Chairman's statement

Jane Hinkley
Chairman of the Remuneration Committee

Membership and meetings held

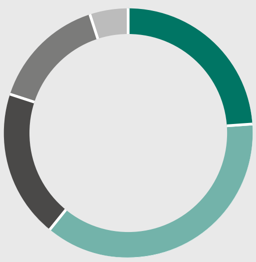
Members	Meetings attended (eligible to attend)
Jane Hinkley	5(5)
Joe Darby	5(5)
David Lindsell	5(5)
Former member	
David Bamford[1]	1(1)

1 David Bamford stepped down as a Director of the Company and member of the Remuneration Committee on 11 May 2016.

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 (%)



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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.

Dear fellow shareholder,

On behalf of the Remuneration Committee, I am pleased to present the Directors' Remuneration Report (the 'DRR') for the year ended 31 December 2016.

This statement provides an overview of the key decisions taken by the Committee during the year and outlines our proposals for a new Directors' Remuneration Policy – an opportunity to better align our executive reward to the interests of our shareholders, by bringing focus to our specific business strategy framed by the anticipated conclusion of our financial restructuring negotiations.

The new policy proposes a number of changes. The total reward maximum quantum has been significantly reduced to better reflect current market capitalisation and shareholder experience. Of particular note are the changes to the long-term incentive plan. The Committee is keen that executive reward does not replicate the commodity cycle as has been the case with the former Equity Pool Awards under the 2009 Long Term Incentive Plan ('LTIP'). The foundations of the new plan are firstly a Restricted Share Award that aligns to the principal strategic objective of debt repayment independent of other performance objectives, delivered in shares vesting in one third increments in years three, four and five dependent on a debt related financial underpin measured at the end of year three. Secondly, a Performance Share Award vesting on Relative Shareholder Return out-performance of our peer group companies, not dependent on oil price. The three-year Performance Period also has a further two-year Holding Period in the interests of long-term shareholder alignment. The annual bonus remains at its current level for target performance. However, quantum is marginally increased for above target annual performance, with any above target reward delivered in deferred shares for three years, reflecting the requirement for operational excellence and delivery of precise strategic objectives mapped by the terms of our refinancing.

As part of the development of our new Remuneration Policy, and on behalf of the Remuneration Committee, I wrote to our largest shareholders as well as the Investment Association and Institutional Shareholder Services ('ISS') to explain in detail our strategic rationale and seek their views on our proposals. The consultation feedback helped inform the following amendments to the initial proposals:

- The shareholding requirement for all Executive Directors has now been increased to 250 per cent of salary, continuing to be based on accruing 50 per cent of the net value of vested shares until that holding is met.

- The introduction of a formal financial underpin in relation to the Restricted Share Awards. This will comprise a cycle-end review of our capital position and for the initial grant will be related to a reduction of debt and a reduction of net debt to EBITDA at the end of the Performance Period, as agreed with our various lenders in our refinancing discussions.
- Removal of a proposed discretionary adjustment to the formulaic outcome of individual bonus targets, within the overall limits of bonus opportunities.

Our new policy will be submitted to shareholders for a binding vote at the Company's 2017 Annual General Meeting and, if approved, will apply from that date. The revised policy is set out in full on pages 96 to 105 and further details are included overleaf.

A copy of the Remuneration Policy approved by shareholders at the 2014 Annual General Meeting, under which all remuneration decisions have been taken during the financial year ended 31 December 2016, can be found on the Company's website www.premier-oil.com.

Our existing policy and 2016 reward outcomes

The Annual Report on Remuneration details how the 2014 Policy was applied during the year ended 31 December 2016 and is set out on pages 106 to 121 of the Remuneration Report. This section of the Remuneration Report will be put forward to shareholders for approval at the 2017 AGM by way of an advisory vote.

