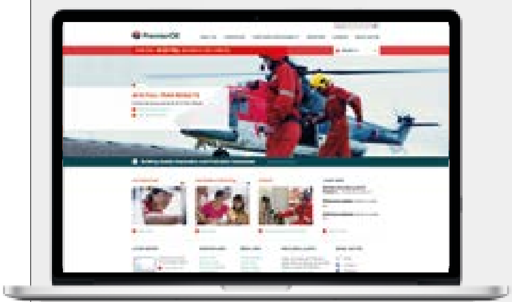
PremierOil

2016 Annual Report
and Financial Statements
Year to 31 December

Optimising our resources

PremierOil

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.



Read more online at
premier-oil.com

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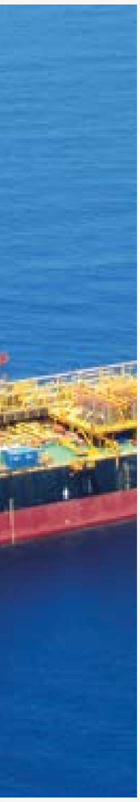
Where this symbol appears, it indicates that more detailed information is available in our 2016 Corporate Responsibility Report.

Progress in a volatile cycle

Since I joined the Board of Premier in 2009, the global oil and gas landscape has changed significantly. There has been unprecedented political volatility in the energy exporting countries while shale production, particularly in the USA, has emerged as a significant factor in determining global production. Against this ever shifting backdrop, the period between 2011 and 2014 saw unparalleled stability in the oil price at over US$100/bbl before falling sharply from the second half of 2014 driven by an imbalance in demand and supply.



In such a volatile environment, it has been obvious to me that, as a company, we had to focus on those elements which are within our control. In this respect, Premier has performed well in 2016. We delivered record levels of production and we have also reduced significantly our operating cost base and capital commitments from existing operations. The purchase of the E.ON UK E&P ('E.ON') portfolio in April 2016 strengthened our UK business unit and built on our proven track record of carrying out acquisitions at low points in the commodity price cycle. We are also close to agreeing with our lenders a comprehensive refinancing of all of our debt facilities which will extend our maturities out to 2021 and beyond, thereby providing the Company with a solid foundation to deliver the Catcher project in 2017 and to fulfil our strategic plans going forward.

The last two or so years have been challenging both for Premier and the industry as a whole but, with the appropriate steps taken by the Company and the improving commodity price outlook, Premier is now well set for the next period of its growth. While we must remain focused on maintaining our strong operating performance, delivering our sanctioned projects and repairing our balance sheet, we can also start, albeit cautiously, looking to the future again. With over 700 mmboe of discovered but undeveloped reserves and resources, we have significant optionality within our portfolio. We must be selective in the projects in which we invest and ensure that our exposure to those projects is appropriate, with due regard to the commodity price environment and our capital structure.

Health, Safety, Environment and Security ('HSES') matters will always be of paramount importance to us and, regardless of the external environment, we will not compromise on the integrity and safety of our people and our operations. We continue to set ourselves challenging HSES targets to drive continuous improvement and it is pleasing that our HSES performance, as measured against our Group aggregated HSES target, improved during 2016.

The share price performance has been frustrating but it would appear that we are now in a period of cyclical oil price recovery and new investors will have benefitted from the appreciation of our share price over the last year. As an independent E&P company we have to offer our shareholders growth and, with the expected completion of our refinancing, strong operating performance and considerable optionality within our portfolio, we will be well placed to do that. At the same time, reducing our absolute levels of debt will remain a key priority for the Group.

I am very grateful for the support of the Non-Executives who are leaving the Board. I would like to thank them for the considerable contribution they have made over their tenure as Directors and to wish them every success in the future. I have indicated that I will also be retiring from the Board, having served as your Board's Chairman for eight years. I would like to thank the Company's shareholders and other stakeholders for their considerable support over this time and to wish the Company every success as it embarks upon this new chapter in its history.

Mike Welton
Chairman

Catcher on schedule & below budget

Significant progress was made on the Catcher project during 2016. With first oil expected in the second half of 2017, Catcher will provide another step change in production, generating enhanced, tax-free cash flows for the Group.

2016 saw the completion of the installation of the Catcher subsea equipment and all topsides units lifted onto the FPSO. The sailaway of the FPSO is expected to be mid-year 2017.

Premier now anticipates an improved production profile from the field due to the positive development well results to date.

Total project capex is forecast at US$1.6 billion, 29 per cent lower than sanctioned estimates, with savings secured across subsea and drilling activities and benefitting from the lower sterling dollar exchange rate.

Read more:
Business Unit Reviews, page 36

Delivering a step change in production

Against what has been a challenging year for the industry, our portfolio is delivering record production and our operating cost base is sustainably low.

We acquired the E.ON portfolio, taking advantage of prevailing market conditions to increase our reserve and resource base and to significantly enhance our UK business, where we have strong operating capabilities and a tax-advantaged position.

With over 700 mmboe of undeveloped but discovered oil and gas reserves and resources, Premier has considerable optionality within its portfolio. This, together with the expected completion of our debt refinancing and an improving commodity price environment, will enable us to deliver debt reduction and to invest in the business for future growth.

Our base business page 04
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Portfolio optionality page 08

Our base business: maximising production from a low cost base

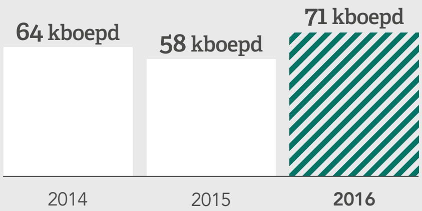
Premier has a robust business which continues to deliver operationally. In 2016, we achieved record production, maintained a low operating cost base and completed the acquisition of the E.ON portfolio. Good progress was also made on the Catcher project, which will further increase production once on-stream in the second half of 2017.

71.4 kboepd
record production in 2016

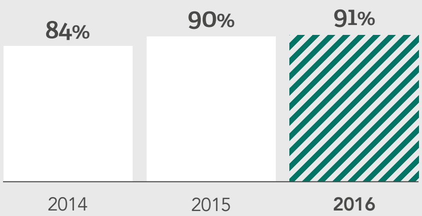
91%
operating efficiency

>80 kboepd
production for Q4 2016

Step change in production



High operating efficiency



Huntington: exceeding expectations

As a result of the acquisition of the E.ON portfolio, Premier increased its equity interest in Huntington to 100 per cent and took over operatorship. The field outperformed during 2016, averaging rates as high as 14 kboepd. This strong production performance has been underpinned by high operating efficiency of more than 90 per cent and adept reservoir management by the team.

Read more:
Business Unit Reviews, page 36

Asia: providing cash flow for the business

Premier's operated Chim Sáo field in Vietnam and Natuna Sea Block A fields in Indonesia generated positive cash flow for the Group in 2016 underpinned by stable production, continued low operating costs and disciplined capital expenditure.

Read more:
Business Unit Reviews, pages 40 & 42

Indonesia

95%
operating efficiency

- Excess deliverability: able to meet all Singapore nominations and any shortfalls by other suppliers (44% share of GSA1; record GSA2 delivery)
- Quick payback, high return future projects include Bison, Iguana, Gajah Puteri and infill drilling at Gajah Baru
- Longer-term growth opportunities include the Tuna discoveries and third-party business over Premier's infrastructure

Vietnam

13mmboe
Material reserves upgrade

- Operating efficiency of 94%
- 16.2 kboepd and US$8.7/boe operating cost
- Strong reservoir performance and successful well intervention programme in 2016
- Future cost reductions secured, including reduction in the FPSO lease rate thereby extending field life
- Infill drilling planned in 2017 to maximise production

Refinancing

Premier entered into refinancing discussions with its lending group in 2016.

While those negotiations took longer than anticipated, Premier is close to locking up its lending groups to amended terms to its financing arrangements and completion of the refinancing is expected by mid year.

The refinancing will provide a solid foundation for Premier to deliver its strategic plans through preserving the Group's debt facilities, re-setting financial covenant headroom and extending Premier's debt maturities to 2021 and beyond. In return, the lenders will receive a revised security package, enhanced economics and certain governance controls.

A significant step up in production is expected once Catcher is on-stream, materially enhancing the Group's cash flows. The Group will prioritise these cash flows towards reducing its absolute debt levels so as to enable the Group to achieve a leverage ratio of 3x EBITDA by the end of 2018. At the same time, Premier and its lenders envisage that the Group will selectively seek to invest in new projects, at the appropriate equity levels, with due regard to the commodity price environment.

The imminent completion of the refinancing and the support received from our lenders during the process reflect the high quality nature of our asset base, the Group's strong recent operating performance and our plans to deliver value for all of our stakeholders.

Read more:
Financial Review, page 48

Well-timed acquisitions: adding long-term value to our business

The acquisition of the E.ON portfolio has significantly strengthened our UK asset base, with the portfolio's performance to date exceeding acquisition metrics.

17.1 kboepd

of production added from the E.ON portfolio in 2016 for the eight months from 28 April to 31 December 2016

AI 2016 M&A awards WINNER

Award-winning acquisition

Awarded best exploration and production acquisition by Acquisition International, the corporate finance magazine.

Image courtesy of Total E&P UK Limited

"The successful acquisition of the E.ON portfolio when the oil price was at a cyclical low is a reflection of the hard work and skill of the Premier team and continues our proven track record of capturing long-term value through acquisition at low points in the commodity price cycle."

Robin Allan, Director, North Sea and Exploration

Looking to the future

Premier also acquired 10 greenfield and seven near-field exploration licences, close to the Babbage or Tolmount areas, through the E.ON acquisition.

Premier's focus is on high-grading and maturing this acreage.

The E.ON portfolio

Premier acquired the E.ON assets for a net consideration of US$120 million. The acquisition was funded from cash resources and is expected to reach payback during the first half of 2017, earlier than anticipated due to asset outperformance and the improving commodity price environment. The acquisition builds on Premier's core position in the UK North Sea, adding over 100 mmboe of reserves and resources. It also diversifies Premier's commodity price exposure by adding UK gas revenues to the portfolio.

Financial highlights

- Adds cash generative production
- Payback expected to be reached during 2017 1H
- Realises operating and cost synergies as well as tax synergies, including accelerated use of Premier's current US$4 bn tax loss position
- Shared abandonment cost exposure with E.ON on Ravenspurn North and Johnston
- Valuable hedging portfolio in 2016 and 2017

Asset highlights

- Elgin Franklin: (5.2%, Total operated) – world class asset producing >100 kboepd with operating cost of <US$8/boe
- Huntington: (38.5% operatorship) – field outperforming in terms of reservoir performance and operating efficiency; Premier's interest increased to 100%
- Babbage: (47% operatorship) – producing over 3 kboepd net to Premier, underpinned by high operating efficiency; moving to normally unmanned status in 2017
- Tolmount: (50% operatorship) – a high return project even in a low gas price environment with gross resource potential of ~1 Tcf in the Greater Tolmount Area

Read more:
Business Unit Reviews, page 36

Portfolio optionality: selectively investing for future growth

With over 700 mmboe of discovered but undeveloped reserves and resources, we have considerable optionality in our portfolio which will enable us to grow the business. We will ensure that we select only those projects where our exposure is appropriate and with due regard to the commodity price environment.

With the refinancing of the Group's facilities expected to complete shortly, the priority for Premier is to reduce its absolute debt levels and the Group's leverage ratio to 3x EBITDA by the end of 2018. With increasing production, low operating costs and reduced capital commitments from existing operations, Premier should be well placed to both pay down debt and invest selectively in the business. We see many ways of adding value in our portfolio with our immediate focus on completing FEED on the Tolmount project, securing a financing solution for the Sea Lion project and drilling our first well on our Mexican acreage.

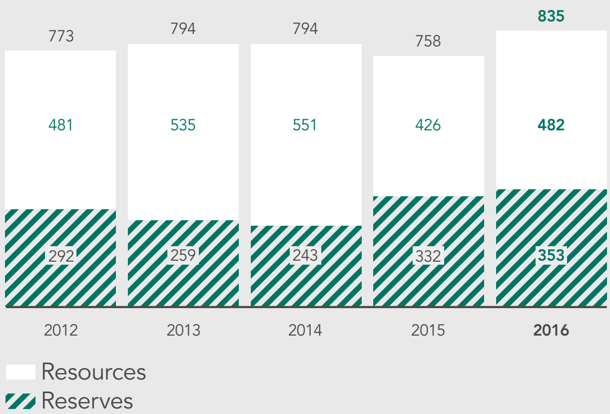
Zama prospect, Mexico

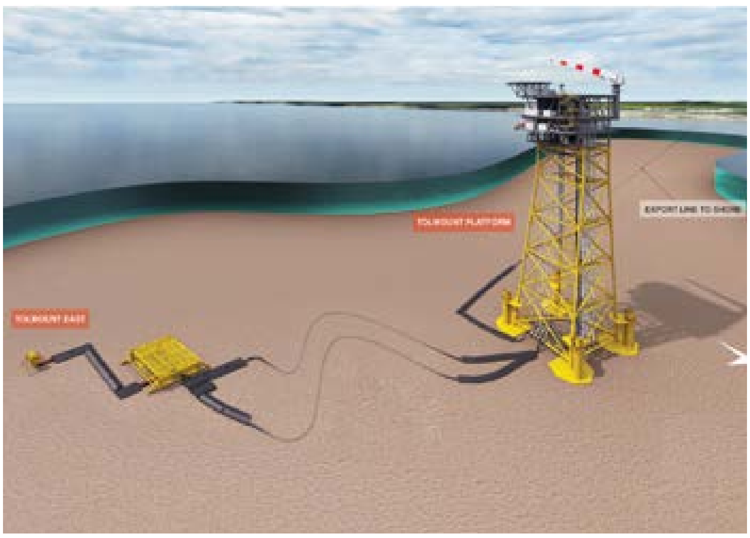
100-500

mmbbls drilling Q2 2017

Reserves and resources

(mmboe)

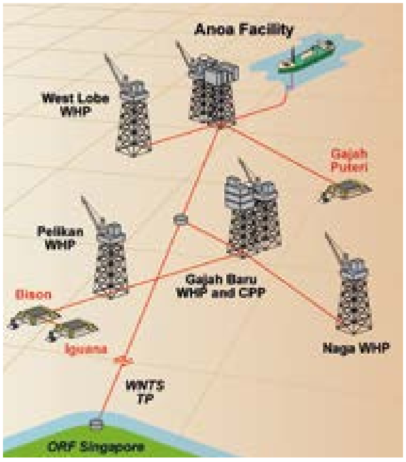




Tolmount

The Tolmount field is looking increasingly attractive, benefitting from increased resources, higher commodity prices than assumed in our acquisition case and a capex profile which fits well with our financial profile. It is expected that this project will provide the next phase of growth for Premier. The development concept has been selected and comprises a standalone platform with an export gas pipeline to shore. FEED on the project has commenced and is expected to be completed by year-end 2017. There is also significant upside, currently estimated at over 400 Bcf, beyond the main development in the Greater Tolmount Area.

Read more:
Business Unit Reviews, page 36



Bison, Iguana, Gajah Puteri ('BIGP')

The Bison, Iguana, Gajah Puteri gas fields mark the next generation of the Natuna Sea Block A projects to support Premier's long-term gas contracts into Singapore. The fields will be developed as subsea tie-backs, either to the Anoa facility (Gajah Puteri) or to Gajah Baru (Bison, Iguana). FEED was completed in 2016 and BIGP was sanctioned by the Premier Board in March 2017. First gas is targeted for 2019. Premier is paid a premium to High Sulphur Fuel Oil ('HSFO'), which is correlated with Brent, for the gas that it delivers under its long-term gas contracts into Singapore.

Read more:
Business Unit Reviews, page 40

Sea Lion

The Sea Lion Phase 1 project in the Falkland Islands has an important part to play in Premier's long-term production growth story. New engineering work has significantly enhanced the project economics with the breakeven now lower than US$45/bbl. This is testament to the hard work and skill of our project team and also our FEED contractors. Premier is now working hard to secure an appropriate funding solution for the project.

Mexico

Multiple leads and prospects have been identified on Premier's Block 7 acreage including the large, amplitude-supported Zama prospect. In December 2016, Premier exercised its option to increase its equity interest in Block 7 to 25 per cent. The Mexico Joint Venture partners plan to drill the Zama prospect in the second quarter 2017. The overall Zama structure is estimated to have a P90-P10 gross unrisked resource range of 100-500 mmbbls, the majority of which lies on Block 7.

Strength through a balanced portfolio

Financial highlights

Profit after tax of
US$122.6m
(2015: Loss after tax of US$1.1 bn)

Operating costs of
US$15.8/boe
below budget with low cost base expected to be sustainable into 2017

Catcher project capex reduced by
29%
to US$1.6 bn with further cost reductions targeted

Significantly reduced capex of
US$678.1m
in 2016, below budget and 37% lower than prior year

Net debt of
US$2.8bn
down from peak net debt in Q3 2016

Cash and undrawn facilities of
US$592.9m
as at year end 2016

Read more:
Financial Review, page 48

Operational highlights

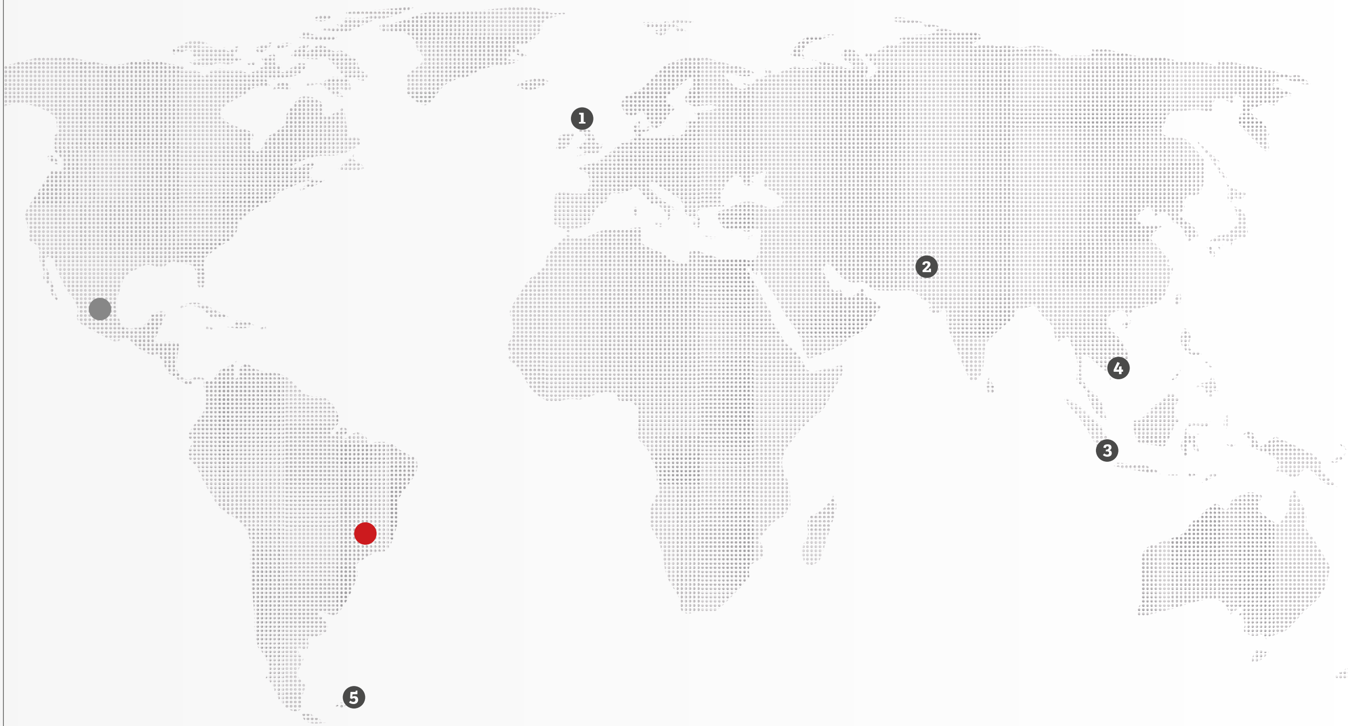
Production averaged
71.4 kboepd
meeting our previously increased market guidance and up 24% on the prior year

Strong operating efficiency of
91%
with outperformance from our Asia assets and the Huntington field

Successful acquisition of the E.ON assets, adding
17.1 kboepd
over the 8 months from 28 April to 31 December

Where we operate

Premier has seven offices worldwide with 799 employees and is organised into five business units – **UK, Pakistan, Indonesia, Vietnam** and **Falkland Islands** – with support provided by the corporate office in London. Premier is active both offshore and onshore, but all of the Company's operated interests are located offshore.



7
offices worldwide

799
employees

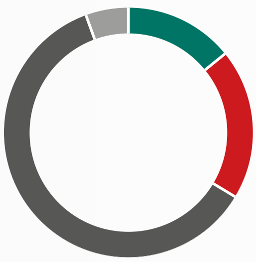
Business units

1 UK
2 Pakistan
3 Indonesia
4 Vietnam
5 Falkland Islands

Other locations

Brazil
Mexico

Revenue by region (US$m)



Indonesia	141
Vietnam	192
United Kingdom	598
Pakistan & Mauritania	52

US$983.4m
total Group sales revenue

A proven track record of reserve growth

Premier aims to increase net asset value by developing high quality projects. We seek to increase our reserve and resource base through either acquisition or exploration activity depending upon prevailing market conditions. Our business model has not changed but it has to be adaptable in the current environment.

During a prolonged commodity price downturn, maximisation of production from a low cost base is even more critical as is the timely delivery of sanctioned projects to budget. The focus is also on preserving portfolio optionality while minimising capital expenditure as a result of funding constraints and priority of capital allocation. This ensures that Premier's business model is resilient and able to deliver on the Group's strategy in a low oil price environment and also positions us to benefit from improving commodity prices.

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 add value.

Exploration

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

Acquisition

Premier looks to add high quality assets to its portfolio through selective acquisitions with a quick payback period.

Development

While Premier is a full-cycle exploration and production company, we have a long and established history of executing development projects.

Production

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

Long-term growth

Premier's high-graded exploration portfolio provides us with organic growth opportunities in the longer term. Premier acquired the E.ON assets in 2016 and will continue to seek acquisitions in its core areas in the future.

Medium-term growth

Catcher and Tolmount in the UK and the first phase of the Sea Lion project in the Falkland Islands will underpin future production growth.

Short-term cash generation

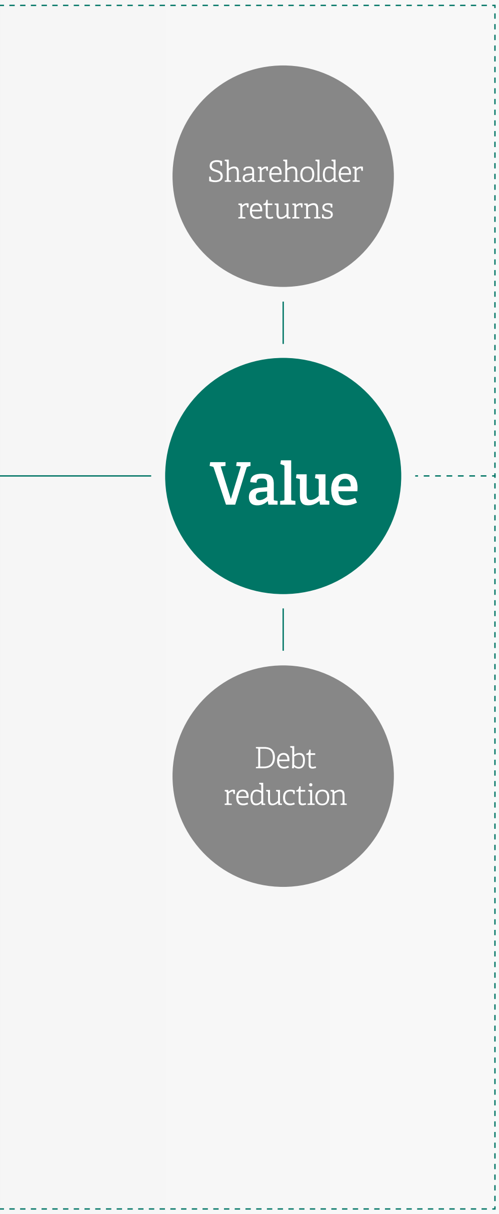
Robust production from our assets in Indonesia, Vietnam, UK and Pakistan generate cash flow to reduce our debt levels and to reinvest in the business.

Country and stakeholder benefits

Protecting our people, our assets and the environment grants us our social and legal licence to operate, and is critical to our business.

Our strategy
Our business model is inherently linked to our strategy and supports all four aspects of it.

