

A strong foundation for our business

2018 Annual Report and
Financial Statements

Year to 31 December



Operational highlights

80.5 kboepd

Record Group production

4

Highly prospective licence awards

66 kbopd

Catcher revised oil rates (gross)

500 Bcf (gross)

Tolmount Main gas project sanctioned

600 mmbbls

Zama discovery appraisal underway

Financial highlights

US\$ 10 /boe

Low field operating costs
2017: US\$12/boe

US\$ 777 m

Cash flows from operations
2017: US\$475m

US\$ 393 m

Debt reduction
2017: US\$41m

US\$ 133 m

Return to profitability
2017: post tax loss of US\$254m

Premier is a leading independent exploration and production company with oil and gas interests in the North Sea, South East Asia, Pakistan, the Falkland Islands and Latin America.

Strategic Report

- 01 Chairman's foreword
- 02 At a glance
- 04 Production – Catcher
- 06 Development – Tolmount
- 08 Exploration & Appraisal
- 10 Our Strategy
- 12 Business model
- 14 Key Performance Indicators
- 16 Market overview
- 18 Chief Executive Officer's Review
- 22 Business Units Review
- 30 Financial Review
- 36 Principal Risks
- 42 Corporate Responsibility

Governance

- 56 Chairman's Introduction
- 60 Board of Directors
- 64 Corporate Governance Report
- 72 Audit and Risk Committee Report
- 77 Nomination Committee Report
- 79 Directors' Remuneration Report
- 108 Directors' Report
- 111 Statement of Directors' Responsibilities

Financial Statements

- 112 Independent Auditors' Report
- 121 Accounting Policies
- 128 Consolidated Income Statement
- 129 Consolidated Statement of Comprehensive Income
- 130 Consolidated Balance Sheet
- 131 Consolidated Statement of Changes in Equity
- 132 Consolidated Cash Flow Statement
- 133 Notes to the Consolidated Financial Statements
- 165 Company Balance Sheet
- 166 Company Statement of Changes in Equity
- 167 Notes to the Company Financial Statements

Additional Information

- 169 UK Government Payment Reporting
- 171 Five Year Summary
- 172 Oil and Gas Reserves
- 173 Worldwide Licence Interests
- 175 Glossary
- 177 Shareholder Information

Read more online
→ PREMIER-OIL.COM



Chairman's foreword



Strategy

Premier is an independent oil and gas company engaged in all stages of the exploration and production cycle in selected geographic locations. We have long experience in finding oil and gas resources and in funding, developing and operating new projects.

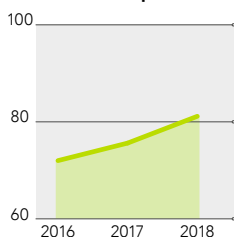
Our commitment is to:

- Operate in a safe and responsible manner
- Focus on high quality assets with commercially advantaged positions
- Maintain access to capital and financial liquidity
- Attract and retain the right people

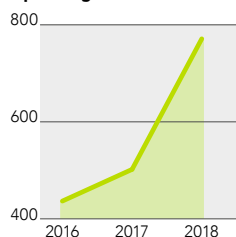
Making progress

2018 was a strong year for Premier both operationally and financially. We have delivered on our commitment of debt reduction whilst continuing to progress future growth projects. We have benefitted from an upturn in oil and gas commodity markets, restoring profitability.

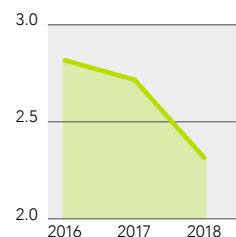
Production kboepd



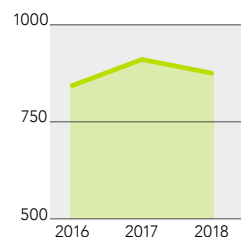
Operating cash flow US\$m



Net debt US\$bn

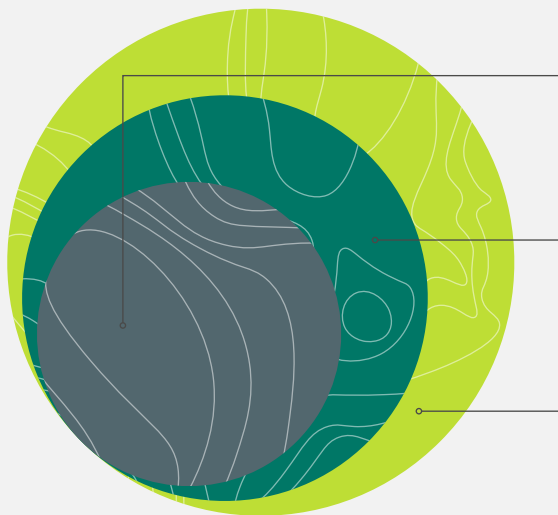


Reserves & resources mboe



I would like to thank all of our stakeholders for their work and commitment to the Company and our shareholders for their continued support.

Roy A Franklin
Chairman



Catcher driving free cash flow generation

Production

→ PAGE 4

Tolmount Premier's next UK growth project

Development

→ PAGE 6

New licences offer the potential for significant value creation

Exploration & Appraisal

→ PAGE 8

A solid platform for a global business

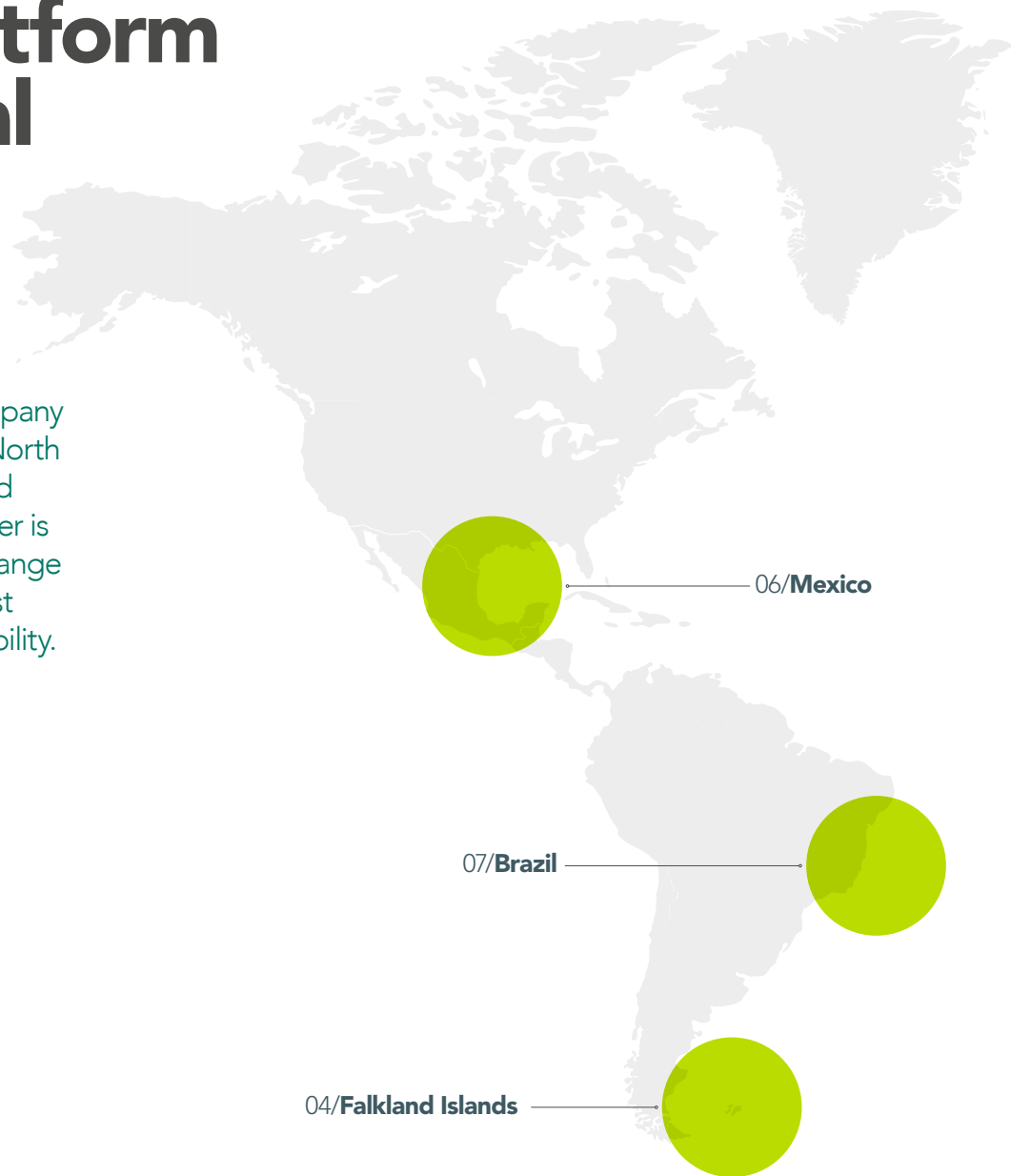
Established in 1934, Premier is an independent full cycle exploration and production company with oil and gas interests in the North Sea, South East Asia, the Falkland Islands, Mexico and Brazil. Premier is listed on the London Stock Exchange and seeks to maintain the highest standards of corporate responsibility.

80.5 kboepd

Group record production
2017: 75.0 kboepd

US\$ 777 m

Operating cash flow
2017: US\$475m



Business units

Premier is organised into five business units – UK, Vietnam, Indonesia, Falkland Islands, and Pakistan – and has seven offices worldwide. Functional support is provided from the corporate headquarters in London. Premier's exploration and business development teams are also managed from the Group's London headquarters.

01/United Kingdom

47 kboepd

Record net production

79%

Operating efficiency

US\$ 13 /boe

Operating cost

→ PAGE 23

02/Vietnam

15 kboepd

Net production

95%

Operating efficiency

US\$ 5 /boe

Operating cost

→ PAGE 25

03/Indonesia

13 kboepd

Net production

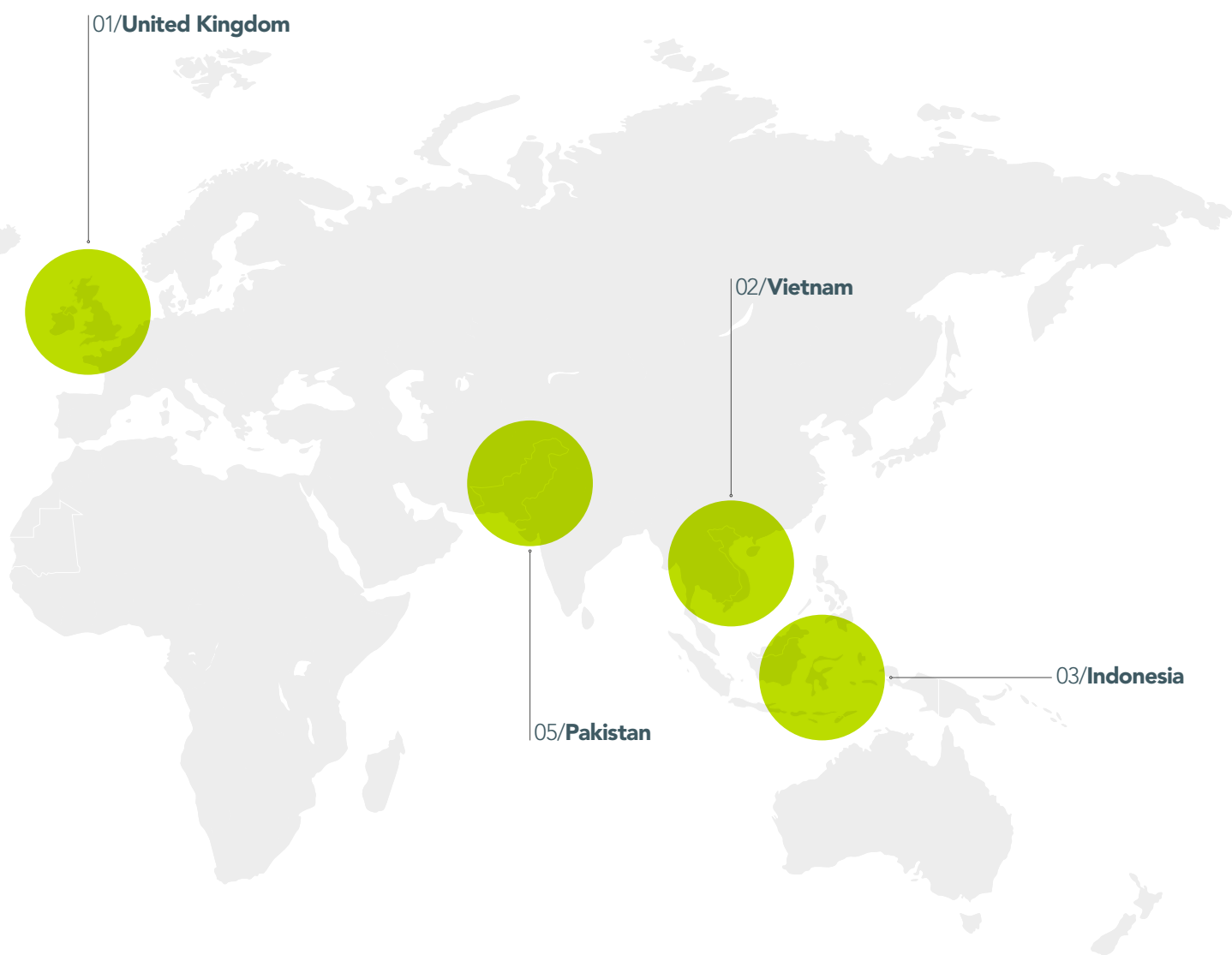
99%

Operating efficiency

US\$ 7 /boe

Operating cost

→ PAGE 26

**Key:**

mmbbls million barrels

kbopd thousand barrels of oil per day

kboepd thousand barrels of oil equivalent per day

04/Falkland Islands**220**_{mmbbls}

Sea Lion Phase 1 (gross)

80_{kbopd}

Expected peak production (gross)

up to US\$400_m

Contractor financing

→ PAGE 27

05/Pakistan**5**_{kboepd}

Net production

97%

Operating efficiency

US\$5_{/boe}

Operating cost

→ PAGE 28

06/Mexico**600**_{mmbbls}

Gross resource under appraisal at Zama

3

New licences added via Round 3.1

300-400_{mmbbls}

Block 30 gross prospective resource

→ PAGE 29

07/Brazil**>500**_{mmbbls}

Gross prospective resource

2

Well programme

2020

Drilling planned

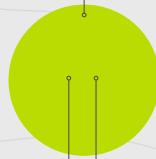
→ PAGE 29

Catcher driving free cash flow generation



Premier's operated Catcher Area, which comprises the Catcher, Varadero and Burgman fields, was the Group's highest net producer in 2018 with oil rates revised to 66 kbopd (gross) in the fourth quarter.

56°46.12.44'N 00°42' 46.93'E



30

Catcher cargoes offloaded in 2018

66 kbopd

Catcher FPSO revised oil rates

50%

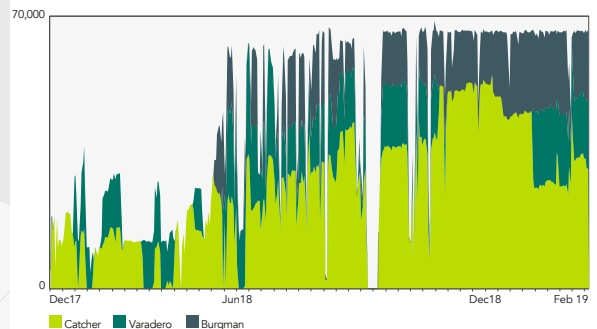
Premier's operated interest in the Catcher Area

>90%

Operating efficiency in Q4 2018

Catcher Area gross oil rates (bopd)

(1 January 2018–28 February 2019)



Left: The BW Catcher FPSO



Above: The BW Catcher FPSO
Right: The Ensco rig which completed the Catcher Area drilling programme



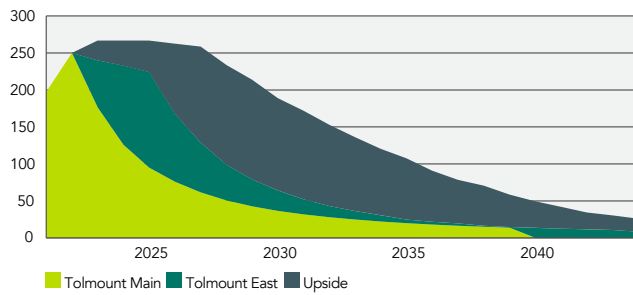
Tolmount Premier's next UK growth project



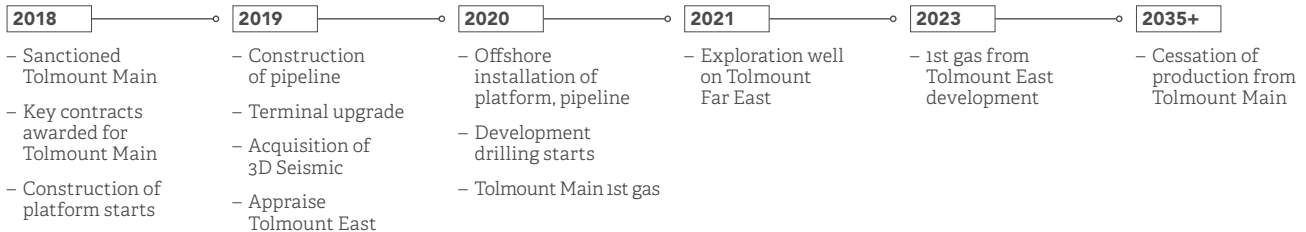
The sanction of our operated Tolmount Main gas field, which Premier acquired at low-cost as part of the 2016 E.ON transaction, marks a major milestone for the Group. Construction of the platform started in December and the project is progressing as planned. With first gas scheduled for the end of 2020, Tolmount Main underpins our medium-term UK growth profile.



Greater Tolmount Area – indicative production profile (mmscfd)



Greater Tolmount Area illustrative development schedule



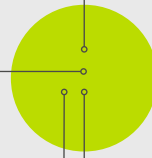
220 Bcf

Tolmount East P50 gross resource

US\$ 120 m

Premier's net share of capex for Tolmount Main

54°02' 27.416" N 0°26' 33.510" E



1 Tcf

Greater Tolmount Area gross resource potential

US\$ 1 bn

Expected net cash flow to Premier from Tolmount Main (assumes 60 pence/therm)

500 Bcf

Tolmount Main P50 gross reserves



Above: The Ensco 123 rig which is contracted to drill the Tolmount East Appraisal well and the Tolmount Main development wells

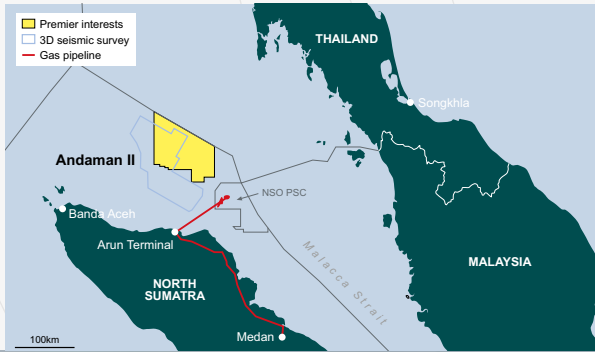


Exploration portfolio enhanced



Below: The Ensco 8503 rig on location at Zama-2, offshore Mexico





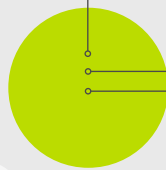
During 2018 Premier secured four highly prospective new licences offshore Mexico and Indonesia which offer the potential for significant value creation in the future.

In Mexico, we increased our exploration footprint via success in Round 3.1. We were particularly pleased to have secured the heavily contested Block 30 (Premier 30 per cent non-operated interest) in the Sureste Basin. We were also awarded two blocks (Premier 100 per cent operated interest) in the more frontier Burgos Basin, directly inboard of the prolific deep water Perdido fold belt. In Indonesia, Premier was awarded the highly prospective Andaman II licence (Premier 40 per cent operated interest) in the offshore North Sumatra basin.



Above: The PGS Apollo is acquiring 3D seismic across Premier's Andaman II licence in the North Sumatra basin offshore Aceh

0°26' 28.57"E 54°2' 27.31"N



2020

Premier plans to drill its first well on Block 30, offshore Mexico

300-400 mmbbls

Block 30 gross resource potential

Creating value throughout the oil life-cycle

Our vision and strategy

Our vision is to be a world class upstream independent. As a full-cycle exploration and production company, our strategy must support this.

Our strategy is to grow shareholder value by investing in high quality production and development opportunities while maintaining exposure to upside value from successful exploration within a strict capital discipline framework.

To achieve this, our strategy comprises four pillars, all of which are underpinned by rigorous corporate governance and an unwavering belief in always operating responsibly by considering the communities and environments in which we operate.

“Our Remuneration Policy is designed to support direct alignment with shareholder value, and as such our remuneration packages are geared to performance-related pay, which is linked to the key elements of our strategy.”

Jane Hinkley
Chairman of the Remuneration Committee



01

Operating in a safe and responsible manner

Premier has a proven track record of operating and delivering across the cycle from exploration through development to production with a particular focus on offshore projects. The Group leverages its operating capabilities to maximise value from its assets and to position itself to take advantage of future opportunities. Premier's aim is to focus on operational delivery across all of its activities in a safe and responsible manner.

Progress in 2018

- Record production of 80.5 kboepd
- Ramp up of Catcher oil production achieved
- Highly prospective new acreage captured (Mexico, Indonesia)
- No significant process safety events
- Two years of Chim Sáo production without a lost time injury
- Record low Greenhouse Gas intensity at operated assets
- No significant (> 1 barrel) spills to sea

Priorities for 2019

- Continue to operate all of our assets in a safe and responsible manner
- Ensure the safety of our workforce remains paramount
- Ensure any potential risk to the environment is minimised

Zero

Tier 1 significant process safety events

02

Focused on high quality assets with commercially advantaged positions

Premier develops and operates high quality assets in parts of the world where the Group has a strategic or operational advantage. In the UK North Sea, Premier has a strong operating capability and considerable tax assets. The Company is also a key player in the South East Asia gas market and has a dominant position in the North Falklands Basin with access to a significant resource base.

Progress in 2018

- Significant increase in UK tax-advantaged production, underpinned by increased Catcher production
- Tolmount Main, Premier's next UK growth project, sanctioned
- Increased market share of GSA1 captured by Natuna Sea Block A
- Selection of key contractors for Sea Lion completed
- Appraisal of the Zama discovery (Mexico) underway

Priorities for 2019

- Deliver first gas from BIG-P, Indonesia
- Progress Tolmount Main to schedule
- Complete Block 7 Zama and Tolmount East appraisal programmes
- Progress financing structures for Sea Lion

500

Bcf (gross)

Tolmount Main gas project sanctioned

03

Access to capital and financial liquidity

Premier aims to have a suitable capital structure with sufficient liquidity to underpin the Group's capital investment programme and ability to access new opportunities for future growth. The Group is committed to maintaining a disciplined approach to spending each year and, where necessary, will seek farm-in partners for drilling programmes and development projects to maintain this discipline.

Progress in 2018

- Net debt reduced by US\$393 million to US\$2.3 billion at year-end
- Covenant leverage ratio significantly reduced to 3.1x (2017: 6.0x) at year-end
- Low-cost base maintained with field opex of US\$10/boe and lease costs of US\$7/boe
- Disciplined capital spend with total capex of US\$353 million
- Cash receipts of US\$73 million from completion of non-core asset disposal programmes

Priorities for 2019

- Deliver further debt reduction
- Prioritise capital to sanctioned and capital efficient projects
- Continue to tightly control cost base
- Continue to hedge to protect our cash flows, liquidity and future capital investment programmes

3.1x

Covenant net debt/EBITDAX leverage ratio

04

Effective organisation sustained by the right people

Premier employs highly capable in-house operating teams at an asset and country level, supported by functional experts with a significant track record of project delivery. The Group aims to ensure that the organisation is appropriately sized with the right calibre of people to deliver the Company's strategic initiatives.

Progress in 2018

- Continued low employee turnover
- Roll out of a Group-wide Talent Management programme, relating to succession planning, retention and career progression
- Group-wide Staff Engagement Survey completed with an 87% participation rate; actions arising from the 2017 survey implemented
- Organisational Health Check undertaken to ensure that the Group is appropriately structured and resourced to deliver on its strategy and commitments

Priorities for 2019

- Continue to ensure that the organisation is appropriately sized
- Implement actions arising from the 2018 Group-wide Staff Engagement Survey and the Organisational Health Check
- Implement Business Unit and Group-wide Staff Forums in compliance with the 2018 Corporate Governance Code to assess and monitor organisational culture

7%

2018 employee turnover

Growth from a strong foundation

Premier aims to increase net asset value by developing high quality projects. The Group seeks to increase its reserve and resource base through both acquisition and exploration activity depending upon prevailing market conditions.

Inputs

Committed and integrated corporate responsibility

A belief in always operating safely and responsibly by considering our people, the community and environment.

[Link to strategy](#)

01

Operate and develop high quality projects

Maximising high margin production, delivering timely projects.

[Link to strategy](#)

02

Disciplined financial control

Rigorous cost control and capital allocation focusing on returns and financial liquidity.

[Link to strategy](#)

03

Highly trained staff

Capable in-house operating teams supported by functional experts.

[Link to strategy](#)

04

How we create value



Country and stakeholder benefits

Protecting its people, its assets and the environment grants Premier its social and legal licence to operate, and is critical to Premier's business.

Portfolio management

Premier actively manages its portfolio to ensure the Group's capital and people are focused on its highest returning assets and where the Company is best placed to create value.



Exploration

Premier seeks to replenish its reserve and resource base through successful exploration subject to funding constraints.



Development

Premier has a long and established history of executing development projects.

Long-term growth

Premier's high-graded exploration portfolio provides the Group with organic growth opportunities in the longer-term such as Wahoo and Cabrilla in Mexico, Tolmount East and Tolmount Far East in the UK and Itarema and Berimbau in Brazil.

Medium-term growth

Premier's 500 Bcf (gross) Tolmount Main gas project in the UK supports the Group's medium-term production profile. Beyond Tolmount, Sea Lion (Phase 1) in the Falkland Islands and the giant Zama oil field in Mexico will underpin Premier's long-term growth.



Financial, risk management and rigorous corporate governance

Managing its risks and strict financial discipline are critical to the success of Premier's business. All of the Group's operations are carried out against a background of rigorous corporate governance.

Premier's strategy

Premier's business model is inherently linked to its strategy and supports all four pillars of it.

- 01 Operating in a safe and responsible manner
- 02 Focused on high quality assets with commercially advantaged positions
- 03 Access to capital and financial liquidity
- 04 Effective organisation sustained by the right people

Output

Stakeholder value

Cash flow

Debt reduction

Selective reinvestment



Production

Premier seeks to maximise value from its low-cost, stable production base to generate cash flows.

Short-term cash generation

Premier's robust production portfolio, supported by increased Catcher Area production and a strong performance from its Asian assets, generates material cash flow. This is protected from oil price volatility via a hedging programme and is directed towards reducing the Group's debt levels and selective reinvestment.

Measuring our performance

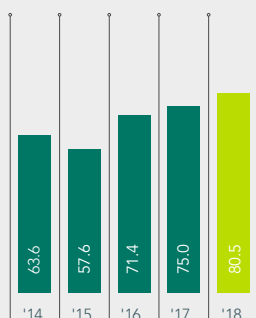
The Board monitors the Group's progress against its Key Performance Indicators to assess performance and the delivery of its strategy.

Op Operational KPIs

Fn Financial KPIs

Op

Working interest production kboepd



Objective

Premier aims to maximise production from its existing asset base and, over time, to deliver production growth. Production growth is measured using average daily production and the number of development projects being brought through to sanction.

2018 Progress

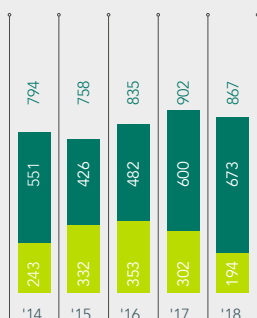
- Record production in 2018 of 80.5 kboepd (2017: 75 kboepd)
- Tolmount Main gas project (UK) sanctioned, next phase of growth for the business

2019 Expectations

- Expected production of 75 kboepd, an underlying increase on 2018, after adjusting for disposals
- First gas from BIG-P expected late 2019

Op

Reserves and resources mmmboe



Objective

Premier aims to grow its reserves and resources base through a combination of successful exploration and selective acquisitions.

2018 Progress

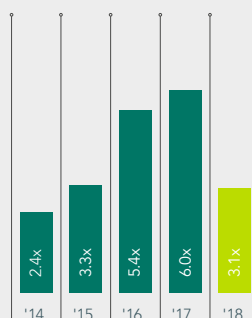
- Tolmount Main resources booked as 2P reserves
- Upward revision in 2P reserves estimates at Chim São, Elgin-Franklin and the Catcher Area
- Recategorisation of Sea Lion 2P reserves as contingent resources

2019 Expectations

- Continue to evaluate acquisition opportunities
- Progress senior funding structures for Sea Lion, ahead of a final investment decision
- Complete sale of Pakistan business

Fn

Covenant Leverage ratio



Objective

Premier aims to have sufficient headroom against its covenant leverage ratio to ensure continued covenant compliance and access to liquidity throughout the commodity price cycle.

2018 Progress

- Covenant leverage ratio (covenant net debt/EBITDAX) reduced to 3.1x (2017: 6.0x)
- Increased EBITDAX of US\$882 million, up 50%
- Early exchange of the Company's convertible bonds
- Completion of non-core asset sales

2019 Expectations

- Cash flows prioritised towards debt reduction
- Maintain sufficient liquidity to withstand another downturn in the commodity price cycle

Op HSES performance

Objective

Premier is committed to managing its operations in a safe, reliable and environmentally responsible manner to prevent major accidents and to provide a high level of protection to its employees, contractors and the environment.

2018 Progress

- Strong environmental performance with no significant spills
- Greenhouse Gas Intensity of our operating assets at the lowest level in Premier's reporting history
- Group recordable injury rate of 2.65 injuries per million man hours; Solan, Gajah Baru and Chim São recordable injury free
- Tier 1 Process Safety Events of zero for the fifth consecutive year
- 35 senior management HSES visits to our operated facilities

2019 Expectations

We aim to deliver upper quartile HSES performance compared with our peers in the International Association of Oil & Gas Producers ('IOGP')

Corporate HSES KPIs

Issue	Premier Oil metric	2018	2017	2016
Occupational health and safety	Fatalities	0	0	0
	Lost work day cases ('LWDC')	9	3	6
	Restricted work day cases ('RWDC')	1	0	1
	Medical treatment cases ('MTC')	7	6	6
	Total recordable injury rate ('TRIR') ¹	2.65	1.47	1.95
High potential incident rate ('HiPoR') ¹		9	4	8
	Man hours worked (million)	1.40	0.65	1.20
Process safety and asset integrity	Process safety events (IOGP Tier 1)	0	0	0
	Process safety events (IOGP Tier 2)	2	1	0
Environment	GHG intensity (operated assets) (te CO ₂ e/1000 te production)	164	183	186 ²
	Unplanned hydrocarbon released to sea (total te)	0.4	1.9	2.2
Leadership	HSES Leadership Site Visits	35	18	13

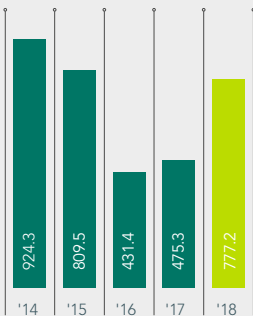
¹ Per million man hours.

² Greenhouse gas emissions from our Solan asset were not included in our reported GHG intensity figure for 2016.

Fn

Operating cash flow

US\$ million



Objective

Premier aims to maximise cash flow from operations to maintain financial strength, meet its debt obligations, invest in the future of the business and deliver long-term returns to shareholders. Premier's cash flows are protected by a forward hedging programme.

2018 Progress

- c. US\$350 million of operating cash flow net to Premier generated by Catcher
- Strong operating cash flow generation from the Group's operated Asian assets driven by high uptime and continued tight cost control

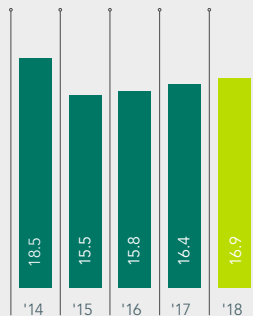
2019 Expectations

- Improved cash margins at comparable commodity prices due to increased UK production
- Substantial hedging programme protecting future cash flows and investment programmes

Fn

Operating costs

US\$/boe



Objective

Premier aims to minimise costs from operations without compromising on health, safety and integrity. Operating costs per barrel of oil equivalent is a function of industry costs, inflation, the efficiency and effectiveness of Premier's people, technology and production output. Operating costs are monitored closely to ensure that they are maintained within pre-set annual targets.

2018 Progress

- Operating costs of US\$16.9/boe, of which US\$10.4/boe related to field opex and US\$6.5/boe to FPSO lease costs
- Low-cost base supported by high operating efficiency, tight cost control and a weaker sterling dollar exchange rate

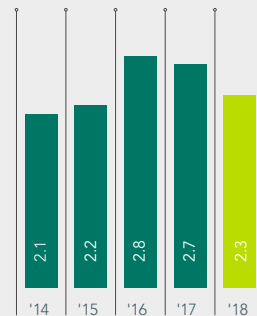
2019 Expectations

- Slightly higher operating costs (US\$13/boe field opex and US\$7/boe FPSO lease costs) reflecting the change in portfolio mix

Fn

Net debt

US\$ billion



Objective

Premier aims to reduce the absolute level of its net debt in order to address the imbalance in its capital structure, to ensure compliance with its financial covenants and to provide the Company with future financial flexibility. Premier anticipates reducing its net debt by using cash flow generated from its producing assets and disposals, while maintaining tight cost control.

2018 Progress

- Net debt reduced by US\$393 million to US\$2.3 billion
- Free cash flow generation of US\$251 million (including cash receipts from disposals)
- Early exchange of the US\$181 million convertible bonds

2019 Expectations

- Further debt reduction targeted, supported by an improved portfolio mix and a strong hedging programme
- Premier expects to generate free cash flow at oil prices above US\$45/bbl during 2019

Commodity prices were higher during 2018 although significant price volatility persisted

As a medium-sized exploration and production company, Premier is impacted by the volatility in the oil price. Premier looks to manage this through an active hedging programme and by planning its business on a conservative basis.

Commodity prices



Brent oil prices improved during the first nine months of 2018, peaking at US\$86/bbl in October buoyed by strong global economic demand and anticipation of US sanctions on Iran. The fourth quarter saw Brent oil prices fall steeply to a low of US\$50/bbl as concerns over global economic growth, record US shale output and US waivers for Iranian crude impacted oil prices. UK gas prices remained robust through the year supported by an increase in global LNG pricing.

Our response

Premier looks to reduce the volatility in its revenues and to protect the downside to commodity price fluctuations through a rolling hedging programme, whilst retaining upside to any potential medium-term rally in prices. For 2019, the Company has hedged approximately 40 per cent of its oil production at an average price of US\$69/bbl. In addition, 25 per cent of the Group's UK gas production has been hedged at an average price of 61 pence per therm. Premier has also hedged part of its 2019 and 2020 Indonesian gas production.

Foreign exchange rates

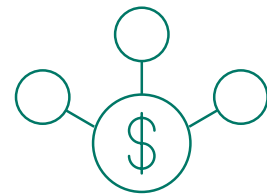


The sterling dollar exchange rate remained volatile during the course of 2019, peaking at US\$1.43/£ in April before trending downwards for the remainder of the year. This was driven by the uncertainty around the potential Brexit outcomes together with a progressive US interest rate policy. As a result, sterling closed the year at US\$1.27/£.

Our response

Premier has considerable operating cost exposure in sterling from its North Sea operations, and a proportion of its capital expenditure is also in sterling. This is partially hedged by Premier's sterling revenue streams from its UK gas production, whilst the Company also undertakes forward hedging to protect against potential volatility in the dollar sterling exchange rate. Premier also has £250 million of sterling debt which has been hedged by cross-currency swaps at the time those debt arrangements were put in place.

Investment and costs



Global capital expenditure by the industry increased in 2018, supported by the strengthening in commodity prices, but remained low by historical standards. With the fall in commodity prices in the fourth quarter of 2018, the investment outlook for 2019 remains uncertain and, while minor cost inflation has started to come through in certain offshore segments, it is unclear whether recent oil price weakness will continue to weigh on demand and therefore costs.

Our response

The key contracts for Premier's Tolmount Main gas project were placed on a turnkey basis reducing the Group's exposure to cost over-runs. In addition, Premier has entered an infrastructure partnership which minimises the Group's share of the capital expenditure. Long-term contracts, including FPSO lease contracts on Chim São, also ensure that the Company is partially insulated from any potential future cost inflation.



→ **READ MORE**
IN MANAGING OUR
PRINCIPAL RISKS
PAGE 36

Exploration

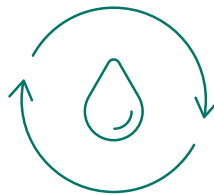


Global exploration activity remained muted, largely reflecting the discretionary nature of the spend. The exception to this being certain emerging high impact plays and basins in Guyana, Suriname and Mexico, which saw strong competition for access to the best exploration licences and increased activity.

Our response

Premier's exploration spend in 2018 remained low as our free cash flow was prioritised towards debt reduction. Despite this, Premier secured highly prospective licences offshore Indonesia and Mexico, enabling us to build our portfolio for the future. In 2019, the Group's exploration spend will be focused on appraisal activities at Zama (Mexico) and Tolmount East (UK).

Acquisitions and disposal activity



M&A activity continued to increase, supported by an improvement in the oil price outlook in the first nine months of the year. In particular, 2018 saw increased North Sea M&A activity with some of the majors looking to divest large portfolios with several of these processes live at year-end. Capital markets activity also increased towards the end of the year with bids made for two of the Group's peers listed in London.

Our response

Premier continued to monetise its non-core assets and rationalise its portfolio. In 2018, Premier announced and subsequently completed the disposal of its interests in the Babbage Area, realising further value from the E.ON acquisition in 2016. Premier also completed the sale of its interests in the Kakap asset offshore Indonesia and the ETS pipeline system in the North Sea. Premier continues to monitor acquisition activities that can create operational and financial synergies with its core businesses.

Equity markets



2018 was a turbulent year for equity markets with US markets down 5-7 per cent, Europe down 10-18 per cent, the UK down more than 10 per cent and China down 25 per cent all of which drove the FTSE All World Index down 12 per cent. Sentiment was also impacted by the inverting of the US yield curve which is seen as a recessionary indicator. Sector issuances on the London market remained subdued from historic levels with 2018 the lowest level of issuance since 2015.

Our response

Premier re-entered the FTSE 250 in 2018 and made good progress reinstitutionalising its share register. Premier's balance sheet and leverage means that the Group's equity value is perceived as more leveraged to movements in the oil price than its peers in the sector. Consequently, while Premier delivered a strong operational and financial performance in 2018, the share price was impacted materially by the fall in oil prices towards the end of the year.

2018 was another year of solid operational delivery

2018 saw higher production, positive free cash flow and a return to profitability. The Group is ahead of plans to restore balance sheet strength and remains focused on consistently delivering free cash flows. Growth projects such as Tolmount, Zama and Sea Lion, together with promising exploration in Mexico and Indonesia, are being advanced within a disciplined financial framework.



Tony Durrant
Chief Executive Officer

80.5 kboepd

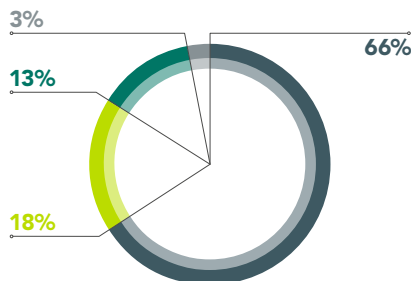
Record Group production

UK production (kboepd)



Revenue by region US\$1,438m

- United Kingdom
- Vietnam
- Indonesia
- Pakistan



Oil prices increased during the first three quarters of 2018, peaking at US\$86.2/bbl in October before falling steeply to close the year at US\$50.2/bbl. Against this volatile backdrop, 2018 was another year of solid operational delivery by Premier, resulting in significantly higher cash flows and a return to profit.

Production increased year-on-year averaging 80.5 kboepd, despite material asset sales. This was driven by new production from our operated Catcher Area and continued high operating efficiency across the portfolio.

Our production portfolio today is concentrated in two main geographical areas: South East Asia (Indonesia and Vietnam) and the UK Continental Shelf. Our operated Asian assets, driven by high uptime and low-cost structures, generated material free cash flows for the Group. Singapore demand for our Indonesian gas remained robust and the opportunity remains to develop and deliver additional resource into the Singapore market under our long-term gas sales agreements. Our Chim Sao field in Vietnam continued to outperform and we again increased our reserves estimates for the field at the end of 2018, a third increase since first oil in 2011.

Production from our UK assets, which represents over half the Group's production, grew materially during 2018. This was driven by our Catcher Area which reached increased plateau rates of 66 kboepd (gross) in the fourth quarter, considerably in excess of the 50 kboepd (gross) envisaged at sanction. This strong performance has continued into 2019 and further underpins our confidence in the longer-term cash flow generation potential of this asset. At year-end, we revised upwards our Catcher Area reserves to include the Catcher North and Laverda accumulations.

In addition, with more production history to calibrate our dynamic models and to underwrite a higher recovery, we would hope to be able to revise over time our estimate of the Catcher Area reserves. We also aim to drill infill wells to target unswept areas of the reservoir to extend plateau rates and to ensure that the Catcher Area FPSO continues to operate at full capacity.

The sanction of our operated 500 Bcf (gross) Tolmount Main gas field in August was a significant achievement for the Group. Tolmount Main is, in barrel of oil equivalent terms, of similar size to our Catcher project at sanction. By partnering with infrastructure company Kellas Midstream, we have been able to minimise our share of capital expenditure while retaining our equity exposure to the upside in the project, significantly enhancing the expected returns on our investment. Once on-stream, Tolmount Main will provide the next phase of growth for the UK business unit and will contribute materially to the Group's cash flows, given our tax-advantaged position in the UK.

The HGS ('Humber Gathering System') infrastructure through which Tolmount Main volumes will flow has the potential to develop into a significant new production hub over time. It is highly economic for us to deliver additional equity gas resource over the HGS infrastructure and we are on track to spud the Tolmount East appraisal well, which is seeking to confirm resource potential of up to 300 Bcf (gross), in July. We also plan to acquire seismic data over the Greater Tolmount Area during the first half of 2019 to further define prospectivity in the area. In addition, there is the potential to benefit from third party volumes transported over the Tolmount Main platform.

In August 2018, Premier sanctioned the development of its operated Tolmount Main gas field in the Southern North Sea. The 500 Bcf (gross) Tolmount Main gas field is scheduled to come on-stream at the end of 2020 and secures Premier's medium-term production profile.

- ✓ Full year production of 80.5 kboepd, a record year for the Group
- ✓ Appraisal of giant Zama discovery (Mexico) underway
- ✓ Catcher at 66 kbopd, underpinned by high operating efficiency
- ✓ Highly prospective, new acreage captured offshore Mexico and in the Andaman Sea
- ✓ Tolmount Main gas project sanctioned, platform construction commenced
- ✓ Year-end net debt reduced to US\$2.3 billion, from US\$2.7 billion

500 Bcf

Tolmount Main 2P reserves (gross)

867 mmboe

Group 2P reserves + 2C resources reserves

Our largest pre-development project is the fully appraised Sea Lion field which, at over 220 mmboe (gross) of resources in Phase 1 alone, represents a material opportunity for Premier. During 2018 we selected the key contractors for the project, many of whom also worked on our operated Catcher project, and put in place LOIs for the provision of services. Our key contractors, having carried out extensive due diligence, agreed to provide up to US\$400 million of financing for Sea Lion Phase 1, underlining the robust nature of the project and the opportunity to be involved in developing the first field in a new basin. The critical path to a final investment decision remains securing a senior debt funding structure, likely involving a combination of export credit financing and project bank funding. The industry continues to follow closely our progress and it remains our preference to bring in an additional equity partner to the project once we have finalised the funding structure.

Our exploration team has done an excellent job of refocusing our portfolio towards lower risk but more impactful opportunities whilst operating within significantly reduced budgetary constraints. A notable success was the Zama discovery in 2017. Much of 2018 was spent preparing for the Zama appraisal campaign as well as progressing early engineering work on potential development concepts. The programme is well underway with encouraging initial results.



	WORKING INTEREST		ENTITLEMENT	
	2018	2017	2018	2017
Production (kboepd)				
Indonesia	13.2	14.1	8.7	10.3
Pakistan	5.3	6.5	5.3	6.4
UK	46.8	39.5	46.8	39.5
Vietnam	15.2	14.9	13.0	13.0
Total	80.5	75.0	73.8	69.2

Priorities for 2019

Looking ahead to 2019, our priorities are:

- ⊕ Deliver 2019 production guidance of 75 kboepd
- ⊕ Maintain high operating efficiency at Catcher
- ⊕ Progress Tolmount Main to schedule and within budget; appraise Tolmount East
- ⊕ Progress senior financing structure for Sea Lion
- ⊕ Complete Zama appraisal and define development plans
- ⊕ Mature prospects on newly captured acreage for drilling
- ⊕ Maintain a competitive cost base
- ⊕ Deliver debt reduction

These objectives, if successfully achieved, will put us in good stead to enhance shareholder value.



We have further enhanced our exploration portfolio through the capture of additional acreage in our basins of choice. We were particularly pleased to have secured the heavily contested Block 30 in Round 3.1 just prior to the new government placing a moratorium on further licensing rounds. We were also successful in securing the Andaman II licence offshore Indonesia in the highly prospective North Sumatra basin. This has attracted considerable industry attention with the opening up of a potential commercialisation route via the onshore Arun gas terminal. Today, our exploration portfolio is capable of delivering a series of high impact wells which have the potential to augment materially the Group's resource base. We have also continued to exit our more mature legacy positions which do not meet our internal investment hurdles.

At 31 December 2018, Group proven and probable (2P) reserves and contingent (2C) resources, on a working interest basis, were 867 mmboe (2017: 902 mmboe), including the effect of 2018 production and asset sales. The sanction of the Tolmount Main project added 46 mmboe to 2P reserves. In addition, Premier booked the 3 mmboe (net) 2P reserves related to the Catcher North and Laverda fields while there were also reserve upgrades at Chim São and Elgin-Franklin.

Our proven and probable (2P) reserves, on a working interest basis, reduced to 194 mmboe (2017: 302 mmboe), primarily due to the recategorisation of Sea Lion Phase 1 2P reserves (134 mmboe) as 2C resources following new guidelines issued by the Society of Petroleum Engineers. These point to holding Sea Lion undeveloped resources as contingent until financing for the project and formal approvals have been secured. To rebook the 2C resources of Sea Lion as 2P reserves the funding and other approvals would need to be in place. The booking of the Tolmount Main field as 2P reserves, following its sanction, and an upward revision in our estimate of 2P reserves at Catcher, Chim São and Elgin-Franklin, more than offset the impact of 2018 production and disposals. This represents a reserves replacement ratio of 220 per cent, excluding the technical recategorisation of Sea Lion resources.

We are the operator of the majority of our assets which provides us with strong control over future expenditure programmes and the ability to flex our discretionary spend in the event of another downturn in the commodity price. During 2018, development, exploration and abandonment spend was US\$353 million, below original guidance, due to deferrals of appraisal and abandonment expenditure and tight cost control.

Total 2019 capital expenditure (including abandonment) is expected to be US\$340 million. Full year 2018 operating costs were US\$10/boe while leasing costs associated with our operated Chim São, Huntington and Catcher FPSOs amounted to US\$7/boe. 2019 operating costs are forecast at US\$13/boe, slightly higher than 2018, reflecting the impact of disposals of low-cost gas production and expected natural decline from fixed cost base assets, while lease costs are expected to be of the order of US\$7/boe.

Debt reduction remains a key corporate priority. The Group's strong operational performance supported by its low-cost base and a disciplined capital expenditure programme resulted in us generating material free cash flow during 2018. This, together with proceeds of US\$73 million from selective disposals of non-core assets and the early exchange of the convertible bonds, resulted in a reduction of net debt by US\$393 million to US\$2.3 billion, ahead of the plan agreed with our lenders. We also significantly reduced our covenant leverage ratio (covenant net debt/EBITDAX) to 3.1x (2017: 6.0x) comfortably within the covenant of 5.0x at year-end and back in line with many of our peers.

	2P reserves (mmboe)	2P reserves + 2C resources (mmboe)
1 January 2018	302	902
Production	(30)	(30)
Net additions, revisions	66	21
Sea Lion recategorisation	(134)	-
Disposals, relinquishments	(10)	(26)
31 December 2018	194	867

Looking to the year ahead, we have a highly cash generative production base, which is supported by a substantial hedging programme, an improved portfolio mix (underpinned by high margin Catcher barrels) and a tightly controlled cost base. This positions us well to deliver further debt reduction in 2019 while progressing our future growth projects to create material value to all of our stakeholders over the longer-term.

We have considerable optionality within our portfolio to grow organically and deliver value over the longer-term. At the same time, Premier has an excellent track record of delivering value from acquisitions and we continue to evaluate potential acquisition opportunities that enhance our asset base and create synergies with the existing core businesses. With many of the majors and larger independents looking to refocus their portfolios away from the UK North Sea, there is an opportunity for Premier to acquire mid-life, cash flow generative and profitable production assets with potentially significant upsides, which have not been pursued by the previous asset holders. Of course, any potential acquisitions have to be measured against and compete for capital with the existing organic opportunities within our portfolio.

It is our highest priority to continue to operate all of our assets in a safe and responsible manner, to ensure the safety of our workforce and to minimise potential risk to the environment. Not only is it the right thing to do, it is also a prerequisite for maintaining our social and legal licence to operate for the longer-term. We are pleased to report that we recorded no serious injuries, no spills and no material process safety events during 2018. We also had record low GHG gas intensity at Premier's operated assets. In all our HSES metrics, we aim to deliver continuous improvement and upper quartile performance against our peer group.

The composition of the Board and its committees is continually under review. As Jane Hinkley will reach the ninth anniversary of her appointment during 2019 we are pleased to announce that Barbara Jeremiah, subject to the approvals of shareholders at the AGM in May, will join the Board. It is intended that, following a transitional period, Barbara will take over as Chair of the Remuneration Committee from Jane.

Tony Durrant
Chief Executive Officer



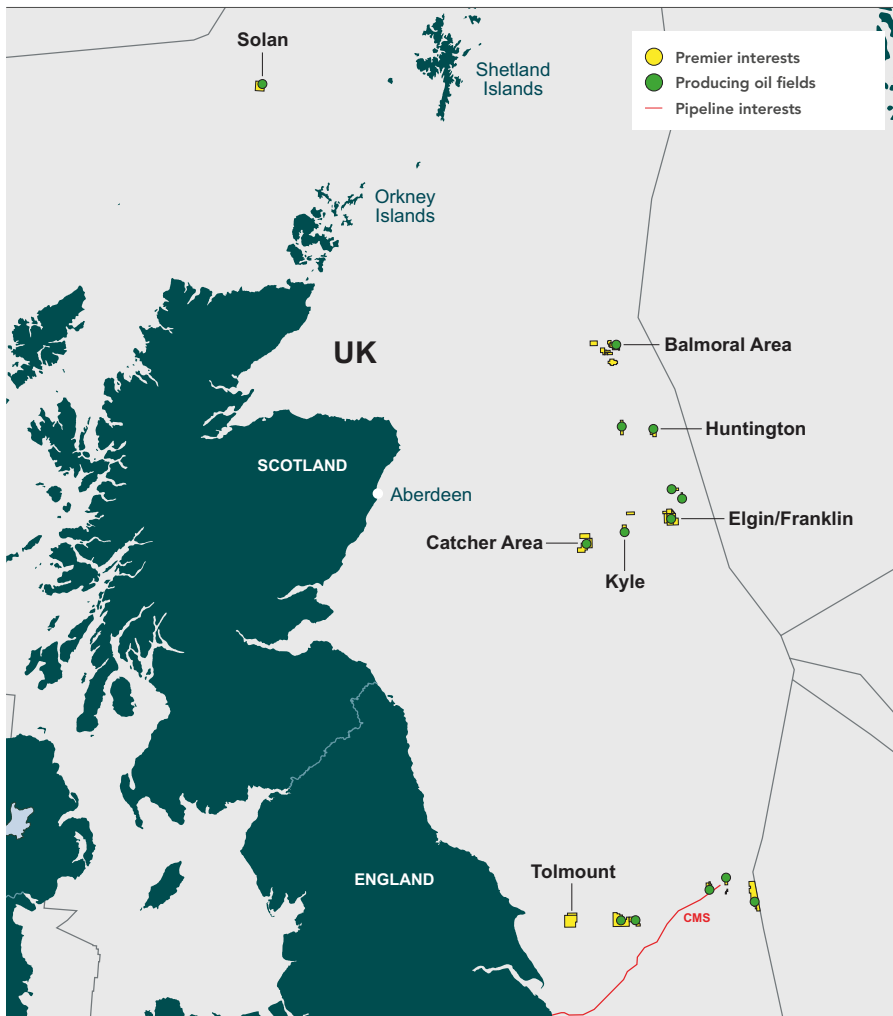
Strong performance across the portfolio

Premier has seven offices worldwide with 782 employees and is organised into five business units – UK, Indonesia, Vietnam, Pakistan and the Falkland Islands – with support provided from the corporate headquarters in London. Premier is active both offshore and onshore, but all of the Company's operated interests are located offshore.



- 01/**United Kingdom**
→ PAGE 23
- 02/**Vietnam**
→ PAGE 25
- 03/**Indonesia**
→ PAGE 26
- 04/**The Falkland Islands**
→ PAGE 27
- 05/**Pakistan**
→ PAGE 28
- 06/**Mexico**
→ PAGE 29
- 07/**Brazil**
→ PAGE 29

01/ United Kingdom



The UK delivered record production in 2018 of 46.8 kboepd, up almost 20 per cent on 2017, driven by increased Catcher Area (Premier 50 per cent operated interest) production. In November and December, UK production averaged over 60 kboepd, supported by high uptime across the asset base and increased rates from the Catcher Area, offset by the Babbage Area sale in early December. In August, Premier sanctioned its next UK growth project, the 500 Bcf Tolmount Main gas development (Premier 50 per cent operated interest) which is now in the execution phase.

Production

The Catcher Area FPSO, which produces from the Catcher, Varadero and Burgman fields, reached oil production rates of 60 kbopd (gross) in May, as commissioning of the gas plant was completed. In the fourth quarter, continued strong reservoir performance and increased plant availability, following final commissioning of the FPSO secondary systems, resulted in oil plateau production rates being increased to 66 kbopd and Premier issuing the final acceptance certificate to the FPSO provider. We have safely delivered 38 Catcher cargoes since first oil.

Four further Catcher Area producer wells were drilled during 2018 with the 18th well, a Burgman field producer, completed in October. This concluded a highly successful three-year drilling programme which was 33 per cent below budget and delivered well productivity on average 30 per cent higher than forecast. In addition, dynamic data continues to demonstrate good connectivity between the reservoirs and strong pressure support provided by the aquifer and injector wells. The Group remains highly encouraged about the potential overall recovery from the Catcher Area and expects to refine its estimates as more production data is obtained.

The non-operated Elgin-Franklin field (Premier 5.2 per cent non-operated interest) averaged 6.7 kboepd (net), ahead of forecast. Production was boosted by a strong performance from the new wells brought on-stream, successful remedial work on existing wells and continued high operating efficiency. At year-end, Premier revised upwards its 2P reserves by 7 mmbobe (net) which brings them in line with the operator's estimates and reflecting the inclusion of planned additional infill wells.

Premier's operated Huntington field (Premier 100 per cent operated interest) averaged 5.8 kboepd (net) during 2018, reflecting forecast natural decline and several unplanned shut downs. Modifications to the FPSO were made to facilitate gas import which, together with the conversion of a former production well to a water injector, has improved reservoir deliverability and plant stability. The Huntington field has continued to benefit from high operating efficiency post period end with production averaging over 6 kboepd year to date in 2019.

Production from the Premier-operated Solan field (Premier 100 per cent operated interest) averaged 4.6 kboepd, ahead of forecast, driven by high operating efficiency of over 90 per cent. Premier expects to drill a new producer (P3) in 2020 targeted at increasing production from the Central Northern part of the field. Separately, Premier continues to review the potential for third party volumes over the Solan infrastructure.

The Balmoral Area, comprising the Balmoral, Brenda, Nicol and Stirling fields, delivered 1.3 kboepd (net) in 2018 with production impacted by an extended summer maintenance shut down. Production from the Kyle field (Premier 40 per cent non-operated interest) averaged 1.6 kboepd (net). As a result of cost control and asset performance, cessation of production from the Balmoral Area has now been deferred until 2021 while the lease of the Banff FPSO, which handles Kyle's production, has been extended to August 2019. In the Southern North Sea, the Rita (Premier 74 per cent operated interest) and Hunter (Premier 79 per cent operated interest) fields ceased production in mid-2018 following closure of the Theddlethorpe gas processing terminal.

UK unit field operating costs on a per barrel of oil equivalent reduced to US\$13/boe (2017: US\$18/boe) while lease costs increased to US\$10/boe (2017: US\$5/boe). These reflect new production from the leased Catcher FPSO. In 2019, Premier expects UK operating costs (including lease costs) to remain around US\$23/boe with the impact of a full year of Catcher production at increased rates offset by natural decline on more mature, fixed cost base assets such as Huntington, Kyle and the Balmoral Area.

46.8 kboepd

Record net UK production



Developments

Premier has identified several high-value subsea tie-backs and infill drilling locations to maintain and extend production rates from the Catcher Area. Premier expects to sanction the development of the Catcher North and Laverda oil accumulations (Premier 50 per cent operated interest) during the first half of 2019 and, as a result, at year-end 2018 booked the 3 mmbob (net) reserves associated with the two fields. The US\$70 million (net) project will entail two development wells drilled from a common drill centre and tied back to the Varadero field. Drilling is scheduled to commence in mid-2020 with first oil targeted for early 2021. In addition, Premier expects to drill an infill well on the Varadero field immediately before the Catcher North and Laverda drilling programme to target resources beyond the reach of the initial production wells. Premier plans to acquire 4D seismic across the Catcher Area in the second quarter of 2020 to help confirm additional future infill well locations.

In August, Premier and its partners sanctioned the development of the Tolmount Main gas field (Premier 50 per cent operated interest) in the Southern Gas Basin. The Tolmount Main gas field is expected to produce around 500 Bcf (96 mmbob) (gross) of gas with peak production of up to 300 mmscfd (58 kboepd) (gross).

The Tolmount Main gas project is now well into its execution phase. Construction of the minimal facilities platform commenced in Rosetti Marino's Ravenna yard in December 2018 with fabrication of the primary structural steel and nodes as well as the rolling of the tubulars underway and progressing to plan. Detailed engineering and procurement of the trees, wellheads and subsea pipeline has also started. At Easington, Centrica's onshore receiving terminal, preparation for modifications required for Tolmount gas import has started and significant purchase orders are being placed for engineering work-scopes. The four well development drilling programme is scheduled to commence mid-2020 with the first well expected to come on-stream in the fourth quarter of that year. Premier continues to estimate that its share of the capital expenditure to develop Tolmount Main will be around US\$120 million, comprising project management and development drilling costs, with the infrastructure joint venture between Kellas Midstream and Dana Petroleum funding the platform, pipeline and the terminal modifications.

Exploration and appraisal

Premier has contracted the Ensco 123 rig to drill the Tolmount East appraisal well in July ahead of drilling the Tolmount Main development wells in 2020. The well is targeting 220 Bcf to 300 Bcf (P50 to P10) of gross unrisks resource in an area to the east of the main Tolmount field which sits above the Tolmount Main gas water contact. On success, the Tolmount East appraisal well will be suspended for use as a future producer to be tied back to the HGS infrastructure. A 3D seismic survey across the Greater Tolmount Area is scheduled to commence later this month. The survey will be used to help optimise development

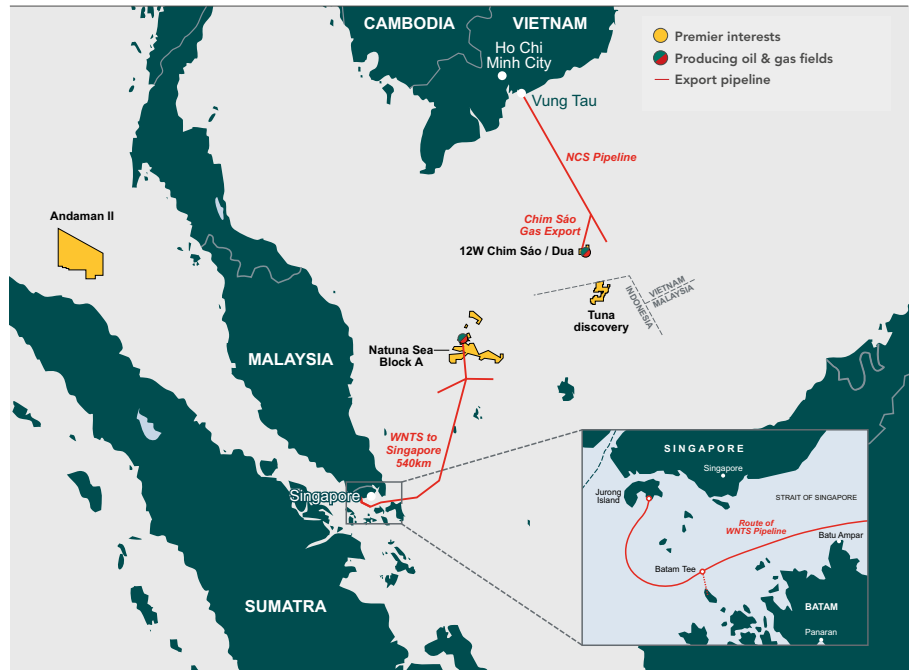
drilling at Tolmount Main as well as the location of a potential Tolmount Far East exploration well, in addition to defining further prospectivity in the area.