In particular, the Annual Report on Remuneration outlines details of awards to be made to our Executive Directors under our current LTIP as well as the bonus outcome for the year ended 31 December 2016. These awards have been made in line with our 2014 Policy. The Committee decided to significantly scale back the 2016 LTIP awards, considering it appropriate in the prevailing environment to restrict the number of shares subject to the award. The Performance Share Award was reduced by 50 per cent, the maximum receivable pursuant to the vesting of the Equity Pool Award has been capped at 50 per cent of salary and neither the Equity Pool Awards nor the Performance Share Awards will be eligible for a Matching Award on vesting, the latter representing approximately 40 per cent of the maximum quantum. This scale back replicates the experience of the broader organisation where, under the Premier Value Share Plan (PVSP), for the same reasons, the Performance Multiplier was removed in 2016 (representing 50 per cent of the award) and the Base Award was also scaled back by 50 per cent. Due to share trading restrictions for Executive Directors, given their involvement in the Group financial restructuring and the close period leading to the release of the 2016 results, the granting of the 2016 LTIP awards has been postponed and it is envisaged that they will be made in 2017 following the end of the restricted period. The performance period will remain 1 January 2016 to 31 December 2018.

Our current LTIP is based on absolute and relative total shareholder return ('TSR') over a period of up to six years, with any vesting subject to the Committee's assessment of various financial and non-financial underpins. For the LTIP awards granted in 2014, the initial three-year performance period ended in December 2016. With the fall in our share price and the Company's performance relative to our peer group, the 2014 awards lapsed in full, demonstrating the direct link between Directors' remuneration and share price performance. Further details of the LTIP can be found in the 2014 Remuneration Policy which is available on the Company's website www.premier-oil.com.

In deciding whether and at what level to award bonuses for 2016, the Committee considered carefully the oil market outlook, the Company's position and the performance scorecard outcome for 2016. The performance targets for the 2016 bonus and achievement against these targets are set out on page 110. These reflect robust operational performance and unwavering commitment to the safety and integrity of our operations irrespective of the prevailing market challenges and cost constraints. Of particular note, aside from strong production delivery, has been the progression of the Catcher project on schedule and significantly below budget, the acquisition of the E.ON portfolio and subsequent integration, and exceeding the Group stretch cost reduction targets. Underpinned by the progression of the Group refinancing exercise, the Company meets the challenges ahead both considerably leaner and stronger.

This performance resulted in a bonus outcome for Directors ranging from 64.4 per cent to 66.5 per cent of salary, inclusive of 13.9 per cent to 16.0 per cent of their bonus opportunity relating to personal performance. All awards above 50 per cent of salary are deferred in shares for three years.

The Committee considers that the incentive outcomes for 2016 outlined above are fair, replicating shareholder experience in the LTIP and recognising the strong performance delivered by the executive leadership team in the annual incentive.

During the course of 2016, the Committee considered remuneration arrangements, in line with the Remuneration Policy, for Neil Hawkings who stepped down as Director, South East Asia and Falkland Islands on 30 June 2016. The Committee determined that Neil Hawkings' 2016 annual bonus opportunity and outstanding LTIP awards would remain, subject to satisfaction of performance conditions, and pro-rated to reflect the period worked. Further details are contained on page 109.

The Committee also agreed to increase the salary of our current Finance Director, Richard Rose, who joined the Board in September 2014. His increase in salary will be effective 1 January 2017. This decision was made in recognition of his exceptional performance and contribution to the major Group refinancing exercise, and after careful consideration of relative internal and external salary levels. Pay increases have not been granted to our Executive Directors for three years aside from the promotion of Tony Durrant to Chief Executive Officer in 2014.

The biennial review of the Chairman's and Non-Executive Directors' fees has again been postponed for a further year, hence there are also no increases in fees for the Chairman and Non-Executive Directors.

The 2017 performance targets for the annual bonus are set out in general terms on page 115. 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 2017. As referred to above, we have disclosed the performance targets and achievement against these targets for the 2016 annual bonus on page 110.

The Committee encourages dialogue with its major shareholders and shareholders' input throughout the consultation process relating to the proposed 2017 Remuneration Policy has been particularly helpful in informing and shaping our position. We remain keen to hear shareholders' views on remuneration matters.

On behalf of the Committee, I would like to thank all our stakeholders for their continuing support.