Read more:
Our Strategy, page 22



Country and stakeholder benefits

Our ability to continue operating and to access new commercial opportunities is highly dependent on our application of responsible operational practices.

By extension, our Health, Safety, Environment and Security ('HSES') Management System directly supports our ability to generate value for our shareholders, both now and in the long term. This is particularly the case given that offshore oil and gas operations can have a range of potential impacts on water quality, air quality and local ecosystems. Similarly, the potential physical risks associated with offshore oil and gas operations mean that occupational health and safety represents a particularly important priority.

In this context, the responsible avoidance and/or mitigation of negative HSES impacts is not only the right thing to do but also any failure can have profound implications for our operational continuity, regulatory compliance and corporate reputation. History offers examples of how poor management of offshore oil and gas operations can, in extreme circumstances, have far-reaching consequences for both operators and their stakeholders. These can result in multiple fatalities, serious pollution events, massive operational disruption and loss of production, damage to vital capital infrastructure, extensive legal liabilities and sanctions, severe damage to corporate reputation as well as impact companies' ability to win new licences and find new business partners.

It is vital that we maintain the confidence of our stakeholders – including host governments, business partners, our workforce and local communities. This means demonstrating our commitment to operating responsibly by maintaining our HSES Management System in line with recognised international standards, the application of challenging HSES performance targets to help drive continuous improvement in performance and never knowingly compromising our HSES standards to meet our operational objectives.

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Read more in our 2016 Corporate Responsibility Report:
www.premier-oil.com/premieroil/corporate-responsibility

Exploration

Exploration portfolio

Premier's focus remains on under-explored but proven hydrocarbon basins. In light of current capital constraints, Premier's exploration portfolio has become increasingly focused.

2016 highlights

- Increased equity stake to 25% in Block 7 in the Sureste Basin, offshore Mexico
- Acquisition of portfolio of opportunities in the Southern Gas Basin in the UK
- 4,000km[2] of fast track seismic data across Ceará acreage in Brazil received

Acquisition

E.ON acquisition completed

Premier has a track record of being able to add long-term value through acquisitions at low points in the commodity price cycles. We will continue to seek out such opportunities subject to access to capital.

2016 highlights

- Acquisition of the E.ON portfolio, significantly enhancing Premier's UK asset base
- Premier continues to assess new opportunities, especially in the UK where we have a tax-advantaged position

835 mmboe
Reserves and resources

Development

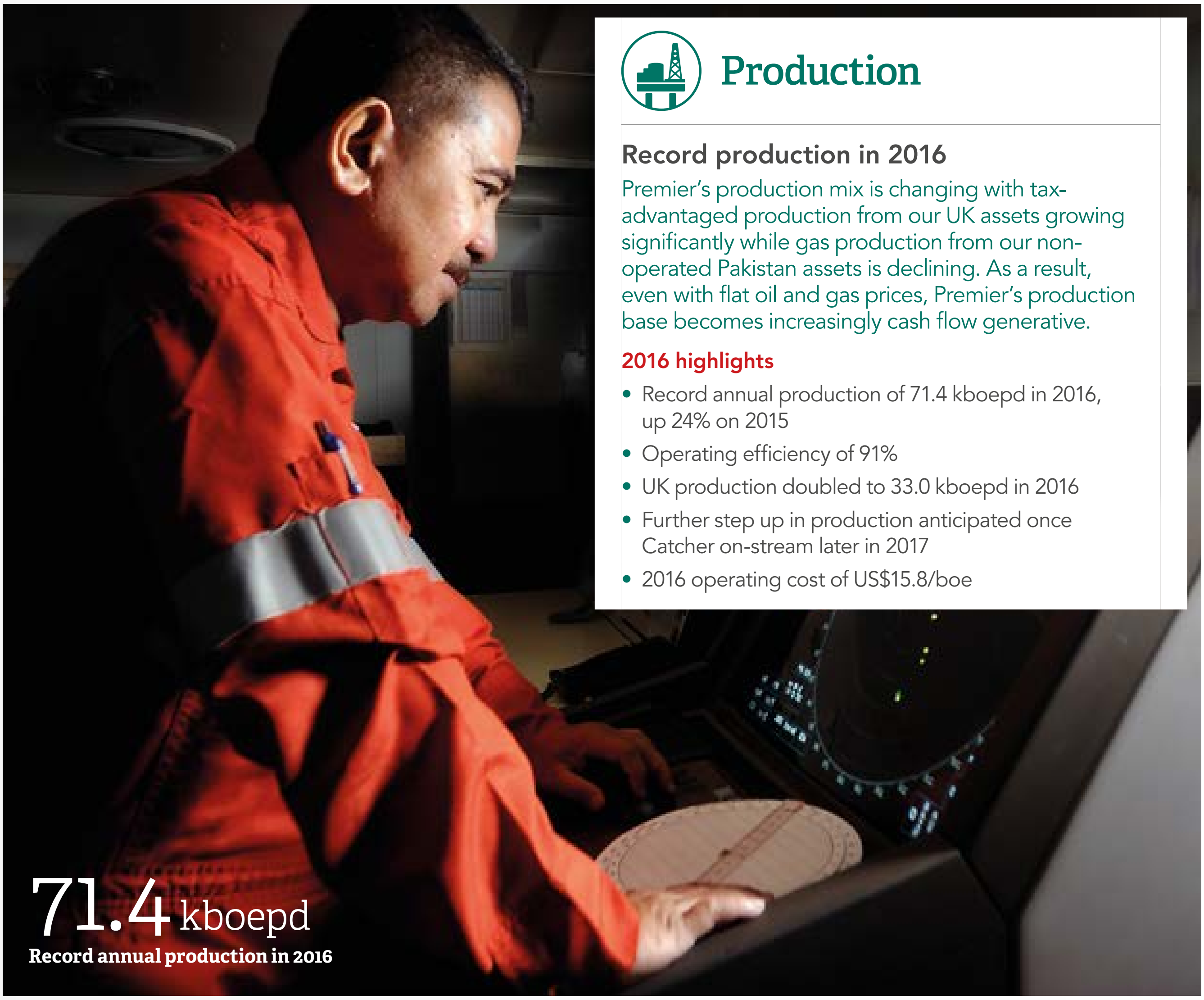
Strong operator

Premier focuses on projects where it can leverage its strong operating and development capabilities. The Group has significant portfolio optionality but will only sanction projects where our exposure is appropriate given our funding position and capital structure. Capital discipline and cost reductions remained a key focus during 2016 and Premier secured material cost savings across its project portfolio.

2016 highlights

- Solan (100% op): Completion of the Solan project
- Catcher (50% op): Capex now 29% below sanction estimate and on track for first oil 2017 2H
- Tolmount (50% op): High return project with quick payback period; will provide next phase of growth
- Sea Lion: Cash cost breakeven reduced from US$55/bbl to less than US$45/bbl

Read more:
Business Unit Reviews, page 36



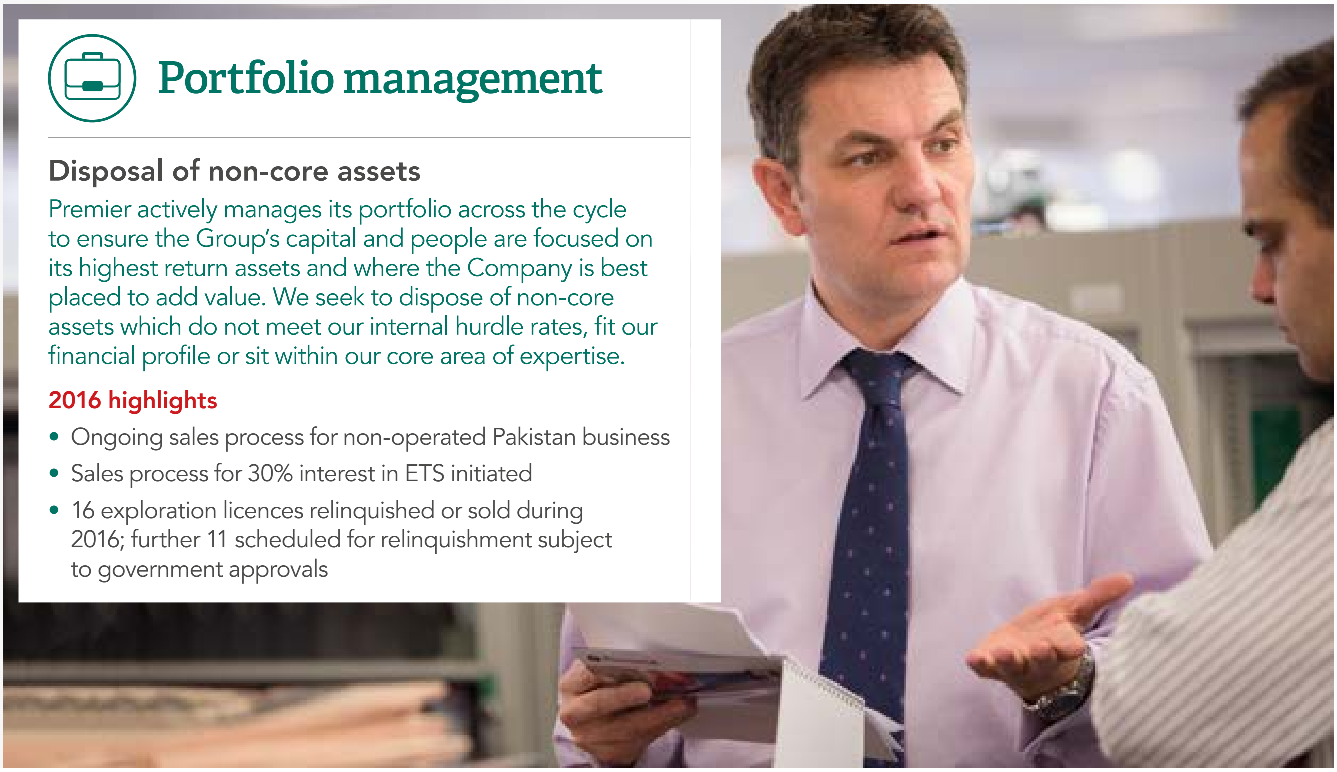
Production

Record production in 2016

Premier's production mix is changing with tax-advantaged production from our UK assets growing significantly while gas production from our non-operated Pakistan assets is declining. As a result, even with flat oil and gas prices, Premier's production base becomes increasingly cash flow generative.

2016 highlights

- Record annual production of 71.4 kboepd in 2016, up 24% on 2015
- Operating efficiency of 91%
- UK production doubled to 33.0 kboepd in 2016
- Further step up in production anticipated once Catcher on-stream later in 2017
- 2016 operating cost of US$15.8/boe



Portfolio management

Disposal of non-core assets

Premier actively manages its portfolio across the cycle to ensure the Group's capital and people are focused on its highest return assets and where the Company is best placed to add value. We seek to dispose of non-core assets which do not meet our internal hurdle rates, fit our financial profile or sit within our core area of expertise.

2016 highlights

- Ongoing sales process for non-operated Pakistan business
- Sales process for 30% interest in ETS initiated
- 16 exploration licences relinquished or sold during 2016; further 11 scheduled for relinquishment subject to government approvals

Expectations of a rebalanced market and higher prices through 2017

While commodity prices remained depressed in 2016, the agreements by OPEC and non-OPEC countries to cut production in the fourth quarter of the year have led many to believe that this will lead to the rebalancing of an already tightening market.

Highlights

Average Brent crude price of

US$43.7/bbl

Global capex

US$300bn

lower in 2016 than 2014

Commodity prices

Brent

A combination of US inventories at all time highs, record levels of OPEC production and uncertainty over OPEC cohesion and policies made for volatile commodity prices in 2016. Having started the year at US$37/bbl, Brent fell to a 13 year low in January to US$26/bbl but subsequently more than doubled to close the year at US$55/bbl.

OPEC surprised the market on 30 November with its agreement to implement a 1.2 mbbls/d cut. This, together with the agreement by non-OPEC producers to cut by 0.6 mbbls/d, caused Brent to rally, with these agreements viewed as accelerating the rebalancing of an already tightening market.

Further, the fall in prices over the past two and a half years has resulted in a significant curtailment in investment. Global expenditure, which peaked at around US$750 billion in 2014, is estimated to have reduced to US$450 billion in 2016. Given the long lead times for new conventional oil and gas field projects, most believe this will have an impact on supply growth and could push prices up beyond current levels.

UK gas prices

During the first quarter of 2016, UK gas prices were suppressed and traded around 30p/therm due to higher than seasonal normal temperatures and relatively high storage levels. Gas prices subsequently increased during the second quarter to around 35p/therm. In August, UK gas prices again fell to 21p/therm as a result of weak seasonal demand.

Prices then rallied in September and remained strong for the remainder of the year due to increased gas demand from the continent as a result of a prolonged nuclear outage in France and concerns about a shortage of storage for the winter period.

International gas prices

The correlation between the price of Brent and the High Sulphur Fuel Oil ('HSFO') benchmark remained strong in 2016, with Sing180 (which drives Premier's Singapore gas pricing) doubling during the year to finish at US$338.5/mt.

The gas price for Premier's Pakistan assets is indexed to the oil price (with a six-month lag) and is calculated by an agreed formula as per existing gas price contracts with the government. In 2016, Premier realised a lower gas price for its gas production, reflecting the lower oil price in the last six months of 2015 and the first half of 2016.

Foreign exchange rates

The sterling dollar exchange rate traded broadly between US$1.4/£ and US$1.5/£ for the first six months of the year. The pound then collapsed 7.5 per cent on 24 June, following the UK's decision to leave the European Union. The subsequent move by the Bank of England to cut interest rates to 0.25 per cent, the increasing expectation of a US interest rate hike and continued concerns over the UK's economic prospects outside the EU saw sterling reach a low of US$1.18/£ in October. Sterling subsequently recovered some ground as fears of a hard Brexit receded, to close the year at US$1.23/£.

Investment and costs

2016 saw another significant decline in global capital expenditure as low commodity prices persisted and uncertainty over the duration of the downturn remained. Capital continued to be focused towards sanctioned expenditure and the preservation of balance sheets while the industry's appetite to invest in new developments and exploration remained depressed. Reduced activity and ongoing scrutiny of costs by the upstream sector continue to impact the oil service sector. Some smaller service companies have already gone out of business, reducing optionality in certain supply chains, but in particular the offshore subsea sector, where backlog is rolling off and activity is dominated by several large players. Oversupply also persists in the drilling rig market, especially high-end deep water rigs, keeping prices depressed. Logistics and well service costs also remain low. That said, pricing in the service sector does appear to have stabilised and there are signs in certain segments that prices will increase if the commodity price rally in early 2017 is sustained.

Exploration

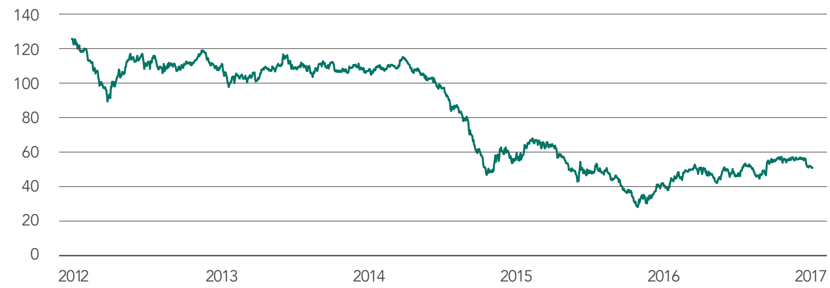
Against a backdrop of continued weak commodity prices, exploration activity in 2016 remained depressed. Exploration spend, which is largely discretionary, has continued to be squeezed with cash flows being prioritised towards sanctioned developments and repairing over-leveraged balance sheets. Nonetheless, successful exploration continues to have a vital role to play in ensuring the long-term health of the industry, albeit much reduced in light of the current environment.

The industry is refocusing its exploration portfolio towards lower cost areas while, at the same time, looking to capture acreage and reload its portfolio for the longer term. Testament to this was the success of the Mexico Round 1.4 in December, which saw a number of majors awarded deep water licences. The current environment continues to create opportunities to acquire new licences with reduced commitments and low entry costs.

Acquisitions and disposal activity

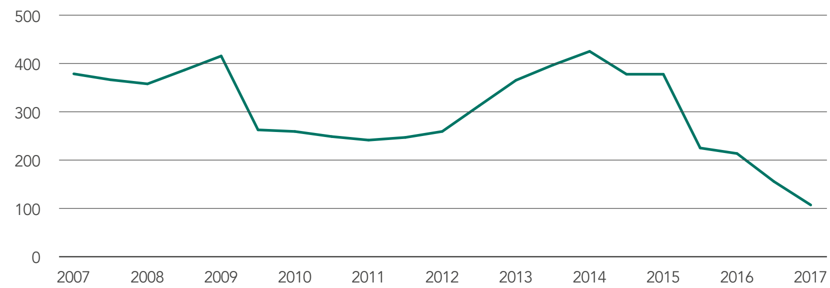
Low but volatile oil and gas prices continued to constrain M&A activity in the first half of 2016, as buyers and sellers struggled to agree on transaction valuations.

5 year Brent oil price



Source: Bloomberg as at 8 March 2017.

UK semi-submersible rig rates (6 months average)



Source: IHS Petrodata as at 8 March 2017.

The second half of the year saw M&A activity pick up substantially as some stability returned to the oil price, which remained above US$40/bbl. US assets continued to dominate the deal flow, with superior acreage positions in the Permian and Marcellus basins, commanding premium valuations.

The second half of the year also saw private equity funds start to deploy capital. Notably, Siccar Point announced the acquisition of OMV UK for US$1 billion in November. Post period end, independent Chrysaor backed by private equity announced the acquisition of a package of North Sea assets from Shell for US$3.8 billion.

Equity markets

Equities started 2016 cautiously. US and UK stock markets reached their lows on 11 February, with banks and companies exposed to lower commodity prices among the largest fallers. Markets subsequently recovered as growth fears eased and commodity prices rallied.

The UK's vote to leave the EU in June caused stock markets to plummet around the world and a significant rotation into safe haven assets. However, markets recovered quickly with the FTSE100 reaching a new record high in September, underpinned by weaker sterling exchange rates.

Both US and UK equities benefitted from a stronger oil price while the election of President Trump and strong US macro-economic data releases resulted in all major US indices reaching record highs in November and again in December.

The US E&P sector has significantly outperformed the European E&P names during 2016. Nonetheless, the FTSE Oil & Gas sector outperformed the wider market, largely driven by the strong rise in Brent crude prices and sterling depreciation.

Delivery of a comprehensive debt refinancing, together with an improving commodity price, will enable us to accelerate debt reduction and to progress future growth projects

Tony Durrant
Chief Executive Officer

"Our project portfolio has been expanded, positioning Premier for future growth at lower cost."

Against what has been a challenging backdrop, Premier delivered a strong operational performance in 2016, resulting in record production of 71.4 kboepd, up 24 per cent on 2015, with production in the fourth quarter averaging over 80 kboepd. This was driven by contributions from the E.ON portfolio and its successful integration into our UK business unit and new production from the Solan field. It was also helped by outperformance from our operated assets in Asia and high operating efficiency of 91 per cent across the portfolio.

UK production doubled during the year to 33.0 kboepd, underpinned by the new contributions from the E.ON portfolio and the Solan field. Production from the E.ON assets exceeded our acquisition case, contributing 17.1 kboepd to Group production over the eight months from 28 April to 31 December 2016. This was driven by outperformance from both the Huntington field and the long life Elgin-Franklin field where there is an ongoing infill drilling programme. Babbage and Wytch Farm also delivered a strong performance in 2016, underpinned by high operating efficiency of over 90 per cent. Profits from UK production continue to be sheltered by Premier's brought forward tax loss and allowance position.

First oil from the Solan field was achieved in April, marking a significant milestone for the Group. The second producer was brought on-stream in August. Production from the field has been lower than anticipated due to poor reservoir performance from the eastern area of the field. Most recently, a decision has been taken to contract a drilling rig to carry out the first planned workover of the first production well ('P1') during the summer of 2017. The field is currently producing at around 9 kbopd with the P1 well on free-flow. This will be supplemented by ESP (pump) support following the summer workover.

Singapore demand for our Indonesian gas was strong during 2016. Our operated Natuna Sea Block A again captured a market share within its principal gas sales contract ('GSA1') considerably ahead of its contractual share, while there was record demand for our gas under our second gas sales contract ('GSA2'). Across the border in Vietnam, performance from the Premier-operated Chim Sáo field exceeded expectations, both in terms of reservoir deliverability and operating efficiency, with a successful well intervention programme also helping to mitigate natural decline from the field. Significant upside remains at Chim Sáo and we look forward to executing an infill drilling programme in 2017 to help maximise production levels from the field. Chim Sáo reserves have again been revised upwards.

In 2017, we expect Group production to be higher at 75 kboepd, unchanged from previous guidance and before any contribution from Catcher which we expect to come on-stream later this year. The increase in production from our existing producing assets reflects a full-year contribution from the E.ON portfolio and the Solan field, partially offset by natural decline in the Group's Pakistan fields and in certain of our UK fields.

2016 saw us increase our proven and probable ('2P') reserves, on a working interest basis, to 353 mmboe (2015: 332 mmboe) and our total 2P reserves and 2C resources to 835 mmboe (2015: 758 mmboe). The increase in our 2P reserves was driven by our acquisition of the E.ON portfolio and an upward revision in our estimate of 2P reserves at Chim Sáo following better than anticipated reservoir performance and an extension to forecast field life.

	2P reserves (mmboe)	2P reserves and 2C resources (mmboe)
1 January 2016	332	758
Production	(26)	(26)
Net additions, revisions	9	(1)
Disposals	–	(1)
Acquisitions	38	105
31 December 2016	**353**	**835**

	Working interest		Entitlement	
Production (kboepd)	**2016**	2015	**2016**	2015
Indonesia	**14.3**	13.9	**10.1**	11.9
Pakistan and Mauritania	**7.9**	10.1	**7.9**	10.0
UK	**33.0**	16.7	**33.0**	16.7
Vietnam	**16.2**	16.9	**15.1**	14.8
Total	**71.4**	57.6	**66.1**	53.4

Our 2016 performance in context of 2015 expectations

2016 has been another strong year for Premier from an operational standpoint.

We delivered record production, continued to actively manage our costs downwards and upgraded significantly our portfolio through the acquisition of the E.ON assets.

We also undertook a major refinancing which is expected to complete in mid-2017 and, together with an improving commodity price environment, will stand us in good stead to reduce our levels of debt while also investing selectively in the business, creating long-term value for our shareholders.

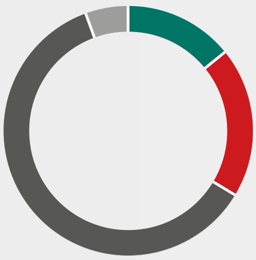
Priorities for 2017

Looking ahead to 2017, our priorities are:

- Deliver 2017 production guidance of 75 kboepd (excluding Catcher)
- Deliver first oil from the Catcher project to schedule
- Progress Tolmount and Sea Lion
- Maintain a competitive cost base
- Implement the refinancing
- Deliver debt reduction

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

Revenue by region (US$m)



Indonesia	141
Vietnam	192
United Kingdom	598
Pakistan & Mauritania	52

US$983m
total Group sales revenue

These additions more than offset the impact of 2016 production and a downward revision to our Solan 2P reserve estimates due to poorer than anticipated reservoir performance. The increase in our 2C resources of 56 mmboe was principally as a result of the 50 per cent interest in the Tolmount field acquired with the E.ON portfolio.

Premier's operating costs were US$15.8 boe (2015: US$15.5/boe), significantly below budget as a result of ongoing cost reduction initiatives, successful contract renegotiations and strict management of discretionary spend. With a large portion of our costs sterling denominated, we also benefitted from the weaker sterling dollar exchange rate. Significant reductions in operating costs have been achieved over the last two years. While it is likely to be difficult to push through further contractor rate reductions given current service sector margins, additional cost reductions will come from other approaches such as collaboration and efficiency savings. Premier instigated such initiatives in 2016 and expects to build on these during 2017.

The progress that has been made on the Catcher project during 2016 and the 29 per cent capex reduction secured to date is testament to the hard work, skill and capability of the project team and our contractors. All nine wells drilled to date have come in at or above prognosis and we now expect to deliver an improved production profile from a reduced well count. All of the key elements of the subsea equipment have been installed, ready for the arrival of the FPSO. The construction of the FPSO is largely complete and the focus is now on completing the yard-based pre-commissioning and commissioning work scopes ahead of a mid-year sailaway. Premier continues to target production start-up for later this year. Once on-stream the Catcher field, with an expected plateau rate of over 50 kboepd, will provide another step change in our production levels, generating enhanced, tax-free cash flows for the Group.