Portfolio management

During 2018 Premier continued its programme of non-core asset disposals from the E.ON portfolio with the sale of its 30 per cent interest in the Esmond Transportation System ('ETS') to Kellas Management Ltd for total cash proceeds of US\$22.9 million (after working capital adjustments). Premier also completed the sale of its interests in the Babbage Area to Verus Petroleum SNS Ltd ('Verus') in December 2018 receiving cash proceeds of US\$38.7 million, after adjustments for Babbage cash flows collected since the effective date of 1 January 2018. The sale proceeds from both transactions were used to pay down the Company's debt.

02/Vietnam

The Vietnam business unit continued to generate material free cash flow for the Group during 2018. This was driven by a strong production performance, underpinned by a better than forecast subsurface performance and sustained high operating efficiency, combined with a continued low operating cost base. On the back of this outperformance, Premier again increased its total recoverable reserves estimate to over 120 mmboe.



Production

Production from Block 12W (Premier 53.13 per cent operated interest), which contains the Chim Sao and Dua fields, averaged 15.2 kboepd (net), up on the prior corresponding period and above budget. This strong performance was driven by high operating efficiency of the Chim Sao FPSO and successful ongoing well intervention programmes which offset natural decline from established reservoir horizons.

The Chim Sao and Dua fields continued to produce with a high operating efficiency of over 90 per cent during 2018 with maintenance programmes completed on schedule. Production from the fields was also boosted by four well intervention campaigns, which perforated new zones in the shallower reservoir sections of existing production wells and resulted in an additional 1 kboepd (net) of production during 2018. The two Chim Sao infill wells, drilled and completed in December 2017, have also continued to perform strongly contributing over 1 million barrels of net oil production since coming

online. As a result of this strong subsurface performance, Premier again increased its reserves estimates of Chim Sao by 5 mmboe (net) at year-end 2018.

Operating costs from Block 12W have remained low at US\$5/boe while the lease cost of the FPSO averaged US\$6/boe as Premier continues to maintain tight control of its cost base in Vietnam. Premier also continued to sell its Chim Sao crude at a premium to Brent during 2018.



15.2

kboepd
2018 Vietnam net production

>90%

operating efficiency from Chim Sao

03/Indonesia

The Premier-operated Natuna Sea Block A (NSBA) fields delivered a robust performance in 2018, underpinned by an increased market share within GSA1. This, together with continued low operating costs, led to the Indonesian business generating US\$110 million of net cash flows for the Group.



Production and development

Production from Indonesia in 2018 averaged 13.2 kboepd (net) with the Natuna Sea Block A fields (Premier 28.67 per cent operated interest) delivering 12.9 kboepd (net) and the Kakap field (Premier 18.75 non-operated interest), now sold, averaging 0.3 kboepd (net).

Premier sold an average of 233 BBtud (gross) (2017: 234 BBtud) from its operated Natuna Sea Block A fields during 2018.

Singapore demand for gas sold under GSA1 remained robust, averaging 292 BBtud (2017: 286 BBtud). Premier's Anoa and Pelikan fields delivered 153 BBtud (gross) (2017: 143 BBtud), capturing 52.4 per cent (2017: 49.6 per cent) of GSA1 deliveries, above Natuna Sea Block A's contractual share of 51.7 per cent. Gajah Baru and Naga delivered production of 80 BBtud (gross) (2017: 91 BBtud) under GSA2, representing 100 per cent nomination delivery by Premier. Gross liquids production from the Anoa field was 1.2 kboepd (2017: 1.1 kboepd).

Gas sales from the Kakap field averaged 4 BBtud (gross) (2017: 17 BBtud (gross)) while gross liquids production was 0.7 kboepd (2017: 2.6 kboepd). The reduction on the prior corresponding period reflects the sale of Kakap to Batavia Oil which completed in April.

Premier continues to benefit from a low-cost base in Indonesia with operating costs averaging US\$6.7/boe for the period.

Development

The development of the Bison, Iguana, Gajah-Pueri (BIG-P) gas fields (Premier 28.67 per cent operated interest) entails a three well subsea tie-back to existing infrastructure and is progressing to budget and to schedule. The Naga and Pelikan deck extensions and the Pelikan and AGX platform spools were successfully installed offshore during the third quarter. Fabrication of the subsea structures commenced in October and will be installed offshore along with the flowlines, flexible risers and umbilicals in mid-2019. A DSV will then complete the final hook up and tie-ins during the second half of the year. Drilling of the three BIG-P development wells is on track to commence in the first half of 2019 with first gas planned for late 2019. Once on-stream, the BIG-P gas fields will support the Group's long-term gas contracts into Singapore and will help to maintain production from Natuna Sea Block A.

Exploration and appraisal

In January, Premier was awarded a 40 per cent operated interest in the Andaman II licence in the underexplored but proven North Sumatra basin offshore Aceh in the 2017 Indonesian Licence Round. PGS has commenced a 3D seismic acquisition programme designed to mature the numerous prospects and leads identified on existing 2D seismic, many of which exhibit direct hydrocarbon indicators. Drilling is targeted for late 2020. The licence has the potential to deliver significant gas volumes into North Sumatra and adds a potentially material new gas play to Premier's Indonesian portfolio.

On Natuna Sea Block A, Premier's exploration team is reprocessing existing Anoa 3D datasets and analysing production data from the WL-5X well to assess the ultimate potential of the Lama play beneath the Anoa field and to identify potential infill drilling locations within the Anoa main field.

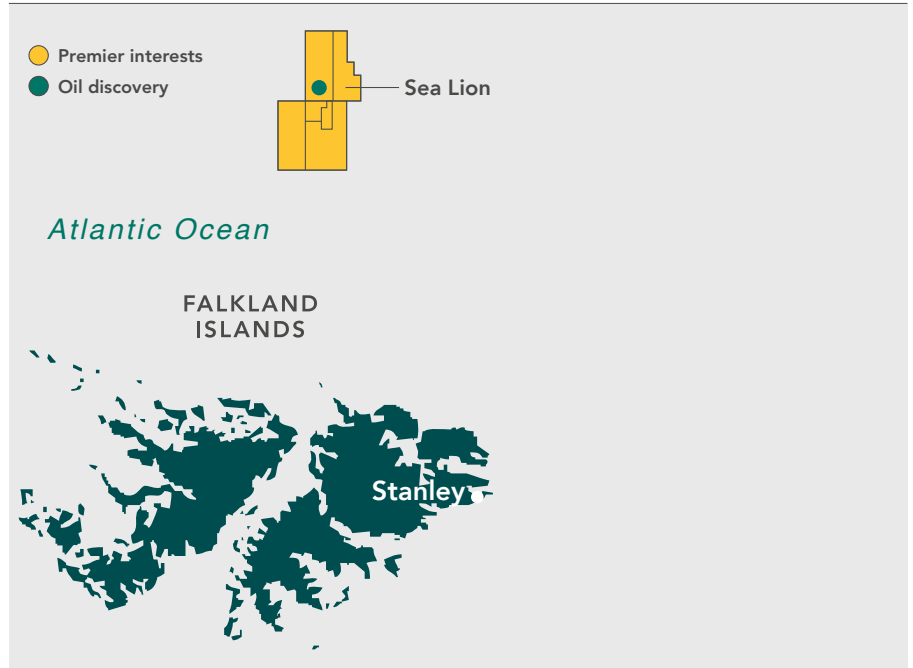
Elsewhere in Indonesia, Premier and its joint venture partners continue to seek a farm in offer to the Tuna PSC (Premier 65 per cent operated interest) ahead of a two well campaign to appraise the Tuna field.

Gas supply by contract	GSA1		GSA2	
	2018	2017	2018	2017
BBtud (gross)				
Anoa, Pelikan	153	143	–	–
Gajah Baru, Naga	–	–	80	91
Kakap	4	17	–	–
Total	157	160	80	91

Note: Premier completed the sale of its interest in Kakap in April 2018.

04/The Falkland Islands

During 2018, the focus has been on securing LOIs (Letters of Intent) with key contractors and progressing the financing structure for the first phase of the development of the Sea Lion field in the North Falklands Basin ahead of a final investment decision.



220_{mmbbls}

Sea Lion Phase 1 (gross)

up to US\$ 400_{million}

of vendor loan notes secured



The Sea Lion project represents a material opportunity for the Group with around 400 mmbbls (net to Premier) to be developed over several phases. Sea Lion Phase 1 (Premier 60 per cent operated interest) will develop over 220 mmbbls of gross resources in PL032, using a conventional FPSO based scheme, similar to Premier's successful Catcher development.

During 2018, Premier completed the selection of its key contractors and put in place LOIs for the provision of key services, including an FPSO, the drilling rig, well services, SURF, subsea production systems and installation services, as well as vendor financing. Premier is now working with its selected contractors to complete FEED and to convert the LOIs into fully termed contracts.

Premier has also continued to progress discussions with senior debt providers, including export credit finance agencies, around the funding structure of the project. In particular, Premier is preparing to submit an application for project funding once FEED has been completed, scheduled for the second quarter of 2019. In addition, it remains the Group's preference to optimise its level of participation in the project by bringing in an additional equity partner once the funding structure has been finalised.

05/Pakistan

Premier's Pakistan business continued to generate positive net cash flows for the Group, supported by high operating efficiency of over 95 per cent and a low-cost base.



Production from Premier's six non-operated producing gas fields in Pakistan averaged 5.3 kboepd (2017: 6.2 kboepd) during 2018. The fall in production reflects natural decline in the main gas fields partially offset by better than expected results achieved from the new Kadanwari development wells brought onstream. Premier realised an average price of US\$3.4/mscf for its Pakistani gas during the period while operating costs remained low at US\$0.9/mscf (US\$4.9/boe).

In April 2017, Premier announced the sale of its Pakistan business to Al-Haj Group for US\$65.6 million. To date, Premier has received US\$40 million of deposits from the buyer and also collected US\$25 million in cash flows since the economic date of the transaction (1 January 2017). Premier expects the sale to complete on settlement of final working capital adjustments, which is scheduled for the end of the first quarter of 2019.



US\$ **40** million

Deposits received to date from buyer of Pakistan assets

5.3 kboepd

Pakistan production in 2018

Exploration & appraisal

In recent years, Premier has sought to rebalance its exploration portfolio away from traditional but now mature areas to under-explored but proven hydrocarbon basins with the potential to develop into new business units over the medium-term.

06/Mexico

In Mexico, pre-unitisation terms were agreed by all potential partners in the Zama field and approved by the Mexican Government in September. The pre-unitisation agreement provides a framework to enable the sharing of data to ensure the safe and optimal appraisal of the Zama field and, in the event a shared reservoir is proven, it establishes a defined process for the overall development of the field and the initial participation of each party.

In September, the Mexican Government approved the Block 7 (Premier 25 per cent non-operated interest) appraisal programme, comprising two back-to-back wells and one side track. The first appraisal well, Zama-2, spudded to the north of the Zama discovery well at the end of November. The well penetrated 152 metres of net pay above the oil water contact and encountered a better than anticipated net to gross ratio. The rig subsequently spudded the up-dip vertical Zama-2 well side-track and has encountered the main reservoir on prognosis. A comprehensive coring



programme is now being undertaken ahead of a drill stem test with the results expected in early April. The rig will then move to drill the second appraisal well (Zama-3) to evaluate the southern part of the Zama oil field. The results of the appraisal programme will feed into the early engineering work, being undertaken by McDermott and IO, and will help inform the concept select decision ahead of a final investment decision which is targeted for 2020.

In March 2018, Premier was awarded three new licences in Round 3.1, significantly enhancing the Group's acreage position offshore Mexico. Premier, together with its joint venture partners (DEA (operator) and Sapura), secured the highly contested Block 30 (Premier 30 per cent non-operated interest) which is directly to the south west of Premier's Zama discovery in the shallow water Sureste Basin. A block wide 3D seismic acquisition programme is scheduled to commence in June 2019. The programme will further define potential exploration

targets, including the high impact Wahoo prospect, which exhibits a flat spot on 2D seismic analogous to the Zama discovery, and the Cabrilla prospect ahead of a drilling campaign in 2020.

Premier also secured a 100 per cent operated interest in two blocks – Blocks 11 and 13 – in the more frontier Burgos Basin, which is directly inboard from the deep water Perdido fold belt. An environmental baseline study across the two blocks was completed in 2018 and the forward plan is to reprocess existing 3D seismic during 2019 with the aim of identifying potential drilling targets.

On Block 2 (Premier 10 per cent non-operated interest) in the Sureste Basin, Premier's option to participate and convert its carried 10 per cent interest to a paying interest of up to 25 per cent equity or to withdraw was triggered in May 2018. Premier has opted to exit and received final government approval for its withdrawal from the block in February 2019.

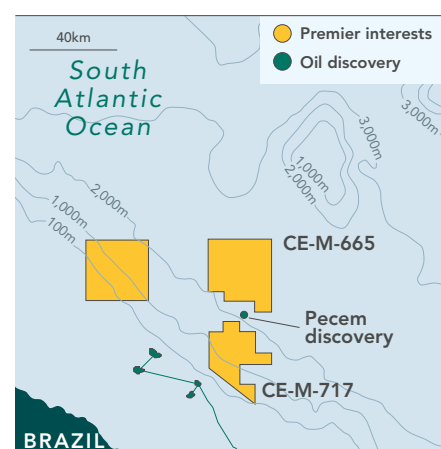
07/Brazil

Premier has continued to take an operational lead for environmental licensing and well planning in the offshore Ceará Basin, where the Group plans to drill two wells in 2020.

In the first quarter of 2018 Premier secured approval from the ANP to replace the two well commitment on its operated Block 717 (Premier 50 per cent operated interest) with a single deeper well targeting the stacked Berimbau and Maraca prospects. Premier intends to drill this well in the first half of 2020 as part of a two well campaign with Block 661 (Premier 30 per cent non-operated interest). The 661 well will test the Itarema

and Tatajuba prospects. The two wells combined will test in excess of 500 mmbbls of gross prospective resource.

Having matured and evaluated the prospectivity on Block 665 (Premier 50 per cent operated interest) utilising the high-quality 3D seismic acquired by Premier and its partner, the decision has been taken to relinquish the licence at the end of the initial term in July 2019.



Driving free cash flow generation and reducing debt

Higher production rates have allowed Premier to return to profitability in 2018 and deliver a step up in positive cash flows, enabling a significant reduction in net debt which is expected to continue in 2019



Richard Rose
Finance Director

US\$ **1,438**_m

Revenue from all operations
2017: US\$1,102 million



US\$ **882**_m

EBITDAX: 2017: US\$590 million



Overview

2018 saw continuing oil price volatility. Brent crude opened the year at US\$66.9/bbl, rising to US\$86.2/bbl in October before then weakening considerably towards the end of the year to close at US\$50.2/bbl at 31 December 2018, which was the lowest observed price in 2018. The average for 2018 was US\$71.4/bbl against US\$54.2/bbl for 2017. Subsequent to the year-end, prices have strengthened and averaged US\$62/bbl in January and February 2019.

Against this economic backdrop we have achieved our best ever full year of production, averaging 80.5 kboepd (2017: 75.0 kboepd), resulting in total revenue from all operations of US\$1,438.3 million compared with US\$1,102 million in 2017. In addition, we have reduced net debt to US\$2,330.7 million, following the successful conversion of the Group's convertible bond notes during the year and strong cash flow generation.

Business performance

EBITDAX for the year from continuing operations was US\$882.3 million compared to US\$589.7 million for 2017. The increase in EBITDAX is mainly due to higher production and realised prices during the year.

Business Performance (continuing operations) (US\$ million)	2018	2017
Operating profit	531.0	33.8
Add: Depreciation, depletion, amortisation and impairment	358.4	667.8
Add: Exploration expense and pre-licence costs	35.2	17.1
Less: Gain on disposal of assets	(42.3)	(129.0)
EBITDAX	882.3	589.7



Our 2018 financial highlights

1 Net debt reduced

- Significant debt reduction in 2018 of US\$393 million
- Driven by improved cash margins and cost control
- Exercise of outstanding convertible bonds in the year

2 A return to profit

- Increased production rates and realised prices have delivered a step up in the operating cash flow
- Combined with low and stable cost base, the Group has restored profitability
- Enhanced by completion of non-core disposals

3 Disciplined spend

- Strong cost control across the Group, with low and stable operating costs
- Development capex lower year-on-year

Income statement

Production and commodity prices

Group production on a working interest basis averaged 80.5 kboepd compared to 75.0 kboepd in 2017. This was driven by a full year of production from the Catcher field which achieved first oil in December 2017 and outperformance from the Chim São field. Average entitlement production for the period was 73.8 kboepd (2017: 69.2 kboepd).

Premier realised an average oil price for the year of US\$67.9/bbl (2017: US\$52.9/bbl). Including the effect of oil swaps which settled during 2018, the realised oil price was US\$63.5/bbl (2017: US\$52.1/bbl). In the UK, average natural gas prices achieved were 57 pence/therm (2017: 47 pence/therm), which included 58.2 million therms were sold under fixed price master sales agreements. Gas prices in Singapore, linked to high sulphur fuel oil ('HSFO') pricing and in turn, therefore, linked to crude oil pricing, averaged US\$11.2/mscf (2017: US\$8.4/mscf).

Realised prices	2018	2017
Oil price (US\$/bbl) post hedging	63.5	52.1
UK natural gas (pence/therm)	57	47
Singapore HSFO (US\$/mscf)	11.2	8.4

Total revenue from all operations (including Pakistan) increased to US\$1,438.3 million (2017: US\$1,102 million). From continuing operations (excluding Pakistan), sales revenue increased to US\$1,397.5 million from US\$1,043.1 million for the prior year.

Cost of operations

Cost of operations comprises operating costs, changes in lifting positions, inventory movements and royalties. Cost of operations for the Group from continuing operations was US\$500.0 million for 2018, compared to US\$455.4 million for 2017.

Operating costs (US\$ million)	2018	2017
Continuing operations	487.5	438.4
Discontinuing operations (Pakistan)	9.5	9.6
Operating costs	497.0	448.0
Operating costs per barrel	16.9	16.4

Amortisation and depreciation of oil and gas properties

(US\$ million)	2018	2017
Continuing operations	386.5	409.0
Discontinuing operations (Pakistan)	–	7.2
Total	386.5	416.2
Depreciation, depletion and amortisation ('DD&A') per barrel	13.2	15.2

The increase in absolute operating costs reflects a full year production contribution from the Catcher field. Ongoing cost reduction initiatives, successful contract renegotiations and strict management of discretionary spend continue to deliver low and stable operating costs. Full year 2018 total operating costs were below the low end of US\$17-US\$18/boe guidance at US\$16.9/boe (2017: US\$16.4/bbl). The DD&A charge has reduced to US\$13.2/bbl (2017: US\$15.2/bbl).

Impairment of oil and gas properties

A non-cash net impairment reversal credit of US\$35.2 million (pre-tax) (US\$25.0 million post-tax) has been recognised in the income statement. This relates to the Solan field in the UK North Sea as a result of a reduction in the expected gross decommissioning cost attributable to the asset, giving rise to a reversal of previously recognised impairment of US\$55.7 million. This reversal has been partially offset by an impairment charge of US\$20.5 million for the Huntington asset. After recognition of the net impairment charge there is US\$2,245.6 million capitalised in relation to PP&E assets and US\$240.8 million for goodwill.

Exploration expenditure and pre-licence costs

Exploration expense and pre-licence expenditure costs amounted to US\$35.2 million (2017: US\$17.1 million), primarily relating to historical costs incurred on the Block 2 licence in Mexico, the Sunbeam prospect in the UK and Block 665 licence in Brazil. After recognition of these expenditures, the exploration and evaluation assets remaining on the balance sheet at 31 December 2018 amount to US\$812.6 million, principally for the Sea Lion asset and our share of the Zama prospect and Block 30 in Mexico. US\$224.5 million of costs in relation to the Tolmount project previously recognised within exploration assets, which mostly represents fair value allocated to the project on acquisition from E.ON, have been reclassified to PP&E in the year following sanction of the project in 2018.

General and administrative expenses

Net G&A costs of US\$14.0 million (2017: US\$16.8 million) were comparable with the prior year.

Finance gains and charges

Net finance gains and charges of US\$372.8 million, have increased compared to the prior year (US\$316.4 million). The step up in the interest margin on our financing facilities following the completion of the refinancing in July 2017 has been partially offset by a reduction in the fair value of the Group's outstanding equity and synthetic warrants to US\$31.8 million from US\$59.8 million at 31 December 2017. Cash interest expense in the period was US\$228.7 million (2017: US\$223.7 million).

Taxation

The Group's total tax charge for 2018 from continuing operations is US\$53.1 million (2017: credit of US\$96.1 million) which comprises a current tax charge for the period of US\$90.6 million and a non-cash deferred tax credit for the period of US\$37.5 million.

The total tax charge represents an effective tax rate of 33.5 per cent (2017: 26.2 per cent). The effective tax rate for the year is primarily impacted by three specific UK deferred tax items. The first is the impact of ring fence expenditure supplement claims in the UK during the year (US\$76.6 million credit). The second is the impact of the Babbage disposal resulting in a clawback of UK tax allowances (US\$30.4 million charge) and the third is foreign exchange movements on historical deferred tax balances (US\$17.8 million charge). After adjusting for the net impact of the above items of US\$28.4 million, the underlying Group tax charge for the period is US\$81.5 million and an effective tax rate of 51.5 per cent.

The Group has a net deferred tax asset of US\$1,294.6 million at 31 December 2018 (2017: US\$1,297.5 million), which is broadly comparable with the prior year.

Profit after tax

Profit after tax is US\$133.4 million (2017: loss of US\$253.8 million) resulting in a basic earnings per share of 17.3 cents from continuing and discontinued operations (2017: loss of 49.4 cents). The profit after tax in the year is driven principally by the increased sales revenue and consequent impact on operating profits.

Cash flows

Cash flow from operating activities was US\$777.2 million (2017: US\$475.3 million) after accounting for tax payments of US\$128.8 million (2017: US\$69.6 million) and before the movement in joint venture cash balances in the period of US\$54.4 million. The increase in operating cash flows was largely driven by higher production, sales volumes and realised prices.

Capital expenditure in 2018 totalled US\$279.8 million (2017: US\$275.6 million).

Capital expenditure (US\$ million)	2018	2017
Fields/development projects	234.3	236.8
Exploration and evaluation	43.6	37.6
Other	1.9	1.2
Total	279.8	275.6

The principal development project was the Catcher field in the UK. The majority of exploration spend was related to the commencement of the appraisal drilling programme on the Zama prospect in Mexico and the licence payment on Block 30. In addition, cash expenditure for decommissioning activity in the period was US\$72.7 million (2017: US\$25.7 million). Further to this, US\$17.7 million (2017: US\$16.7 million) of cash was placed into long-term abandonment escrow accounts for future decommissioning activities.

Total 2019 development and exploration capex is expected to be US\$290 million of which c. US\$70 million relates to the BIG-P development and c. US\$100 million to exploration and appraisal (including US\$60 million for the Zama appraisal programme and US\$20 million for the Tolmount East appraisal well). Abandonment spend in 2019 is expected to be US\$50 million, before taking into account the benefits of tax relief, and primarily relates to abandonment activities in the UK North Sea.

Discontinued operations, disposals and assets held for sale

During the year, Premier completed the previously announced sales of its interests in the Babbage field in the UK, the Kakap field in Indonesia and its 30 per cent non-operated interest in the Esmond Transportation System ('ETS'). A net gain on disposal of US\$42.3 million has been recognised in the period.

During 2018, Premier received a further US\$10 million cash deposit from Al-Haj, in addition to the US\$25 million deposit received in 2017. Due to the expectation of the completion of the disposal, the business unit continued to be classified as a disposal group held for sale and presented separately in the current and prior year balance sheet. Results for the disposal group in both the current and prior periods have been presented as a discontinued operation. Subsequent to the year-end, Premier received a further US\$5 million deposit from Al-Haj, bringing total cash received to date of US\$40 million, against the headline consideration of US\$65.6 million.

Balance sheet position

Net debt

Net debt at 31 December 2018 amounted to US\$2,330.7 million (31 December 2017: US\$2,724.2 million), with cash resources of US\$244.6 million (31 December 2017: US\$365.4 million). The maturity of all of Premier's facilities at year-end is May 2021.

Following completion of the Wytch Farm disposal in December 2017, net cash proceeds received of US\$176 million were used to pay down and cancel the equivalent value of the RCF debt facility in January 2018. Furthermore, the total available RCF facility was reduced by a further US\$39 million in December 2018 by the cash proceeds received from the Babbage disposal. Following these two disposals, the total available RCF facility reduced from US\$2,050 million to US\$1,835 million at year-end.

In January 2018, Premier invited convertible bondholders to exercise their exchange rights in respect of any and all of their bonds. 87.5 per cent or US\$205.8 million of the US\$235.2 million bonds outstanding were accepted for early exchange with an incentive amount of US\$50 per US\$1,000 in principal of bonds. The exchange resulted in the issue of 231,882,091 Ordinary Shares, which included 7,578,343 incentive shares. Completion of this offer, resulted in a remaining convertible bond liability of US\$28.8 million.

Following this, in July 2018, the Group announced its intention to exercise the mandatory conversion option in the remaining outstanding convertible bonds. The exercise of this option converted all of the remaining US\$28.8 million outstanding convertible bonds into approximately 31.4 million new Ordinary Shares of Premier. This resulted in Premier's convertible bond liability being fully extinguished in September 2018.

At 31 December 2018, after the exclusion of US\$30.2 million of cash held on behalf of our JV partners, Premier retained cash of US\$214.4 million. Combined with undrawn facilities of US\$355.2 million, the Group had liquidity of US\$569.6 million at the year-end (31 December 2017: US\$541.2 million). Subsequent to the year-end, in January 2019, a further US\$100.3 million of the Group's RCF debt facility was cancelled by Premier, which will result in reduced commitment fee costs for the Group in 2019.

Provisions

The Group's decommissioning provision decreased to US\$1,214.5 million at 31 December 2018, down from US\$1,432.1 million at the end of 2017. The reduction is driven by a reduction in the forecast for the gross cost estimate for the Solan asset and expenditure in the year.

Non-IFRS measures

The Group uses certain measures of performance that are not specifically defined under IFRS or other generally accepted accounting principles. These non-IFRS measures used within this Financial Review are EBITDAX, Operating cost per barrel, DD&A per barrel, net debt and liquidity and are defined in the glossary.

Financial risk management

Commodity prices

Premier took advantage of the improved oil price environment observed at times during 2018 to increase its hedging position in 2019 and 2020 to protect future free cash flows and covenant compliance. The Group's current hedge position to the end of 31 December 2019 is as follows:

Oil swaps/ forwards	2019 1H	2019 2H
Volume (mmbbls)	3.77	3.84
Average price	68.5	69.2

The fair value of open oil swaps at 31 December 2018 was an asset of US\$102.0 million (2017: liability of US\$31.7 million), which is expected to be released to the income statement during 2019 as the related barrels are lifted. During 2018, forward oil swaps of 5.9 mmbbls expired resulting in a net charge of US\$71.2 million (2017: US\$11.4 million) which has been included in sales revenue for the year.

In addition, the Group currently has forward UK gas sales of 48.8 mm therms at an average price of 61 pence/therm that will be physically settled during 2019. Furthermore, Premier has hedged part of its Indonesian gas production through the sale of 330,000 mt of HSFO Sing 180 in 2019 and 2020 at an average price of US\$378/mt.

US\$ **16.9** /bbl

Operating cost/bbl: 2017: US\$16.4/bbl



US\$ **777** m

Operating cash flow: 2017: US\$475 million





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. At the year-end, the Group recorded a mark-to-market loss of US\$17.2 million on its outstanding foreign exchange contracts (2017: gain of US\$32.5 million). The Group currently has £150.0 million retail bonds, €63.0 million long-term senior loan notes and a £100.0 million term loan in issuance which have been hedged under cross currency swaps in US dollars at average fixed rates of US\$1.64:£ and US\$1.37:€.

Interest rates

The Group has various financing instruments including senior loan notes, UK retail bonds, term loans and revolving credit facilities. Currently, approximately 60 per cent of total borrowings are fixed or have been fixed using interest rate options. On average, the cost of drawn funds for the year was 7.6 per cent.

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. During 2018, US\$1.4 million of cash proceeds were received (net to Premier) in relation to settled insurance claims (2017: US\$7.2 million).

Going concern

The Group monitors its funding position and its liquidity risk throughout the year to ensure it has access to sufficient funds to meet forecast cash requirements. Cash forecasts are regularly produced based on, inter alia, the Group's latest life of field production and expenditure forecasts, management's best estimate of future commodity prices (based on recent forward curves, adjusted for the Group's hedging programme) and the Group's borrowing facilities. Sensitivities are run to reflect different scenarios including, but not limited to, changes in oil and gas production rates, possible reductions in commodity prices and delays or cost overruns on major development projects. This is done to identify risks to liquidity and covenant compliance and enable management to formulate appropriate and timely mitigation strategies.

Management's base case forecast assumes an oil price of US\$60/bbl and US\$65/bbl in 2019 and 2020, respectively and production in line with prevailing rates. The Group has run downside scenarios, where oil and gas prices are reduced by a flat US\$5/bbl throughout the going concern period and where total group production is forecast to reduce by 10 per cent.

At 31 December 2018 the Group continued to have significant headroom on its financing facilities and cash on hand. The base case forecasts show that the Group will have sufficient financial headroom for the 12 months from the date of approval of the 2018 Annual Report and Accounts. In the downside scenarios ran, no covenant breach is forecasted in the going concern period. If more severe sustained downside cases were to materialise then, in the absence of any mitigating actions, a breach of one or more of the financial covenants may arise during the 12 month going concern assessment period. Potential mitigating actions could include further non-core asset disposals, additional hedging activity or deferral of expenditure.

Accordingly, after making enquiries and considering the risks described above, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Directors continue to adopt the going concern basis of accounting in preparing these consolidated 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 personnel, assets, the communities where we operate and with whom we interact and our reputation. Premier therefore 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 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 the 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 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 Group has identified its principal risks for the next 12 months as being:

- Further oil price weakness and volatility.
- Underperformance of Catcher asset.
- Failure to maintain schedule of Tolmount project.
- Negative drilling results from key appraisal assets.
- Ability to fund existing and planned growth projects.
- Breach of banking covenants if oil prices fall or assets underperform.
- Timing and uncertainty of decommissioning liabilities.
- Continued ability to maintain core competencies.
- Political and security instability in countries of current and planned activity.
- Rising costs if oil prices recover could limit access to services.

Further information detailing the way in which these risks are mitigated is provided on the Company's website www.premier-oil.com.

Richard Rose

Finance Director

Managing our principal risks

The company is committed to continuously improving its approach to risk management.



Iain Macdonald
Chairman of the Audit and Risk Committee

Significant risks during 2018

- Oil price weakness and volatility
- Underperformance of existing assets
- Failure of new Catcher asset to fully deliver to expectations
- Execution of planned corporate actions
- Ability to fund existing and planned growth projects
- Breach of new banking covenants if oil prices fall or assets underperform
- Ability to maintain core competencies
- Timing and uncertainty of decommissioning liabilities
- Political and security instability in countries of current and planned activity
- Rising costs if oil prices recover could limit access to service providers

Significant risks in 2019

- Further oil price weakness and volatility
- Underperformance of Catcher asset
- Failure to maintain schedule of Tolmount project
- Negative drilling results from key appraisal assets
- Ability to fund existing and planned growth projects
- Breach of banking covenants if oil prices fall or assets underperform
- Timing and uncertainty of decommissioning liabilities
- Continued ability to maintain core competencies
- Political and security instability in countries of current and planned activity
- Rising costs if oil prices recover could limit access to service providers

Effective risk management is central to increasing the likelihood of achieving our business 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.

The Directors have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity. A description of those risks, together with an overview of how such risks are managed, is set out on pages 38 to 39.

Risk management and internal control 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 strategic objectives and to provide an appropriate level of assurance that any risks taken are appropriately managed and that the system of internal controls is effective.

The risk management framework and the systems of internal control are designed to manage and communicate, rather than eliminate, the risk of failure to achieve business objectives and can provide only reasonable, and not absolute, assurance that material financial irregularities and control weaknesses will be detected.



Risk management

Premier believes that risk management leads to better quality decision-making and increases the likelihood of the company achieving its business objectives.

Premier has adopted a comprehensive framework for risk management based on ISO 31000 principles and guidelines. The Group Audit and Risk Function is responsible for administering the risk management framework and its continued improvement. The framework is illustrated here.

Establish context

The Company's business objectives and the risk appetite set by the Board together set the overall context for the management of risk in the Company.

Risk assessment

To facilitate assessment of the main risks facing the business, specific risks are identified by each business unit and corporate function in the Company. These risks are recorded in the Company risk register. Each risk is assessed based on the likelihood of the risk manifesting and the impact of the risk if it was to manifest.

A matrix of risk likelihood versus impact is used to help, analyse and communicate risks throughout the Company. The risk matrix facilitates the consideration of risk inter-dependency and the amalgamation of similar specific risks across the organisation. Risks are categorised according to level and escalated up the organisation as appropriate.

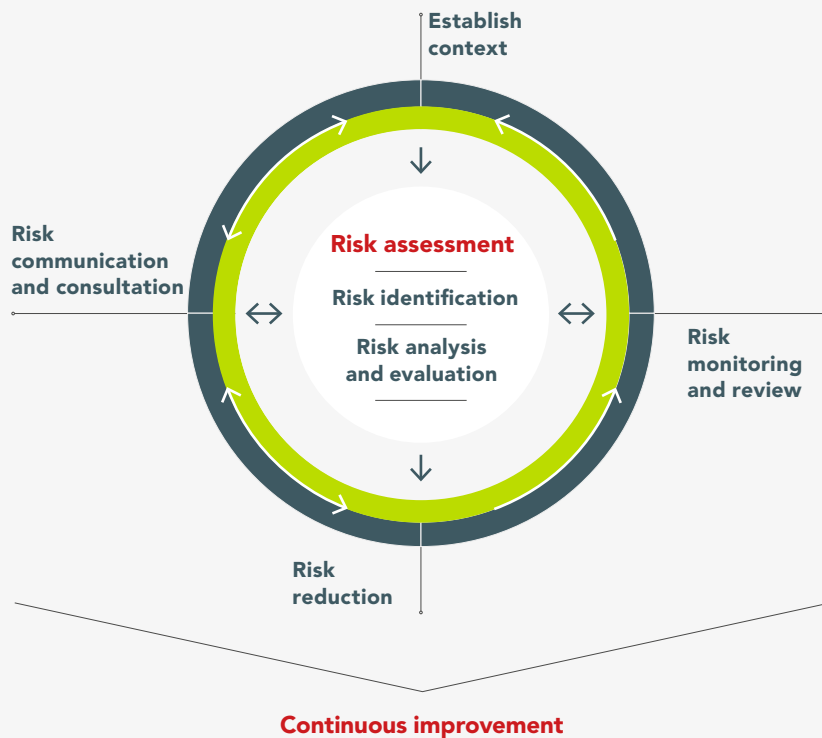
→ CONTINUED ON PAGE 40

Group risk management framework

Risk management lies at the heart of Premier's system of internal controls.

A systematic process to identify, assess, reduce, monitor and communicate the risks facing the business is undertaken across the Company.

The process itself is periodically reviewed to continue to improve the effectiveness of risk management in Premier.



PRINCIPAL RISK FACTOR	RISK DETAIL	HOW IS IT MANAGED?
FINANCIAL RISKS		
Commodity price volatility	<ul style="list-style-type: none"> Oil and gas prices are affected by global supply and demand and can be subject to significant fluctuations. Factors that influence these include operational issues, natural disasters, adverse weather, climate change regulations, political and security instability, conflicts, economic conditions and actions by major oil-exporting countries. Price fluctuations can affect our business assumptions and our ability to deliver on our strategy. Specific risks for 2019: inability to execute a satisfactory oil hedging programme due to low forward oil prices; uncertainty in implementation of IMO2020 regulations impacting fuel oil pricing. 	<ul style="list-style-type: none"> Oil and gas price hedging programmes to underpin our financial strength and protect our capacity to fund future developments and operations. Premier's investment guidelines ensure that our investment opportunities are robust to downside price scenarios. Hedging of exposure to increasing carbon prices.
Financial discipline and governance	<ul style="list-style-type: none"> Sufficient funds may not be available to finance the business and fund existing operations and planned growth projects. Volatile credit markets and bank risk appetite may impact ability to refinance debt at maturity on attractive terms. Breach of delegated authority. Financial fraud. Specific risks for 2019: reduced flexibility to manage the business under existing lender controls; breach of banking covenants in downside scenarios; inability to fund a Sea Lion development. 	<ul style="list-style-type: none"> Strong financial discipline. Premier has an established finance management system to ensure that it is able to maintain an appropriate level of liquidity and financial capacity and to manage the level of assessed risk associated with the financial instruments. The management system includes a defined delegation of authority to reasonably protect against risk of financial fraud in the Group. Premier maintains access to capital markets through the cycle by proactive engagement with banks and lenders as evidenced by the completion of its refinancing in 2017. An insurance programme is maintained 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. Economics of investment decisions are tested against downside project scenarios. Discretionary spend is actively managed.
OPERATIONAL RISKS		
Production and development delivery and decommissioning execution	<ul style="list-style-type: none"> Uncertain geology, reservoir and well performance. Availability of oilfield services including FPSOs and drilling rigs, technology and engineering capacity, and skilled resources. Adverse fiscal, regulatory, political, economic, social, security (including cyber) and weather conditions. Immaturity of decommissioning in the UK resulting in uncertain cost and timing estimates for decommissioning of assets. Potential consequences include reduced or deferred production, loss of reserves, cost overruns and failure to fulfil contractual commitments. Specific risks for 2019: reliance on performance of Catcher asset; failure to maintain schedule of Tolmount project; acceleration of decommissioning of certain assets if they underperform. 	<ul style="list-style-type: none"> Effective management systems governing geoscience, reservoir and well engineering, and production operations activities, including rigorous production forecasting and reporting, field and well performance monitoring, and independent reserves auditing. Effective project execution management systems, including contracting strategy and cost controls together with capable project teams and functional oversight. Long-term development planning to ensure timely access to FPSOs, rigs and other essential services. Preference for operatorship. Specialist decommissioning team in place coupled with continued focus on delivering asset value to defer abandonment liabilities.
Joint venture partner alignment and supply chain delivery	<ul style="list-style-type: none"> Major operations and projects in the oil and gas industry are conducted as joint ventures. The joint venture partners may not be aligned in their objectives and this may lead to operational inefficiencies and/or project delays. Several of our major operations are operated by our joint venture partners and our ability to influence is sometimes limited due to our small interest in such ventures. Premier is heavily dependent on supply chain providers to deliver products and services to time, cost and quality criteria and to conduct its business in a safe and ethical manner. Specific risks for 2019: access to and cost of appropriate service providers if oil prices strengthen. 	<ul style="list-style-type: none"> Due diligence and regular engagement with partners in joint ventures in both operated and non-operated operations and projects. Pursue strategic acquisition opportunities, where appropriate to gain a greater degree of influence and control. Defined management system for management of non-operated ventures. Due diligence of supply chain providers, including diligence of financial solvency, anti-bribery and corruption controls, and controls to prevent facilitation of tax evasion. Monitor contractual performance and delivery, including periodic audit of the effectiveness of their management systems. Complete roll out of a comprehensive contract performance management programme for major contracts.

PRINCIPAL RISK FACTOR	RISK DETAIL	HOW IS IT MANAGED?
OPERATIONAL RISKS		
Organisational capability	<ul style="list-style-type: none"> The capability of the organisation may be inadequate for Premier to deliver its strategic objectives. The capability of the organisation is a function of both the strength of its personnel and the effectiveness of its business management system. Premier may be unable to attract, engage or retain personnel with the right skills and competencies or to deliver suitable succession plans for senior roles. The business management system may be inadequate or may not be sufficiently complied with. Specific risks for 2019: unable to attract, engage or retain key staff due increasing competition for talent, ageing demographic and an ageing asset portfolio. 	<ul style="list-style-type: none"> Premier has created a competitive reward package including bonus and long-term incentive plans to incentivise loyalty and performance from the existing skilled workforce. Continue to strengthen organisational capability to achieve strategic objectives. This includes resource and succession planning, competency and leadership development. Continuous improvement of business management system and related controls appropriate to the size and market position of the Company. Implementation of staff engagement plans following the staff survey in 2018. Implementation of Staff Forum across the Group to inform management and the Board on cultural and people related issues. Continued focus on Diversity & Inclusion across the Group. Continued phased rollout of the Talent Management programme, including continued senior level succession at local and Group levels. Implementation of recommendations emerging from externally facilitated organisation health check conducted in 2018.
Exploration success and reserves addition	<ul style="list-style-type: none"> Premier may fail to identify and capture new acreage and resource opportunities to provide a portfolio of drillable exploration prospects and future development projects. Specific exploration programmes may fail to add expected resource and hence value. Lender controls may reduce ability to capture and execute the exploration programme. Specific risks in 2019: inability to access quality global opportunity set due to lender restrictions in a highly competitive market; and negative appraisal results on Zama and Tolmount East appraisal opportunities. 	<ul style="list-style-type: none"> Focus on geologies we know well and in which we can build a competitive advantage. Continuous improvement in exploration management system with strong functional oversight. Manage exploration portfolio to maintain alignment with strategic growth and spend targets. Active new ventures activity and appropriate resourcing.
CORPORATE RESPONSIBILITY RISKS		
Health, safety, environment and security	<ul style="list-style-type: none"> Significant asset integrity, process safety or wells incident on operated asset. Significant incident arising from natural disaster, pandemic, social unrest or other external cause. Consequences may include injury, loss of life, environmental damage and disruption to business activities. 	<p>Comprehensive HSES management systems including:</p> <ul style="list-style-type: none"> HSES reporting and auditing with a focus on the identification and management of major hazards. Valid Safety Cases on all operated assets. Robust crisis management and emergency response processes in place and tested against. Senior management visits to operated facilities to demonstrate commitment to HSES values. Learning from internal and third-party incidents. Insurance against Business Interruption.
Host government: political and fiscal risks	<ul style="list-style-type: none"> Premier operates or maintains interests in some countries where political, economic and social transition is taking place or there are current sovereignty disputes. Developments in politics, security, laws and regulations can affect our operations and earnings. Consequences may include expropriation of property; cancellation of contract rights; limits on production or cost recovery; import and export restrictions; price controls, tax increases and other retroactive tax claims; and increases in regulatory burden or changes in local laws and regulations. Consequences may also include threats to the safe operation of Company facilities. Specific risk in 2019: monitor impact of change of Government in Mexico. 	<ul style="list-style-type: none"> Premier strives to be a good corporate citizen globally, and seeks to forge strong and positive relationships with governments, regulatory authorities and the communities where we do business. Premier engages in respectful industry-wide lobbying and sustainable corporate responsibility and community investment programmes. Premier maintains a portfolio of interests which includes operations in both lower and higher risk environments. Rigorous adherence to Premier's Business Ethics Policy and Global Code of Conduct. Monitor and adhere to local laws and regulations. Active monitoring of the political, economic and social situation in areas where we do business, including business continuity plans tailored to pre-defined levels of alert.

→ CONTINUED FROM PAGE 37

Risk reduction

Premier attempts to reduce the likelihood and potential impact of the identified risks facing its business. According to the nature of the risk and the Board approved risk appetite, Premier may elect to accept or tolerate the risk as-is, treat the risk with controls and mitigating measures, transfer the risk to third parties or terminate the risk by ceasing the underlying activity or operation. In particular, Premier has a zero tolerance approach to fraud and ethics non-compliance, and also ensures that safety and environmental risks are managed to levels that are as low as reasonably practicable. In addition, exploration and asset development risks are managed on a portfolio basis.

Risk visualisation models are widely used to facilitate the identification of appropriate risk reduction measures.

Of course, there are certain risks to which Premier is exposed that it has very limited ability to control or mitigate, such as oil price or extended adverse weather conditions in the UK North Sea.

Risk monitoring and review

The status of risks and risk reduction measures are monitored through regular business performance reviews, risk workshops, control audits and activity reviews. These reviews in their totality are designed to identify changes in the level of the identified risks, the emergence of new risks and to assess the suitability and effectiveness of control measures. As part of these reviews, Premier seeks to learn from incidents and materialised risks.

The reviews help ensure that risks emerging as a result of changes in the business activities or the external environment are identified and suitably managed.

During 2018, the company enhanced its monitoring process by introducing a regular Executive Committee review of the most important risks facing each business unit and group function and including the emerging risks facing the business.

Internal controls**Business Management System**

Internal controls within Premier are set out in the Business Management System ('BMS'). The BMS is composed of the policies set by the Board, together with a nested set of standards, procedures and processes for each function and business unit involved in carrying out the Company's business.

During 2018, Premier improved the comprehensiveness of its BMS, ensuring the group functions have a suitable management system in place to control their activities.

Regular review

The adequacy of the BMS is a function of its design and operating effectiveness.

The effectiveness is assessed through an annual programme of control audits, activity reviews, exercises and drills agreed between functional and business unit management, the most significant of which are approved by the Audit and Risk Committee. The programme is designed to provide assurance to the Board that Premier is embedding effective risk management across its operations. Significant findings from the most significant audits and reviews are reported to the Audit and Risk Committee. The committee monitors the implementation of recommendations arising.

Of note, during 2018 the company increased its focus on the timely closeout of actions arising from its control audits and activity reviews, ensuring improvement opportunities identified from such audits were promptly embedded.

During 2018, the company also conducted a review of the overall effectiveness of its BMS and identified a number of opportunities to continue to improve its effectiveness that will be addressed from 2019.

The annual cycle of monitoring in Premier culminates in the completion of a Corporate Governance Return. The return is a declaration by the head of each business unit and corporate function that confirms compliance with the BMS and identifies measures to continue to improve the effectiveness of the management systems.

Reasonable assurance

The BMS, the risk management framework and the programme of audits and reviews together form the ongoing process for identifying, evaluating and managing the principal business risks faced by the Company. This process has been in place for the year under review and up to the date of approval of the Annual Report and Financial Statements. It is regularly reviewed by the Audit and Risk Committee and provides 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 against inappropriate use or loss and fraud.

Board responsibility

Overall responsibility for the systems of internal control and risk management and for reviewing the effectiveness of such systems rests with the Board. This includes an annual review to ensure that there is an effective process to identify, assess and reduce the level of any significant risks that may affect the achievement of the Group's business objectives. The Board also periodically reviews the major risks facing the business.

Viability Statement

In accordance with provision C.2.2 of the 2014 revision of the Combined Code, the Directors have assessed the prospects of the Company over a longer period than the 12 months required for the 'Going Concern' statement. In preparing this assessment of viability the Board has considered the principal risks faced by the Group, relevant financial forecasts and sensitivities and the availability of adequate funding.

Assessment period

The Board conducted this review for a period of three years to 31 March 2022, which was selected for the following reasons:

- At least annually, the Board considers the Group's projections (the 'Projections') over a three-year period.
- Within the three-year period, liquid commodity price curves are able to be used in the forecast. Given the lack of forward liquidity in oil and gas markets after this initial three-year period, we are reliant on our own internal estimates of oil and gas prices without reference to liquid forward curves.
- The Group is not currently committed to any major capital expenditure beyond the three-year period.
- Under the Group's revised borrowing facilities which were finalised during 2017, all of the Group's current borrowing facilities are available until May 2021. The Group has assumed it will be able to refinance its facilities before May 2021, within the three-year period.

Review of financial forecasts

The Projections are based on:

- the Group's latest life of field production and expenditure forecasts on an asset by asset basis, together with a variety of portfolio management opportunities which management could undertake if required;
- assumed oil prices of US\$60 in 2019, US\$65/bbl in 2020 and US\$70 for in 2021, (adjusted for the Group's hedging programme); and,
- the financial covenant tests and profile required by the Group's borrowing facilities. The Projections assess the Group's financial projected performance against these revised financial covenants, for which more details are provided in note 15 to the financial statements, on page 144.

Sensitivities are run to reflect different scenarios including, but not limited to, changes in oil and gas production rates, possible reductions in commodity prices and delays or cost overruns on major development projects.

Review of principal risks

The Group's principal risks and uncertainties, set out in detail on pages 38 and 39, have been considered over the period.

Under the Projections, the Group is expected to have sufficient liquidity over the three-year period and is forecasting to be able to operate within the requirements of the financial covenants in its existing borrowing facilities. It has been assumed that the existing covenants would be adopted on the same basis in any future refinanced facilities.

As part of the refinancing completed in 2017, the Group amended its financial covenants. These covenants have progressively tightened during 2018 and for the 12 month period ending 31 March 2019 (and subsequent testing periods) both the net debt/EBITDA and EBITDA/Interest covenants have been reset to 3.0x. The Group has run downside scenarios, where oil and gas prices are reduced by a flat US\$5/bbl throughout the Forecast Period and where total production volumes are forecast to reduce by 10 per cent. In either downside scenario, it is possible that, in the absence of any mitigating actions by management, a modest forecast covenant breach may

arise towards the end of 2020. Potential mitigating actions could include further non-core asset disposals, additional hedging activity, deferral of expenditure or completion of a corporate acquisition.

The Group plans to refinance its existing financing facilities prior to their maturity in May 2021. Once the refinancing is completed, it is entirely possible that the Group's financial covenants will be assessed on a different basis.

The potential impact of each of the Group's other principal risks on the viability of the Group during the Forecast Period, should that risk arise in its unmitigated form, has been assessed. The Board has considered the risk mitigation strategy as set out for each of those risks and believes that the mitigation strategies are sufficient to reduce the impact of each risk such that it would be unlikely to jeopardise the Group's viability during the three-year period.

Conclusion

The Directors' assessment has been made with reference to the Group's current position and prospects, the Group's strategy and availability of funding, the Board's risk appetite and the Group's principal risks and how these are managed, as detailed in the Strategic Report. The Directors have also considered the availability of actions within their control in the event of plausible negative scenarios occurring. Therefore, the Directors confirm that they have a reasonable expectation that the Group will continue to operate and meet its liabilities, as they fall due, for the next three years and refinancing of the Group's existing financing facilities will complete before maturity.

A commitment to responsible behaviour

Premier is committed to behaving responsibly and conducting our business with honesty and integrity in everything we do. In support of this, we are long-standing members of both the FTSE4Good Index and the UN Global Compact.

Our approach to the following key areas of corporate responsibility is explained throughout this chapter:

2

Process Safety LOPC
(Tier 1 & Tier 2 events)

1,026

US\$m
Total Economic Distribution

2.65

Total recordable injury rate (TRIR)
(per million man hours)

2.03

GJ per tonne of production
Energy intensity

164

Tonnes of CO₂e per thousand tonnes of production
Greenhouse gas emission intensity



A PRINCIPLES, FRAMEWORKS AND STANDARDS
→ PAGE 43

B MATERIALITY
→ PAGE 44

C HIGH-LEVEL MATERIAL ISSUES
→ PAGE 46

→ READ MORE IN OUR ONLINE 2018 CORPORATE RESPONSIBILITY REPORT

Third-party assurance

As part of the third-party assurance process undertaken for our 2018 Corporate Responsibility Report, ERM Certification and Verification Services ('CVS') has confirmed:

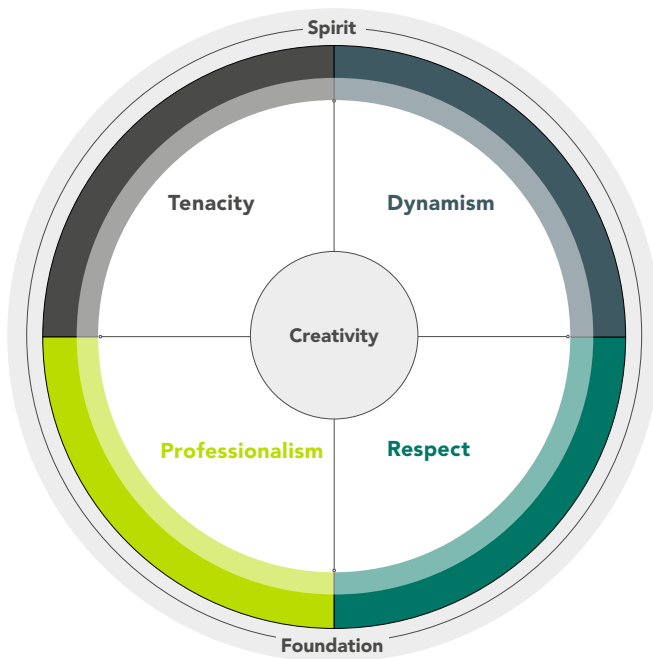
- The integrity of selected indicators used throughout this chapter.
- The alignment of the materiality process described on pages 44 to 45 with the requirements of the Global Reporting Initiative Sustainability Reporting Standards.
- With the exception of Mexico, all our operations have established community engagement and investment programmes.

The ERM CVS assurance statement can be viewed on our website.

A

Principles, frameworks and standards

Our strong track record of responsible behaviour and effective performance is underpinned by our values, Group policies and relevant external principles and standards. These are set out below.



Our values

Our values underpin our behaviours and activities and are reflected in our policies and procedures. They are:

Our approach is guided by our overarching Corporate Responsibility Policy, which, amongst other commitments, requires Premier to act with respect for people, communities and the environment.

We are also guided by the following supporting policies:

- Business Ethics Policy and associated Global Code of Conduct
- Health, Safety, Environment and Security (HSES) Policy
- Community Investment Policy

- Human Rights Policy
- Equal Opportunities and Diversity Policy
- Whistleblowing Policy
- Tax Policy

In addition, our Risk Management Policy and Risk Management Standard help us to avoid and/or mitigate the risks that might otherwise prevent us from achieving our corporate responsibility objectives.

Internal

- Values
www.premier-oil.com Our Values
- Vision and Strategy
www.premier-oil.com Vision, Strategy and Business Model
- Business Ethics Policy and associated Global Code of Conduct
- Corporate Responsibility Policy
- Health, Safety, Environment and Security ('HSES') Policy
- Human Rights Policy
- Community Investment Policy
- Risk Management Policy
- Equal Opportunities and Diversity Policy
- Whistleblowing Policy
www.premier-oil.com Company Policies

External

- United Nations Global Compact (participant)
www.unglobalcompact.org
- International Association of Oil & Gas Producers ('IOGP') (member)
www.iogp.org
- OHSAS 18001 occupational health and safety management system standard (applied to all Premier-operated production assets and our drilling operations)
www.bsigroup.com
- ISO 14001 environmental management system standard (applied to all Premier-operated production assets and our drilling operations)
www.iso.org
- Voluntary Principles on Security and Human Rights
www.voluntaryprinciples.org
- United Nations Guiding Principles on Business and Human Rights
www.ohchr.org
- ISO 31000 risk management system standard (which underpins our approach to risk management)
www.iso.org

B

Materiality

Premier has conducted a materiality assessment to identify and prioritise our most significant corporate responsibility issues. This assessment process, which is outlined below, draws on our existing risk assessment process and stakeholder engagement activity.

Materiality assessment

In line with the Global Reporting Initiative (GRI) Reporting Standards, our corporate responsibility reporting is structured around our most significant corporate responsibility issues. These issues have been prioritised (in conjunction with third-party experts and with input from external stakeholders) on the basis of:

- The potential and actual impact of Premier on stakeholders and their interests; and

- The potential and actual impact of stakeholders on Premier and the achievement of its business objectives.

The steps involved in our materiality process are outlined on page 31.

Material issues

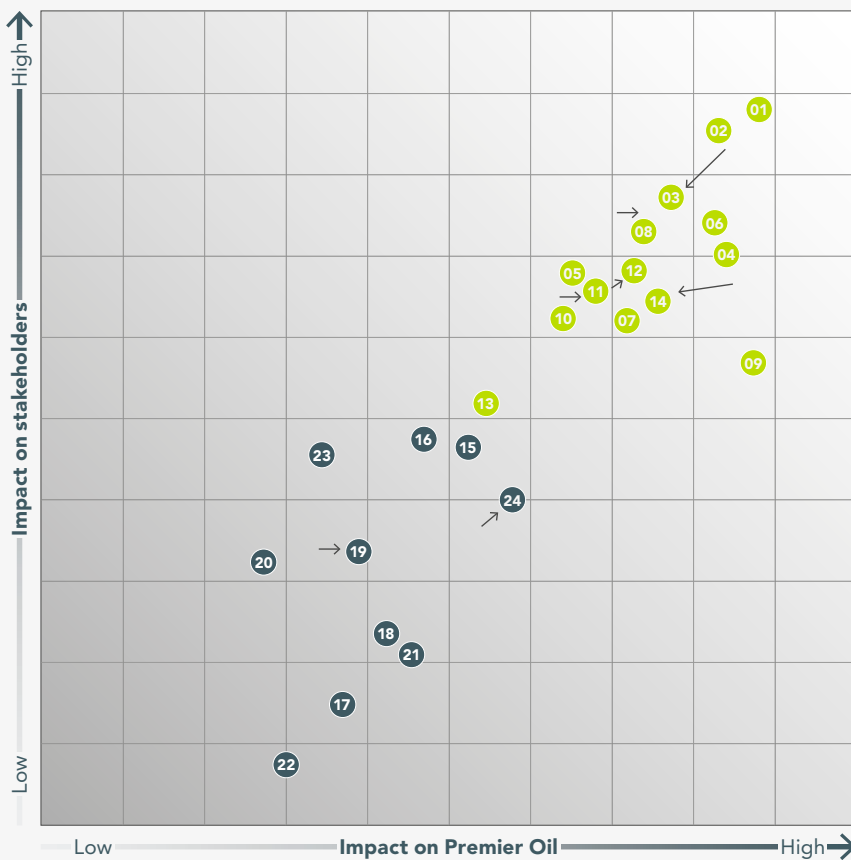
The outcomes of this assessment are displayed on the corporate responsibility materiality matrix. Presentation of an issue as 'non-material' on this matrix does not mean it is not important or that it is not being managed, but only that it is not of

sufficient significance to be addressed in detail in this report or in our online 2018 Corporate Responsibility Report.

The principal changes in material and non-material issues resulting from our 2018 assessment include the following:

- Decreased impact of 'Value generation and distribution' – reflecting Premier's improved debt position which has strengthened our ability to generate and distribute value to our stakeholders.

Corporate responsibility materiality matrix



Material issues

- 01 Asset integrity and process safety
- 02 Emergency preparedness
- 03 Value generation and distribution
- 04 Effluents and waste
- 05 Employee engagement
- 06 Occupational health and safety
- 07 Governance and ethics
- 08 Climate change and GHGs
- 09 Public policy and government relations
- 10 Environment (General)
- 11 Workforce
- 12 Responsible supply chain management¹
- 13 Human rights
- 14 Decommissioning

Non-material issues

- 15 Learning and development
- 16 Biodiversity
- 17 Child/forced labour
- 18 Customer impacts
- 19 Community impacts
- 20 General grievance mechanisms
- 21 Resource use
- 22 Market behaviour
- 23 General grievance mechanisms
- 24 Cyber security

¹Details of Premier's responsible supply chain management efforts can be found on page 46 and pages 54 to 55.



- Decreased impact of 'Decommissioning' – reflecting the postponement of decommissioning activities at our late life assets in the Greater Balmoral Area until 2021 or later.
- Increased impact of 'Responsible supply chain management' – reflecting increased regulatory and civil society focus on this issue, and internal reassessment of its relative significance to Premier's business. In 2018, Premier introduced a new contract segmentation model to strengthen the management of our supply chain risk as well as additional controls to prevent facilitation of tax evasion in our supply chain.
- Increased impact of 'Climate change and GHGs' – reflecting ongoing investor focus on this issue, and increasing prices for emission allowances traded on the European market.
- Increased impact of 'Workforce' – reflecting ongoing regulatory and civil society focus on workforce gender diversity and gender pay gap. In 2018, Premier rolled out diversity and inclusion training for all employees and contractor personnel, and we began monitoring gender diversity performance across our recruitment process.
- Increased impact of 'Cyber security', which remains a non-material issue – reflecting increasingly sophisticated instances of cyber-attack against multinational companies and increasing utilisation of automated production processes across the oil and gas industry.
- Increased impact of 'Community impacts' – reflecting the ramping up of our Sea Lion project in the Falkland Islands, and the work undertaken on our Environmental Impact Statement (EIS) and Social Impact Assessment (SIA) during 2018.

Materiality assessment process

Research

Desk-based review of events, activities and relationships in 2018 likely to affect the 2017 prioritisation of Premier's material issues. These include:

- Premier's activities and relationships
- Operating contexts
- Stakeholders
- External events and trends

Internal review

Engagement with Premier functional managers to identify further adjustments

Initial adjustment

Re-prioritisation of material issues in light of steps 1 and 2

Integration of stakeholder input

Further adjustment of material issues in light of:

- Business unit perceptions of local stakeholder issues
- External feedback from our stakeholder engagement sessions

Finalisation of the 2018 materiality assessment

Update of materiality matrix and its communication to stakeholders



High-level material issues

The following section provides an overview of our most significant (or 'material') corporate responsibility issues. It sets out why these issues are material to Premier, how they are managed, and the outcomes of our management efforts.

Premier has mapped its material issues against the UN Sustainable Development Goals ('SDGs'). SDGs related to our material issues include:



For additional details on this mapping process, see our online 2018 Corporate Responsibility Report.



Governance and business ethics

Why this issue is material

Beyond our efforts to ensure compliance with applicable laws and regulations, we recognise that our success – both now and in the future – is dependent upon maintaining the trust of our stakeholders. These include host governments and societies, current and potential investors, and our business partners. We are therefore committed to upholding and, where feasible, strengthening good governance and ethical standards wherever we do business.

Potential areas of risk in this regard include procurement activities and interactions with government officials.

Premier has recognised business ethics as a key element of the following principal risks: 'financial discipline and governance', 'joint venture partner alignment and supply chain delivery', and 'host government: political and fiscal risks'. More information can be found on pages 38 to 39.