Jane Hinkley
Chairman of the Remuneration Committee
8 March 2017

Chairman's statement continued

Our new Directors' Remuneration Policy

Our Remuneration Policy was last approved by shareholders at the 2014 AGM. The landscape has changed significantly since that time with the continued challenges of a lower oil price environment. In such an environment, the Company has delivered on a strategy of strong operating efficiency, a relentless drive to reduce development and operating costs, continued safety and environmental excellence and value creation through incisive and opportune business development. This success will provide firm foundations for the delivery of the next stage of the evolution of the Company and the execution of both short and long-term objectives framed by our new financial structural arrangements.

The Committee has conducted a comprehensive review of executive remuneration arrangements against this background, as well as remuneration arrangements for the broader employee population. All aspects have come under close scrutiny, including performance conditions, periods and potential quantum both for short and long-term incentives.

The Committee concluded that the current Long Term Incentive Plan is overly complex and the multi-faceted structure and highly leveraged nature of the Plan is no longer fit for purpose or appropriate to the circumstances of the Company, the interests of shareholders or the continued incentivisation and retention of senior staff. Of particular concern was the existing focus on absolute total shareholder return ('TSR') via the Equity Pool Award ('EPA') and the further three-year leveraged Matching Share Award ('MSA'). The Committee's preference is to reduce quantum to better align with our Company's size whilst at the same time placing a greater focus in our Long Term Incentive Plan on outcomes which are controllable by management and reward out-performance of our market by reducing the sensitivity to the volatility of the commodity cycle. The Committee was also minded to reduce the existing maximum reward opportunity over a performance period of up to six years to a smaller quantum, but one based on relative versus absolute TSR performance over a more focused three-year period, critical to the ongoing success of the Company. Awards will be subject to a time horizon of five years.

The new incentive arrangements are illustrated in the table on page 97 and are summarised as follows:

- A significant reduction in maximum award opportunity under the new Long Term Incentive Plan ('2017 LTIP') from c.530 per cent to 215 per cent of salary to reflect the restricted share element, the lower market capitalisation of the Company, internal reward differentials and prudence around future affordability.
- A restricted share award under the 2017 LTIP with a maximum value of 40 per cent of base salary at the date of grant designed to incentivise the primary objective of balance sheet recovery independent of other performance objectives.
- Vesting of the restricted share awards will be subject to achievement of a financial underpin measured at the end of year three and based on the Company's capital structure and balance sheet strength.
- The restricted share award will vest in one third increments over years three, four and five with a holding requirement of the full five-year cycle from the grant.
- A Performance Share Award ('PSA') under the 2017 LTIP with a maximum value of 175 per cent of base salary at the date of grant. The PSA will vest subject to three-year TSR performance relative to a comparator group of oil and gas sector peers, with vested awards subject to a further holding period of two years. Executive Committee members who are not Executive Directors or Country Managers have a lower maximum PSA value of 150 per cent of base salary.
- The annual bonus opportunity will increase from 100 per cent to 120 per cent of salary to focus the senior leadership on outperformance of our operational and financial objectives critical to our refinancing. The on-target annual bonus opportunity remains at 60 per cent of salary. Any award over 50 per cent of salary will continue to be deferred in shares for three years.
- Shareholding guidelines increased from 1x salary for Executive Directors and 2x salary for the CEO to 2.5x salary for all Executive Directors to strengthen alignment with shareholder interests.

The above structure is not dissimilar in design methodology to that introduced for all other Premier Oil staff in 2016. For the wider employee population, the current Long Term Incentive Plan has been replaced by the Premier Value Share Plan (the 'PVSP') under which annual awards of time-vesting restricted shares and (three-year) performance-vesting shares are made (the 'Performance Multiplier'). The PVSP delivers a reduction in quantum but a smoother reward profile, retaining a strong performance upside but less leveraged to the volatility of the oil price.

The new scheme will be submitted for approval at the 2017 AGM. Further details of the new scheme are contained on pages 99 to 100 of the Policy Report and in the Circular accompanying the Notice of the 2017 AGM.