With rising production and over 700 mmboe of discovered but undeveloped 2P reserves and 2C resources, we have significant optionality within our portfolio to maintain and grow production and deliver value for our stakeholders. In a depressed commodity price environment, the lower cost projects with a rapid payback have been prioritised. For 2017, this includes an infill drilling programme in Vietnam, which has a payback of less than six months, as well as incremental projects in Indonesia, which were sanctioned post period end by Premier's Board, to backfill our existing gas sales contracts.

The Tolmount field is looking increasingly attractive and is likely to provide our next phase of growth. It meets our economic thresholds even at low gas prices, accelerates the use of our UK tax losses and allowances and fits well with our financial profile. There is also significant upside, currently estimated at over 400 Bcf, beyond the main development in the Greater Tolmount Area. The development concept was selected post period end with a nine month front end engineering design ('FEED') programme now underway.

Premier's largest pre-development project is Sea Lion Phase 1 in the Falkland Islands. The Sea Lion project as a whole has the potential to be transformational for the Group with around 400 mmboe (net to Premier) to be developed over several phases. FEED on Sea Lion Phase 1 was largely completed in 2016 and saw the breakeven cost of the project lowered significantly from US$55/bbl to less than US$45/bbl, while the capex to first oil was reduced from US$1.8 billion to US$1.5 billion. With the economics of the project considerably improved, Premier is now working to secure a funding solution for the development. Commercial and fiscal discussions with the Falkland Islands Government are also progressing.

In light of current capital allocation priorities, Premier's exploration activities have reduced considerably and our portfolio has become more concentrated on a few key proven but under-explored plays or basins. In particular, we exercised our option to increase our equity stake to 25 per cent in Block 7 in Mexico at the end of 2016 and expect to drill the large amplitude-supported Zama prospect there in the second quarter of 2017. We also exited our 35 per cent interest in Block FZA-M-90 in the Foz do Amazonas Basin in December (subject to ANP approval) enabling us to focus our Brazilian exploration efforts on our core area position in the Ceará Basin, where we have acquired 4,000 square kilometres of fast track seismic data.

One of the key achievements of the year was our successful acquisition and integration of the E.ON portfolio which builds on our track record of acquiring assets at low points in commodity cycles. The acquisition significantly enhanced the Group's UK North Sea asset base and creates considerable operating, cost and tax synergies within our existing UK business. At a price of US$120 million, the acquisition is expected to reach payback in the first half of 2017, earlier than anticipated, and we now value the E.ON portfolio at very substantially more than the acquisition cost. This is partly as a result of higher commodity prices but also as a result of improving asset profiles, due to production outperformance or, as in the case of Tolmount, following further work on the project.

We continue to look to dispose of non-core assets, such as our Pakistan business or certain assets from the E.ON portfolio, where formal sales processes are ongoing. In addition, we will look to reduce our equity interests in certain projects where we can realise upfront cash to accelerate debt reduction.

The acquisition of the E.ON portfolio, via debt funding, and the prolonged period of depressed commodity prices saw us enter discussions with our various lending groups in 2016 to undertake a full refinancing of our existing facilities. The number of parties involved and the fact that most of our lenders rank pari passu (which gave rise to complex inter-creditor issues) meant that those negotiations took longer than anticipated. Nonetheless, we are close to locking up all of our lending groups to the amended terms. The lock up of the creditors to the terms of the refinancing marks a major milestone for Premier with the refinancing defining future reduction of debt but also allowing us to plan for future investment in selective new projects. Final completion of the refinancing is targeted for the end of May 2017.

As at year end, we retained cash and undrawn facilities of US$593 million. This was as a result of record production together with the benefit of our hedging programme, low operating costs secured by ongoing cost reduction initiatives and delivery of a capital investment programme below budget. Net debt stood at US$2.8 billion at the end of 2016, down from its peak reached in the third quarter of 2016, and we expect to continue to be net cash flow positive (after capex and planned disposals) at current oil prices. This debt reduction will accelerate once the Catcher field is on-stream.

As we enter 2017 with improving commodity prices, our focus is on maintaining our strong production performance and competitive cost base while delivering our operated Catcher project on schedule and below budget. In order to plan and protect our cash flows, we will continue to hedge our oil and gas production with the aim of locking in oil prices at levels at which we will be free cash flow positive. Our positive cash flow will be prioritised towards reducing our debt so as to enable the Group to achieve a leverage ratio of 3x EBITDA by the end of 2018 and, where future cash flows allow, to selectively invest in new projects to deliver future value for all stakeholders.

Tony Durrant
Chief Executive Officer

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.

Read more:
Turn over to read about our four strategic pillars in more detail

Value across the oil life cycle

KPIs
Our strategy is delivered and measured against an established set of key performance indicators.

Read more:
KPIs, page 24

	1	2
STRATEGIC PILLAR	**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 particular focus on offshore projects. Premier leverages its operating capabilities to maximise value from its assets and to position itself to take advantage of future opportunities. Our aim is to deliver operational excellence in all our activities in a safe and responsible manner.	**Focused on high quality assets with commercially advantaged positions** Premier develops and operates high quality assets in parts of the world where we have a strategic or operational advantage. In the UK North Sea, we have a strong business unit and considerable tax assets. We are also a key player in the South East Asia gas market and have a dominant position in the North Falklands Basin with access to a world-class resource base.
PROGRESS IN 2016	Premier has operated assets in Indonesia, Vietnam and the UK throughout the year and maintained high operating efficiency across all of our fields. This underpinned our record production performance for the Group in 2016. We also successfully assumed operatorship of five UK North Sea producing fields as a result of the E.ON acquisition and safely transferred them to Premier's UK business unit in Aberdeen. Good progress was made on our operated Catcher development. We also operated drilling campaigns offshore the Falklands and in the North Sea. Our continued focus on process safety and asset integrity saw us complete 2016 without any significant process safety loss of primary containment ('LOPC') events from our operated assets or drilling activities. Our Health, Safety, Environment and Security ('HSES') performance overall was above expectations which we measure using a blended weighted score covering a range of key HSES metrics.	The E.ON acquisition strengthened our UK business unit and, together with new Solan production, underpinned our untaxed production from the UK more than doubling. It also resulted in Premier acquiring an operated 50 per cent interest in the Tolmount gas field which is likely to provide the next phase of growth for the Group beyond Catcher. Good progress was made on the Catcher project which is on schedule for first oil in 2017. Natuna Sea Block A again captured a market share in excess of its contractual share of GSA1, the principal gas contract under which we deliver gas into Singapore. Our Chim Sáo field also exceeded expectations, delivering a strong production performance, while FEED on the first phase of the Sea Lion project was largely completed with cash cost breakeven of the project reduced to less than US$45/bbl.
PRIORITIES IN 2017	• Continue to operate all of our assets in a safe and responsible manner • Ensure the safety of our workforce remains paramount and any potential risk to the environment is minimised • Maintain the high levels of operating efficiency across our operated assets	• Deliver a two-well infill campaign at Chim Sáo to maximise production • Deliver first oil from Catcher and continue to secure material cost savings • Progress the next generation of developments in Indonesia • Deliver Tolmount FEED programme • Progress a financing solution for Sea Lion
RELEVANT RISK AREA	• HSES	• Commodity price volatility • Production and development delivery and decommissioning execution • Exploration success and reserves addition • Host government: political and fiscal risks • Joint venture partner alignment and supply chain delivery

"Our remuneration policy is geared towards performance-related pay so as to support direct alignment with shareholder value, and as such all four elements of our strategy are linked to remuneration packages."

Jane Hinkley, Chairman of the Remuneration Committee

Read more:
Directors' Remuneration Report, page 92

3 Access to capital and financial liquidity

Premier aims to have a favourable debt 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.

Premier completed the value-enhancing E.ON acquisition when the oil price was at a cyclical low. Key to this was our significant cash and undrawn facilities and our supportive lending group. Nonetheless, the sustained low commodity price meant that we were concerned about breaching our financial covenants and therefore we entered discussions with our various lending groups in the first half of 2016 to amend the terms of our financial facilities. Those discussions are targeted to be concluded by the end of May 2017, enabling Premier to focus on reducing its absolute level of debt as well as to invest selectively in the business. The Company had net debt of US$2.8 billion at year end, down from the peak in the third quarter, with cash and undrawn facilities of US$593 million. We have also hedged 37 per cent and 41 per cent of our oil and UK gas production respectively for 2017 to mitigate against the risk of lower commodity prices and to protect our liquidity.

- Conclude refinancing process
- Ensure financial headroom to deliver Catcher
- Prioritise reducing our absolute level of debt (subject to commodity prices)
- Prioritise capital to sanctioned developments
- Continue to minimise operating costs
- Continue to hedge to protect our cash flows and future capital investment programmes
- Continue to dispose of non-core assets

- Commodity price volatility
- Financial discipline and governance

4 Attracting and retaining 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. Our aim is to ensure that the organisation is appropriately sized with the right calibre of people to deliver the Company's strategic initiatives.

Premier successfully integrated the E.ON portfolio into its UK business unit without compromising the safety or performance of the assets. We also retained key employees from E.ON thereby ensuring business continuity and retention of specific asset expertise.

Premier continues to benefit from a low turnover among its employees enabling the business to retain its core skills and capabilities to deliver the Group's strategy.

- Continue to ensure that the organisation is appropriately sized with the right calibre of people to achieve the Company's objectives

- Production and development delivery and decommissioning execution
- Exploration success and reserves addition
- Organisational capability

Measuring our performance

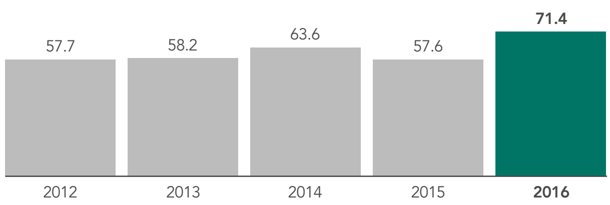
The Board monitors the Group's progress against its Key Performance Indicators to assess performance and delivery of its strategy.

Premier measures a range of operational, financial and non-financial metrics to help it manage its long-term performance and to achieve the Company's business plans. Despite the ongoing challenging conditions during 2016, Premier continued to deliver on a number of its key metrics.

OPERATIONAL KPIs

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. The ability to commercialise and bring those projects on-stream is key to the Company's success.

2016 Progress

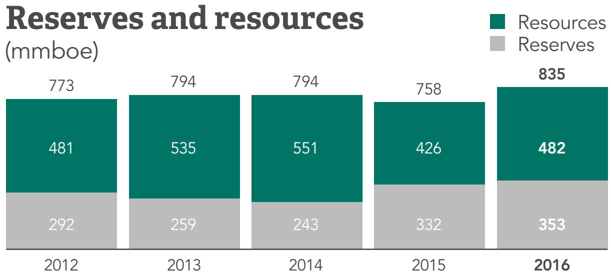
Average daily production in 2016 was 71.4 kboepd, a record for Premier and in line with previously increased market guidance. The increase in production on the prior year was driven by new production from the E.ON assets, a new contribution from the Solan field which was brought on-stream during 2016 and high operating efficiency across the Group's existing production portfolio. Premier sanctioned the development of the Bison, Iguana, Gajah Puteri gas fields post period end which will support our long-term contracts under which we deliver gas into Singapore. We have also progressed Tolmount which is likely to provide the next phase of growth beyond Catcher.

2017 Expectations

With a full-year contribution from the E.ON assets and also from the Solan field. Premier expects a further step up in production in 2017 from its existing producing assets. Premier also expects to bring on-stream the Catcher project in the second half of the year which, once at plateau rates, will add at least a further 25 kboepd to the Group's production.

Reserves and resources

(mmboe)



Objective

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

2016 Progress

Proven and Probable ('2P') reserves at the end of 2016 were 353 mmboe (2015: 332 mmboe). The increase reflects 38 mmboe added as a result of the acquisition of the E.ON assets. In addition, Premier also revised upwards its estimates of Chim Sáo's reserves by 13 mmboe as a result of an extended field life facilitated by a lower FPSO lease rate and better than expected reservoir performance. These additions more than offset the impact of 2016 production and a downward revision in reserves at Solan as a result of poorer than anticipated reservoir performance. Premier also added 54 mmboe of resources in respect of the Tolmount project which we acquired as part of the E.ON acquisition.

2017 Expectations

Premier will look to progress and commercialise its pre-development projects, which account for a significant proportion of its reserves and resource base, over the course of 2017. Offsetting this will be production and the potential sale of our Pakistan business which accounted for 2 per cent of our 2P reserves as at the end of 2016.

Premier also plans to drill its first well on its Mexico acreage in 2017 which will target the Zama structure and has the potential to increase significantly the Group's resource base.

Our strategic pillars

1. Operating in a safe and responsible manner
2. Focused on high quality assets with commercially advantaged positions
3. Access to capital and financial liquidity
4. Attracting and retaining the right people

Read more:
Financial Review, page 48

Read more:
All of our KPIs are linked to Executive Directors' remuneration. For full disclosure, please see the Directors' Remuneration Report on page 92

This is a newly added KPI for 2016, turn over to find out why we have changed our KPI reporting.

HSES Index

101% Overall HSES Index score

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. Premier measures Health, Safety, Environment and Security ('HSES') performance using a blended, weighted score covering a range of key HSES metrics.

2016 Progress

Overall performance was at or just above expectation. We incurred more recordable injuries than in 2015, and although we had a similar number of high potential events, none of these were in the highest category from a safety perspective. We saw very strong process safety performance, with no significant process safety loss of primary containment ('LOPC') and strong process safety and asset integrity audit results from our operated assets. Greenhouse gas intensity also improved when compared to the previous year. We also set targets for the first time for our senior management to visit our operated facilities to visibly demonstrate their commitment to our HSES values to our workforce.

2017 Expectations

Premier will continue to set a base target of delivering a better HSES performance than the median HSES performance of our peers in the International Oil & Gas Producers index with the aim of driving continuous improvement year on year. In 2017 we will introduce corporate targets for hydrocarbon spills and routinely report performance alongside our other existing KPIs. We will also focus our HSES resources in seeking to improve our hazard recognition and the quality of our incident investigations and HSES auditing.

For more information on our HSES management practices, please see page 60.

Unified HSES KPI Metric

	2016			Historic Performance	
Metric	Target[1]	Weighting	Performance	2015	2014
TRIR[2]	1.32	20%	↓ 1.95	1.27	1.48
HiPoR[3]	1.10	20%	↓ 1.20	1.13	1.02
Process Safety LOPC (T1 & T2)	3	20%	↑ 0	3	0
STAIRS[4]	77%	20%	↑ 83%	77%	N/A
GHG Intensity	200	10%	↑ 186	219[5]	242
HSES Leadership Visits	10	10%	↑ 13	N/A	N/A

1 Individual HSES targets are set at the beginning of each year across a range of KPIs that cover occupational H&S, process safety and environmental performance.

2 Total Recordable Injury Rate.

3 High Potential Incident Rate.

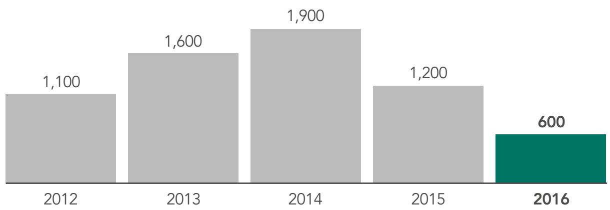
4 Safety and Asset Integrity Performance Reporting Scorecards.

5 Our GHG intensity figure for 2015 has been updated, following diesel under-reporting at our Balmoral asset in 2015. See our 2016 Corporate Responsibility Report for more information.

This is a newly added KPI for 2016, turn over to find out why we have changed our KPI reporting.

Liquidity

US$ million



Objective

Premier seeks to have sufficient liquidity to underpin the Group's capital investment programme and 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.

2016 Progress

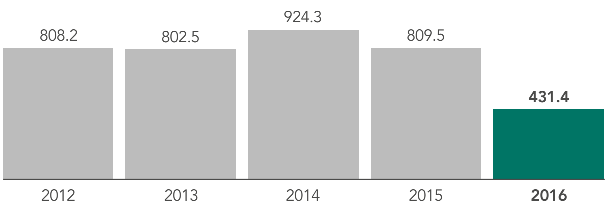
During 2016, Premier remained focused on reducing its operating cost base and capital commitments from existing operations. This, together with a record production performance and continued access to our undrawn bank facilities, enabled us to deliver our capital investment programme and to fund the acquisition of the E.ON assets despite oil prices reaching a historic low. Premier also entered into discussions with its lending groups to amend the terms of its financing agreements, including extending maturities out to 2021 and resetting its financial covenants.

2017 Expectations

Premier will continue to take appropriate steps in 2017 to ensure it maintains sufficient liquidity to deliver its operated Catcher project. We expect to complete a comprehensive refinancing of all our debt facilities by mid 2017 and will remain focused on maximising our production while managing our operating costs and our capital expenditure. Our cash flows will be prioritised toward reducing our absolute debt levels and, when market conditions allow, investing in our new projects for future growth while maintaining sufficient liquidity such that we are well-placed to withstand another downturn in the commodity price cycle.

FINANCIAL KPIs

Operating cash flow
(US$ million)

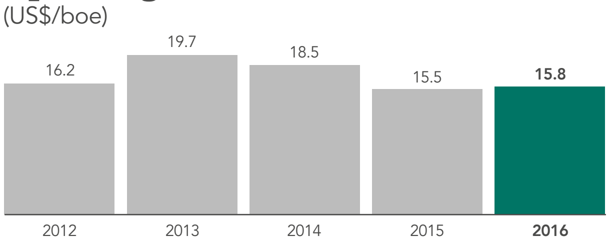


Objective
Premier aims to maximise cash flow from operations in order to maintain financial strength, ensuring we can meet our debt obligations, invest in the future of the business and deliver long-term returns to shareholders. Premier's cash flows are protected by a rolling forward hedging programme.

2016 Progress
Premier's operating cash flow for 2016 of US$431.4 million (2015: US$809.5 million) was impacted significantly by the external macro environment which saw the oil price average US$43.7/bbl (2015: US$52.4/bbl). Consequently, Premier realised an average price for the year post hedge of US$52.2/bbl. This was only partially mitigated by a strong production performance, tight cost control and a hedging programme.

2017 Expectations
Future production growth together with Premier's low cost base will underpin 2017 operating cash flow. In particular, Premier anticipates a full year of tax-advantaged production from the E.ON portfolio and the Solan field. In addition, new production from the Catcher field will contribute materially to the Group's operating cash flow from the second half of 2017. Premier will continue to look to hedge to protect its future cash flows and our investment programme. We have hedged 37 per cent of 2017 oil production at US$51/bbl and 41 per cent of our UK gas production at 50 pence/therm.

Operating costs
(US$/boe)



Objective
Premier aims to minimise costs from operations without compromising on health, safety or asset 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.

2016 Progress
Operating costs remained low at US$15.8/boe in 2016 (2015: US$15.5/boe), 10 per cent below budget. This was driven by high operating efficiencies across our producing portfolio, a weaker sterling exchange rate as well as continued cost savings across the business.

2017 Expectations
Premier expects operating costs in 2017 to stay flat at c. US$16/boe, despite more of the Group's production coming from the relatively higher cost UK North Sea. This will be underpinned by continued focus on maximising operating efficiencies and controlling operating costs. Premier anticipates that further significant reductions will originate from collaboration and efficiency savings.

Our strategic pillars

1. Operating in a safe and responsible manner
2. Focused on high quality assets with commercially advantaged positions
3. Access to capital and financial liquidity
4. Attracting and retaining the right people

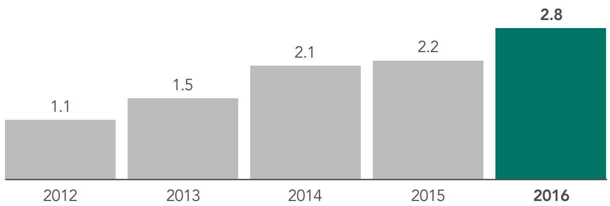
Read more:
Financial Review, page 48

Read more:
All of our KPIs are linked to Executive Directors' remuneration. For full disclosure, please see the Directors' Remuneration Report on page 92

This is a newly added KPI for 2016, to find out why we have changed our KPI reporting, see the panel on the right.

Net debt

(US$ billion)



Objective

Premier aims to control the absolute levels of its net debt such that it remains in compliance with its financial covenants. Reducing our net debt is also critical in order to address the imbalance of our capital structure 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 controls.

2016 Progress

Net debt at year end was US$2.8 billion, and while below our own internal forecasts this was up on the year-end 2015 position. This was as a result of our significant capital expenditure programme of US$678.1 million (driven by our sanctioned UK North Sea projects and the completion of the Falkland Islands drilling programme) as well as the continued depressed commodity prices.

2017 Expectations

Premier plans to be cash flow positive in 2017 at oil prices above US$50/bbl (including planned disposals) enabling debt reduction. With forecast low operating costs, a significantly reduced capital expenditure of US$390 million and higher production, driven by our UK tax advantaged assets, Premier is well placed to deliver on this target.

2016: Changes in our KPI reporting

Premier continuously reviews its KPIs to ensure that they are the most effective metrics for measuring the Company's performance. In light of this, the following changes have been made to our KPIs:

HSES index

Total Recordable Injury Rate ('TRIR') has been replaced with HSES index. Premier has historically focused on TRIR as our key HSES KPI. The TRIR expresses our performance in managing the occupational health and safety of our work force.

In 2016, we moved to a blended HSES KPI, which measures our performance across six metrics. These measures include: TRIR, process safety, asset integrity, environmental management and security.

Liquidity

Liquidity has been added as an additional operating KPI. The performance of the Company is dependent upon the Group having sufficient liquidity to meet both its short-term obligations and capital commitments and, where possible, to take advantage of market opportunities.

Net debt

Net debt has replaced covenant headroom as a financial KPI. Maintaining covenant headroom and compliance ensures the ongoing availability of our funding arrangements. However, as part of the recent refinancing, Premier expects to secure a relaxation of its net debt to EBITDA cover ratio and Premier and its lenders' primary focus is now on managing our absolute level of net debt. For this reason, we have changed the KPI from covenant headroom to net debt, although compliance with our reset financial covenants remains of great importance to us.

Non-IFRS measures

The Group uses certain measures of performance that are not specifically defined under IFRS or other generally accepted accounting principles. The non-IFRS measures used by the Group are EBITDAX, operating cost per barrel, net debt and liquidity and are defined in the glossary on page 184.

Managing our principal risks

A systematic process for the identification and assessment of risk is undertaken across the Company.

David Lindsell
Chairman of the Audit and Risk Committee

Effective risk management is central to achieving our strategic objectives and protecting our personnel, assets, the communities where we operate and with whom we interact, and our reputation. Premier therefore has a comprehensive approach to risk management, as set out below.

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 details of how such risks are managed and mitigated, is set out on pages 30 to 33.

A critical part of the risk management process is to assess the impact and likelihood of risks occurring so that appropriate control and mitigation plans can be developed and implemented. However, there are certain risks to which Premier is exposed which it has very limited power to control or mitigate, such as oil price and extended adverse weather conditions in the North Sea.

To facilitate assessment of the main risks facing Premier, specific risks are identified by each project and asset team, business unit and corporate function. These risks are then consolidated and amalgamated to provide an overview of the key risk factors at each level from operations through business unit management to Executive Committee and Board level.

For all the known risks facing the business, Premier attempts to minimise their likelihood and mitigate the impact. According to the nature of the risk, Premier may elect to accept or tolerate the risk, treat the risk with controls and mitigating actions, transfer the risk to third parties or terminate the risk by ceasing particular activities or operations. In particular, Premier has a zero tolerance approach to financial fraud or ethics non-compliance, and ensures that health, safety, environment and security ('HSES') risks are managed to levels that are as low as reasonably practicable. Exploration and development risks are managed on a portfolio basis.

Significant risks during 2016

- Breach of banking covenants and longer-term viability
- Continued oil price weakness
- Negative market sentiment
- Cash generation and ability to fund existing and planned projects
- Completion of the Solan development
- Closure of the E.ON acquisition and integration of the business
- Acceleration of potential costs arising from decommissioning liabilities
- Ability to maintain core competencies

Significant risks in 2017

- Continued oil price weakness
- Cash generation and ability to fund existing and planned projects
- Loss of value if projects are deferred
- Continued underperformance from the Solan field
- Failure to deliver Catcher to schedule
- Political and security instability in countries of current and planned activity
- Failure to engage constructively with the Oil and Gas Authority and other relevant bodies
- Timing and uncertainty of decommissioning liabilities
- Financial viability of key suppliers and partners
- Ability to maintain core competencies

Group risk management framework

The core process for risk management lies at the heart of Premier's framework of internal controls, comprising the policies, standards, procedures and guidelines for every function involved in carrying out Premier's business.