Policies

Our Business Ethics Policy supports our overall Corporate Responsibility Policy. It requires Premier's employees and contractor personnel to behave ethically and with personal integrity. Our approach to business ethics is developed further in our Global Code of Conduct (the 'Code'), which establishes specific standards (including in relation to anti-corruption and preventing the facilitation of tax evasion).

The Code covers:

- Legal compliance
- Anti-bribery
- Facilitation payments
- Gifts and hospitality
- The appointment of intermediaries
- Charitable and political donations
- Whistleblowing
- Prevention of the facilitation of tax evasion
- The proper recording of transactions and the application of relevant accounting and reporting standards.

For details about our corporate governance framework and activities, see pages 56 to 58 and 64 to 71.

How we implement our policies

We require all employees, contractor personnel and those associated with Premier, such as consultants, to adhere to the Code. Business partners, including joint venture partners, contractors and customers, must also apply the principles of the Code – or equivalent standards. This is achieved by the inclusion of business ethics provisions in our contracts.

We aim to train all employees and contractor personnel on the Code within one month of their induction. All employees and contractor personnel are required to undertake additional training on the Code on an annual basis thereafter.

The Audit and Risk Committee monitors the effectiveness of the Code and its supporting policies. To support this, we:

- Undertake an ongoing corporate-wide review process to assess internal compliance with the Code, led by our Legal Function.
- Use our Business Ethics Screening Tool to assess the exposure of Premier's operated and non-operated exploration, development and production operations to external business ethics risks.
- Have established a Company-wide leadership group comprised of business ethics champions from each business unit, which meets at least twice annually to discuss where performance can be further improved.

In addition, all new material contracts are now subject to our Supply Chain Contractor Due Diligence Process, following its pilot testing across our operational business units during the second half of 2017. This involves a two-stage questionnaire-based online business ethics assessment, which identifies potential issues of concern, triggering (where relevant) a bespoke full due diligence process. This enables us to effectively manage identified risks, which may include appropriate mitigations, before contracts are entered into.

Employees, contractor personnel and agency workers who believe that Premier, or anyone working for or on behalf of the Company, has violated the Code are encouraged to report their concerns to their line managers. They can do so on a confidential basis and without fear of recrimination. All reports are properly investigated and the results reported to the Board.

→ **READ MORE** OUR PRINCIPAL RISKS RELATED TO THESE ISSUES CAN BE FOUND ON PAGE 36 TO 41

How corporate responsibility is governed

Our Corporate Responsibility Policy is owned and approved by our Board. Its supporting management systems are owned and implemented by our Executive Committee and relevant Group Functional Managers.

In 2018, the principal topics arising from Premier's activities that have economic, social and environmental impacts on stakeholders, and the Premier managers and executives responsible for overseeing them on a day-to-day basis, were:

- HSES, overseen by the CEO.
- Risk management, overseen by the Group Audit and Risk Manager.
- Human resources, overseen by the Group Human Resources Director.
- Legal and regulatory compliance, ethical behaviour and human rights, overseen by the Group General Counsel.
- Tax, overseen by the Finance Director.

Allegations of malpractice can also be raised via Premier's well-publicised, confidential and independently managed reporting hotline, which is available 24 hours a day.

Employees found to have breached the requirements of the Code will be subject to a disciplinary procedure and, in extreme cases, instant dismissal and referral to the relevant law enforcement authorities. Contractor personnel found to have breached the Code may have their contracts terminated.

Any breach of the Code by our business partners will result in either an agreed corrective action plan and measures to avoid a recurrence, or potential termination (where contractually permissible).



Above: Phil MacLaurin, Vietnam Business Unit Manager

Outcomes

Key indicators – Governance and business ethics

Material issue	Premier Oil metric	2018	2017	2016	Our performance in 2018
Governance and ethics	Significant legal sanctions in relation to business ethics	0	0	0	During 2018, no significant legal sanctions were imposed on Premier.
	Disciplinary actions or dismissals for breaches of the Code	2	0	0	There were four confirmed cases of non-compliance with the Code in 2018, none of which had a material impact on our business. Three of the cases involved failure to report a conflict of interest and one case involved inaccurate reporting, which were not material to the Group. All cases were investigated, which resulted in two Premier employees electing to resign and two other Premier employees receiving disciplinary sanctions.
	New members of our workforce ² receiving induction training on the Code	100%	100%	100%	All new members of our workforce received induction training, which addresses all aspects of the Code, including anti-bribery.
	Existing members of our workforce ^{2,3} assigned refresher training on the Code / completed training ³	100%/ 99%	100%/ 95%	68%/ 94%	As of March 2019, 99% of our workforce had completed the training assigned to them in 2018. We will closely monitor completion of this training throughout 2019.

² 'Workforce' includes both employees and contractor personnel.

³ As of 1 March 2019.

Health, safety and security

Why this issue is material

Given the potential hazards involved in offshore oil and gas operations, it is essential that we continuously apply rigorous health, safety and security practices. Not only does this help to avoid negative impacts upon the health, wellbeing and security of our employees, contractors and joint venture partners, it also supports the maintenance of our:

- Operational continuity;
- Regulatory compliance; and
- Corporate reputation.

Our most significant health, safety and security issues are:

- Occupational health and safety;
- Process safety and asset integrity;
- Emergency preparedness; and
- Employee and asset security.

Premier has identified 'health, safety, environment and security' as a principal risk. More information can be found on page 39.

Policy

Our Health, Safety, Environment and Security (HSES) Policy sets out the Company's overarching commitments to:

- Never knowingly compromise our HSES standards;
- Do all that is reasonably practicable to reduce HSES risks; and
- Ensure the safety and security of everyone affected by our operations.

How we implement our policy

Occupational health and safety

Our HSES Policy is implemented through our HSES Management System. The management system is comprised of a comprehensive set of standards and procedures, which form part of Premier's BMS.

We apply the management system across our global operational activities and use it to define how HSES issues should be managed throughout the lifecycles of our projects. The management system is externally certified to the OHSAS 18001 health and safety management system standard for our production facilities and drilling operations. We also aim to achieve Group-wide alignment of our management system to the ISO 45001 and ISO 14001 standards by 2020, as set out in our new three-year Group HSES Strategy.

To drive continual improvement, our HSES Management System is regularly reviewed and updated in line with our operational requirements and the findings from our major accident risk assessments and internal audits. This enables us to establish the necessary control measures to reduce risk exposure to a level that is 'as low as reasonably practicable' (ALARP). In addition, our workforce health surveillance programme helps us to identify potential early indications of work-related health issues and the follow-up actions required to diagnose, treat or prevent their progression.

We monitor our HSES performance closely and report this information on an ongoing basis to the Executive Committee and to the Board.

Process safety and asset integrity

Our HSES Management System defines Premier's objectives and minimum requirements for process safety and asset integrity in all operations. In addition, it sets out the responsibilities, verification and validation required to provide assurance that these have been met.

A system of Process Safety and Asset Integrity Performance Reporting is applied at all of our operated assets. Each business unit tracks a suite of leading and lagging process safety and asset integrity key performance indicators (KPIs) to drive continuous improvement. This includes a self-assessment of the status of six critical 'barriers': plant integrity, plant maintenance, plant control, people, procedures and recovery (i.e. emergency response) – each of which have a role in the management of major accident hazards. Assessment scores are reported monthly to the Board, and provide assurance that the barriers are suitable to manage the hazard risks.

Emergency preparedness

Premier's HSES Management System minimises the risk of catastrophic safety incidents and other major events occurring at our facilities. The complex nature of our assets, their offshore location and the combustibility of hydrocarbons and other materials used on our facilities means that we go to significant lengths to prevent the occurrence of major accidents.

All our business units and operated facilities have emergency response plans, which are regularly reviewed. We also conduct regular offshore drills for all personnel, as well as periodic integrated emergency exercises involving our onshore and offshore emergency response teams.

Workforce and asset security⁴

Premier undertakes security assessments for our employees and assets, which assess the latent risks posed by their location, as well as recent incidents. We apply a formal travel risk management process when any employee travels abroad. As such, visitors to these locations are supported by in-depth travel risk assessments and guidance, as well as enhanced physical security and evacuation precautions where appropriate.

Environment

Why this issue is material

All of Premier's operated activities are conducted offshore. We drill for and extract both oil and gas from sub-surface reservoirs (in cooperation with our operational contractors) for transport to markets (by pipeline and/or third-party shipping partners). Without effective management, these activities have the potential to negatively impact water quality, air quality and local ecosystems. Any failure to avoid and/or mitigate these impacts would have material reputational and regulatory consequences for our business.

Our most significant environmental issues relate to:

- Greenhouse gas (GHG) emissions associated with energy consumption and flaring at our facilities; and
- Effluents and waste, including the prevention of spills and the responsible management of hazardous materials.

Premier has identified 'health, safety, environment and security' and (with regards to climate change regulation) 'host government: political and fiscal risks' and 'commodity price volatility' as principal risks. More information can be found on page 39.

164

tonnes CO₂e per thousand tonnes of production

Greenhouse gas emission intensity

⁴ No significant security incidents directly affected our personnel in 2018

Outcomes

Key indicators – Health and safety

Material issue	Premier Oil metric	2018	2017	2016	Our performance in 2018
Occupational health and safety	Fatalities*	0	0	0	The increase in TRIR in 2018 was largely due to a rise in injuries caused by 'slips, trips and falls', attributed to a combination of personal and job factors. We report and investigate all incidents and near misses in accordance with our Group HSES Management System. In 2018, we identified nine HiPo events; seven relating to production activities; one relating to construction activities and one relating to drilling activities. Once we have established the cause of each HiPo, we issues HSES alerts to all relevant personnel and appropriate external stakeholders. The increase in man hours in 2018 was largely due to the subsea structure fabrication work that was required for the development of the Bison, Iguana and Gajah-Puteri (BIG-P) gas field in Indonesia.
	Lost work day cases ('LWDC')*	9	3	6	
	Restricted work day cases ('RWDC')*	1	0	1	
	Medical treatment cases ('MTC')*	7	6	6	
	Total recordable injury rate ('TRIR') ^{5*}	2.65	1.47	1.95	
	High Potential Incidents (HiPo)	9	4	8	
	High potential Incident Rate (HiPoR) ^{6*}	1.40	0.65	1.20	
Man-hours worked (million)	6.4	6.1	6.7		
Process safety and asset integrity	Process safety events (IOGP Tier 1)*	0	0	0	No Tier 1 process safety events occurred in 2018.
	Process safety events (IOGP Tier 2)*	2	1	0	The two process safety events involved a gas release at the Catcher FPSO vessel in the UK and a crude oil spill at the Anoa FPSO vessel in Indonesia. No workforce injuries occurred as a result of these two events.
HSES Management	HSES Audit Actions Close Out Rate	92%	–	–	We initiated the reporting on HSES Audit Action Close Out Rate in 2018 and exceeded our target of 90%.
	HSES Leadership Site Visits	35	18	13	We conduct routine leadership site visits across our business units to promote visibility and effective HSES conversations at site level.

*Data for 2018 assured by ERM CVS.

⁵ Per million man hours.

⁶ Per million man hours.

Policy

As set out in our HSES Policy <http://www.premier-oil.com/sites/default/files/files/hses-policy-poster-2018-final.pdf>, we are committed to minimising our environmental impacts and will never knowingly compromise our environmental standards to meet our operational objectives.

Furthermore, while not a formal policy, our Carbon Strategy describes Premier's approach to managing carbon emissions and the risks and opportunities associated with climate change. Amongst other things, the strategy describes Premier's commitment to managing these risks in an effective and responsible manner. In 2018, we initiated the review of our Carbon Strategy. More information can be found on page 50.

How we implement our policy

Our HSES Management System helps us manage our environmental impacts across the lifecycles of our operations and projects. All of our operated production and drilling activities are certified to the ISO 14001 environmental management standard.

As required by our HSES Management System, we perform baseline surveys and prepare environmental and social impact assessments (ESIAs) for all of our operated activities⁷.

The assessments address our:

- Physical impacts;
- Ecosystem impacts; and
- Socio-economic impacts.

During this systematic process, we assess the impacts of our proposed activities, and consider how each can be reduced to a level that aligns with the ALARP principle. Potential impact controls are then considered and implemented according to their efficacy, practicality and cost.

Our business units record key environmental metrics on an ongoing basis. These metrics are analysed on a monthly basis and relevant performance indicators are reported to the Board. We distribute an HSES scorecard to all personnel to keep them informed of Company HSES performance.

In line with our HSES Management System requirements, we also undertake ongoing monitoring to assess the environmental impact of our activities throughout the lifecycle of our projects.

Climate change and greenhouse gas emissions

Our approach to managing our GHG emissions involves:

- The efficient operation of our existing equipment and infrastructure. This includes minimising flaring and venting, where possible;
- The reduction of fugitive gas emissions through, for example, leak detection and repair (LDAR) programmes;
- The installation of best available technology into all new projects to minimise their carbon intensity; and
- The application of carbon-pricing throughout the lifecycles of all new and existing projects in the UK.

⁷ Our social and/or environmental impact assessments typically involve significant stakeholder engagement. For example, in 2018 Premier submitted the Environmental Impact Statement (EIS) for our Sea Lion project to the Falkland Islands Government (FIG). This was subject to a 42-day public consultation starting in January 2018. It was completed in consultation with local authorities, conservation groups (local and international), special interest groups and the general public, amongst others. The EIS received approval in November 2018 and Premier Oil is in the process of updating it to address the comments received.

Outcomes

Key indicators – Environment⁸

Material issue	Premier Oil metric	2018	2017	2016	Our performance in 2018
Climate change and GHGs	Total Scope 1 GHG emissions (thousand te) ^{9*}	1,193	946	846	In 2018, we initiated the review of our Carbon Strategy to align it with the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD) and with emerging climate change policies across our locations of operation. Once finalised, the strategy will also be re-positioned as Premier's 'Climate Change Strategy' to support the holistic management of greenhouse gas emissions across our business.
	Total Scope 2 GHG emissions (te) ^{10*}	605	877	964	
	GHG intensity (tonnes/1000 te of production) [*]	164	183	186 ¹¹	
	Energy consumption (GJ/te of production)	2.03	2.3	2.2	
Effluents and waste	Unplanned hydrocarbon released to the sea (te) [*]	0.4	1.9	2.2	In 2018, 0.4 tonnes of hydrocarbons were released over 15 spill events. The largest hydrocarbon spill, involving the release of 90 kg of marine gas oil, occurred at the Catcher FPSO.
	Hydrocarbon in produced water (ppm-wt) [*]	12.2	10.6	9.1	The increase in 2018 represented an increase in produced water content from our maturing assets across our operated portfolio and the commencement of routine produced water discharges at our Solan facility in the UK.
	Waste materials produced (te) [*]	5,982	5,810	8,176	This included 5,043 tonnes of hazardous waste and 939 tonnes of non-hazardous waste.
	Spending on environmental protection measures (US\$m)	7.1	7.1	8.4	This included US\$1.7m on waste disposal, emissions treatment and remediation and US\$5.4m on prevention and environmental management.

*Data for 2018 assured by ERM CVS.

⁸ Our environmental performance reporting is aligned with IPIECA reporting guidance and the GRI Sustainability Reporting Standards.

⁹ Calculation for Scope 1 emissions (in thousand tonnes) are based on equations and emission factors provided in the 2009 API GHG Compendium. Global warming potential rates are taken from the IPCC (2013) Assessment Report as well as IOGP guidance.

¹⁰ Calculation for Scope 2 emissions are based on emission factors supplied by the UK Department of Energy and Climate Change (now the Department for Business, Energy and Industrial Strategy) (2015) and International Energy Agency (2012) guidance. A different factor is used for each country, and is applied to the total energy consumption in our onshore facilities (offices and warehouses). Emission factors are used to give an estimate of CO₂ equivalent.

¹¹ Greenhouse gas emissions from our Solan asset were not included in our reported GHG intensity figure for 2016.

We also:

- Conduct environmental ALARP studies during the design phase of all new projects;
- Set specific, measurable, attainable, relevant and time-bound (SMART) annual GHG intensity targets to drive operational efficiency at our operated production assets; and
- Aspire (through target setting and the measures explained above) to achieve a carbon intensity for steady-state operated production that is in line with the overall industry intensity figure published by the International Association of Oil & Gas Producers (IOGP).

Where possible, we also seek to reduce our indirect emissions, for example, through the reduction of unnecessary air travel by using video-conferencing.

We integrate carbon- and climate change-related risks into our overall enterprise risk management framework, where relevant. We recognise the potential physical risks that climate change poses to our operations.

These might include heightened storm risks and long-term sea level rises.

As part of our management of these risks, we undertake detailed meteorological and oceanographic impact assessments for all new projects during the design phase. These incorporate projections of rising sea levels and more frequent unpredictable weather events.

We also monitor the multiple corporate-level risks that climate change poses to the Company. Most notably, this includes the evolving fiscal and legislative response to climate change in our host countries. The 2015 Paris Agreement reflects the commitment of the international community in this respect. Premier will continue to monitor the developing policy environment and to adapt our future carbon emissions strategy accordingly.

For more information about how related physical risks are managed, please see page 48 ('Health, safety and security'), and, for related regulatory risks, please see pages 38 to 39 ('Host government: political and fiscal risks' and 'commodity price volatility')¹².

Effluents and waste

All Premier's operated offshore assets extract oil, gas and formation water from offshore reservoirs. Each of these elements is separated using our on-site processing plant. The water is then either re-injected into the reservoir to maintain underground pressure or it is cleaned, filtered and then discharged into the sea. All planned discharges are cleaned to meet or exceed national standards, using conventional separation techniques. Our offshore production operations, which discharge water to the sea, are not located in any protected areas.

We collect hazardous and non-hazardous waste materials from our global drilling and production operations. These materials are disposed of onshore. They include drill cuttings, used oil and scrap metal, wood, plastic and other materials. We segregate and recycle as much non-hazardous waste as possible and encourage the use of recycled input materials, where feasible.

¹² During 2018, no post-control physical impacts associated with climate change affected our operations. Furthermore, no negative impacts upon our business associated with climate change regulation were experienced.

1.40

Incidents per million man hours
High Potential Incident Rate (HiPoR)



Employees

Why this issue is material

Our current and future success is underpinned by our ability to recruit, retain and motivate high quality, skilled employees and contracted employees. Any failure in this regard has the potential to undermine our operational capabilities, management effectiveness and, ultimately, our profitability. In this context, we seek to treat our people fairly, listen and respond to their views, offer meaningful professional development and deliver rewards commensurate with employee performance.

Key issues in this regard include:

- Workforce profile; and
- Employee engagement.

Premier has identified employee attraction, retention and succession as principal risks under the principal risk 'organisational capability'. See page 39 for more information.

Policies

Our overall management of human resource issues is guided by our Corporate Responsibility Policy, Human Rights Policy, Business Ethics Policy and our Equal Opportunities and Diversity Policy.

How we implement our policies

Our day-to-day management of human resource matters is supported by our Human Resources Management System, which includes guidance relating to:

- Performance;
- Resourcing;
- Reward; and
- Competency management¹³.

This guidance is hosted on the People Portal – Premier's online human resources information system – and our BMS. The BMS helps us achieve an appropriate balance between consistent corporate-level policy expectations and flexible, local-level requirements across the Group¹⁴.

We continuously monitor and analyse human resources data across the Group to help ensure that we uphold our policy commitments. This includes data relating to our workforce profile and turnover rate, as well as a variety of feedback that we receive through our employee engagement activities. In 2018, we also began monitoring gender diversity metrics at each stage of the recruitment process for employee and contractor personnel vacancies.

Workforce profile

We prioritise the employment of suitably qualified nationals whenever possible, and support this aim by investing in their skills, knowledge and experience. This helps ensure the nationals we employ can access opportunities across our organisation, while also supporting the success of our business.

We treat people fairly, equally and without prejudice, irrespective of gender, race, age, disability, sexual orientation or any other discriminatory attributes. This is reflected in our Equal Opportunities and Diversity Policy which applies to all permanent and temporary staff, contractors and job applicants. Employee obligations in this respect are set out in our Employee Handbook which prohibits discrimination (whether direct or indirect), harassment and victimisation.

We have also sought to protect jobs across the Company during challenging economic conditions. These efforts have included:

- A continued focus on sustainable cost reduction efforts within our supply chain, including contractors;
- Transfer of staff to new roles where possible, in order to avoid redundancy; and
- Seeking to retain high-performing employees through our appraisal and reward framework.

Employee engagement

Premier encourages open communication between employees and managers on an ongoing basis. We keep employees informed about wider Company issues¹⁵ via a number of communication mechanisms, including:

- Regular team meetings;
- The Company intranet;
- Messages from our Chief Executive;
- Ongoing email communications;
- Town Hall staff meetings at each business unit, attended by visiting members of the Executive Committee and senior management; and
- The release of the Company's half-year and annual operational and financial results, as well as trading and operations updates.

We conduct structured employee surveys at Group and business unit level. The results of these surveys help us to understand and respond effectively to employee attitudes towards commitment, rewards, retention, working conditions and related issues¹⁶.

¹³ We encourage all staff to develop their professional skills, to the benefit of both the individual and the Company. We are committed to supporting our staff in this regard, through the provision of experiential learning opportunities, coaching and training. We do not currently employ any disabled people. Our commitment to supporting staff with the development of their professional skills will fully apply to those disabled staff members that we employ in the future. We will also strive to provide continued employment for members of our workforce who become disabled whilst employed by us.

¹⁴ Premier complies with all local labour laws, including those related to working hours and overtime.

¹⁵ Where relevant, this includes information about economic and financial factors affecting the Company's performance.

¹⁶ We also gather feedback through, for example, regular performance reviews; our formal non-recriminatory human resources grievances procedure (should employees feel uncomfortable raising issues through normal management channels); and our confidential, independently managed whistleblower hotline.

Outcomes

Key indicators – Employees

Material issue	Premier Oil metric	2018	2017	2016	Our performance in 2018
Workforce profile	Number of employees at end of year/turnover during the year	767¹⁷/43	783/51	799/164 ¹⁸	The size of our workforce was predominantly stable in 2018, reflecting our continued efforts to protect jobs where possible, our low turnover rate and our focus on recruiting only for roles of high importance.
	Gender balance of total employee workforce at end of year (male/female)	577/190	595/188	604/195	Female participation rates in our total employee workforce, senior management and Board of Directors stood at 25%, 11% and 22% per cent respectively in 2018. We recognise that women are typically under-represented in the oil and gas sector. Accordingly, we aim to ensure that our own management systems, practices and working culture do not discourage or restrict female access to – and success within – our workforce. In 2018, we implemented several initiatives to support diversity and inclusion across the Company, with a particular focus on enhancing gender diversity.
	Gender balance at senior management level ^{19,20} (male/female)	102/13	99/12	99/13	
	Gender balance at Board level (male/female)	7/2	7/2	7/2	
Employee engagement	Number of employee surveys	2	2	1	We conducted two employee surveys in 2018. One was our second Group-wide engagement survey, which developed our understanding of satisfaction and engagement levels across the workforce. The other was an independent organisational review based on engagement with over 100 senior managers across the Group.
	Percentage of employees receiving performance reviews	99	98	99	In 2018, 99% of employees received performance reviews against their Individual Performance Contracts (IPCs), and were assigned performance ratings by their managers. This rating was used to guide salary adjustments and bonus recommendations.

*Data for 2018 assured by ERM CVS

¹⁷ This represents the actual employee count on 31 December 2018, which is different to the number reported on page 28 (783), where an average approach method was used.

¹⁸ 114 of the employees that left the Company in 2016 had joined Premier as a result of our acquisition of E.ON's UK North Sea assets in April 2016.

¹⁹ Senior management is defined as Grade 5 and above.

²⁰ Some members of our Board are also part of senior management and are therefore not included in these figures. This applied to three Board members in 2017 and 2016.



We respect the right of all employees to join a legitimate trade union and bargain collectively. We support organised labour through, amongst other things, carrying out official collective consultations in Indonesia, Vietnam and the UK.

We have collective bargaining agreements in place in our Indonesia and Vietnam business units. Collectively, these agreements cover 64 per cent of Premier's total employee workforce.

At our UK and Falkland Islands business units, as well as our corporate office, we undertake collective consultations with employee representatives only if 20 or more UK-based employees are made redundant within a 90-day period.

Typically, Premier will provide employees and, where relevant, their elected representatives with at least one month's notice of any significant operational changes that might affect them.

Outcomes

Key indicators – Community relations

Material issue	Premier Oil metric	2018			2017			2016			Our in performance in 2018
		2018	2017	2016	2018	2017	2016	2018	2017	2016	
Value generation and distribution	Community investment spend (US\$m)	0.74	0.74	0.69	With the exception of Mexico, all our operations have established community engagement and investment programmes.						

Community relations

Why this issue is relevant

As an offshore operator, we have relatively limited direct interaction with local communities compared to most companies with onshore operations. Nonetheless, our relations with communities are very important, due to:

- The potential and actual impacts of our activities (and those of our partners) on local fishing communities;
- The role of certain onshore communities as transit and logistics points for our offshore operations;
- The positive impact our community investment has on local communities, as well as on our reputation and social licence to operate;
- The potential and actual impacts of the non-operated, onshore production assets in Pakistan, in which we had interests during 2018; and
- The potential for new onshore operations in the future.

We are careful to minimise our negative impacts on local communities, if they do occur²¹.

Policy

Premier's Community Investment Policy governs our approach to interacting with local communities. Amongst other commitments, it requires Premier to:

- Invest in well-planned social projects that support the development priorities of host communities and governments;
- Work to achieve a net positive socio-economic impact on local communities; and
- Treat our 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.

How we implement our policy

We implement our policy through our Community Investment Management System, which is aligned with IPIECA standards. This helps us to systematically identify, manage, evaluate and budget our engagements in host countries. It focuses on the following key aspects:

- Policy governance;
- Risk evaluation management;
- Planning;
- Implementation and monitoring; and
- Audit and review.

All of our operations have established community engagement and investment programmes.

Furthermore, our HSES Policy requires us to prepare ESIA's for each of our operated activities. As part of this process, we engage with local communities, where relevant. None of our operations have been identified as having any material negative impacts on local communities, again reflecting their remote, offshore locations.

We also invest in community projects to help deliver sustainable social, economic and environmental benefits for local communities and their host governments. For details on these projects see **Premier 2018 Corporate Responsibility Report**.

Society

Why this issue is material

Our activities can potentially affect national- and local-level stakeholders. In turn, these stakeholders can potentially affect the achievement of our business objectives in our countries of operation. As such, we strive to avoid and/or minimise our potential negative impacts and to maximise our positive impacts across a range of issues. These include the rights of local people, interactions with governments and other stakeholders, the delivery of economic contributions to broader society and decommissioning activities.

Key issues in this regard are:

- Human rights;
- Public policy and government relations;
- Value generation and distribution – specifically our economic contributions; and
- Decommissioning.

Premier has identified 'host government: political and fiscal risks' as a principal risk. More information can be found on page 39.

Policies

Premier's interactions with stakeholders across society are governed by several policies. Most notably, this includes our overarching Corporate Responsibility Policy, Human Rights Policy, Risk Management Policy, Tax Policy, Business Ethics Policy and the Code (page 46). We implement these policies through our associated management systems.

Amongst other commitments, our policies require us to:

- Engage with stakeholders in our efforts to respect and promote the fundamental rights set out in the Universal Declaration of Human Rights²²;
- Act transparently with all stakeholders in full respect of the rule of law;
- Contribute to the development goals of host countries;
- Support the socio-economic sustainability and wellbeing of communities through local procurement and other engagement with local business; and
- Not seek to engage in artificial tax avoidance arrangements.

²¹ No material impacts of this nature took place in 2018. Where relevant, Premier is committed to providing fair and adequate compensation for any losses for which we are liable. This commitment is implemented through our management systems.

²² Our Human Rights Policy is guided by those rights enshrined in the core labour conventions of the International Labour Organization and by the United Nations Global Compact.



How we implement our policies

Human rights

Premier's Human Rights Policy is based on international human rights norms. It is implemented through our Human Rights Management System, which sets out how to:

- Embed human rights²³;
- Conduct risk assessments;
- Develop action plans;
- Carry out implementation and monitoring; and
- Audit and review compliance and performance.

We use our Human Rights Risk Screening Tool to screen our own operations, our non-operated joint venture partners and countries identified for possible exploration or joint venture activities for high-level human rights and labour rights risks. Risk issues assessed include child labour, forced and involuntary labour, and the protection of indigenous peoples' rights. This enables us to prioritise current and future assets for targeted management.

Where appropriate, we carry out third-party due diligence investigations and ad hoc risk assessments for new partnerships and operating locations (which include consideration of human rights issues, if relevant).

Premier's human rights grievance procedure, which we launched in 2017, enables us to better identify and address actual or potential human rights impacts, whether they are directly or indirectly associated with our activities.

We do not typically employ or contract security personnel, although landlords at Premier's office locations do provide their own security personnel. Accordingly, we do not typically conduct human rights training for internal or external security personnel. Where we require additional security support outside of our office locations, our providers are required to apply human rights standards that are aligned with our Human Rights Policy.

We also seek to monitor the human rights performance of our business partners, including our non-operated joint venture partners and contractors, in line with the requirements of the UN Guiding Principles on Business and Human Rights.

All new contractors undergo an initial risk-based HSES assessment via prequalification, bidding and/or negotiation. Any that we consider to be 'high risk' are subjected to more detailed HSES screening. We also carry out performance reviews of some of our most significant contracts following their award, which includes assessment of the HSES performance of the contractor. Furthermore, all material new contracts are assessed for human rights and labour rights risks using our Supply Chain Contractor Due Diligence Process.

Finally, all major commitments include relevant HSES, human rights and prevention of forced/involuntary labour and human trafficking obligations. Premier also maintains a presence at major construction and fabrication yards undertaking work for the Company. This helps us to ensure their adherence to relevant human rights, labour rights and HSES obligations within their contracts.

Public policy and government relations

Each of our business units engages directly with their host governments and regulators. Furthermore, our Exploration team has significant interaction with government entities in the process of acquiring acreage, including the preparation of bids in licensing rounds or through direct negotiations. All engagement is carried out in line with Premier's applicable policies, including our Corporate Responsibility Policy, Human Rights Policy, Business Ethics Policy and the Code.

Employees, contractor personnel or agency workers who believe Premier may have failed to engage with host governments and regulators in the manner required by the Code (and other applicable policies) can report concerns to their line manager or via our confidential, independently managed reporting hotline. Government officials can also raise concerns with Premier directly. All reports are properly investigated and the results reported to the Board.

Premier is a member of a number of bodies that use their legitimate influence to lobby governments on issues affecting the oil and gas sector. These include, for example:

- Association of British Independent Oil Exploration Companies (BRINDEX);
- Falkland Islands Petroleum Licensees Association (FIPLA); and
- Indonesian Petroleum Association (IPA).

²³ Including the core labour conventions of the International Labour Organization.

Outcomes

Key indicators – Society²⁴

Material issue	Premier Oil metric	2018	2017	2016	Our performance in 2018
Human rights	Identified violations of our Human Rights Policy (by Premier and its employees)	0	0	0	No violations were identified in 2018. This reflects our ongoing human rights due diligence efforts, as well as the offshore and relatively remote nature of our operated activities.
	Significant negative human rights or labour rights impacts identified in our supply chain	0	0	0	No significant negative human rights or labour rights impacts were identified in our supply chain during 2018. All new material contracts are now subject to our Supply Chain Contractor Due Diligence Process.
Public policy and government relations	Value of political donations and contributions (US\$)	0	0	0	We made no political donations or contributions in 2018. All of our interactions with host governments and regulators were conducted in line with our Business Ethics Policy and the Code.
Value generation and distribution	Economic value distributed (US\$m) ²⁵	1,026 ²⁶	923	825	Throughout 2018 we continued to generate significant levels of economic value, much of which was distributed to stakeholders throughout our host societies.

Value generation and distribution

We believe that we can most effectively generate longer-term value for our shareholders by operating in a way that delivers lasting benefits to all our other stakeholders. Much of the value we create is distributed throughout our host societies, and directly supports long-term socio-economic development.

In this context (and in line with relevant local content requirements), Premier seeks to:

- Employ nationals where they are appropriately qualified; and
- Use contractors based in our host countries, where they can meet our HSES, operational and economic requirements.

To help nationals and host country contractors access these opportunities, we support local capacity building where economically feasible.

We are committed to prompt disclosure and transparency in all tax matters and have met all applicable statutory requirements in this respect. This includes the disclosures and submissions that we make to comply with the requirements of the European Union Accounting Directive (EUAD), the Extractives Industries Transparency Initiative (EITI) and Country-by-Country Reporting (CBCR).

Premier's Tax Policy is implemented by its internal Tax Management Standard, which defines the framework for the management of tax.

The standard establishes the minimum performance requirements that are applied throughout the Group, including actively monitoring tax legislation in all operating environments to ensure compliance with tax law and compliance with Premier's Tax Policy.

Decommissioning

At present, only one of Premier's operated production fields (Caledonia Field) has been declared inactive²⁵. However, within these assets we have 17 open-water subsea wells that have been declared inactive and will be plugged and abandoned in a safe and efficient manner, integrated ideally with other Decommissioning Programmes. We are in the process of developing full Decommissioning Programmes for the Greater Balmoral Area, Caledonia, Huntington and Hunter and Rita fields, some of which were submitted for public consultation and regulatory approval during the course of the year.

However, in 2018, Premier postponed production cessation and closure activities for the Greater Balmoral Area to 2021 or later, in agreement with the Oil and Gas Authority. This was driven by a re-evaluation of the asset's performance in the context of stronger oil market conditions.

We have developed a clear strategy to decommission our operated assets in a continuous, sequential fashion, incorporating learnings and progressive improvements as we move through the decommissioning portfolio. We have put in place an experienced in-house team who are committed to undertaking decommissioning activity in a safe and efficient manner. Our activities in this respect are guided by our HSES Policy and standards.

We are incorporating innovative technological and proven engineering solutions into the decommissioning preparation work we are undertaking at our Balmoral asset, to help minimise HSE risks and increase cost-efficiencies. We are also proactively collaborating with regulatory authorities, joint venture partners and operators in the region to share knowledge, contribute to joint research initiatives and rationalise and coordinate decommissioning programmes where possible.

The Strategic Report, which has been prepared in accordance with the requirements of the Companies Act 2006, has been approved and signed on behalf of the Board.

Tony Durrant
Chief Executive Officer
6 March 2019

²⁴ i.e. operating costs, royalties, staff costs, dividends, finance costs, corporate income tax payments and community investments.

²⁵ In 2018, Premier paid US\$129m in the form of corporate income tax payments to our host governments. We did not engage in artificial tax avoidance arrangements and met all statutory and transparency requirements with respect to tax matters.

²⁶ We define 'inactive sites' as production fields that are no longer producing, but have not yet been decommissioned, as well as subsea infrastructure that is no longer economically viable for production (this includes: subsea wells, templates, manifolds and flow lines, and umbilicals that have been flushed of hydrocarbon and other chemicals disconnected from production assets, prior to decommissioning).

Successfully delivering our strategy

Premier has established a clear vision and core values that complement and support the Board's strategy. These values are at the heart of all Premier's activities, and good corporate governance provides a sound framework for embedding them throughout the organisation.



Roy A Franklin
Chairman

Our governance framework

Compliance overview

Leadership

The Company is led by a Board with significant collective experience across the oil and gas industry. Non-Executive Board members challenge the Executives on all aspects of the Company's business to ensure high quality decisions are taken at the right time and in the best interests of our stakeholders.

The roles of Chairman and Chief Executive Officer remain separate, with a clear division of responsibilities between them.

→ PAGE 60

Effectiveness

The Board has a diverse range of skills, knowledge and experience and includes two female Directors (22 per cent of the total). The ongoing process of succession planning, overseen by the Nomination Committee, aims to ensure that the Board continues to be properly balanced, with the necessary skills, knowledge and experience to successfully deliver the Company's strategy. The Board comprises a majority of Non-Executive Directors, all of whom are independent.

An externally-facilitated Board evaluation was undertaken during 2018 to review Board and Committee performance in a structured manner and provide recommendations for improvement.

→ PAGE 68

Accountability

The Board monitors risks and controls on an ongoing basis and conducts annual assessments of the effectiveness of its systems of risk management and internal control. The Board has also taken steps during 2018 to ensure that the Company's risk management procedures enable effective identification and management of emerging risks.

→ PAGE 36

Shareholder engagement

Regular dialogue takes place with institutional investors, retail investors and analysts at meetings, presentations and conferences.

→ PAGE 70

Remuneration

Our Remuneration Policy is designed to ensure alignment with our immediate and long-term strategic objectives. Details of how the Policy has been implemented during the year are included in the Directors' Remuneration Report.

→ PAGE 79

Dear shareholder,

I am pleased to report that your Company delivered good operational and financial performance during the year, which resulted in improvements to its capital structure and balance sheet, and positioned it for the next phase of development.

Having completed my first full year as Chairman, I have been impressed by the level of hard work and dedication shown by the Group's management and employees and I firmly believe that we are well placed to tackle the immediate challenges whilst being in a position to create value for all of our stakeholders over the medium and longer-term.

Our governance framework

Premier has established a clear vision and core values that complement and support the Board's strategy. These values are at the heart of all Premier's activities and good corporate governance provides a sound framework for embedding them throughout the organisation.

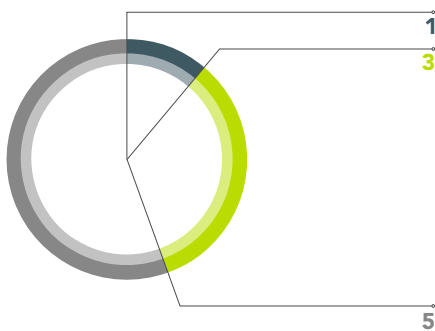
Our governance framework not only ensures that the right decisions are taken at the right time; it supports and informs all that we do. This report describes that framework and will help you to understand how the Company has been run, risks are managed, controls are monitored, and key decisions taken during the year.



Board composition

number of Directors as at 6 March 2019

- Chairman
- Executive Directors
- Non-Executive Directors



Board focus during 2018

Following the successful refinancing of the Group's credit facilities in 2017, one of the Board's primary areas of focus has been debt reduction and ensuring ongoing compliance with our banking covenants. With a portfolio of assets currently producing in excess of 75 kboepd Premier is generating significant free cash flow, which has accelerated debt repayment and will give the Company increasing flexibility to invest in growth projects.

Achieving the contractual maximum production rates at Catcher during 2018 was a significant milestone for the Company and I would like to pay tribute to all those involved in the successful completion of this project. After the end of the reporting period, we were very pleased to negotiate an increase to the maximum rate which has allowed us to increase production above nameplate capacity. We now look forward to capturing further upside opportunities in the Catcher area thereby extending the production profile and growing the reserve base.

Elsewhere in the UK, the Board sanctioned the development of the Tolmount Main gas field which will extend the Company's medium-term production profile via a high-return, capital efficient project. We look forward to working with all of our partners and stakeholders to deliver this project on time and on budget.

With Premier well positioned for future growth and with a number of new Non-Executives having joined the Board in 2017, including myself, your Board took the decision during the year to commission an externally facilitated 'health-check' of the business to get an objective view on the Company's governance, organisation, processes and culture, with the overall objective of preparing the Company for its next stage of growth. In June, the Boston Consulting Group ('BCG') were appointed to carry out this review, further details of which can be found in the Nomination Committee Report on page 78.

2018 UK Corporate Governance Code

In July, the Financial Reporting Council published the new Corporate Governance Code. Over the latter part of the year, the Board carefully considered the key areas of focus in the Code, in particular the issues of workforce and stakeholder engagement, culture, succession, diversity and remuneration. Various actions have been taken by the Board to ensure that the Company applies the principles of the new Code from January 2019 and we will report on our compliance in the 2019 Annual Report.

Further details about some of the actions that have been taken to prepare for the new Code can be found in the Nomination, Remuneration and Audit and Risk Committee Reports.

Board effectiveness

As indicated in my statement in last year's Annual Report, the Board conducted an externally facilitated review of its effectiveness during 2018. The evaluation was carried out by Lintstock Limited and involved one-to-one interviews with all Board and Committee members as well as 360 reviews of each Director's performance.

Further details about the evaluation process and the actions arising can be found on page 68.

Board changes

Jane Hinkley, the Company's Senior Independent Director and Remuneration Committee Chair, has indicated to the Board that she intends to stand down as a Director at the end of 2019, having served on the Board since 2010. At the Company's 2019 AGM, the Directors will propose the election of Barbara Jeremiah to the Board as an independent Non-Executive Director and successor to Jane as Remuneration Committee Chair.

Barbara brings with her a wealth of strategic and commercial experience obtained in the strongly cyclical environment of the resources sector, which will enable her, if elected, to make a valuable contribution to our Board and as Chair of our Remuneration Committee.

Further details regarding the appointment process for Barbara can be found in the Nomination Committee Report on page 78.

Diversity

Your Board recognises the benefits of diversity in enhancing the quality of its performance, therefore, all Board appointments are made on merit, against objective criteria and with due regard to the benefits of diversity in its widest sense, including gender diversity.

Further details on our Board Diversity Policy can be found on page 78.

Engagement with our shareholders

I have taken the opportunity to meet a number of our major shareholders during the year to solicit their views on the business and our growth plans. I have been encouraged by the number of new investors who have taken long-term positions in the Company over the past year, and we look forward to building on our engagement with them as the Company moves in to its next phase of development. During 2019, the Board will continue to engage with shareholders as we formulate our remuneration policy to be put to shareholders in 2020. Aligning the interests of management with our stakeholders' interests remains a key focus for the Board as we commence this process.

Board focus during 2019

Debt reduction continues to be a priority for the Board as we look to strengthen the balance sheet to ensure we have the flexibility to pursue growth opportunities, both in the existing portfolio and through acquisitions.

We will continue to ensure that our governance framework supports the achievement of our strategy, and HSES remains central to our decision-making.

On behalf of the Board, I would like to express my thanks to our employees and to all other stakeholders for their continued support.

Roy A Franklin

Chairman

Compliance statement

This report, together with the Nomination Committee Report, the Audit and Risk Committee Report, the Directors' Remuneration Report, the Directors' Report and sections of the Strategic Report incorporated by reference, describes the manner in which the Company has applied the main principles of governance set out in the UK Corporate Governance Code published in April 2016 (the 'Code') and complied with the individual Code provisions. The Code can be found on the Financial Reporting Council's website at www.frc.org.uk.

It is the Board's view that the Company has fully complied with the Code throughout the financial year ended 31 December 2018.

The Board

The Board provides leadership to the Group with a view to delivering long-term value to shareholders and other stakeholders. It sets the strategy and oversees its execution within an agreed framework of internal controls, ensuring that risk is appropriately managed.

As at 31 December 2018, the Board of Directors comprised the Chairman, Chief Executive Officer, two other Executive Directors and five independent Non-Executive Directors. Biographical details of each Director in service as at 6 March 2019, including membership of Board Committees, are set out on pages 60 to 63.

Roy A Franklin

Chairman

Tony Durrant

Chief Executive Officer

Richard Rose

Finance Director

Robin Allan

Director, North Sea and Exploration

Dave Blackwood

Non-Executive Director

Anne Marie Cannon

Non-Executive Director

Jane Hinkley

Senior Independent Non-Executive Director

Iain Macdonald

Non-Executive Director

Mike Wheeler

Non-Executive Director

The Committees

Executive Committee

The Executive Committee supports the Chief Executive Officer with the development and implementation of Group strategy, management of the operations of the Group including succession planning, financial planning, risk management, internal control, HSES and corporate responsibility.

Business Units

Projects

Functional Oversight (London)



Audit and Risk Committee

Iain Macdonald (Chair)
Dave Blackwood
Mike Wheeler

Keeps under review the effectiveness of the Group's risk management and internal control systems and the programme of reviews coordinated by Group Audit and Risk; monitors the integrity of the Company's financial statements and the overall fairness of the Annual Report and Financial Statements; oversees the Company's relationship with the Auditor and assesses the effectiveness of the audit; takes responsibility for the appointment or reappointment of the Company's Auditor ensuring that the process follows the required best practice and legal obligations.

➔ FULL COMMITTEE REPORT ON PAGES 72 TO 76



Nomination Committee

Roy A Franklin (Chair)
Dave Blackwood
Anne Marie Cannon
Tony Durrant
Jane Hinkley
Iain Macdonald
Mike Wheeler

Considers Board and Committee structure, composition and succession planning and oversees succession planning and development of senior management.

➔ FULL COMMITTEE REPORT ON PAGES 77 TO 78



Remuneration Committee

Jane Hinkley (Chair)
Dave Blackwood
Anne Marie Cannon
Mike Wheeler

Ensures that there is an appropriate reward strategy in place for Executive Directors with the intention of aligning their interests with those of shareholders. This Committee also oversees reward strategy for senior management.

➔ FULL COMMITTEE REPORT ON PAGES 79 TO 107

The Board

Board tenure as at 6 March 2019

- A Audit and Risk
- R Remuneration
- N Nomination
- Chairman of Committee



Roy A Franklin

Chairman

Board tenure

1 year 6 months

Current external roles

- Non-Executive Director and Deputy Chairman of Equinor
- Senior Independent Non-Executive Director of Wood plc
- Member of the Advisory Board of Kerogen Capital LLC
- Chairman of privately held Cuadrilla Resources Ltd
- Chairman of privately held Energean Israel Ltd

Past roles

- Non-Executive Director of Santos Ltd
- Chairman of Keller Group PLC
- Non-Executive Director of OMV AG
- Non-Executive Director of Boart Longyear Ltd
- Chairman of Novera Energy PLC
- Chief Executive Officer of Paladin Resources PLC
- Group Managing Director of Clyde Petroleum plc

Board contribution

Roy has more than 45 years' experience as an executive in the oil and gas industry. He spent 18 years at BP and has served on a number of international energy boards in non-executive roles. He has extensive experience in chairing boards of listed companies, and his expertise in the energy sector in particular enables him to ensure that the Board focuses on the right issues and discusses them productively.



Tony Durrant

Chief Executive Officer

Board tenure

13 years 8 months

Current external roles

Not applicable

Past roles

- Non-Executive Director and Chairman of the Audit & Risk and Remuneration Committees of Greenergy Fuels
- Managing Director and Head of the European Natural Resources Group at Lehman Brothers
- Member of the Advisory Committee of Flowstream Commodities

Board contribution

Tony has been involved in numerous financing and mergers and acquisitions transactions in the upstream sector and, since joining Premier as Finance Director in 2005, has been instrumental in transforming Premier's portfolio from producing 35,000 boepd to one that is currently producing circa 75,000 boepd. Now with nearly 14 years' experience at Premier including over 4 years as CEO, Tony has a deep understanding of the Company and the economic, financial and political environment in which it operates. This, together with his long experience as Premier's Finance Director, is invaluable as he leads Premier in identifying and progressing growth opportunities and restoring the strength of the balance sheet.



Richard Rose

Finance Director

Board tenure

4 years 6 months

Current external roles

Not applicable

Past roles

- Chartered accountant with Ernst & Young LLP
- Partner in Equity Research at Oriel Securities
- Managing Director at RBC Capital Markets
- Strategy and Head of Corporate Communications at Ophir Energy

Board contribution

Richard brings a wealth of knowledge and experience to Premier, including his time as an adviser to the Company in his previous corporate broking roles. He has extensive knowledge of debt and equity markets which were invaluable for Premier in completing the comprehensive refinancing of the Group's debt facilities in 2017, and his experience in this area continues to be of vital importance as the Company looks to ensure appropriate financing for its growth activities.

Committee membership



Independent

Yes¹

Committee membership



Independent

Not applicable

Committee membership

None

Independent

Not applicable

¹ Chairman was independent on appointment.



Robin Allan
 Director, North Sea and Exploration

Board tenure
 15 years 3 months

Current external roles

- Chairman of The Association of British Independent Oil Exploration Companies ('BRINDEX')
- Board member of Oil & Gas UK

Past roles

- Within Premier, Robin has previously served in a variety of roles including: Director: Asia, Director of Business Development and Country Manager in Indonesia
- Robin joined Premier in 1986 from Burmah Oil

Board contribution

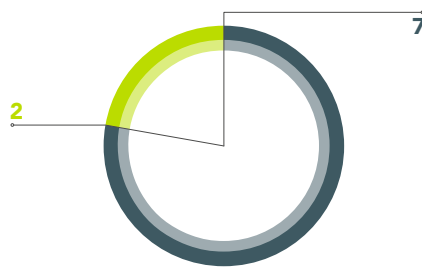
With a background as a geologist, Robin has 30 years' experience in senior positions at Premier and has a particularly thorough understanding of the Company's operations having worked both in South East Asia and the UK. He now plays a leading role within the UK oil industry, representing North Sea operators through his additional roles as Chairman of BRINDEX and as a Board member of Oil & Gas UK. With the increase in size of Premier's UK operations over recent years, Robin's understanding of the operational and regulatory environment in the North Sea has been and continues to be integral to the success of this major part of the Group's operations, while his experience in Asia helps him to direct Premier's worldwide exploration programme.

Committee membership
 None

Independent
 Not applicable

Gender diversity
 number of directors

- Male
- Female

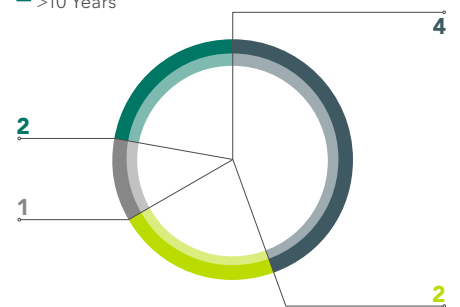


7
 Male

2
 Female

Length of tenure
 number of directors

- <3 Years
- 3 – 6 Years
- 7 – 10 Years
- >10 Years



4
 <3 years

2
 3-6 years

1
 7-10 years

2
 >10 years

The Board

Board tenure as at 6 March 2019

- A Audit and Risk
- R Remuneration
- N Nomination
- Chairman of Committee



Dave Blackwood
Non-Executive Director

Board tenure
1 year 7 months

Current external roles

- Senior Advisor to Evercore Partners Ltd
- Director of Aberdeen Science Centre

Past roles

- Non-Executive Director of Expro International Group Holding Ltd
- Senior Independent Director of Valiant Petroleum plc
- Managing Director of BP North Sea
- Joint Chairman of Oil & Gas UK
- Director of Aberdeen City and Shire Economic Future (ACSEF)

Board contribution

Dave has over 43 years' experience in the oil and gas sector, 7 years in the service sector with Schlumberger in the North Sea and the middle East, and 27 years in various global roles within BP, including heading up BP's upstream business in the UK and Norway. He has a strong understanding of the technical and commercial issues at play in an exploration and production company and has broad experience in developing and managing large-scale, complex energy assets throughout the world, from exploration through to decommissioning. Dave's oil and gas experience and technical expertise are valuable to the Board as it monitors current projects and assesses potential ones.

Committee membership

- A N R

Independent
Yes



Anne Marie Cannon
Non-Executive Director

Board tenure
5 years 1 month

Current external roles

- Deputy Chair of Aker BP ASA
- Non-Executive Director of Aker ASA
- Non-Executive Director of Aker Energy AS
- Non-Executive Director and Chairman of the Remuneration Committee of STV Group plc

Past roles

- Various roles at J Henry Schroder Wagg, Shell UK E&P and Thomson North Sea
- Executive Director at Hardy Oil and Gas and British Borneo
- Senior Adviser to the natural resources group at Morgan Stanley

Board contribution

Anne Marie has over 36 years' experience in the oil and gas sector through senior roles within both investment banking and quoted companies. Having spent much of her career in the energy teams at Morgan Stanley and J Henry Schroder Wagg, Anne Marie has significant experience advising on mergers and acquisitions within the upstream sector, and is thus well equipped to engage with management and provide appropriate independent challenge in relation to commercial transactions.

Committee membership

- N R

Independent
Yes



Jane Hinkley – Senior Independent
Non-Executive Director

Board tenure
8 years 6 months

Current external roles

- Non-Executive Director and Chairman of the Remuneration Committee of Vesuvius plc
- Chairman of Teekay GP LLC

Past roles

- CFO and subsequently Managing Director of Gotaas-Larsen Shipping Corporation
- Managing Director at Navion Shipping AS
- Non-Executive Director of Revus Energy ASA

Board contribution

Through her management roles and directorships in the oil and gas shipping sector, together with her financial background as a qualified accountant, Jane brings strong, relevant listed company experience to the Board. In addition, Jane is an experienced remuneration committee chairman, having served in such roles for the past seven years within public companies.

During 2019, Jane will complete 9 years of service on the Board and she has indicated that she intends to retire at the end of the year. The Board considers that she remains independent in attitude and continues to offer a degree of challenge to management and engagement in the Company's affairs that is appropriate in a Senior Independent Non-Executive Director. The Board therefore proposes her re-election at the AGM so that she is able, inter alia, to remain a member of the Company's Remuneration Committee until her retirement and ensure a smooth handover of responsibilities to her successor, helping in particular with the review of Premier's Remuneration Policy (which Jane played a key role in developing in 2017) prior to its submission to shareholders for approval in 2020.

Committee membership

- R N

Independent
Yes



Iain Macdonald
Non-Executive Director

Board tenure
2 years 10 months

Current external roles

- Non-Executive Director and Chairman of the Audit Committee at SUEK JSC
- Non-Executive Director of The Workforce Development Trust

Past roles

- Various roles at BP in engineering, licensing, business management and finance including three years as Deputy Group CFO for BP plc
- Served as a Non-Executive Director of TNK-BP Ltd from 2009 to 2011

Board contribution

With his extensive experience in senior financial and operational roles at BP, Iain brings a wealth of experience to his role as Chairman of the Audit and Risk Committee, which he assumed in May 2017 following a year-long transition period. Since taking the Chairmanship, Iain has developed the rolling programme of Audit & Risk Committee presentations to ensure that the Committee's oversight of the business is appropriate to enable it to effectively monitor the Group's internal control and risk management processes.

Committee membership



Independent
Yes



Mike Wheeler
Non-Executive Director

Board tenure
1 year 7 months

Current external roles

- Chairman of Glitnir
- Non-Executive Director and Chairman of the Audit Committee of Sunseeker International

Past roles

- Chairman of Citadel Securities Europe and Chairman of the Audit Committee
- Non-Executive Director and Chairman of the Audit & Risk Committee of the UK Department of Health
- Chairman of the Audit & Risk Committee of Dubai Holding
- Senior Adviser/Non-Executive Chairman of Close Brothers Corporate Finance
- Senior Adviser to BDO
- Non-Executive Chairman of Vantis plc
- Non-Executive member of the Audit Committee of the Institute of Financial Services

Board contribution

Mike has held senior roles in businesses across a variety of sectors, bringing a diverse outlook and a broad range of experience to the Board. His career at KPMG spanned 30 years, including serving as Global Chairman, Restructuring. Through his role at KPMG and experience serving on audit and risk committees he has built up significant expertise in the areas of restructuring and corporate finance, which is an important element of the Board's ability to deliver its strategy.

Committee membership



Independent
Yes



Rachel Rickard¹
Company Secretary

Rachel joined Premier in January 2014 and was appointed Company Secretary in May 2015.

She is a Fellow of the Institute of Chartered Secretaries and Administrators with more than 16 years' experience gained across a variety of industries and sectors in FTSE 100 and FTSE 250 listed companies, including three years within the financial services sector. As Company Secretary, Rachel is responsible for advising the Board, through the Chairman, on all governance matters.

¹ Rachel is currently on maternity leave. Andy Gibb, Group General Counsel, is Interim Company Secretary in Rachel's absence.

The role of the Board

The Board is collectively responsible for the governance of the Company on behalf of Premier's shareholders and is accountable to Premier's shareholders for the long-term success of the Group.

The Board governs the Group in accordance with the authority set out in the Company's Articles of Association and in compliance with the UK Corporate Governance Code (the 'Code'). A copy of the Articles of Association is available on Premier's website www.premier-oil.com. A copy of the Code can be accessed at www.frc.org.uk.

Our governance goes beyond regulatory compliance and puts the interests of all our stakeholders at the heart of the Board's decision-making.

Risk management and internal control

The Board sets the Company's strategic objectives and ensures that they are properly pursued within a sound framework of internal controls and risk management. As part of this process, the Board determines the nature and extent of the principal risks it is willing to take in achieving the Company's strategic objectives and ensures that major risks are actively monitored, with health, safety, environment and security ('HSES') borne in mind at all times.



The Board is responsible for maintaining sound risk management and internal control systems. In meeting this responsibility, the Board monitors the Company's risk management and internal control systems throughout the year and, on an annual basis, carries out a review of their effectiveness.

Further details about the systems used for ongoing monitoring and annual review of the Company's risk management and internal control systems are set out on pages 36 and 37 of the Principal Risks section of the Strategic Report and on pages 73 and 74 of the Audit and Risk Committee Report.

Position	Role and responsibilities
Chairman of the Board	<ul style="list-style-type: none"> The Chairman's role is part-time and he is a Non-Executive Director. His primary responsibility is the leadership of the Board, ensuring its effectiveness in all aspects of its role including maintaining effective communication with Premier's shareholders and other stakeholders. The Chairman is also 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, host governments and other stakeholders. There is a clear division of responsibilities between the roles of the Chairman and Chief Executive Officer, which has been agreed by the Board and is set out in writing.
Chief Executive Officer	<ul style="list-style-type: none"> The Chief Executive Officer is responsible for the day-to-day running of the Group's operations, for applying Group policies, including HSES, and for implementing the strategy agreed by the Board. He plays a pivotal role in developing and reviewing the strategy in consultation with the Board and in executing it with the support of the Executive Committee.
Senior Independent Director	<ul style="list-style-type: none"> The Company's Senior Independent Director is available to shareholders who have concerns that cannot be resolved through discussion with the Chairman, Chief Executive Officer or other Executive Directors. The Senior Independent Director is responsible for leading the annual appraisal of the Chairman's performance.
Non-Executive Directors	<ul style="list-style-type: none"> The Non-Executive Directors bring independent judgement to bear on issues of strategy and resource, including senior appointments and standards of conduct. The Non-Executive Directors have a particular responsibility to challenge independently and constructively the performance of 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 present. The Non-Executive Directors must also be satisfied with the integrity of the Group's financial information and with the robustness of Premier's internal control and risk management systems. The Non-Executive Directors are responsible for determining appropriate levels of remuneration for the Executive Directors and have a key role in succession planning and the appointment of and, where necessary, removal of Directors. Non-Executive Directors are required to be free from any relationships or circumstances which are likely to affect the independence of their judgement. The Nomination Committee regularly reviews the independence of Non-Executive Directors. 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. Letters of appointment set out an expected time commitment, and all Non-Executive Directors undertake that they will have sufficient time to discharge their responsibilities effectively. Any significant other business commitments are disclosed to the Board prior to appointment. Changes to such commitments are disclosed to the Board on an ongoing basis. Where necessary to discharge their responsibilities as directors, the Directors have access to independent professional advice at the Company's expense.
Company Secretary	<ul style="list-style-type: none"> The Company Secretary is responsible for advising the Board, through the Chairman, on all governance matters. The Company Secretary, under the direction of the Chairman, is responsible for ensuring good information flows between the Board and its Committees and between senior management and the Non-Executive Directors. The Company Secretary also plays a pivotal role in facilitating the induction of new Directors and assisting with the ongoing training and development needs of Board members as required. All Directors have access to the advice and services of the Company Secretary, who is responsible for ensuring that Board procedures are complied with. The appointment and removal of the Company Secretary is a matter reserved for the Board as a whole.

How the Board operates

The Board has a structured agenda for the year ensuring all relevant matters are considered, with sufficient time for discussion. The programme is structured to include: strategic issues, including setting the strategy and assessing performance in executing the strategy; the annual business plan and budget; HSES and risk; internal controls and risk management; corporate responsibility; financing; investor relations; corporate reporting; Board Committee related activity, including matters requiring Board sanction; and other corporate governance matters.

The Board meets at least six times each year and, in addition, an update conference call generally takes place in the months when no formal meeting is scheduled. Ad-hoc Board meetings are held as required to deal with specific matters requiring Board consideration. The agenda for each Board meeting is set by the Chairman in consultation with the Chief Executive Officer and the Company Secretary based on an annual programme, with any additional matters included as and when they arise.

Board members receive a monthly report on the Company's activities which incorporates an update on progress against corporate objectives, financial performance and the management of business risks including HSES matters.

A formal schedule of Matters Reserved for the Board can be found on the Company's website www.premier-oil.com. The schedule is regularly reviewed by the Board. Key matters reserved for the Board are set out in the diagram below.

The Board has the opportunity to meet with management and discuss key projects through Board presentations and more detailed management presentation sessions.

Board Committees

The Board has established Audit and Risk, Remuneration and Nomination Committees. Each Committee has formal terms of reference approved by the Board, copies of which can be found on the Company's website. 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.

Details of the work of our Audit and Risk, Remuneration and Nomination Committees are set out in the Committee sections of this report.

Executive Committee and management structure

The Board delegates the day-to-day running of the Group to the Chief Executive Officer who is assisted by the Executive Committee.

The Executive Committee ('ExCo') meets formally once a month and its membership comprises: each of the Executive Directors; Nic Braley, the Group Commercial and Strategy Manager; Mike Fleming, the Group HR Director; Andy Gibb, the Group General Counsel; Dean Griffin, the Head of Exploration; Stuart Wheaton, Chief Technical Officer; and Bassem Zaki, the Business Development Manager. In addition to formal monthly ExCo meetings, the ExCo holds fortnightly meetings with the Country Managers and, in the alternate weeks, there is a fortnightly meeting with functional heads which includes, in addition

to ExCo members, the Group HSE Manager, Group Financial Controller and additional members of the exploration team.

Quarterly Performance Review meetings are also held between ExCo members and the senior management team from within each of the business units and include risk management and HSES reviews as part of the overall review of each quarter.

Disclosure Committee

The Company is required to make timely and accurate disclosure of all information that is required to be so disclosed to meet the legal and regulatory requirements arising from its listing on the London Stock Exchange.

A Disclosure Committee has been established to assist the Company in meeting the above requirements and has responsibility for, among other things, determining on a timely basis the disclosure treatment of material information.

The Committee also has responsibility for the identification of inside information for the purpose of maintaining the Company's insider list.