To view our previous Remuneration Policy, visit our website:

www.premier-oil.com/premieroil/investors

The following table sets out a comparison of the current and proposed remuneration structure for Executive Directors and other senior leaders along with the rationale for change:

	Current	Proposed	Rationale for revision
Long-term Incentives			
Structure	• Equity Pool Award ('EPA'), Performance Share Award ('PSA') and Matching Share Award ('MSA')	• Performance Share Award ('PSA') • Restricted Share Award ('RSA')	• Simplified • Move from Matching Awards reflects market practice and reduces maximum potential quantum • Removes the dependence on commodity price volatility through removal of the EPA and focuses on measures within management control • RSAs decouple primary debt repayment objective from other performance considerations whilst retaining alignment with shareholder interests through shares • The PSA rewards outperformance of our peer group capturing actions incremental to our capital restructure plans and delivery of value to our shareholders • Broadly consistent with all employee scheme
Opportunity	• Up to c.530% of salary • Equity pool potentially uncapped alongside a MSA	• Up to 215% of salary: – PSAs: 175% of salary – RSAs: 40% of salary	• Rebalances quantum to the size of the Company principally through removal of the MSA • Rewards management focus on the critical next three years of our refinancing commitments whilst retaining long-term accountability for actions throughout the Holding Period
Performance measures	• Relative TSR and Absolute TSR	• PSAs: relative TSR • RSAs: continued employment and performance underpin	• Reinforces shareholder value creation • Improves balance between controllable and non-controllable factors
Time horizon	• 3 to 6 years	• 5 years	• PSAs: Three-year performance period and two-year Holding Period ensures short-term strategic focus against long-term horizons and accountability • RSAs: Three-year Performance Period and two-year Holding Period with staggered vesting in years three, four and five and a holding requirement for the full five-year cycle from the date of grant ensures focus on specific strategic objectives and alignment with shareholders
Annual bonus			
Opportunity	• Up to 100% of salary	• Up to 120% of salary	• Adjusted to reflect a remix of the overall pay opportunity and focus on short-term delivery imperative to our capital restructuring
Pay-out at Target	• 60% of salary	• 60% of salary	• Target incentive remains the same with upside only for outperformance
Performance measures	• Scorecard of corporate and personal objectives	• Committee may continue to apply downwards discretionary adjustment to the formulaic outcome	• Helps ensure the bonus outcome reflects underlying performance
Deferral	• Awards >50% of salary deferred in shares for a further three years	• Awards >50% of salary deferred in shares for a further three years	• Ensures the increased opportunity is paid in shares
Shareholding guidelines			
	• 1x salary for Executive Directors • 2x salary for CEO	• 2.5x salary for all Executive Directors	• Strengthens alignment with the interests of shareholders
Malus and clawback			
	✓ on all incentive awards	✓ on all incentive awards	

Policy report

This section of the Remuneration Report sets out the revised Remuneration Policy which will be put forward to shareholders at the 2017 Annual General Meeting (the 'AGM') for a binding vote and, if approved, will apply from the date of the AGM.

The Annual Report on Remuneration on pages 106 to 121 sets out how the policy approved by shareholders on 14 May 2014 (the '2014 Policy') has been applied during 2016 and how it is intended our proposed remuneration policy will be applied in 2017 subject to shareholder approval. Full details of the 2014 Policy can be found on the Company's website www.premier-oil.com. A description of the proposed changes to the 2014 Policy is set out on page 95.

The 2017 Policy will be put to shareholders for a binding vote at the 2017 AGM.

Key principles of our Remuneration Policy

The Committee regularly reviews remuneration policy to ensure it supports shareholder interests and reinforces the business strategy. During 2015 and 2016, the Committee reviewed the remuneration arrangements at Premier Oil, for the executives and for the wider employee population, to ensure they continue to reinforce our business strategy and support shareholder value creation.

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.

The Committee has reviewed remuneration arrangements for executives and other key senior leaders to ensure they continue to support direct alignment with shareholders and a performance-oriented culture. In reviewing these remuneration arrangements, the Committee considered 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.