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

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

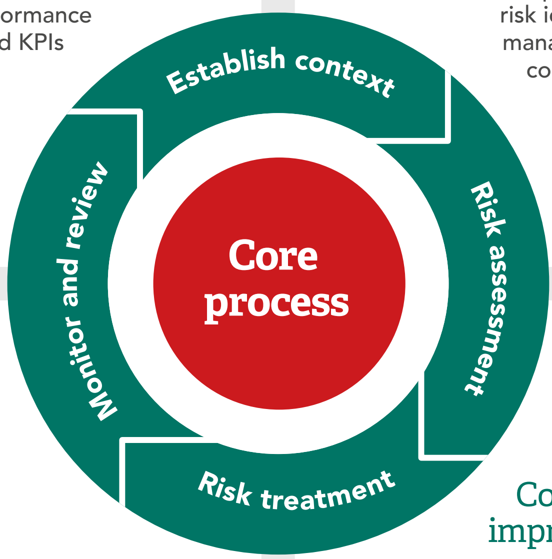
Board oversight

Business strategy

Contextualises risk management, together with targets, performance contracts and KPIs

Architecture

Framework defining accountability and responsibility for risk identification, management and communication



Risk protocols

Policy, standard, processes, procedures governing risk management

Continuous improvement cycle

Regular review of risk management systems with ExCo and Audit and Risk Committee

PRINCIPAL RISK FACTOR	RISK DETAIL	CHANGE IN LIKELIHOOD
FINANCIAL RISKS		
Commodity price volatility	• Oil and gas prices are affected by global supply and demand and price can be subject to significant fluctuations. • Factors that influence these include operational issues, natural disasters, weather, long-term impact of climate change, political and security instability, conflicts, economic conditions or actions by major oil-exporting countries. • Price fluctuations can affect our business assumptions and can affect our ability to deliver on our strategy. • Specific risks for 2017: inability to execute a satisfactory hedging programme due to low forward oil prices; lack of credit lines for hedging.	↑
Financial discipline and governance	• Risk of covenant breach and that sufficient funds are not available to finance the business. • Risk of financial fraud. • Breach of delegated authority. • Specific risks in 2017: reduced flexibility to manage the business due to tighter controls agreed with lenders post refinancing, including reduced ability to deliver M&A; ability to comply with reset covenants.	–
OPERATIONAL RISKS		
Production and development delivery and decommissioning execution	• Uncertain geology and reservoir performance leading to lower production and reserves recovery. • Availability of services including FPSOs and rigs, availability of technology and engineering capacity, availability of skilled resources, maintaining project schedules and costs as well as fiscal, regulatory, political and other conditions leading to operational problems and production loss or development delay. • Consequences may include lower production, lower recovery of reserves, production delays, cost overruns and/or failure to fulfil contractual commitments. • Immaturity of decommissioning in the North Sea and low oil prices, leading to aggressive cost and timing estimates for decommissioning of assets. • Specific risks in 2017: continued underperformance of Solan field; timing of first oil from Catcher development; offtake demand from Singapore.	–
Joint venture partner alignment and supply chain delivery	• Global operations in the oil and gas industry are conducted in a joint venture environment. There is a risk that joint venture partners are not aligned in their objectives and drivers and this may lead to inefficiencies and/or delays. Several of our major projects are operated by our joint venture partners and our ability to influence our partners is sometimes limited due to our small interest in such ventures. • We are heavily dependent on supply chain providers to deliver services and products to time, cost and quality criteria. Heightened risk during periods of downturn in the upstream services sector. • Specific risks in 2017: financial viability of key suppliers, causing delays or cost over-runs on projects or operations; joint venture partner misalignment on decommissioning in UKCS.	↑
Organisational capability	• Risk that the capability of the organisation is not adequate to deliver plans for strategic growth. The capability of the organisation is a function of both the strength of its human resources and its business management systems. Inadequate systems or lack of compliance may lead to loss of value and failure to achieve growth targets. Loss of personnel to competitors, inability to attract and retain quality human resources and competency gaps could affect our operational performance and delivery of growth strategy.	–

HOW IS IT MANAGED?	KEY STEPS TO MITIGATE IN 2016/17
• Oil and gas price hedging programmes to underpin our financial strength and protect our capacity to fund our future developments and operations. • Premier investment guidelines are to ensure that our development programmes are robust to downside sensitivity price scenarios.	• Hedging programme continued with fixed price term sales and options to provide some protection during an extended period of low oil prices. • Economics of development programmes re-worked to reflect low oil price environment. • Discretionary spend curtailed. • Contingency planning for accelerated decommissioning of identified production assets.
• Strong financial discipline. Premier has an established financial management system to ensure that it is able to maintain an appropriate level of liquidity and financial capacity and to manage the level of assessed risk associated with the financial instruments. The management system includes policies and a delegation of authority manual to reasonably protect against risk of financial fraud in the Group. • Premier maintains access to capital markets through the cycle through proactive engagement with banks and lenders as evidenced by completion of refinancing. • An insurance programme is put in place to reduce the potential impact of the physical risks associated with exploration and production activities. In addition, business interruption cover is purchased for a proportion of the cash flow from producing fields. Cash balances are invested in short-term deposits with minimum A credit rating banks, AAA managed liquidity funds and A1/P1 commercial paper, subject to Board approved limits.	• Ongoing proactive dialogue with lenders. • Economics of investment decisions and development projects re-worked to reflect low oil price environment. • Deferral of discretionary spend. • Unsanctioned development projects deferred and re-shaped. • Ongoing reduction of contractor spend. • Contingency planning for right-sizing and re-structuring of Group to deliver business goals. • Enhancement of Business Control Review process. • Continued non-core disposals.
• Geoscience and reservoir engineering management systems, including rigorous production forecasting and independent reserves auditing processes. • Effective contracting strategy, operations, development and project execution management systems and cost controls together with capable project teams. • Long-term development planning to ensure timely access to FPSOs, rigs and other essential services. • Preference for operatorship, as evidenced by 2016 acquisition of operatorship of Huntington field. • Specialist decommissioning team in place and continued reduction in asset operating costs to defer abandonment liabilities.	• Improved production forecasting, enhanced reporting and monitoring through further refinement of near-real-time production analytics platform. • Improved project planning and delivery through better coordination and execution of cross-functional review prior to decision gates. • Continued ExCo, business unit and project engagement on contractor selection/management. • Escrow account for Asian development to fund future decommissioning liabilities. • Expanded decommissioning resources for 2017/2018. • Engagement with UK government on decommissioning.
• Due diligence and regular engagement with partners in joint ventures in both operated and non-operated projects. Premier pursues strategic acquisition opportunities where appropriate to gain a greater degree of influence and control. • Non-operated ventures management system. • Enhance financial due diligence of supply chain providers. Monitor contractual performance and delivery.	• Heightened engagement with joint venture partners and supply chain counterparties with regard to their ability to fulfil commitments. • Various portfolio management options under review in 2017.
• Premier has created a competitive remuneration and retention package including bonus and long-term incentive plans to incentivise loyalty and good performance from the existing, highly skilled workforce. • Premier continues to strengthen its organisational capability to achieve strategic objectives. This includes resource planning, competency development, training and development programmes, succession planning including leadership development. • Continuous strengthening of business management systems and controls as appropriate to the size and market position of the Company.	• Continuous improvement of human resources management systems and controls. • New reward programme implemented during 2016. • Succession planning reviewed. • Improve Business Management System platform delivered in 2016.

PRINCIPAL RISK FACTOR	RISK DETAIL	CHANGE IN LIKELIHOOD
OPERATIONAL RISKS		
Exploration success and reserves addition	• Failure to identify and capture acreage and resource opportunities to provide a portfolio of drillable exploration prospects and future development projects. • Specific exploration programmes may fail to add reserves and hence value. • Failure to negotiate access rights or close transactions could slow growth of reserves and production and lead to loss of competitive advantage. • Lender controls reduce ability to capture and execute exploration programme.	–
CORPORATE RESPONSIBILITY RISKS		
Health, safety, environment and security ('HSES')	• Major process safety incident or operational accident, natural disasters, pandemics, social unrest, civil war. • Consequences may include accidents resulting in loss of life, injury and/or significant pollution of the local environment, destruction of facilities and disruption to business activities.	↓
Host government: political and fiscal risks	• Premier operates in some countries where political, economic and social transition is taking place or there are current sovereignty disputes. Developments in politics, laws and regulations can affect our operations and earnings. • Consequences may include forced divestment of assets; limits on production or cost recovery; import and export restrictions; changes in legislation due to climate change; international conflicts, including war, civil unrest and local security concerns that threaten the safe operation of Company facilities; price controls, tax increases and other retroactive tax claims; expropriation of property; cancellation of contract rights; and increase in regulatory burden. It is difficult to predict the timing or severity of these occurrences or their potential impact.	↑

Risk management and internal controls in Premier

The corporate governance process in Premier is designed to determine the nature and level of risk that the Company is willing to take in pursuit of its strategy and to provide an appropriate level of assurance that any risks taken are appropriately managed and that the system of internal controls is effective.

Risk management processes and 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 is just part of good management which leads to quality decision making and achievement of targets for growth of the business.

Premier has adopted a risk management process based on ISO 31000 Principles and Guidelines. This core process is described on page 29.

Risk identification and assessment

Premier's risk workbench ('ARROW') was embedded across the Company during 2016. ARROW is based on ISO 31000 guidelines and facilitates the registration, communication and assessment of corporate, functional, business unit and asset/project risks, the definition of the plans for control and mitigation, and assignment of responsibility. ARROW allows risks that have a significant potential impact and a higher likelihood of occurrence to be flagged and referred automatically up to the next level(s) of management, enabling more effective top-down monitoring of risk.

HOW IS IT MANAGED?	KEY STEPS TO MITIGATE IN 2016/17
• Strong portfolio management and alignment with strategic growth targets. Appropriate balance between growth by exploration and acquisition. • Exploration management systems including comprehensive peer review with focus on geologies in core areas we know well and in which we can build a competitive advantage. • M&A effort focusing on geographical and technical areas aligned with our strategy. Diligence in acquisition process and post-acquisition integration to ensure targeted returns.	• Continued focusing of exploration portfolio. • Deepened equity interest in Mexico and plans to develop prepared. • Mature portfolio acquired from E.ON in 2016. • Continued exiting of non-core areas. • Proactive engagement with lenders on exploration strategies.
• Comprehensive HSES and operations management systems including emergency and oil spill response capability and asset integrity. • Active security monitoring and management and regular testing of business continuity plans. • Learning from Company and third-party incidents.	• Further embedded electronic incident-recording and action-tracking system, implemented HSES self-audit system. • Further embedded implementation of asset integrity scorecard methodology (covering people, plant and process lead indicators) at all operated production assets.
• Premier's portfolio includes operations in both low and higher risk environments. Premier actively monitors the local situation and has business continuity plans in each area which can be activated depending on pre-defined levels of alert. • Premier strives to be a good corporate citizen globally, and fosters reputation by strong and positive relationships with government and communities where we do business. Premier engages in respectful industry-wide lobbying and sustainable corporate responsibility and community investment programmes. Rigorous adherence to Premier's business ethics policy and code of conduct. • Continuous monitoring of the external environment for emerging risks to the business. • Proactive engagement with regulatory authorities.	• Improved provision of politico-economic/security/societal risk assessment informing investment decisions. • Strengthened Corporate Responsibility ('CR') management system and ongoing improvements to CR reporting. • Ongoing cost/benefit assessment of political risk insurance on case-by-case basis. • Engagement with Falkland Islands and UK governments on fiscal terms.

A matrix of impact versus likelihood is used to assess risks at all levels in the organisation. During 2016, Premier standardised this matrix across the Company to facilitate consideration of risk inter-dependency and amalgamation of similar specific risks across the organisation. Risks are categorised according to a scale of Major, Medium and Minor and escalated to the appropriate level.

Risk treatment

Risk treatment includes risk acceptance or tolerance and active risk reduction measures based on a Board approved risk appetite. Particular attention is given to occupational health, safety and environmental factors to ensure that residual risks are at a level that is as low as reasonably practicable.

Risk monitoring and review

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

The core risk management process is supported by the Company's business strategy, a risk architecture, a set of risk protocols and a continuous improvement cycle. The business strategy sets the context for the core process. The architecture of the organisation provides the framework for defining the accountability and responsibility for risk identification and management. It links the Board and Audit and Risk Committee to the Executive Committee and functional and business unit management structure, and enables risks to be escalated and managed at the appropriate level.

The Group Audit and Risk Manager is responsible for the risk management system and the overall running of the process. The risk protocols are the policy, procedures and processes documented as part of the risk management system and key tools used in the process. A cycle of continuous improvement to the risk management process is applied and regularly reviewed with both the Executive Committee (via regional and functional performance reviews) and the Audit and Risk Committee.

Internal Controls

Internal controls within Premier are governed by the Business Management System ('BMS'). This system is composed of the policies, standards, procedures, processes and guidelines for every function involved in carrying out Premier's business including Development and Operations; Exploration; Business Development; Finance; Health, Safety, Environment and Security ('HSES'); Corporate Responsibility; Risk; and other business support services. Group corporate function management systems are complemented by local management systems within the business units which contain additional content specifically required in order to operate and manage the business under local conditions and in compliance with local laws and regulations.

During 2016 a significant upgrade to the BMS platform was delivered. The platform provides a controlled environment in which to further improve the deployment and management of the management systems in Premier. Premier also continued to implement the recommendations arising from the 2015 external, independent peer review of its management and governance systems in comparison with a number of anonymised independent upstream Oil and Gas companies. The review identified no significant shortcomings compared to peer companies.

Regular review

The adequacy of the BMS is a function of its design and its operating effectiveness. The operation of internal control procedures is monitored by planned management system and business control reviews. An annual programme of review is agreed between functional and business unit management and approved by the Audit and Risk Committee. The programme adopts a risk-based focus and includes a review of management system efficacy and control as well as targeting key operational, financial and organisational delivery milestones. This process is designed, inter alia, to provide assurance to the Board that Premier is embedding effective risk management into its operations. Significant findings from these reviews are presented to the Audit and Risk Committee which monitors the implementation of recommendations for control improvements.

In addition, where we are the operator, audits of joint venture operations are carried out by our joint venture partners. Where one of our partners is the operator, we seek visibility of the most significant risks identified and managed by the joint venture partners.

The annual cycle of monitoring in Premier culminates in the completion of the Corporate Governance Return which contains declarations by business unit and functional management confirming compliance with the Group's BMS as well as identifying enhancements as part of a continuous process for improving the effectiveness of management systems.

The BMS, the risk management process and the programme of 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 system of internal control and risk management and reviewing the effectiveness of such systems rests with the Board. This involves ensuring that there is a process to identify, evaluate and manage any significant risks that may affect the achievement of the Group's strategic objectives.

The Directors carry out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity. These risks are regularly reviewed and monitored by the Board.

Viability statement

In accordance with provision C.2.2 of the UK Corporate Governance 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 30 June 2020, 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 developments beyond the three-year period, its current major development project (the Catcher field) being expected to come on-stream during 2017
- Under the revised terms of the Group's borrowing facilities that are expected to be agreed shortly by the Group's lenders (the 'Refinancing'), all its current facilities will be available until 2021

Review of financial projections

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 are currently under active consideration;
- management's best estimate of future commodity prices (based on recent forward curves for 2017 and 2018, US$65/bbl for 2019 and US$75/bbl real for 2020, adjusted for the Group's hedging programme); and
- the assumption that the Group's lending groups and shareholders will approve revisions to the terms of the Group's borrowing facilities that will preserve the Group's borrowing facilities, re-set financial covenant headroom and extend the Group's debt maturities until 2021 and beyond. The Projections assume that the rolling monthly deferral of the covenant tests in the existing financing facilities will continue until the revised terms are approved. Sensitivities are run to reflect different scenarios including, but not limited to, changes in oil and gas production rates and possible reductions in commodity prices.

Review of principal risks

The Group's principal risks and uncertainties, set out in detail on pages 30 to 33, have been considered over the period.

The risk that the revised terms referred to above are not approved or that the rolling monthly deferral of covenant tests does not continue until the revised terms are approved is a material uncertainty, as explained in more detail in the Going Concern section of the Financial Review. The Board has, therefore, assessed the likelihood that the revised terms will be approved and that the rolling monthly deferral of covenant tests will continue until the revised terms are approved. The Board has concluded that it has a reasonable expectation that the revised terms will be approved and that the covenant tests will continue to be deferred until that occurs.

The Board considers that commodity price volatility, and in particular a sustained low oil price, is most likely to have the greatest impact on the continued viability of the Group during the three-year period.

As noted above, under the revised terms of the Group's borrowing facilities, the financial covenant headroom will be re-set. Once the Refinancing is completed, an oil price environment below prices currently being forecasted and/or an inability by management to achieve certain corporate objectives currently being considered, may give rise to a risk of a breach in one or more of the financial covenants, as amended by the Refinancing, in the second half of the three-year period. However, once the Refinancing is completed, as long as the Group adheres to the requirements of the revised financial covenants, no further Refinancing would be required during the three-year period.

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. On the assumption that the Group is able to finalise the Refinancing of the Group's facilities in the near-term as expected and as summarised in note 26 to the financial statements, 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.

United Kingdom

The UK delivered a step change in production in 2016, achieving a year-end exit rate of over 45 kboepd, more than double that of 2015. This was driven by high operating efficiency, a contribution from the E.ON assets (which continue to exceed expectations) and new Solan production.

Looking ahead, the Catcher project remains on schedule for first oil in 2017 with total capex now estimated at US$1.6 billion, 29 per cent lower than at sanction, while the development scheme for the Tolmount gas project was selected post period end.

At a glance

Highlights and achievements

- Completion of the E.ON acquisition, significantly strengthening our UK business unit
- Production doubled to 33 kboepd
- Operating costs down a further 20% to US$24/boe
- Catcher capex reduced by 29%
- US$4 bn of UK tax losses and allowances

Outlook

- Maximise operating efficiency
- Deliver Catcher on schedule and below budget
- Progress Tolmount to project sanction decision
- Continue to manage operating costs downwards

Production

Production from Premier's UK fields averaged 33.0 kboepd (2015: 16.7 kboepd), double that of 2015. Production from the E.ON assets exceeded the Group's acquisition case of 15 kboepd, averaging 17.1 kboepd for the eight months from 28 April 2016 to 31 December 2016. Production from the operated Huntington field averaged 10.8 kboepd (2015: 6.2 kboepd) during 2016. The step up in production reflects Premier's increased equity position to 100 per cent (due to the acquisition of the E.ON assets at the end of April 2016 and the default of the minority partners in 2015), high operating efficiency of over 90 per cent and strong reservoir performance. Premier is currently in discussions with Teekay, the owner of the FPSO, to extend the firm charter period beyond April 2018 with a revised rate structure.

Production from the non-operated Elgin-Franklin fields, which was acquired as part of the acquisition of the E.ON assets, increased during the year, benefitting from an ongoing infill drilling campaign and strong winter gas demand, averaging 5.5 kboepd for the eight months from 28 April to 31 December 2016 and 6.5 kboepd in the fourth quarter of 2016. This strong performance was tempered by periodic oil export restrictions placed on the field over the summer as a result of ongoing maintenance on the Forties Production System ('FPS'). The non-operated Glenelg field (Premier 18.57 per cent), a satellite field within the Elgin-Franklin area, came back on-stream at the end of May following a successful well workover of the G10 well. The field was producing over 20 kboepd (gross) when not impacted by export restrictions but was subsequently shut in in late September as a result of a blocked scale inhibitor line. A remediation programme is being implemented by the operator to reinstate production. The Premier-operated Babbage field, acquired as part of the acquisition of the E.ON portfolio, also outperformed, producing consistently at rates of above 3 kboepd driven by high uptime of more than 90 per cent and continued good reservoir performance. The platform is in the process of moving to normally unmanned operations which is expected to reduce field operating costs in 2017. Post period end, a successful well intervention campaign was undertaken to maximise production from the Babbage field.

First oil from the Solan field was achieved on 12 April 2016 and the second producer was brought on-stream on 18 August 2016. Average production for 2016 was impacted by poorer than expected reservoir performance in the eastern part of the field which is limiting water injection and production rates from the second producer ('P2'). A decision has been taken to contract the Transocean Spitzbergen, which has been working in the area close to Solan, to install two ESPs in P1 following the failure of the existing single ESP during February. The planned work programme will restore P1 production to at least 10 kbopd from mid-year. The field is currently producing around 9 kbopd, with P1 on free flow. Meanwhile, a number of options continue to be studied to increase water injection into the reservoir with the aim of supporting higher production levels. Premier has already implemented some of the more short-term, lower capex projects, such as increases to platform pump capacity. While incremental production increases can be gained from such remedial work, it is possible that another well or a side-track would be required in order to gain a more material uplift in production rates and improve recovery. The Solan team are monitoring production behaviour to better delineate recovery from the existing wells and to define the scope of a potential drilling programme for 2018. Operating efficiency of the facilities was good during 2016 and, to date, eight tanker liftings have been successfully completed.

Production from the Premier-operated Balmoral area averaged 2.1 kboepd (2015: 3.1 kboepd), impacted by a commercial disagreement between partners at the start of 2016 (subsequently resolved) and intermittent oil export restrictions due to FPS maintenance. Operating costs were US$49 million (2015: US$64 million), down 23 per cent on the prior period, benefitting from a weaker sterling dollar exchange rate and as a result of a focused cost reduction programme, offshore and onshore.

Production from the non-operated Wytch Farm field averaged 5.1 kboepd (2015: 5.2 kboepd), benefitting from the well maintenance work carried out in the second half of 2015 which partially offset modest reservoir decline. The field operator delivered significant cost savings during 2016 which resulted in operating costs of US$26 million net (2015: US$32 million), down 19 per cent on the prior year. Production from the non-operated Kyle field was maintained at 2.0 kboepd (2015: 2.0 kboepd), slightly ahead of expectations.

UK unit operating costs for the year were US$24/boe (2015: US$30/boe), driven by start-up and acquisition of lower opex fields such as Solan, Elgin-Franklin and Babbage and further cost reductions across Premier's existing UK portfolio, particularly at Wytch Farm and Balmoral. This figure includes certain one-off costs following on from the acquisition of the E.ON

A year of huge progress for the Catcher FPSO development

portfolio. Going forward, UK unit operating costs are expected to trend downwards towards US$20/boe as Premier benefits from a full annual contribution from the lower opex Elgin-Franklin and Solan fields and as higher opex fields are decommissioned.

Development

Catcher

Good progress was made on the Premier-operated Catcher project during 2016 which remains on schedule to deliver first oil in the second half of 2017. 2016 saw the total capex estimate for the project reduce to US$1.6 billion, a 29 per cent reduction on the original sanctioned estimate. Savings were secured across subsea and drilling activities and as a result of the lower sterling dollar exchange rate. Premier's forward cost exposure has reduced significantly with remaining capex to first oil of around US$100 million (net to Premier), the majority of which relates to the ongoing drilling programme.

The 2016 subsea installation campaign commenced in April and saw the successful installation of the risers, bundles, towheads, manifolds, midwater arches along with the buoy and mooring system. Hook-up of all of the risers and umbilicals was also completed during 2016. 14 different construction vessels were deployed on the field over several phases while, at the peak of activities in May, there were seven vessels present in the field. Final spool tie-ins were completed in November, concluding the planned 2016 subsea campaign under budget. The major elements of the subsea campaign are now complete with only short campaigns required in 2017 to tie-in wells as they become available from the drilling programme and to support commissioning operations once the FPSO has been installed.

Drilling activities using the Ensco 100 rig have continued to yield positive results. During 2016, CCP3 and CTP1 on the Catcher template, BP3 and BP5 on the Burgman template and VP2 and VP3 on the Varadero template were completed, validating Premier's expected reservoir interpretation from the three drill centres. VP4 on the Varadero template was completed post period end. Based on test results to date, the length of net pay encountered by the seven production wells has been overall 30 per cent longer than forecast while the anticipated initial production delivery rate of each well is on average 40 per cent higher than predicted. As a result of these positive well results, Premier remains encouraged about the overall recovery from the Catcher fields and also forecasts a reduced well count from that envisaged at sanction.

Fabrication of the Catcher FPSO hull and topsides was completed in Asia with the Stern Terra Block and Forward Terra Block successfully delivered to the Keppel Benoi yard in Singapore in June and July respectively. The hull mating operation was carried out and the welding of the two blocks completed in August. Fabrication of all of the topside modules has been completed with the final topside unit lifted onto the vessel in November. The construction phase of the FPSO is now largely complete and the focus is now on final integration and the completion of yard-based pre-commissioning and commissioning work scopes. Sailaway is expected mid-year with Premier continuing to target oil production start-up for later this year.