Matters Reserved for the Board



Corporate strategy

- Overall direction and strategy of the business
- Oversight of the Group's operations and review of performance
- Group values
- Major changes in organisation structure
- New country and/or business entry
- Acquisition and/or disposal of interests

Finance

- Group debt and equity structure
- Significant changes in accounting policies
- Controls related to covenant compliance

Expenditure

- Group budget
- Major capital expenditure
- Development plans and projects

Risk management and internal control

- Determination of the appropriate level of risk exposure for the Company
- Recognising high impact business risks and approving risk mitigating strategies
- Monitoring effectiveness of internal control systems including finance, operations, HSES and asset integrity and undertaking an annual assessment thereof

Corporate governance

- The Group's corporate governance and compliance arrangements
- Undertaking an annual evaluation of Board and Committee performance

Shareholder communication

- Approval of Half-Year and Full-Year results announcements and trading updates
- Management of relationships and dialogue with shareholders
- Approval of the Company's Annual Report and Financial Statements

Succession planning and appointments

- Appointment and removal of Directors and the Company Secretary
- Appointment and removal of the Company's brokers and advisers

Delegation of authority

Responsibility levels are communicated throughout the Group as part of the Business Management System ('BMS') and through an authorisation manual which sets out delegated authority levels, segregation of duties and other control procedures.

The BMS provides access to policies, standards and procedures across the Group and facilitates their regular review and update, thus ensuring that our internal control framework remains robust and is effectively communicated across the Group.

During 2018, work continued to ensure the content of the BMS was both effective and balanced. The key objectives for this review were to ensure:

- Each BMS document is suitable for its intended purpose;
- Each BMS document is complied with;
- A programme for testing effectiveness of the BMS is in place;
- The BMS features a simple and scalable hierarchy; and
- A minimum set of rules are in place that do not stifle innovation and creativity.

During 2019, the development of the BMS will focus on simplification and adoption with the objective being to create a consistent and distinctive "Premier way of doing things". An update on the progress of this project will be provided in next year's Annual Report.

Board activity during the year

The Board held six scheduled meetings during the year and, in addition, an update conference call was held in between the scheduled meetings. No ad-hoc meetings were held. Details of the number of Board meetings held and individual attendance by Directors are shown in the table below.

Following completion of the Company's refinancing in 2017, a key focus for the Board in 2018 was to reduce indebtedness and rebalance the Company's capital structure. As part of this process, the Board approved an invitation to convertible bondholders to accelerate the exchange of their outstanding bonds. This process was successfully completed in January and, coupled with a mandatory conversion of the remaining bonds in September, reduced accounting net debt by US\$181 million.

In addition, the Board regularly reviewed the progress of the Company's ongoing disposal programme with the sales of Babbage, Esmond Transportation System and Kakap assets all approved during the year. These actions, coupled with the Catcher field reaching plateau production during the year, have meant that the Group's balance sheet has been significantly strengthened with net debt reduced by US\$393 million since the end of 2017.

Looking to the future, the Board considered and approved the sanction of the Tolmount Main field development in August, thereby securing the Group's medium-term UK production profile and realising further value from the 2016 E.ON transaction. In terms of longer-term opportunities and, following the Zama oil discovery in Mexico during 2017, the Board approved a proposal by the Exploration Team to participate in Mexico's Licensing Round 3.1. Following a highly competitive bidding process, Premier was awarded Blocks 11 and 13 in the Burgos Basin along with Block 30 in the prolific, shallow water part of the Sureste Basin. The awards significantly enhance our existing acreage position in Mexico and have the potential to deliver significant organic growth for our business in the longer term.

Following a number of Board changes in 2017, the Board agreed the terms of reference for an externally facilitated organisational 'health-check' during the year and, in June, the Boston Consulting Group ('BCG') was appointed to carry out the review. BCG's work highlighted a number of areas of strength on which the Company can build over the medium-term and, at its December meeting, the Board approved a high-level action plan presented by ExCo and BCG to address the points raised. Further details regarding the BCG review can be found in the Nomination Committee Report.

Meetings held during 2018

	Jan '18	Feb '18	Mar '18	Apr '18	May '18	Jun '18	Jul '18	Aug '18	Sept '18	Oct '18	Nov '18	Dec '18
Board meeting			✓	✓		✓		✓		✓		✓
Board update call	✓				✓		✓		✓		✓	
Management presentations				✓		✓			✓		✓	
AGM					✓							

The number of meetings of the Board held during 2018 and individual attendance by Directors

Current Directors	Scheduled	
Robin Allan	6 / 6	100%
Dave Blackwood	5 / 6	83%
Anne Marie Cannon	6 / 6	100%
Tony Durrant	6 / 6	100%
Roy A Franklin	6 / 6	100%
Jane Hinkley	6 / 6	100%
Iain Macdonald	6 / 6	100%
Richard Rose	6 / 6	100%
Mike Wheeler	6 / 6	100%

Our strategic pillars

- 01 Operating in a safe and responsible manner
- 02 Focused on high quality assets with commercially advantaged positions

- 03 Access to capital and financial liquidity
- 04 Effective organization sustained by the right people

The following table shows some of the areas covered by the Board during the year:

Subject	Cross reference	Link to strategic objectives
Shareholder and lender engagement <ul style="list-style-type: none"> • The Chairman met with major shareholders to discuss their views on the Company and its major projects. • Received and discussed feedback from roadshows/presentations to investors by the CEO and Finance Director. • Met with major institutional shareholders and shareholder representative bodies to discuss implementation of the Company's Remuneration Policy and outcomes. 	Shareholder engagement activity (see page 70) Directors' Remuneration Report (see pages 79 to 107)	04
Corporate strategy <ul style="list-style-type: none"> • Reviewed the corporate asset database and discussed opportunities within the existing portfolio to create value and grow the production base. • Reviewed and discussed monthly reports from the Company's business units on the status of agreed objectives to deliver corporate strategy. • Reviewed potential disposal and acquisition opportunities. • Reviewed and approved the sales of the Babbage, Kakap and ETS assets. 	Company's business model and strategy (see pages 10 to 13) Chief Executive Officer's Review (see pages 18 to 21)	01 02 03 04
Finance and expenditure <ul style="list-style-type: none"> • Regularly reviewed the status of the Group's banking covenants. • Considered proposals for a future refinancing of the Group's debt facilities. • Reviewed and approved the 2019 annual budget. • Held a separate workshop to consider the Group's 'emerging risks'. • Received reports from the Audit and Risk Committee on the effectiveness of the Group's risk management and internal control systems. • Reviewed and approved the Company's Annual Report and Financial Statements for the year ended 31 December 2017. • Reviewed and approved the Group's insurance arrangements. • Reviewed and approved the Group's Tax Policy. 	Financial Review (see pages 30 to 35) Financial Statements (see pages 112 to 176)	03
HSES and risk management <ul style="list-style-type: none"> • Reviewed and discussed the Group's risk profile and, in particular, the Group's principal risks. • Reviewed 2018 corporate HSES KPIs and HSES plan. • Reviewed and discussed HSES performance. • Held a separate workshop to consider the Group's 'emerging risks'. • Received reports from the Audit and Risk Committee on the effectiveness of the Group's risk management and internal control systems. • Reviewed and approved the Company's policies on anti-slavery and human trafficking and tax. • Reviewed the Group's risk management and internal control framework. 	Risk Management (see pages 36 to 41) Principal Risks (see pages 38 to 39) Corporate Responsibility Review (see pages 42 to 55)	01
Corporate governance <ul style="list-style-type: none"> • Considered the new UK Corporate Governance Code and agreed a plan to ensure compliance from 1 January 2019. • Reviewed the terms of reference for the Audit and Risk, Nomination and Remuneration Committees. • Reviewed the Schedule of Matters Reserved for the Board. • Engaged the Boston Consulting Group to carry out a 'health check' of the Group's organisational structure and operating model. • Conducted an externally facilitated evaluation of the Board and its Committees. • In consultation with the Nomination Committee, reviewed the independence of Non-Executive Directors. 	Governance section of the Annual Report (see pages 56 to 111)	01 02 03 04
Corporate social responsibility ('CSR') <ul style="list-style-type: none"> • Reviewed ethical performance and control systems. • Reviewed the Group's Code of Conduct and Business Ethics Policy. • Considered bi-monthly updates in respect of environmental KPIs. • Reviewed and approved the Company's Corporate Responsibility Report. 	Corporate Responsibility Review (see pages 42 to 55)	01
Succession planning and appointments <ul style="list-style-type: none"> • Monitored progress against the Company's succession plan for Non-Executive Directors. • In consultation with Committee chairmen, considered and approved changes to Board Committee membership. • Reviewed proposals from management on the Group's leadership and organisational structure. 	Nomination Committee Report (see pages 77 and 78)	04
Employees <ul style="list-style-type: none"> • Reviewed and approved proposals for awards to the wider employee population under the Company's share award schemes. • Considered proposals for workforce engagement mechanisms in accordance with the new UK Corporate Governance Code. • Reviewed the results from the employee engagement survey. 	Directors' Remuneration Report (see pages 79 to 107) Governance section of the Annual Report (see pages 56 to 111)	04

Board performance evaluation

During the year, the Board undertook an externally facilitated performance evaluation exercise. The previous externally facilitated performance evaluation was undertaken in 2016.

Detailed surveys were compiled with input from all relevant internal stakeholders.

Topics included:

- Board size and composition
- Board expertise
- Board dynamics
- Management and focus of meetings
- Board support and Committees
- Strategic oversight
- Risk management and internal control
- Succession planning and human resource management
- Priorities for change

The evaluation was carried out by Lintstock Limited ('Lintstock') supported by the Company Secretary. Lintstock has been the provider of the Company's insider list management software since August 2013 but other than this and the 2016 performance evaluation, has not undertaken any other work of any kind for the Board or the Company.

The evaluation included individual Director performance reviews, a review of the work of the Board and each of the Board Committees, and a review of the Chairman's performance.

Surveys were issued and one-to-one interviews were held with each Director and attendees of the Board Committees. Independent reports were then prepared by Lintstock and were reviewed by the Chairman and the Company Secretary.

The results of the evaluation were then condensed into reports by the Chairman and discussed by the Board and each of the Committees. An action plan was then drawn up by the Chairman and Company Secretary for the Board and actions were agreed for each Committee with the relevant Committee Chair.

2017 performance evaluation

Actions identified for 2018 from the 2017 Board performance evaluation included conducting a full review of Committee composition and undertaking an externally facilitated Board performance evaluation in 2018. The review of Committee composition was conducted by the Nomination Committee in November and, following an assessment of the skills, knowledge and independence of the Non-Executive Directors, the Committee concluded that the composition of the Board's Committees remained appropriate.

As noted above, an externally facilitated evaluation process was conducted during the year, thereby closing the other key action from the 2017 review.



Board appointments

Premier is an international business and has to manage a variety of political, technical and commercial risks. It is crucial therefore that the Board has the appropriate mix of skills, knowledge and experience as well as independence to enable it 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 changes that are deemed necessary with due regard for the benefits of diversity on the Board, including gender diversity.

When recruiting new Directors, the Nomination Committee prepares a description of the role and capabilities required for a particular appointment in the context of the existing skills, experience, independence and knowledge on the Board and the time commitment expected.

Further details regarding succession planning can be found in the Nomination Committee Report on pages 77 and 78.

Induction of new Directors

New Directors receive a full, formal and tailored induction to the Company.

The induction programme consists of:

- a comprehensive briefing session with the Company Secretary to discuss the proposed induction programme and to provide details of Board and governance procedures;
- an introduction to the Company's online resource centre for Directors, through which they can access key corporate governance documents, including details of the policies and procedures forming part of the Group's governance framework; a dedicated resource library containing comprehensive information on key projects; copies of past Board presentations; and copies of external communications such as investor presentations, annual reports and corporate social responsibility reports;
- one-to-one meetings with each of the Executive Directors, members of senior management and external advisers; and
- meetings with other functional representatives as requested by Directors. Shareholders are given the opportunity to meet with new Directors upon request or at the next Annual General Meeting following their appointment and, in the case of the Chairman, meetings are offered to the Company's major shareholders.



Board development

As part of the Board's annual rolling agenda, in-depth management presentations are planned throughout the year. These sessions are held outside main Board meetings and are designed to give the Board insight into key aspects of the Company's operations, its development projects and strategy. The presentations provide Directors with the opportunity to discuss matters with members of senior management in an informal setting.

During 2018, management presentations were given on: the corporate asset database and opportunities within the existing portfolio; exploration; the Sea Lion project; and risk management.

Regular updates are provided to all Directors on governance and legal matters. Information is also provided on relevant external training courses available to further complement Directors' skills and knowledge.

Formal procedures are in place to enable individual Board members to take independent advice at the Company's expense where appropriate.

Information and support

All Non-Executive Directors have access to the Company's senior management between Board meetings and the Board aims to hold at least one meeting each year in one of the business units to allow Non-Executive Directors to meet and engage with local staff. In addition, the continuing development of Board members is supported through in-depth management presentations into specific business areas as well as presentations by management and regular updates on changes to the legal and regulatory landscape.

All Directors have access to the Company Secretary and, if required, can take legal advice at the Company's expense. Directors also have access to an online Board resource library.

Election and re-election of Directors

In accordance with the Code, Directors are submitted for re-election at regular intervals subject to continued satisfactory performance. It is the Company's current policy to submit all Directors for annual election or re-election by shareholders.

In addition, Directors appointed since the last Annual General Meeting are required to step down at the next Annual General Meeting following their appointment and stand for election by shareholders.

For any term beyond six years for a Non-Executive Director, performance is subject to a particularly rigorous review.

It was agreed that Jane Hinkley, who has served as a Director for over eight years and will be standing for re-election, continues to provide sound, independent judgement and to make a significant contribution to the Board and its Committees. All Non-Executive Directors standing for election or re-election are considered to be independent.

Following satisfactory performance effectiveness reviews, the Nomination Committee recommended and the Board approved that each of the Directors be put forward for election or re-election at the 2019 AGM.

Details of the Executive Directors' service contracts and the Non-Executive Directors' letters of appointment are set out in the Directors' Remuneration Report on pages 89 and 91 respectively.

The main responsibilities of each Board role are set out on page 64 of this report. Full biographies can be found on pages 60 to 63. These set out the skills, knowledge and experience of each Director as well as current and previous appointments.

Conflicts of interest

Under statute, a Director has a duty to avoid a situation in which he or she has, or may have, a direct or indirect interest that conflicts, or potentially may conflict, with the interests of the Company.

Formal procedures are in place to ensure that the Board's power to authorise conflicts or potential conflicts of interest of Directors is operated effectively. The Board is satisfied that during 2018 these procedures were enforced and adhered to appropriately.

Power of Directors and process for amending Articles of Association

Details regarding the Company's Articles of Association and any amendment thereto, including the powers of Directors under the Articles, are included in the Directors' Report on page 108.

Stakeholder engagement

Engagement with all of our stakeholders remains a priority for the Board. By maintaining good dialogue, we ensure that our objectives are understood and that we receive regular feedback on our strategy, performance and governance. This enables us to build confidence amongst our stakeholders in the Board's ability to oversee the Company's strategy and address the immediate challenges faced by the business.

As part of the steps being taken by the Board to ensure compliance with the 2018 UK Corporate Governance Code, the Board undertook a stakeholder mapping exercise in October to review:

- who our material stakeholders are;
- the types of engagement undertaken with them;
- who engages with these stakeholders at a Board and Senior Management level; and
- issues likely to be relevant to the stakeholder groups.

Further detail on stakeholder engagement and how stakeholders' interests have been considered in board discussions and decision-making will be included in the Company's 2019 Annual Report.

Communications with shareholders

There is regular dialogue with institutional investors through meetings, presentations and conferences. Scheduled presentations are given to analysts and investors following the Full-Year and Half-Year Results (which are broadcast live via the Company's website www.premier-oil.com) and at other ad-hoc events.

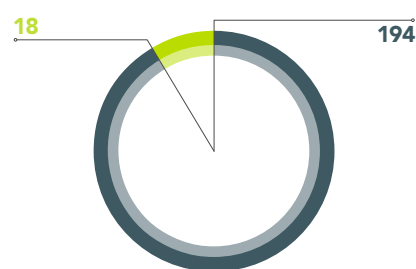
Approximately 200 meetings were held with investors and prospective investors during 2018. The Chairman, Chief Executive Officer and Finance Director are the Directors primarily responsible for engaging with shareholders. They ensure that other members of the Board receive full reports of these discussions. The Board also receives copies of analyst and broker briefings and shareholder sentiment reports prepared by the Investor Relations team. The Senior Independent Director is available to shareholders in the event that they have concerns which contact with the Chairman, Chief Executive Officer or Finance Director has failed to resolve, or where such contact would be inappropriate. Non-Executive Directors are expected to attend meetings, if requested, with major shareholders. Extensive information about the Group's activities is provided in the Annual Report and Financial Statements, the Half-Year Results and other trading statements and press releases, all of which are available on our website. The Company's website also provides detailed information on the Group's activities. Information regarding the Company's share capital, including details of significant shareholders, is included in the Directors' Report on pages 108 to 110.

The Remuneration Committee Chairman and Chairman of the Board met with major shareholders in advance of the 2018 AGM to discuss, among other things, the Company's Remuneration Policy and shareholders' voting intentions.

Despite this consultation with major shareholders, a significant number of votes were received against the resolution to approve the Directors' Remuneration Report at the 2018 AGM. As a result, the Remuneration Committee analysed the voting outcome and wrote to 30 of the top 40 institutional shareholders who voted, both for and against the Remuneration Report, to invite them to discuss their views on the Company's Remuneration Policy. Responses to these letters were received from a small number of shareholders. The Remuneration Committee has considered this feedback when determining remuneration outcomes for 2018 and will continue to do so during the formulation of the Remuneration Policy during 2019 and 2020.

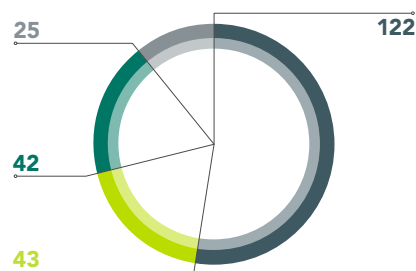
Investor contact by type

- One-to-one meetings
- Group meetings



Investor contact by location of investor

- United Kingdom
- US
- Europe
- Other





The primary method of ongoing communication with shareholders is the Investors section of the Company's website. This contains key information such as reports and financial results, investor presentations, share price information, regulatory news announcements and information on Premier's AGM.

In accordance with current regulations, the Company uses its website as its default method of publication for statutory documents in order to reduce printing costs and help reduce our impact on 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.

Premier promotes the use of online shareholder services via the Company's online share portal www.premier-oil-shares.com. Using this service, shareholders are able to access information about their shareholding, update their address or submit queries on their account directly to the Company's Registrar. Shareholders also have the ability to vote online prior to general meetings. The share portal encourages shareholders to register to receive communications by email, rather than by post, thus further reducing the number of documents printed and distributed. Shareholders who have actively registered receive an email notifying them when the Company has added a statutory document to its website.

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 only to deal with financial services firms that are authorised by the Financial Conduct Authority. More information can be found in the Shareholder Information section of the Investors section of the Company's website.

Enquiries from individuals on matters relating to their shareholding and the business of the Group are welcomed and shareholders are encouraged to attend the AGM to discuss the progress of the Group.



Iain Macdonald

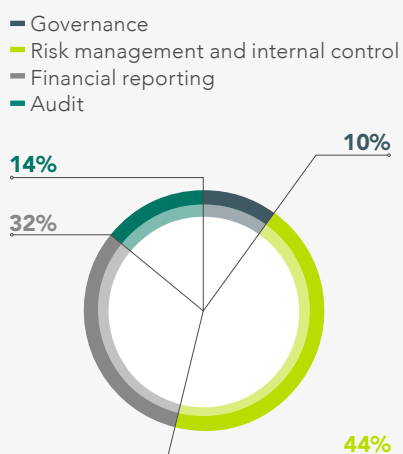
Chairman of the Audit and Risk Committee

Members	SCHEDULED Meetings attended (eligible to attend)
Iain Macdonald (Chair)	4(4)
Dave Blackwood	3(4)
Mike Wheeler	4(4)

Role of the Committee

- Monitors and reviews the effectiveness of the Company’s risk management and internal control systems.
- Monitors and reviews the effectiveness and objectivity of the Company’s Group Audit and Risk Function, the appropriateness of its work plan, the results of audits and reviews undertaken, and the adequacy of management’s response to matters raised.
- Monitors the integrity of the Company’s financial statements and any formal announcements relating to the Company’s financial performance and the significant financial reporting judgements they contain.
- Reviews the external auditors’ independence and objectivity and the effectiveness of the audit process.
- Develops and implements policy on the engagement of the external auditors to supply non-audit services.
- Monitors the enforcement of the Company’s Global Code of Conduct and the adequacy and security of its whistleblowing procedure.

How the Committee spent its time during the year %



Dear shareholder,

As Chairman of the Audit and Risk Committee it is my responsibility to ensure that the Committee is rigorous and effective in carrying out its role as summarised in the adjacent column.

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.

The members of the Committee are currently Dave Blackwood, Mike Wheeler and myself, all of whom are independent Non-Executive Directors. All have been members throughout 2018.

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 Chairman, Finance Director, the Group Financial Controller, the Group Audit and Risk Manager and representatives of the auditors. Other members of the Executive Committee or senior managers are required to attend when significant risk management or internal control matters relating to their area of responsibility are considered by the Committee. During the year, the Committee meets privately with the Group Audit and Risk Manager and with the Company’s auditors. The Company Secretary acts as secretary to 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 to make recommendations on the steps to be taken.

Meetings

The Committee meets four times per year and has an agenda linked to events in the Company’s financial calendar.

Activities during the year

The Committee held four scheduled meetings during 2018.

In March 2018, the Committee reviewed the 2017 Full-Year Results and the Annual Report and Financial Statements, discussed with the auditors their audit findings and completed its annual review of the effectiveness of the Company’s risk management and internal control systems so as to be able to approve its statements on risk management and internal control in the Annual Report. In completing this review, the Committee discussed specific operational issues that had arisen in 2017

and significant risks foreseen for 2018, with particular emphasis on risks arising due to accounting for the Group's refinancing. The Committee reviewed and endorsed the schedule of reportable audits and reviews of the internal controls planned for the year. The Committee reviewed with management the hydrocarbon reserves reporting process and undertook a review of its own effectiveness. Finally, the Committee reviewed and approved its report for inclusion in the Annual Report and Financial Statements.

At its June meeting, the Committee received updates on the current major business risks, including learnings from recent incidents and materialised risks. The Committee also reviewed the structure and design of the company's Business Management System and the plans in place to continue to improve its effectiveness. The Committee also received a presentation from the company's cyber security manager on the cyber risks facing the business. The Committee reviewed progress and significant findings from the management system audits and reviews that were conducted over the period including the closeout status of actions arising from these audits. In addition, the Committee reviewed issues that were expected to affect the Half-Year Results, including future oil price assumptions and consequent asset impairment indicators. Finally, the Committee reviewed the Audit Planning report and received an overview of the likely impact on the Group of the implementation of IFRS 16, on Lease accounting.

At the August meeting, the Committee reviewed the Half-Year Results and discussed the auditors' report on their review of the Half-Year Results. The Committee received updates on the current major business risks and significant findings from the reported audits and reviews conducted over the period and the closeout of actions arising from these audits. The Committee also received presentations from the Company's Marketing and Supply Chain departments on selected risks facing their business area and the controls in place to manage these risks. Finally the Committee received a progress update on actions set out in the annual control improvement plans put in place by the group functions and business units for the year.

In November, the Committee received updates on the current major business risks, including learnings from recent incidents and materialised risks. The committee also discussed the emerging risks facing the business and the procedures in place to identify them, in accordance with the incoming Code requirements for 2019. The committee also noted significant findings from the reported audits and reviews conducted over the period and considered the closeout of actions arising from these audits including the status of overdue actions. As part of its review, the Committee received presentations from the Company's Tax, Treasury and Information Systems departments on certain risks facing their business functions and the controls in place to manage them. The Committee considered expected accounting and reporting issues relating to the Full-Year Results and the auditors' work plan (which built on the discussions held at the time of the Half-Year Results), and reviewed and approved the proposed audit fee. In addition, the Committee received a report outlining the Group's work on the implementation of IFRS 16 and the expected financial impact on implementation on 1 January 2019 and the Group's 2019 budget.

The Committee met in March 2019 to review the key accounting and reporting issues relating to the 2018 Full-Year Results and the draft Annual Report and Financial Statements and to discuss with the auditors their audit findings. In these meetings the Committee also completed its annual review of the effectiveness of the Group's risk management and internal control systems so as to be able to approve the statements on risk management and internal control in the 'Principal Risks' section of the Strategic Report on pages 36 to 41 and to report to the Board that, in the Committee's view, the Annual Report and Financial Statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy. The Committee's review included the going concern statement and viability statement included within the Annual Report and Financial Statements and the forecasts prepared by management on which the statements are based. In completing its annual review of the effectiveness of the risk management and internal control systems, the Committee reviewed the close-out of the audits and review from 2018 and the control improvement plans put in

place by each function and business unit for 2019. As discussed in more detail on page 75, the Committee also reviewed the effectiveness of the audit process and the independence of Ernst & Young LLP.

Risk management and internal control

The Committee continues to be responsible for reviewing the design and operating effectiveness of the Group's risk management system. This system is designed to assess, reduce, monitor and communicate the principal risks facing the Group and to identify emerging risks. There is an continuing process of refinement and embedding of risk management best practice throughout the Group in accordance with the principles and guidelines set out in ISO 31000. Risk management and internal control in the Group is discussed more fully in the Principal Risks section of the Strategic Report on pages 36 to 41.

The Group-wide governance, risk management and internal control systems include specific internal controls governing the financial reporting process and preparation of financial statements. These systems include clear policies, standards and procedures for ensuring that the Group's financial reporting processes and the preparation of its consolidated accounts comply with relevant regulatory reporting requirements. These policies are applied consistently by the finance reporting teams at head office and in each business unit in the preparation of the financial results.

Management representations covering compliance with relevant policies and the accuracy of financial information are collated on a biannual basis. Detailed management accounts for each reporting business unit are prepared monthly, comprising an income statement and a cash flow statement in a manner very similar to the year-end and half-yearly reporting processes. These are subject to management review and analysis in the monthly consolidated management accounts.

Internal assurance

Internal assurance in Premier is administered by the Group Audit & Risk Manager in conjunction with the Group Financial Controller and with the support of the Group Functional Managers.

The company assures the effectiveness of its internal controls through an annual risk-based programme of management system audits and reviews.

The Company conducts three levels of review:

1. Local management team review. Local management reviews are designed to assure the effectiveness of a local management system.
2. Group function review of a business area. Group functional reviews are designed to assure the effectiveness of a group management system as applied to a business unit, asset or project.
3. External third-party review. Third party reviews are commissioned on a risk basis to provide independent assurance of the effectiveness of a group or local management system. For certain risk-critical management systems, the company assures the effectiveness of the management system through recognised industry certification (e.g. ISO14001, OHSAS18001).

On an annual basis, the Committee agrees the risk-based programme of the most significant audits and reviews with management. The Committee then receives reports at each meeting from the Group Audit & Risk Manager covering progress against the audit programme, significant findings emerging and the closeout of actions agreed to address the findings.

By agreeing a suitable risk-based audit programme and ensuring that audit findings are followed up, the Committee is able to provide assurance to the Board that Premier is embedding effective risk management and assuring the effectiveness of its internal controls.

Financial reporting

The Committee reviewed the 2018 Half-Year and Full-Year financial results announcements and 2018 Annual Report and Financial Statements with the Finance Director and Group Financial Controller and considered the findings from the auditors' review of the Half-Year Results and their audit of the 2018 financial statements.

The areas of focus for the Committee included consistency of application of accounting practices and policies; compliance with financial reporting standards and stock exchange and legal requirements; the appropriateness of assumptions and judgements in items subject to estimation; the going concern assumption; the clarity and completeness of disclosures in the financial statements; and, in relation to the Annual Report and Financial Statements, whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

The Committee considered the following major items that required significant judgement and estimation in preparing the 2018 financial statements:

Going concern

The Committee reviewed in detail management's projections of the Group's liquidity position under the terms of its revised financing facilities. Key assumptions in the projections included those related to oil and gas prices during the period and portfolio management options available during the forecast period. The key assumptions were assessed and challenged by the Committee.

Following the completion of the Group's refinancing of its credit facilities in 2017, at 31 December 2018 the Group had availability of financing and the Group's base case projections indicated that the Group will be able to operate under the requirements of its existing borrowing facilities and will have sufficient financial headroom throughout the going concern period, which is for the 12-month period ending 31 March 2020.

The Committee is satisfied that the judgements applied in making the assumptions and estimates that underpin the forecasts and projections have been exercised in an appropriate manner. Therefore, the Committee has concluded that the statement on going concern in the Financial Review on page 35 is fair and balanced.

The Committee has advised the Board that it is reasonable for the Directors to expect that the Group will have adequate resources to continue in operational existence for the foreseeable future and, accordingly, that the going concern basis is the appropriate basis of preparation for the 2018 financial statements.

Recoverability of intangible exploration and evaluation ('E&E') assets

The Committee satisfied itself by reference to the Group's business plan and discussion with management that, in respect of all E&E assets, either commercially viable resources have been discovered or substantive expenditure on further exploration and evaluation activities in the specific area is budgeted or planned and an unexpired licence period remains. Details of the Group's E&E assets are provided in note 9 to the financial statements on page 140.

Oil and gas reserves

Unit-of-production depreciation, depletion and amortisation charges are principally measured based on management's estimates of proven and probable oil and gas reserves. Estimates of proven and probable reserves are also used in the determination of impairment charges. Proven and probable reserves estimates are based on a number of underlying assumptions including future oil and gas prices, future costs, oil and gas in place and reservoir performance, all of which are inherently uncertain.

The Committee considered reports from management on the process applied to calculate the reserves estimates, addressing in particular the extent to which the methodology and techniques applied by the Company were generally accepted industry practice, whether the methodology and techniques applied were consistent with those applied in prior years, and the experience and expertise of the managers who prepared and reviewed the estimates.

The Committee noted that estimates of the Group's oil and gas proven and probable reserves prepared by independent reservoir engineers for producing and development fields were marginally lower than management's estimates. The Committee discussed with management the main reasons for the difference between the two estimates and was satisfied that it was appropriate to apply management's estimates for the purpose of preparing the financial statements.

Impairment of oil and gas properties

As explained in note 10 to the financial statements on page 142, a net reversal of impairment of US\$35.2 million has been credited to the income statement in the year, in respect of the Solan field (credit of US\$55.7 million pre-tax) in the UK North Sea as a result of a reduction in the expected decommissioning cost for the asset. This has been partially offset by an impairment charge of US\$20.5 million (pre-tax) in relation to the Huntington field in the UK North Sea, principally due to an increase in the expected decommissioning cost of the asset.

In order to determine whether an asset is impaired or whether a reversal of impairment is required, management assess whether any indicators for impairment or reversal of impairment exist for the Group's producing and development oil and gas properties. Where such an indicator exists, the future discounted net cash flows the Company expects to derive from the asset must be estimated. Such estimates are based on a number of assumptions including future oil and gas prices, the latest estimates of costs to be incurred in bringing fields under development into production, oil and gas reserves estimates, production rates and the associated cost profiles and discount rates that reflect risks specific to individual assets.

In view of continued volatility in observed oil and gas prices, management prepared a detailed 'indicators of impairment' report for the Committee setting out the key assumptions for each of the oil and gas properties. The Committee challenged these assumptions and judgements to ensure that they were consistent with those that were used by management for budgeting and capital investment appraisal purposes; that production volumes were derived from the oil and gas reserves estimates discussed above, applying the same assumptions regarding future costs; and that they were reasonable within the context of the observed field performance and the wider economic environment currently being observed.

The Committee noted the long-term planning assumptions used by the Company that assumed future oil and gas prices of US\$60/bbl in 2019, US\$65/bbl in 2020, US\$70/bbl in 2021 followed by an oil price of US\$75/bbl in 'real' terms thereafter (as explained in more detail in note 10 to the financial statements on page 142). The Committee also noted that forecast field

development costs were based on detailed and carefully reviewed current estimates.

The Committee was satisfied that the rates used to discount future cash flows appropriately reflect current market assessments of the time value of money and the risks associated with the specific assets concerned, to the extent risks are not incorporated in forecasted cash flows.

The Committee was satisfied that the most significant assumptions on which the amount of the impairment charge and reversal of impairment are based are future oil and gas prices and the discount rate applied to the forecast future cash flows and, accordingly, that the disclosure of the sensitivity of the impairment charge to changes in these factors in note 10 to the financial statements.

Provisions for decommissioning costs

Estimates of the cost of future decommissioning and restoration of hydrocarbon facilities are based on current legal and constructive requirements, technology and price levels, while estimates of when decommissioning will occur depend on assumptions made regarding the economic life of fields which in turn depend on such factors as oil prices and operating costs. The Committee therefore discussed with management the estimation process and the basis for the principal assumptions underlying the cost estimates, noting in particular the reasons for any major changes in estimates as compared with the previous year. The Committee was satisfied that the approach applied was fair and reasonable. The Committee was also satisfied that the combination of discount and rig rates used to calculate the provision was appropriate. Further information on decommissioning provisions is provided in note 17 on page 146.

Taxation

The Group currently produces oil and/or gas in five countries and is subject to complex hydrocarbon and corporate tax regimes in each of them. Judgements must be applied in order to make provision for the amounts of tax that are expected to be settled. Also, in order to continue to recognise the substantial deferred tax asset relating to tax losses and allowances in the UK, it must be considered that sufficient taxable profits will be available against which the tax losses and allowances can be utilised. This in turn requires assumptions about future profitability.

The Committee discussed with management their projections of probable UK taxable profits and noted that these projections include existing producing assets and certain currently unsanctioned UK development projects. The projections use underlying assumptions which are consistent with those used in the asset impairment review and support the recognition of a net deferred tax asset of US\$1,294.6 million, resulting in a tax charge of US\$53.1 million for the year. Further details of the deferred tax asset and the assumptions used to estimate the amount of tax recoverable in respect of tax losses and allowances are provided in notes 6 and 19 to the financial statements on pages 136 and 152, respectively.

External audit audit effectiveness

The Committee reviewed the auditors' work plan at the start of the audit cycle, considering in particular the effectiveness of the transition from Deloitte to Ernst & Young LLP as external auditors and the new auditors' assessment of the significant areas of risk in the Group's financial statements. For 2018, the significant areas of risk corresponded with the major areas of judgement identified by the Committee discussed above, and the scope of their work. At the conclusion of the audit, the Committee discussed with the auditors the findings of the audit, including key accounting and audit judgements, the level of errors identified during the audit, the recommendations made to management by the auditors and management's response. The Committee met privately with the auditors in 2018 and in March 2019 at the conclusion of the 2018 audit.

The Committee also assessed the effectiveness of the audit process, based on its own experience and on feedback from the corporate and business unit finance teams, and considered in particular:

- the experience and expertise of the audit team;
- the auditors' fulfilment of the agreed audit plan and any variations from the plan;
- the robustness and perceptiveness of the auditors in their handling of the key accounting and audit judgements; and
- the quality of the auditors' recommendations for financial reporting process and control improvements.

Auditors' independence and objectivity

The Committee regularly reviews the independence and objectivity of the auditors. This review considers the overall relationship between the auditors and the Company, based on feedback from the Company's Finance Function and from the auditors, and the nature and extent of non-audit services provided by the auditors, and takes account of the safeguards established by the auditors against loss of audit independence, including rotation of the audit engagement partner.

The Committee believes that certain non-audit work may be carried out by the auditors without compromising their independence and objectivity. The allocation of non-audit work is considered by reference to the Company's policy on the provision of non-audit services by the auditors, which can be found on the Company's website. The use of the auditors for services relating to accounting systems or the preparation of financial statements is not permitted, and neither are various other services, such as valuation work, which could give rise to conflicts of interest or other threats to the auditors' objectivity that cannot be reduced to an acceptable level by applying safeguards. The Committee believes that certain non-audit assurance and advisory services may be best performed by the auditors as a result of their unique knowledge of the Company. Any non-audit work of this nature requires approval by the Committee.

The Committee approves the fees for the audit and half-yearly review after reviewing the scope of work to be performed, and reviews the scope and fees for non-audit assignments awarded to the auditors to satisfy itself that the assignments concerned do not give rise to threats to the auditors' independence and objectivity. Details of audit and non-audit fees in the current year are provided in note 3 to the financial statements on page 135.

Ernst & Young LLP were 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 auditors to confirm that in providing non-audit services, they comply with the Ethical Standards for Auditors issued by the UK Auditing Practices Board. This confirmation was received for 2018.

Auditor appointment

The Committee considers the reappointment of the auditors each year. Based on its review of the effectiveness of the 2018 audit and the independence and objectivity of the auditors, the Committee concluded that the auditors' effectiveness and independence has not been impaired in any way. The Committee has reported accordingly to the Board and a resolution to re-appoint EY as the Group's external auditors will be proposed at the Group's 2019 Annual General Meeting.

Committee evaluation

The performance and effectiveness of the Committee was reviewed as part of the Board performance evaluation process and the Committee also carried out a detailed self-assessment. The Committee was considered to be operating effectively and in accordance with the Financial Reporting Council's Guidance on Audit Committees.

On behalf of the Audit and Risk Committee.

Iain Macdonald

Chairman of the Audit and Risk Committee



Roy A Franklin
Committee Chairman

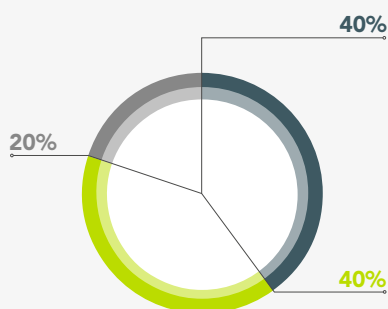
Members	Meetings attended (eligible to attend)
Roy A Franklin (Chair)	3(3)
Dave Blackwood	2(3)
Anne Marie Cannon	3(3)
Mike Wheeler	3(3)
Tony Durrant	3(3)
Iain Macdonald	3(3)
Jane Hinkley	2(3)

Role of the Committee

- To plan Board member succession and oversee plans for senior management succession, taking into account the strategy of the Company and the skills, knowledge, diversity and experience required to deliver the strategy.
- To regularly review the structure, size and composition of the Board and Committees.
- To lead the process for Board appointments, identifying and nominating for the approval of the Board, candidates to fill Board vacancies.

How the Committee spent its time during the year %

- Governance and organisational structure
- Executive Director and senior management succession
- Non-Executive Director succession



Dear shareholder,

Following a number of appointments to the Board in 2017, including my own, the Committee has focused much of its time in 2018 on leadership development and reviewing the organisational structure of the business to ensure that your Company is well positioned for the next phase of its development.

This report outlines details of the Committee's work during the course of 2018, including the preparations that the Committee has made to ensure that the Company is able to apply the principles of the new UK Corporate Governance Code.

Leadership structure

With the Catcher field reaching plateau production in 2018 along with the sanction of the Tolmount Main Development, the Committee reviewed a number of changes to the senior leadership team proposed by the Executive. Stuart Wheaton, formerly the UK Business Unit Manager, moved to the London office to take up the role of Chief Technical Officer on the Executive Committee, providing technical support for the Business Units whilst leading the Group Function in London. Paul Williams, formerly Group Development and Operations Manager, succeeded Stuart as UK Business Unit Manager in July. At the same time, a number of changes were made to the leadership structure of the UK Business Unit to ensure that the organisation continues to be appropriately configured to manage its operated assets and to deliver the Tolmount project.

Employee engagement and succession planning

The active engagement and development of the Group's employees has again been a key area of focus for the Committee during the year, particularly at such an important point in the Company's growth. Engagement in this context refers to the employees' level of commitment and enthusiasm towards their work and the Company; factors that are crucial in ensuring we are able to recruit, retain and motivate high quality, skilled employees.

To this end, the Committee reviewed the action plan proposed by the Group HR Director regarding staff engagement activities during 2018 and beyond. These included: the implementation of individual development plans for all employees; presentations on the group reward process; townhall meetings to communicate strategy and operational progress; a talent

review process across the organisation; and global diversity and inclusion training. To benchmark the effectiveness of these actions, an engagement survey was commissioned in the second half of 2018 with the results providing a comparison to the previous survey undertaken in 2017. I am pleased to report that participation in this survey was high and, overall, engagement levels within the organisation are in line with the industry benchmark. The action plan for engagement activities during 2019 and beyond has been formalised by the Group HR Function to address a variety of different aspects of staff engagement and the Committee will continue to monitor this work as required.

In terms of succession planning activities, work has continued to ensure the stability and continuity of experience, capability and performance within the senior management team. During 2018, the focus of this work was on the level below the Executive Committee and Business Unit and Country Managers. The Committee was briefed throughout the process by the Group HR Director. Staff attrition rates and flight risk analysis were also considered by the Committee, with a focus on ensuring optimum resource capability for upcoming projects.

Review of organisational structure

Following the completion of the refinancing in 2017 and with a number of new Non-Executive Director appointments over the last 18 months, your Board felt it was appropriate to commission an externally facilitated 'health-check' of the Group's organisational structure. In June, the Boston Consulting Group ('BCG') were selected by the Committee to carry out this review. BCG conducted over 100 interviews across the business, along with an extensive document analysis and research effort.

Their report was presented to the Committee in November and I am pleased to report that there were many areas of notable strength, such as the Company's open culture, FPSO experience and commercial deal making ability which were all commended by BCG.

The report also identified some areas for improvement and steps have already been taken to address these. The agreed action plan will focus primarily on: better definition and communication of strategy internally; establishing a strong performance management culture; and refining the Group's operating model and establishing a "Premier way of doing things". During 2019, the Board and ExCo will look to implement the recommended actions and report to shareholders on progress in next year's Annual Report.

Changes to the UK Corporate Governance Code

Both the Committee and the Board as a whole spent time in the second half of the year considering the UK Corporate Governance Code 2018 (the "New Code") that applies to the Company with effect from 1 January 2019. Of particular focus for the Committee was the New Code provision regarding workforce engagement and the implementation of an appropriate mechanism to facilitate such engagement. In November, the Committee considered a proposal that a workforce advisory panel should be constituted in 2019 to provide a forum for communication between the Board and employees. The composition and terms of reference for this panel were agreed by the Committee and the selection process for representatives took place early in 2019. I look forward to reporting back on the work of the panel in due course.

Board and Committee composition and Board changes in the year ahead

The Committee reviewed the composition of the Board and its Committees at several points during 2018. In doing so, the Committee considered the need for continuity of Committee membership to maintain the knowledge and insight of the Committees, while at the same time giving due and careful consideration to the need to refresh membership.

Jane Hinkley, Senior Independent Director and Chair of the Remuneration Committee, will reach the end of her nine-year term during 2019 and has indicated her intention to step down from the Board at the end of the year. In the latter half of 2018, the Committee instructed Ridgeway Partners, an external search consultancy who are a signatory to the Voluntary Code of Conduct on Executive Search Firms and have no other connection with the Company, to facilitate the recruitment process for a suitable successor for Jane as a Non-Executive Director and Chair of the

Remuneration Committee. Ridgeway Partners produced detailed profiles of prospective candidates, which were later reduced to a shortlist of candidates, both male and female. All Directors were given the opportunity to meet with shortlisted candidates and provided feedback to the Committee before a decision was made in respect of the appointment.

Following the recruitment process, the Board, on the recommendation of the Committee, has proposed the election of Barbara Jeremiah to the Board as an independent Non-Executive Director at the Company's 2019 AGM. The Board intend that Barbara will succeed Jane as Chair of the Company's Remuneration Committee following a short transition process.

The Committee will ensure that your Board continues to have the appropriate balance of skills, knowledge and experience to lead Premier going forward.

Board Diversity Policy

The Board recognises the benefits of diversity in enhancing the quality of its performance. We remain committed to ensuring the diversity of our Board, including gender diversity, and currently have two female Non-Executive Directors, Jane Hinkley and Anne Marie Cannon, on a Board of nine Directors which equates to 22 per cent.

The objective of our Board Diversity Policy is to ensure an optimum Board and efficient stewardship to successfully deliver the Company's strategy. The Committee reviewed its approach to Board diversity during the year and chose to maintain its current policy of embracing diversity in its broadest sense without setting measurable objectives.

Further details of the Board's composition are outlined on pages 60 to 63.

Roy A Franklin

Committee Chairman
6 March 2019



Jane Hinkley
Chairman of the
Remuneration Committee

Members	SCHEDULED Meetings attended (eligible to attend)	AD-HOC Meetings attended (eligible to attend)
Jane Hinkley (Committee Chairman)	4(4)	2(2)
Dave Blackwood	3(4)	0(2)
Anne Marie Cannon	4(4)	2(2)
Mike Wheeler ¹	0(1)	1(1)

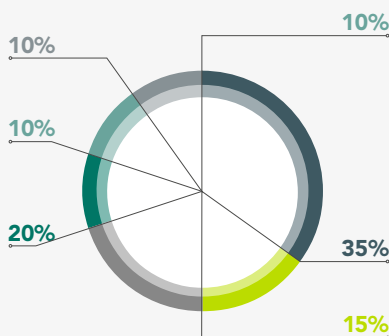
¹ Mike Wheeler was appointed as a member of the Committee on 15 October 2018. He was therefore only eligible to attend two meetings during 2018.

Role of the Committee

- Develop and maintain a Remuneration Policy to attract, retain and motivate employees to enable the Company to meet its objectives, taking into account the long-term interests of employees, shareholders and other long-term stakeholders.
- Consider and approve the remuneration arrangements for the Chairman, the Executive Directors and other senior executives as determined by the Committee.
- Exercise oversight of the pay and performance conditions across the Group.

How the Committee spent its time during the year %

- Incentive arrangements
- Senior executive remuneration
- Group remuneration policies
- Corporate governance
- Consulting with shareholders
- Other



Dear shareholder,

On behalf of the Remuneration Committee, I am pleased to present the Directors' Remuneration Report (the 'DRR') for the year ended 31 December 2018. The report summarises our Remuneration Policy, explains how it has been implemented during the reporting period and demonstrates our continued focus on ensuring remuneration is aligned not only to corporate strategy, but also shareholder experience and expectation.

2018 has been a strong year both operationally and financially and, as a result, we have been able to reduce our debt by US\$393 million, a key target for the year. There has been tight control of both operating costs and capital expenditure. The Remuneration Committee has sought to support these aims through the setting of targets for the annual bonus. In addition, during its deliberations, the Committee has considered the continuing challenges posed by volatile oil prices and their impact on our share price and sought to balance this with the need to ensure our staff remain motivated. We have not awarded salary increases to our Executive Directors for the last five years (with the exception of an increase in 2017 for Richard Rose, our Finance Director) and have significantly cut back the amounts granted under our LTIP schemes for the last four years. This restraint continues for 2018 and 2019, with no salary increases for Executive Directors or members of senior management and reduced grants under our LTIP schemes. In respect of the annual bonus, after two years of reduction from the formulaic outcome, we paid the full outcome for 2016 and 2017 and have done so for 2018 also. Payment for achievement against the targets set at the beginning of the year was considered appropriate by the Committee especially in the light of the restraint in other areas.

Implementation of Remuneration Policy in 2018

Long Term Incentive Plans

2018 saw the final vesting of awards under the legacy 2009 LTIP. At grant in 2016, the quantum of awards was significantly scaled back; the Equity Pool Award was capped at 50 per cent of salary, the Performance Share Award was reduced by 50 per cent and the Matching Share Award was removed. In calculating the growth in equity value, the metric for the Equity Pool, the shares resulting from the conversion of our convertible bonds in 2018, which otherwise would have inflated the Equity Pool, were excluded. The annualised increase in value of those shares in existence at 1 January 2016 was 12.7 per cent, resulting in Equity Pool vesting outcomes of between 22.6 per cent and 25.7 per cent of salary for the Executive Directors, significantly below the 50 per cent of salary cap. The Performance Share Awards are based on Relative Shareholder Return, where we ranked sixth out of our peer comparator group of 19. This resulted in a vesting outcome of 75.1 per cent of the shares under award. The Committee considered the underlying performance of the Company and concluded that the vesting outcomes were justified. 50 per cent of vested shares are deferred for a further three years.

As noted above, awards made in 2018 under our 2017 LTIP were again scaled back. The Restricted Share Award grant was scaled back by 50 per cent, and the stretch target for the Performance Share Award was increased from upper quartile to upper decile relative performance against our peer group.

Annual Bonus

Details of the targets set for 2018 and their achievement can be found on page 96.

In setting these targets, the Committee focused on areas critical for the Company: delivering against our refinancing and balance sheet recovery plans, reducing debt, pursuing future growth opportunities and ensuring strong operational standards and cost control.

The critical financial targets relating to debt levels and costs were met in full. Whilst the threshold production target was met, the phased ramp-up of Catcher production did not achieve the target set. There were mixed results in respect of the HSES targets. Looking to the future, there was significant progress on the three key strategic targets:

- The Tolmount Main project in the UK was sanctioned in August with first gas scheduled for 2020. Construction commenced in December.
- Further advances in putting contractor and funding agreements in place for the Sea Lion project.
- Zama (Mexico) - pre-unitisation agreement and appraisal programme approved, and the first well spudded.

This performance resulted in a bonus outcome of 51.8 per cent for the corporate targets, which, together with the personal target outcomes resulted in bonus outcomes for the Executive Directors of between 63.8 per cent and 66.5 per cent of salary out of a maximum bonus opportunity of 120 per cent of salary. All awards above 50 per cent of base salary are deferred in shares for three years.

Implementation of our Remuneration Policy in 2019

A general 3.46 per cent pay adjustment, subject to personal performance and pay position to market, inclusive of promotions, was granted for our UK employee population below senior management level and corresponding inflationary adjustments were granted to our overseas staff. However, it was agreed, given the continued volatility in the market, that the Executive Directors and other members of senior management would not receive a salary increase in 2019. The Committee, consistent with this approach, also decided to defer the pay review for the Chairman, as did the Board with respect to the Non-Executive Directors.

The 2019 performance targets for the annual bonus are set out in general terms on page 102. However, for reasons of commercial sensitivity, detailed figures are not given. Our intention is to publish these, together with the bonus outcome, in the Annual Report on Remuneration for 2019.

Due to the fall in oil price in the fourth quarter of 2018 and continued volatility in the market, the Committee has again decided to scale back the 2019 LTIP awards (and staff Premier Value Share Plan 'PVSP' awards across the Group), consistent with the methodology applied in 2018. For Executive Directors, Performance Share Awards were granted in full, however, we have continued to apply a stretch target of upper decile relative total shareholder return. The Restricted Share Awards have again been scaled back by 50 per cent. They remain subject to a performance underpin related to the leverage covenant agreed with our lenders. Consistent with the Policy, vesting of the awards will be subject to performance measured over a three year period commencing on 1 January 2019 and a Holding Period will be applied ending on the fifth anniversary of the Award Date.

UK Corporate Governance Code

The Terms of Reference of the Committee have been updated to incorporate recommendations resulting from the 2018 Corporate Governance Code and the Committee's activities in relation to the changes to the Code will be reported on in next year's report.

The Committee will be undertaking a full review of our Remuneration Policy and practice across the Group in 2019 and will further consult with our shareholders later in the year to help inform our 2020 Remuneration Policy.

Shareholder consultation

We introduced our existing Remuneration Policy in 2017 following extensive consultation with our major shareholders and their representative bodies. Feedback from that consultation was incorporated into our Policy, resulting in strong shareholder support (88.18 per cent). However, a significant number of votes (31.66 per cent) at the 2018 AGM were cast against the implementation of the 2017 Policy.

Following the AGM, the Remuneration Committee analysed the voting outcome and wrote to our largest shareholders inviting them to discuss their views on the Company's Remuneration Policy. Responses were received from a small number of shareholders, which were considered by the Committee. We very much appreciate those who did respond and discuss with us their concerns. The Committee also noted that a significant number of institutional shareholders had chosen to follow guidance issued by the main proxy voting advisory firms which had highlighted the level of bonus payments in 2017. As discussed, we seek to balance the interests of our shareholders and staff to ensure that our Remuneration Policy is aligned to Company strategy, is reflective of performance and motivates our staff.

Committee changes

In order to widen the input to the Committee, Mike Wheeler joined the Committee on 15 October 2018.

Having been a Non-Executive Director at Premier Oil since September 2010 and Chair of the Remuneration Committee since May 2011, I intend to stand down at the end of the year. Subject to shareholder approval at the 2019 AGM, Barbara Jeremiah will join the Board as a Non-Executive Director and the Directors intend that Barbara will succeed me as Chair of the Remuneration Committee. This will ensure adequate time for a comprehensive handover to Barbara and preparation for the shareholder consultation to inform our Remuneration Policy in 2020.

It has been a privilege to serve as a Non-Executive Director at Premier Oil and help steer the Company and the Remuneration Committee through such a challenging time. I know that Barbara brings a wealth of experience to the role and will ensure our remuneration strategy and practice going forward strongly serves the future growth of the Company, closely aligned to the interests of our shareholders and other stakeholders.

Jane Hinkley

Chairman of the Remuneration Committee

Compliance statement

This report has been prepared in accordance with Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013. The Companies Act 2006 requires the Auditor to report to the shareholders on certain parts of the Directors' Remuneration Report and to state whether, in the Auditor's opinion, those parts of the report have been properly prepared in accordance with the above regulations. The Chairman's Annual Statement and the Policy Report are not subject to audit. The sections of the Annual Report on Remuneration that are subject to audit are indicated accordingly.

Policy Report

This section of the Remuneration Report sets out the Remuneration Policy which was approved by shareholders at the Annual General Meeting held on 17 May 2017 and has been effective since that date.

The 2017 Remuneration Policy (the 'Policy') remains unchanged and will therefore not be put to a shareholder vote at the 2019 Annual General Meeting ('AGM'). Shareholder approval will next be sought no later than at the Annual General Meeting to be held in 2020. Details of the Policy have been included in the Directors' Remuneration Report to provide the context within which the Committee has conducted its work during the year. The full Remuneration Policy Report, as approved by shareholders at the 2017 AGM, is contained on pages 96 to 105 of the Company's 2016 Annual Report and accounts, a copy of which can be found in the Investor Relations section of the Company's website www.premier-oil.com.

The Annual Report on Remuneration on pages 92 to 107 (which sets out how the Policy has been applied during 2018 and how it will be applied throughout the remainder of 2019) will be put forward to shareholders for an advisory vote at the 2019 AGM.

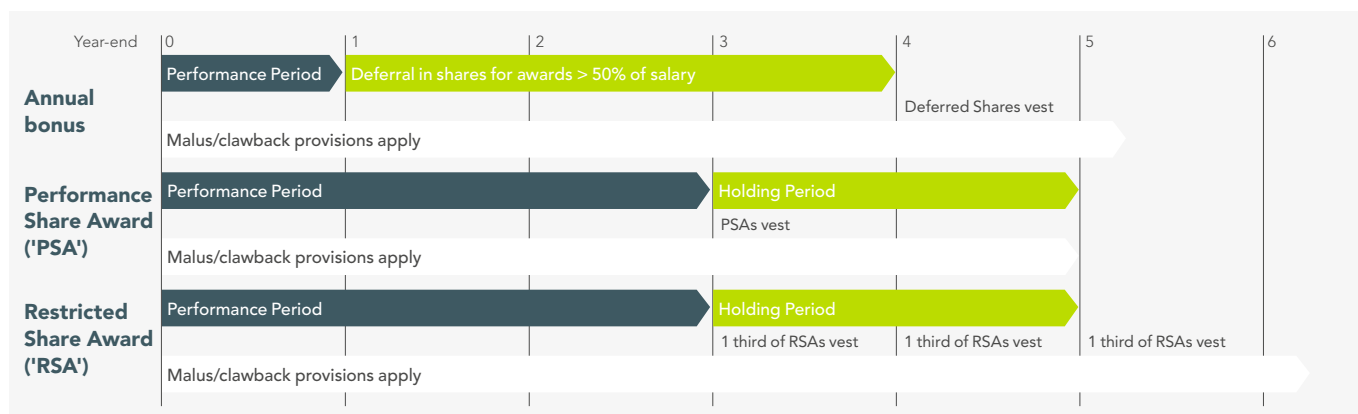
Key principles of our Remuneration Policy

The Committee regularly reviews remuneration policy to ensure it supports shareholder interests and reinforces the business strategy. Overall, the Committee aims to ensure that pay rewards all employees 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. In addition, the Committee aims to ensure that remuneration policy does not raise environmental, operational, social or governance risks by inadvertently motivating irresponsible behaviours.

In reviewing remuneration arrangements, the Committee considers the following objectives:

- keep the design simple;
- gear remuneration towards performance-related pay;
- emphasise long-term performance;
- ensure annual incentives reward the achievement of short-term objectives key to delivering the long-term strategy;
- ensure that each element of the package is based on different performance criteria;
- incorporate significant deferral requirements;
- ensure incentive payments are commensurate with the Company's underlying performance; and
- take account of corporate governance guidance.

The graphic below indicates how the current incentive structure operates:



The current long-term incentive structure also reflects the long-term incentive arrangements introduced for employees below Executive Committee level, as summarised on page 86. Awards to Directors under the Premier Oil 2017 Long Term Incentive Plan ('2017 LTIP') comprise three key elements – Restricted Share Awards, Performance Share Awards and Deferred Bonus Awards. The combination of these three elements places greater focus on outcomes that are controllable and that reward out-performance of the market rather than outcomes related to the commodity cycle. The maximum opportunity under the 2017 LTIP has been significantly reduced to reflect the Restricted Share Award element. Further details are included in the Policy Table on pages 85 to 86.