Based on these objectives, the Committee has developed a revised remuneration structure for our senior executives which includes a simplified long-term incentive structure as follows:

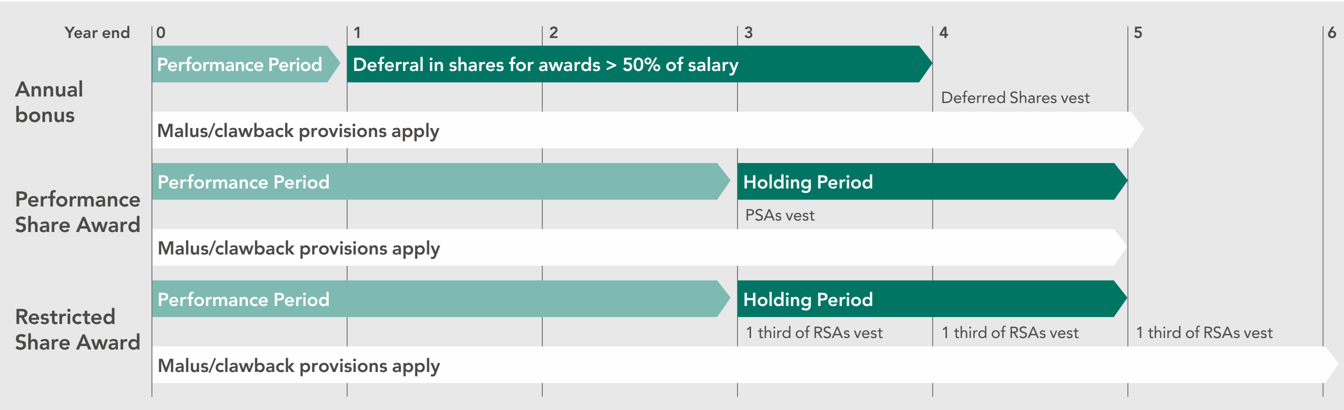
- the maximum long-term incentive opportunity is significantly reduced from c.530 per cent to c.215 per cent of salary;
- a Performance Share Award ('PSA') and a modest Restricted Share Award ('RSA') in place of the current Equity Pool Awards, Performance Share Awards and Matching Share Awards;
- the RSAs specifically align to our refinancing circumstances and requirement to deleverage the Company, decoupled from other performance objectives. Vesting is underpinned by a cycle end review of our capital position which, for the initial grant, will be related to a reduction of debt and Net Debt to EBITDA at the end of the Performance Period as agreed with our lenders;
- PSAs will vest based on Premier's TSR performance relative to a comparator group of companies and RSAs will vest on continued employment subject to a performance underpin;
- PSAs and RSAs will be subject to a time horizon of five years as illustrated in the chart opposite; and
- shareholding requirements have been increased, requiring the Executive Directors to hold shares of at least 250 per cent of salary.

Several changes are also being made to the annual bonus structure, as follows:

- the target opportunity remains the same at 60 per cent of salary, however, the maximum opportunity is increased from 100 per cent to 120 per cent of salary, to focus the senior leadership team on the immediate operational and financial objectives necessary to deliver our financial restructuring;
- the annual bonus structure will continue to reward achievement of short-term objectives key to delivering the long-term strategy, encompassing financial, operational and strategic objectives. The Committee retains the current ability to exercise downwards discretionary adjustment to the formulaic outcome of the performance scorecard to ensure alignment with underlying performance; as outlined in the Policy Table on page 99; and
- any bonus award above 50 per cent of salary will continue to be delivered in shares deferred for three years.

The changes to the structure significantly simplify the package, with each element playing a clearly defined role, and incorporate significant deferral. The proposals maintain a clear focus on Company and individual performance and delivery of the long-term strategy, while deleveraging the overall package in relation to the oil price, which is outside management control.

The graphic below indicates how the new incentive structure operates:



The new long-term incentive structure also reflects the long-term incentive arrangements introduced for employees below Executive Committee level during 2016 as summarised on page 100. Awards to Directors under the proposed new long-term incentive plan – 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 99 to 100.