Pre-development

Premier acquired a 50 per cent operated interest in the Greater Tolmount Area where the Group sees the potential for the development of up to 1 Tcf, including the fully appraised Tolmount main structure of 540 Bcf and upside at Tolmount East and Tolmount Far East, estimated to hold 220 Bcf and 150 Bcf of unrisked gas resource respectively. Tolmount will provide the next phase of growth for Premier in the UK, with significantly improved economics benefitting from a higher gas price than the E.ON acquisition case.

During 2016, Premier carried out conceptual studies and engineering work on a number of development options for the Tolmount main structure. This included optimisation of the project from a subsurface, facilities, pipeline, host terminal and commercial perspective. In February 2017, the development concept, comprising a standalone normally unmanned installation ('NUI') and a new gas export pipeline to shore, was selected. It is envisaged that the initial phase, which will target the Tolmount main structure, will recover 540 Bcf (P50 estimate) of gas from four producing wells. The offshore FEED contracts were awarded post period end and FEED is expected to take nine months with project sanction targeted for the first quarter of 2018. It is estimated that capex to first gas will be around US$550 million, although Premier is currently engaging with the contractor market with a view to enhancing returns and reducing further upfront capex on the project. In addition, following unsolicited offers of interest from a number of parties, Premier has instigated a process to identify possible investors for a 20 per cent interest in the Tolmount project.

Exploration

The Laverda/Slough prospect, near the Catcher area, was drilled in April 2016. The commitment well encountered 13 feet of net oil bearing Tay sands at Laverda, in line with pre-drill expectations, but did not encounter any indications of hydrocarbons in the deeper, high risk Slough prospect.

In July, the Ocean Valiant rig spudded the Bagpuss prospect in the Outer Moray Firth. The well encountered 41 feet of hydrocarbon-bearing sand within a 68 feet hydrocarbon column. The well was plugged and abandoned. Premier subsequently sold its interest in the licence to Reach Halibut Limited.

In December 2016, the Rowan Gorilla VII jack-up rig spudded the Ravenspurn North Deep well, which is testing the deep Carboniferous play underlying the Ravenspurn North field in the Southern Gas Basin; if successful, it could provide material follow-on opportunities for Premier within its Southern Gas Basin portfolio, in addition to helping to prolong the life of the Ravenspurn area fields. Premier is fully carried on its 5 per cent interest in the well.

Premier continues to actively manage its UK exploration portfolio with nine UK licences relinquished or sold in 2016 and associated cost savings realised. While Premier has relinquished much of E.ON's exploration acreage, some of its Southern North Sea prospects are attractive. Premier plans to mature the work programmes on these select licences during 2017, along with further exploration prospects on its current production licences.

Pakistan

Premier's Pakistan business has performed significantly ahead of forecast in 2016 with net cash flow more than twice the budgeted level.

The average realised price was US$2.8/mscf while operating costs remained low at around US$0.6/mscf.

Production and development

Production in Pakistan averaged 7.5 kboepd (47.4 mmscfd) (2015: 9.7 kboepd (60.2 mmscfd)), from Premier's six non-operated producing gas fields. The fall in production reflects natural decline in all of the gas fields. This was partially offset by a successful well intervention campaign at the Zamzama field which significantly arrested the decline rate of this field. As a result, production from the Zamzama field was significantly ahead of expectations for the period and underpinned the outperformance of the Pakistan business unit.

Mmscfd	2016	2015
Bhit	**8.4**	11.4
Badhra	**5.8**	7.7
Qadirpur	**16.1**	17.8
Kadanwari	**5.4**	9.8
Zamzama	**11.3**	13.0
Zarghun South	**0.4**	0.5
Total	**47.4**	60.2

Further work is planned for 2017 to offset the natural decline at the Badhra and Kadanwari fields. A well intervention programme, consisting of three wells, is planned for the Badhra field while a well intervention programme as well as two development wells are planned for the Kadanwari field.

Portfolio management

During 2016, Premier agreed terms with a preferred bidder for the sale of its Pakistan business. However, the bidder was unable to put in place the necessary funding arrangements and the exclusivity period ended. Premier reopened the process to a limited group of potential buyers. The economic date of the transaction is now expected to be 1 January 2017 with Premier retaining 2016 net cash flows.

Mauritania

Production and development

Production from the Chinguetti field averaged 368 bopd (2015: 415 bopd) net to Premier. The fall in production was driven by natural decline from the existing wells. In view of the low oil price and resulting marginal cash flows, the joint venture partners are targeting cessation of production from the field in 2017. To this end, the operator submitted an abandonment and decommissioning plan to the Government of Mauritania in June 2016.

Indonesia

The Premier-operated Natuna Sea Block A fields outperformed in 2016 delivering a robust production performance of 13.0 kboepd, up 6 per cent on 2015, underpinned by an increased market share of 44 per cent within GSA1 and strong Singapore demand for gas deliveries under GSA2.

This, together with low operating costs of US$8/boe, resulted in the Indonesian business unit generating strong positive net cash flows for the Group.

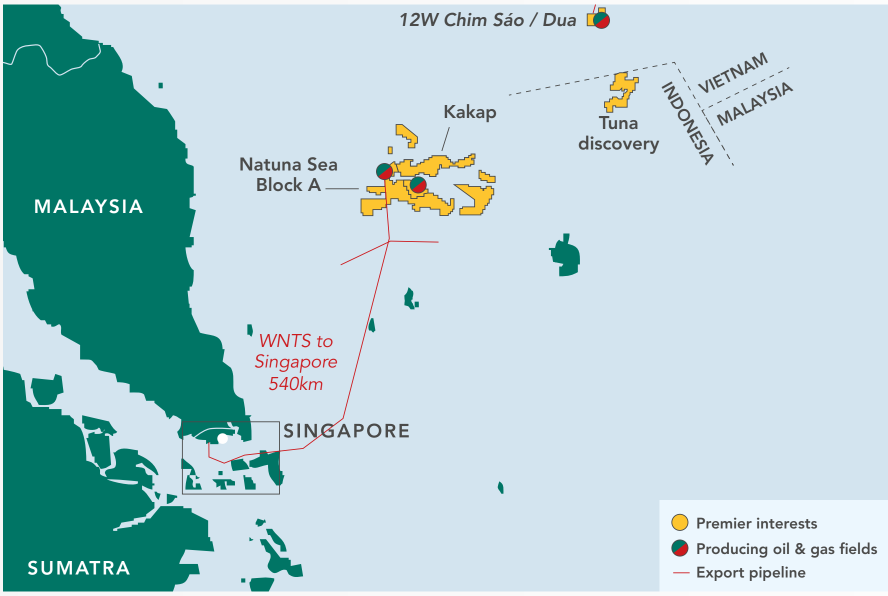
At a glance

Highlights and achievements

- Singapore demand above take or pay
- 44% of GSA1 vs 41% contractual share
- Record gas deliveries under GSA2
- Operating efficiency of >90%

Outlook

- Portfolio of growth opportunities



Production and development

Net production from Indonesia in 2016 on a working interest basis increased to 14.3 kboepd (2015: 13.9 kboepd), with higher production from the Premier-operated Natuna Sea Block A fields offset, in part, by lower production from the non-operated Kakap fields. Operating efficiency remained high at over 90 per cent.

Premier sold an average of 237 BBtud (gross) (2015: 223 BBtud) from its operated Natuna Sea Block A fields during 2016. Singapore demand for gas sold under GSA1 remained robust, averaging 297 BBtud (2015: 311 BBtud) during 2016. Premier's Anoa and Pelikan fields delivered 132 BBtud, capturing 44 per cent (2015: 43 per cent) of GSA1 deliveries, above Natuna Sea Block A's contractual share of 41 per cent. Natuna Sea Block A's contractual share for 2017 has been increased to 47 per cent.

Gajah Baru and Naga delivered record production of 94 BBtud under GSA2, up 22 per cent on the prior year, representing 100 per cent nomination delivery by Premier. Gas deliveries from Gajah Baru and Naga under the Domestic Swap Agreement ('DSA'), which resumed in September following an extension of the DSA to end December 2016, averaged 11 BBtud (2015: 13 BBtud). The Gajah Baru compressor reconfiguration project, aimed at maximising deliverability from the Gajah Baru, Pelikan and Naga fields, was successfully completed in December 2016 and will extend plateau production from these fields.

Gas sales from the non-operated Kakap field averaged 17 BBtud (2015: 23 BBtud) while gross liquids production was 2.7 kbopd (2015: 3.5 kbopd), reflecting natural decline from existing wells. Gross liquids production from the Anoa field was stable at 1.4 kbopd (2015: 1.4 kbopd), underpinned by successful well intervention work.

	Gas supply by contract					
	GSA1		GSA2		GSA5	
BBtud (gross)	2016	2015	2016	2015	2016	2015
Anoa[1]	132	133	–	–	–	–
Gajah Baru[2]	–	–	94	77	11	13
Total Block A	132	133	94	77	11	13
Kakap	17	23	–	–	–	–
Total	149	156	94	77	11	13

1 Includes production from the Pelikan field.

2 Includes production from the Naga field.

Premier continues to benefit from a low cost base in Indonesia, as a result of an ongoing cost reduction campaign. Based on current production levels, Natuna Sea Block A is well placed to deliver operating costs of around US$8/boe into the medium term.

During 2016, FEED was completed on the Bison, Iguana and Gajah Puteri ('BIGP') fields which marks the next generation of Natuna Sea Block A projects to support Premier's long-term gas contracts into Singapore. Premier's Board sanctioned BIGP post period end. An invitation to tender for long lead items has been issued and delivery of first gas is targeted for the third quarter of 2019.

Premier has identified several infill drilling candidates at Gajah Baru with drilling currently modelled to commence in 2018 while preparations are underway to recomplete the WL-5x well which made the Lama discovery under Anoa in 2012 and to tie it into production in the third quarter of 2017.

Evaluation of potential development scenarios for the 2014 Kuda Laut and Singa Laut discoveries on the Premier operated Tuna Block is ongoing. These include gas offtakes via the West Natuna Transportation System to Singapore and Indonesia or through existing infrastructure in Vietnam. Post period end, Premier was granted a three-year extension to the exploration period of the licence. This will allow time for Premier to undertake further appraisal drilling and also to establish a commercial development concept for the field, ahead of submitting a Plan of Development.

Exploration and appraisal

Premier continues to mature a number of Lama Play leads and prospects to a drillable status on its operated Natuna Sea Block A acreage and seismic reprocessing is currently scheduled for 2017 to enhance the seismic imaging over the Lama Play area.

Vietnam

A robust production performance, combined with continued low operating costs, resulted in the Vietnam business generating net positive operating cash flows during 2016.

Further, Chim Sáo's remaining 2P reserves were materially increased at the end of the year as a result of better than expected reservoir performance and the lower lease rate secured for the Chim Sáo vessel resulting in an extended field life.

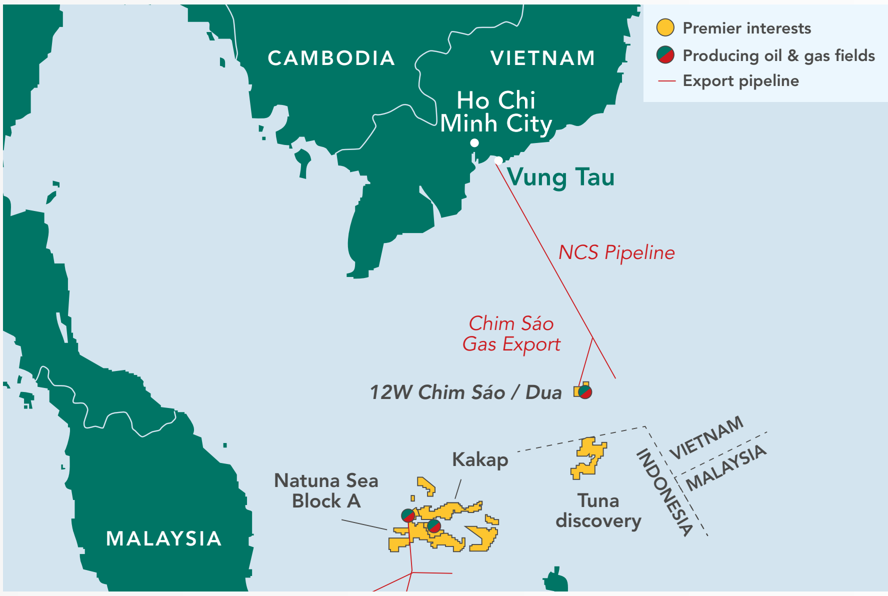
At a glance

Highlights and achievements

- Robust production of 16.2 kboepd
- Operating efficiency of 94%
- Better than predicted reservoir performance
- Operating costs remain low at US$8.7/boe
- Material reserves upgrade of 13 mmboe

Outlook

- 2 well infill programme planned for 2017
- Lower lease rate on FPSO considerably extends field life out to 2028



Production

Production from the Premier-operated Block 12W, which contains the Chim Sáo and Dua fields, averaged 16.2 kboepd (2015: 16.9 kboepd) with high uptime, better than expected reservoir performance and a successful well intervention programme helping to mitigate natural decline from the fields.

Since taking over direct management of production operations in 2015, Premier has prioritised root-cause analysis of all events that lead to loss of production. This knowledge has improved the efficiency of planned maintenance programmes, enhanced the availability of key systems and enabled competency development for the crew. The outcome is that Chim Sáo operating efficiency exceeded 90 per cent in 2016.

The 2016 well intervention programme included bringing a deep reservoir on to production in the Chim Sáo North West area and the reservoir stimulation of three oil wells and a water injector well in the main field area. Planning is underway for a programme of further well stimulations in 2017. In addition, a two-well infill drilling programme, scheduled to commence in August 2017, will further help to maximise the field's production levels.

During 2016, Premier has continued to review all of its contracts with the aim of securing cost reductions and efficiencies throughout its Vietnam operation. Notably, in December 2016, Premier in its capacity as operator of Block 12W completed a revised FPSO charter party agreement securing a reduction in the Chim Sáo FPSO lease rate effective from 1 November 2015 and an extension to the firm charter period.

Strong production performance, low operating costs and the continuing premiums to the Brent oil price commanded by Chim Sáo crude contributed to a positive net operating cash flow from the Vietnam business unit in 2016. In addition, as a result of the strong reservoir performance from the field to date and the anticipated extended field life facilitated by a lower FPSO lease rate, Premier has revised upwards its estimates of Chim Sáo's remaining net 2P reserves by 13 mmboe to 31 mmboe.

The Falkland Islands

FEED for the Premier-operated Sea Lion Phase 1 project progressed well during 2016. The estimated breakeven price of the project is now less than US$45/bbl, down from US$55/bbl at the end of 2015.

The focus is now on progressing funding alternatives for the project.

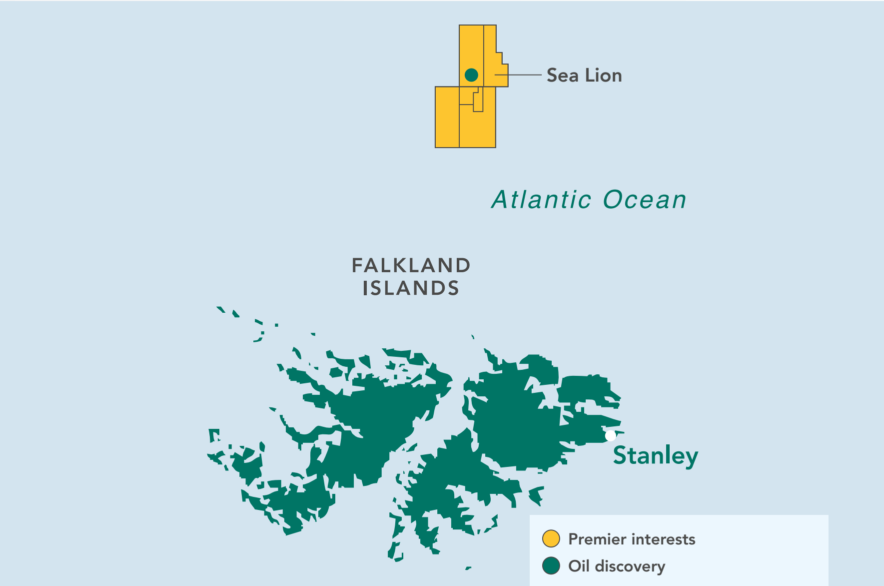
At a glance

Highlights and achievements

- FEED largely completed
- Capex to first oil reduced from US$1.8bn to US$1.5bn
- Cash cost breakeven of the project reduced to less than US$45/bbl

Outlook

- Progress fiscal and commercial work streams
- Secure a funding solution for the development



Development

During 2016, Premier undertook FEED on the Sea Lion Phase 1 development. Phase 1 is expected to recover 220 mmbbls from the north-east and north-west sections of the field located in the PL032 licence area. FEED contracts were awarded to SBM Offshore for the FPSO, Subsea 7 for the subsea installation, NOV for the flexible flowlines and One Subsea for the subsea production system.

Over the course of 2016, the four main contractors worked collaboratively with Premier and also with candidate well services and logistics contractors to optimise the facilities design and installation methodology. This included the optimisation of the single drill centre subsea layout to reduce installation costs. As a result of this work, Premier has reduced its pre-first oil capex estimate from US$1.8 billion to US$1.5 billion.

Premier has also seen significant reductions in its estimates of field support services, including supply boats, helicopters and shuttle tankers. Consequently, field operating costs for Sea Lion are now estimated at US$15/bbl, down from over US$20/bbl, while the total project breakeven cost has reduced to just below US$45/bbl from US$55/bbl.

Premier has assembled bid packages for drilling, subsea production systems and certain logistics items, which are ready to be issued to the market when appropriate in order to convert current proposals, derived through extensive market engagement, into binding agreements.

In 2016, Premier secured approval from the Falkland Islands Government for an extension to the Sea Lion Discovery Area licence to April 2020. The focus is now on securing an appropriate funding solution for Phase 1 of the project.

The overall strategy to develop the North Falklands Basin remains a phased development solution, starting with Sea Lion Phase 1 which will develop 220 mmbbls in PL032. A subsequent Phase 2 development will recover a further 300 mmbbls from the remaining reserves in PL032 and the satellite accumulations in the north of the adjacent PL004. There is also a further 250 mmbbls of low risk, near field exploration potential which could be included in either the Phase 1 or Phase 2 developments. Phase 3 will entail the development of the Isobel/Elaine fan complex in the south of PL004, subject to further appraisal drilling.

Exploration

In January 2016, Premier completed its exploration programme in the North Falklands Basin with the successful re-drill of the Isobel Deep well. The well confirmed the oil discovery encountered in the original Isobel Deep well and, in addition, discovered new hydrocarbons in additional sandstones.

Exploration

Premier has continued to reshape and focus its exploration portfolio on under-explored but proven hydrocarbon basins with the potential to develop into new business units in 2018 and beyond.

Priority is being given to lower cost operating environments whilst reducing exposure elsewhere. Premier plans to drill the large Zama structure in Mexico in the second quarter of 2017.

At a glance

Highlights and achievements

- Exercised option to increase equity interest in Mexico Block 7 to 25%
- 4,000 km^2 of fast track seismic data acquired across our Ceará acreage in Brazil
- High grading portfolio of opportunities in the UK Southern Gas Basin

Outlook

- Drill the Zama well on Block 7 in Mexico
- Interpret 3D seismic surveys acquired across our Ceará acreage in Brazil to identify drilling targets

Mexico

During 2016, the Mexico Joint Venture reprocessed the existing 3D seismic data and matured a number of prospects across its Blocks 2 and 7 in the Sureste Basin as candidates to be drilled in 2017 and 2018. In particular, Premier and its partners completed the technical evaluation of their Block 7 acreage including the amplitude-supported Zama prospect which has a well-defined flat spot, an indicator of potential hydrocarbons. A rig has been contracted to drill the low-risk Zama Prospect in the second quarter of 2017 with the overall Zama structure estimated to have a P90-P10 gross unrisked resource range of 100-500 mmboe (the majority of which is on Block 7).

Premier currently holds a carried 10 per cent interest in Block 2, whilst on Block 7 Premier elected to exercise its option to increase its equity to a 25 per cent paying interest in December 2016, subject to the Mexican government ('CNH') approval. Premier continues to evaluate opportunities for growth in Mexico.

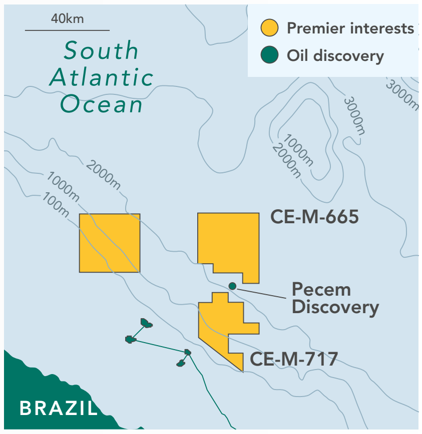
Brazil

Premier received 4,000km² of fast-track seismic data across all three of its Ceará Basin blocks in 2016. This data is being interpreted to map promising plays and prospects for future drilling locations on the blocks. Final processed broadband seismic data is due to be delivered in April 2017 and well locations will be selected from this during the course of 2017.

Premier continues to leverage its position as the largest acreage holder in the Ceará Basin, along with its growing experience in Brazil, to coordinate operational synergies. In 2016, the installation of offshore buoys and moorings for a collaborative meteorological and oceanographic data campaign was completed to gather the data required for obtaining drilling licences in the basin. This data gathering operation is one of many joint operator initiatives that Premier is either participating in or leading in the Ceará basin, helping to reduce costs.

In August 2016, Premier obtained a licence extension from the Brazilian Government ('ANP') to July 2019 on its operated licences CE-M-717 and 665. A similar extension was also obtained by Total, operator of licence CE-M-661. The extensions will enable Premier to realise further cost synergies with other operators in the Equatorial Margin with drilling operations planned for the first half of 2019.

In the Foz do Amazonas basin, Premier completed its evaluation of new 3D seismic data across block FZA-M-90 and decided to exit. Premier's 35 per cent interest in the block was transferred to operating partner Quieroz Galvão E&P. The farm-out agreement for this block was completed in December 2016 and is awaiting the final approval of the ANP.



Portfolio management

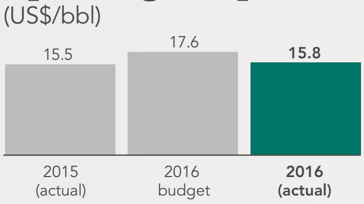
Premier has continued to focus its exploration efforts on under-explored but proven hydrocarbon basins. In light of current capital allocations, Premier's exploration portfolio has become increasingly concentrated. Over the course of 2016, Premier successfully relinquished or sold 16 licences, including a number of licences acquired as part of the acquisition of the E.ON portfolio. A further 11 licences are scheduled for relinquishment subject to government approvals. In particular, Premier exited its 35 per cent interest in Block FZA-M-90 in the Foz do Amazonas Basin in December (subject to ANP approval) enabling the Group to focus its Brazilian exploration efforts on its core licences in the Ceará Basin.

Premier has also successfully exited its position in Iraq (subject to final government approval) and the Saharawi Arab Democratic Republic.

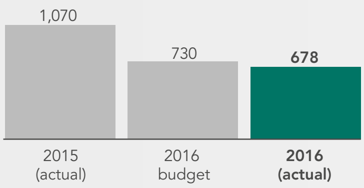
Resilient operating cash flows in a challenging commodity price environment

Richard Rose
Finance Director

Operating cost per barrel
(US$/bbl)



Capex
(US$m)



Context

Consistent with the last two years, 2016 continued to provide a challenging macro-economic environment. Against this backdrop, however, operational performance remained strong with production for the full-year averaging 71.4 kboepd and averaging more than 80 kboepd during the fourth quarter of 2016. This increase was driven by the successful completion of the acquisition of the E.ON portfolio and first oil from the Solan field. We continue to actively manage operating costs which, at US$15.8/bbl, are below what had been budgeted for the year, benefitting from tight cost control, a weakened £ exchange rate and high operating efficiency of over 90 per cent across the portfolio.

In addition, during 2016 we commenced discussions with our lending groups on the terms of our existing finance facilities. In February 2017 we reached an agreement in principle with our lender groups on revised terms. The revised terms include amendments to our financial covenants, deferral of final maturity dates to May 2021 and beyond and a margin uplift on interest payable to the lenders. The process of finalising the revised refinancing and implementation documents is ongoing and completion of the refinancing is expected by the end of May 2017. Once finalised, the agreed terms will give Premier sufficient liquidity to operate in the current oil price environment, deliver our sanctioned projects and to continue to invest in the wider business at appropriate levels of equity interests.