Executive Director Policy

A summary of the Policy for Executive Directors is set out below:

Salary

Purpose and link to strategy	• To provide an appropriate level of salary to support recruitment and retention, and with due regard to the role and the individual's responsibilities and experience
Operation	<ul style="list-style-type: none"> • Typically reviewed annually with reference to Company and individual performance, each executive's responsibilities and experience, the external market for talent, and salary increases across the Group • Salaries are benchmarked against oil and gas sector companies and UK-listed companies of a similar size to Premier • Adjustments are normally effective 1 January
Opportunity	<ul style="list-style-type: none"> • Salary increases are awarded taking into account the outcome of the review and also broader circumstances (including, but not limited to, a material increase in job complexity and inflation) • Salary increases will normally be in line with increases awarded to other employees. The Committee may make additional adjustments in certain circumstances to reflect, for example, an increase in scope or responsibility, to address a gap in market positioning and/or to reward performance of an individual, and where it does so the Committee will provide an explanation in the relevant year's Annual Report on Remuneration • The Executive Director salaries for the financial year under review are disclosed in the Annual Report on Remuneration
Performance metrics	• Not applicable

Pension

Purpose and link to strategy	• To help provide a competitive pension provision
Operation	<ul style="list-style-type: none"> • Executive Directors who join Premier on or after 20 August 2013 are eligible to participate in the Company's defined contribution personal pension plan and/or receive an equivalent cash supplement • For Executive Directors who joined prior to 20 August 2013, the Company provides a pension substantially as if they are contributing members of the Company's final salary Retirement and Death Benefits Plan (the 'Scheme'), which was closed to new members in 1997 • The only pensionable element of pay is salary
Opportunity	<ul style="list-style-type: none"> • Executive Directors who join Premier on or after 20 August 2013 receive pension contributions and/or an equivalent cash supplement equal to 20 per cent of salary • For Executive Directors who joined prior to 20 August 2013 the Scheme provides a payment on broadly a fiftieths accrual basis up to two-thirds of salary at age 60, with benefits actuarially reduced on early retirement and pensions in payment increased in line with the lower of inflation, or 5 per cent per annum. The Scheme is subject to an internal earnings cap which is reviewed annually but for Executive Directors, the Company provides for pension benefits above the earnings cap through a 'pension promise', based on the cash equivalent transfer value of benefits accrued within the defined benefit scheme for earnings above the earnings cap. The way this promise is currently administered is as follows: <ol style="list-style-type: none"> 1. Executive Directors are given a pension allowance equal to 20 per cent of uncapped salary. This may either be paid into a pension scheme and/or as a salary supplement 2. Executive Directors accrue notional defined benefits entitlement within the Scheme 3. To the extent that payments made under 1 above are not paid into the Scheme, they are deemed to have been invested into a Life Fund 4. At the point that a Director departs or retires, a comparison is undertaken between the value of the notional defined contribution pot outlined in 3 above and the cash equivalent transfer value of the notional defined benefits. Subject to appropriate deductions, the differential is available either as a contribution into their pension plan or a cash payment 5. 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 may provide an additional payment
Performance metrics	• Not applicable

Benefits

Purpose and link to strategy • To provide a benefits package competitive in the market for talent

Operation • Executive Directors receive a competitive benefits package, which may include medical and dental insurance, car allowance, life assurance, income protection cover, personal accident insurance, expatriate benefits, relocation allowance, health checks and a subsidised gym membership. Other benefits may be introduced from time to time to ensure the benefits package is appropriately competitive and reflects the circumstances of the individual Director

Opportunity • Set at a level which the Committee considers appropriate for the role and individual circumstances
• The benefits payable to the Executive Directors during the financial year under review are disclosed in the Annual Report on Remuneration

Performance metrics • Not applicable

All-employee share plans

Purpose and link to strategy • To encourage share ownership in Premier

Operation • Executive Directors may participate in all-employee share plans on the same terms as other employees
• In particular, UK-based employees (including Executive Directors) may be invited to participate in the following HMRC approved share plans:
– Share Incentive Plan ('SIP'), under which employees may buy partnership shares using gross pay and the Company may then grant matching shares. Under the SIP, free shares may also be granted. Dividends may accrue on any shares and be automatically reinvested
– Save As You Earn ('SAYE') scheme under which employees are invited to make regular monthly contributions over three or five years to purchase shares through options which may be granted at a discount

Opportunity • Under the SIP, participants may spend up to the HMRC permitted allowance to buy partnership shares, and matching shares may be granted up to the HMRC permitted limit
• Under the SAYE, employees may save up to the HMRC permitted allowance

Performance metrics • Not applicable

Annual bonus

Purpose and link to strategy • To reinforce the delivery of key short-term financial and operational objectives and, through the deferred share element, help ensure alignment with shareholders and support retention

Operation • Performance is measured on an annual basis for each financial year against stretching but achievable financial and non-financial targets, comprising Key Performance Indicators ('KPIs'), other corporate objectives and personal performance
• Performance measures, weightings and targets are set at the beginning of the year and weighted to reflect business priorities
• Annual bonus awards up to 50 per cent of salary are normally paid in cash, with any award above this deferred in shares for three years
• Dividend equivalents may accrue on Deferred Bonus Awards and be paid on those shares which vest
• Annual bonus payouts and deferred shares are subject to malus and clawback in the event of material misstatement of the Company's financial results, gross misconduct, material error in the calculation of performance conditions, or in such other exceptional circumstances as the Committee sees fit
• The Committee may exercise malus and clawback until the later of: (i) one year from the payment of the bonus or the vesting of the shares, or (ii) the completion of the next audit after payment/vesting

Opportunity • Up to 120 per cent of salary
• Target amount is 60 per cent of salary

Performance metrics • Performance is assessed against a corporate scorecard encompassing several performance categories, which may include some or all of: production; exploration; Health, Safety, Environment and Security; finance; business development; and personal and strategic objectives
• Normally, the Committee would not expect the weighting for any performance category in the corporate scorecard to be higher than 50 per cent. However, it retains discretion to adjust weightings to align with the business plan for each year
• The Committee may adjust the bonus outcome to ensure alignment with underlying Company performance
• Further details of the measures, weightings and targets applicable for the financial year under review are provided in the Annual Report on Remuneration on pages 92 to 107

Long-term incentives

The Premier Oil 2017 Long Term Incentive Plan – Performance Share Awards

Purpose and link to strategy	<ul style="list-style-type: none"> To support alignment with shareholders by reinforcing the delivery of returns to shareholders, with a focus on relative stock market out-performance over the long term, and with due regard for the underlying financial and operational performance of the Company
Operation	<ul style="list-style-type: none"> The Committee may grant Performance Share Awards annually Awards may be in the form of nil or nominal priced options or conditional shares Performance Share Awards vest after three years subject to performance and continued employment Award levels and performance conditions are reviewed in advance of each grant to ensure they remain appropriate The net (i.e. after tax) shares received from any awards vesting are subject to a minimum two-year Holding Period such that the total time horizon is at least five years. The Holding Period may be terminated early if the executive ceases employment due to death, ill-health, injury or disability. If an executive is dismissed for gross misconduct, shares subject to the Holding Period will be forfeited for no payment Unvested awards for good leavers are normally pro-rated to the date of termination subject to performance review at the Normal Vesting Date. Unvested awards for bad leavers are forfeited. Vested awards for both good and bad leavers remain subject to the Holding Period except as described above Dividend equivalents may accrue on Performance Share Awards and be paid in shares or cash on those shares which vest All Performance Share Awards are subject to malus and clawback in the event of a material misstatement of the Company's financial results, gross misconduct, material error in the calculation of performance conditions or in such other exceptional circumstances as the Committee sees fit The Committee may exercise malus and clawback until the later of: (i) one year from the vesting date or (ii) the completion of the next audit after vesting
Opportunity	<ul style="list-style-type: none"> Performance Share Awards may be granted up to 175 per cent of salary
Performance metrics	<ul style="list-style-type: none"> Performance Share Awards normally vest based on Premier's TSR performance relative to a comparator group of international oil and gas sector peers. Up to 25 per cent vests for median performance, with full vesting for upper quartile performance and straight-line vesting in between Ahead of each performance cycle, the Committee may review and adjust the TSR comparator group for future cycles to ensure relevance to Premier. The Committee may adjust the TSR comparator group for outstanding cycles in the event that a TSR comparator ceases to exist, de-lists or is acquired or the Committee deems it to be no longer a suitable comparator Before finalising Performance Share Award payouts, the Committee assesses the underlying financial and operational performance of the Company, and, if appropriate, may reduce the level of vesting Further details of the measures, weightings and targets applicable for awards granted in 2017 and 2018 are provided in the Annual Report on Remuneration on pages 92 to 107

Long-term incentives continued

The Premier Oil 2017 Long Term Incentive Plan – Restricted Share Awards

Purpose and link to strategy	<ul style="list-style-type: none"> The Restricted Share Awards specifically align to our refinancing circumstances and requirement to deleverage the Company decoupled from other performance objectives
Operation	<ul style="list-style-type: none"> The Committee may grant Restricted Share Awards annually Awards may be in the form of nil or nominal priced options or conditional shares Award levels are reviewed in advance of each grant to ensure they remain appropriate Restricted Share Awards normally vest in one third increments in years three, four and five respectively subject to continued employment and the achievement of a financial underpin measured at the end of year three The net (i.e. after tax) shares received from any awards vesting are subject to a Holding Period such that the total time horizon is at least five years. The Holding Period may be terminated early if the executive ceases employment due to death, ill-health, injury or disability. If an executive is dismissed for gross misconduct, shares subject to the Holding Period will be forfeited for no payment Unvested awards for good leavers are normally pro-rated to the date of termination subject to performance review at the Normal Vesting Date. Unvested awards for bad leavers are forfeited. Vested awards for both good and bad leavers remain subject to the Holding Period except as described above Dividend equivalents may accrue on Restricted Share Awards and be paid in shares or cash on those shares which vest All Restricted Share Awards are subject to malus and clawback in the event of a material misstatement of the Company's financial results, gross misconduct, material error in the calculation of performance conditions or in such other exceptional circumstances as the Committee sees fit The Committee may exercise malus and clawback until the later of: (i) one year from the vesting date, or (ii) the completion of the next audit after vesting
Opportunity	<ul style="list-style-type: none"> Restricted Share Awards may be granted up to 40 per cent of salary
Performance metrics	<ul style="list-style-type: none"> Restricted Share Awards vest subject to continued employment, a financial underpin based on the Company's capital structure and balance sheet strength, and Committee assessment of overall Company performance For awards granted in 2017, this performance underpin is specifically related to two metrics to assure balance sheet and business strength – the reduction in absolute level of net debt and the reduction of the ratio of net debt to EBITDA. For awards granted in 2018, the underpin comprises a net debt to EBITDA component. These performance underpins are in line with the covenants agreed with our lenders in 2017. Underpin metrics for subsequent grants will be selected to specifically reinforce changes to strategic focus in future years

Further details on the Policy

Remuneration Policy for other employees

The Company's policy for all employees is to provide remuneration packages which reward them fairly and responsibly for their contributions.

Premier's approach to annual salary reviews is consistent across the Group. All employees participate in the Company's incentive structures and, like the remuneration package for Executive Directors, remuneration is structured such that a proportion of total remuneration is delivered through long-term share-based incentives to ensure maximum alignment with shareholders.

The Executive Committee and other senior leaders all participate in the same annual bonus plan as for Executive Directors with the opportunity tailored to the role and level of seniority. They also participate in the same long-term incentive plan and structure but for the most part at a lower quantum of opportunity.

The broader employee population participates in the Premier Value Share Plan ('PVSP'). Similar to the LTIP for senior executives, under the PVSP, annual awards of time-vesting restricted shares and three-year performance-vesting shares are made, with performance-vesting shares subject to the achievement of Premier's delivery of long-term shareholder return.

Similarly, all employees are eligible to receive an annual bonus, with measures and targets tailored to individual business units and responsibilities as appropriate. The specific bonus framework varies by job level and scope to ensure annual incentives support motivation and retention accordingly. These schemes provide a clear link between pay and performance, ensuring that superior remuneration is paid only if superior performance is delivered.

Share ownership requirements

The Committee aims to ensure that our Remuneration Policy serves shareholder interests and closely reflects the Group's business strategy. Further, the Company recognises the importance of aligning the interests of Executive Directors with shareholders through the building up of a significant shareholding in the Company. Accordingly, the Company requires the Executive Directors to retain no less than 50 per cent of the net value of shares vesting under the Company's long-term incentive plans until such a time that they have reached a holding worth 250 per cent of salary.

Details of the current shareholdings of the Executive Directors are provided in the Annual Report on Remuneration on page 104.

Incentive plan discretions

The Committee operates the Company's incentive plans according to their respective rules and Remuneration Policy, and in accordance with the Listing Rules and HMRC rules where relevant. The rules of the new long-term incentive plan (the 'Premier Oil 2017 Long Term Incentive Plan') were approved by shareholders at the 2017 AGM.

In line with common market practice, the Committee retains discretion as to the operation and administration of these incentive plans, including with respect to:

- who participates;
- the timing of grant and/or payment;
- the size of an award and/or payment (within the plan limits approved by shareholders);
- the manner in which awards are settled;
- the choice of (and adjustment of) performance measures and targets in accordance with the Remuneration Policy and the plan rules;
- in exceptional circumstances, amendment of any performance conditions applying to an award, provided the new performance conditions are considered fair and reasonable and are neither materially more nor materially less challenging than the original performance targets when set;
- discretion relating to the measurement of performance in the event of a variation of share capital, change of control, special dividend, distribution or any other corporate event which may affect the current or future value of an award;
- determination of a good leaver (in addition to any specified categories) for incentive-plan purposes, based on the plan rules and the appropriate treatment under the plan rules; and
- adjustments required in certain circumstances (e.g. rights issues, share buybacks, special dividends, other corporate events, etc.).

Any use of the above discretions would, where relevant, be explained in the Annual Report on Remuneration for the relevant year. As appropriate, it might also be the subject of consultation with the Company's major shareholders.

Minor changes

The Committee may make minor amendments to the Policy set out above (for regulatory, exchange control, tax or administrative purposes or to take account of a change in legislation) without requiring prior shareholder approval for that amendment.

Provisions of the 2014 Remuneration Policy that will continue to apply

Any commitment made prior to, but due to be fulfilled after, the date of the 2017 AGM (being the date on which the 2017 Policy became effective) will be honoured. Such commitments include the following:

- Equity Pool Awards and Performance Share Awards under the 2009 Long Term Incentive Plan. As at 31 December 2018, Messrs Durrant, Allan and Rose had outstanding awards under the 2016 LTIP cycle ('2016 LTIP'). In March 2019, the Committee determined that, based on the performance achieved to 31 December 2018, the Equity Pool Awards and Performance Share Awards under the 2016 LTIP should vest. Further details of the final vesting levels are outlined on page 98. The value of vested Equity Pool Awards under the 2016 LTIP are subject to a cap of 50 per cent of salary.
- The grant of Deferred Awards under the 2009 Long Term Incentive Plan. 50 per cent of any shares vesting pursuant to the 2016 LTIP Equity Pool Awards and Performance Share Awards will be deferred into shares in the form of a Deferred Award. The Deferred Shares will be subject to a three-year deferral period ending on 31 December 2021. The awards will not qualify for a Matching Award.
- Good leaver and change of control provisions will continue to apply in accordance with the rules of the 2009 Long Term Incentive Plan.
- Deferred Bonus Awards granted in relation to bonuses for the year ended 31 December 2016.
- Malus and clawback and change of control provisions will continue to apply to all outstanding awards under the 2009 Long Term Incentive Plan and to bonus awards made to Directors for the year ended 31 December 2016.
- Robin Allan was employed by the Company between September 1986 and November 1999 and is entitled to a deferred pension under the Scheme in respect of this period of employment.

Illustration of application of the Executive Director Remuneration Policy

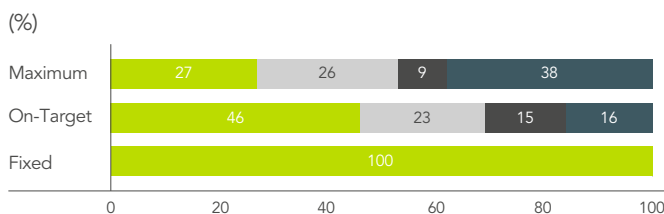
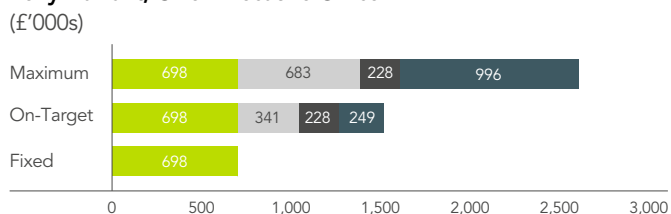
The 2017 Policy is geared towards performance-orientated pay, with a particular emphasis on long-term performance. For example, at 'on-target' performance, approximately 54 per cent of the CEO's remuneration package is delivered through variable components; this is broadly unchanged from the 2014 Policy. However, the Committee has significantly de-leveraged and de-risked remuneration arrangements, with the maximum potential opportunity reduced by around 40 per cent compared with arrangements under the 2014 Policy.

The performance scenario charts below show the estimated remuneration that could be received by the current Executive Directors for 2019, both in absolute terms and as a proportion of the total package under different performance scenarios. The assumptions underlying each performance scenario are detailed in the table below:

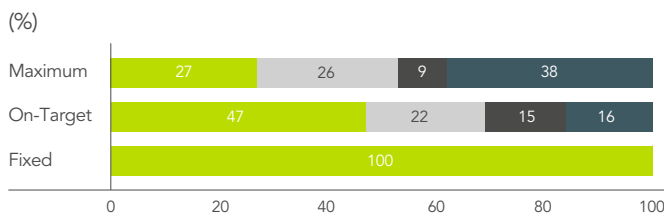
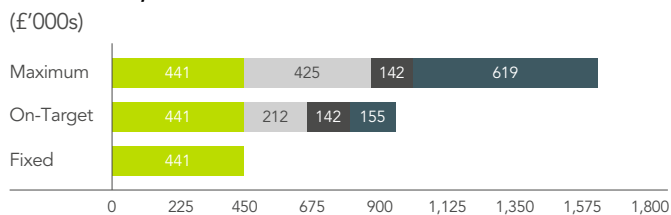
Remuneration receivable for different performance scenarios			
	Minimum	On-Target	Maximum
Fixed pay	<ul style="list-style-type: none"> • 2019 salary, as disclosed in the Annual Report on Remuneration on page 102 • 2018 taxable benefits, as provided in the single figure table on page 94 • Pension contribution of 20 per cent of salary for the Finance Director and 2018 pension benefits for other Executive Directors as provided in the single figure table on page 94 		
Annual bonus	Nil payout	Payout of 50 per cent of maximum	Maximum payout (120 per cent of salary)
Long-term incentive plan	Nil payout	<ul style="list-style-type: none"> • Performance Share Awards vest at 25 per cent of maximum • Restricted Share Awards vest in full 	<ul style="list-style-type: none"> • Performance Share Awards vest in full (175 per cent of salary) • Restricted Share Awards vest in full (40 per cent of salary)

The charts below illustrate the potential reward opportunities for each of the current Executive Directors for the three performance scenarios.

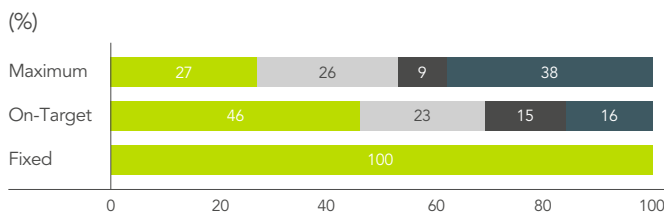
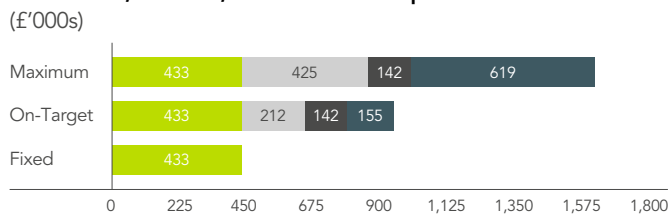
Tony Durrant, Chief Executive Officer



Richard Rose, Finance Director



Robin Allan, Director, North Sea and Exploration



Legend: Fixed (Green), Annual bonus (Grey), Restricted Share Awards (Dark Grey), Performance Share Awards (Dark Blue)

Notes:
 The valuation of Annual bonus, Performance Share Awards ('PSAs') and Restricted Share Awards ('RSAs') excludes share price appreciation, any dividend accrual and the impact of any scale back of awards. RSAs vest in one third increments in years three, four and five respectively subject to continued employment and a performance underpin. PSAs vest after three years subject to TSR performance and continued employment. Both PSA and RSA awards are subject to a Holding Period ending on the fifth anniversary of the date of grant of the awards.

Approach to remuneration of Executive Directors on recruitment

In the cases of hiring or appointing a new Executive Director, the Committee may make use of all the existing components of remuneration.

The salaries of new appointees will be determined by reference to the experience and skills of the individual, relevant market data, internal relativities and their current salary. New appointees will be eligible to receive a personal pension, benefits and to participate in the Company's HMRC approved all-employee share schemes, in line with the Policy.

The annual bonus structure described in the Policy Table will normally apply to new appointees with the relevant maximum being pro-rated to reflect the period served. Objectives under the individual element will be tailored towards the executive. New appointees are eligible for awards under the Company's Long Term Incentive Plan which will normally be on the same terms as other Executive Directors, as described in the Policy Table.

When determining appropriate remuneration for a new Executive Director, the Committee will take into consideration all relevant factors (including quantum, nature of remuneration and the jurisdiction from which the candidate was recruited) to ensure that the pay arrangements are in the best interests of both Premier and its shareholders. The Committee may consider it appropriate to 'buy out' incentive arrangements forfeited on leaving a previous employer. In doing so, the Committee will use the existing Policy where possible or, in exceptional circumstances, the Committee may exercise the discretion available under Listing Rule 9.4.2R. The value of any such award will not be higher than the expected value of the outstanding equity awards and, in determining the expected value, the Committee will use a Black-Scholes, or equivalent, valuation and, where applicable, discount for any performance conditions attached to these awards.

In cases of appointing a new Executive Director by way of internal promotion, the Committee will apply the Policy for external appointees detailed above. Where an individual has contractual commitments that vary from our Policy for Executive Directors, but made prior to his or her promotion to Executive Director level, the Company will continue to honour these arrangements.

Service contracts and exit payments and change of control provisions

Executive Director service contracts, including arrangements for early termination, are carefully considered by the Committee and are designed to recruit, retain and motivate Directors of the quality required to manage the Company. The service contract of each Executive Director may be terminated on 12 months' notice in writing by either party. Executive Directors' contracts are available to view at the Company's registered office.

Details of the service contracts of the current Executive Directors are as follows:

Director	Contract date	Unexpired term of contract
Robin Allan	09.12.03	Rolling contract
Tony Durrant	01.07.05	Rolling contract
Richard Rose	25.07.14	Rolling contract

The Company will consider termination payments in light of the circumstances on a case-by-case basis, taking into account the relevant contractual terms, the circumstances of the termination and any applicable duty to mitigate. In such an event, the remuneration commitments in respect of the Executive Director contracts could amount to one year's remuneration based on salary, benefits in kind and pension rights during the notice period, together with payment in lieu of any accrued but not taken holiday leave, if applicable. 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 will honour previous commitments as appropriate, considering each case on an individual basis.

The table below summarises how Performance Share Awards and Restricted Share Awards under the Premier Oil 2017 Long Term Incentive Plan and Annual Bonus Awards are typically treated in different leaver scenarios and on a change of control. Whilst the Committee retains overall discretion on determining 'good leaver' status, it typically defines a 'good leaver' in circumstances such as retirement with agreement of the Company, ill health, disability, death, redundancy, or part of the business in which the individual is employed or engaged ceasing to be a member of the Group. Final treatment is subject to the Committee's discretion.

Event	Timing of vesting/award	Calculation of vesting/payment
Annual bonus/Deferred Bonus Awards		
'Good leaver'	<ul style="list-style-type: none"> Annual bonus is paid at the same time as to continuing employees Unvested Deferred Bonus Awards vest on cessation of employment 	<ul style="list-style-type: none"> Annual bonus is paid only to the extent that any performance conditions have been satisfied and is pro-rated for the proportion of the financial year worked before cessation of employment
'Bad leaver'	<ul style="list-style-type: none"> Not applicable 	<ul style="list-style-type: none"> Individuals lose the right to their annual bonus and unvested Deferred Bonus Awards
Change of control¹	<ul style="list-style-type: none"> Annual bonus is paid and unvested Deferred Bonus Awards vest on the date of change of event 	<ul style="list-style-type: none"> Annual bonus is paid only to the extent that any performance conditions have been satisfied and is pro-rated for the proportion of the financial year worked to the effective date of change of control
Restricted Share Awards and Performance Share Awards		
'Good leaver'	<ul style="list-style-type: none"> On normal vesting date subject to the Holding Period (or earlier at the Committee's discretion) 	<ul style="list-style-type: none"> Unvested awards vest to the extent that any performance conditions have been satisfied over the full performance period (or a shorter period at the Committee's discretion) The number of unvested awards is reduced pro-rata to take into account the proportion of the vesting period not served
'Bad leaver'	<ul style="list-style-type: none"> Unvested awards lapse Any vested shares subject to the Holding Period are forfeited by bad leavers who leave due to gross misconduct, but remain and are released at the end of the Holding Period for other bad leavers (e.g. following resignation) 	<ul style="list-style-type: none"> N/A
Change of control¹	<ul style="list-style-type: none"> On the date of the event 	<ul style="list-style-type: none"> Unvested awards vest to the extent that any performance conditions have been satisfied and a pro-rata reduction applies for the proportion of the vesting period not completed

¹ In certain circumstances, the Committee may determine that unvested Deferred Bonus Awards, Restricted Share Awards and Performance Share Awards under the Premier Oil 2017 Long Term Incentive Plan will not vest on a change of control but will instead be replaced by an equivalent grant of a new award, as determined by the Committee, in the new company.

Upon exit or change of control, SAYE and SIP awards will be treated in line with the approved plan rules.

If employment is terminated by the Company, the departing Executive Director may have a legal entitlement (under statute or otherwise) to additional amounts, which would need to be met. In addition, the Committee retains discretion to settle other amounts reasonably due to the Executive Director, for example to meet the legal fees incurred by the Executive Director in connection with the termination of employment, where the Company wishes to enter into a settlement agreement (as provided for below) and, in which case, the individual is required to seek independent legal advice.

In certain circumstances, the Committee may approve new contractual arrangements with departing Executive Directors including (but not limited to) settlement, confidentiality, restrictive covenants and/or consultancy arrangements. These will be used sparingly and only entered into where the Committee believes that it is in the best interests of the Company and its shareholders to do so.

External appointments

Executive Directors are entitled to accept non-executive director appointments outside the Company and retain any fees received providing that the Board's prior approval is obtained. Details of external directorships held by Executive Directors along with fees retained are provided in the Annual Report on Remuneration on page 104.

Consideration of employment conditions elsewhere in the Company

The Committee does not specifically consult with employees over the effectiveness and appropriateness of the Policy. However, the Committee does consider the pay and conditions elsewhere in the Company, including how Company-wide pay tracks against the market. When awarding salary increases to Executive Directors, the Committee takes account of salary increases across the Group, particularly for those employees based in the UK. Further, the Company seeks to promote and maintain good relationships with employee representative bodies – including trade unions – as part of its employee engagement strategy and consults on matters affecting employees and business performance as required in each case by law and regulation in the jurisdictions in which the Company operates.

Consideration of shareholder views

The Committee aims to ensure that the Policy serves shareholder interests and is aligned with the Group's business strategy, market practice and evolving best practice. The Committee Chairman consults major shareholders and proxy advisers ahead of any major changes to the Remuneration Policy, and also from time-to-time to discuss the Remuneration Policy more generally. The Committee considers all feedback received from such consultations, as well as guidance from shareholder representative bodies more generally, to help to ensure the Policy is aligned with shareholder views.

Non-Executive Director Remuneration Policy

Non-Executive Directors have letters of appointment effective for a period of three years, subject to annual re-election by shareholders at each Annual General Meeting in accordance with the UK Corporate Governance Code. All letters of appointment have a notice period of three months and provide for no arrangements under which any Non-Executive Director is entitled to receive remuneration upon the early termination of his or her appointment. Non-Executive Directors' letters of appointment are available to view at the Company's registered office.

Director	Year appointed Director	Date of current appointment letter
Roy A Franklin	2017	10.08.2017
Dave Blackwood	2017	09.08.2017
Anne Marie Cannon	2014	24.01.2017
Jane Hinkley	2010	17.05.2017
Iain Macdonald	2016	13.04.2017
Mike Wheeler	2017	10.08.2017

The Company's Articles of Association provide that the remuneration paid to Non-Executive Directors is to be determined by the Board within limits set by the shareholders. The Policy for the Chairman and Non-Executive Directors is as follows:

Fees

Purpose and link to strategy	<ul style="list-style-type: none"> To provide fees that allow Premier to attract and retain Non-Executive Directors of the highest calibre
Operation	<ul style="list-style-type: none"> Fees for Non-Executive Directors are normally reviewed at least every two years Fees are set with reference to oil and gas sector companies and UK-listed companies of a similar size to Premier Fees paid to the Chairman are determined by the Committee, while the fees of the other Non-Executive Directors are determined by the Board Additional fees are payable for acting as Senior Independent Director, and as Chairman of any of the Board's Committees Adjustments are normally effective 1 January The Non-Executive Director fees for the financial year under review are disclosed in the Annual Report on Remuneration
Opportunity	<ul style="list-style-type: none"> Non-Executive Director fees are set at a level that is considered appropriate in the light of relevant market practice and the size/complexity of the role Aggregate fees are within the limit approved by shareholders in the Articles of Association
Performance metrics	<ul style="list-style-type: none"> Not applicable

Approach to Non-Executive Director recruitment remuneration

In the case of hiring or appointing a new Non-Executive Director, the Committee will follow the Policy as set out in the table above.

Annual Report on Remuneration

Remuneration Committee membership and considerations during 2018

As at 31 December 2018, the Committee comprised four Non-Executive Directors, all of whom are independent. Jane Hinkley served as Chair of the Remuneration Committee throughout the year. Membership of the Committee during 2018 is summarised below:

Committee Member	Member throughout 2018	Appointed during 2018 (Date)
Jane Hinkley (Chair)	Yes	–
Anne Marie Cannon	Yes	–
Dave Blackwood	Yes	–
Mike Wheeler	No	15 October 2018

Members of the Committee met without any executives present for part of each meeting. The Chairman of the Board and the Chief Executive Officer attended meetings of the Committee by invitation but absented themselves when the Committee discussed matters relating to their own remuneration. The Group HR Director attended meetings as appropriate. The Company Secretary acts as Secretary to the Committee and attends all meetings of the Committee. Members of the Board and any other employees attending Committee meetings leave the meeting when their own remuneration is being discussed.

The Committee acts within written terms of reference, which are reviewed regularly and published on the Company's website www.premier-oil.com. The main responsibilities of the Committee include:

- determining the Remuneration Policy for Executive Directors and senior management and engaging with the Company's principal shareholders thereon;
- determining the individual remuneration packages for each Executive Director and any changes thereto;
- approving the remuneration package of the Chairman;
- considering the design of, and determining targets for, the annual bonus plan;
- reviewing and recommending to the Board the establishment of any new employee share plans and any material amendments to the Company's existing share plans;
- determining the quantum and performance conditions for long-term incentive awards;

- reviewing pension arrangements, service agreements and termination payments for Executive Directors and senior management;
- approving the Directors' Remuneration Report, ensuring compliance with related governance provisions and legislation;
- reviewing the Gender Pay Gap Report;
- reviewing bonus outcomes for the Group, including Executive Directors; and
- considering the remuneration policies and practices across the Group.

During 2018, the Committee met six times. Four meetings were scheduled in advance with two ad-hoc meetings held.

Key activities of the Committee during the year included:

- determining the remuneration for Executive Directors, including consideration of annual pay adjustments for the Executive Directors and senior management alongside the broader employee population and reviewing pension arrangements for Executive Directors and employees;
- consulting with shareholders on the 2017 remuneration outcomes and implementation of the Remuneration Policy and on the reasons for the significant vote received against the resolution to approve the Directors' Remuneration Report at the 2018 Annual General Meeting (further details can be found on page 93);
- considering the outcome of the employee-wide compensation review;
- monitoring dilution limits across the Company's share schemes and ensuring that share awards were made with due regard to limiting shareholder dilution;
- approving the issue of an invitation under the Company's SAYE Scheme to all qualifying employees;
- considering and subsequently approving long-term incentive awards to be made to the broader employee population (excluding Directors and certain members of senior management) under the terms of the Company's Premier Value Share Plan ('PVSP');
- considering and subsequently approving long-term incentive awards to Executive Directors and members of senior management under the terms of the 2017 LTIP, including setting performance conditions;
- determining the 2017 bonus outcome and bonus targets for 2018;
- monitoring performance of outstanding awards under the Premier Oil 2009 Long Term Incentive Plan ('2009 LTIP') and considering the treatment of share issuances during the year with respect to the performance conditions associated with the 2009 LTIP (further details can be found on page 98);
- considering the gender pay gap reporting requirements;
- reviewing market trends in executive remuneration;
- reviewing developments in best practice on executive remuneration;
- consideration of the independence of the Committee's remuneration advisers;
- reviewing the Committee's terms of reference;
- assessing the impact of the 2018 UK Corporate Governance Code; and
- reviewing the Committee's performance.

Advisers

Mercer | Kepler, a brand of Mercer Limited which is part of the MMC group of companies ('Kepler'), is the independent adviser to the Committee. Kepler was appointed by the Committee in 2011 through a competitive tender process and was retained during the year. The Committee is of the view that Kepler provides independent remuneration advice to the Committee and does not have any connections with Premier that may impair its independence. Kepler is a founding member and signatory to the UK Remuneration Consultants' Code of Conduct which governs standards in the areas of transparency, integrity, objectivity, confidentiality, competence and due care, details of which can be found at www.remunerationconsultantsgroup.com. In 2018, Kepler provided advice on remuneration for executives, market and best practice guidance, and on the shareholder consultation process with respect to the implementation of the Remuneration Policy. They also assisted with the drafting of the Directors' Remuneration Report and attended Committee meetings. Kepler reports directly to the Committee and provides no other services to the Company. Its total fee for the provision of remuneration services in 2018 was £97,690 on the basis of time and materials.

During the year, the Committee also took advice from PwC to provide performance updates on outstanding awards granted under the 2009 and 2017 LTIPs. PwC also provided advice to the Committee regarding possible adjustments to the 2009 LTIP to reflect share issuances made by the Company during the year. Total fees for PwC for the provision of remuneration services in 2018 were £36,000

The Committee evaluates the support provided by its advisers annually and is satisfied that the advice it received in 2018 was objective and independent.

Voting on remuneration matters

Section 439A of the Companies Act 2006 (the 'Act') requires the Remuneration Policy to be submitted to shareholders for a binding vote every three years or where there is a change in the Remuneration Policy. Accordingly, a new Remuneration Policy (the '2017 Remuneration Policy') was submitted to shareholders for approval at the Company's 2017 Annual General Meeting. The Policy is included on pages 82 to 91 of the Annual Report for reference and a copy can also be found on the Company's website www.premier-oil.com.

Votes received at the 2018 Annual General Meeting in respect of approval of the Annual Report on Remuneration along with the votes received at the 2017 Annual General Meeting on the Directors' Remuneration Policy, are set out below.

Resolution	Votes FOR and % of votes cast		Votes AGAINST and % of votes cast		Votes WITHHELD
Directors' Annual Report on Remuneration	258,516,183	68.34%	119,764,664	31.66%	6,260,141
Directors' Remuneration Policy (2017)	126,747,108	88.18%	16,991,271	11.82%	273,793

The Committee notes that the resolution to approve the Remuneration Report in 2018 received a significant number of votes cast against it (31.66% of the votes cast). As part of its regular programme of engagement with shareholders, following the publication of the 2017 Annual Report, the Committee wrote to the institutional investors represented among the Company's top 20 shareholders offering to discuss the Remuneration Report and any other Remuneration matters of concern to them. Following the 2018 AGM, the Committee analysed the voting outcome and wrote to the 30 out of the top 40 institutional shareholders (representing 53% of the share register) who had voted at the AGM either for or against the Remuneration Report, inviting them to discuss with the Company their views on the Remuneration Policy and its implementation. The Committee considered it important to contact positive as well as negative voters in order to encourage further engagement on their part. Only one shareholder (representing just over 2 per cent of the shares in issue at the time) took up this offer, and the Committee has considered this feedback when determining remuneration outcomes for 2018 and will continue to do so during its review of the Remuneration Policy during 2019 and 2020.

When considering shareholders' responses, the Committee noted that a majority of the dissenting institutional shareholders had followed guidance issued by one or more of the main proxy voting advisory firms, which had highlighted the level of bonus pay-out for Executive Directors in a year of equity dilution and the alignment of pay with performance. The Committee is also aware that some shareholders are not in favour of the use of Restricted Shares.

In taking the decision to award bonuses in respect of 2017, the Committee took account of the strong operational performance of the Company during the year, as reflected in the strong achievement of the scorecard used to assess the corporate element of the bonus, as well as the need to continue to motivate all employees, including the Executive Directors. The Committee concluded that the most appropriate mechanism through which to reflect the shareholder experience during 2017 was through the continued scale-back of awards under the 2017 LTIP and more challenging LTIP performance targets.

Restricted Share Awards are part of the Remuneration Policy approved by 88 per cent of shareholders who voted in 2017; which included the introduction of a performance underpin. In response to our shareholder consultation, shareholding requirements were increased to at least 250 per cent of salary for all Executive Directors. In addition, the Committee has considered the views expressed by shareholders and believes that the use of Restricted Share Awards continues to be appropriate and, in particular, that the Restricted Share Awards are appropriately aligned to the circumstances of the Company's financial objectives.

The Board would like to thank those shareholders and voting bodies who engaged with the Committee on Directors' Remuneration. The Committee is committed to continuing dialogue with shareholders to help shape the implementation of our Remuneration Policy and welcomes further engagement and feedback.

Single total figure of remuneration for Executive and Non-Executive Directors (audited)

Single total figure of remuneration for Executive Directors

The table below reports total remuneration for the year ended 31 December 2018 for each Executive Director who served as a Director at any time during the year. The information contained in the table is as prescribed by the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 and contains a single total figure of remuneration for each Executive Director.

Director	Salary ¹ £'000s		Taxable benefits ² £'000s		Bonus ³ £'000s		Long-term incentives ⁴ £'000s		Pension ⁵ £'000s		Other Payments ⁶ £'000s		Total £'000s	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Robin Allan	353.8	353.8	23.1	22.7	225.7	265.3	287.5	0	56.1	94.1	1.5	1.5	947.7	737.4
Tony Durrant	569.0	569.0	25.5	25.6	370.4	433.0	507.8	0	103.2	445.2	1.5	1.5	1,577.4	1,474.3
Richard Rose	353.8	353.8	23.6	22.2	235.2	269.2	257.6	0	63.4	63.7	1.8	1.8	935.4	710.7

Notes to 2018 figures (unless stated):

- Salary is shown on a gross basis.
- Taxable benefits include medical and dental insurance, car allowance, life assurance, income protection, personal accident insurance and a subsidised gym membership. In particular, in 2018, Robin Allan, Tony Durrant and Richard Rose each received a car allowance of £15,000
- Robin Allan, Tony Durrant and Richard Rose received total annual bonus awards for the year ended 31 December 2018 of 63.79 per cent of salary, 65.09 per cent of salary and 66.48 per cent of salary respectively out of a maximum bonus opportunity of 120 per cent of salary. Bonus amounts above 50 per cent of salary will be awarded in the form of deferred shares ('Deferred Bonus Awards'). The number of Deferred Bonus Awards will be calculated by reference to the five-day average price of Premier Oil shares over the period immediately preceding the date of grant. The awards have been approved by the Committee and it is anticipated that they will be granted as soon as reasonably practicable following the release of the Company's 2018 Results. The Deferred Bonus Awards vest at the end of a three-year period from the date of grant subject to continued employment. Good leaver provisions apply such that awards may vest before the end of the three-year period if an Award holder leaves in exceptional circumstances such as death, redundancy, change of control and retirement. Further details of the 2018 total annual bonus awards to each Executive Director, including performance criteria, achievement and resulting awards, are set out on pages 95 to 98.
- Long-term incentives include awards granted under the Premier Oil 2009 Long Term Incentive Plan ('2009 LTIP') subject to a performance period ending in the relevant financial year. In March 2019, the Committee determined that, based on the performance achieved to 31 December 2018, the Equity Pool Awards and Performance Share Awards under the 2009 LTIP should vest. Further details of the final vesting levels are outlined on page 98. Total vesting values shown in the table above are based on a share price of 88.96p (the volume weighted average price from 1 October 2018 to 31 December 2018). Further details of performance conditions for the 2009 LTIP are contained in the 2014 Remuneration Policy, a copy of which can be found on the Company's website www.premier-oil.com.
- Richard Rose's pension figure includes a combination of pension contributions to the defined contribution scheme and a salary supplement. For other Executive Directors, pension figures are accrued pension entitlements under the Company's final salary scheme and exclude Director contributions. See page 99 of the Annual Report on Remuneration for further details on total pension entitlements for each Executive Director.
- Other payments for Robin Allan, Tony Durrant and Richard Rose comprise Share Incentive Plan ('SIP') awards only. SIP awards are valued as the number of Matching Awards granted multiplied by the share price at date of award. Other payments would normally include both SIP and Save As You Earn ('SAYE') awards. No SAYE awards were granted to the Executive Directors in 2018. No discount was applied to SAYE awards granted in 2016 and therefore the embedded value of those options was nil. Participation in the SIP and SAYE schemes is available to all qualifying employees. Full details of Executive Director SAYE options and SIP awards are available on page 107 of the Annual Report on Remuneration.

Single total figure of remuneration for Non-Executive Directors

Director	Base fee £'000s		Additional fees £'000s		Expenses ¹ £'000s		Total £'000s	
	2018	2017	2018	2017	2018	2017	2018	2017
Roy A Franklin (Chairman)	169.6	56.5	–	–	5.9	3.0	175.5	59.5
Dave Blackwood	53.0	20.9	–	–	–	–	53.0	20.9
Anne Marie Cannon	53.0	53.0	–	–	–	–	53.0	53.0
Jane Hinkley	53.0	53.0	21.2	17.2	–	0.1	74.2	70.3
Iain Macdonald	53.0	53.0	10.6	6.6	–	0.2	63.6	59.8
Mike Wheeler	53.0	20.9	–	–	–	–	53.0	20.9

Notes to 2018 figures (unless stated):

1 Amounts disclosed relate to taxable travel and accommodation expenses paid to Non-Executive Directors in respect of qualifying services during the year.

No fees were paid to Non-Executive Directors for membership of a Committee or for attending Committee meetings. Additional fees were payable of £10,600 (2017: £10,600) for acting as Senior Independent Director, as Chairman of the Audit and Risk Committee or as Chairman of the Remuneration Committee. The Company Chairman waived the fee of £10,600 payable to him as Chairman of the Nomination Committee.

Payments for loss of office (audited)

There were no payments for loss of office during the year.

Payments to past Directors (audited)

There were no payments to past Directors during the year

2018 Annual Bonus (audited)

In line with the Company's 2017 Remuneration Policy, during 2018 Executive Directors participated in non-pensionable annual bonus arrangements. The 2018 annual bonus provided for awards of between 0 per cent and 120 per cent of salary for Executive Directors. Annual performance was assessed against a performance scorecard encompassing health, safety, environment and security ('HSES'), production, development, exploration, finance, business development and organisation, as well as personal performance.

In assessing the 2018 bonus payout, the Committee reviewed performance against each measure in the performance scorecard and considered the overall Company performance and the oil sector environment. In terms of personal performance, the Committee assessed the Executive Director performance against a series of specific individual performance targets focussed on the delivery of financial and operational objectives which were agreed at the start of 2018, further details are set out on page 97.

The Committee agreed that the formulaic outcome of the bonus payments was reflective of the strong underlying operations of the business and the delivery of results during the year. In particular, the Committee noted the stretch delivery of the financial covenant objectives reflecting strong underlying cashflows and operational performance. Also of particular note was the sanction of the Tolmount Main project and the progression of the Zama appraisal plan.

The table below details the financial and operational performance categories, their relative weightings and achievement against specific targets. The table on page 97 provides further details on the Directors' personal objectives.

2018 Corporate Targets

Strategic pillar	Subcategory	Measure	Performance target ranges			Actual Performance	Weighting	Formulaic outcome for the year
			Threshold	Target	Stretch			
Focused on high quality assets with commercially advantaged positions	Production	Portfolio in line with budget (excl. Catcher) (kboepd)	58.9	62.3	64.2	59.0	15%	3.86%
		Catcher in line with ramp-up (kboepd)	23.0	26.8	30.0	21.5	15%	0%
Access to capital and financial liquidity	Finance	On track to meet year-end net debt covenant	Meet covenant	Meet covenant	Net debt >5% below requirement	Net debt covenant >5% below requirement	10%	10%
		On track to meet 2019 1Q EBITDA covenant	Meet covenant	Meet covenant	On track to beat covenant by >5%	On track to beat covenant by >5%	10%	10%
		Opex (US\$/bbl)	17.9	16.9	15.9	16.9	5%	2.5%
		G&A (US\$m)	163	158	153	155.7	5%	3.65%
Operating in a safe and responsible manner	HSES	TRIR (injury rate per million man hours)	1.47	1.17	0.81	2.65	4%	0%
		LOPC (Tier 1 and 2 process safety)	1	0	0	2	4%	0%
		Spills (kg/year)	1000	500	250	392	4%	2.86%
		Leadership visits	16	29	42	35	4%	2.92%
Focused on high quality assets with commercially advantaged positions	Strategic Projects	Progress Tolmount to project sanction	Sanction by 31 Dec with 2021 first gas	Sanction by 31 Dec with 2020 first gas	Sanction by 30 June with 2020 first gas	Project sanctioned in August	8%	5.6%
		Progress financing, fiscal and commercial initiatives for Sea Lion ¹	Threshold performance relating to progress	Target performance relating to progress	Stretch performance relating to progress	Threshold performance achieved	8%	2.4%
		Progress Zama project initiation	Well trade agreement with Pemex	Full appraisal plan agreed with Pemex	Full appraisal plan approved by CNH	Full appraisal plan approved by CNH	8%	8%
Total						100%	51.8%	

Notes:

- ¹ For reasons of commercial sensitivity, the specific project milestone and associated performance targets cannot be disclosed at this time. Disclosure will be made in the 2019 Annual Report where this does not compromise the interests of the Company.

2018 Personal objectives

The achievement against personal objectives represented up to 20 per cent of Annual Bonus opportunity for the Executive Directors. These are a blend of targets related to their individual responsibilities and behavioural attributes. The outcome for the year is summarised below:

Director	Overview of performance objectives	Key achievements in the year	Outcome for the year
Robin Allan	A combination of personal involvement and direction of UK and Exploration objectives	<ul style="list-style-type: none"> • Board sanction decision for the Tolmount Main gas development project. • Mexico appraisal programme, working closely with JV partners, Pemex and Mexican authorities. • Delivery of Exploration key performance indices, notably the conclusion of legacy UKCS exploration commitments and the capture of high potential new acreage in Mexico and Indonesia. • Work related to the disposal of the Pakistan BU, coordinating all aspects of the transaction. • Primary role in external stakeholder management, especially collaboration with the Oil and Gas Authority. 	11.72/20
Tony Durrant	A combination of personal strategic leadership and financial objectives and behavioural attributes	<ul style="list-style-type: none"> • Leadership of the Executive Committee and delivery of the Corporate key performance indices. • Work with the Board on key management succession, organisational structure and expertise. • Above target delivery of financial covenant commitments – both net debt reduction and leverage performance ahead of schedule. Opex, Capex and G&A are all under budget. • Rebuild of equity base and institutional investment support - significantly enhanced with personal commitment to extensive roadshows to 170 institutions. • Delivery of key operational targets, noting Tolmount Main sanction in particular. • On target HSES performance. 	12.80/20
Richard Rose	A combination of financial, investor relations, business development and crude marketing objectives	<ul style="list-style-type: none"> • Successful delivery of year-end covenant net debt and Q1 2019 leverage targets, including disposal programme and induced conversion of outstanding convertible bonds. • Development of a forward plan for a future refinancing. • Management of all treasury commitments and compliance under the current financing arrangements. • Continue building the shareholder register and strengthening investor relations. • Ongoing strategic business development, concurrent with funding and refinancing initiatives. • Enhanced business and cash forecasting. • Delivery of crude marketing hedging differentials. 	13.96/20

2018 Annual Bonus award (audited)

Annual bonuses awarded to Executive Directors are summarised in the table below. Amounts awarded exceeding 50 per cent of salary will be awarded in the form of shares, deferred for three years.

Director	Bonus as % of salary	Total value £	Cash amount £	Amount to be awarded as deferred shares £
Robin Allan	63.8	225,657	176,875	48,782
Tony Durrant	65.1	370,362	284,500	85,862
Richard Rose	66.5	235,173	176,875	58,298

Retrospective disclosure in respect of the 2017 Annual Bonus

The Committee disclosed in the 2017 Directors' Remuneration Report that the bonus target in relation to a specific milestone for the Sea Lion project could not be disclosed for reasons of commercial sensitivity. The target centred on securing financing for the project. At the point of considering the 2017 bonus outcome, discussions were ongoing with senior debt providers and supply chain contractors to secure suitable funding and commercial terms. In addition, Letters of Intent had been signed with contractors for the provision of a range of services, including vendor financing. The Committee therefore resolved that the outcome for this objective represented 2 per cent out of a maximum of 8 per cent of the total outcome.

LTIP vesting outcomes in 2018 (audited)

The 2016 Equity Pool and Performance Share Awards granted under the 2009 LTIP completed their three-year performance periods on 31 December 2018. When granting the 2016 LTIP awards, the Committee determined that awards be scaled back to 50 per cent of the maximum and with no Matching Share Award opportunity. The performance conditions of the Performance Share Awards and Equity Pool Awards are as follows:

- The funding of the Equity Pool is based on three-year annualised compound growth in the Company's equity value per share. Threshold performance requires compound growth in the Company's equity value per share of at least 10 per cent per annum at which 1 per cent of the compound growth is credited to the Equity Pool. A maximum of 2.5 per cent of the compound growth is credited to the Equity Pool when growth in equity value per share is 20 per cent per annum. The funding rate is based on straight-line interpolation between these points.
- Performance Share Awards vest on three-year TSR relative to a comparator group of international oil and gas sector peers (see page 106 for the peer group). 25 per cent vests for median performance, with full vesting for upper quartile performance and straight-line vesting in between.

The vesting outcomes of these awards are as follows:

- 2016 Equity Pool Awards: The base valuation for the Equity Pool Awards was averaged over the three-month period from 1 October 2015 to 31 December 2015, with the terminal valuation averaged over the three-month period from 1 October 2018 to 31 December 2018. The Committee resolved that shares issued to convertible bondholders during the performance period should be excluded from the calculation of the terminal valuation. Taking these adjustments into account, the Company's market capitalisation increased from £349.7 million to £501.3 million during the performance period, equivalent to growth of 12.7 per cent per annum, generating an aggregate LTIP Equity Pool valued at £2.14 million.
- 2016 Performance Share Awards: Over the Performance Period, the Company's TSR was 35.2 per cent which, relative to its peers, was between the median and upper quartile, warranting a vesting of 75.1 per cent.

On 4 March 2019, the Committee satisfied itself that the vesting outcomes were reflective of the underlying performance of the Company and that the 2016 Equity Pool and Performance Share Awards should vest as soon as practicable after the Company enters an open period for dealing in shares.

2016 LTIP awards made to Executive Directors are summarised below. The value of the Equity Pool Vesting to each Executive Director will be converted into shares by dividing the amount allocated to them by the average of the mid-market closing price of the first five days that the Company is in an open period for dealing in shares. These shares will be added to the number of Performance Shares vesting for each Director, with 50 per cent of the total number of shares being released immediately on vesting and the remaining 50 per cent being deferred for three years.

Director	Equity Pool Awards		Performance Share Awards ¹			
	Percentage of Equity Pool allocated	Value of Equity Pool Vesting (£'000s)	Performance Shares Granted	Vested Performance Shares	Value of Performance Shares (£'000s)	Total Long Term Incentives (£'000s)
Robin Allan	4.25	90.9	294,203	220,946	196.6	287.5
Tony Durrant	6.00	128.4	567,864	426,465	379.4	507.8
Richard Rose	4.25	90.9	249,500	187,374	166.7	257.6

¹ Total vesting values shown in the table above are based on a share price of 88.96p (the volume weighted average price from 1 October 2018 to 31 December 2018).

LTIP awards granted in 2018 under the terms of the 2017 Long Term Incentive Plan (audited)

In view of market conditions, the Committee determined that Restricted Share Awards should be scaled back by 50 per cent with Performance Share Awards granted in full. The Performance Share Awards are subject to upper decile relative TSR performance, providing a greater stretch target than the upper quartile target stated in the Remuneration Policy.

The LTIP awards were granted to Executive Directors on 15 March 2018 and comprise:

- Performance Share Awards: conditional share awards vesting on three-year TSR relative to a comparator group of international oil and gas sector peers with 25 per cent vesting for median TSR performance and full vesting for upper decile performance and straight-line vesting in between.
- Restricted Share Awards: conditional share awards vesting over three, four and five years subject to a financial underpin based on the reduction of the ratio of net debt to EBITDA, as agreed with the Company's lenders. Further details of the 2017 Long Term Incentive Plan are set out in the 2017 Policy on pages 82 to 91.

Details of the awards are set out in the table below. Performance for these awards will be measured between 1 January 2018 and 31 December 2020. The constituents of the comparator group are detailed on page 106.

2018–2020 cycle	Performance Share Awards ¹				Restricted Share Awards ¹		
	Grant Date	% salary to be awarded as Performance Shares	Number of Performance Share Awards granted ²	Face value £'000s ³	% salary to be awarded as Restricted Shares after scale back	Number of Restricted Share Awards granted ²	Face value £'000s ⁴
Director							
Robin Allan	15.03.2018	175%	865,458	619.1	20%	98,909	70.8
Tony Durrant	15.03.2018	175%	1,392,073	995.8	20%	159,094	113.8
Richard Rose	15.03.2018	175%	865,458	619.1	20%	98,909	70.8

Notes:

- 1 Any dividends paid accrue on Performance Share Awards and Restricted Share Awards and will be paid on vesting as shares, in proportion to those shares that vest.
- 2 The number of Performance Share Awards and Restricted Share Awards were determined by reference to the relevant percentage of salary divided by the average of the closing market prices of a Premier Oil share over the five dealing days immediately preceding the award date: 71.53p.
- 3 The face value of the Performance Share Awards is the maximum number of shares that would vest if the stretch performance target was achieved in full, multiplied by the average of the closing prices of a Premier Oil share over the five dealing days immediately preceding the award date: 71.53p.
- 4 The face value of the Restricted Share Awards is the maximum number of shares that would vest if the financial underpin was met, multiplied by the average of the closing market prices of a Premier Oil share over the five dealing days immediately preceding the award date: 71.53p.

Total pension entitlements (audited)

In line with the Policy, as Executive Directors appointed prior to 20 August 2013, Robin Allan and Tony Durrant receive a pension substantially as if they were contributing members of the Company's final salary Retirement and Death Benefits Plan (the 'Scheme') and, in regard to service completed subsequent to their appointment as Directors, not subject to the Scheme's cap on pensionable earnings (£160,800 for the 2018/19 tax year).

As a Director who joined the Company after 20 August 2013, Richard Rose is entitled to receive a pension contribution and/or cash supplement equal to 20 per cent of his salary.

The accrued pension entitlements of the Directors who were members (or deemed members) of the Scheme during 2018 are as follows:

Director	(a) Accrued pension as at 31 December 2017 ^{1,3} £'000s pa	(b) Accrued pension in (a) after allowing for inflation ³ £'000s pa	(c) Accrued pension as at 31 December 2018 ^{1,3} £'000s pa	(d) Value of growth in accrued pension above inflation ^{2,3} £'000s	(e) Deduction for deemed contributions by Director ³ £'000s	(f) Value of growth in accrued pension above inflation less deemed contributions by Director ³ £'000s
Robin Allan^{4,5}	93.7	96.5	100.3	76.0	19.9	56.1
Tony Durrant⁴	137.5	141.6	148.4	136.0	32.8	103.2

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 values under (d) have been calculated by applying a capitalisation factor of 20 to the difference between amounts shown in (c) and (b) and are principally due to the additional pension accrued over the year.
- 3 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.
- 4 Members of the Scheme have the option to pay additional voluntary contributions; none of the Directors have elected to do so.
- 5 In addition to the current provision noted above, Robin Allan is entitled to a deferred pension under the Scheme in respect of service with the Company between September 1986 and November 1999.

Payments made by the Company in respect of pension benefits in relation to 2018 are summarised below:

Director	Pension plan contributions £'000s	Cash payments made during 2018 £'000s	Total pension benefits paid by Company £'000s
Robin Allan	0.0	62.2	62.2
Tony Durrant	0.0	300.0	300.0
Richard Rose	10.0	53.4	63.4

In respect of 2018, Tony Durrant and Robin Allan elected to receive the defined contribution element of their total pension entitlement in cash. During 2017, a review was carried out for these Directors to assess the extent to which the payments already made were sufficient to provide the accrued component of their total target pension. A payment was made in 2018 towards the shortfall for Tony Durrant.

Richard Rose receives a contribution to the defined contribution scheme and receives the remaining amount of his entitlement in cash. Under the defined contribution scheme, Richard Rose's normal retirement age is 65.

Percentage change in CEO remuneration

The table below shows the percentage change in CEO remuneration, comprising salary, taxable benefits and annual bonus, and comparable data for the average of all UK-based employees within the Company. The Company has chosen UK-based employees as the comparator group for the Company as a whole, due to countries outside the UK having significantly different inflation rates.

	CEO			UK-based employees ¹ (average per capita)
	2018 £'000s	2017 £'000s	% change	% change
Salary	569.0	569.0	0%	4.16%
Taxable benefits	25.5	25.6	(0.39%)	(1.04%)
Annual bonus ²	370.4	433.0	(14.46%)	(15.18%)
Total	964.9	1,027.6	(6.11%)	(1.41%)

Notes:

¹ UK-based employees who were employed for the full year in both 2017 and 2018.

² Includes cash bonus and amount deferred into shares (amounts above 50 per cent of salary are deferred into shares).

Relative importance of spend on pay

The table below shows the Company's actual expenditure on shareholder distributions and total employee pay expenditure for the financial years ending 31 December 2017 and 31 December 2018. Total shareholder distribution expenditure is composed of dividends and share buybacks. The Company did not pay a dividend nor re-purchase shares for the financial years ending 31 December 2017 and 31 December 2018.

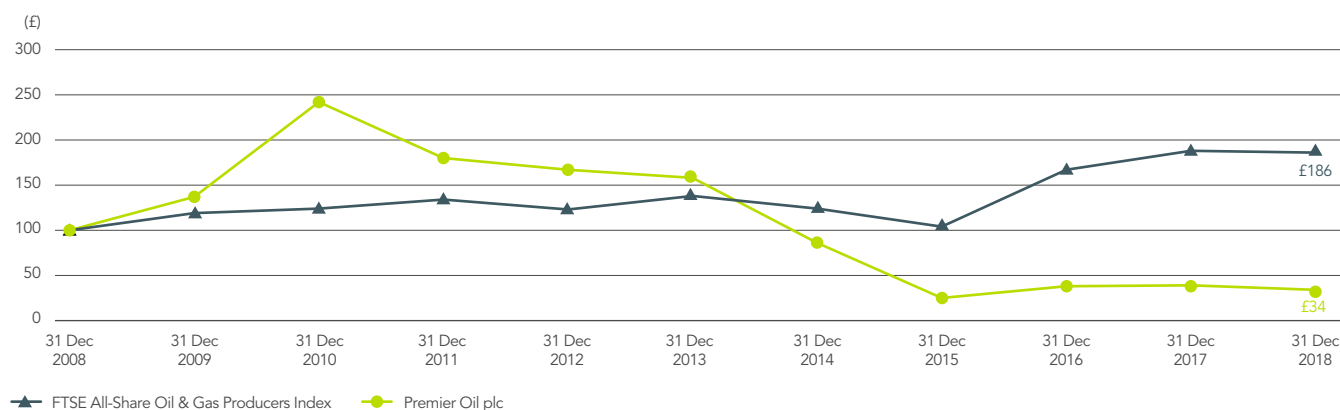
	2018 US\$ million	2017 US\$ million	% change
Remuneration paid to or receivable by all employees of the Group	113.6	110.5	2.81%
Distributions to shareholders by way of dividend	–	–	0%
Distributions to shareholders by way of share buyback	–	–	0%

Comparison of Company performance

The chart below compares the value of £100 invested in Premier shares, including re-invested dividends, on 31 December 2008 compared to the equivalent investment in the FTSE All-Share Oil & Gas Producers Index over the last ten 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.

10-year TSR performance

Value of £100 invested on 31 December 2008



The table below shows the CEO single figure of remuneration for the past ten years and corresponding performance under the annual and long-term incentives, as a percentage of maximum.

		CEO single figure of remuneration £'000s	Annual bonus payout as % of maximum	Equity Pool as % of maximum ³	Asset Pool as % of maximum ¹	Performance Share Award vesting as % of maximum	Matching Share Award vesting as % of maximum
2009	Simon Lockett	2,884.6	85%	0%	100%	N/A	63%
2010	Simon Lockett	4,041.4	60%	100%	55%	N/A	100%
2011	Simon Lockett	3,827.3	55%	100%	N/A	100%	100%
2012	Simon Lockett	2,728.2	45%	0%	N/A	90%	66%
2013	Simon Lockett	1,002.7	24%	0%	N/A	0%	0%
2014 ²	Simon Lockett	680.3	39% (and pro-rated)	0%	N/A	0%	0%
	Tony Durrant	428.7		0%	N/A	0%	0%
2015	Tony Durrant	1,040.4	10%	0%	N/A	0%	0%
2016	Tony Durrant	1,404.3	66.5%	0%	N/A	0%	0%
2017	Tony Durrant	1,474.3	63.4%	0%	N/A	0%	0%
2018 ³	Tony Durrant	1,577.4	54.3%	45.1%	N/A	75.1%	0%

Notes:

- Following the introduction of the LTIP in 2009, the Asset Pool was replaced by Performance Share Awards. The last award under the Asset Pool had a performance period of 1 January 2008 to 31 December 2010. The introduction of the LTIP was disclosed in the Remuneration Report of the 2009 Annual Report and Financial Statements.
- Figures shown for 2014 for Tony Durrant relate to the period during 2014 that he served as Chief Executive Officer: 25 June to 31 December 2014; and for Simon Lockett relate to the period during 2014 that he served as Chief Executive Officer: 1 January to 25 June 2014.
- Maximum opportunity for the 2016 Equity Pool was 50 per cent of salary.

Implementation of Executive Director Remuneration Policy for 2019

For 2019, there will be a continued level of scale back of Long Term Incentive Restricted Share Awards and continued application of a stretch relative TSR target for the Performance Share Awards. The Committee also determined that all decisions regarding Executive Director remuneration should also apply to members of the senior management team.

Salary

The salaries of the Executive Directors are reviewed annually to ensure they remain appropriate. No salary increases have been awarded to Executive Directors for 2019. The average salary increase (inclusive of promotions) across the Group's UK operations is 3.46 per cent.

Director	Position	Salary from 1 January 2018 £	Salary from 1 January 2019 £	Percentage increase %
Robin Allan	Director, North Sea and Exploration	353,750	353,750	0%
Tony Durrant	Chief Executive Officer	569,000	569,000	0%
Richard Rose	Finance Director	353,750	353,750	0%

Pension, benefits and all-employee share plans

The Company will continue to offer Executive Directors pension, taxable benefits and tax-advantaged all-employee share plans for 2019 in line with the Policy on pages 82 to 91.

Annual bonus

For 2019, the Executive Director annual bonus opportunity is up to 120 per cent of salary in line with the 2017 Remuneration Policy. Annual performance will be assessed against a combination of corporate and personal targets with the maximum bonus opportunity for each set of targets being 80 per cent and 20 per cent of the maximum bonus respectively. The Committee will consider carefully the oil market outlook, the Company's underlying performance and the outcome for 2019 in deciding whether and at what level to award bonuses for that year. The specific 2019 corporate and personal objectives, along with threshold, target and stretch values, will be disclosed, to the extent that they are not commercially sensitive, in the 2019 Directors' Remuneration Report. Any bonus in excess of 50 per cent of salary will be deferred in shares for three years. The table below summarises the criteria used to assess each target and the relative weighting of each:

2019 Corporate Targets

Strategic pillar	KPIs	Target	Weighting (% of maximum corporate bonus opportunity)
Focus on high quality assets	Working interest production	Daily average production excl. Catcher	10%
		Daily average production from Catcher	10%
Maintaining financial strength	Liquidity, net debt, operating cash flow and operating costs	Financial covenant targets	15%
		Accounting net debt target	
		Opex and G&A targets	
Operating safely	HSES KPIs	Lagging indicator targets	10%
		Leading indicator targets	10%
Focus on high quality assets	Reserves and resources	Tolmount East gross resource addition	7%
		Other gross un-risked resource additions	7%
Delivery of Group strategy		Achievement of specified near-term strategic objective	15%
		Net asset value target in the existing portfolio	5%
		Zama appraisal programme target	5%
		Achievement of specified organisational objective	6%
Total			100%

2019 Personal targets

Robin Allan:	A combination of targets, including UK operational leadership and HSE improvements, Tolmount Main project execution and delivery of the Group Exploration key performance indicators.
Tony Durrant:	A combination of targets relating to execution of strategy, shareholder engagement, leadership, organisational and HSE improvements.
Richard Rose:	A combination of targets supporting the corporate KPIs and strategic financial planning activities.

