. The portal provides a range of services free of charge to help you to administer your shareholding quickly and efficiently by allowing you to:

- Check your share balance;
- Change your address details;
- Opt into receiving electronic shareholder communications;
- Set up or amend a dividend mandate so dividends can be paid directly to your bank account; and
- Buy and sell Premier Oil plc shares using the dealing service operated by Capita Deal.

Dividends
Shareholders can have their dividends paid directly into a UK sterling bank account and have the tax voucher sent directly to their registered address. You can register your account details using the Share Portal: www.premier-oil-shares.com.

Overseas shareholders who wish to have their dividends paid in a local currency can use the International Payment Service that Capita has established. The International Payment Service is available to holders who receive individual dividend or interest payments of £10 or more (payments of less than £10 or more than £100,000 will be paid by sterling cheque, unless otherwise agreed). Further information, including the terms and conditions of the International Payment Service, is available on Capita's International Payment Service website: www.international.capitaregistrars.com. Please note, this service may not be available to all overseas shareholders.

E-communications
You can receive documents by electronic format, rather than through the post. Premier has pledged to donate £1 to PURE The Clean Planet Trust (www.puretrust.org.uk) for every shareholder that registers their email address. PURE is a UK based carbon offsetting charity dedicated to combating climate change. To register for this service, please visit the Share Portal: www.premier-oil-shares.com. You will need your Investor Code (IVC) which can be found on your share certificate. Once registered, Premier will use your email whenever they communicate with shareholders electronically, for example notice of meetings, Report and Accounts and information regarding the Share Portal service.

Shareholder security
Shareholders are advised to be very wary of any unsolicited advice, offers to buy Premier shares at inflated prices, or offers of free reports about Premier. More information can be found in the Shareholder Information section of the Investors area of the Premier website: www.premier-oil.com.

GLOSSARY

AEP	Asset and Equity Plan
APA	Awards in Predefined Areas (Norway)
API	American Petroleum Institute
bbl	barrel
BBtud	billion British thermal units per day
bcf	billion cubic feet
BMS	Business Management System
boe	barrels of oil equivalent
boepd	barrel(s) of oil equivalent per day
bopd	barrel(s) of oil per day
bnboe	billion barrel(s) of oil equivalent
CPP	central processing platform
CRR	Corporate Risk Register
DECC	Department of Energy and Climate Change
EAA	exclusive exploration authorisation
EPCI	engineering, procurement, construction and installation
ERW	extended reach well
FDP	field development plan
FEED	front end engineering and design
FPSO	floating production, storage and offtake vessel
FPV	floating production vessel
GRI	Global Reporting Initiative
GSA	gas sales agreement
HIPO	high potential incidents
HIPOR	high potential incidents rate
HPHT	high pressure high temperature
HSE	health, safety and environment
HSES	health, safety, environment and security
HSFO	High Sulphur Fuel Oil
IAS	International Accounting Standard
IFRS	International Financial Reporting Standard
kbopd	thousand barrels of oil per day
kboepd	thousand barrels of oil equivalent per day
KPI	key performance indicator
LOPC	loss of primary containment
LTI	lost time injury
LTIP	Long Term Incentive Plan
mmbbls	million barrels
mmboe	million barrels of oil equivalent
mmscfd	million standard cubic feet per day
mscf	thousand standard cubic feet
mt	metric tonne
NAV	net asset value
PSA	Performance Share Awards
PSC	production sharing contract
PSR	Project Safety Reviews
RWDC	restricted work day case
TRIR	total recordable injury rate
TSR	total shareholder return
WHP	wellhead platform

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