Business performance (US$ million)	2016	2015
Operating loss	(145.9)	(707.8)
Amortisation and depreciation	340.3	326.7
Impairment charge on oil and gas properties	556.2	1,023.7
Exploration expense and pre-licence costs	58.4	109.0
Gain on disposal of non-current assets	–	(1.2)
Reduction in decommissioning estimates	(75.7)	–
Acquisition of subsidiaries:		
– Excess of fair value over consideration	(228.5)	–
– Costs related to the acquisition	21.6	–
EBITDAX	526.4	750.4

EBITDAX for the year was US$526.4 million compared to US$750.4 million for 2015. The lower EBITDAX is mainly due to lower realised oil prices, including a reduction in the value of our oil hedges settled in the year, partially offset by an increase in volumes lifted following the acquisition of the E.ON assets and first oil from Solan.

Acquisition of the E.ON assets

In April 2016, Premier completed the acquisition of the E.ON assets for cash consideration of US$135.0 million, including working capital adjustments. The acquisition was accounted for as a business combination under the requirements of IFRS 3 Business Combinations and the assets and liabilities acquired have been fair valued on the date of completion utilising Premier's corporate assumptions for oil and gas prices, reserves estimates and discount rates. The fair value of the net assets acquired was US$363.5 million resulting in an excess of fair value over consideration of US$228.5 million. The excess of fair value over consideration has arisen primarily due to E.ON's strategic decision to exit the UK and Norway E&P sectors and Premier's willingness to take over the entire UK up-stream operation. Separately, costs related to the acquisition of US$21.6 million have been recognised in the period. This is made up of acquisition costs of US$5.6 million and the recognition of a post-acquisition settlement of US$16.0 million related to redundancy costs.

> "We continue to deliver underlying cost reductions to meet the challenge of weak oil prices whilst capital expenditure decreased due to the completion of Solan and savings on Catcher."

Income statement

Production and commodity prices

Group production on a working interest basis averaged 71.4 kboepd compared to 57.6 kboepd in 2015. Higher production year-on-year is a result of first oil from the Solan asset and the uplift in production from the E.ON assets acquired in the year. Entitlement production for the period was 66.1 kboepd (2015: 53.4 kboepd).

Premier realised an average oil price for the year of US$44.1/bbl (2015: US$52.6/bbl). Post hedging, realised oil prices increased to US$52.2/bbl (2015: US$79.0/bbl).

In the UK, average prices achieved for National Balancing Point gas ('NBP') were 41.5 pence/therm pre-hedging and 47.6 pence/therm post-hedging. Average gas prices for the Group's non-UK assets were US$4.6 per thousand standard cubic feet ('mscf') (2015: US$5.9/mscf). Gas prices in Singapore, linked to high sulphur fuel oil ('HSFO') pricing and in turn, therefore, linked to crude oil pricing, averaged US$7.8/mscf (2015: US$8.0/mscf) pre-hedging, and increased to US$8.6/mscf post-hedging. The average price for Pakistan gas (where only a portion of the contract formulae is linked to energy prices) was US$2.8/mscf (2015: US$3.9/mscf).

Total sales revenue from all operations fell to US$983.4 million (2015: US$1,067.2 million), due to the fall in average realised prices post-hedging, offsetting higher year-on-year production.

Operating costs

Cost of sales comprises cost of operations, change in lifting position, inventory movement, royalties and amortisation and depreciation of property, plant and equipment ('PP&E'). Cost of sales for the Group was US$767.1 million for 2016, compared to US$661.0 million for 2015.

Operating costs	2016	2015
Cost of operations (US$ million)	412.8	323.6
Unit cost of operations (US$ per barrel)	15.8	15.5
Amortisation of oil and gas properties (US$ million)	332.2	315.9
Unit amortisation rate (US$ per barrel)	12.7	14.8

As a result of the weaker sterling exchange rate and continued cost savings across the business, operating costs of US$15.8/bbl are 10 per cent below budget. We have maintained costs at these low levels due to improved operating efficiency across several of the Group's assets and continued reductions in underlying cost from further contract reductions with suppliers, including our revised FPSO arrangements on Chim Sáo.

Impairment of oil and gas properties

An impairment charge of US$652.2 million (pre-tax) has been recognised in the income statement relating to the Solan field in the UK North Sea (US$443.7 million post-tax). The impairment charge is driven by a reduction in the 2P reserves expected to be recovered from the asset over its economic life and a US$5/bbl reduction in the Group's long-term oil price assumption to US$75/bbl (real). The impairment charge is partially offset by the recognition of a reversal of impairment credit of US$96.0 million, pre-tax (US$60.0 million post-tax). The reversal has been recognised on the Huntington and Kyle assets in the UK, the Chim Sáo asset in Vietnam and the Kadanwari asset in Pakistan. The reversal of impairment is principally caused by an increase in the short-term oil price assumption, based off the forward curve as at the balance sheet date, and an increase in Chim Sáo 2P reserves. After recognition of a net impairment charge of US$556.2 million (US$383.7 on a post-tax basis) there is US$2,726.2 million capitalised in relation to PP&E assets and US$240.8 million for goodwill.

Revision in decommissioning estimates

The weakness in the sterling dollar exchange rate at 31 December has been the principal cause of a US$75.7 million gain being credited to the income statement in respect of revised decommissioning estimates. Whilst any positive foreign exchange revision would generally have been credited to the decommissioning asset in the balance sheet, the majority relates in this case to late life UK assets which have been fully depreciated. As such, a significant portion of this revision has been taken as a credit to the income statement in the period.

Exploration expenditure and pre-licence costs

Exploration expense and pre-licence expenditure costs amounted to US$58.4 million (2015: US$109.0 million). This includes the write-offs relating to the Laverda, Slough and Bagpuss prospects drilled in 2016 and costs that had been capitalised in relation to the Foz licence interest in Brazil. After recognition of these expenditures, the exploration and evaluation asset remaining on the balance sheet at 31 December 2016 is US$1,011.4 million, principally for the Sea Lion and Tolmount assets.

General and administrative expenses

Net G&A costs to the Group of US$24.1 million (2015: US$14.4 million) increased year-on-year due to the inclusion of E.ON's unallocated G&A for the period since the completion of the acquisition. Underlying G&A, without the acquisition, would have fallen year on year and total net G&A costs to the Group in 2017 are expected to return to 2015 levels.

Finance gains and charges

Interest revenue and finance gains reduced to US$13.2 million from US$40.7 million in 2015. The principal reason for this reduction is that, following the acquisition of the remaining share of Solan in 2015, interest receivable is no longer being recognised on the loan to Joint Venture (JV) partner. Gross finance costs, before interest capitalisation, have increased from US$219.4 million to US$293.7 million. Interest costs capitalised decreased from US$58.8 million to US$34.0 million reflecting the finalisation of the Solan development.

Taxation

The Group's total tax credit for 2016 is US$522.0 million (2015: US$241.1 million charge) which comprises a current tax charge for the period of US$42.0 million and a non-cash deferred tax credit for the period of US$564.0 million. The high effective tax rate for the year is significantly impacted by a number of UK specific items. The most significant of these is a tax credit of US$455.8 million due to recognition of UK tax losses and allowances in the period, driven by an anticipated increase in future profitability from the acquisition of the E.ON assets. This has been partially offset by a charge of US$161.2 million in relation to the supplementary charge rate from 20 per cent to 10 per cent during the year, with the adverse impact of this change mitigated by US$27.1 million as the rate applicable to the reversal of certain temporary differences on decommissioning remained unchanged. A credit of US$61.2m has also been recognised for a ring fence expenditure supplement claim made during the year in the UK.

Finally, an element of the Group's UK impairment charge for the year does not attract a deferred tax offset which reduces the associated credit by approximately US$63.2 million. After adjusting for the net impact of the above items of US$319.1 million, the underlying Group tax charge for the period is a credit of US$202.9 million and an effective tax rate of 52 per cent.

The Group has a net deferred tax asset of US$1,111.4 million at 31 December 2016 (2015: US$678.3 million).

Profit after tax

Profit after tax is US$122.6 million (2015: loss of US$1,103.8 million) resulting in a basic earnings per share of 24.0 cents from continuing and discontinued operations (2015: loss of 216.1 cents).

Cash flows

Cash flow from operating activities was US$431.4 million (2015: US$809.5 million) after accounting for tax payments of US$60.9 million (2015: US$94.0 million).

Capital expenditure in 2016 totalled US$678.1 million (2015: US$1,070.1 million).

Capital expenditure (US$ million)	2016	2015
Fields/development projects	**548.6**	847.4
Exploration and evaluation	**126.6**	216.8
Other	**2.9**	5.9
Total	**678.1**	1,070.1

The principal development projects were the Solan and Catcher fields in the UK. Exploration expenditure mainly related to our exploration campaign in the Falkland Islands, which concluded in the first quarter of 2016, and Brazil. In addition, payments related to decommissioning in the period were US$62.3 million and included a one-off US$53 million catch up payment into escrow for future decommissioning of Chim Sáo, the balance of which is held within non-current other receivables.

Balance sheet position

Net debt

Net debt at 31 December 2016, excluding Letters of Credit, amounted to US$2,765.2 million (2015: US$2,242.2 million), with cash resources of US$255.9 million (2015: US$401.3 million).

Net debt (US$ million)	2016	2015
Cash and cash equivalents[1]	**255.9**	401.3
Convertible bonds[2]	**(237.4)**	(232.9)
Other debt[2]	**(2,783.7)**	(2,410.6)
Total net debt	**(2,765.2)**	(2,242.2)

1 Includes JV partners' share of cash of US$46.4 million and cash collateral for Mexico exploration of US$6.6 million.

2 The carrying amounts of the convertible bonds and the other long-term debt on the balance sheet are stated net of the unamortised portion of the issue costs of US$0.1 million (2015: US$0.3 million) and debt arrangement fees of US$17.5 million (2015: US$28.1 million) respectively.

Long-term borrowings consist of convertible bonds, UK retail bonds, senior loan notes and bank debt. The £100.0 million and US$150.0 million term loans maturing in November 2017 have been classified as short-term on the balance sheet. Once the Group's refinancing is completed, maturity of both of these loans will be extended out to May 2021.

Premier retains significant cash, at 31 December 2016, of US$255.9 million and undrawn facilities of US$390 million, giving Liquidity of US$592.9 million (31 December 2015: US$1,251.3 million), once cash of US$53 million held on behalf of our JV partners is removed from the calculation of Liquidity.

Decommissioning funding

As part of the E.ON acquisition, Premier entered into a separate Decommissioning Liability Agreement 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 the net decommissioning costs of the two assets above £40 million up to a ceiling of £130 million. This results in a maximum possible funding of £63 million from E.ON. At 31 December 2016, a long-term decommissioning funding asset of US$66.7 million has, therefore, been recognised based on the year end sterling dollar exchange rate.

Provisions

The Group's decommissioning provision increased to US$1,325.3 million at 31 December 2016, up from US$1,062.6 million at the end of 2015. The increase is driven by the recognition of a long-term provision for decommissioning related to the E.ON assets of US$427.9 million, which has been partially offset by a reduction for the UK assets driven by the weakening of the £:US$ exchange rate at 31 December 2016.

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, Net Debt and Liquidity and are defined in the glossary.

Financial risk management

Commodity prices

At 31 December 2016, the Group had 1.5 mmbbls of open oil swaps at an average price of US$45.8/bbl. The fair value of these oil swaps at 31 December 2016 was a liability of US$18.3 million (2015: asset of US$98.0 million), which is expected to be released to the income statement during 2017 as the related barrels are lifted. Furthermore, in December 2016, the Group paid total premiums of US$4.6 million to enter into oil option agreements for 1.8 mmbls at an average price of US$50.7/bbl. These options will be settled during 2017 and are an asset on the Group's balance sheet with a fair value at 31 December 2016 of US$3.5 million. Included within physically delivered oil sales contracts are a further 1.7 mmbls of oil that will be sold for an average fixed price of US$55.3/bbl during 2017 as these barrels are delivered.

In addition, the Group has forward UK gas sales for 132 mm therms at an average price of 48 pence/therm at 31 December 2016 that will be physically settled during 2017 and into the first half of 2018. The fair value of this asset at 31 December 2016 was US$10.0 million.

During 2016, forward oil sales of 5.3 mmbbls, forward gas sales of 36 mm therms and forward HSFO sales of 72,000 mt expired resulting in a net credit of US$117.0 million (2015: US$278.9 million) which has been included in sales revenue for the year.

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$57.4 million on its outstanding foreign exchange contracts (2015: loss of US$19.1 million). The Group currently has £150.0 million retail bonds, €60.0 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, convertible bonds, UK retail bonds, term loans and revolving credit facilities. As at year end, 52 per cent of total borrowings is fixed or has been fixed using the interest rate swap markets. On average, the cost of drawn funds for the year was 4.6 per cent. Mark-to-market credits on interest rate swaps amounted to US$1.0 million (2015: credit of US$7.7 million), which are recorded as movements in other comprehensive income.

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 2016, claims amounting to US$91.0 million (gross) were agreed and settled in relation to exploration drilling in the Falkland Islands.

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.

At year end, the Group continued to have significant headroom on its borrowing facilities. However, whilst the Group continues to have sufficient liquidity available under these existing facilities, the Group's projections currently indicate that without an amendment to the covenant limits a breach of one of the financial covenants applicable to the Group's borrowing facilities is likely to arise in respect of the next covenant testing period which, as part of the lender discussions outlined below, has been deferred on a rolling one month basis and is due to be tested for the 12 month period ending 31 March 2017. If there is a breach of a financial covenant, under the existing terms of the Group's financing facilities the Group's debt holders on all of the Group's facilities will have the right to request repayment of the outstanding debt and to cancel the relevant facilities.

Discussions with Premier's lending groups on the terms of a refinancing are substantially progressed and a long form term sheet has been agreed with advisers to the principal lending groups and the Coordinating Committee of the Revolving Credit Facility ('RCF') banks. The terms of the expected refinancing are summarised in note 26 to the financial statements. The process to finalise a lock-up agreement with the lenders in respect of the refinancing is also well advanced. Once this has been agreed the process of a Court Scheme of Arrangement will commence, alongside an investment circular process to obtain shareholder approval.

The risk that the expected refinancing will not be approved by Premier's lending groups and shareholders or that the covenant test will not continue to be deferred until approval is received constitutes a material uncertainty that may cast significant doubt upon the use of the going concern basis of accounting. However, the Directors have a reasonable expectation that the refinancing will be completed on the terms that have been negotiated and also that the covenant testing period under the Group's existing facilities will continue to be deferred on a rolling one month basis until the refinancing is finalised. On the assumption that the refinancing of the Group's facilities is finalised as expected, the Group's projections indicate that, unless there are significant falls in prevailing oil prices or forecast production levels, the Group will have sufficient liquidity and will be able to operate within the revised financial covenants for a period of at least 12 months from the date of finalising the 2016 Annual Report and Financial Statements.

Accordingly, after making enquiries and considering the risks and uncertainties described above, the Directors have a reasonable expectation that the Group and Company will have adequate resources to continue in operational existence for the foreseeable future, being at least the next 12 months and, therefore, 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 approach 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 significant risks for the next 12 months as being:

- Continued oil price weakness
- Cash generation and ability to fund existing and planned projects
- Loss of value if projects are deferred
- Continued underperformance from the Solan field
- Failure to deliver Catcher to schedule
- Political and security instability in countries of current and planned activity
- Failure to engage constructively with the Oil and Gas Authority and other relevant bodies
- Timing and uncertainty of decommissioning liabilities
- Financial viability of key suppliers and partners
- Ability to maintain core competencies

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

Responsible behaviour

Total Recordable Injury Rate ('TRIR')

1.95
per million man hours

High Potential Incident Rate ('HiPoR')

1.20
per million man hours

Process Safety Loss Of Primary Containment ('LOPC')

11
events

Greenhouse Gas Intensity

186
tonnes CO_2e per thousand tonnes of production

Total Economic Distribution

825
US$ million

Premier is committed to behaving responsibly and maintaining the highest possible standards in everything we do. We are long-standing members of both the FTSE4Good Index and the UN Global Compact.

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

CR

Read more in our 2016 Corporate Responsibility Report:
www.premier-oil.com (Corporate Responsibility)

A. Principles, frameworks and standards

We recognise that we must earn our social licence to operate through a track record of responsible and effective performance. We are guided in this respect by our values and policies, as well as a range of external principles and standards, which are summarised below.

Our values

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

We are guided by our overarching Corporate Responsibility Policy, which is supported by the following policies:

- Global Code of Conduct
- Health, Safety, Environment and Security Policy
- Community Investment Policy
- Human Rights Policy

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

Summary of principles, frameworks and standards

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	www.premier-oil.com (Company Policies)
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	

External	
United Nations Global Compact (participant)	www.unglobalcompact.org
International Association of Oil & Gas Producers ('IOGP') (member)	www.iogp.org
International Petroleum Industry Environmental Conservation Association ('IPIECA') (association member via the IOGP)	www.ipieca.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 Risk Management System)	www.iso.org

B. Materiality

Premier has carried out a materiality assessment process to identify and prioritise our material corporate responsibility issues. This assessment process, which is explained below, draws on Premier's existing risk assessment process as well as its stakeholder engagement activity.

Materiality assessment

In line with the Global Reporting Initiative G4 Guidelines, this report is structured around our most significant corporate responsibility issues. Their significance has been assessed (in conjunction with third-party experts) on the basis of:

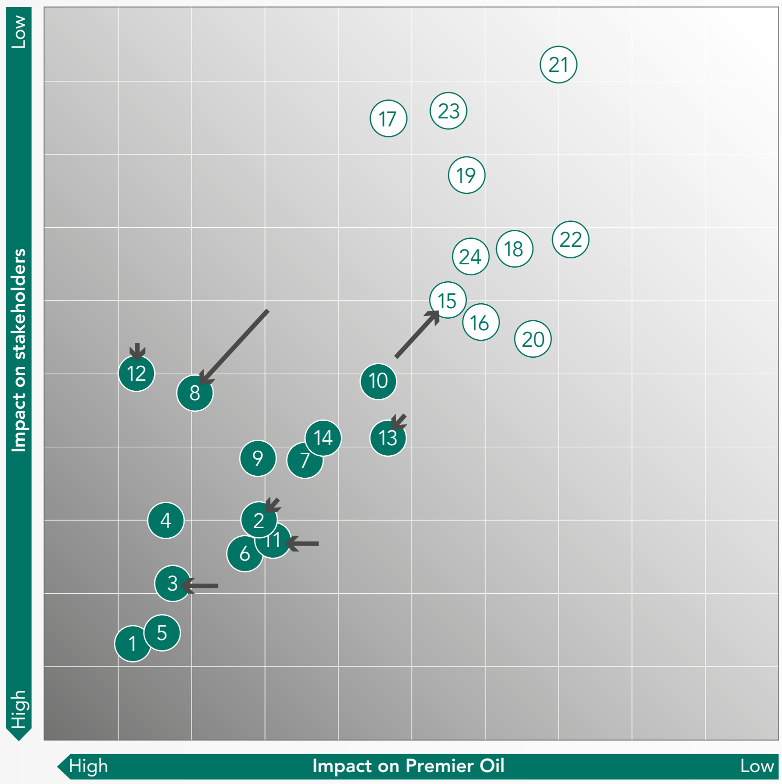
- The potential/actual impact of Premier on stakeholders and their interests
- The potential/actual impact of stakeholders on Premier and the achievement of its business objectives

The five steps of our materiality assessment process are shown overleaf.

Material issues

The corporate responsibility materiality matrix sets out the results of the assessment process. Presentation of an issue as 'non-material' on this matrix does not mean it is irrelevant 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 our Corporate Responsibility Report.

Corporate responsibility materiality matrix



Arrows indicate key shifts in our material issues in 2016.

Material issues

1. Asset integrity and process safety
2. Climate change and GHGs
3. Economic contributions
4. Effluents and waste
5. Emergency preparedness
6. Employee engagement
7. Environment (general)
8. Generating value for communities
9. Governance and ethics
10. Human rights
11. Occupational health and safety
12. Public policy and government relations
13. Responsible supply chain management
14. Workforce

Non-material issues

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

Principal changes in material issues in 2016 include:

- Increased significance of 'Generating value for communities' – reflecting the economic impact of reduced procurement expenditure on host societies
- Increased significance of 'Occupational health and safety' – reflecting Premier's reassessment of the security environment in a number of transit locations
- Reduced significance of 'Learning and development', which is now a non-material issue, for the purposes of this report. This reflects Premier's typically low level of attrition, the experienced nature of our workforce, and our enhanced ability to 'buy in' skills when necessary, due to the current availability of experienced and competent professionals for employment in the sector
- Inclusion of 'Cyber security' as a new, non-material issue – reflecting Premier's view that it is a distinct and growing challenge for the oil and gas sector that must be proactively managed

Materiality assessment process

1. Research:
Desk-based review of events, activities and relationships in 2016 likely to affect the 2015 prioritisation of those Aspects listed in the G4 Guidelines that are significant for Premier. These include:
- Premier's activities and relationships
- Operating contexts
- Stakeholders
- External events and trends

2. Internal review:
Engagement with Premier functional managers to identify any further adjustments.

3. Initial adjustment:
Re-prioritisation of Premier's relevant G4 Aspects in light of steps 1 and 2.

4. Integration of stakeholder input:
Further adjustment of the G4 Aspects that are significant for Premier in light of:
- Business unit perceptions of local stakeholder issues
- External feedback from our Stakeholder Forum

5. Finalisation of the 2016 materiality assessment:
This includes the grouping of Premier's material G4 Aspects into our most significant issues

Key community investment projects in 2016

Supporting infrastructure development in the remote Anambas and Natuna island communities, Indonesia

Context
Since 2013, Premier's Indonesian business unit has participated in a collaborative programme to develop and renovate infrastructure and public facilities across the Natuna and Anambas islands. Other programme participants include Premier's joint venture partners in the region – Conoco Phillips, Star Energy and Lundin Petroleum.

The remote Natuna and Anambas archipelagos are close to Premier's operations in the Natuna Sea. The islands are characterised by relatively low levels of development and a lack of high quality infrastructure and public services – a situation not uncommon amongst Indonesia's more remote island communities.

Over the course of three years, Premier has invested more than US$300,000 in the programme, supporting a variety of projects.

Actions in 2016
In 2016, Premier donated US$80,000 to support several projects run through the programme, including the following on the Anambas islands:

- Renovation of the main roads providing access to both the Ladan and Teluk Bayur villages

- Renovation of a mosque used by community members in the village of Payamaram

In addition, Premier supported the renovation of jetty facilities in the village of Mekar Jaya in the Natuna islands, as well as the building of the following facilities on the Anambas islands:

- A meeting hall in the village of Putik
- A sports facility in the village of Candi
- A meeting centre in the village of Tebang

Impacts
Since its inception, the collaborative investment programme has benefitted thousands of islanders across Natuna and Anambas.

Strengthened transport infrastructure has improved access to and from numerous remote communities. This has enhanced local trading and employment opportunities, as well as individuals' access to public and private services.

The construction of community centres, the renovation of places of worship and investment in cultural preservation in 2016 will help reinforce the local social and cultural fabric.

C. High-level material issues

The following section provides an overview of our material corporate responsibility issues. It explains why these issues are material to us, how we manage them and some of the key performance indicators we use to measure our performance.

Further details can be found in our 2016 Corporate Responsibility Report.

CR

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

- Peace, justice and strong institutions
- Decent work and economic growth
- Gender equality
- Life below water
- Climate action
- Industry, innovation and infrastructure

We map the SDGs that align with Premier's material issues throughout our 2016 Corporate Responsibility Report.

SUSTAINABLE DEVELOPMENT GOALS CR

Governance and business ethics

Why this issue is material

In addition to compliance with applicable laws and regulations, our success is dependent upon the trust of key stakeholders, including host governments and societies, actual and potential investors, as well as our business partners and suppliers.

We are therefore committed to upholding and, where feasible, strengthening good governance and ethical standards wherever we do business.

How we manage this issue

Our Corporate Responsibility Policy is owned and promulgated by our Board, whilst its supporting management systems are owned and implemented by our Executive Committee and the appropriate Group Functional Managers. In 2016, the principal topics arising from Premier's activities that have economic, social and environmental impacts on stakeholders, and the executives responsible for overseeing them were:

- Health, safety, environment and security ('HSES'), overseen by the Group Development and Operations Manager
- Human rights, government relations and risk management, overseen by the Group Head of Corporate Services
- Human Resources, overseen by the Group Human Resources Director
- Legal and regulatory compliance, and ethical behaviour, overseen by the Group General Counsel

Premier's Business Ethics Policy supports our overall Corporate Responsibility Policy, and our behaviour is governed by our Global Code of Conduct (the 'Code'). Compliance with the Code is sponsored by a Company-wide leadership group, comprised of business ethics champions from each business unit. The Group meets annually to discuss opportunities for improving performance.