2017 Long-term incentive plan

The Committee has agreed to make awards to the Executive Directors under the terms of the 2017 Long Term Incentive Plan for 2019. The awards will comprise Restricted Share Awards equivalent to 20 per cent of base salary representing 50 per cent of the maximum, and Performance Share Awards equivalent to 175 per cent of base salary. In determining the level of awards, the Committee again took account of market conditions. It is proposed that the awards will be made as soon as possible following the release of the Company's Full-Year Results for 2018. Performance for these awards will be measured between 1 January 2019 and 31 December 2021. Performance conditions will be as follows:

- Performance Share Awards: subject to a Performance Target based on the Company's TSR performance relative to a comparator group of international oil and gas sector peers. 25 per cent of the awards will vest for median TSR performance vs. the comparator group, with full vesting for upper decile performance and straight-line vesting in between. This represents an additional stretch to upper decile from upper quartile stated in the Remuneration Policy.
- Restricted Share Awards: subject to a financial underpin based on the ratio of net debt to EBITDA, as agreed with the Company's lenders, over the course of the performance period. If the performance underpin is achieved, Restricted Share Awards will vest in one third increments on the third, fourth and fifth anniversary of the award date subject to continued employment and the Committee's assessment of underlying Company performance. No awards will vest unless the performance underpin is achieved.

Awards will be subject to malus and clawback provisions, and any awards vesting will be subject to a Holding Period such that the total time horizon is five years.

Implementation of Non-Executive Director Remuneration Policy for 2019

Non-Executive Director fees were last increased with effect from 1 January 2013. During the year, the Committee reviewed the fees for the Chairman and the Board reviewed the fees for Non-Executive Directors. No increases in fees were proposed. Non-Executive Director fees for 2019 are as follows:

Role	Fee type	From 1 January 2018 £	From 1 January 2019 £	Percentage increase
Chairman	Total fee	169,600	169,600	0%
Other Non-Executive Directors	Basic fee	53,000	53,000	0%
	Committee Chairmanship	10,600	10,600	0%
	Senior Independent Director	10,600	10,600	0%

Exercise of Committee discretion

The table below illustrates how the Committee has exercised discretion in relation to long-term incentives and the bonus plan over the four-year period ending 31 December 2018.

Year	Annual bonus	Long-term incentives
2015	Total bonus outcome for 2015 reduced to 10% (formulaic outcome ranged from 55.8% to 58.1%)	N/A
2016	None	2009 Long Term Incentive Plan: Performance Share Awards scaled back by 50% of maximum potential opportunity; Equity Pool Awards vesting capped at 50% of base salary; Matching Award removed.
2017	None	2017 Long Term Incentive Plan: Restricted Share Awards and Performance Share Awards scaled back by 50% of the maximum potential opportunity;
2018	None	2017 Long Term Incentive Plan: Restricted Share Awards scaled back by 50% of maximum potential opportunity. Full vesting of the Performance Share Awards requires Premier Oil TSR to be upper decile relative to the TSR of comparators, as opposed to upper quartile TSR.

As outlined above the Committee also exercised discretion in relation to the 2019 share awards.

Statement of Directors' shareholding and scheme interests (audited)

The table below summarises the Directors' interests in shares, including those held under outstanding LTIP, SAYE and SIP awards, as at 31 December 2018. Further details of all outstanding awards are disclosed on pages 105 to 107.

Director	Owned outright at 31 December 2018 ¹	Deferred shares subject to continued employment at 31 December 2018 ²	Unvested shares subject to performance at 31 December 2018 ³	Unvested SAYE options at 31 December 2018	Total share interests at 31 December 2018
Robin Allan	527,699	200,994	1,949,990	42,857	2,721,540
Dave Blackwood	10,000	–	–	–	10,000
Anne Marie Cannon	10,000	–	–	–	10,000
Tony Durrant	1,467,614	350,191	3,231,167	42,857	5,091,829
Roy A Franklin	60,000	–	–	–	60,000
Jane Hinkley	13,234	–	–	–	13,234
Iain Macdonald	23,076	–	–	–	23,076
Richard Rose	109,085	201,514	1,905,287	42,857	2,258,743
Mike Wheeler	30,000	–	–	–	30,000

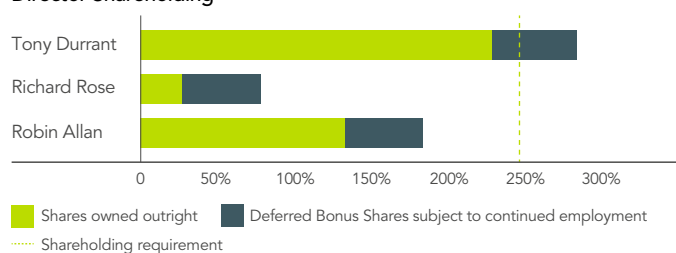
Notes:

- Owned outright includes shares held by the Director and/or connected persons. This figure also includes shares held in the tax-advantaged Share Incentive Plan ('SIP') which may be subject to forfeiture on leaving the Company, dependent upon the time for which they have been held.
- Deferred Shares subject to continued employment comprise Deferred Bonus Awards. The awards are subject to malus and clawback in the event of a material misstatement of the Company's financial results, gross misconduct or material error in the calculation of performance conditions. The Committee may exercise clawback until the later of: (i) one year from vesting, or (ii) the completion of the next audit after vesting.
- Unvested shares subject to performance include Performance Share Awards held under the 2009 LTIP (2016-2018 cycle) and Performance Share Awards and Restricted Share Awards held under the 2017 LTIP (2017-2019 cycle and 2018-2020 cycle). The performance period for the LTIP awards granted under the 2016-2018 cycle completed on 31 December 2018, 75.1 per cent of awards vested. See page 98 of the Annual Report on Remuneration for further details on performance criteria and achievement.

Formal shareholding guidelines exist which require the Executive Directors to retain no less than 50 per cent of the net value of shares vesting under the Company's long-term incentive arrangements until such time as they have achieved a holding worth 250 percent of salary.

The graph below shows the value of Executive Directors' shareholding and scheme interests as a percentage of salary, in accordance with the shareholding guidelines, as at 31 December 2018.

Director Shareholding



Notes:

- The valuation of shareholdings as at 31 December 2018 has been calculated using the volume weighted average price between 1 October 2018 and 31 December 2018 (88.96p)

Share price movements during 2018

The mid-market closing price of the Company's shares on 31 December 2018 was 66.55p (31 December 2017: 76.25p). The intra-day trading price of the Company's shares during 2018 was between 143.60p and 55.60p.

Executive Director external appointments

Executive Directors are permitted to accept non-executive appointments outside the Company providing that the Board's approval is obtained. During the year, Tony Durrant served as an Advisory Committee Member of FlowStream Commodities Ltd, stepping down from the position in December 2018. He received an annual fee of US\$10,000 (2017: US\$10,000) for his work as an Advisory Committee Member. Robin Allan is Chairman of the Association of British Independent Oil Exploration Companies ('BRINDEX') and received no fee for this role. Robin Allan is also a Board member of Oil & Gas UK for which he receives no fee.

Outstanding share awards

Annual bonus scheme – Deferred Bonus Awards

As at 31 December 2018 the following Deferred Bonus Awards were held in respect of the deferred element of the annual bonus awarded for the years ending 31 December 2016 and 31 December 2017.

Director	Date of grant	Awards held at 1 January 2018	Granted	Lapsed	Vested	Awards held at 31 December 2018	Market price of shares on date of award ¹	Earliest vesting date
Robin Allan	12.04.17	77,357	–	–	–	77,357	65.85p	12.04.20
	15.03.18	–	123,637	–	–	123,637	71.53p	15.03.21
		77,357	123,637	–	–	200,994		
Tony Durrant	12.04.17	142,574	–	–	–	142,574	65.85p	12.04.20
	15.03.18	–	207,617	–	–	207,617	71.53p	15.03.21
		142,574	207,617	–	–	350,191		
Richard Rose	12.04.17	72,437	–	–	–	72,437	65.85p	12.04.20
	15.03.18	–	129,077	–	–	129,077	71.53p	15.03.21
		72,437	129,077	–	–	201,514		

¹ The average of the closing prices of a Premier Oil share over the five dealing days immediately preceding the award date.

2009 Long Term Incentive Plan – Equity Pool Awards

As at 31 December 2018, one Equity Pool was outstanding, as follows:

Cycle	Performance period	Starting market capitalisation	Outstanding Equity Pool allocation (% of Pool)		
			Tony Durrant	Robin Allan	Richard Rose
2016 ¹	01.01.16 – 31.12.18	£350m	6.00%	4.25%	4.25%

Notes:

¹ The Committee determined on 4 March 2019 that the 2016 Equity Pool Award would vest. For further details see page 98.

2009 Long Term Incentive Plan – Performance Share Awards

In 2015, 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. The grant of Performance Share Awards in 2016 was approved by the Remuneration Committee in August 2016. Due to prolonged trading restrictions as a result of the ongoing refinancing of the Group's debt, the grant of the awards could not take place in 2016 and the awards were granted following the release of the Company's 2016 results in March 2017. During 2018, no awards were made under the 2009 Long Term Incentive Plan.

As at 31 December 2018, the Executive Directors had the following outstanding Performance Share Awards under the 2009 Long Term Incentive Plan:

Director	Date of grant	Awards held at 1 January 2018	Granted	Lapsed	Vested	Awards held at 31 December 2018 ¹	Market price of shares on date of award	Performance period	Earliest vesting date
Robin Allan	27.02.15	264,308	–	(264,308)	–	–	167.30p	01.01.15 – 31.12.17	01.01.18
	12.04.17 ²	294,203	–	–	–	294,203	66.50p	01.01.16 – 31.12.18	01.01.19
		558,511	–	(264,308)	–	294,203			
Tony Durrant	27.02.15	510,161	–	(510,161)	–	–	167.30p	01.01.15 – 31.12.17	01.01.18
	12.04.17 ²	567,864	–	–	–	567,864	66.50p	01.01.16 – 31.12.18	01.01.19
		1,078,025	–	(510,161)	–	567,864			
Richard Rose	27.02.15	224,148	–	(224,148)	–	–	167.30p	01.01.15 – 31.12.17	01.01.18
	12.04.17 ²	249,500	–	–	–	249,500	66.50p	01.01.16 – 31.12.18	01.01.19
		473,648	–	(224,148)	–	249,500			

Notes:

¹ The Committee determined on 4 March 2019 that the 2016 Performance Share Awards would vest. For further details see page 98.

² The 2016 Performance Share Awards were approved by the Committee in August 2016. The grant of the awards was postponed due to prolonged trading restrictions as a result of the Company's refinancing. The grants were made on 12 April 2017 following the release of the Company's 2016 Final Results.

2017 Long Term Incentive Plan – Performance Share Awards

The 2017 LTIP was approved by shareholders at the 2017 Annual General Meeting and replaces the 2009 LTIP. Under the 2017 Policy, Performance Share Awards may be granted up to 175 per cent of salary. This amount was scaled down to 87.5 per cent of salary for awards granted to Executive Directors in 2017, but granted in full in 2018.

As at 31 December 2018, the Executive Directors held the following outstanding Performance Share Awards under the 2017 LTIP:

Director	Date of grant	Awards held at 1 January 2018	Granted	Lapsed	Vested	Awards held at 31 December 2018	Market price of shares on date of award	Performance period	Earliest vesting date ¹
Robin Allan	01.09.17	562,784	–	–	–	562,784	55.50p	01.01.17 – 31.12.19	01.09.20
	15.03.18	–	865,458	–	–	865,458	71.53p	01.01.18 – 31.12.20	15.03.21
		562,784	865,428	–	–	1,428,242			
Tony Durrant	01.09.17	905,227	–	–	–	905,227	55.50p	01.01.17 – 31.12.19	01.09.20
	15.03.18	–	1,392,073	–	–	1,392,073	71.53p	01.01.18 – 31.12.20	15.03.21
		905,227	1,392,073	–	–	2,297,300			
Richard Rose	01.09.17	562,784	–	–	–	562,784	55.50p	01.01.17 – 31.12.19	01.09.20
	15.03.18	–	865,458	–	–	865,458	71.53p	01.01.18 – 31.12.20	15.03.21
		562,784	865,428	–	–	1,428,242			

Notes:

¹ Vested awards are subject to a Holding Period ending on 1 September 2022 for the awards granted in 2017 and 15 March 2023 for awards granted in 2018.

TSR comparator group constituents, by Performance Share Award

Company	2016	2017	2018	Company	2016	2017	2018
Aker BP	✓	✓	✓	Lundin Petroleum	✓	✓	✓
Bankers Petroleum ¹	✓			Marathon Oil	✓		
Beach Energy	✓	✓	✓	Noble Energy	✓		
Cairn Energy	✓	✓	✓	Ophir Energy	✓	✓	✓
DNO ASA	✓	✓	✓	Origin Energy ²	✓	✓	✓
Energi Mega Persada	✓	✓	✓	Oryx Petroleum	✓	✓	✓
EnQuest	✓	✓	✓	Rockhopper Exploration	✓	✓	✓
Etab. Maurel et Prom	✓	✓	✓	Santos	✓	✓	✓
Faroe Petroleum	✓	✓	✓	SOCO International	✓	✓	✓
Genel Energy	✓	✓	✓	Tullow Oil	✓	✓	✓
Gulf Keystone	✓	✓	✓				
Ithaca Energy ¹	✓						

Notes:

¹ The following companies delisted during the performance period for the 2016 Awards and were removed from the 2016 comparator group by the Remuneration Committee during its final performance assessment:

- Bankers Petroleum (delisted in October 2016)
- Ithaca Energy (delisted in June 2017)

² In August 2018 the Remuneration Committee resolved to remove Origin Energy from the comparator group following the sale of Origin's upstream oil and gas assets to Beach Energy.

2017 Long Term Incentive Plan – Restricted Share Awards

Under the 2017 Directors' Remuneration Policy, Restricted Share Awards may be granted up to 40 per cent of salary. This amount was scaled down to 20 per cent of salary for awards granted to Executive Directors in 2017 and 2018. Further details of the Awards are set out on page 99.

As at 31 December 2018, the Executive Directors had the following outstanding Restricted Share Awards under the 2017 Long Term Incentive Plan:

Director	Date of grant	Awards held at 1 January 2018	Granted	Lapsed	Vested	Awards held at 31 December 2018	Market price of shares on date of award	Performance period	Earliest vesting date
Robin Allan	01.09.17	128,636	–	–	–	128,636	55.50p	01.01.17 – 31.12.19	01.09.20 ¹
	15.03.18	–	98,909	–	–	98,909	71.53p	01.01.18 – 31.12.20	15.03.21 ²
		128,636	98,909	–	–	227,545			
Tony Durrant	01.09.17	206,909	–	–	–	206,909	55.50p	01.01.17 – 31.12.19	01.09.20 ¹
	15.03.18	–	159,094	–	–	159,094	71.53p	01.01.18 – 31.12.20	15.03.21 ²
		206,909	159,094	–	–	366,003			
Richard Rose	01.09.17	128,636	–	–	–	128,636	55.50p	01.01.17 – 31.12.19	01.09.20 ¹
	15.03.18	–	98,909	–	–	98,909	71.53p	01.01.18 – 31.12.20	15.03.21 ²
		128,636	98,909	–	–	227,545			

Notes:

- Subject to the performance underpin and continued employment, one third of the total award vests on 1 September 2020, a further one third vests on 1 September 2021 and the balance of the awards vests on 1 September 2022. Vested awards are subject to a Holding Period ending on 1 September 2022.
- Subject to the performance underpin and continued employment, one third of the total award vests on 15 March 2021, a further one third vests on 15 March 2022 and the balance of the awards vests on 15 March 2023. Vested awards are subject to a Holding Period ending on 15 March 2023.

All-employee schemes

The Executive Directors may also participate, on the same terms as all other eligible employees, in a Share Incentive Plan ('SIP') and a Savings Related Share Option Scheme ('SAYE Scheme').

Executive Directors' interests under the SAYE Scheme are shown below:

Director	Date of grant	Exercisable dates	Acquisition price per share	Options held at 1 January 2018	Granted	Exercised	Lapsed	Options held at 31 December 2018
Robin Allan	04.05.16	01.06.19 – 30.11.19	42.00p	42,857	–	–	–	42,857
Tony Durrant	04.05.16	01.06.19 – 30.11.19	42.00p	42,857	–	–	–	42,857
Richard Rose	04.05.16	01.06.19 – 30.11.19	42.00p	42,857	–	–	–	42,857

Share Incentive Plan

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

Director	Shares held on 1 January 2018	Total Partnership Shares purchased in 2018 at prices between £0.685 and £1.420	Total Matching Shares awarded in 2018 at prices between £0.685 and £1.420	Shares held on 31 December 2018	Partnership and Matching Shares acquired between 1 January and 6 March 2019
Robin Allan	32,768	1,569	1,569	35,906	1,088
Tony Durrant	22,313	1,570	1,570	25,453	1,088
Richard Rose	15,466	1,884	1,884	19,234	1,304

For and on behalf of the Remuneration Committee

Jane Hinkley

Chairman of the Remuneration Committee
6 March 2019

The Directors present their Annual Report on the affairs of the Group, together with the audited Group financial statements and Auditor's Report for the year ended 31 December 2018. There are certain disclosure requirements which form part of the Directors' Report and are included elsewhere in this Annual Report. The location of information incorporated by reference into this Directors' Report is set out on page 110.

Dividend

No dividend is proposed in respect of the year ended 31 December 2018 (2017: nil).

Annual General Meeting

The Company's next AGM will be held on Thursday 16 May 2019 at 11.00am. The Notice of the AGM, together with details of all resolutions which will be placed before the meeting, accompanies this report and is also available online at www.premier-oil.com.

Directors

The Directors of the Company as at 6 March 2019 are shown on pages 60 to 63.

Articles of Association

The Company's Articles of Association may only be amended by special resolution at a General Meeting of shareholders. The Company's Articles of Association contain provisions regarding the appointment, retirement and removal of Directors.

A Director may be appointed by an ordinary resolution of shareholders in a General Meeting following nomination by the Board or a member (or members) entitled to vote at such a meeting. The Directors may appoint a Director during any year provided that the individual stands for election by shareholders at the next AGM. Further detail regarding the appointment and replacement of Directors is included in the Corporate Governance Report.

Subject to applicable law and the Company's Articles of Association the Directors may exercise all powers of the Company. Details of the Matters Reserved for the Board are set out on the Company's website and summarised in the Corporate Governance Report on page 65.

Indemnification of Directors and insurance

During the financial year, the Company had in place an indemnity to each of its Directors and the Company Secretary 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. The indemnity was in force for all Directors who served during the year. The Company also has Directors' and Officers' liability insurance in place.

Share capital

Details of the Company's issued share capital, together with details of any movement in the issued share capital during the year, are shown in note 20 to the consolidated financial statements on page 153. The Company has one class of Ordinary Shares which carries no right to fixed income. Each share carries the right to one vote at General Meetings of the Company.

Subject to applicable law and the Company's Articles of Association the Directors may exercise all powers of the Company, including the power to authorise the issue and/or market purchase of the Company's shares, subject to an appropriate authority being given to the Directors by shareholders in a General Meeting and any conditions attaching to such authority. The current authority, approved at the General Meeting held on 16 May 2018, for the allotment of relevant securities is for a nominal amount of up to (i) £31,999,485 and (ii) equity securities up to a nominal amount of £63,998,971 less the nominal amount of any shares issued under part (i) of the authority.

In addition to the authority given at the 2018 AGM, at the General Meeting held on 15 June 2017, in connection with the Company's refinancing which was completed on 28 July 2017 shareholders authorised the Directors to allot Ordinary Shares in the Company and to grant rights to subscribe for, or to convert any security into, Ordinary Shares in the Company up to a nominal amount of £59,039,247.10. This authority is specific to the issue of shares pursuant to the terms of the Company's refinancing. Further details are contained in the Circular to Shareholders dated 30 May 2017, a copy of which can be accessed in the Shareholder Information section of the Company's website.

Furthermore, at the 2018 AGM, shareholders authorised the Directors to make market purchases up to a maximum of approximately 10 per cent of the Company's issued share capital (being £9,599,845 in nominal value) excluding treasury shares. Any shares purchased under this authority may either be cancelled or may be held as treasury shares provided that the number of shares held does not exceed 10 per cent of issued share capital. No shares were bought back during the year.

There are no specific restrictions on the size of a holding nor on the transfer of shares, both of which are 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 21 to the consolidated financial statements on page 154. The voting rights in relation to the shares held within the Employee Benefit Trust are exercisable by the Trustee but it has no obligation to do so. Details of the number of shares held by the Employee Benefit Trust are set out in note 20 on page 153. No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

American Depositary Receipt programme

Premier Oil plc has a sponsored Level 1 American Depositary Receipt ('ADR') programme which BNY Mellon administers and for which it acts as Depositary. Each ADR represents one Ordinary Share of the Company. The ADRs trade on the US over-the-counter market under the symbol PMOIY.

Significant shareholdings

As at 6 March 2019, the Company had received notification from the institutions below, in accordance with Chapter 5 of the Disclosure and Transparency Rules, of their significant holdings of voting rights (3 per cent or more) in its Ordinary Shares:

Name of shareholder	Date of notification to the stock exchange	Notified number of voting rights	Notified percentage of voting rights ¹	Nature of holding
Goldman Sachs Group, Inc	06.03.2019	59,463,574	7.28%	Indirect
Baillie Gifford & Co	04.01.2019	41,626,147	5.09%	Indirect
BlackRock Inc	27.12.2018	41,414,912	5.07%	Indirect
Dimensional Fund Advisors LP	13.07.2018	38,917,945	5.02%	Direct & Indirect
Artemis Investment Management LLP	13.05.2015	25,451,951	4.98%	Direct & Indirect
Aviva plc and its subsidiaries ¹	27.04.2009	3,933,529	4.95%	Direct & Indirect
AXA Investment Managers SA	03.03.2017	23,907,981	4.68%	Indirect
Ameriprise Financial Inc	20.01.2012	24,666,346	4.66%	Direct & Indirect

Note:

¹ Interests shown for Aviva plc and its subsidiaries pre-date the Share Split in 2011.

Hedging and risk management

Details of the Group's hedging and risk management are provided in the Financial Review. A further disclosure has been made in note 18 to the consolidated financial statements on pages 147 to 151, related to various financial instruments and exposure of the Group to price, credit, liquidity and cash flow risk.

Significant agreements

The following significant agreements will, in the event of a change of control of the Company, be affected as follows:

- Under the US\$718,967,054 super senior revolving credit facility agreement between, among others, the Company, certain subsidiaries of the Company and a syndicate of financial institutions, upon a change of control the commitments under the agreement would be cancelled and all amounts owing would be immediately due and payable.
- Under the US\$1,781,032,945 senior revolving credit facility agreement between, among others, the Company, certain subsidiaries of the Company and a syndicate of financial institutions, upon a change of control the commitments under the agreement would be cancelled and all amounts owing would be immediately due and payable.
- Under the £100 million and US\$150 million term loan facilities between, among others, the Company, certain subsidiaries of the Company and current lenders, upon a change of control, the commitments under the agreement would be cancelled and all amounts owing would be immediately due and payable.
- The Group has outstanding retail bonds with a principal amount of £150 million which were issued under a £500 million Euro Medium Term Notes programme. Upon a change of control, the bonds would become immediately redeemable, together with any accrued interest.
- The Group has outstanding senior loan notes totalling €63.6 million and US\$335 million, which were issued to insurance companies and funds predominantly based in the US. Upon a change of control, the entire unpaid principal amount of the notes would become immediately prepayable, together with any accrued interest.
- The Company has an outstanding English-law governed term loan facility totalling US\$130 million. Upon a change of control, the commitments under the facility would be cancelled and all amounts owing would be immediately due and payable, together with accrued interest.

Political donations

No political donations were made during the year (2017: US\$nil).

Significant events since 31 December 2018

Details of significant events since the balance sheet date are contained in note 27 to the financial statements on page 163.

Information set out in the Strategic Report

The Strategic Report set out on pages 1 to 55 provides a comprehensive review of the performance of the Company's operations for the year ended 31 December 2018 and the potential future developments of those operations. The Strategic Report also includes details of the Company's principal risks and uncertainties and research and development activities during the year. Information regarding the Company's policy applied during the year relating to the recruitment, employment, training, career development and promotion of staff including employment of disabled persons is included within the Corporate Responsibility Review in the Strategic Report on pages 51 to 52. In addition, information regarding the Company's greenhouse gas emissions is also included in the Corporate Responsibility Review in the Strategic Report on pages 49 to 50. In accordance with s414C(11) of the Companies Act 2006, the Directors have chosen to set out the information outlined above, required to be included in the Directors' Report, in the Strategic Report.

The Strategic Report and the Directors' Report together include the 'management report' for the purposes of the FCA's Disclosure & Transparency Rules (DTR 4.1.8R).

Information set out elsewhere in this Annual Report

Information regarding the Company's governance arrangements is included in the Corporate Governance Report and related Board Committee reports on pages 56 to 107. These sections of the report are incorporated into this report by reference.

For the purposes of Listing Rule 9.8.4 C R, the information required to be disclosed by Listing Rule 9.8.4 R can be found in the following locations:

Listing Rule sub-section	Item	Location
9.8.4 (1)	Interest capitalised	Financial statements, note 5, page 136
9.8.4 (5)	Waiver of emoluments by a director	Directors' Remuneration Report, page 95

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 reasonable steps that he/she ought to have taken as a Director in order to make himself/herself 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.

By order of the Board

Andy Gibb

Interim Company Secretary
6 March 2019

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 ('EU') and Article 4 of the International Accounting Standards ('IAS') Regulation and have also chosen to prepare the Parent Company financial statements in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing 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 Financial Reporting Standard 101 Reduced Disclosure Framework has been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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 Group financial statements, prepared in accordance with International Financial Reporting Standards, as adopted by the EU, 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;
2. the Strategic 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 that they face; and
3. the Annual Report and Financial Statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

This responsibility statement was approved by the Board of Directors on 6 March 2019 and is signed on its behalf by:

Tony Durrant
Chief Executive Officer

Richard Rose
Finance Director

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PREMIER OIL PLC

For the year ended 31 December 2018

1. Our opinions and conclusions arising from our audit

Our opinion on the financial statements

In our opinion, the financial statements of Premier Oil plc (the Parent Company) and its subsidiaries (collectively, Premier):

- give a true and fair view of the state of Premier's and of the Parent Company's affairs as at 31 December 2018, and of Premier's and the Parent Company's income for the year then ended;
- Premier's financial statements have been properly prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union ('EU');
- the Parent Company financial statements 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, and, as regards Premier's financial statements, Article 4 of the IAS Regulation.

Our 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
- based on the work undertaken in the course of our audit:
 - the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
 - the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

Our confirmations that we have nothing to report by exception, in relation to those matters where we are required so to report, are set out in sections 8 and 9 below.

What we have audited

We have audited Premier Oil plc's financial statements for the year ended 31 December 2018, which are included in the Annual Report and comprise:

Premier	Parent Company
Consolidated Balance Sheet as at 31 December 2018	Balance Sheet as at 31 December 2018
Consolidated Statement of Income for the year then ended	
Consolidated Statement of Comprehensive Income for the year then ended	
Consolidated Statement of Changes in Equity for the year then ended	Statement of Changes in Equity for the year then ended
Consolidated Statement of Cash Flows for the year then ended	
Related Notes 1 to 28 to the Financial Statements, including a summary of significant accounting policies	Related Notes 1 to 10 to the Parent Company Financial Statements

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and both IFRS as adopted by the EU. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ('ISA (UK)') and applicable law. Our responsibilities under those standards are further described in the Auditors' responsibilities for the audit of the financial statements section of our report below. We are independent of Premier and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained during the planning, execution and conclusion of our audit is sufficient and appropriate to provide a suitable basis for our opinion.

3. Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the Annual Report, in relation to which ISA (UK) requires us to report to you whether we have anything material to add or draw attention to:

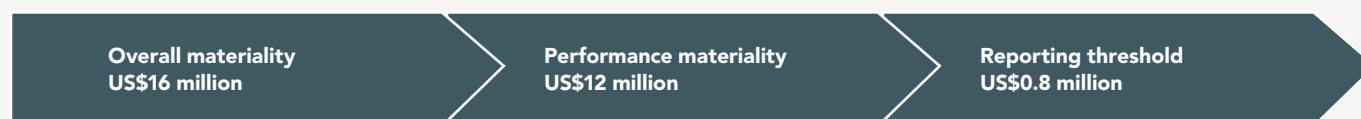
- the disclosures in the Annual Report set out on pages 38 to 39 that describe the principal risks and how the risks are being managed or mitigated;
- the Directors' confirmation set out on page 36 in the Annual Report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the Directors' statement set out on pages 35 in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- whether the Directors' statement in relation to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the Directors' explanation set out on page 41 in the Annual Report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

4. Overview of our audit approach

Updating our understanding of Premier's business and its environment	Our audit team has deep industry experience through working for many years on the audits of oil and gas companies. Our audit planning started with updating our view on external market factors, for example geopolitical risk, the potential impact of climate change and energy transition, commodity price risk and major trends in the industry. Building on this knowledge, we updated our understanding of Premier's strategy and business model. This was achieved through enquiry, analytical procedures, observation and visiting Premier's operating units, as well as the review of external data. This understanding of Premier's business and its environment informed our risk assessment procedures.
Identifying and assessing the risks of material misstatement	<p>We concluded that the following risks are to be downgraded or removed from our current year audit focus:</p> <ul style="list-style-type: none"> • Refinancing – due to the successful completion in July 2017, the accounting for the refinancing was no longer a significant risk or key audit matter. • Decommissioning – in the prior year we did not identify any material misstatements in decommissioning. As a result, and due to the use of specialists across the business and the consistency in inputs year-on-year; we concluded that decommissioning was no longer a significant risk; however, it remains an area of audit focus. • Recoverability of oil and gas assets – with the improvement in oil prices in 2018 we were no longer of the view that there was a high likelihood of a material error in the recoverability of oil and gas assets. The on-going risk will be covered by our significant risk around the estimation of oil and gas reserve volumes. Considering the oil price environment in 2018, our work also considered the potential for impairment reversals. <p>We have not identified any new significant risks in the current year. In summary, the significant and fraud risks for the current year are as follows:</p> <ul style="list-style-type: none"> • estimation of oil and gas reserves and resources volumes; • deferred tax asset recoverability; • going concern and covenant compliance; • revenue recognition; and • management override. <p>Our response to key audit matters is detailed in Section 7.</p>
Determination of materiality (Section 5)	<p>When we established our audit strategy, we determined overall materiality for the financial statements. We considered which earnings, activity or capital-based measure aligns best with the expectations of those charged with governance at Premier and users of Premier's financial statements. In so doing, we applied a 'reasonable investor perspective', which reflected our understanding of the common financial information needs of the members of Premier as a group. We also made judgements about the size of misstatements that would be considered material.</p> <p>The levels set are as follows:</p> <ul style="list-style-type: none"> • Overall Materiality: US\$16 million (2017: US\$12 million); • Performance Materiality: US\$12 million (2017: US\$6 million); and • Reporting differences threshold: US\$0.8 million (2017: US\$0.6 million). <p>The increase in our planning materiality is primarily driven by higher oil realisations, resulting in higher earnings. The increase in performance materiality from 50 per cent of overall materiality in 2017 to 75 per cent of overall materiality in 2018 is mainly due to our assessment of the likelihood of undetected misstatements on the basis of the results of our 2017 audit and our assessment of Premier's overall control environment.</p>
Determining the scope of our audit (Section 6)	<p>Our scope is tailored to the circumstances of our audit of Premier and is influenced by our determination of materiality and our assessed risks of material misstatement.</p> <p>We reassessed our audit scope for 2018. The main changes were:</p> <ul style="list-style-type: none"> • Pakistan: specific scope procedures no longer required in respect to closing balance sheet (primarily decommissioning estimation) given expected disposal; • Indonesia: Kakap is no longer in scope following the sale in April 2018; and • Mauritania: removal of revenue specific scope procedures following cessation of production in Q4 2017.
Identification of Key Audit Matters (Section 7)	<p>We have identified the following key audit matters that, in our professional judgement, had the greatest effect on our overall audit strategy, the allocation of resources in the audit and in directing the global audit team's efforts:</p> <ul style="list-style-type: none"> • the estimation of oil and gas reserves, including reserves used in the calculation of depreciation, depletion and amortisation, impairment testing and the assessment of the recoverability of deferred tax assets; • recognition and measurement of deferred tax assets; • going concern assessment and covenant compliance; and • the recoverability of oil and gas assets.

5. Our application of materiality

The scope of our work is influenced by our view of materiality. As we develop our audit strategy, we determine materiality at the overall level and at the individual account level (referred to as our 'performance materiality' (see below)).



Overall materiality

What we mean	<p>We apply the concept of materiality both in planning and performing our audit, as well as in evaluating the effect of identified misstatements (including omissions) on our audit and in forming our audit opinion. For the purposes of determining whether or not Premier's financial statements are free from material misstatement (whether due to fraud or error), we define materiality as the magnitude of misstatements that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of these financial statements. We are required to establish a materiality level for the financial statements as a whole that is appropriate in the light of Premier's particular circumstances.</p> <p>Our overall materiality provides a basis for identifying and assessing the risk of material misstatement and determining the nature and extent of audit procedures. Our evaluation of materiality requires professional judgement and necessarily considers qualitative as well as quantitative considerations. It also considers our assessment of the expectations of those charged with governance at Premier and users of Premier's financial statements.</p> <p>As required by auditing standards, we reassess materiality throughout the duration of the audit.</p>
Level set	<p>Group materiality</p> <p>We set our preliminary overall materiality for Premier's Consolidated Financial Statements at US\$16 million (2017: US\$12 million). We kept this under review throughout the year and reassessed the appropriateness of our original assessment in the light of Premier's results and external market conditions. Based on this review, we did not find it necessary to revise our level of overall materiality.</p> <p>Parent Company materiality</p> <p>We set our preliminary overall materiality for the Parent Company at US\$8 million (2017: US\$8 million). Any balances in the Parent Company financial statements that were relevant to our audit of the consolidated Group were audited using an allocation of Group performance materiality.</p>
Our basis for determining materiality for 2018	<p>Group materiality</p> <p>Our assessment of overall materiality is US\$16 million, which is 2 per cent (2017: 2 per cent) of EBITDA (excluding non-recurring items). Our preliminary assessment of overall materiality was based on management's budget. We maintained our preliminary assessment of overall materiality as opposed to increasing the threshold for full year actuals. We believe that EBITDA (excluding non-recurring items) provides us with a suitable basis for setting materiality as this measure is a particular focus of shareholders, the basis of covenants included in the Group's loan agreements and a key performance indicator of the Group.</p> <p>The non-recurring item reported by Premier in 2018 that impacted EBITDA was a gain on disposal of non-current assets of US\$42 million. The non-recurring item reported by Premier in 2017 that impacted EBITDA was a gain on disposal of non-current assets of US\$129 million.</p> <p>Parent Company materiality</p> <p>We determined materiality for the Parent Company to be US\$8 million (2017: US\$8 million), which is 0.5 per cent (2017: 0.5 per cent) of total assets. Total assets is an appropriate basis to determine materiality for an investment holding company and 0.5 per cent is a typical percentage of total assets to use to determine materiality. Any balances in the Parent Company financial statements that were relevant to our audit of the consolidated Group were audited using an allocation of Group performance materiality.</p>

Performance materiality

What we mean	<p>Having established overall materiality, we determined 'performance materiality', which represents our tolerance for misstatement in an individual account. It is calculated as a percentage of overall materiality in order to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality of US\$16 million for Premier's financial statements as a whole.</p> <p>Once we determined our audit scope, we then assigned performance materiality to our various in-scope operating units. Our in-scope operating unit audit teams used this assigned performance materiality in performing their Group audit procedures. The performance materiality allocation is dependent on the size of the operating unit, measured by its contribution of earnings to Premier, or other appropriate metric, and the risk associated with the operating unit.</p>
Level set	<p>On the basis of our risk assessment, our judgement was that performance materiality should be 75 per cent (2017: 50 per cent) of our overall materiality, namely US\$12 million (2017: US\$6 million). In assessing the appropriate level, we consider the nature, the number and impact of the audit differences identified in 2017 as well as the overall control environment. The increase in performance materiality is mainly due to our assessment of the likely level undetected misstatements.</p> <p>In 2018, the range of performance materiality allocated to operating units was US\$3 million to US\$8 million (2017: US\$2 million to US\$4 million).</p>

Audit difference reporting threshold

What we mean	<p>This is the amount below which identified misstatements are considered to be clearly trivial.</p> <p>The threshold is the level above which we collate and report audit differences to the Audit and Risk Committee. We also report differences below that threshold that, in our view, warrant reporting on qualitative grounds. We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in the light of other relevant qualitative considerations in forming our opinion.</p>
Level set	<p>We agreed with the Audit and Risk Committee that we would report to the Committee all audit differences of more than US\$0.8 million (2017: US\$0.6 million), as well as differences below that threshold that, in our view, warrant reporting on qualitative grounds.</p>

6. Our scope of the audit of Premier's financial statements

What we mean	We are required to establish an overall audit strategy that sets the scope, timing and direction of our audit, and that guides the development of our audit plan. Audit scope comprises the physical locations, operating units, activities and processes to be audited that, in aggregate, are expected to provide sufficient coverage of the financial statements for us to express an audit opinion.																
Criteria for determining our audit scope	<p>Our assessment of audit risk and our evaluation of materiality determined our audit scope for each operating unit within Premier which, when taken together, enabled us to form an opinion on the financial statements under ISA (UK). Our audit effort was focused towards higher risk areas, such as management judgements and on operating units that are considered significant based upon size, complexity or risk.</p> <p>The factors that we considered when assessing the scope of the Premier audit, and the level of work to be performed at the operating units that are in scope for Group reporting purposes, included the following:</p> <ul style="list-style-type: none"> • the financial significance of an operating unit to Premier's earnings, total assets or total liabilities; • the significance of specific risks relating to an operating unit: history of unusual or complex transactions, identification of significant audit issues or the potential for, or a history of, material misstatements; • the effectiveness of the control environment and monitoring activities, including entity-level controls; • our assessment of locations that carry a higher than normal audit risk in relation to fraud, bribery or corruption; and • the findings, observations and audit differences that we noted because of our 2017 audit. 																
Selection of in-scope units	<p>We reassessed our audit scope for 2018 compared to 2017. We kept our audit scope under review throughout the year to reflect changes in Premier's underlying business and risks; however no significant changes were required.</p> <p>In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, of the 40 reporting components of the Group, we selected 18 components covering entities within the United Kingdom, Vietnam, Indonesia, Brazil, Mexico, the Falkland Islands, Pakistan and Mauritania, which represent the principal business units within the Group.</p> <p>Of the 18 components selected, we performed an audit of the complete financial information of 8 components ('full scope components'), which were selected based on their size or risk characteristics. For the remaining 10 components ('specific scope components'), we performed audit procedures on specific accounts within that component that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile.</p> <p>The reporting components where we performed audit procedures accounted for 99 per cent (2017: 100 per cent) of the Group's EBITDA, 100 per cent (2017: 100 per cent) of the Group's Total assets and 100 per cent (2017: 100 per cent) of the Group's Revenue.</p> <p>For the current year, the full scope components contributed 98 per cent (2017: 97 per cent) of the Group's EBITDA, 80 per cent (2017: 85 per cent) of the Group's Total assets and 97 per cent (2017: 97 per cent) of the Group's revenue. The specific scope components contributed 1 per cent (2017: 3 per cent) of the Group's EBITDA, 20 per cent (2017: 15 per cent) of the Group's total assets and 3 per cent (2017: 3 per cent) of the Group's revenue. The audit scope of these components may not have included testing of all significant accounts of the component but will have contributed to the coverage of the Group.</p> <p>Of the remaining 22 components, which together represent 1 per cent of the Group's EBITDA, we performed other procedures, including the following to respond to any potential risks of material misstatement to the consolidated financial statements:</p> <ul style="list-style-type: none"> • test of consolidation journals, intercompany eliminations and foreign currency translation recalculations; • enquiry of management in respect to any unusual transactions recorded in these components; and • review of minutes of Board meetings held throughout the period. <p>The charts below illustrate the coverage obtained from the work performed by our audit teams.</p> <div data-bbox="384 1288 1517 1713"> <table border="0"> <thead> <tr> <th></th> <th>EBITDA</th> <th>Total assets</th> <th>Revenue</th> </tr> </thead> <tbody> <tr> <td></td> <td>Full scope 98%</td> <td>Full scope 80%</td> <td>Full scope 97%</td> </tr> <tr> <td></td> <td>Specific scope 1%</td> <td>Specific scope 20%</td> <td>Specific scope 3%</td> </tr> <tr> <td></td> <td>Other procedures 1%</td> <td>Other procedures 0%</td> <td>Other procedures 0%</td> </tr> </tbody> </table> </div>		EBITDA	Total assets	Revenue		Full scope 98%	Full scope 80%	Full scope 97%		Specific scope 1%	Specific scope 20%	Specific scope 3%		Other procedures 1%	Other procedures 0%	Other procedures 0%
	EBITDA	Total assets	Revenue														
	Full scope 98%	Full scope 80%	Full scope 97%														
	Specific scope 1%	Specific scope 20%	Specific scope 3%														
	Other procedures 1%	Other procedures 0%	Other procedures 0%														

Involvement with local EY teams	<p>The overall audit strategy is determined by the Senior Statutory Auditor, Gary Donald. We have separate component teams in Aberdeen (United Kingdom), Ho Chi Minh (Vietnam) and Jakarta (Indonesia). Our audit procedures with respect to the other components were carried out by the Group audit team. During 2018 Gary Donald visited Ho Chi Minh (Vietnam) and Jakarta (Indonesia) to meet with local Ernst & Young (EY) teams and Premier local management. In addition, Senior members of the Group team separately visited Aberdeen (United Kingdom), Ho Chi Minh (Vietnam) and Jakarta (Indonesia). Senior members of the Group team therefore visited each component team during the period.</p> <p>In establishing our overall approach to the Group audit, we determined the type of work that needed to be undertaken at each of the components by us, as the Group audit engagement team, or by component auditors from other EY global network firms operating under our instruction. For eight full scope components and one specific scope component where the work was performed by component auditors, we determined the appropriate level of involvement to enable us to determine that sufficient audit evidence had been obtained as a basis for our opinion on the Group as a whole.</p> <p>The Group audit team interacted regularly with the EY component teams during each stage of the audit, were responsible for the scope and direction of the audit process and reviewed key working papers. Site visits involved discussing the audit approach with the component team and any issues arising from their work, meeting with local management, attending planning and closing meetings, and reviewing key audit working papers addressing areas of risk. This, together with the additional procedures performed at Group level, gave us appropriate evidence for our opinion on the Group financial statements.</p>
--	---

7. Our assessment of key audit matters

As Premier's auditors, we are required to determine – from the matters communicated by us to the Audit and Risk Committee during the year – those matters that required significant attention from us in performing our audit of Premier's 2018 Consolidated Financial Statements. In making this determination we took the following into account:

- the risks that we believed were significant to our audit and therefore required special audit consideration;
- areas of higher assessed risk of material misstatement that influenced our audit focus;
- significant audit judgements relating to areas in Premier's Consolidated Financial Statements that involved significant management judgement, including accounting estimates that we identified as having high estimation uncertainty;
- the effect on our audit of significant events or transactions that occurred during the period; and
- those assessed risks of material misstatement that had the greatest effect on the allocation of resources in the audit and directing the efforts of the audit team.

On this basis, we have identified the following key audit matters that, in our professional judgement, were of most significance in our audit of Premier's 2018 Consolidated Financial Statements. These matters included those that had the greatest effect on: the overall strategy, the allocation of resources in the audit and directing the efforts of the audit team. The key audit matters have been addressed in the context of the audit of Premier's Consolidated Financial Statements and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The table below describes the key audit matters, a summary of our procedures carried out and our key observations that we communicated to the Audit and Risk Committee.

Oil and gas reserves estimation

Risk	Our response to the risk	Key observations communicated to the Audit and Risk Committee
<p>Refer to the Audit and Risk Committee Report (page 74); Accounting policies (page 123); and Note 10 of the Consolidated Financial Statements (page 141).</p> <p>At 31 December 2018, Premier reported 193.7 million barrels of oil equivalent of proved and probable reserves. (2017: 301.8 million barrels of oil equivalent).</p> <p>The estimation and measurement of oil and gas reserves impacts many material elements of the financial statements including depreciation, depletion and amortisation ('DD&A'), impairment, going concern, decommissioning and deferred tax asset ('DTA') recoverability. There is technical uncertainty in assessing reserve quantities and there are complex contractual arrangements that determine Premier's entitlement of reserves.</p> <p>This risk has remained consistent with the prior year.</p>	<p>Our response was primarily performed by the Group audit team, with input from our three component audit teams based in Ho Chi Minh (Vietnam), Jakarta (Indonesia) and Aberdeen (United Kingdom). We performed the following audit procedures with respect to management's estimation of oil and gas reserves:</p> <ul style="list-style-type: none"> • Confirmed our understanding of Premier's oil and gas reserves estimation process as well as the control environment implemented by management; • Assessed the appropriateness of reliance on management's internal and external reserve estimators by performing procedures to evaluate their objectivity and competency; • Compared management's internal estimations to those of the independent external specialist and investigated all significant variations; • Investigated all material volume movements from the prior period and lack of movement where changes were expected based on our understanding of operations and findings from other areas of our audit; • For contingent resource volumes not included in the scope of the independent external specialist's procedures that have an impact on the financial statements, we obtained an understanding of the source data used by management's internal specialist in generating its estimate. We corroborated the appropriateness of source data based on consistency with other areas of the audit; and • Ensured reserve volumes were consistently applied throughout all relevant accounting processes including DD&A, impairment, going concern, decommissioning and DTA recoverability. 	<p>We reported to the Audit and Risk Committee in the March 2019 meeting that, based on our testing performed, we had not identified any errors or factual inconsistencies between Premier's internal and external oil and gas reserves and resource estimates that would materially impact the financial statements and that, as a result, we consider the internal estimate appropriate.</p>

Deferred tax asset recoverability

Risk	Our response to the risk	Key observations communicated to the Audit and Risk Committee
<p>Refer to the Audit and Risk Committee Report (page 75), Accounting policies (page 123); and Note 19 of the Consolidated Financial Statements (page 152).</p> <p>As at 31 December 2018, Premier recognised a gross deferred tax asset of US\$1,434 million (2017: US\$1,462 million).</p> <p>The recognition of material deferred tax asset balances is supported by forecast future taxable profits, primarily in the UK, which are underpinned by management's assumptions applied when forecasting future taxable profits, including oil and gas price assumptions, production profiles and cost forecasts.</p> <p>In some cases, the utilisation of deferred tax assets extends to the full life of the fields and are reliant on cash flows to be derived from the production of volumes currently classified as contingent resources and not yet developed.</p> <p>This risk has remained consistent with the prior year.</p>	<p>Our response was performed by the Group and Aberdeen component audit teams covering 100 per cent of the deferred tax balance. We performed the following audit procedures in respect to management's DTA recoverability assessment:</p> <ul style="list-style-type: none"> • Confirmed our understanding of Premier's DTA recoverability assessment process as well as the control environment implemented by management; • Audited the appropriateness of management's forecasted oil and gas prices based on comparison with the views of market participants including consultants, brokers and banks as well as the futures curve; • Ensured the forecasts used by management for assessing the recoverability of DTAs were consistent with those used for assessing asset impairment; • Evaluated the reasonableness of tax planning strategies applied in determining the recoverability of deferred tax assets; and • Assessed the likelihood of executing required development activities in order to allow for cash flows to be derived as forecast from fields yet to commence production. Refer to our response to oil and gas reserve estimation for detail of procedures performed to test the appropriateness of source data used in generating resource estimates in respect to such assets. 	<p>We reported to the March 2019 meeting of the Audit and Risk Committee that, based on our testing performed, forecasted future taxable profits underpinning the recognised DTA are probable in accordance with accounting standards and consistent with those used for asset impairment testing and the going concern assessment.</p> <p>In particular, management's oil and gas price assumptions are within the range of the views of market participants and therefore considered appropriate.</p>

Going concern assessment and covenant compliance

Risk	Our response to the risk	Key observations communicated to the Audit and Risk Committee
<p>Refer to the Audit and Risk Committee Report (page 74), Accounting policies (page 122); and Note 15 of the Consolidated Financial Statements (page 145).</p> <p>Premier's ongoing covenant compliance is a key consideration when considering the appropriateness of adopting the going concern basis of accounting.</p> <p>Under management's base case assumption, no breach of covenants is forecasted throughout the going concern period or the period of the viability statement. However, in downside price and production scenarios, a breach of one or more of the financial covenants may arise in the absence of mitigating actions.</p> <p>This risk has remained consistent with the prior year.</p>	<p>Our audit procedures to respond to the risk associated with management's going concern assessment were performed by the Group and Aberdeen component audit teams and comprised the following:</p> <ul style="list-style-type: none"> • Confirmed our understanding of Premier's going concern assessment process as well as the control environment implemented by management; • Tested the integrity of management's going concern model by auditing the changes in the model from the prior year; • Ensured the forecast incorporated in the model was consistent with the budget approved by the Board and assessed historical forecasting accuracy through forecast versus actual analysis; • Audited the reasonableness of all key assumptions, including oil and gas prices, production profiles and cost forecasts, as well as their consistency with other areas of the audit including impairment assessments and deferred tax asset recognition; • Recalculated management's forecast covenant ratio compliance calculations to attest that there were no breaches for each covenant ratio throughout the going concern period under management's base case; • Performed sensitivity analysis on the cash flow forecasts to consider their impact on forecast covenant compliance during the going concern period. Our sensitivity analysis included assuming oil price realisations at the bottom of broker forecasts, being US\$5.50/bbl and US\$12.90/bbl lower than managements base case in 2019 and 2020 respectively, and production downside of a high-margin field, representing a 10 per cent fall in forecast Group production; and • Assessed the ability of management to execute mitigating actions, as required, to prevent a breach of covenants in downside scenarios. 	<p>We reported to the March 2019 meeting of the Audit and Risk Committee that, based on our testing performed, we believed that the going concern assumption adopted in the 2018 financial statements is appropriate, based on forecast covenant compliance headroom calculated under management's base case.</p> <p>Management's base case oil and gas price assumptions applied throughout the going concern period are consistent with those used when assessing the recoverability of deferred tax asset recoverability and testing for impairment. These prices are within the range of the views of market participants including banks, brokers and consultants as well as below the price at which futures are currently being contracted.</p> <p>We noted that under certain production and oil price downside scenarios, covenants could be breached during the going concern period; however, we are satisfied that the going concern assumption is appropriate based on Premier's base case assumptions as well as the credibility of management's assumptions in respect to the ability to execute mitigating actions in the required timeframe in downside scenarios. Mitigating actions include asset disposal options and oil price hedging.</p>

Recoverability of oil and gas assets

Risk	Our response to the risk	Key observations communicated to the Audit and Risk Committee
<p>Refer to the Audit and Risk Committee Report (page 75); Accounting policies (page 122); and Note 10 of the Consolidated Financial Statements (page 141).</p> <p>In the current period, management recorded a net impairment reversal of US\$35 million (2017: net impairment charge of US\$252 million). Accounting standards require management to assess at each reporting date whether indicators of asset impairment exist. Where indicators of impairment (or reversal) exist, management must carry out an impairment test.</p> <p>Management prepare their tangible asset impairment tests under the value-in-use methodology. The models include a number of accounting estimates and judgments including: future oil and gas prices, discount rates, inflation rates, production forecasts, operating expenditures and capital expenditures for each cash generating unit ('CGU'). Changes to any of these key inputs could lead to a potential impairment or a reversal of impairment.</p> <p>In the current period, the net impairment reversal was because of changes in decommissioning cost estimates. Therefore, less judgement was required in auditing management's current period impairment assessment when compared to the prior period. However, given the pervasive impact of key assumptions considered in management's impairment assessment, including oil and gas prices, we identified the recoverability of oil and gas assets as a key audit matter for our current period audit.</p>	<p>Our response was performed by the Group and Aberdeen component audit teams covering 100 per cent of the current period impairment reversal. Our procedures comprised the following:</p> <ul style="list-style-type: none"> Confirmed our understanding of Premier's impairment assessment process as well as the control environment implemented by management; Evaluated the completeness of management's assessment of the indicators of impairment or reversal on both intangible and tangible oil and gas assets through obtaining corroborating evidence to support management's assessment; In conjunction with our EY valuations specialists, we assessed the reasonableness of management's key assumptions, including oil and gas prices, discount rates, and inflation rate. Where an indicator of impairment or reversal of an oil and gas property existed, we obtained the underlying VIU model, tested the model integrity and the appropriateness of management's assumptions in estimating future cash flows. Where applicable, assumptions were consistent with those applied in management's DTA recoverability and going concern assessments. 	<p>We reported to the March 2019 meeting of the Audit and Risk Committee that, based on our testing performed, we considered the current period impairment reversal to be materially stated. In particular, we concluded that there was sufficient external evidence to support the reasonableness of Premier's oil and gas price assumptions and that the impairment discount rate adopted by management was within the range of acceptable discount rates. Production forecasts incorporated within current period impairment tests were consistent with the results of our testing of reserves.</p>

In 2017, our auditors' report included key audit matters in relation to audit transition, decommissioning provision estimation and refinancing accounting. Following the completion of our initial audit, as well as the refinancing in the prior period, audit transition and refinancing accounting key audit matters were not applicable for our current period audit. Based on knowledge of the decommissioning provision estimation process generated during our prior period audit, as well as limited additional judgement applied when forming the current period estimation, decommissioning provision estimation did not represent a key audit matter for our current period audit.

8. Other information

The other information comprises the information included in the Annual Report set out on pages 1 to 111 and 169 to 177 including the Strategic Report, Governance and Additional Information sections, other than the financial statements and our auditors' report thereon. The Directors are responsible for the other information.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to address specifically the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- **Fair, balanced and understandable** set out on page 111 – the statement given by the Directors that they consider the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess Premier's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit and Risk Committee reporting** set out on page 72 to 76 the section describing the work of the Audit and Risk Committee does not appropriately address matters communicated by us to the Audit and Risk Committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code** set out on page 111– the parts of the Directors' statement required under the Listing Rules relating to Premier's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

9. Matters on which we are required to report by exception

In the light of the knowledge and understanding of Premier and the Parent Company, and its environment obtained in the course of our audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

We have nothing to report in respect of the following matters in relation to which 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.

10. Responsibilities Of Directors

As explained more fully in the statement of Directors' responsibilities set out on page 111, the Directors are responsible for the preparation of the Consolidated Financial Statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

11. Auditors' responsibilities for the audit of the financial statements

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

12. Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

The objectives of our audit, in respect to fraud, are: to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant are those that relate to the reporting framework (IFRSs, Companies Act 2006, the UK Corporate Governance Code and Listing Rules of the UK Listing Authority) and the relevant tax compliance regulations in the jurisdictions in which the Group operates. In addition, we concluded that there are certain significant laws and regulations that may have an effect on the determination of the amounts and disclosures in the financial statements and laws and regulations relating to health and safety, employee matters, environmental and bribery and corruption practices.
- We understood how the Group is complying with those frameworks by making enquiries of management and with those responsible for legal and compliance procedures. We designed audit procedures to identify non-compliance with such laws and regulations identified in the paragraph above, including corroborating our enquiries through our review of Board minutes, papers provided to the Audit and Risk Committee and correspondence received from regulatory bodies, and noted that there was no contradictory evidence.
- We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur by incorporating data analytics and manual journal entry testing into our audit approach. Our journal entry audit procedures focused on addressing the risk of management override of controls at all full and specific audit scope entities, as well as review scope entities that are not dormant. Our audit procedures also covered post-closing year-end journal entries. We used our data analytics techniques to focus our testing on higher risk manual journal entries, journal entries related to the debt covenants, in particular unusual account pairing impacting revenue and completeness of costs, and other search criteria that could indicate management override or fraud. Data completeness checks were carried out to ensure that the journal entry population was complete.
- Based on the results of our risk assessment we designed our audit procedures to identify non-compliance with such laws and regulations identified above. Our procedures involved journal entry testing, with a focus on journals meeting our defined risk criteria based on our understanding of the business, enquiries of legal counsel, Group management and all full and specific scope management.
- If any instance of non-compliance with laws and regulations were identified, these were communicated to the relevant local EY teams who performed sufficient and appropriate audit procedures supplemented by audit procedures performed at the Group level. Where appropriate we consulted our forensic specialists.

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PREMIER OIL PLC CONTINUED

For the year ended 31 December 2018

13. Other matters we are required to address

Following the recommendation of the Audit and Risk Committee, we were re-appointed by Premier Oil plc's Annual General Meeting (AGM) on 16 May 2018, as auditors of Premier Oil to hold office until the conclusion of the next AGM of the Company, and signed an engagement letter on 13 June 2017. Our total uninterrupted period of engagement is two years covering periods from our appointment through to the period ending 31 December 2018.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to Premier or the Parent Company and we remain independent of Premier and the Parent Company in conducting the audit.

Our audit opinion is consistent with our additional report to the Audit and Risk Committee explaining the results of our audit.

14. Use of our report

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

Gary Donald (Senior Statutory Auditor)

for and on behalf of Ernst & Young LLP

Statutory Auditor, London

6 March 2019

Notes:

- 1 The maintenance and integrity of the Premier Oil plc web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
- 2 Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

ACCOUNTING POLICIES

For the year ended 31 December 2018

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 Falkland Islands, Indonesia, Pakistan, the United Kingdom, Vietnam and Rest of the World.

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, other than as disclosed below, none of these have a material impact on the Group's annual results.

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers
- Clarifications to IFRS 15 Revenue from Contracts with Customers
- IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration
- Amendments to IAS 40 Transfers of Investment Property
- Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions
- Amendments to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
- Amendments to IAS 28 Investments in Associates and Joint Ventures – Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice
- Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards – Deletion of short-term exemptions for first-time adopters

IFRS 9 Financial Instruments

The overall impact on transition to IFRS 9 was an US\$82 million increase in long-term debt and corresponding reduction in net assets. This adjustment relates entirely to an adjustment to the Group's accounting for its refinancing that completed in July 2017. On adoption of IFRS 9 on 1 January 2018, additional interest charges for facilities that were not deemed to be substantially modified have been expensed at the point of completion of the refinancing. Under the previous accounting policies these additional interest charges had been expected to be amortised to the income statement on an effective interest rate basis over the life of the facilities. Under IFRS 9, this would have increased the interest charge recognised in 2017 by US\$82 million, with a corresponding reduction in net assets at 31 December 2017. Going forward, this reduces Premier's forecast interest charges by c. US\$20 million per annum. The impact on the current period balance sheet is to increase long-term debt and reduce retained earnings by US\$82 million. As permitted by IFRS 9 comparatives have not been restated.

For certain line items in the balance sheet the closing balance at 31 December 2017 as previously reported and the opening balance at 1 January 2018 therefore differ (see statement of changes in equity). The Group's accounting policy has been revised to reflect the requirements of IFRS 9. However, excluding the impact on the accounting treatment applied to the Group's 2017 refinancing, the standard has not had a significant impact.

IFRS 15 Revenue from Contracts with Customers

Premier has elected to apply the 'modified retrospective' approach to transition permitted by IFRS 15 under which comparative financial information is not restated. Given the nature of Premier's oil marketing and gas sales arrangements, with control passing to the customer upon transfer of physical possession, Premier principally satisfies its performance obligations at a point in time as opposed to over a period of time. Therefore, the accounting of revenue under IFRS 15 did not have a material effect on the Group's financial statements as at 1 January 2018 and so no transition adjustment has been made. The Standard has not had a material impact on the Group's accounting policy in respect to revenue as previously disclosed in the 2017 financial statements.

Revenue from contracts with customers for 2018 is presented in Note 1. Amounts presented for comparative periods in 2017 include revenues determined in accordance with the Group's previous accounting policies relating to revenue. The total amounts presented do not, therefore, represent the revenue from contracts with customers that would have been reported for those periods had IFRS 15 been applied using a fully retrospective approach to transition but the differences are not material.

At the date of approval of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the European Union):

- IFRS 16 Leases
- IFRS 17 Insurance Contracts
- IFRIC 23 Uncertainty over Income Tax Treatments
- Amendments to IFRS 2 - Classification and Measurement of Share-based Payment Transactions
- Amendments to IFRS 4 - Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contract
- Amendments to IFRS 9 - Prepayment Features with Negative Compensation
- Amendments to IAS 28 - Long-term Interests in Associates and Joint Ventures
- Annual Improvements (2015-2017 Cycle): IFRS 3 Business Combinations - Previously held interests in a joint operation
- Annual Improvements (2015-2017 Cycle): IFRS 11 Joint Arrangements - Previously held interests in a joint operation
- Annual Improvements (2015-2017 Cycle): IAS 12 Income Taxes - Income tax consequences of payments on financial instruments classified as equity
- Annual Improvements (2015-2017 Cycle): IAS 23 Borrowing Costs - Borrowing costs eligible for capitalisation

ACCOUNTING POLICIES CONTINUED

For the year ended 31 December 2018

Other than as disclosed below, the Directors do not expect that the adoption of the other Standards listed above will have a material effect on the financial statements of the Group in future periods.

IFRS 16 Leases ('IFRS 16') was issued in January 2016 to replace IAS 17 Leases and is effective from 1 January 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases, with limited exceptions, under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. Under IFRS 16, at the commencement date of a lease, a lessee is required to recognise a liability to make lease payments ('lease liability') and an asset representing the right to use the underlying asset during the lease term ('right-of-use asset'). Lessees will be required to separately recognise the interest expense associated with the unwinding of the lease liability and the depreciation expense on the right-of-use asset. These costs will replace amounts previously recognised as operating expenditure in respect to an operating lease in accordance with IAS 17. In applying IFRS 16 for the first time the Group has applied the short-term lease practical expedient by not recognising lease liabilities in respect to lease arrangements with a remaining lease term of less than 12 months as at 1 January 2019.

During 2018, the Group performed a detailed assessment of the impact of IFRS 16. The Group will adopt the modified retrospective approach to adoption on 1 January 2019, measuring right-of-use assets at an amount equal to their respective lease liability on adoption, with the cumulative effect of adopting the standard recognised at the date of initial application without restatement of comparative information. IFRS 16 will have a material impact on the accounting treatment of our lease arrangements, with the most significant aspect being the recognition of a lease liability and associated right-of-use-asset in respect to FPSO vessels on the Catcher, Chim São and Huntington assets.