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	• 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	• 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

Policy report continued

Pension	
Purpose and link to strategy	• To help provide a competitive pension provision
Operation	• 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	• 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 five 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: 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 106 to 121

Long-term incentives

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

Purpose and link to strategy	• 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	• 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	• Performance Share Awards may be granted up to 175 per cent of salary
Performance metrics	• 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 proposed to be granted in 2017 are provided in the Annual Report on Remuneration on pages 106 to 121

Policy report continued

Long-term incentives continued

The Premier Oil 2017 Long Term Incentive Plan – Restricted Share Awards	
Purpose and link to strategy	• The Restricted Share Awards specifically align to our refinancing circumstances and requirement to deleverage the Company decoupled from other performance objectives
Operation	• 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	• Restricted Share Awards may be granted up to 40 per cent of salary
Performance metrics	• 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 will be 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 targets will be as agreed with our lenders over the course of this period • 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 Incentive award, 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 106.

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') will be submitted for shareholder approval 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 will become effective, subject to shareholder approval) will be honoured. Such commitments include the following:

- Outstanding Equity Pool Awards and Performance Share Awards under the 2009 Long Term Incentive Plan. Messrs Durrant, Allan and Rose have outstanding awards under the 2015 LTIP cycle ('2015 LTIP') and are due to be granted awards under the 2016 LTIP cycle ('2016 LTIP'). The grant of these awards has been postponed due to trading restrictions as a result of the Company's refinancing project. The outstanding awards will be made once trading restrictions are lifted. The 2015 LTIP and 2016 LTIP may vest subject to the achievement of three-year performance conditions after 31 December 2017 and 31 December 2018 respectively. The Committee has discretion to reduce the size of the Equity Pool if the formulaic outcome is not reflective of the Company's underlying performance. The value of vested Equity Pool Awards under the 2015 LTIP is subject to a discretionary cap of 100 per cent of salary. For the 2016 LTIP, due to share dilution constraints, the Committee mandated that the value of vested Equity Pool Awards would be subject to a cap of 50 per cent of salary.
- The grant of Deferred Awards and Matching Awards under the 2009 Long Term Incentive Plan. 50 per cent of any shares vesting pursuant to the 2015 LTIP and 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 holding period ending on 31 December 2020 and 31 December 2021 respectively. Subject to Committee discretion, a Matching Award may be granted at the time the Deferred Award is made under the 2015 LTIP up to a maximum of 2.5 times the 2015 LTIP Deferred Award and may vest subject to further three-year performance conditions. The 2016 LTIP does 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.
- Richard Rose was granted a Conditional Share Award upon joining the Company in September 2014 to "buy-out" the share awards forfeited from his former employer. The release of the shares under the Conditional Share Award has been postponed due to trading restrictions as a result of the Company's refinancing project and will be transferred to him once he is no longer subject to trading restrictions.
- 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 to be 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.

Policy report continued

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 45 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 almost 40 per cent.

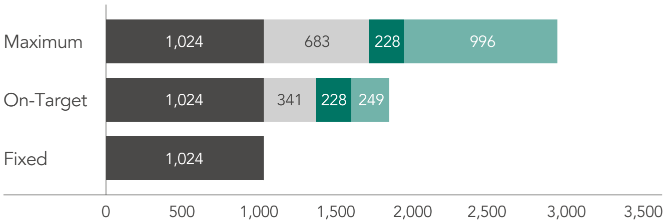
The performance scenario charts below show the estimated remuneration that could be received by the current Executive Directors for 2017, both in absolute terms and as a proportion of the total package under different performance scenarios. The assumptions underlying each performance scenario are detailed in the table below:

	Remuneration receivable for different performance scenarios		
Fixed pay	• 2017 salary, as disclosed in the Annual Report on Remuneration on page 108 • 2016 taxable benefits, as provided in the single figure table on page 108 • Pension contribution of 20 per cent of salary for the Finance Director and 2016 pension benefits for other Executive Directors as provided in the single figure table on page 108		
	Minimum	On-Target	Maximum
Annual bonus	Nil payout	Payout of 50 per cent of maximum	Maximum payout (120 per cent of salary)
Long-term incentive plan	Nil payout	• Performance Share Awards vest at 25 per cent of maximum • Restricted Share Awards vest in full	• Performance Share Awards vest in full (175 per cent of salary) • Restricted Share Awards vest in full (40 per cent of salary)

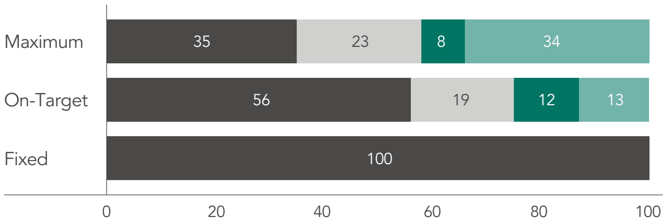
The charts below illustrate the potential reward opportunities for each of the current Executive Directors for the three performance scenarios.