The Code is compliant with the UK Bribery Act and covers:

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

All employees and those associated with Premier, such as consultants, are required to adhere to the Code. We also require our business partners, including joint venture partners, contractors, customers and suppliers, to apply the principles of the Code or equivalent standards. We do so by including business ethics provisions in our contracts.

Any breach of the Code by our employees will result in disciplinary action, and, in extreme cases, in instant dismissal and referral to the relevant law enforcement authorities.

Whistleblowing hotline

Premier encourages employees, contractors and agency workers to alert line managers if they suspect that the Company or anyone working on behalf of the Company has violated the Code. Premier also provides a confidential and well-publicised independent third-party reporting hotline for employees that wish to raise concerns via other procedures. No material incidents of corruption were identified in 2016.

Key indicators – governance and business ethics

Material issue	Premier Oil metric	2016	2015	2014
Governance and ethics	Disciplinary actions or dismissals for breaches of the Code	**0**	0	0
	New employees receiving induction training on the Code	**100%**	100%	100%
	Existing employees receiving training on the Code	**71%**	N/A[1]	96%

1 As some of our employees receive training on a triennial basis, no employees required refresher training in 2015.

Health, safety and security

Why this issue is material

The health, safety and security risks associated with offshore oil and gas operations are such that the strongest health, safety and security management is vital. This is due to the potential impacts of health, safety and security incidents on our employees and contractors, as well as the need to maintain our:

- Operational continuity
- Regulatory compliance
- Corporate reputation

Key issues in this regard include:

- Process safety and asset integrity
- Emergency preparedness
- Occupational health and safety
- Employee and asset protection

How we manage this issue

Premier's Health, Safety, Environment and Security ('HSES') Policy is implemented through our HSES Management System. The system is comprised of a comprehensive set of standards and procedures, which form part of Premier's Business Management System ('BMS'). These include our Golden Rules, which are designed to help address the most common causes of serious incidents at oil and gas facilities.

The HSES Management System applies to our global operational activities and stipulates how HSES issues should be managed throughout the hydrocarbon exploration, development and production cycle. Certain elements also apply to our assets that are operated by third parties and to contracted activities. The management system is externally certified to the OHSAS 18001 health and safety management system standard for our production facilities and drilling operations.

We believe that major accidents can always be avoided and we seek to ensure that our employees, contractors, visitors, neighbours and the environment receive a high level of protection. To support this, we frequently review our operations to assess the risk of major accidents and to implement controls designed to prevent their occurrence. HSES performance is monitored, measured and reported on an ongoing basis to the Executive Committee and to the Board.

Key indicators – health and safety

Material issue	Premier Oil metric	2016	2015	2014
Occupational health and safety	Fatalities	**0**	0	2
	Lost work day cases ('LWDC')	**6**	3	7
	Restricted work day cases ('RWDC')	**1**	2	2
	Medical treatment cases ('MTC')	**6**	4	5
	Target recordable injury rate[2]	**1.32**	1.75	2.50
	Total recordable injury rate ('TRIR')[2]	**1.95**	1.27	1.48
	High Potential Incident Rate ('HiPoR')[2]	**1.20**	1.13	1.02
	Man hours worked (million)	**6.7**	7.1	10.8
Asset integrity and process safety	Total process safety loss of primary containment ('LOPC') events	**11**	8	11

2 Per million man hours.

Environment

Why this issue is material
All Premier's operated activities occur offshore, where we drill for and extract both oil and gas from sub-surface reservoirs for transport to international markets. These activities can have negative impacts on water quality, air quality and local ecosystems. Any failure to take reasonable steps to avoid and/or mitigate these impacts poses a material risk to Premier's reputation and to our ability to meet our legal and regulatory obligations.

Our most significant environmental issues relate to:

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

Key indicators – environment[3]

Material issue	Premier Oil metric	2016	2015[6]	2014
Climate change and GHGs	Total Scope 1 GHG emissions (tonnes)[4]	**846,096**	826,330	947,724
	Total Scope 2 GHG emissions (tonnes)[5]	**964**	1,000	979
	GHG intensity (tonnes/1,000 tonnes of production)	**186[7]**	219	242
Environment (general)	Hydrocarbon spills (tonnes)	**2.2**	0.9	0.3
	Hydrocarbon in produced water (ppm-wt)	**9.1**	9.1	9.0
Resource use	Energy consumption (GJ/tonne of production)	**2.2**	2.3	2.2

How we manage this issue
The controls in our HSES Management System manage our environmental performance across the lifecycles of our operations and projects. The majority of our operated production and drilling activities are certified to the ISO 14001 environmental management standard[8].

Our HSES Management System requires us to perform baseline surveys and prepare environmental and social impact assessments ('ESIAs') for each operated activity[9]. The assessments address our:

- Physical impacts
- Ecosystem impacts
- Socio-economic impacts

We gauge the significance of each impact and assess how we can reduce it to a level that is 'as low as reasonably practicable' ('ALARP'). In this regard, we decide on the implementation of potential impact controls on the basis of efficacy, practicality and cost.

Our business units record key environmental metrics on an ongoing basis. These metrics are analysed every month 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.

3 We report our environmental performance in line with the IPIECA Oil and Gas Industry Guidance on Voluntary Sustainability Reporting and the GRI Sustainability Reporting Guidelines. Our greenhouse gas ('GHG') emissions performance is benchmarked against an industry database compiled and published by the IOGP.

4 Calculations of Scope 1 emissions 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.

5 Scope 2 calculations are based on emission factors supplied by the UK Department of Energy and Climate Change (now Department for Business, Energy and Industrial Strategy), the UK Department for Environment, Food & Rural Affairs and International Energy Agency 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 CO_2 equivalent.

6 Our total Scope 1 GHG emissions and GHG intensity figures for 2015 have been revised, following diesel under-reporting at our Balmoral asset in 2015. See our 2016 Corporate Responsibility Report for more information.

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

8 The recent exceptions are our new Solan asset, which began producing in mid-2016, as well as the producing assets Premier acquired from E.ON in April 2016. We plan to include these assets within the scope of our ISO 14001 certification in 2017.

9 When we carry out impact assessments (e.g. social and or environmental impact assessments), these typically involve significant stakeholder engagement. For example, in 2016 we submitted the Environmental Impact Statement for our Sea Lion project to the Falkland Islands Government ('FIG') for pre-application guidance. In support, we carried out a scoping and consultation process with all stakeholders.

Employees

Why this issue is material

Our business success is dependent on our ability to recruit, retain and motivate high quality, skilled employees and contractors.

To this end, Premier seeks to treat its people fairly, offer meaningful professional development and deliver rewards commensurate with employee performance.

Key issues in this regard include:

- Workforce profile
- Employee engagement (and rewards)

How we manage this issue

We manage our employees in line with our Corporate Responsibility Policy, our Human Rights Policy and our Global Code of Conduct.

The People Portal – Premier's online human resources information system – and BMS host a range of processes and guidance that form our Human Resource Management System. This includes processes and guidance relating to:

- Performance
- Resourcing
- Reward
- Competency management

The BMS helps us achieve an appropriate balance between consistent corporate policy requirements and flexible, local-level requirements across the Group.

We treat people fairly, equally and without prejudice, irrespective of gender, race, age, disability, sexual orientation – and giving due consideration to the benefits of diversity. This is reflected in our employment policies, which apply to all permanent and temporary staff, contractors and all job applicants.

We encourage our staff to develop their professional skills to the advantage of both the individual and the Company, and we provide experiential learning opportunities, coaching and training to support this objective. Although we do not currently employ any disabled people, this of course will extend to those disabled employees 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.

Premier encourages open communication between employees and managers on an ongoing basis. We use a number of one and two-way communication mechanisms to keep employees informed about wider Company issues and performance, including:

- Regular team meetings
- The Company intranet
- Messages from our Chief Executive
- Ongoing email communications on Company matters
- Town Hall staff meetings at each business unit, attended by visiting members of the Executive Committee and senior management

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

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

Key indicators – employees[10]

Gender balance as of end 2016	Male	Female
Total number of employees	604	195
Senior management[11,12]	99	13
Board	7	2

Material issue	Premier Oil metric	2016	2015	2014
Workforce	Number of employees at end of year/turnover during the year	**799/164**[13]	829/119	927/91
Employee engagement	Employee notice period for significant operational changes (unionised and non-unionised employees)	**1 month**	1 month	1 month

10 Women are typically under-represented in the oil and gas sector. It is not clear whether this relates to informal barriers to entry, self-selection and/or conscious/unconscious discrimination. In this context, we aim to ensure that our own management systems, practices and working culture do not unfairly impede female access to – and success within – our own workforce.

11 Senior management is defined as Grade 5 and above.

12 Three members of our Board are also part of senior management and are therefore not included in this figure.

13 One hundred and fourteen of the employees that left the Company had joined Premier as a result of our acquisition of E.ON's UK North Sea assets in April 2016. For more information, see our 2016 Corporate Responsibility Report.

Community relations

Why this issue is material

As Premier's operated assets are offshore, our relationships with local communities are not as critical for us as they may be for companies with onshore operations. Despite this, community relations remain 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 our reputation and social licence to operate
- The potential and actual impacts of our non-operated, onshore exploration and production activities in Pakistan and at Wytch Farm in the UK, and the potential for new onshore operations in the future

A key issue in this regard is our generation of value for local communities.

Should our activities have or threaten to have any undesired impacts on local communities, we take care to minimise them[14].

How we manage this issue

Premier's Community Investment Policy outlines our approach to building and maintaining relationships with communities. It is applied through our Community Investment Management System, which is aligned with IPIECA standards. Under the management system, we 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
- Audit and review

All our operations have established community engagement and investment programmes.

Challenging market conditions mean that we had to materially reduce the amount we spend on community investment in 2016.

Nonetheless, our business units have sought to use their reduced community investment budgets to protect the benefits delivered by existing community projects and to support highly impactful new projects.

Key indicators – community relations

Material issue	Premier Oil metric	2016	Change in 2016	2015	2014
Generating value for communities	Community investment spend (US$m)	**0.69**	**-22%**	0.88	1.07

14 No material impacts of this nature took place in 2016. 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.

Key community investment projects in 2016

Rehabilitating ex-military personnel and community members at HorseBack UK, UK

Context

HorseBack UK is a charity that empowers injured veterans to help themselves and others following their clinical recovery. In doing so, the charity provides purpose and community for those who have been injured serving their country. HorseBack UK is based in Aboyne, Aberdeenshire, the closest onshore region in the UK to Premier's North Sea operations.

The charity provides courses designed to build the confidence and self-esteem of participants, and ultimately support them on their journey to recovery.

As well as offering therapy through working with horses and being in the company of those with similar experiences, the courses also challenge participants to use teamwork and leadership skills to achieve various objectives. The courses are led by instructors who have also been affected by conflict – meaning that they and the participants can work together in an understanding and supportive environment.

Actions in 2016

In 2016, Premier donated US$34,000 to HorseBack UK. This financial assistance helped to:

- Employ an essential member of staff for another year
- Pay for animal husbandry costs

In addition, throughout 2016, HorseBack UK provided a series of leadership and team development courses for 16 Premier employees. This initiative is part of the charity's strategy to build mutually beneficial and more sustainable relationships with its corporate partners.

Impacts

Since its establishment, the courses and activities offered by the charity have supported the recovery of over 600 individuals from the local area and across the UK. Seventeen per cent of these course participants have managed to return to full-time employment, while 11 per cent went into full-time education. The funding provided by Premier has helped HorseBack UK to maintain these important activities and position the charity for future growth.

The success achieved by the charity over the past four years has resulted in HorseBack UK recently opening its programme to non-military participants. The charity is now able to reach those members of the community who can benefit from the services it offers, including those impacted by drug abuse, emotional trauma or disability.

www.horseback.org.uk

Society

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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

8 March 2017

Why this issue is material

Through our activities we have an impact on a range of stakeholders. Conversely, these stakeholders also have the potential to affect Premier's business at both a local and national level. It is therefore important that we respect the rights of local people, cooperate transparently and constructively with governments and other stakeholders, and deliver economic value to broader society.

Key issues in this regard are:

- Human rights
- Public policy and government relations
- Economic contributions

How we manage this issue

Our policies define our approach to interacting with society. These include our overarching Corporate Responsibility Policy, Code of Conduct, Human Rights Policy and Risk Management Policy. These policies are implemented through our associated management systems. We are also guided by the UN Guiding Principles on Business and Human Rights.

For further information on how we manage human rights in the supply chain, please see our 2016 Corporate Responsibility Report and our Anti-Slavery and Human Trafficking Statement.

www.premier-oil.com (Anti-Slavery and Human Trafficking Statement)

Key indicators – society

Material issue	Premier Oil metric	2016	Change in 2016	2015	2014
Human rights	Violations of our Human Rights Policy	0	N/A	0	0
Economic contributions	Economic value distributed (US$m)[15]	825	+17%	705	1,035

15 For example, operating costs, royalties, staff costs, finance costs, cash tax payments and community investments.

Good governance provides a sound framework to deliver our strategy successfully

Mike Welton
Chairman

Board composition (number of Directors)[1]

Chairman	1
Executive Directors	3
Non-Executive Directors	5

1 As at 8 March 2017.

Read more:
Board of Directors, page 70

Dear shareholder,

2016 again saw a year of volatile commodity prices. Against this challenging backdrop, your Board has continued to focus on its strategy to grow long-term value by investing in high quality production and development opportunities while maintaining exposure to exploration upside within a strict capital discipline framework. This strategy has enabled Premier to deliver a strong operational performance in 2016, resulting in record production.

In April 2016, the Company completed the acquisition of the E.ON portfolio. Funding the acquisition in a prolonged period of low commodity prices presented the Board with unique challenges, and in the first half of 2016 we entered into discussions with our lending groups to undertake a full refinancing of our existing debt facilities. In February 2017, agreement was reached in principle with our lending groups on revised terms and completion of the refinancing is targeted for the end of May 2017.

In order to deliver our strategy successfully and deal effectively with the immediate challenges faced by the business in respect of the refinancing, it is imperative that we have an effective Board that can provide entrepreneurial leadership within a sound system of prudent and effective controls that enable risk to be assessed and managed appropriately. Our governance framework underpins all that we do and promotes a culture which encourages commitment and high performance in all of the Company's business activities. It ensures the right decisions are taken by the right people at the right time with due consideration of, and response to, the risks the Company faces.

Your Board is fully committed to ensuring that high standards of governance, values and behaviours are consistently applied throughout the Group, thereby ensuring the integrity of our business, the successful delivery of our strategy and the long-term success of the Company.

The information provided in this report, in conjunction with the reports from each of the Board Committees and related sections of the Strategic Report, will help you to understand how the Company is governed, how risks are managed and controlled, and how key decisions have been taken over the past year.

The report also includes information regarding the externally facilitated Board and Committee effectiveness review undertaken during the year, the outcome of which is presented on page 79.

Board focus during 2016

During the year the Board has spent a significant amount of time reviewing and discussing the full refinancing of our existing debt facilities. Whilst the negotiations took longer than initially anticipated, commercial terms were substantially agreed with representatives of the Company's private lenders in February 2017 and the formal approval and implementation process is now underway.

Throughout these negotiations, the Board has sought to protect the interests of all stakeholders whilst ensuring that an outcome was reached enabling the business to continue to deliver value over the long term. The Board reviewed and discussed the proposed terms in detail, and approved a set of terms which we believe is in the best interests of the Company and its stakeholders. Further details regarding the terms of the refinancing arrangements are contained in note 26 of the Financial Statements, on page 169.

During 2016, the Board and its Committees have also focused on ensuring the successful conclusion of the E.ON acquisition and subsequent integration. The Board has ensured that sufficient time has been allocated to the oversight of asset integration with due regard to the interests of all employees. This included a site visit to our Aberdeen business unit where the Board had the opportunity to meet with members of the management team and discuss the integration progress. Further details of the Board's site visit can be found in the case study on page 81.

Health, safety, environment and security continue to be a key focus of your Board with updates provided at all meetings and, when necessary, in between meetings. The Board is committed to ensuring that robust systems of risk management and internal control remain in place and are not adversely impacted by ongoing cost reduction exercises.

> "Good governance is the foundation to our strategy, ensuring that we operate in a safe and responsible manner, remaining focused on our priorities with the right people in place to ensure the long-term success of our business."

During 2016, the Board continued to review and monitor the Company's internal control and risk management systems. A workshop session was held on the Company's new Business Management System, which we believe will continue to improve the processes we have in place for the monitoring of our internal controls. Further details of the Business Management System are contained on page 34. A further workshop session was held on our risk management processes and assurance.

Leadership and development

A considerable amount of work has been undertaken to date to assess the skills and knowledge of the Board and its Committees and across senior management to ensure that we have a robust plan in place for the succession needs of the business. This has been a priority for the Nomination Committee during 2016 and will continue to be a priority during 2017. Further details of our succession planning activities can be found in the Nomination Committee Report on page 90.

The Board's annual agenda was again designed to support the ongoing development of the skills and knowledge of our Board. The Board has attended workshop sessions and received management presentations which help Board members to gain an in-depth understanding of key elements of our business which are fundamental to its continued success.

Board changes and succession planning

On 30 June 2016, Neil Hawkings, Director, South East Asia and Falkland Islands, stood down from the Board. Neil continues to work for Premier on a consultancy basis, with a particular focus on the Falkland Islands and South East Asia business units and in an advisory capacity to the Executive Committee. This continuity has ensured the retention of Neil's skills and knowledge whilst the Company continues to progress its portfolio of opportunities in the Falkland Islands and South East Asia.

David Bamford and Michel Romieu, both Non-Executive Directors, stood down from the Board at the close of the Annual General Meeting held on 11 May 2016. The above Board changes were made in the ongoing context of the commodity price environment and with due and careful consideration given to the skills, knowledge and experience required to deliver the Group strategy. I would like to thank David and Michel for their significant contribution to the Board and to wish both of them well for the future.

Following the completion of the external audit tender process, as detailed on page 89 of the Audit and Risk Committee Report, and after serving nine years as a Non-Executive Director, David Lindsell will retire from the Board at the close of the Annual General Meeting to be held on 17 May 2017 ('2017 AGM'). Iain Macdonald, who joined the Board, Nomination and Audit and Risk Committees in May 2016, will assume David's role as Chairman of the Audit and Risk Committee.

In accordance with Premier's existing succession planning and current Corporate Governance guidelines, Joe Darby, Senior Independent Director, who is due to reach tenure of nine years from his first election by shareholders on 6 June 2017, will also retire from the Board at the close of the 2017 AGM. The process for the recruitment of a successor to Joe Darby is now at an advanced stage.

I would like to take this opportunity to thank both David and Joe for the considerable contribution they have made over their tenure as Non-Executive Directors of Premier Oil and to wish them every success in the future.

As announced in January 2017, on completion of the refinancing programme and identification of a suitable successor, I will be stepping down from the Board, having served as your Board's Chairman for eight years. I would like to thank all of the Company's stakeholders and the Directors for their considerable support over this time and to wish my successor every success in his/her new role as Chairman of Premier Oil plc.

Remuneration

During the year, our Remuneration Committee has continued to look closely at the Company's Remuneration Policy both at Executive Director level and for our broader employee population. Retention of the commitment, skills, knowledge and experience of our employees is fundamental to the successful delivery of our strategy.

Following the introduction of a revised and simpler form of long-term incentive plan for employees in early 2016, the Remuneration Committee has worked hard to deliver a new Remuneration Policy for our Executive Directors that we believe underpins the future success of our business. Further details are contained on pages 92 to 105 of the Directors' Remuneration Report.

Appointment of new auditor

Following an audit tender process, led by the Audit and Risk Committee, the Board accepted the Committee's recommendation that a resolution proposing the appointment of Ernst & Young LLP as the Company's auditor be put forward to shareholders at the 2017 AGM. The Company's current auditor, Deloitte LLP, has conducted the audit of the 2016 Financial Statements. We would like to thank Deloitte LLP for their significant contribution during their tenure as the Company's auditor.

The audit tender process, which was conducted in accordance with the requirements of the UK Corporate Governance Code and The Statutory Auditors and Third Country Auditors Regulations 2016, is described on page 89 of the Audit and Risk Committee Report.

Our stakeholders

Engagement with our stakeholders remains a priority for the Board. By maintaining good dialogue with our stakeholders, we ensure that our objectives are understood and that we receive regular feedback on our strategy, performance and governance. This has included an extensive review of our forward plans with our various lending groups during our refinancing discussions as well as engagement with our major shareholders, the Investment Association and the Institutional Shareholder Services ('ISS') in respect of our proposed new Directors' Remuneration Policy.

Engagement helps us to build confidence amongst our stakeholders in the Board's ability to oversee the implementation of the Company's strategy and address the immediate challenges faced by the business. Through ongoing dialogue, we can ensure that we continue to take account of our stakeholders' views as we address these challenges and we would like to take this opportunity to thank them for their continued support.

Details of our shareholder engagement activities during the year are provided on pages 82 to 83.

Board focus 2017

The Board's priorities in 2017 will include: completion of the refinancing of our debt facilities; debt reduction and continued engagement with our lenders; succession planning activities to ensure that we have the right skills and knowledge on our Board to address the future needs of our business; strategy for the medium to long term, post a successful refinancing; consideration of investment and divestment opportunities; the continuous improvement of our risk management and internal control framework to ensure that the identification and mitigation of risks remains at the heart of how we govern our business; and the continued development of the skills and knowledge of our existing and incoming Board members to support the ongoing effectiveness of your Board.

On behalf of the Board, I would like to express my appreciation to our employees for their continued hard work and dedication in challenging times. Their enthusiasm, skills and knowledge have ensured that we are well placed to continue tackling the immediate challenges whilst positioning us to ensure that we can advance the business for the longer term.

Mike Welton
Chairman

Compliance statement

This report, together with the Nomination Committee Report, the Audit and Risk Committee Report, the Directors' Remuneration 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 September 2014 (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, with the exception of Code Provision E.2.4 (Notice period for General Meetings), the Company has fully complied with the Code throughout the financial year ended 31 December 2016.

The General Meeting held on 25 April 2016 to approve the E.ON acquisition was held on less than 14 working days' notice in order to avoid financial penalties under the Sale and Purchase Agreement in view of the pre-agreed completion deadline.

The Financial Reporting Council published a revised UK Corporate Governance Code in April 2016 (the '2016 Code') which applies for accounting periods beginning on or after 17 June 2016. Accordingly, the Board will report its compliance with the 2016 Code in the Annual Report for the year ending 31 December 2017.

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 2016, 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 8 March 2017, including membership of Board Committees, are set out on pages 70 and 72.

Mike Welton
Chairman

Tony Durrant
Chief Executive Officer

Richard Rose
Finance Director

Robin Allan
Director, North Sea and Exploration

Anne Marie Cannon
Non-Executive Director

Joe Darby
Senior Independent Non-Executive Director

Jane Hinkley
Non-Executive Director

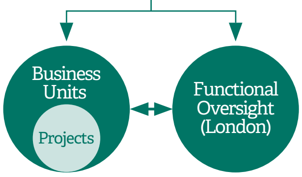
David Lindsell
Non-Executive Director

Iain Macdonald
Non-Executive Director

The Committees

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.



Audit and Risk Committee

David Lindsell (Chair)
Anne Marie Cannon
Joe Darby
Iain Macdonald

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 84 to 89

Nomination Committee

Mike Welton (Chair)
Anne Marie Cannon
Joe Darby
Tony Durrant
Jane Hinkley
David Lindsell
Iain Macdonald

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

Full Committee report on pages 90 to 91

Remuneration Committee

Jane Hinkley (Chair)
Joe Darby
David Lindsell

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 92 to 121

The Board

Board tenure as at 8 March 2017

Mike Welton
Chairman

Board tenure
7 years 4 months

Current external roles
- Advisor to Montrose Associates

Past roles
- Chief Executive of Balfour Beatty plc
- Chairman of Southern Water Services Limited, Hanson plc, and the UK Government's Railway Sector Advisory Group
- Director of Morrison Utility Services

Skills and experience
Following a long and distinguished career in both the public and private sectors, Mike has significant experience in leading company boards and ensuring effective oversight of executive performance and delivery of strategy.

Committee membership
- Nomination (Chair)

Independent
On appointment

Tony Durrant
Chief Executive Officer

Board tenure
11 years 8 months

Current external roles
- Non-Executive Director and Chairman of the Audit & Risk and Remuneration Committees of Greenergy Fuels
- Member of the Advisory Committee of Flowstream Commodities

Past roles
- Managing Director and Head of the European Natural Resources Group at Lehman Brothers

Skills and experience
Tony has been involved in numerous financing and mergers and acquisitions transactions in the upstream sector and, since joining Premier in 2005 has been instrumental in transforming Premier's portfolio from producing 35,000 boepd to one that is currently producing circa 80,000 boepd.