The most judgemental matter in Premier's adoption of IFRS 16 remains determining the appropriate accounting for a lease arrangement entered into by a lead operator as a sole signatory for the lease of equipment that will be used in a joint operation. There is debate throughout the sector as to whether such contracts are to be reflected gross (100 per cent) in the operator's financial statements, or according to each joint operation partner's proportionate share of the lease. This issue was discussed in the context of IFRS 11 Joint Arrangements in the September 2018 meeting of the IFRS Interpretations Committee ('IFRIC'). The presence of a sub-lease between an operator and other parties of the joint arrangement was not addressed by IFRIC. Given the nature and extent of comments raised in response to IFRIC's tentative agenda decision, it is expected that IFRIC will discuss the matter further during their March meeting. The Group will re-assess the appropriate accounting treatment in respect to this matter based on the outcome of IFRIC's meeting.

Based on our impact assessment analysis, if Premier were to adopt gross accounting and recognise a sub-lease whereby Premier has entered into a lease arrangement on behalf of a joint operation as a sole signatory, the opening lease liability to be recognised on 1 January 2019 was US\$908 million with an associated right of use asset of US\$812 million and a net investment in sub-lease of US\$96 million. The net investment in sub-lease represents the share of lease liabilities of our joint operation partners on lease arrangements for which Premier has entered into on behalf of the joint operation as sole signatory in its role as operator.

The recognition of interest expense and depreciation in respect to leases liabilities and right-of-use assets under IFRS 16 whilst being offset by a reduction in operating expenditure charged to the income statement will result in an increase in Group EBITDA. For the purposes of testing of the Group's financial covenants for the existing financing facilities, lease costs and associated liabilities will continue to be accounted in accordance with IAS 17.

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 derivative financial instruments that have been measured at fair value, including the equity and synthetic warrants.

The financial statements have been prepared on the going concern basis. Further information relating to the use of the going concern assumption, is provided in the 'Going Concern' section of the Financial Review as set out on page 35.

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 when a company is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

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.

Critical accounting judgements

- the application of the going concern basis of accounting (basis of preparation section above);
- carrying value of intangible exploration and evaluation assets (note 9 on page 140), in relation to whether commercial determination of an exploration prospect had been reached;
- carrying value of property, plant and equipment (note 10 on page 142) regarding assessing assets for indicators of impairment;
- decommissioning costs (note 17 on page 146), relating to the timing of when decommissioning would occur; and
- tax and recognition of deferred tax assets (note 19 on page 152), relating to the extent to which future cash flows are included.

Key sources of estimation uncertainty

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

- carrying value of property, plant and equipment (note 10 on page 141), where the key assumptions relate to oil and gas prices expected to be realised, 2P production profiles and estimated future costs;
- decommissioning costs (note 17 on page 146, where the key assumptions relate to the discount and inflation rates applied, applicable rig rates and expected timing of COP from each field);
- estimating the fair value of the equity and synthetic warrants recognised in the year (note 18 on page 149), where key assumptions relate to expected timing of exercise and future share price volatility; and,
- tax and recognition of deferred tax assets (note 19 on page 152), where key assumptions relate to oil and gas prices expected to be realised, 2P production profiles and estimated future costs.

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 acquisition date) 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 with any gains or losses recorded in the income statement, unless it is classified as equity.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 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 an excess of fair value over cost.

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 arrangements

A joint arrangement is one in which two or more parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

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

A joint venture, which normally involves the establishment of a separate legal entity, is a contractual arrangement whereby the parties that have joint control of the arrangement have the rights to the arrangement's net assets. The results, assets and liabilities of a joint venture are incorporated in the consolidated financial statements using the equity method of accounting. During 2018, the Group did not have any material interests in joint ventures.

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

ACCOUNTING POLICIES CONTINUED

For the year ended 31 December 2018

Interests in associates

An associate is an entity over which the Group has significant influence, through the power to participate in the financial and operating policy decisions of the investee, but which is not a subsidiary or a joint arrangement. The results, assets and liabilities of an associate are incorporated in these financial statements using the equity method of accounting.

Assets held for sale

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sales transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Discontinued operations

A disposal group qualifies as a discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and represents a separate major line of business or geographical area of operation. Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the statement of profit or loss.

Sales revenue and other income

Revenue from contracts with customers is recognised when or as the Group satisfies a performance obligation by transferring a promised good or service to a customer. A good or service is transferred when the customer obtains control of that good or service. The transfer of control of oil, natural gas, natural gas liquids, and other items sold by the Group usually coincides with title passing to the customer and the customer taking physical possession. The Group principally satisfies its performance obligations at a point in time and the amounts of revenue recognised relating to performance obligations satisfied over time are not significant. Under the Group's joint operation arrangements, revenue is recognised according to the actual liftings. However, where liftings do not match working interest or entitlement interest, an adjustment is made to cost of sales representing the amount due to/from joint venture partners representing over/underlift movements.

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 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, once the project is deemed to be justified for development. If, however, commercial reserves have not been found, the capitalised costs are charged to expense after conclusion of appraisal activities.

(b) Oil and gas properties

Oil and gas properties 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 oil and gas properties also includes the cost of acquisitions and purchases of such assets, directly attributable overheads, finance costs capitalised, and the cost of recognising provision for future restoration and decommissioning.

Depreciation of producing assets

The net book values of producing assets (including pipelines) 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 (proved and probable) 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.

(c) Impairment of oil and gas properties' assets

An impairment test is performed whenever events and circumstances arising during the development or production phase indicate that the carrying value of an oil and gas property may exceed its recoverable amount.

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

Any impairment identified is charged to the income statement. 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 using 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 oil and gas properties 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 from the start of the financial year as an adjustment to the opening 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 underlifts and overlifts of crude oil are measured at net realisable value using an observable year-end oil or gas market price, and included in 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. Deferred tax liabilities are 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 or from any 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.

ACCOUNTING POLICIES CONTINUED

For the year ended 31 December 2018

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 or substantially 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 recognised as other comprehensive income or expense and are transferred to the Group's translation reserve. When an overseas operation is disposed of, such translation differences relating to it are recognised as income or expense.

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.

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation as reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to 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 amortised cost 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 in 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.

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 asset is substantially ready for its intended use, i.e. when it is 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

Initial recognition of trade payables is at fair value. Subsequently they are stated at amortised cost.

Derivative financial instruments

(a) Classification of financial assets and financial liabilities

IFRS 9 requires the use of two criteria to determine the classification of financial assets: the entity's business model for the financial assets and the contractual cash flow characteristics of the financial assets. The Standard goes on to identify three categories of financial assets - amortised cost; fair value through profit or loss ('FVTPL'); and fair value through other comprehensive income ('FVOCI'). The accounting for the Group's financial liabilities remains largely the same as it was under IAS 39. Similar to the requirements of IAS 39, IFRS 9 requires contingent consideration liabilities to be treated as financial instruments measured at fair value, with the changes in fair value recognised in the statement of profit or loss.

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

Under IFRS 9, embedded derivatives are no longer separated from a host financial asset. Instead, financial assets are classified based on their contractual terms and the Group's business model. The accounting for derivatives embedded in financial liabilities and in non-financial host contracts has not changed from that required by IAS 39.

(b) Impairment

IFRS 9 mandates the use of an expected credit loss model to calculate impairment losses rather than an incurred loss model, and therefore it is not necessary for a credit event to have occurred before credit losses are recognised. The new impairment model applies to the Group's financial assets and loan commitments. No changes to the impairment provisions were made on transition to IFRS 9.

The IFRS 9 impairment model requiring the recognition of 'expected credit losses', in contrast to the requirement to recognise 'incurred credit losses' under IAS 39, has not had a material impact on the Group's financial statements.

Trade receivables are generally settled on a short time frame and the Group's other financial assets are due from counterparties without material credit risk concerns at the time of transition. For trade receivables the Group has used the simplified approach as allowed under IFRS 9.

(c) Hedge accounting

The hedge accounting requirements of IFRS 9 have been simplified and are more closely aligned to an entity's risk management strategy. Under IFRS 9 all existing hedging relationships will qualify as continuing hedging relationships and the Group also intends to apply hedge accounting prospectively to certain of its commodity price risk management activities for which hedge accounting was not possible under IAS 39. This had no impact on the 2018 opening balance sheet.

Cash and cash equivalents

Cash comprises cash in hand and demand deposits.

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 model. The main assumptions are provided in note 21 on page 154.

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. Any difference between this amount and the interest paid is added to the carrying amount of the convertible bonds.

The Group's convertible bonds were exercised during the year (see note 15)

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2018

	Note	2018 US\$ million	2017 US\$ million
Continuing operations			
Sales revenues	1	1,397.5	1,043.1
Other operating (costs)/income	17	(1.2)	18.8
Costs of operation	2	(500.0)	(455.4)
Depreciation, depletion, amortisation and impairment	1	(358.4)	(667.8)
Exploration expense and pre-licence costs	9	(35.2)	(17.1)
Profit on disposal of non-current assets	7	42.3	129.0
General and administration costs		(14.0)	(16.8)
Operating profit		531.0	33.8
Interest revenue, finance and other gains	5	27.8	12.6
Finance costs, other finance expenses and losses	5	(400.6)	(329.0)
Loss on substantial modification	15	–	(83.7)
Profit/(loss) before tax from continuing operations		158.2	(366.3)
Tax (charge)/credit	6	(53.1)	96.1
Profit/(loss) for the year from continuing operations		105.1	(270.2)
Discontinued operations			
Profit for the year from discontinued operations	7	28.3	16.4
Profit/(loss) after tax		133.4	(253.8)
Earnings/(loss) per share (cents):			
From continuing operations			
Basic	8	13.6	(52.6)
Diluted	8	12.2	(52.6)
From continuing and discontinued operations			
Basic	8	17.3	(49.4)
Diluted	8	15.5	(49.4)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Note	2018 US\$ million	2017 US\$ million
Profit/(loss) for the year		133.4	(253.8)
Cash flow hedges on commodity swaps:			
Gains/(losses) arising during the year		85.7	(25.6)
Add: reclassification adjustments for losses in the year		71.2	11.4
	18	156.9	(14.2)
Cash flow hedges on interest rate and foreign exchange swaps:			
Gains/(losses) arising during the year		21.5	(33.9)
Less: reclassification adjustments for (gains)/losses in the year		(11.4)	23.1
	18	10.1	(10.8)
Tax relating to components of other comprehensive income	19	(33.8)	7.5
Exchange differences on translation of foreign operations		7.4	(4.9)
Other comprehensive income/(expense)		140.6	(22.4)
Total comprehensive income/(expense) for the year		274.0	(276.2)

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

CONSOLIDATED BALANCE SHEET

As at 31 December 2018

	Note	2018 US\$ million	2017 US\$ million
Non-current assets:			
Intangible exploration and evaluation assets	9	812.6	1,061.9
Property, plant and equipment	10	2,245.6	2,381.0
Goodwill	10	240.8	240.8
Long-term receivables	11	159.8	160.8
Deferred tax assets	19	1,434.1	1,461.5
		4,892.9	5,306.0
Current assets:			
Inventories		12.5	13.5
Trade and other receivables	11	282.3	340.6
Derivative financial instruments	18	127.4	14.5
Cash and cash equivalents	12	244.6	365.4
Assets held for sale	7	55.2	96.6
		722.0	830.6
Total assets		5,614.9	6,136.6
Current liabilities:			
Trade and other payables	13	(375.6)	(572.9)
Short-term provisions	17	(46.0)	(91.2)
Derivative financial instruments	18	(41.4)	(99.8)
Deferred income	14	(11.0)	(13.1)
Liabilities directly associated with assets held for sale	7	(21.9)	(46.6)
		(495.9)	(823.6)
Net current assets		226.1	7.0
Non-current liabilities:			
Long-term debt	15	(2,552.0)	(2,972.6)
Deferred tax liabilities	19	(139.5)	(164.0)
Deferred income	14	(76.0)	(80.3)
Derivative financial instruments	18	(129.4)	(108.3)
Long-term provisions	17	(1,196.1)	(1,370.9)
		(4,093.0)	(4,696.1)
Total liabilities		(4,588.9)	(5,519.7)
Net assets		1,026.0	616.9
Equity and reserves:			
Share capital	20	154.2	109.0
Share premium account		491.7	284.5
Other reserves	26	380.1	223.4
		1,026.0	616.9

The financial statements were approved by the Board of Directors and authorised for issue on 6 March 2019.

They were signed on its behalf by:

Tony Durrant
Chief Executive Officer

Richard Rose
Finance Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Note	Attributable to the equity holders of the parent			
		Share capital US\$ million	Share premium account US\$ million	Other reserves US\$ million	Total US\$ million
At 1 January 2017		106.7	275.4	427.0	809.1
Issue of Ordinary Shares		2.3	9.1	1.1	12.5
Purchase of ESOP Trust shares		–	–	(0.2)	(0.2)
Provision for share-based payments	21	–	–	14.5	14.5
Incremental equity component of revised convertible bonds		–	–	57.2	57.2
Loss for the year		–	–	(253.8)	(253.8)
Other comprehensive expense		–	–	(22.4)	(22.4)
At 31 December 2017		109.0	284.5	223.4	616.9
Adjustment on adoption of IFRS 9 ¹	15	–	–	(82.0)	(82.0)
At 1 January 2018		109.0	284.5	141.4	534.9
Issue of Ordinary Shares		45.2	207.2	7.7	260.1
Purchase of ESOP Trust shares		–	–	(1.5)	(1.5)
Provision for share-based payments	21	–	–	14.6	14.6
Conversion of convertible bonds	15	–	–	(56.1)	(56.1)
Profit for the year		–	–	133.4	133.4
Other comprehensive income		–	–	140.6	140.6
At 31 December 2018		154.2	491.7	380.1	1,026.0

Note:

¹ As described in the Accounting Policies.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2018

	Note	2018 US\$ million	2017 US\$ million
Net cash from operating activities	22	722.8	496.0
Investing activities:			
Capital expenditure		(279.8)	(275.6)
Decommissioning pre-funding	11	(17.8)	(16.7)
Decommissioning expenditure		(72.7)	(25.7)
Proceeds from disposal of oil and gas properties		73.4	202.3
Net cash used in investing activities		(296.9)	(115.7)
Financing activities:			
Issuance of Ordinary Shares		13.8	0.8
Net purchase of ESOP Trust shares		(1.5)	(0.2)
Proceeds from drawdown of long-term bank loans		105.0	45.0
Repayment of long-term bank loans		(415.3)	–
Debt arrangement fees		–	(86.0)
Interest paid		(228.7)	(223.7)
Net cash from financing activities		(526.7)	(264.1)
Currency translation differences relating to cash and cash equivalents		(20.0)	(6.7)
Net (decrease)/increase in cash and cash equivalents		(120.8)	109.5
Cash and cash equivalents at the beginning of the year		365.4	255.9
Cash and cash equivalents at the end of the year	22	244.6	365.4

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

1. Operating segments

The Group's operations are located and managed in five business units; namely the Falkland Islands, Indonesia, Vietnam, the United Kingdom and the Rest of the World. The results for Pakistan are reported as a discontinued operation.

Some of the business units currently do not generate revenue or have any material operating income.

The Group is only engaged in one business of upstream oil and gas exploration and production.

	2018 US\$ million	2017 US\$ million
Revenue:		
Indonesia	192.8	171.8
Vietnam	272.4	210.7
United Kingdom	931.5	655.9
Rest of the World ¹	0.8	4.7
Total Group sales revenue	1,397.5	1,043.1
Other operating income - United Kingdom	–	18.8
Interest and other finance revenue	7.6	1.7
Total Group revenue from continuing operations	1,405.1	1,063.6
Group operating profit:		
Indonesia	111.8	65.3
Vietnam	142.2	82.6
United Kingdom	326.2	(86.4)
Rest of the World ¹	(29.6)	(5.0)
Unallocated ²	(19.6)	(22.7)
Group operating profit	531.0	33.8
Interest revenue, finance and other gains	27.8	12.6
Finance costs and other finance expenses	(400.6)	(329.0)
Loss on substantial modification	–	(83.7)
Profit/(loss) before tax from continuing operations	158.2	(366.3)
Tax	(53.1)	96.1
Profit/(loss) after tax from continuing operations	105.1	(270.2)
Profit from discontinued operations	28.3	16.4
Balance sheet		
Segment assets:		
Falkland Islands	648.1	633.1
Indonesia	417.7	440.4
Vietnam	312.0	374.4
United Kingdom	3,706.1	4,116.2
Rest of the World ¹	103.8	96.0
Assets held for sale	55.2	96.6
Unallocated ²	372.0	379.9
Total assets	5,614.9	6,136.6

Notes:

- Segmental income, assets, liabilities and capital additions for Mauritania have been included within the Rest of the World.
- 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 and options, convertible bonds, warrants and other long-term debt.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2018

1. Operating segments continued

	2018 US\$ million	2017 US\$ million
Liabilities:		
Falkland Islands	(12.8)	(8.2)
Indonesia	(174.0)	(223.9)
Vietnam	(174.1)	(203.4)
United Kingdom	(1,431.9)	(1,802.1)
Rest of the World ¹	(51.4)	(54.8)
Liabilities directly associated with assets held for sale	(21.9)	(46.6)
Unallocated ²	(2,722.8)	(3,180.7)
Total liabilities	(4,588.9)	(5,519.7)
Other information		
Capital additions and acquisitions:		
Falkland Islands	15.1	12.9
Indonesia	24.5	7.4
Pakistan	4.1	10.5
Vietnam ⁴	(0.1)	20.2
United Kingdom ⁴	(50.3)	444.3
Rest of the World ¹	37.2	25.3
Total capital additions and acquisitions	30.5	520.6
Depreciation, depletion, amortisation and impairment:		
Indonesia	46.6	57.2
Vietnam	55.6	64.5
United Kingdom	254.8	542.9
Rest of the World ¹	1.4	3.2
Total DD&A and impairment (continuing operations)	358.4	667.8
Total DD&A and impairment (discontinued operations)³	–	7.3

Notes:

1 Segmental income, assets, liabilities and capital additions for Mauritania have been included within the Rest of the World.

2 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 and options, convertible bonds, warrants and other long-term debt.

3 Depreciation, depletion and amortisation for the Pakistan business unit was charged until 30 June 2017, which was the date of reclassification to an asset held for sale.

4 Includes revisions to decommissioning estimates in the year.

Out of the total Group worldwide sales revenues of US\$1,397.5 million (2017: US\$1,043.1 million), revenues of US\$931.5 million (2017: US\$655.9 million) arose from sales of oil and gas to customers located in the UK. Included within the total revenues were revenues of US\$1,468.7 million (2017: US\$1,054.4 million) from contracts with customers. This was offset by hedging losses of US\$71.2 million (2017: US\$11.3 million).

Included in assets arising from the United Kingdom segment are non-current assets (excluding deferred tax assets) of US\$2,090.5 million (2017: US\$2,455.7 million) located in the UK. Included in depreciation, depletion, amortisation and impairment is a net impairment credit in relation to the UK of US\$35.2 million (2017: US\$252.2 million net charge).

Revenue from three customers (2017: three customers) each exceeded 10 per cent of the Group's consolidated revenue. Sales to two customers in the UK amounted to US\$454.7 million (2017: two customers US\$361.7 million). Sales to one customer in Indonesia totalled US\$186.5 million (2017: one customer amounting to US\$168.3 million).

2. Costs of operation

	2018 US\$ million	2017 US\$ million
Operating costs	487.5	438.4
Gas purchases	9.6	5.5
Stock overlift/underlift movement	(11.1)	1.3
Royalties	14.0	10.2
	500.0	455.4

3. Auditors' remuneration

	2018 US\$ million	2017 US\$ million
Audit fees:		
Fees payable to the Company's auditor for the Company's Annual Report	0.7	0.6
Audit of the Company's subsidiaries pursuant to legislation	0.3	0.3
	1.0	0.9
Non-audit fees:		
Other services pursuant to legislation - interim review	0.2	0.2
Other services ¹	0.1	0.4
	0.3	0.6

Note:

¹ Other services relate to fees payable to the Company's auditors for the audit of the Company's joint operations and other assurance services.

The Company has a policy on the provision of non-audit services by the auditor 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 statement preparations 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

	2018 US\$ million	2017 US\$ million
Staff costs, including Executive Directors:		
Wages and salaries	94.3	94.0
Social security costs	8.0	6.8
Pension costs:		
Defined contribution	9.3	6.7
Defined benefit	2.0	3.0
	113.6	110.5

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 21 on page 154.

	2018	2017
Average number of employees during the year:		
Technical and operations	508	531
Management and administration	274	258
	782	789

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2018

5. Interest revenue and finance costs

	Note	2018 US\$ million	2017 US\$ million
Interest revenue, finance and other gains:			
Short-term deposits and loans		7.6	1.7
Derivative gains	18	20.1	10.9
Exchange differences and other gains		0.1	–
		27.8	12.6
Finance costs:			
Bank loans, overdrafts and bonds		(186.9)	(177.3)
Payable in respect of convertible bonds		(0.8)	(13.3)
Payable in respect of senior loan notes		(37.8)	(34.3)
Long-term debt arrangement fees		(34.3)	(22.0)
Exchange differences and other costs		(45.1)	(34.7)
		(304.9)	(281.6)
Other finance expenses:			
Unwinding of discount on decommissioning provision	17	(57.7)	(62.5)
Derivative losses	18	(29.4)	(33.0)
Finance (expense)/income on deferred income	14	(9.8)	6.8
		(96.9)	(88.7)
Gross finance costs and other finance expenses		(401.8)	(370.3)
Finance costs capitalised during the year		1.2	41.3
		(400.6)	(329.0)

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 7.6 per cent (2017: 7.3 per cent) to the expenditures on the qualifying assets.

6. Tax

	2018 US\$ million	2017 US\$ million
Current tax:		
UK corporation tax on profits	(23.2)	(0.8)
UK petroleum revenue tax	–	(8.2)
Overseas tax	120.7	75.6
Adjustments in respect of prior years	(6.9)	8.2
Total current tax	90.6	74.8
Deferred tax:		
UK corporation tax	(13.5)	(146.2)
Overseas tax	(24.0)	(24.7)
Total deferred tax	(37.5)	(170.9)
Tax charge/(credit) on loss on ordinary activities	53.1	(96.1)

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

	2018 US\$ million	2017 US\$ million
Group profit/(loss) on ordinary activities before tax	158.2	(366.3)
Group profit/(loss) on ordinary activities before tax at 44.7% weighted average rate (2017: 29.1%)	70.8	(106.6)
Tax effects of:		
Income/expenses that are not taxable/deductible in determining taxable profit	(8.7)	40.6
Financing costs disallowed for UK supplementary charge	22.6	16.4
Non-deductible field expenditure	6.1	36.1
Tax and tax credits not related to profit before tax (mainly ring fence expenditure supplement)	(46.1)	(69.9)
Group relief	2.7	–
Unrecognised tax losses	14.8	6.1
Effect of change in foreign exchange	17.8	–
Adjustments in respect of prior years	(31.2)	(3.2)
Utilisation and recognition of tax losses not previously recognised	–	(0.8)
Effect of differences in tax rates	(0.4)	(0.5)
Recognition that decommissioning provision will unwind at 50%	4.7	(14.3)
Tax charge/(credit) for the year	53.1	(96.1)
Effective tax rate for the year	33.5%	26.2%

The UK deferred tax credit arises due to ring fence expenditure supplement and is offset by other items impacting deferred tax. The overseas deferred tax credit arises on fixed asset balances.

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 future effective tax rate for the Group is impacted by the mix of jurisdictions in which the Group operates (with corporation tax rates ranging from 19 per cent to 55 per cent), assumptions around future oil prices and changes to tax rates and legislation.

7. Discontinued operations, disposals and assets held for sale

	2018 US\$ million	2017 US\$ million
Assets held for:		
Pakistan business unit	55.2	52.2
Esmond Transportation System ('ETS')	–	27.0
Kakap field	–	17.4
Total assets classified as held for sale	55.2	96.6
Liabilities held for:		
Pakistan business unit	(21.9)	(25.4)
Esmond Transportation System ('ETS')	–	(7.0)
Kakap field	–	(14.2)
Total liabilities classified as held for sale	(21.9)	(46.6)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2018

7. Discontinued operations, disposals and assets held for sale continued

Disposals

During the year, Premier completed the previously announced sales of its interest in the Kakap field, its 30 per cent non-operated interest in the Esmond Transportation System ('ETS') and its interest in the Babbage Area.

A net gain for these disposals has been recognised in the income statement for the year. The gain recognised has been partially offset by a charge of US\$5.6 million due to a write-off of a contingent consideration receivable from Kris Energy in relation to the Aceh disposal by Premier in 2014.

Discontinued operations – Pakistan Business Unit

In April 2017, Premier announced it had reached agreement and signed a sale and purchase agreement with Al-Haj Energy Limited ('Al-Haj') for the sale of Premier Oil Pakistan Holdings BV, which comprises Premier's Pakistan business unit, for a cash consideration of US\$65.6 million. During the year, Al-Haj paid a deposit to Premier of US\$10.0 million, on top of the US\$25.0 million deposit received in 2017.

The disposal of the Pakistan business unit is expected to complete in 2019 and, as this is within 12 months of the balance sheet date, the business unit continued to be classified as a disposal group held for sale in the year-end balance sheet.

The results of the disposal group which have been included as discontinued operations in the consolidated income statement were as follows:

	2018 US\$ million	2017 US\$ million
Revenue	40.8	40.8
Expenses	(15.0)	(22.4)
Profit before tax	25.8	18.4
Attributable tax credit/(charge)	2.5	(2.0)
Net profit for the period from discontinued operations	28.3	16.4

During the year to 31 December 2018, the Pakistan disposal group contributed US\$29.0 million (2017: US\$16.8 million) to the Group's net operating cash flows and paid US\$5.0 million (2017: US\$6.8 million) in respect of investing activities. There were no financing cash flows in either the current or the prior years.

The effect of the disposal group on segment results is disclosed in note 1.

The major classes of assets and liabilities comprising the disposal group classified as held for sale are as follows:

	2018 US\$ million	2017 US\$ million
Property, plant and equipment	27.6	23.3
Long-term receivables	0.2	0.4
Deferred tax asset	1.9	0.8
Inventory	8.2	9.0
Trade and other receivables	16.8	17.8
Cash	0.5	0.9
Pakistan assets classified as held for sale	55.2	52.2
Trade and other payables	(5.2)	(7.8)
Long-term provisions	(16.7)	(17.6)
Pakistan liabilities classified as held for sale	(21.9)	(25.4)
Net assets of disposal group	33.3	26.8

Following completion of the disposal, Premier will retain a provision of US\$16.4 million in relation to potential costs to the business unit for the period of ownership by Premier prior to the disposal. This provision is not included in the discontinued operations assets and liabilities in the table above.

8. Earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on the profit/(loss) after tax and the weighted average number of Ordinary Shares in issue during the year. Basic and diluted earnings/(loss) per share are calculated as follows:

	2018 US\$ million	2017 US\$ million
Earnings/(loss)		
Earnings/(loss) for the purpose of diluted earnings/(loss) per share on continuing operations	105.1	(270.2)
Profit from discontinued operations	28.3	16.4
Earnings/(loss) for the purposes of diluted earnings/(loss) per share on continuing and discontinued operations	133.4	(253.8)
Number of shares (millions)		
Weighted average number of Ordinary Shares for the purposes of basic earnings per share	774.0	513.7
Effects of dilutive potential Ordinary Shares:		
Contingently issuable shares (2017: anti-dilutive)	88.3	–
Weighted average number of Ordinary Shares for the purposes of diluted earnings per share	862.3	513.7
Earnings/(loss) per share from continuing operations (cents)		
Basic	13.6	(52.6)
Diluted	12.2	(52.6)
Earnings per share from discontinued operations (cents)		
Basic	3.7	3.2
Diluted	3.3	3.2

The inclusion of the contingently issuable shares in the current year produces diluted earnings per share for both continuing and discontinued operations (2017: anti-dilutive). At 31 December 2018 there were 88.3 million potential Ordinary Shares in the Company that are underlying the Company's equity warrants and share options that may dilute earnings per share in the future. These have been included in the calculation of diluted earnings per share.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2018

9. Intangible exploration and evaluation ('E&E') assets

	Total US\$ million
Cost:	
At 1 January 2017	1,011.4
Exchange movements	(0.9)
Additions during the year	63.1
Acquisition of subsidiaries	(0.5)
Exploration expense ¹	(11.2)
At 31 December 2017	1,061.9
Exchange movements	(5.6)
Additions during the year	62.1
Transfer to PP&E	(274.2)
Disposals	(1.4)
Assets classified as held for sale	(0.6)
Exploration expense ¹	(29.6)
At 31 December 2018	812.6

Note:

¹ Expensed in the income statement with pre-licence expenses of US\$5.6 million in 2018 (2017: US\$5.9 million)

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. Assets written off in the year include costs incurred in Mexico on the Block 2 licence, the Sunbeam prospect in the UK and Block 665 in Brazil.

The outcome of ongoing exploration, and therefore whether the carrying value of E&E assets will ultimately be recovered, is inherently uncertain. To the extent that we have an active licence to continue to explore for resources and have an intention to continue exploration activity, the exploration cost associated with the licence will remain capitalised as an E&E asset on the balance sheet. Once exploration activity has completed and we have no further intention to explore the licence for resources, costs capitalised until that point will be expensed and no further costs associated with the licence will be capitalised.

During the year, the costs associated with the Tolmount project were transferred to PP&E following project sanction in August. The balance carried forward is predominantly in relation to the Group's prospects in the Falkland Islands and the non-operated Zama prospect and Block 30 in Mexico.

10. Property, plant and equipment

	Oil and gas properties US\$ million	Other fixed assets US\$ million	Total US\$ million
Cost:			
At 1 January 2017	8,028.6	64.3	8,092.9
Exchange movements	4.6	2.4	7.0
Additions and changes in decommissioning during the year	445.4	2.3	447.7
Asset acquisition	9.8	–	9.8
Assets classified as held for sale	(489.6)	(1.7)	(491.3)
Disposals	(409.4)	(0.6)	(410.0)
At 31 December 2017	7,589.4	66.7	7,656.1
Exchange movements	1.2	(2.1)	(0.9)
Additions and changes in decommissioning during the year	(33.5)	1.9	(31.6)
Transferred from E&E	274.2	–	274.2
Assets classified as held for sale	(4.1)	–	(4.1)
Disposals	(19.6)	(9.2)	(28.8)
At 31 December 2018	7,807.6	57.3	7,864.9
Amortisation and depreciation:			
At 1 January 2017	5,318.9	47.8	5,366.7
Exchange movements	(0.3)	1.8	1.5
Charge for the year	416.2	6.7	422.9
Net impairment charge	252.2	–	252.2
Assets classified as held for sale	(434.6)	(0.9)	(435.5)
Disposals	(332.1)	(0.6)	(332.7)
At 31 December 2017	5,220.3	54.8	5,275.1
Exchange movements	2.1	(1.6)	0.5
Charge for the year	386.5	7.1	393.6
Net impairment credit	(35.2)	–	(35.2)
Disposals	(5.5)	(9.2)	(14.7)
At 31 December 2018	5,568.2	51.1	5,619.3
Net book value:			
At 31 December 2017	2,369.1	11.9	2,381.0
At 31 December 2018	2,239.4	6.2	2,245.6

Finance costs that have been capitalised within oil and gas properties during the year total US\$1.2 million (2017: US\$41.3 million), at a weighted average interest rate of 7.6 per cent (2017: 7.3 per cent).

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.

For the year ended 31 December 2018

10. Property, plant and equipment continued**Impairment charge**

The impairment charge in the current year relates entirely to the Huntington asset in the UK. The impairment charge of US\$20.5 million was calculated by comparing the future discounted pre-tax 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 the following oil price assumption: US\$60/bbl in 2019, US\$65/bbl in 2020, US\$70/bbl in 2021 and US\$75/bbl in 'real' terms thereafter (2017: two years at forward curve, year three at US\$70/bbl followed by a long-term price of US\$75/bbl (real)) and were discounted using a pre-tax discount rate of 9 per cent for the UK assets (2017: 9 per cent) and 12.5 per cent for the non-UK assets (2017: 12.5 per cent). Assumptions involved in impairment measurement include estimates of commercial reserves and production volumes, future oil and gas prices, discount rates and the level and timing of expenditures, all of which are inherently uncertain.

The principal cause of the impairment charge being recognised in the year was as a result of an increase in the expected decommissioning costs attributed to the asset. The prior year impairment charge was principally driven by a downgrade in 2P reserves on the Solan asset.

Reversal of previously recognised impairment charges

Under the requirements of IAS 36, if there is an indication that a factor that resulted in an impairment charge may have changed or been reversed, then the previously recognised impairment charge may no longer exist or may have decreased. For a number of assets, due to an increase in the near-term oil price assumption (based on the Dated Brent forward curve), we have reassessed the recoverable amount of the asset to assess whether an increase in the recoverable amount (value-in-use) is indicative of a reversal of a previously recognised impairment charge. The future cash flows were determined using the same assumptions as those used for the impairment charge outlined above.

A reversal of impairment of US\$55.7 million has been credited to the income statement for the year, which has been partially offset by the impairment charge recognised. The impairment reversal relates entirely to Solan in the UK as a result of a reduction in the expected gross decommissioning cost attributed to the asset. The recoverable amount of Solan at 31 December 2018 was US\$171.4 million. The prior year reversal of impairment was driven by a one year extension of COP on the Huntington asset.

Sensitivity

A 1 per cent increase in the discount rates used when determining the value-in-use for each oil and gas property would result in a reduction in the net impairment reversal of approximately US\$6.1 million. A US\$5/bbl reduction in the long-term oil price (to US\$70/bbl (real)) would reduce the net impairment reversal by approximately US\$19.5 million.

Goodwill

Goodwill of US\$240.8 million has been specifically assigned to the Catcher field in the UK, which is considered the cash-generating unit for the purposes 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 above for the impairment calculations. The discount rate used is 9 per cent (2017: 9 per cent). The value-in-use forecast 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. The headroom between the recoverable amount and the carrying amount, including the goodwill, is US\$166.8 million.

The key assumptions to which the calculation of value-in-use of the Catcher asset are discount rate, oil prices, forecasted recoverable reserves and estimated future costs. No reasonably possible change in any of these key assumptions would cause the asset's carrying amount to exceed its recoverable amount.

11. Receivables

Trade and other receivables

	2018 US\$ million	2017 US\$ million
Trade receivables	135.5	197.5
Other receivables	55.0	54.6
Prepayments	45.9	65.8
Tax recoverable	45.9	22.7
	282.3	340.6

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

Long-term receivables

	Note	2018 US\$ million	2017 US\$ million
Other long-term receivables		111.1	97.6
Decommissioning funding asset		48.3	62.7
Long-term employee benefit plan surplus	24	0.4	0.5
		159.8	160.8

Other long-term receivables include US\$101.2 million in cash held in escrow accounts for expected future decommissioning expenditure in Indonesia, Vietnam and Mauritania (2017: US\$88.1 million).

The decommissioning funding asset relates to the Decommissioning Liability Agreement entered into with E.ON whereby E.ON agreed to part fund Premier's share of decommissioning the Johnston and Ravenspurn North assets. Under the terms of the agreement, E.ON will reimburse 70 per cent of the decommissioning costs between a range of £40 million to £130 million based on Premier's net share of the total decommissioning cost of the two assets. This results in maximum possible funding of £63 million from E.ON. At 31 December 2018, a long-term decommissioning funding asset of US\$48.3 million has been recognised utilising the year-end US\$/£ exchange rate and underlying assumptions consistent with those used for the corresponding decommissioning provision.

12. Cash and cash equivalents

	Note	2018 US\$ million	2017 US\$ million
Cash at bank and in hand		244.5	364.8
Short-term deposits		0.1	0.6
	22	244.6	365.4

Included within cash at bank and in hand balances are partners' share of cash balances on our operated assets of US\$7.6 million (2017: US\$51.8 million) and US\$22.6 million (2017: US\$16.4 million) held as security for the Mexican letters of credit.

13. Trade and other payables

	2018 US\$ million	2017 US\$ million
Trade payables	41.0	129.6
Other payables	48.2	47.7
Accrued expenses	253.3	354.2
Tax payable	33.1	41.4
	375.6	572.9

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2018

14. Deferred income

In June 2015, Premier received US\$100 million from FlowStream in return for granting them 15 per cent of production from the Solan field until sufficient barrels have been delivered to achieve the rate of return within the agreement. This balance is being released to the income statement within revenue as barrels are delivered to FlowStream from production from Solan. The balance has reduced by US\$16.2 million during the year reflecting barrels delivered to FlowStream and a charge to finance costs of US\$9.8 million.

The portion of the deferred income that is expected to be delivered to FlowStream within the next 12 months has been classified as a current liability.

15. Borrowings

The Group's loans are carried at amortised cost as follows:

	2018 US\$ million			2017 US\$ million		
	Carrying value	Fees	Total	Carrying value	Fees	Total
Bank loans	1,846.7	(21.0)	1,825.7	2,165.0	(106.9)	2,058.1
Senior loan notes	538.1	-	538.1	541.6	-	541.6
Retail bonds	190.5	(2.3)	188.2	202.5	(10.1)	192.4
Convertible bonds	-	-	-	180.5	-	180.5
Total borrowings	2,575.3	(23.3)	2,552.0	3,089.6	(117.0)	2,972.6
Due within one year			-			-
Due after more than one year			2,552.0			2,972.6
Total borrowings			2,552.0			2,972.6

A maturity analysis showing the ageing profile of the total borrowings is shown in note 18.

Refinancing of all the above facilities completed in July 2017. On completion, a loss of US\$83.7 million was recognised in relation to the facilities that were deemed to be substantially modified in accordance with IAS 39. In addition, an adoption of IFRS 9 at 1 January 2018, additional interest charges of US\$82 million had to be recognised in 2017, with a corresponding reduction in net assets at 31 December 2017. As permitted by IFRS 9 comparatives have not been restated (see Accounting Policy on page 121).

At the year-end, the Group's principal credit facilities comprised:

- Bank loans: US\$2.5 billion revolving and letter of credit facility ('RCF'), US\$150 million and £100 million term loans (together the 'Term Loan');
- Senior loan notes: US\$335 million and €63.6 million of US Private Placement ('USPP') notes and US\$130 million converted loan facility; and
- £150 million of retail bonds.

All of the above facilities mature in May 2021.

The Company has financing in US\$, £ and €. The £ and € loans have been swapped into US\$ at the original issue dates. In total, £250 million and €60 million have been swapped into US\$ using cross currency swap markets at an average exchange rate of US\$1.64:£ and US\$1.37:€ respectively. However, all liabilities in currencies other than US\$ have been translated at the exchange rate prevailing at the year-end.

Convertible bonds

In January 2018, Premier invited convertible bondholders to exercise their exchange rights in respect of any and all of their bonds. 87.5 per cent or US\$205.8 million of the US\$235.2 million bonds outstanding were accepted for early exchange with an incentive amount of US\$50 per US\$1,000 in principal of bonds. The exchange resulted in the issue of 231,882,091 Ordinary Shares, which included 7,578,343 incentive shares. Completion of this offer, resulted in a remaining convertible bond liability of US\$28.8 million.

Following this, in July 2018, the Group announced its intention to exercise the mandatory conversion option in the remaining outstanding convertible bonds. The exercise of this option converted all the remaining US\$28.8 million outstanding convertible bonds into approximately 31.4 million new Ordinary Shares of Premier. This resulted in Premier's convertible bond liability being fully extinguished in September 2018.

Financial covenants

Financial covenants are the same across all Group financings except for the £150 million retail bonds which have no financial covenants. These financial covenants are tested on a quarterly (annualised) basis.

The financial covenants are as follows:

- Net debt/EBITDA cover ratio 5.0x at the end of 2018, before returning to 3.0x from the beginning of 2019.
- Interest cover ratio of 2.6x at the end of 2018 before increasing to 3.0x from the beginning of 2019.
- Covenant net debt (which includes issued letters of credit) to be less than US\$2.95 billion at the end 2018. This covenant will not be tested again.

At 31 December 2018, covenant net debt, which includes letters of credit and deducting partners' share of JV cash balances, was US\$2.7 billion (2017: US\$3.2 billion).

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 2018 and 31 December 2017.

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 target to keep the long-term gearing ratio below 50 per cent. Net debt comprises interest-bearing bank loans, senior loan notes, retail bonds and convertible bonds, less cash and short-term deposits.

	2018	2017
Net debt (US\$ million)	(2,330.7)	(2,724.2)
Net assets (US\$ million)	1,026.0	616.9
Net assets plus net debt (US\$ million)	3,356.7	3,341.1
Gearing ratio (%)	69.4	81.5

16. Obligations under leases

	2018 US\$ million	2017 US\$ million
Minimum lease payments under operating leases recognised as an expense in the year	223.0	170.3
Outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:		
Within one year	225.4	203.8
In two to five years	511.2	509.4
Over five years	265.4	142.6
	1,002.0	855.8

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2018

17. Provisions

	Note	2018 US\$ million	2017 US\$ million
Decommissioning		1,214.5	1,432.1
Contingent consideration		10.1	10.3
Indonesia unfunded termination benefit provision		16.8	19.0
Long-term employee benefit plan deficit	24	0.7	0.7
		1,242.1	1,462.1

	Note	2018 US\$ million	2017 US\$ million
Decommissioning costs:			
Total provisions at 1 January		1,432.1	1,325.3
Revision arising from:			
New provisions and changes in estimates	10	(101.1)	40.2
Paid/utilised		(74.2)	(42.3)
Liabilities reclassified to held for sale in the year	7	1.7	(22.7)
Disposals	7	(30.8)	(46.8)
Exchange differences		(70.9)	115.9
Unwinding of discount on decommissioning provision	5	57.7	62.5
Total provisions at 31 December		1,214.5	1,432.1
Reclassification of short-term provisions to current liabilities		(46.0)	(91.2)
Long-term provisions at 31 December		1,168.5	1,340.9

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, operators 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.

A discount rate of 4.6 per cent and an inflation rate of 2.5 per cent have been applied to all decommissioning estimates when determining the net present value of the decommissioning provision. Rig rates used to determine the relevant part of the decommissioning cost estimates are based on a rolling five-year average observed in the market place for similar types of rigs, except where decommissioning is expected to occur in the near-term and then a spot price (or actual price received during a rig tender process) is used. The oil and gas price assumptions used to determine the field life COP are consistent with those applied for the impairment assessment (see note 10).

Decommissioning provisions include expected future obligations for Ravenspurn North and Johnston assets in the UK. The first £63 million of decommissioning expenditure related to these assets is funded via a separate agreement with E.ON, see note 11.

Contingent consideration

The contingent consideration is the closing year-end fair value of the royalty stream payable to Chrysaor for the acquisition of 40 per cent of the Solan asset in May 2015. The estimate of fair value of this contingent consideration includes unobservable inputs and is level 3 in the IFRS 13 hierarchy and is held at fair value through profit and loss. The movement in fair value for the year was US\$1.2 million charge (2017: US\$10.7 million income) and has been recognised within other operating costs.

Indonesia unfunded termination benefit provision

In Indonesia, the Group operates a Service, Severance and Compensation pay scheme under a Collective Labour Agreement with the local workforce. In early 2003, the Government of Indonesia introduced a labour law which requires that on dismissal, companies are required to make certain payments to employees that are dependent on numbers of years' service and salary. The 'scheme' effectively provides a termination benefit to employees, but does not represent a defined benefit pension scheme.

The Company operates a defined termination benefit scheme, the cost of providing benefits is determined using the projected unit credit method, with valuations being carried out at each balance sheet date. Gains and losses are recognised immediately. 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 provision recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost.

18. Financial instruments

Financial risk management objectives and policies

The Group's principal financial liabilities, other than derivative financial instruments (derivatives), are comprised of accounts payable, bank loans, retail 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, liquidity and the Group's share price. The Group uses derivative financial instruments to hedge certain of these risk exposures. The use of financial derivatives is governed by the Group's policies as approved by the Board of Directors.

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 price commodity hedging is undertaken using swaps, options, collar options, reverse collars, collar structures, hedges embedded in long-term crude offtake agreements and selling forward using fixed price sales contracts. Oil is hedged using Dated Brent oil price swaps and options. Indonesian gas is hedged using HSFO Singapore 180cst which is the variable component of the gas price and UK gas is hedged by selling gas forward through fixed price contracts and through UK NBP gas swaps and options.

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 and option markets.

The Group has £ and € currency exposure as a result of its borrowings. These are managed through cross-currency swap arrangements.

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

Fair value hierarchy

The fair values of all derivative financial instruments are based on estimates from observable inputs and are all level 2 in the IFRS 13 hierarchy. Both the estimate of the Chrysaor contingent consideration (see note 17) and fair value of the warrants (see below) include estimates based on unobservable inputs are level 3 in the IFRS 13 hierarchy.

As at 31 December 2018, 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 or loss:

	2018 US\$ million	2017 US\$ million
Fair value of gas contract acquired from E.ON	–	9.1
Forward foreign exchange contracts	–	0.6
Gas forward sale contracts	23.4	–
Interest rate options	1.1	–
Interest rate swaps	0.9	4.6
Oil forward sale contracts	102.0	–
Oil put options	–	0.2
Total	127.4	14.5

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2018

18. Financial instruments continued

Liabilities measured at fair value

Financial liabilities at fair value through profit and loss:

	2018 US\$ million	2017 US\$ million
Cross currency swaps ¹	125.6	108.4
Fair value of gas contract acquired from E.ON ¹	3.8	–
Forward foreign exchange contracts	2.4	3.8
Gas forward sale contracts	0.6	–
Oil forward sale contracts	6.6	36.1
Warrants	31.8	59.8
Total	170.8	208.1

Note:

¹ Classified within non-current liabilities (2017: US\$108.4 million).

Income statement

Fair value movements recognised in the income statement in the year:

	2018 US\$ million	2017 US\$ million
Interest revenue, finance and other gains:		
Change in fair value of embedded derivative within gas contract	–	2.0
Cross currency swaps	–	4.3
Interest rate swaps	–	4.6
Warrants	20.1	–
	20.1	10.9
Finance costs:		
Change in fair value of embedded derivative within gas contract	(12.4)	–
Cross currency swaps	(5.8)	–
Fixed price gas contracts acquired from E.ON	(0.7)	(3.7)
Forward foreign exchange contracts	(2.1)	(4.3)
Interest rate options	(3.0)	–
Interest rate swaps	(3.6)	–
Oil put options	(1.8)	(9.6)
Warrants	–	(15.4)
	(29.4)	(33.0)

Statement of comprehensive income

Fair value movements recognised in the statement of comprehensive income for the year:

	2018 US\$ million	2017 US\$ million
Cash flow hedges:		
Commodity swaps – gas	23.4	–
Commodity swaps – oil	133.5	(14.2)
	156.9	(14.2)
Cross currency swaps	(11.4)	28.2
Interest rate swaps	–	(5.1)
	(11.4)	23.1
Unrealised exchange differences	21.5	(33.9)
Cash flow hedges on interest rate and foreign exchange swaps	10.1	(10.8)

Commodity price risk

Oil

At 31 December 2018, the Group had 6.3 million barrels (mmbbls) of Dated Brent oil hedged through forward sales for 2019 at an average floor price of US\$70.41/bbl. The forward sales have been designated as cash flow hedges and were assessed to be effective, with a fair value movement of US\$133.5 million credit (2017: US\$14.2 million charge) in retained earnings.

During the year, forward oil sales contracts for 5.9 mmbbls matured generating a loss of US\$71.2 million (2017: US\$11.4 million loss). This loss is a reduction to sales revenue.

During the year, the Group paid premiums of US\$1.6 million to enter into oil option agreements for 0.7 mmbbls taking the total oil options open in the year to 2.5 mmbbls at average price of US\$56.4/bbl. All these options expired at year-end. Any premium paid relating to these options has been expensed to the income statement.

These options are held at fair value through profit and loss and hedge accounting is not applied.

Included within physically delivered oil sales contracts are a further 1.8 mmbbls of oil that will be sold for an average fixed price of US\$54.9/bbl during 2019 as these barrels are delivered. As these instruments are physically settled they do not meet the definition of financial instruments under IFRS 13 and are accounted for as they are delivered.

Gas

At the year-end date, 255,000 mt of HSFO, which drives the Group's gas pricing in Singapore, is subject to forward sales contracts for 2019 and 2020 at an average price of US\$391.4/mt. All contracts have been designated as cash flow hedges and were assessed to be effective, with a fair value movement of US\$22.8 million credit in retained earnings.

As at 31 December 2018, the Group had forward gas sales contract of 115,000 therms at an average price of 65p/therm. This forward sales contract has been designated as a cash flow hedge and was assessed to be effective, with a fair value movement of US\$0.6 million credited to retained earnings. During the year, the Group entered into forward gas sales of 100,000 mt at an average price of 48.2p/therm which matured by the year-end generating a loss of US\$2.0 million. This loss is a reduction to sales revenue.

Equity and synthetic warrants

During the year, 24.9 million equity warrants have been converted resulting in an allotment of 24.7 million shares. The closing fair value of the open equity and synthetic warrants at 31 December 2018 was US\$22.7 million and US\$9.1 million respectively, giving a total of US\$31.8 million after the exercise of warrants valued at US\$7.8 million and resulting in a gain of US\$20.1 million being recognised in the year.

The fair value of the warrants includes unobservable inputs and is level 3 in the IFRS 13 hierarchy. The key assumptions underpinning the fair value relate to the expected future share price of the Company, US\$:£ exchange rates and the expected date of exercise of the warrants. The fair value has been determined using a Black-Scholes valuation model.

The equity warrants have an exercise price of 41.80 pence (2017: 42.75 pence) and are exercisable from their issuance until 31 May 2022, at the option of the warrant holder, and are settled with ordinary shares of the Company. The synthetic warrants are cash settled by the Group when certain future net debt and leverage ratio conditions are achieved, linked to the Group's market capitalisation, and expire in May 2021.

When determining the fair value of the equity and synthetic warrants, if the share price assumed increased/decreased by 10 per cent, the closing total fair value recognised for the equity and synthetic warrants at the year-end would have increased/decreased by US\$5.2 million. Changes in the Company's share price is the main driver with regards to changing the fair value of the warrant instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2018

18. Financial instruments continued

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.

An increase of 10 per cent in oil prices would decrease the mark-to-market gain of these instruments, and hence other comprehensive income, by US\$10.3 million. A decrease of 10 per cent in forward oil prices would increase the mark-to-market gain by US\$10.3 million. An increase of 10 per cent in gas prices would decrease the mark-to-market gain of these instruments, and hence other comprehensive income, by US\$2.4 million. A decrease of 10 per cent in forward gas prices would increase the mark-to-market gain by US\$2.4 million.

Interest rate risk

At 31 December 2018, US\$1.3 billion (2017: US\$750 million) of the Group's long-term bank borrowings have been swapped from floating rate to fixed rate. Of this US\$300 million were interest rate swap contracts. The Group has agreed to exchange the difference between fixed and floating interest amounts calculated on agreed notional principal amounts. These contracts matured early 2019.

During the year, the Group entered into US\$1 billion interest rate options with a strike price 3.0 to 3.1 per cent. Such contracts enable the Group to mitigate the risk of rising interest rates and the cash flow exposure on the issued variable rate debt held. These contracts will mature by end 2020.

Foreign currency exchange risk

The majority of borrowings at year-end were denominated in US dollars to match the currency of the Group's assets. The Group has issued £150.0 million retail bonds and £100 million term loan at a fixed exchange rate of US\$1.64/£, senior loan notes of €25 million at a fixed rate of US\$1.33/€, and €35 million at a fixed rate of US\$1.42/€. All these amounts have been hedged under cross currency swaps into US dollars.

In addition, to cover sterling exposures an amount of £236 million was purchased and matured with spot and forward contracts during the year (2017: £290.5 million) to cater for its North Sea developments and operations.

Other financial instruments

Credit risk

Credit risk arises from the Group's 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 2018 and 2017. 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 three customers each exceeded 10 per cent of the Group's consolidated revenue in 2018 (2017: three).

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

	Less than 1 month US\$ million	2 to 3 months US\$ million	3 months to 1 year US\$ million	1 to 5 years US\$ million	Over 5 years US\$ million	Total US\$ million
2018:						
Long-term receivables	–	–	–	19.2	140.6	159.8
Trade and other receivables	184.4	0.5	5.6	–	–	190.5
Trade and other payables	(44.7)	(1.8)	(42.7)	–	–	(89.2)
Bank loans	(60.2)	(52.0)	(233.8)	(1,809.2)	–	(2,155.2)
Senior loan notes	(0.5)	(11.9)	(37.7)	(609.0)	–	(659.1)
Retail bonds	–	–	(12.7)	(212.7)	–	(225.4)
Total	79.0	(65.2)	(321.3)	(2,611.7)	140.6	(2,778.6)
2017:						
Long-term receivables	0.4	4.3	9.1	4.9	141.6	160.3
Trade and other receivables	216.7	1.6	14.4	19.2	0.2	252.1
Trade and other payables	(146.2)	(4.9)	(25.1)	(1.1)	–	(177.3)
Bank loans	(3.6)	(8.8)	(99.9)	(2,516.1)	–	(2,628.4)
Convertible bonds	–	–	–	(237.9)	–	(237.9)
Senior loan notes	(0.3)	(10.8)	(33.8)	(643.9)	–	(688.8)
Retail bonds	–	–	(13.2)	(234.1)	–	(247.3)
Total	67.0	(18.6)	(148.5)	(3,609.0)	141.8	(3,567.3)

Liquidity risk

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has approved 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 and borrowing facilities and 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\$2,112.3 million (2017: US\$2,335 million) and letters of credit facilities of US\$450 million (2017: US\$450 million), in addition to the retail bonds and senior loan notes. The undrawn balance of the committed borrowing facilities as at 31 December 2018 was US\$265.6 million (31 December 2017: US\$170 million).

The undrawn balance of the letter of credit facilities as at 31 December 2018 was US\$89.3 million (2017: US\$74.3 million).

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 US\$ million	Floating rate US\$ million	Total US\$ million	Fixed rate weighted average interest rate %
2018:				
Bank loans	1,300.0	546.6	1,846.6	6.21
Senior loan notes	408.2	130.0	538.2	9.20
Retail bonds	190.5	–	190.5	6.50
Total	1,898.7	676.6	2,575.3	
2017:				
Bank loans	750.0	1,415.0	2,165.0	4.95
Convertible bonds	237.9	–	237.9	2.50
Senior loan notes	411.6	130.0	541.6	7.65
Retail bonds	202.5	–	202.5	6.50
Total	1,602.0	1,545.0	3,147.0	

The floating rate financial liabilities at 31 December 2018 comprised bank loans bearing interest at rates set by reference to US\$ and £ LIBOR, exposing the Group to a cash flow interest rate risk.

Fair value of financial assets and financial liabilities

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 the amounts that are realised. Non-interest bearing financial instruments, which include amounts receivable from customers and accounts payable, are measured at amortised cost which, due to the short-term maturity, approximate to fair value.

The carrying values and fair values of the Group's non-derivative financial assets and financial liabilities (excluding current assets and current liabilities for which carrying values approximate to fair values due to their short-term nature) are:

	2018 Fair value amount US\$ million	2018 Carrying amount US\$ million	2017 Fair value amount US\$ million	2017 Carrying amount US\$ million
Primary financial instruments held or issued to finance the Group's operations:				
Retail bonds	181.6	190.5	196.1	202.5
Convertible bonds	–	–	266.9	180.5

The fair values of the retail bonds and convertible bonds are determined by reference to quoted prices for each of the instruments. The fair value of the bank loans and senior loan notes are considered to be materially the same as the amortised cost of the instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2018

19. Deferred tax

	2018 US\$ million	2017 US\$ million
Deferred tax assets	1,434.1	1,461.5
Deferred tax liabilities	(139.5)	(164.0)
	1,294.6	1,297.5

	At 1 January 2018 US\$ million	Exchange movements US\$ million	(Charged)/ credited to income statement US\$ million	Charged to retained earnings US\$ million	Disposal of assets US\$ million	At 31 December 2018 US\$ million
UK deferred corporation tax:						
Fixed assets and allowances	(737.4)	(0.3)	133.0	–	(4.5)	(609.2)
Decommissioning	476.9	(1.5)	(99.1)	–	0.5	376.8
Tax losses and allowances	1,639.8	(1.0)	(36.3)	–	–	1,602.5
Investment allowance	71.2	(0.1)	6.7	–	–	77.8
Derivative financial instruments	10.9	(0.1)	9.2	(33.8)	–	(13.8)
Total UK deferred corporation tax	1,461.4	(3.0)	13.5	(33.8)	(4.0)	1,434.1
Overseas deferred tax¹	(163.9)	–	24.0	–	0.4	(139.5)
Total	1,297.5	(3.0)	37.5	(33.8)	(3.6)	1,294.6

	At 1 January 2017 US\$ million	Exchange movements US\$ million	(Charged)/ credited to income statement US\$ million	Credited to retained earnings US\$ million	Assets held for sale US\$ million	At 31 December 2017 US\$ million
UK deferred corporation tax:						
Fixed assets and allowances	(719.6)	(0.6)	(21.8)	–	4.6	(737.4)
Decommissioning	394.5	4.0	78.9	–	(0.5)	476.9
Tax losses and allowances	1,560.1	1.9	77.8	–	–	1,639.8
Investment allowance	64.4	0.1	6.7	–	–	71.2
Derivative financial instruments	(0.7)	(0.5)	4.6	7.5	–	10.9
Total UK deferred corporation tax	1,298.7	4.9	146.2	7.5	4.1	1,461.4
Overseas deferred tax¹	(187.3)	–	24.7	–	(1.3)	(163.9)
Total	1,111.4	4.9	170.9	7.5	2.8	1,297.5

Note:

¹ The overseas deferred tax relates mainly to temporary differences associated with fixed asset balances.

The Group's deferred tax assets at 31 December 2018 are recognised to the extent that taxable profits are expected to arise in the future against which the UK ring fence tax losses and allowances can be utilised. In accordance with paragraph 37 of IAS 12 'Income Taxes', the Group reassessed its deferred tax assets at 31 December 2018 with respect to UK ring fence tax losses and allowances. The corporate model used to assess whether it is appropriate to recognise the Group's deferred tax losses and allowances was re-run, using an oil price assumption of US\$60/bbl in 2019, US\$65/bbl in 2020, US\$70/bbl in 2021 and US\$75/bbl in 'real' terms thereafter and a gas price assumption of forward curve for 3 years, followed by GBP57.4p/therm in 2022 'real' terms thereafter. These price assumptions are consistent with that used when assessing the Group's underlying assets for impairment. The cash flows included in the corporate model are predominantly derived from future revenue from UKCS assets which management consider to be probable to arise, including both existing producing assets and certain future currently unsanctioned projects. The results of the corporate model concluded that it was appropriate to continue to recognise the Group's deferred tax assets in respect of UK ring fence tax losses and allowances with the exception of US\$25.2m of losses relating to supplementary charge.

In addition to the above, there are carried forward non-ring fence UK tax losses of approximately US\$359.1 million (2017: US\$330.8 million) and overseas tax losses of US\$154.8 million (2017: US\$130.3 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.

20. Share capital

	2018 12.5p shares	2018 £	2017 12.5p shares	2017 £
Ordinary Shares:				
Authorised, called-up, issued and fully paid	817,069,925	102,133,741	525,045,801	65,630,725

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.

Issue of Ordinary Shares

During the year the Company issued 292,024,124 Ordinary Shares at a nominal value of 12.5 pence per share. This increased the share capital of the Company by US\$45.2 million (2017: US\$2.3 million) to US\$154.2 million (2017: US\$109 million).

Purchase and cancellation of own shares

During 2018, none of the Company's Ordinary Shares were re-purchased or cancelled.

Own shares

	Total US\$ million
At 1 January 2017	2.7
Purchase of ESOP Trust shares	0.3
Release of shares	(1.2)
At 31 December 2017	1.8
Purchase of ESOP Trust shares	1.7
Release of shares	(1.3)
At 31 December 2018	2.2

The own shares represent 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 2018, the number of Ordinary Shares of 12.5 pence each held by the Trust was 1,907,303 (2017: 796,147 Ordinary Shares of 12.5 pence each).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2018

21. Share-based payments

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 2018, the total cost recognised by the Company for equity-settled share-based payment transactions is US\$14.6 million (2017: US\$14.5million). A credit of US\$14.6 million has been recorded in retained earnings (2017: US\$14.5 million) for all equity-settled payments of the Company. 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, part 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:

2009 Long Term Incentive Plan ('2009 LTIP')

The 2009 LTIP is comprised of the following three elements: Equity Pool Awards ('EPA'), Performance Share Awards ('PSA') and Matching Share Awards ('MSA'):

- The Equity Pool Awards ('EPA') are funded by a per cent share of the growth in the Company's equity value over a three-year performance period. One per cent of the compound growth is credited to the equity pool at 10 per cent compound annual growth rate ('CAGR'), with maximum funding of 2.5 per cent at 20 per cent CAGR per annum.
- Participants receive a percentage share of the equity pool which vests, if the relevant performance criteria are met, in shares at the end of the performance period.
- Performance Share Awards of up to 150 per cent of salary may be granted under the 2009 LTIP, which vest on three-year TSR relative to a comparator group of oil and gas sector peers. 25 per of the award vest for median performance with full vesting for upper quartile performance.
- 50 per cent of vested EPA and PSA shares are subject to compulsory deferral for a further three years for senior executives and eligible for a discretionary Share Award.

Awards under the 2009 LTIP were approved by Premier's Remuneration Committee in August 2016 and the awards were granted to the Executive Directors and other members of senior management during the period August 2016 to April 2017 as a result of trading restrictions applying to certain participants over that period. The Performance Period for the 2016 awards is the period 1 January 2016 to 31 December 2018.

As part of the April 2017 award, the EPA was capped at 50 per cent of salary and the PSA was scaled back by 50 per cent to 75 per cent, with no matching awards.