Tony Durrant, Chief Executive Officer

(£'000s)

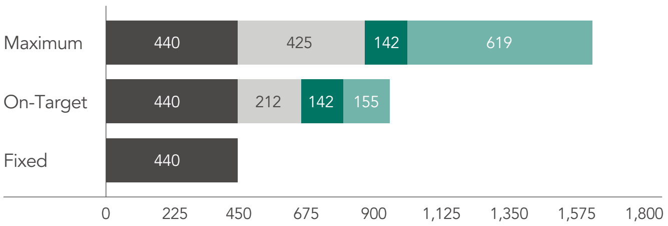


(%)



Richard Rose, Finance Director[1]

(£'000s)



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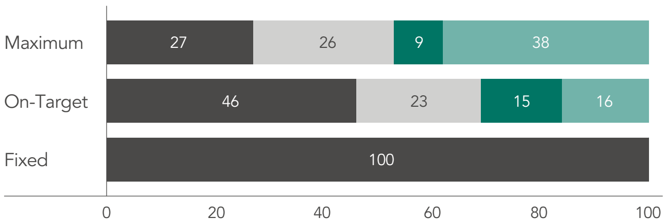
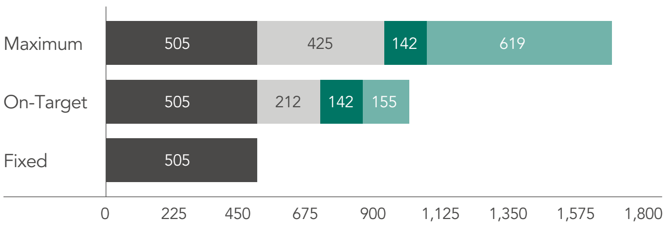


1 Charts for Richard Rose do not include the Conditional Share Award made to him in 2014 to "buy-out" the share awards forfeited on resignation from his former employer.

Robin Allan, Director, North Sea and Exploration

(£'000s)



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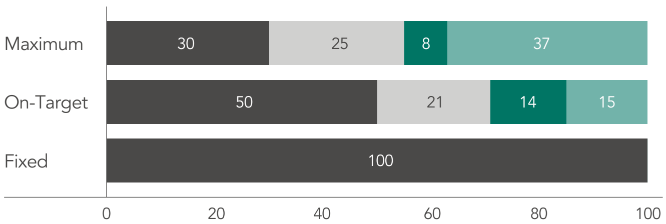

Fixed Annual bonus Restricted Share Awards Performance Share Awards

Notes:
The valuation of Deferred Bonus Shares, Performance Share Awards ('PSAs') and Restricted Share Awards ('RSAs') excludes share price appreciation and any dividend accrual. 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.

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 untaken 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.

Policy report continued

Service contract and exit payments and change of control provisions continued

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'	• Annual bonus is paid at the same time as to continuing employees • Unvested Deferred Bonus Awards vest on cessation of employment	• 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'	• Not applicable	• Individuals lose the right to their annual bonus and unvested Deferred Bonus Awards
Change of control[1]	• Annual bonus is paid and unvested Deferred Bonus Awards vest on the date of change of event	• 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'	• On normal vesting date subject to the Holding Period (or earlier at the Committee's discretion)	• 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'	• 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)	• N/A
Change of control[1]	• On the date of the event	• 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

Notes:
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 106.

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
Mike Welton	2009	16.10.2015
Anne Marie Cannon	2014	24.01.2014
Joe Darby	2007	17.10.2013
Jane Hinkley	2010	17.10.2013
David Lindsell	2008	16.01.2014
Iain Macdonald	2016	13.04.2016

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	• To provide fees that allow Premier to attract and retain Non-Executive Directors of the highest calibre
Operation	• 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	• 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	• 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.