The EPA and PSA elements of the above award have been fair valued by the Company using a Monte Carlo simulation model. The main assumptions for the calculation are as follows::

Volatility	48%
Risk free rate of interest	1.7%
Correlation factor with comparator group	0.39

In March 2019, the Remuneration Committee determined that based on the performance achieved to 31 December 2018, the EPA and PSA under the 2009 LTIP should vest. Further detail on the vesting outcome is described in the Directors' Remuneration Report page 98.

2017 Long Term Incentive Plan ('LTIP')

The new Long Term Incentive Plan ('LTIP') was introduced in the prior year for Executive Directors and certain senior staff. This new LTIP comprises two types of awards which support different elements of the Company's strategy.

- Performance Share Awards: vesting is subject to a Performance Target measured over a three year period from 1 January based on Total Shareholder Return relative to a peer group of companies and aligns to longer-term strategic objectives.
- Restricted Share Award ('RSA') aligns to the primary objective of balance sheet recovery, independent of other performance objectives and vesting of awards is subject to a financial underpin and continued employment.

Long-term alignment to shareholders interests is maintained with the introduction of a compulsory two-year Holding Period for both Performance Share Awards and Restricted Share Awards ending on the fifth anniversary of the award date.

The RSA represents a fixed award equal in value of up to 40 per cent of salary. They vest subject to continued employment in one-third annual increments over three, four and five years, subject to a holding requirement over the full five-year cycle from grant. This fixed value award is being accrued at cost. The RSA granted in 2017 and 2018 have been scaled back by 50 per cent to 20 per cent.

The following table shows the movement in the number of restricted shares awarded:

	2018 million	2017 million
Outstanding at 1 January	1.2	–
Granted during the year	1.0	1.3
Forfeited during the year	(0.1)	(0.1)
Outstanding as at 31 December	2.1	1.2

The PSA element of the 2017 LTIP award is fair valued by the Company using a Monte Carlo simulation model. The performance period commences from 1 January of the year of grant. The movement in the number of shares and main assumptions for the calculation are as follows:

	2018 million	2017 million
Outstanding at 1 January	5.7	–
Granted during the year	8.1	5.7
Forfeited during the year	(0.3)	–
Outstanding as at 31 December	13.5	5.7
Volatility	82%	83%
Risk free rate of interest	0.8%	0.2%
Correlation factor with comparator group	0.30	0.32

Premier Value Share Plan ('PVSP')

The broader employee population participates in the Premier Value Share Plan ('PVSP'), which forms part of the 2017 LTIP. The PVSP is made up of two awards, Base Awards and Multiplier Awards. Under the PVSP, annual awards of time-vesting restricted shares and three-year performance-vesting shares may be made, with performance-vesting shares subject to achievements or Premier's delivery of long-term shareholder return.

PVSP awards have been granted to employees in 2016, 2017 and 2018 and these will vest in 2019, 2020 and 2021 respectively. Owing to the prevailing business environment, the multiplier element of the PVSP (Multiplier Award) was removed from both the 2016 and 2017 awards, resulting in each employee receiving in effect a fixed award at the end of the vesting period (Base Award). However, the 2018 award included the multiplier based on a pre-scale back Base Award. The value of the Base Award is set at a fixed percentage of each employee's salary and the number of shares awarded is fixed according to the average closing price of a Premier Oil share over the five dealing days immediately preceding the award date: 75 pence for 2016 awards, 55 pence for 2017 awards, and a weighted average price of 72 pence for 2018 awards. All these Base Awards were scaled back by 50 percent.

Included in the below table are an immaterial number of cash settled shares which are revalued using the year-end share price.

The following table shows the movement in the number of shares awarded under the PVSP scheme Base Award:

	2018 million	2017 million
Outstanding at 1 January	13.9	5.7
Granted during the year	6.8	8.4
Forfeited during the year	(1.0)	(0.2)
Outstanding as at 31 December	19.7	13.9

During the year, 13.6 million PVSP multiplier shares were awarded of which 0.4 million were forfeited. These were fair valued by the Company using a Monte Carlo simulation model at point of grant. The main assumptions for the calculation are as follows:

Volatility	79–82%
Risk free rate of interest	0.7–0.9%
Correlation factor with comparator group	0.29–0.30

No shares were exercised or lapsed during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2018

21. Share-based payments continued

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. After three years the employee has the right to receive their original contributions plus the shares awarded in either cash or shares of the Company, at the employees option. The amount owed by the Company to employees under this scheme is deemed to be insignificant.

Save As You Earn ('SAYE') scheme

Under the SAYE eligible employees with six months or more continuous service can join the scheme. Employees can save to a maximum of £500 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.

	2018		2017	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Outstanding at 1 January (million)	5.3	£0.46	5.4	£0.45
Granted during the year	0.3	£0.79	0.5	£0.62
Lapsed during the year	(0.4)	£0.64	(0.5)	£0.61
Exercised during the year ¹	–	£0.69	(0.1)	£0.42
Outstanding as at 31 December	5.2	£0.46	5.3	£0.46

Note:

¹ 43,490 Ordinary Shares with a nominal value of £29,999 were issued under the Group's share option scheme during the year (2017: 99,937).

The weighted average share price as at the date of exercise for share options exercised during the year was £1.06.

The options outstanding at 31 December 2018 had a weighted average exercise price of £0.46 and a weighted average remaining contractual life of 1.3 years.

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

22. Notes to the cash flow statement

	2018 US\$ million	2017 US\$ million
Profit/(loss) before tax for the year	158.2	(366.3)
Adjustments for:		
Depreciation, depletion, amortisation and impairment	358.4	667.8
Other operating costs/(income)	1.2	(18.8)
Exploration expense	29.6	11.2
Provision for share-based payments	10.8	8.6
Interest revenue and finance gains	(27.8)	(12.6)
Finance costs and other finance expenses	400.6	412.7
Profit on disposal of non-current assets	(42.3)	(129.0)
Operating cash flows before movements in working capital	888.7	573.6
Decrease/(increase) in inventories	1.2	(1.2)
Decrease/(increase) in receivables	72.6	(182.0)
(Decrease)/increase in payables	(93.0)	136.6
Cash generated by operations	869.5	527.0
Income taxes paid	(128.8)	(69.6)
Interest income received	7.5	1.1
Net cash from continuing operating activities	748.2	458.5
Net cash from discontinued operating activities	29.0	16.8
Net cash from operating activities	777.2	475.3
Movement in JV cash	(54.4)	20.7
Total net cash from operating activities	722.8	496.0

Analysis of changes in net debt:

	2018 US\$ million	2017 US\$ million
	Note	
a) Reconciliation of net cash flow to movement in net debt:		
Movement in cash and cash equivalents	(120.8)	109.5
Proceeds from drawdown of long-term bank loans	(105.0)	(45.0)
Repayment of long-term bank loans	415.3	–
USPP make whole adjustment	–	(41.3)
Adjustment to revised fair value of convertible bonds	–	58.6
Conversion of convertible bonds	181.9	5.5
Non-cash movements on debt and cash balances (predominantly foreign exchange)	22.1	(46.3)
Reduction in net debt in the year	393.5	41.0
Opening net debt	(2,724.2)	(2,765.2)
Closing net debt	(2,330.7)	(2,724.2)
b) Analysis of net debt:		
Cash and cash equivalents	244.6	365.4
Borrowings	15	(2,575.3)
Total net debt	(2,330.7)	(2,724.2)

The carrying amounts of the borrowings on the balance sheet are stated net of the unamortised portion of the refinancing fees of US\$23.3 million (2017: US\$117.0 million) and the impact of the IFRS 9 adjustment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2018

23. Capital commitments and guarantees

At 31 December 2018, the Group had capital commitments on exploration and development licences totalling US\$121.5 million (2017: US\$207.1 million).

In addition, the Group had issued letters of credit for future decommissioning liabilities totalling £288.1 million, US\$22.6 million held as security for the Mexican letters of credit and a performance bond for the Indonesia Andaman licence of US\$0.6 million, totalling US\$389.1 million (2017: US\$398 million).

24. Group pension schemes

Balance sheet

	2018 US\$ million	2017 US\$ million
UK funded pension scheme	0.4	0.5
Total surplus in balance sheet	0.4	0.5

	2018 US\$ million	2017 US\$ million
UK unfunded pension scheme	0.7	0.7
Total liability in balance sheet	0.7	0.7

Unfunded pensions

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 2018 of the future payments projected to be made in respect of UK unfunded pensions is US\$0.7 million (2017: US\$0.7 million).

Funded pensions

The Group operates a defined benefit pension scheme in the UK - The Premier Oil plc Retirement and Death Benefits Plan ('the Scheme') primarily inflation-linked annuities based on an employee's length of service and final salary. 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 2018 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 2018. The results of the calculations and the assumptions adopted are shown below.

As at 31 December 2018, contributions are payable to the Scheme by the Group at the rates set out in the schedule of contributions signed by the trustees on 19 January 2018. Under this schedule, the Company contributes on a monthly basis at the rate of 30 percent of the aggregate of members' pensionable salaries.

Principal assumptions

The principal actuarial assumptions at the balance sheet date were:

	At 31 December 2018	At 31 December 2017
Discount rate	2.8% pa	2.4% pa
RPI inflation	3.2% pa	3.2% pa
CPI inflation	2.2% pa	2.2% pa
Rate of increase in salaries	3.2% pa	3.2% pa
Rate of increase in pensions in payment: LPI (max 5%)	3.1% pa	3.1% pa
Mortality	S2PA Light CMI_2017 1.25% Long-Term plus one-year age rating	S2PA Light CMI_2016 1.25% Long-term plus one-year age rating
Proportion married	80%	80%
Withdrawals	No allowance	No allowance
Cash commutation	75% of maximum tax free cash	75% of maximum tax-free cash
Life expectancy of male aged 65 now	22.2	22.3
Life expectancy of male aged 65 in 20 years	23.4	23.6
Life expectancy of female aged 65 now	23.2	23.3
Life expectancy of female aged 65 in 20 years	24.7	24.7

Asset breakdown

The major categories of Scheme assets as a percentage of total Scheme assets are:

	At 31 December 2018	At 31 December 2017
Equities	40.0%	51.4%
Gilts	29.2%	24.2%
Corporate bonds	30.5%	24.0%
Cash	0.3%	0.4%
Total	100.0%	100.0%

Reconciliation of funded status and amount recognised in balance sheet

	At 31 December 2018 US\$ million	At 31 December 2017 US\$ million
Fair value of Scheme assets	(41.4)	(46.3)
Present value of defined benefit obligation	28.9	32.4
Surplus	(12.5)	(13.9)
Unrecognised amount due to effect of IFRIC 14 ¹	12.1	13.4
Surplus	(0.4)	(0.5)

Note:

- 1 The trustees have certain rights to grant benefit increases to members and accordingly it has been concluded the Group does not have an unconditional right to the surplus by way of a refund.

Statement of amount recognised in the income statement

	2018 US\$ million	2017 US\$ million
Current service cost	0.2	0.2
Net interest on the net defined benefit liability/(asset)	–	–
Total	0.2	0.2

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2018

24. Group pension schemes continued

Reconciliation of defined benefit obligation

	2018 US\$ million	2017 US\$ million
Opening present value of defined benefit obligation	32.4	29.5
Service cost	0.2	0.2
Interest cost	0.8	0.8
Actuarial gains from changes in demographic assumptions	(0.2)	(0.5)
Actuarial (gains)/losses from changes in financial assumptions	(1.7)	0.1
Changes due to experience adjustments	0.3	0.1
Benefits paid	(0.9)	(0.7)
Currency translation effects	(2.0)	2.9
Closing defined benefit obligation	28.9	32.4

Reconciliation of fair value of assets

	2018 US\$ million	2017 US\$ million
Opening fair value of Scheme assets	46.3	39.0
Interest income	1.1	1.1
Return on assets less interest income	(2.6)	2.8
Contributions by employer	0.1	0.1
Benefits paid	(0.9)	(0.7)
Currency translation effects	(2.6)	4.0
Closing fair value of Scheme assets	41.4	46.3
Actual return on Scheme assets	(1.5)	3.9

Statement of amount recognised in other comprehensive income

	At 31 December 2018 US\$ million	At 31 December 2017 US\$ million
(Gain)/loss from changes in the financial assumptions for value of Scheme liabilities	(1.7)	0.1
(Gain)/loss from changes in the demographic assumptions for value of Scheme liabilities	(0.2)	(0.5)
Changes due to experience adjustments	0.3	0.1
Return on assets (excluding amounts included in net interest on the net defined benefit liability)	2.6	(2.8)
Change in the effect of the asset ceiling excluding amounts included in net interest on the net defined liability	(1.6)	4.2
Currency translation effect	0.6	(1.1)
Other comprehensive income	–	–

Statement of amount recognised in profit and loss and other comprehensive income

	At 31 December 2018 US\$ million	At 31 December 2017 US\$ million
Amount recognised in profit and loss	0.2	0.2
Other comprehensive income	–	–
Total comprehensive income	0.2	0.2

Sensitivity of balance sheet at 31 December 2018

The results of the calculations are sensitive to the assumptions used. The balance sheet position revealed by IAS 19 calculations must be expected to be volatile, principally because the market value of assets (with significant exposure to equities) is being compared with a liability assessment derived from corporate bond yields.

The below table shows the sensitivity of the IAS 19 balance sheet position to small changes in some of the assumptions. Where one assumption has been changed all the other assumptions are kept as disclosed above.

	Revised (surplus)/deficit US\$ million	Change from disclosed (surplus)/deficit US\$ million
Discount rate less 0.1% p.a	(12.1)	0.4
RPI inflation and linked assumptions plus 0.1% pa	(12.2)	0.3
Members living one year longer than assumed	(11.5)	1.0

Projected components of pension costs for period to 31 December 2019

Because of the significant volatility in investment markets, 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 interest on the defined benefit liability/(asset) from 31 December 2018 is 2.8% p.a
- Contributions to the Scheme will continue throughout 2019 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:

	2019 US\$ million
Current service cost	0.1
Interest on defined benefit liability/(asset)	-
Net actuarial (gain)/loss recognised	-
Total	0.1

Defined contribution 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\$9.3 million (2017: US\$6.7 million) represents contributions payable to these schemes by the Group at rates specified in the rules of the Scheme.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2018

25. 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 during the year is set out below.

Further information regarding the remuneration of individual directors is provided in the audited part of the Remuneration Report.

	2018 US\$ million	2017 US\$ million
Short-term employee benefits	3.3	3.1
Post-employment benefits	0.6	1.8
Other long-term benefits: share-based payments	1.4	0.1
	5.3	5.0

26. Other reserves

	Note	Retained earnings US\$ million	Merger reserve ¹ US\$ million	Capital redemption reserve ² US\$ million	Translation reserve ³ US\$ million	Hedge reserve ⁴ US\$ million	Equity reserve ⁵ US\$ million	Total US\$ million
At 1 January 2017		109.7	374.3	8.1	(82.7)	12.6	5.0	427.0
Issue of Ordinary Shares		1.1	–	–	–	–	–	1.1
Purchase of ESOP Trust shares		(0.2)	–	–	–	–	–	(0.2)
Provision for share-based payments	21	14.5	–	–	–	–	–	14.5
Incremental equity component of revised convertible bonds		–	–	–	–	–	57.2	57.2
Transfer between reserves		4.8	–	–	–	–	(4.8)	–
Loss for the year		(253.8)	–	–	–	–	–	(253.8)
Other comprehensive expense		–	–	–	(4.9)	(17.5)	–	(22.4)
At 31 December 2017		(123.9)	374.3	8.1	(87.6)	(4.9)	57.4	223.4
Adjustment on adoption of IFRS 9 ⁶		(82.0)	–	–	–	–	–	(82.0)
At January 2018		(205.9)	374.3	8.1	(87.6)	(4.9)	57.4	141.4
Issue of Ordinary Shares		7.7	–	–	–	–	–	7.7
Purchase of ESOP Trust shares		(1.5)	–	–	–	–	–	(1.5)
Provision for share-based payments	21	14.6	–	–	–	–	–	14.6
Conversion of convertible bonds		–	–	–	–	–	(56.1)	(56.1)
Transfer between reserves		1.3	–	–	–	–	(1.3)	–
Profit for the year		133.4	–	–	–	–	–	133.4
Other comprehensive income		–	–	–	7.4	133.2	–	140.6
At 31 December 2018		(50.4)	374.3	8.1	(80.2)	128.3	–	380.1

Notes:

1 In 2012 the provisions of the Companies Act 2006 relating to Merger Relief (s612 and s613) were applied to the Encore plc acquisition. The non-statutory premium arising on shares issued by Premier as consideration has been recognised in the merger reserve.

2 The capital redemption reserve represents the nominal value of shares transferred following the Company's purchase of them.

3 The translation reserve is used to record unrealised exchange differences arising from the translation of the financial statements of entities within the Group that have a functional currency other than US Dollars.

4 The hedging reserve is used to record unrealised movements in the Group's hedging instruments.

5 This balance represents the equity component of the convertible bonds which has been fully exercised in the year. 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.

6 Refer to the Accounting Policies for detail of the IFRS 9 adjustment.

27. Subsequent events

Assets held for sale

In February 2019, Premier received a further US\$5 million cash deposit from Al-Haj in relation to the disposal of the Pakistan business unit. This brought the total cash deposit received by Premier to date of US\$40 million, against the headline consideration of US\$65.6 million.

Debt reduction

Subsequent to year-end, in January 2019, a further US\$100.3 million of the RCF debt facility was cancelled by Premier, which will result in reduced commitment fee costs for the Group in 2019.

28. Investments

Joint ventures

During 2018, the Group completed the sale of its 49 per cent interest in Premco Energy Projects Company LLC, a company registered in the United Arab Emirates, to its joint venture partner. There was no gain or loss on the sale.

Subsidiary undertakings

At 31 December 2018, the Group had investments in the following 100 per cent owned subsidiaries.

Principal subsidiaries

Name of company	Business and area of operation	Registered office address
Premier Oil Group Holdings Limited ¹	Intermediate holding company, UK	23 Lower Belgrave Street, London, SW1W 0NR
Premier Oil Group Limited	Intermediate holding company, UK	4th Floor, Saltire Court, 20 Castle Terrace, Edinburgh, EH1 2EN
Premier Oil Finance (Jersey) Limited ¹	Convertible bond issuing company, Jersey	IFC 5, St Helier, JE1 1ST, Jersey
Premier Oil Holdings Limited	Intermediate holding company, UK	23 Lower Belgrave Street, London, SW1W 0NR
Premier Oil Overseas BV	Intermediate holding company, Netherlands	Atrium Building, 8th Floor, Strawinskylaan 3127, 1077 ZX, Amsterdam, Netherlands
Premier Oil UK Limited	Exploration, production and development, UK	4th Floor, Saltire Court, 20 Castle Terrace, Edinburgh, EH1 2EN
Premier Oil E&P Holdings Limited	Intermediate holding company, UK	23 Lower Belgrave Street, London, SW1W 0NR
Premier Oil E&P UK Limited	Exploration, production and development, UK	23 Lower Belgrave Street, London, SW1W 0NR
Premier Oil E&P UK EU Limited	Exploration, production and development, UK	23 Lower Belgrave Street, London, SW1W 0NR
Premier Oil E&P UK Energy Trading Limited	Gas trading company, UK	23 Lower Belgrave Street, London, SW1W 0NR
Premier Oil Natuna Sea BV	Exploration, production and development, Indonesia	Atrium Building, 8th Floor, Strawinskylaan 3127, 1077 ZX, Amsterdam, Netherlands
Premier Oil Andaman Limited	Exploration, production and development, Indonesia	23 Lower Belgrave Street, London, SW1W 0NR
Premier Oil Pakistan Holdings BV	Intermediate holding company, Netherlands	Atrium Building, 8th Floor, Strawinskylaan 3127, 1077 ZX, Amsterdam, Netherlands
Premier Oil Pakistan Exploration Limited	Exploration, production and development, Pakistan	23 Lower Belgrave Street, London, SW1W 0NR
Premier Oil Pakistan Kadanwari Limited	Exploration, production and development, Pakistan	190 Elgin Avenue, George Town, Grand Cayman, KY1-9005
Premier Oil Pakistan Kirthar BV	Exploration, production and development, Pakistan	Atrium Building, 8th Floor, Strawinskylaan 3127, 1077 ZX, Amsterdam, Netherlands
Premier Oil Vietnam Offshore BV	Exploration, production and development, Vietnam	Atrium Building, 8th Floor, Strawinskylaan 3127, 1077 ZX, Amsterdam, Netherlands
Premier Oil (Vietnam) Limited	Exploration, production and development, Vietnam	Commerce House, Wickhams Cay 1, Road Town, Tortola, VG1110
Premier Oil Exploration and Production Limited	Exploration, production and development, Falkland Islands	23 Lower Belgrave Street, London, SW1W 0NR
Premier Oil do Brasil Petróleo e Gás Ltda	Exploration, production and development, Brazil	Rua Lauro Müller, 116 - Sala 2006, Torre, Botafogo, Rio de Janeiro, 22.290-906
Premier Oil Exploration and Production Mexico S.A	Exploration, production and development, Mexico	Calle Montes Urales, 424, Oficina 03-110 y 03-117 Lomas de Chapultepec V Sección, Miguel Hidalgo, Ciudad de México, 11000

Note:

¹ Held directly by Premier Oil plc. All other companies are held through a subsidiary undertaking.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2018

Other subsidiaries

Name of company	Business and area of operation	Registered office address
EnCore (NNS) Limited	Intermediate holding company, UK	23 Lower Belgrave Street, London, SW1W 0NR
EnCore (VOG) Limited	Dormant	23 Lower Belgrave Street, London, SW1W 0NR
EnCore CCS Limited	Dormant	23 Lower Belgrave Street, London, SW1W 0NR
EnCore Gas Storage Limited	Dormant	23 Lower Belgrave Street, London, SW1W 0NR
EnCore Natural Resources Limited	Dormant	23 Lower Belgrave Street, London, SW1W 0NR
EnCore North Sea Limited	Dormant	23 Lower Belgrave Street, London, SW1W 0NR
EnCore Oil and Gas Limited	Dormant	23 Lower Belgrave Street, London, SW1W 0NR
EnCore Oil Limited	Intermediate holding company, UK	23 Lower Belgrave Street, London, SW1W 0NR
FP Mauritania A BV	Decommissioning activities, Mauritania	Atrium Building, 8th Floor, Strawinskyalaan 3127, 1077 ZX, Amsterdam, Netherlands
FP Mauritania B BV	Decommissioning activities, Mauritania	Atrium Building, 8th Floor, Strawinskyalaan 3127, 1077 ZX, Amsterdam, Netherlands
Premier Exploration Services Private Limited	Dormant	507 Bhikaiji Cama Bhawan, Bhikaiji Cama Place, New Delhi, 110 066
Premier Oil (EnCore Exploration UK) Limited	Dormant	23 Lower Belgrave Street, London, SW1W 0NR
Premier Oil (EnCore Petroleum) Limited	Intermediate holding company, UK	23 Lower Belgrave Street, London, SW1W 0NR
Premier Oil Aberdeen Services Limited	Service company, UK	23 Lower Belgrave Street, London, SW1W 0NR
Premier Oil and Gas Services Limited	Service company, UK	23 Lower Belgrave Street, London, SW1W 0NR
Premier Oil B Limited	Dormant	23 Lower Belgrave Street, London, SW1W 0NR
Premier Oil Bukit Barat Limited	Exploration, production and development, Indonesia	23 Lower Belgrave Street, London, SW1W 0NR
Premier Oil Buton BV	Dormant	Atrium Building, 8th Floor, Strawinskyalaan 3127, 1077 ZX, Amsterdam, Netherlands
Premier Oil CCS Limited	Dormant	23 Lower Belgrave Street, London, SW1W 0NR
Premier Oil Congo (Marine IX) Limited	Dormant	IFC 5, St Helier, JE1 1ST, Jersey
Premier Oil Exploration (Mauritania) Limited	Decommissioning activities, Mauritania	IFC 5, St Helier, JE1 1ST, Jersey
Premier Oil Exploration and Production (Iraq) Limited	Dormant	23 Lower Belgrave Street, London, SW1W 0NR
Premier Oil Exploration Limited	Dormant	4th Floor, Saltire Court, 20 Castle Terrace, Edinburgh, EH1 2EN
Premier Oil Exploration ONS Limited	Dormant	23 Lower Belgrave Street, London, SW1W 0NR
Premier Oil Far East Limited	Service company, Singapore	23 Lower Belgrave Street, London, SW1W 0NR
Premier Oil International Holding BV	Intermediate holding company, Netherlands	Atrium Building, 8th Floor, Strawinskyalaan 3127, 1077 ZX, Amsterdam, Netherlands
Premier Oil Investments Limited	Dormant	23 Lower Belgrave Street, London, SW1W 0NR
Premier Oil Mauritania B Limited	Decommissioning activities, Mauritania	IFC 5, St Helier, JE2 3RT, Jersey
Premier Oil Mexico Holdings Limited	Intermediate holding company, UK	23 Lower Belgrave Street, London, SW1W 0NR
Premier Oil ONS Limited	Dormant	23 Lower Belgrave Street, London, SW1W 0NR
Premier Oil Pacific Limited	Dormant	36/F, Tower Two, Time Square, 1 Matheson Street, Causeway Bay, Hong Kong
Premier Oil Pakistan Offshore BV	Dormant	Atrium Building, 8th Floor, Strawinskyalaan 3127, 1077 ZX, Amsterdam, Netherlands
Premier Oil Philippines BV	Dormant	Atrium Building, 8th Floor, Strawinskyalaan 3127, 1077 ZX, Amsterdam, Netherlands
Premier Oil Red Sea Limited	Dormant	23 Lower Belgrave Street, London, SW1W 0NR
Premier Oil Tuna BV	Exploration, production and development, Indonesia	Atrium Building, 8th Floor, Strawinskyalaan 3127, 1077 ZX, Amsterdam, Netherlands
Premier Oil Ventures Limited	Dormant	23 Lower Belgrave Street, London, SW1W 0NR
Premier Oil Vietnam 121 Limited	Dormant	23 Lower Belgrave Street, London, SW1W 0NR
Premier Oil Vietnam North BV	Dormant	Atrium Building, 8th Floor, Strawinskyalaan 3127, 1077 ZX, Amsterdam, Netherlands
Premier Oil West Tuna Limited	Dormant	23 Lower Belgrave Street, London, SW1W 0NR
Premier Overseas Holdings Limited	Dormant	23 Lower Belgrave Street, London, SW1W 0NR
XEO Exploration plc	Dormant	23 Lower Belgrave Street, London, SW1W 0NR

COMPANY BALANCE SHEET

As at 31 December 2018

	Note	2018 US\$ million	2017 US\$ million
Non-current assets:			
Investments in subsidiaries	3	565.5	565.5
Long-term employee benefit plan surplus	7	0.4	0.5
Long-term receivables	4	1,288.6	955.4
Total non-current assets		1,854.5	1,521.4
Current assets:			
Other receivables	4	0.5	0.7
Total current assets		0.5	0.7
Current liabilities:			
Trade and other payables	5	(35.8)	(61.6)
Net current liabilities		(35.3)	(60.9)
Non-current liabilities:			
Borrowings	6	(188.2)	(192.4)
Long-term employee benefit plan deficit	7	(0.7)	(0.7)
Derivative financial instruments		(54.2)	(41.1)
		(243.1)	(234.2)
Net assets		1,576.1	1,226.3
Equity and reserves:			
Share capital	9	154.2	109.0
Share premium account		491.7	284.5
Retained earnings		547.8	388.2
Other reserves		382.4	444.6
		1,576.1	1,226.3

Profit for the year ending 31 December 2018 was US\$84.8 million (2017: US\$15.3 million)

The financial statements of Premier Oil plc (registered number SC234781) were approved by the Board of Directors and authorised for issue on 6 March 2019.

They were signed on its behalf by:

Tony Durrant
Chief Executive Officer

Richard Rose
Finance Director

COMPANY STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Note	Share capital US\$ million	Share premium account US\$ million	Profit and loss account US\$ million	Merger reserve account US\$ million	Capital redemption reserve US\$ million	Equity reserve US\$ million	Total US\$ million
At 1 January 2017		106.7	275.4	354.0	374.3	8.1	62.1	1,180.6
Issue of Ordinary Shares		2.3	9.1	1.1	–	–	–	12.5
Net purchase of ESOP Trust shares		–	–	(0.2)	–	–	–	(0.2)
Profit for the financial year	2	–	–	15.3	–	–	–	15.3
Provision for share-based payments		–	–	14.5	–	–	–	14.5
Movement in cash flow hedges		–	–	1.6	–	–	–	1.6
Derecognition of equity component of modified convertible bonds		–	–	–	–	–	(62.1)	(62.1)
Recognition of equity component of revised convertible bonds		–	–	–	–	–	64.1	64.1
Conversion of convertible bonds		–	–	1.9	–	–	(1.9)	–
At 31 December 2017		109.0	284.5	388.2	374.3	8.1	62.2	1,226.3
IFRS 9 adjustment		–	–	(7.0)	–	–	–	(7.0)
1 January 2018		109.0	284.5	381.2	374.3	8.1	62.2	1,219.3
Issue of Ordinary Shares		45.2	207.2	7.7	–	–	–	260.1
Net purchase of ESOP Trust shares		–	–	(1.5)	–	–	–	(1.5)
Profit for the financial year	2	–	–	84.8	–	–	–	84.8
Provision for share-based payments		–	–	14.6	–	–	–	14.6
Movement in cash flow hedges		–	–	(1.2)	–	–	–	(1.2)
Conversion of convertible bonds		–	–	62.2	–	–	(62.2)	–
At 31 December 2018		154.2	491.7	547.8	374.3	8.1	–	1,576.1

NOTES TO THE COMPANY FINANCIAL STATEMENTS

For the year ended 31 December 2018

1. Significant accounting policies

The separate financial statements of the Company are presented as required by the Companies Act 2006. The Company meets the definition of a qualifying entity under Financial Reporting Standard 100 ('FRS 100') issued by the Financial Reporting Council. These financial statements have been prepared in accordance with FRS 101 'Reduced Disclosure Framework'.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to accounting standards issued but not yet effective or implemented, share-based payment information, financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash flow statement and certain related party transactions.

The financial statements have been prepared on a going concern basis. Further information relating to the going concern assumption is provided in the Financial Review on page 35.

Where required, the equivalent disclosures are given in the Group's consolidated financial statements. Key sources of estimation uncertainty disclosure are provided in the Accounting Policies and in relevant notes to the Group consolidated financial statements as applicable. Details of the Company's share-based payment schemes are provided in note 21 of the Group consolidated financial statements on page 154.

The financial statements have been prepared on the historical cost basis except for the remeasurement of certain financial instruments to fair value. The principal accounting policies adopted are the same as those set out on pages 121 to 127 to the Group consolidated financial statements except as noted below.

Investments in subsidiaries are stated at cost less, where appropriate, provisions for impairment.

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 2018 of US\$84.8 million (2017: US\$15.3 million).

Other comprehensive expense for the year was US\$1.2 million (2017: US\$1.6 million income).

The auditors' remuneration for audit and other services is disclosed in note 3 to the Group consolidated financial statements on page 135.

3. Fixed asset investments

	2018 US\$ million
Cost and net book value:	
At 1 January	565.5
Additions	-
At 31 December	565.5

A list of all investments in subsidiaries held at 31 December 2018, including the name and type of business, the country of operation and the country of incorporation or registration, is given in note 28 to the Group consolidated financial statements.

4. Receivables

Long term receivables: amounts falling due after more than one year

	2018 US\$ million	2017 US\$ million
Amounts owed by subsidiary undertakings	1,288.6	955.4

The amounts owed by subsidiary undertakings falling due after more than one year comprise a loan which bears interest based on LIBOR. This loan is denominated in US dollars and falls due for repayment in 2021.

Other receivables: amounts falling due within one year

	2018 US\$ million	2017 US\$ million
Amounts owed by subsidiary undertakings	0.4	0.7
Prepayments	0.1	-
	0.5	0.7

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 2018

5. Trade and other payables

	2018 US\$ million	2017 US\$ million
Derivative financial instruments – warrants	31.8	59.8
Accruals	4.0	1.8
	35.8	61.6

The carrying values of the Company's creditors approximate their fair value.

In the prior year the company issued 89.1 million equity warrants and 21.4 million synthetic warrant of which 13.9 million equity warrants were exercised in the prior year and a further 24.9 million equity warrants were exercised by year-end. Further details on the warrants are disclosed in notes 18 of the Group consolidated financial statements..

6. Borrowings

	2018 Fair value amount US\$ million	2018 Carrying amount US\$ million	2017 Fair value amount US\$ million	2017 Carrying amount US\$ million
Retail bonds	181.6	190.5	196.1	202.5

In December 2013, the Company put in place a £500.0 million Euro Medium Term Notes ('EMTN') program under which it has issued £150.0 million UK retail bonds (the bonds). The bonds have been listed on the Official List of the UK Listings Authority and admitted to trading on the London Stock Exchange's regulated market and the electronic Order Book of Retail Bonds ('ORB'). The bonds initially had a fixed coupon of 5.00 per cent and maturity of seven years. Post refinancing the fixed coupon increased to 6.5 per cent with the maturity extended to 2021.

The carrying value of the retail bonds are stated in the Company balance net of the unamortised portion of the debt arrangement fees of US\$2.3 million (2017: US\$10.1 million) and the impact of the IFRS 9 adjustment.

The liability has been translated at the exchange rate prevailing at the year-end.

7. Long-term employee benefit plan

Defined benefit schemes

The Company operates a defined benefit scheme in the UK - The Premier Oil plc Retirement and Death Benefits Plan ('the Scheme'). Further details of the Scheme are disclosed in note 24 of the Group consolidated financial statements on page 158.

Defined contribution schemes

The Company operates a defined contribution retirement benefit scheme. Further details of this scheme are provided in note 24 of the Group consolidated financial statements on page 161.

8. Commitments and guarantees

At the year-end date the Company, together with certain subsidiary undertakings, had jointly guaranteed the Group's borrowing facilities.

These consist of the following:

- Bank loans: US\$2.5 billion revolving and letter of credit facility ('RCF'), US\$150 million and £100 million term loans (together the 'Term Loan');
- Senior loan notes: US\$335 million and €63.6 million of US Private Placement ('USPP') notes and US\$130 million converted loan facility; and
- £150 million of retail bonds;

All of the above facilities mature in May 2021.

9. Share capital and share premium

Further detail of these items are disclosed in note 20 of the Group consolidated financial statements on page 153.

10. Dividends

No dividend is proposed for the year ended 31 December 2018 (2017: nil).

EUAD – Basis of preparation

The Reports on Payments to Governments Regulations ('UK Regulations') came into force on 1 December 2014 and require UK companies in the extractive sector to publicly disclose payments made to governments in the countries where they undertake extractive operations. The aim of the regulations is to enhance the transparency of the payments made by companies in the extractive sector to host governments in the form of taxes, bonuses, royalties, fees and support for infrastructure improvements. The regulations implement Chapter 10 of EU Accounting Directive (2013/34/EU) ('EU Directive').

The UK Regulations have an effective date of 1 January 2015, and this section of the Annual Report is in line with the EU Directive and the UK Regulations. This basis of preparation provides an explanation of the payments that we are disclosing.

The payments disclosed are based on where the obligation for the payment arose: payments levied at a project level have been disclosed at a project level and payments levied at a corporate level have been disclosed on that basis.

Within the UK Regulations, a project is defined as being the operational activities which are governed by a single contract, licence, lease, concession or a similar legal agreement. The Company undertakes extractive activities in different types of fiscal petroleum regimes and therefore the types of payments disclosed vary from country to country. For the purposes of our reporting, for the UK and Pakistan we have classified each individual concession/licence as a project, whereas for Indonesia and Vietnam each PSC arrangement has been classified as a project.

All of the payments disclosed in accordance with the EU Directive have been made to National Governments, either directly or through a Ministry or Department, or to a national oil company, who have a working interest in a particular licence. For projects where we are the operator we have disclosed the full payment made on behalf of the project; where we have a non-operated interest we have not disclosed payments made on our behalf by another party.

In line with the UK Regulations, where a payment or a series of related payments do not exceed US\$109,220 (£86,000), they have not been disclosed. Where the aggregate payments made in the period for a project or country are less than US\$109,200 we have not disclosed the payments made for this project or country.

Our total economic value distributed to all stakeholders can be found on page 55 of the Annual Report.

Reporting currency – Payments disclosed in this report have been disclosed in US dollars, consistent with the rest of the 2018 Annual Report. Where actual payments have been made in a currency other than US dollars, they have been translated using the prevailing exchange rate when the payment was made.

Production entitlements in barrels – Includes non-cash royalties and state non-participating interest paid in barrels of oil or gas out of the Group's working interest share of production in a licence. The figures disclosed are on a cash paid liftings basis.

Income taxes – This represents cash tax calculated on the basis of profits including income or capital gains and taxes on production. Income taxes are usually reflected in corporate income tax returns. The cash payment of income taxes occurs in the year in which the tax has arisen or up to one year later. Income taxes also include any cash tax rebate received from the government or revenue authority during the year. Income taxes do not include fines and penalties. In accordance with the UK Regulations, payments made in relation to sales, employee, environmental or withholding taxes have not been disclosed.

Dividends – This includes dividends that are paid in lieu of a production entitlement or royalty. It does not include any dividends paid to a government as an ordinary shareholder.

Royalties – This represents cash royalties paid to governments during the year for the extraction of oil or gas. The terms of the royalties are described within our PSCs and can vary from project to project within one country. Export duties paid in kind have been recognised within the royalties category. The cash payment of royalties occurs in the year in which the tax has arisen.

Bonus payments – This represents any bonus paid to governments during the year, usually as a result of achieving certain milestones, such as a signature, discovery or production bonuses.

Licence fees – This represents licence fees, rental fees, entry fees and other consideration for licences and/or concessions paid for access to an area during the year (with the exception of signature bonuses which are captured within bonus payments).

Infrastructure improvement payments – This represents payments made in respect of infrastructure improvements for projects that are not directly related to oil and gas activities during the year. This can be a contractually obligated payment in a PSC or a discretionary payment for building/improving local infrastructure such as roads, bridges and ports.

2018 European transparency directive disclosure

Country	Licence/ company level	Production entitlements bbls ('000)	Production entitlements US\$ ('000)	Income taxes US\$ ('000)	Royalties (cash only) US\$ ('000)	Dividends US\$ ('000)	Bonus payments US\$ ('000)	Licence fees US\$ ('000)	Infrastructure improvement payments US\$ ('000)	Total US\$ ('000)
Brazil	CE-M-665-R11	-	-	-	-	-	-	166	-	166
	Total Brazil	-	-	-	-	-	-	166	-	166
Falkland Islands	Sea Lion	-	-	-	-	-	-	400	-	400
	Total Falkland Islands	-	-	-	-	-	-	400	-	400
Indonesia	Natuna Sea Block A	4,777	294,951	56,685	-	-	-	-	-	351,636
	Kakap	-	-	1,314	-	-	-	-	-	1,314
	Total Indonesia	4,777	294,951	57,999	-	-	-	-	-	352,950
Mexico	Block 11	-	-	-	-	-	-	399	-	399
	Block 13	-	-	-	-	-	-	399	-	399
	Total Mexico	-	-	-	-	-	-	798	-	798
Pakistan	Bhit/Badhra	-	-	-	947	-	-	-	-	947
	Kadanwari	-	-	-	1,084	-	-	-	-	1,084
	Zamzama	-	-	-	403	-	-	-	-	403
	Qadipur	-	-	-	1,198	-	-	-	-	1,198
	Corporate	-	-	2,487	-	-	-	-	-	2,487
	Total Pakistan	-	-	2,487	3,632	-	-	-	-	6,119
United Kingdom	Babbage	-	-	-	-	-	-	413	-	413
	RN	-	-	-	-	-	-	727	-	727
	Johnston	-	-	-	-	-	-	256	-	256
	Rita	-	-	-	-	-	-	175	-	175
	Huntington	-	-	-	-	-	-	253	-	253
	Brenda	-	-	-	-	-	-	180	-	180
	Catcher	-	-	-	-	-	-	723	-	723
	Tolmount	-	-	-	-	-	-	903	-	903
	Corporate	-	-	(3,988)	-	-	-	-	-	(3,988)
	Total UK	-	-	(3,988)	-	-	-	3,630	-	(358)
Vietnam	Chim São	1,004	64,477	-	-	-	450	-	-	64,927
	Corporate	-	-	87,294	24,851	-	-	-	-	112,145
	Total Vietnam	1,004	64,477	87,294	24,851	-	450	-	-	177,072
Total Group	5,781	359,428	143,792	28,483	-	450	4,994	-	537,147	

2018 European transparency directive disclosure

Country	Government	Production entitlements bbls ('000)	Production entitlements US\$ ('000)	Income taxes US\$ ('000)	Royalties (cash only) US\$ ('000)	Dividends US\$ ('000)	Bonus payments US\$ ('000)	Licence fees US\$ ('000)	Infrastructure improvement payments US\$ ('000)	Total US\$ ('000)
Brazil	National Petroleum Agency	-	-	-	-	-	-	166	-	166
	Total Brazil	-	-	-	-	-	-	166	-	166
Falkland Islands	Falkland Island Government – Department of Mineral Resources	-	-	-	-	-	-	400	-	400
	Total Falkland Islands	-	-	-	-	-	-	400	-	400
Indonesia	SKK Migas	4,777	294,951	-	-	-	-	-	-	294,951
	Directorate General of Taxes	-	-	57,999	-	-	-	-	-	57,999
	Total Indonesia	4,777	294,951	57,999	-	-	-	-	-	352,950
Mexico	Fondo Mexicano del Petróleo para la Estabilización y el Desarrollo (FMP)	-	-	-	-	-	-	321	-	321
	Servicio de Administración Tributaria (SAT)	-	-	-	-	-	-	477	-	477
	Total Mexico	-	-	-	-	-	-	798	-	798
Pakistan	Federal Board of Revenue	-	-	2,487	-	-	-	-	-	2,487
	Directorate General of Petroleum Concession	-	-	-	3,632	-	-	-	-	3,632
	Total Pakistan	-	-	2,487	3,632	-	-	-	-	6,119
United Kingdom	HM Revenue & Customs	-	-	(3,988)	-	-	-	-	-	(3,988)
	Department of Energy and Climate Change	-	-	-	-	-	-	3,630	-	3,630
	Total UK	-	-	(3,988)	-	-	-	3,630	-	(358)
Vietnam	Petro Vietnam	1,004	64,477	-	-	-	450	-	-	64,927
	HCM Tax Department	-	-	87,294	14,352	-	-	-	-	101,646
	Vung Tau Customs office	-	-	-	10,499	-	-	-	-	10,499
	Total Vietnam	1,004	64,477	87,294	24,851	-	450	-	-	177,072
Total Group	5,781	359,428	143,792	28,483	-	450	4,994	-	537,147	

FIVE YEAR SUMMARY

Financials		2018¹	2017 ¹	2016	2015	2014
Sales revenues	(US\$ million)	1,438.3	1,083.9	983.4	1,067.2	1,629.4
Profit/(loss) before tax	(US\$ million)	184.0	(347.9)	(390.6)	(829.4)	(384.0)
Net profit/(loss) for the year after tax	(US\$ million)	133.4	(253.8)	122.6	(1,103.8)	(210.3)
Cash flow from operating activities	(US\$ million)	777.2	475.3	431.4	809.5	924.3
Shareholders' funds	(US\$ million)	1,026.0	616.9	809.1	734.8	1,872.2
Net debt	(US\$ million)	(2,330.7)	(2,724.2)	(2,765.2)	(2,242.2)	(2,122.2)
Per share statistics:						
Revenue per share	(cents/share)	185.8	211.0	192.5	208.9	312.2
Earnings/(loss) per share – basic	(cents/share)	17.3	(49.4)	24.0	(216.1)	(40.3)
Earnings/(loss) per share – diluted	(cents/share)	15.5	(49.4)	23.7	(216.1)	(40.3)
Cash flow from operating activities per share	(cents/share)	100.4	92.5	84.5	158.5	177.1
Reserves per share – year-end	(boe/share)	0.25	0.59	0.69	0.65	0.47
Issued Ordinary Shares – average	(million)	774.0	513.7	510.8	510.8	521.9
Operations:						
Production (working interest basis)	(kboepd)	80.5	75.0	71.4	57.6	63.6
Proved and probable reserves (working interest basis)	(mmboe)	193.7	301.8	353.3	331.9	243.3
Employees (average) – UK	(number)	230	237	242	263	242
– Overseas	(number)	552	552	559	608	698
Key indices:						
Realised average oil price	(US\$/bbl)	67.9	52.9	44.1	52.6	98.2
Average exchange rates	(US\$/£)	1.34	1.29	1.36	1.53	1.65
Closing exchange rates	(US\$/£)	1.27	1.35	1.23	1.47	1.56

Note:

¹ From all operations (continuing and discontinued) unless otherwise stated.

OIL AND GAS RESERVES

Working interest reserves as at 31 December 2018

	Working interest basis												Total	
	Falkland Islands		Indonesia		Pakistan		UK		Vietnam		Oil and NGLs mmbbls	Gas ⁴ 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 Bcf				
Group proved plus probable reserves:														
At 1 January 2018	126.46	43.83	1.48	199.43	0.08	51.21	68.99	144.38	19.17	26.55	216.18	465.40	301.84	
Revisions ¹	(126.46)	(43.83)	0.07	(6.60)	(0.01)	(4.26)	12.01	262.76	2.87	2.16	(111.52)	210.23	(68.74)	
Discoveries and extensions ²	-	-	-	-	-	-	-	-	-	-	-	-	-	
Acquisitions and divestments ³	-	-	(0.40)	(7.40)	-	-	-	(43.91)	-	-	(0.40)	(51.31)	(9.87)	
Production	-	-	(0.12)	(24.67)	(0.02)	(12.06)	(12.95)	(21.07)	(4.42)	(5.45)	(17.51)	(63.25)	(29.55)	
At 31 December 2018	-	-	1.03	160.76	0.05	34.89	68.05	342.16	17.62	23.26	86.75	561.07	193.68	
Total Group developed and undeveloped reserves:														
Proved on production	-	-	0.48	94.81	0.04	26.01	34.32	65.03	16.09	20.74	50.93	206.59	90.38	
Proved approved/justified for development	-	-	0.36	49.01	-	-	12.46	138.96	0.03	0.49	12.85	188.46	48.96	
Probable on production	-	-	-	-	0.01	8.88	16.39	23.95	1.48	1.61	17.88	34.44	23.99	
Probable approved/justified for development	-	-	0.19	16.94	-	-	4.88	114.22	0.02	0.42	5.09	131.58	30.35	
At 31 December 2018	-	-	1.03	160.76	0.05	34.89	68.05	342.16	17.62	23.26	86.75	561.07	193.68	

Notes:

- 1 The most significant revisions in the year relate to Sea Lion and Tolmount. Sealion has been reclassified from Reserves (Justified for Development) to Contingent Resources (Development Pending) to align with the new SPE-PRMS Standards issued in June 2018. The booking of the Tolmount Main field as 2P reserves reflects the sanction of the project in 2018.
- 2 The Zama discovery in Mexico is classified as contingent resource and does not appear in this table.
- 3 Divestment of Babbage (UK) and Kakap (Indonesia).
- 4 Proved plus probable gas includes 96.3 Bcf of fuel gas reserves (2017: 95 Bcf).

Premier Oil plc categorises petroleum resources in accordance with the June 2018 SPE/WPC/AAPG/SPEE/SEG/SPWLA/EAGE 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 ('OI-AC'), 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 and Vietnam. On an entitlement basis reserves were 181.5 mmboe as at 31 December 2018 (2017: 284.9 mmboe). This was calculated at year-end 2018, using the following oil price assumption: US\$60/bbl in 2019, US\$65/bbl in 2020, US\$70/bbl in 2021 and US\$75/bbl in 'real' terms thereafter (2017: Dated Brent forward curve for 2018 and 2019, US\$70/bbl in 2020 and US\$75/bbl in 'real' terms thereafter).

WORLDWIDE LICENCE INTERESTS

As at 6 March 2019

Licence	Blocks	Operator	Premier equity	Unit interest (if applicable)	Associated fields /discoveries
Brazil					
CE-M-661	CE-M-661	Total	30.00		
CE-M-665_R11	CE-M-665	Premier	50.00		
CE-M-717_R11	CE-M-717	Premier	50.00		Pecem
Falkland Islands					
PL003a	14/14 (part) & 14/19 (part)	Rockhopper	4.50		
PL003b	14/14 (part) & 14/19 (part)	Rockhopper	4.50		
PL004a	14/15 (part), 14/20, 15/11 (part) & 15/16 (part)	Premier	36.00		Isobel Deep
PL004b	14/15 (part)	Premier	36.00		Beverley; Casper South; Zebedee
PL004c	14/15 (part)	Premier	36.00		
PL032	14/5, 14/10	Premier	60.00		Casper North; Sea Lion
PL033	15/1 (part) & 15/6 (part)	Premier	60.00		
Indonesia					
Andaman II	Andaman II	Premier	40.00		
Natuna Sea Block A	Natuna Sea Block A	Premier	28.67		Anoa; Gajah Baru; Naga; Pelikan
Tuna Block	Tuna Block	Premier	65.00		Kuda Laut; Singa Laut
Mauritania					
PSC B	Chinguetti EEA	Petronas	8.12		Chinguetti
Mexico					
Mexico Block 2	2	Talos	10.00		
Mexico Block 7	7	Talos	25.00		Zama
Mexico Block 11	11	Premier	100.00		
Mexico Block 13	13	Premier	100.00		
Mexico Block 30	30	DEA	30.00		
Pakistan					
D&PL No.140/PAK/2000	Kirthar	ENI	6.00		Bhit
D&PL No.150/PAK/2002	2667-1 (Dadu)	Orient	9.38		Zamzama
D&PL No.160/PAK/2003	Kirthar	ENI	6.00		Badhra
D&PL No.161/PAK/2003	Bolan	Mari	3.75		Zarghun South
D&PL No.84/PAK/92	Tajjal	ENI	15.79		Kadanwari
D&PL No.85/PAK/93	Qadirpur	OGDCL	4.75		Qadirpur
United Kingdom					
P077	22/12a (Nelson Field (NELS))	Shell	50.00	1.66	Nelson
P087	22/7a (Nelson Field (NELS))	Premier (Shell for field)	46.50	1.66	Nelson
P111	22/25a (Merganser down to 3300 metres (MERG))	Premier (Shell for field)	65.99	7.92	Merganser
P164	205/26a (ALL)	Premier	100.00		Solan
P185	15/22 (Rest of Block (Non-Palaeocene Formation) (A))	Nexen	50.00		Blackhorse
P188	22/30b (Area A - Elgin Field (ELGN))	Total	5.20	5.20	Elgin; Franklin
P201	16/21a Balmoral & Glamis Field Areas (BALMO), Rest of Block (Exploration Area) (REST), Stirling Field Area (STIRL); and 16/21d Balmoral & Glamis Field Areas (BALMO), Rest of Block (Exploration Area) (REST)	Premier	85.00	Balmoral: 78.12 Stirling: 68.68	Balmoral; Glamis; Stirling
P201	16/21d (Brenda Field Area (above 7500 feet) (A))	Premier	100.00		Brenda
P213	16/26a (Area P - Caledonia Field Area (P-CAL))	Premier	100.00		Caledonia
P233	15/25a (ALL)	Premier	70.00		Nicol

WORLDWIDE LICENCE INTERESTS CONTINUED

As at 6 March 2019

Licence	Blocks	Operator	Premier equity	Unit interest (if applicable)	Associated fields /discoveries
United Kingdom Continued					
P264	23/26d (Scoter Field Area (A))	Premier (Shell for field)	100.00	12.00	Scoter
P344	16/21b & 16/21c (Balmoral Field Area (BALM)) and 16/21c (Stirling Field (STIR))	Premier	44.20	Balmoral: 78.12 Stirling: 68.68	Balmoral; Stirling
P362	29/5b (ALL)	Total	5.20	5.20	Franklin
P380	43/26a (Rave (RAVE A)) and (Rave (Rave B))	Perenco	35.94	28.75	Ravenspurn North
P380	43/26a (Residual Area excluding Ravenspurn North (RESID))	Premier	72.22	50.11	Johnston
P452	44/23a (Caister Field (AREA AA))	ConocoPhillips	40.00		Caister
P452	44/23e (ALL (D))	Premier	79.00		Hunter
P454	44/29b (Orca Field Area (B))	Neptune	42.67	23.47	Orca
P611	44/24a (ALL) and 44/30a (ALL)	Neptune	42.67	Orca: 23.47	Minke; Orca
P666	22/30c (ALL) and 29/5c (ALL)	Total	5.20	5.20	Elgin; Franklin; West Franklin
P686	43/27a (ALL)	Premier	42.22	50.11	Johnston
P748	29/2c (ALL)	CNR	40.00		Kyle
P752	29/4d (ALL)	Total	18.57		Glenelg
P766	44/21b (ALL)	Premier	68.31	74.00	Rita
P771	44/22c (ALL)	Premier	76.00	74.00	Rita
P1042	15/25b (ALL)	Premier	100.00		Brenda
P1114	22/14b (ALL)	Premier	100.00		Huntington
P1330	42/28d (ALL)	Premier	50.00		Tolmount
P1430	28/9a (ALL)	Premier	50.00		Burgman; Carnaby; Catcher; Varadero
P2070	28/4a (ALL)	Premier	54.00		Laverda
P2305	42/28c (ALL)	Premier	50.00		Greater Tolmount
P2453	28/9c (ALL)	Premier	50.00		Bonneville
P2454	28/9d (ALL)	Premier	54.00		Laverda
Vietnam					
Block 12W	12W	Premier	53.13		Chim Sáo; Dua

GLOSSARY

ALARP	as low as reasonably practicable	mmbbls	million barrels
AGM	Annual General Meeting	mmboe	million barrels of oil equivalent
bbl	barrel	mmscfd	million standard cubic feet per day
BBtud	billion British thermal units per day	MSA	Matching Share Awards
Bcf	billion cubic feet	mscf	thousand standard cubic feet
BCG	Boston Consulting Group		
BMS	Business Management System	mt	metric tonne
boe	barrels of oil equivalent	MTC	Medical treatment cases
boepd	barrels of oil equivalent per day	ORB	Order Book of Retail Bonds
bopd	barrel(s) of oil per day	PSA	Performance Share Awards
BRINDEX	The Association of British Independent Oil Exploration Companies	PSC	production sharing contract
CAGR	compound annual growth rate	PVSP	Premier Value Share Plan
CGU	cash generating unit	RWDC	Restricted work day cases
CSR	Corporate social responsibility	RSA	Restricted Share Award
DD&A	Depreciation, depletion and amortisation	SAYE	Save As You Earn
DRR	Directors' Remuneration Report	SIP	Share Incentive Plan
DTA	deferred tax asset	Tcf	Trillion cubic feet
EBITDA	Earnings before interest, tax, depreciation and amortisation	te	Tonnes
E&E	Exploration and evaluation	TRIR	total recordable injury rate
EMTN	Euro Medium Term Notes	TSR	total shareholder return
EPA	Equity Pool Awards	USPP	US Private Placement
ETS	Esmond Transportation System	2P	Proved and probable reserves
ExCo	Executive Committee		
FEED	front end engineering and design		
FPSO	floating production, storage and offtake vessel		
FVOCI	fair value through other comprehensive income		
FVTPL	fair value through profit or loss		
GHG	greenhouse gases		
GRI	Global Reporting Initiative		
GSA	Gas Sales Agreement		
HiPoR	High Potential Incident Rate		
HSES	health, safety, environment and security		
HSFO	High Sulphur Fuel Oil		
IAS	International Accounting Standard		
IFRS	International Financial Reporting Standard		
IFRIC	IFRS Interpretations Committee		
IOGP	International Association of Oil and Gas Producers		
IPIECA	International Petroleum Industry Environmental Conservation Association		
ISA	Individual Savings Account		
IVC	Investor Code		
kbopd	thousand barrels of oil per day		
kboepd	thousand barrels of oil equivalent per day		
KPI	key performance indicator		
LOPC	loss of primary containment		
LTIP	Long Term Incentive Plan		
LWDC	Lost day work cases		

Non-IFRS measures

The Group uses certain measures of performance that are not specifically defined under IFRS or other generally accepted accounting principles. These non-IFRS measures are EBITDAX, Operating cost per barrel, DD&A per barrel, net debt and liquidity and are defined below.

EBITDAX

Earnings before interest, tax, depreciation, amortisation, impairment, exploration spend and other one-off items. In the current year it also excludes the gain on disposal recognised in the income statement. This is a useful indicator of underlying business performance.

Operating cost per barrel

Operating costs for the year divided by working interest production. This is a useful indicator of ongoing operating costs from the Group's producing assets.

DD&A per barrel

Depreciation and amortisation of oil and gas properties for the year divided by working interest production. This is a useful indicator of ongoing rates of depreciation and amortisation of the Group's producing assets.

Net debt

The net of cash and cash equivalents and long-term debt recognised on the balance sheet. This is an indicator of the Group's indebtedness and capital structure.

Liquidity

The sum of cash and cash equivalents on the balance sheet, and the undrawn amounts available to the Group on our principal facilities, including letters of credit facilities, less our JV partners' share of cash balances. This is a key measure of the Group's financial flexibility and ability to fund day-to-day operations.

Each of the above non-IFRS measures are presented within the Financial Review with detail on how they are reconciled to the statutory financial statements.

SHAREHOLDER INFORMATION

Registrar

All enquiries concerning your shareholding should be directed to Link Asset Services:

Link Asset Services

The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU
United Kingdom

Telephone: UK: 0871 664 0300 (calls cost 12p per minute plus your phone company's access charge).

If you are outside the United Kingdom, please call +44 (0)371 664 0300. Calls outside the United Kingdom will be charged at the applicable international rate.

Lines are open 9.00am – 5.30pm Monday to Friday, excluding public holidays in England and Wales.

Email: shareholderenquiries@linkgroup.co.uk

Share portal

As a shareholder you have direct access to an online share portal operated by Link Asset Services at www.premier-oil-shares.com. You can access the share portal with 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;
- choose to receive 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 Link Share Deal.

Dividends Dividend history

Details of dividend payments made are included within the Shareholder Information section of the Investors area of the Company website: www.premier-oil.com.

Tax on dividends up to April 2016

For any dividends paid up to April 2016, shareholders would have received a tax voucher showing a 10 per cent 'tax credit' representing the tax that has already been paid by the Company on profits generated. This 10 per cent tax credit can be offset against any UK income tax due on dividend income. For more information on the UK dividend tax credit, please visit the HMRC website: www.gov.uk/tax-on-dividends.

Tax on dividends from April 2016

From 6 April 2016 the dividend 'tax credit' was replaced by a new 'dividend allowance' in the form of a 0 per cent tax rate on the first £5,000 of dividend income per year.

UK residents will pay tax on any dividends received over the £5,000 allowance at the following rates:

- 7.5 per cent on dividend income within the basic rate band
- 32.5 per cent on dividend income within the higher rate band
- 38.1 per cent on dividend income within the additional rate band

Dividends received on shares held in an Individual Savings Account ('ISA') will continue to be tax free.

E-communications

Shareholders have the option to receive communications including annual reports and notices of meetings electronically. This is a faster, more environmentally friendly and, for Premier Oil plc, a more cost-effective way for shareholders to receive

annual reports and other statutory communications as soon as they are available. For every shareholder that actively registers their email address online, Premier Oil plc has pledged to donate £1 to Pure Leapfrog's carbon offsetting programme which supports carbon reduction projects in Africa, India and other developing countries (www.pureleapfrog.org).

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 Oil plc will communicate with you via email rather than post.

Shareholder security

Shareholders are advised to be cautious about any unsolicited financial advice, including offers to buy Premier Oil plc shares at inflated prices, or offers of free reports about Premier. More information can be found at www.fca.org.uk/consumers/scams and in the Shareholder Information section of the Investors area of the Company website: www.premier-oil.com.

American Depositary Receipt programme

Premier Oil plc has a sponsored Level 1 American Depositary Receipt ('ADR') programme which BNY Mellon administers and for which it acts as Depositary. Each ADR represents one Ordinary Share of the Company. The ADRs trade on the US over-the-counter market under the symbol PMOY. When dividends are paid to shareholders, the Depositary converts such dividends into US dollars, net of fees and expenses, and distributes the net amount to ADR holders.

Registered Depositary Receipt holders can trade, access account balances and transaction history, find answers to frequently asked questions and download commonly needed forms online at www.adrbnymellon.com. To speak directly to a BNY Mellon representative, please call 1-888-BNY-ADRS (1-888-269-2377) if you are calling from within the United States. If you are calling from outside the United States, please call 001-201-680-6825.

You may also send an email inquiry to shrrelations@cpushareownerservices.com or visit the website at www.computershare-na.com/bnym_adr.

Further details regarding all aspects of shareholder information can be found on our website, www.premier-oil.com



Designed and produced by SampsonMay

Telephone: 020 7403 4099
www.sampsonmay.com



Printed by Park Communications on FSC® certified paper.

Park is an EMAS certified company and its Environmental Management System is certified to ISO 14001.

100% of the inks used are vegetable oil based, 95% of press chemicals are recycled for further use and, on average 99% of any waste associated with this production will be recycled.

This document is printed on Edixion Offset, a paper containing 100% Environmental Chlorine Free (ECF) virgin fibre sourced from well-managed, responsible, FSC® certified forests and other controlled sources.

This is a certified CarbonNeutral® publication. Emissions generated during the manufacture and delivery of this product have been measured and reduced to net zero through a verified carbon offsetting project via The CarbonNeutral Company. This is in accordance with The CarbonNeutral Protocol, the global leading standard for carbon neutrality.



Registered Office

Premier Oil plc

4th Floor
Saltire Court
20 Castle Terrace
Edinburgh
EH1 2EN

Registered No. SC234781

Head Office

Premier Oil plc

23 Lower Belgrave Street
London
SW1W 0NR

Tel: +44 (0)20 7730 1111

Email: premier@premier-oil.com

Full contact details for all of our advisers are available on the Company website: www.premier-oil.com