Committee membership
- Nomination

Independent
Not applicable

Richard Rose
Finance Director

Board tenure
2 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

Skills and experience
Richard brings a wealth of knowledge and experience to Premier, including his time as an advisor to the Company in his previous corporate brokering roles. He has extensive knowledge of debt and equity markets which has been invaluable for Premier during the ongoing refinancing process.

Committee membership
Not applicable

Independent
Not applicable

Robin Allan
Director, North Sea and Exploration

Board tenure
13 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

Skills and experience
Robin has 30 years of experience in senior positions at Premier and has a deep 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.

Committee membership
Not applicable

Independent
Not applicable

Anne Marie Cannon
Non-Executive Director

Board tenure
3 years 1 month

Current external roles
- Deputy Chair of Aker BP ASA
- Non-Executive Director of Aker ASA
- Non-Executive Director of STV 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 advisor to the natural resources group at Morgan Stanley

Skills and experience
Anne Marie has over 30 years of 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.

Committee membership
- Audit and Risk
- Nomination

Independent
Yes

Joe Darby
Senior Independent Non-Executive Director

Board tenure
9 years 6 months

Current external roles
- Non-Executive Director of Gulfsands Petroleum plc

Past roles
- Chief Executive of LASMO plc
- Non-Executive directorships at Nordaq Energy plc, British Nuclear Fuels plc, Mowlem plc, Faroe Petroleum plc and Centurion Energy, Inc

Skills and experience
Joe brings a wealth of technical expertise to the Board built up over a 40 year career in the energy industry. Joe has served as Senior Independent Director since 2011, acting as a trusted channel of communication to the Chairman for the other Directors.

Committee membership
- Audit and Risk
- Remuneration
- Nomination

Independent
Yes

Jane Hinkley
Non-Executive Director

Board tenure
6 years 6 months

Current external roles
- Non-Executive Director 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

Skills and experience
As a qualified accountant, Jane has a strong knowledge of finance and significant listed company experience within the oil and gas and shipping industries. In addition, Jane is an experienced remuneration committee chairman having served in such roles for the past six years within public companies.

Committee membership
- Remuneration (Chair)
- Nomination

Independent
Yes

David Lindsell
Non-Executive Director

Board tenure
9 years 1 month

Current external roles
- Senior Independent Director and Chairman of the Audit Committee of Drax Group plc
- Trustee and Chairman of the Audit Committee of Cancer Research UK
- Deputy Chair of Governors of the University of the Arts London

Past roles
- Partner at Ernst & Young LLP
- Deputy Chairman of the Financial Reporting Review Panel, from 2008 to 2012

Skills and experience
Having spent 30 years as a partner in one of the Big 4 accounting firms and four years at the FRC, David has substantial recent and relevant financial experience and accordingly is extremely well qualified to chair the Audit and Risk Committee.

Committee membership
- Audit and Risk (Chair)
- Remuneration
- Nomination

Independent
Yes

Iain Macdonald
Non-Executive Director

Board tenure
10 months

Current external roles
- Non-Executive Director and Chairman of the Audit Committee at SUEK JSC
- Non-Executive Director of Skills for Health Ltd

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

Skills and experience
With his extensive experience in senior financial and operational roles at BP, Iain is well placed to take over Chairmanship of the Audit and Risk Committee in May 2017 following a year-long transition period.

Committee membership
- Audit and Risk
- Nomination

Independent
Yes

For further detail regarding Board changes during 2016, ongoing succession plans and anticipated Board changes in 2017, please refer to the Nomination Committee Report on pages 90 to 91.

Board composition (number of Directors)[1]

Chairman	1
Executive Directors	3
Non-Executive Directors	5

1 As at 8 March 2017.

Length of tenure (number of Directors)[1]

< 3 years	2
3–6 years	2
7–10 years	5

1 As at 8 March 2017.

Rachel Rickard[1]

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 14 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 via the internet at www.frc.org.uk.

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

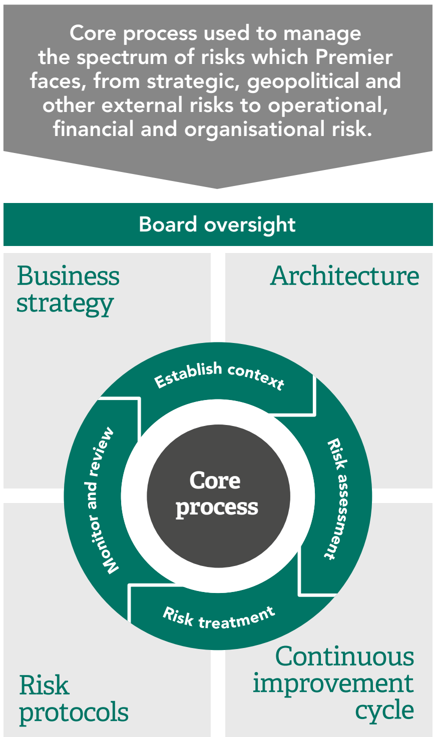
Risk management and internal control

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 32 to 34 of the Principal Risks section of the Strategic Report and on page 86 of the Audit and Risk Committee Report.

Group risk management framework



Position	Role and responsibilities
Chairman of the Board	• 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. Between Board meetings, the Chairman is responsible for ensuring the integrity and effectiveness of the Board/Executive relationship. This is effected through meetings, as well as contact with other Board members, shareholders, joint venture partners, 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	• 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	• 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, which is discussed further on page 78.
Non-Executive Directors	• 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	• 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 control 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 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 objectives 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 deep dive sessions. Case studies on two of the deep dive sessions are set out on pages 79 and 81.

Board Committees

The Board has established Audit and Risk, Remuneration and Nomination Committees. Each Committee has formal terms of reference approved by the Board which can also 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; Paul Williams, the Group Development and Operations Manager; and Steve York, General Manager Business Development. 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 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.

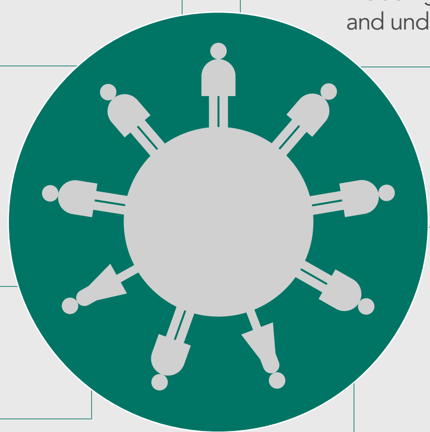
Disclosure Committee

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.

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

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



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

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

Structure and capital
- Changes to capital structure
- Changes to the Company's Articles of Association

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

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

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

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.

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.

During 2016, a new BMS platform was configured and rolled out across the Group. The new system improves access to policies, standards and procedures across the Group. The system will further facilitate the regular review and update of policies, standards and procedures, thus ensuring that our internal control framework remains robust and is effectively communicated across the Group. Further details of the BMS are provided on page 34 of the Strategic Report.

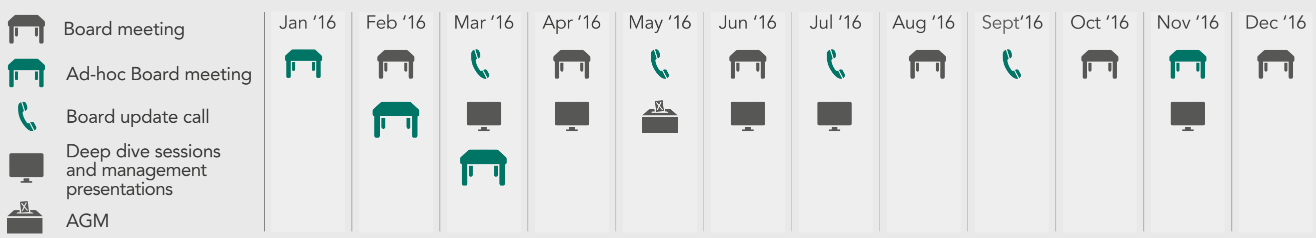
Board activity during the year

In accordance with the Board procedure outlined on page 75, the Board held six scheduled meetings during the year and, in addition, an update conference call took place in the months when no formal Board meeting was held. In addition, the Board held further ad-hoc meetings: to consider and approve key projects and business developments such as the acquisition of E.ON; to receive updates and review progress with the Group's refinancing arrangements; and to approve the appointment of a new Director.

Details of the number of Board meetings held and individual attendance by Directors are shown in the table below.

The Board also attended deep dive sessions during the year, allowing extra time to explore key aspects of the business outside a formal meeting setting and with access to members of senior management. Subject areas included Indonesia strategy; a review of the UK business unit, including the E.ON integration, Catcher and Solan projects, and wider UK strategy; HSES and environmental performance and assurance; and Group risk management and internal control systems. Case studies on two of the deep dive sessions held can be found on pages 79 and 81.

Meetings held during 2016



The number of meetings of the Board held during 2016 and individual attendance by Directors

Current Directors	Scheduled		Ad-hoc	
Robin Allan	6 / 6	100%	4 / 4	100%
Anne Marie Cannon	6 / 6	100%	4 / 4	100%
Joe Darby	6 / 6	100%	4 / 4	100%
Tony Durrant	6 / 6	100%	4 / 4	100%
Jane Hinkley	6 / 6	100%	4 / 4	100%
David Lindsell	6 / 6	100%	4 / 4	100%
Iain Macdonald[1]	4 / 4	100%	1 / 1	100%
Richard Rose	6 / 6	100%	4 / 4	100%
Mike Welton	6 / 6	100%	4 / 4	100%
Former Directors				
David Bamford[2]	1 / 2	50%	3 / 3	100%
Neil Hawkings[3]	3 / 3	100%	3 / 3	100%
Michel Romieu[4]	2 / 2	100%	3 / 3	100%

Key
Attended
Entitled to attend

Notes:
1 Iain Macdonald was appointed as a Director of the Company on 1 May 2016.
2 David Bamford stepped down as a Director of the Company on 11 May 2016 and was unable to attend the April Board meeting due to a prior commitment.
3 Neil Hawkings stepped down as a Director of the Company on 30 June 2016.
4 Michel Romieu stepped down as a Director of the Company on 11 May 2016.

Strategic objectives:

1. Operating in a safe and responsible manner
2. Focused on high quality assets with commercially advantaged positions
3. Access to capital and financial liquidity
4. Attracting and retaining 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 • Received and discussed feedback from roadshows/presentations to investors by the CEO and CFO • Met with representatives of the Company's various lending groups to discuss proposals for the refinancing of the Group's debt facilities	Shareholder engagement activity (see page 82)	3
Corporate strategy • Reviewed and approved the Company's business plan • Reviewed and discussed monthly reports from the Company's business units on the status of agreed objectives to deliver business unit plans to support corporate strategy • Reviewed potential disposal and acquisition opportunities • Monitored the integration process for the E.ON acquisition • Attended 'deep dive' sessions on Indonesia strategy, Catcher and Solan projects, E.ON asset integration and strategy in relation to North Sea assets • Considered and approved the appointment of Jefferies as one of the Company's corporate brokers	Company's business model and strategy (see page 12 and page 22 respectively) Chief Executive Officer's Review (see page 18)	1 2 3 4
Finance and expenditure • Reviewed and approved the Half-Year and Full-Year results and trading statements • Reviewed and approved the Company's Annual Report and Financial Statements for the year ended 31 December 2016 • Reviewed the annual budget and kept under review cost management underlying the Group's short-term strategy of cost reduction • Regularly reviewed the status of the Group's banking covenants • Reviewed and approved refinancing proposals for the Group's debt facilities • Reviewed the Group's hedging policy • Reviewed and approved the Group's insurance arrangements	Financial Review (see page 48) Financial Statements (see pages 126 to 176)	3
HSES and risk management • Reviewed and discussed the Group's risk profile and, in particular, the Group's principal risks • Received reports from the Audit and Risk Committee on the effectiveness of the Group's risk management and internal control systems • Reviewed 2017 corporate HSES KPIs and HSES plan • Attended a 'deep dive' session covering the Group's risk management and internal control systems • Attended a 'deep dive' session on HSES and environmental performance and assurance activities	Risk Management (see pages 28 to 35) Principal Risks (see pages 30 to 33) Corporate Responsibility Review (see pages 54 to 65)	1
Corporate governance • Approved revised terms of reference for the Audit and Risk, Nomination and Remuneration Committees • Approved revised Schedule of Matters Reserved for the Board • Considered bi-monthly updates on developments in corporate governance and legislation • Approved Directors' potential conflicts of interest • Approved the Company's Modern Slavery Act Statement • Reviewed and discussed the outcome of the Board's annual performance evaluation and approved an action plan for 2017 • In consultation with the Nomination Committee, reviewed the independence of Non-Executive Directors • Considered and approved changes to the Company's group-wide share dealing policy to ensure compliance with the EU Market Abuse Directive • In consultation with the Audit and Risk Committee, reviewed the performance of the external auditor • Approved the recommendation of the Audit and Risk Committee, following the Committee's formal tender process, that a resolution appointing Ernst & Young LLP as the Company's auditor should be proposed at the 2017 AGM	Governance section of the Annual Report (see pages 66 to 125)	1 2 3 4
Corporate responsibility ('CR') • Considered feedback on Premier's CR Report and performance from the CR Stakeholder Forum • Considered CR matters included in a risk management 'deep dive' session • Reviewed and approved the Company's Modern Slavery Act Statement • Considered bi-monthly updates in respect of environmental KPIs	Corporate Responsibility Review (see pages 54 to 65)	1
Succession planning and appointments • Considered and approved arrangements for the succession of Neil Hawkings, Director South East Asia and Falkland Islands • Considered and approved the appointment of Iain Macdonald as a Non-Executive Director	Nomination Committee Report (see page 90)	4
Employees • Reviewed and approved proposals for awards to the wider employee population under the Company's share award schemes • Reviewed and approved changes to the Group's equal opportunities and diversity policy	Directors' Remuneration Report (see page 92)	4

Read more:
Our Strategy, page 22

Board performance evaluation

During the year, the Board undertook an externally facilitated performance evaluation exercise. The previous externally facilitated performance evaluation was undertaken in 2013. Detailed surveys were compiled with input from all relevant internal stakeholders. Topics included:

- Board size and composition
- Additional independence assessment of Non-Executive Directors serving more than six years
- Board expertise
- Board dynamics
- Time management
- Board Committees
- Strategic oversight
- Risk management and internal control with specific focus on Health & Safety, Corporate Responsibility and Culture
- Succession planning and human resource management
- Board performance
- Board support

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 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.

One-to-one interviews were held by the Chairman with each Director and the Company Secretary, and in the case of reviewing the Chairman's performance, by the Senior Independent Director ('SID') with each Director and the Company Secretary.

Independent reports were 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.

Re-election of Directors

In accordance with the UK Corporate Governance Code (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 re-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 six 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.

Following satisfactory performance effectiveness reviews, the Nomination Committee recommended and the Board approved that each of the Directors be put forward for re-election at the 2017 AGM, with the exception of David Lindsell and Joe Darby, who will step down from the Board at the close of the 2017 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 103 and 105 respectively.

The main responsibilities of each Board role are set out on page 74 of this report.

Externally facilitated Board and Committee evaluation programme 2016

Stage 1

Board & Board Committee questionnaires (compiled by Lintstock with input from the Chairman and Company Secretary)

One-to-one interviews

Stage 2

Results collated and evaluated by Lintstock, report prepared

Stage 3

Discuss with Committee Chairs

Board discussion

Action plan agreed

Research

- Individual surveys issued to each Director focusing on a wide remit of topics, including the outcomes and actions from previous evaluations
- One-to-one meetings between the Chairman, each Director and the Company Secretary to discuss performance
- One-to-one meetings between the SID, each Director and the Company Secretary to discuss the Chairman's performance
- Committee members received additional questions focusing on the operation and effectiveness of the relevant Committee

Analysis

- Lintstock compiled survey responses into a report for the Chairman and Committee chairmen
- Chairman and Committee chairmen reviewed results and then shared with other members
- Summary report prepared by Chairman and presented to the Board

Discussion and actions

- Outcome discussed by the Board and Committees and integrated into the annual programme of work for 2017. A selection of outcomes and actions agreed is included in the table opposite
- Board members were invited to comment on how the evaluation process went

Key outcomes and actions from the 2015 and 2016 evaluations

Outcome 2015	Action 2016	Outcome 2016	Action 2017
Management presentations were held on a variety of topics throughout the year providing Non-Executive Directors with an opportunity to meet senior management and gain a greater understanding of several key business areas. Regular dinners were also held allowing more time for informal discussion, one of which was held with only Non-Executive Directors present. Overall, the Board was satisfied with progress made in this area.	It was agreed that the schedule of management presentations and Board dinners should continue. A programme for 2016 was prepared to facilitate this and provide Non-Executive Directors with greater insight into more key areas of the business.	Another full and varied schedule of management presentations and Board dinners was held in 2016, providing Non-Executive Directors with an opportunity to gain greater insight into how Premier is run. The Board agreed that the schedule of presentations is now fully embedded and that it continues to find the programme of great use as well as supporting the continued development of Board members.	**Refinancing** It was agreed that successful completion of the refinancing discussions and legalities and ongoing support of management through this process would be a priority for 2017.
The Nomination Committee and Board agreed that the level of increased focus on succession planning and talent management represented a significant improvement.	It was agreed that a Board skills matrix should be maintained and actively used in future Board recruitment processes. It was further agreed that ongoing succession planning should continue to look at senior management levels below the Executive Committee and that training and development should remain a focus of the Nomination Committee to support the ongoing development of potential successors.	The Board and Nomination Committee agreed that the work conducted on succession planning and talent management during the year remained of a high standard and the continued focus on Board succession and the desired mix of skills and capabilities was appropriate. The focus on talent management for the level below the Executive Committee had also been undertaken successfully.	**Succession planning** At the Board level, it was agreed that the ongoing succession planning and recruitment processes for the Chairman and Senior Independent Director roles would be a primary focus for 2017, whilst ensuring an appropriate combination of expertise amongst the Non-Executives. Below Board level, it was agreed that the efforts to date on succession planning and the active engagement and development of key employees should continue.
With regard to the balance between operational and strategic items on the Board agenda, the Board agreed that progress had been made, with increased time allocated to the discussion of strategic issues.	It was agreed that the balance of strategic and operational agenda items should remain under review, particularly in the context of a "lower-for-longer" oil price environment.	The Board agreed that the balance of strategic and operational agenda items during the year had been satisfactory.	**Remuneration** It was agreed that successful completion of the re-design of executive remuneration and the associated Remuneration Policy should remain a focus for 2017, with a view to seeking shareholder approval at the 2017 AGM.
The Board confirmed its approval of the increased reporting in relation to shareholder meetings.	It was agreed that the increased level of reporting should be maintained.	The Board agreed that it remained satisfied with the level of reporting of shareholder and other stakeholder meetings.	**Strategic review** The Board agreed that following completion of the refinancing, a strategic review should be undertaken by the Board, within the boundaries of the final agreement reached.

Case study

Risk management deep dive

A deep dive session was held for Directors in November 2016. The session was structured to include a review of Premier's risk management journey to date and consider in depth the Group's risk management and internal control systems. This exercise was intended to enable the Board to review the effectiveness of the embedding of risk management and internal control throughout the organisation. A more general discussion was also held regarding risk identification and prioritisation.

All Directors attended the session and a detailed management presentation was given by the Group Head of Corporate Services and the Audit and Risk Manager. Throughout the deep dive session, management had the opportunity to pose questions to the Board and Board members had the opportunity to discuss matters directly with management in an informal setting.

The agenda included the following key areas:

- Growth of Premier's business since 2010
- Risk Management Policy and UK Corporate Governance Code
- How risks are identified and ranked
- How risks are reviewed and communicated throughout the organisation including key roles
- Premier's internal control systems and assurance
- Results of independent assessment of performance of risk management and internal control systems

Directors' induction and development

Board appointments and development

Premier is an international business and has to manage a variety of political, technical and commercial risks. It is therefore important that the Board has the appropriate mix of skills and experience to meet these challenges. To this end, the Nomination Committee reviews the structure, size and composition of the Board and makes recommendations to the Board with regard to any adjustments that are deemed necessary with due regard for the benefits of diversity on the Board, including gender diversity.

When recruiting new Directors, the Committee prepares a description of the role and capabilities required for a particular appointment in the context of the existing skills and capabilities of other Board members. Full details regarding the Board appointment process are contained within the Nomination Committee Report and the Directors' Report.

During 2016, Iain Macdonald was appointed as a Non-Executive Director and member of the Audit and Risk and Nomination Committees and will take over the role of Chairman of the Audit and Risk Committee upon David Lindsell's retirement at the end of the 2017 AGM.

Induction

New Directors receive a full, formal and tailored induction to the Company. The induction programme consists of:

- a comprehensive briefing pack including our corporate governance manual which details the structure of the Group, decision-making processes and bodies, and policies and procedures;
- an introduction to our resource centre for Directors (including external communications such as investor presentations, reports and corporate responsibility reports); and
- one-to-one meetings with each of the Executive Directors, members of senior management and external advisers.

Case study

UK business unit deep dive

A deep dive session was held for Directors in June 2016 at the Company's Aberdeen office. The schedule was designed to enable the Board to meet members of senior management from the UK business unit and to gain an in-depth and up to date understanding of key projects, including progress of the Catcher and Solan projects. The Board reviewed progress on the integration of the former E.ON UK business into Premier's UK business unit, including the safety and performance of the assets. A detailed review of personnel and proposed management structures was also undertaken.

Seven Directors attended and detailed management presentations were given by the UK BU Manager, the UK Commercial Manager, the Catcher Area Development Manager and the UK Operated Production and Technical Manager. Other attendees from management included the Group HR Director and Group Head of Corporate Services with responsibility for the Group's internal control systems.

Throughout the deep dive, management had the opportunity to pose questions to the Board and Board members had the opportunity to discuss matters directly with senior management in an informal setting.

An informal dinner was held with all Board members and the full UK BU senior leadership team in attendance.

The agenda included the following areas:

- Overview of Premier's UK operations
- Review of changes to senior leadership team structure and proposed project teams
- Catcher – project status (including HSES performance) and future plans
- Solan – project status (including HSES performance) and future plans
- E.ON – organisation and asset integration
- E.ON – strategy for the Southern Gas Basin acreage

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 deep dives into specific business areas as well as presentations by management and regular updates on changes to the legal and regulatory landscape.

During 2016, pre-Board meeting presentations and deep dive sessions were held on the subjects of Group HSES performance, risk management and internal control, business strategy in Indonesia, the Catcher project, the Solan project, E.ON organisation and asset integration and strategy for the E.ON Southern Gas Basin acreage.

Directors are regularly updated on relevant external training courses available to further complement their skills and knowledge. Formal procedures are in place to enable individual Board members to take independent advice at the Company's expense where appropriate. Shareholders are given the opportunity to meet with new Directors upon request or at the next Annual General Meeting following their appointment.

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 possibly 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 2016 these procedures were enforced and adhered to appropriately.

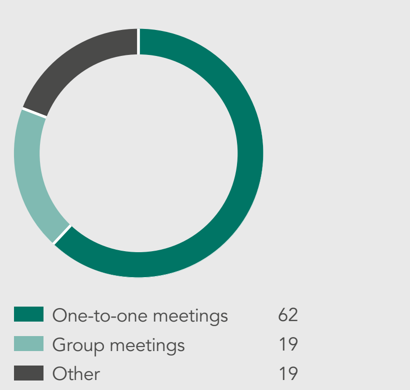
Powers of Directors and process for amending Articles of Association

Details regarding the Company's Articles of Association and any amendment thereto, including the powers of Directors under the Articles, are included within the Directors' Report on page 122.

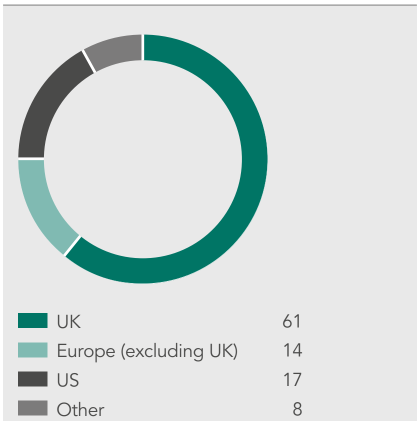
Shareholder engagement

Engagement with our shareholders remains a priority for the Board. By maintaining good dialogue with all our stakeholders, 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.

Investor contact by type (%)



Investor contact by location of investor (%)



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) and at other ad-hoc events.

Over 200 meetings were held with investors and prospective investors during 2016. 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.

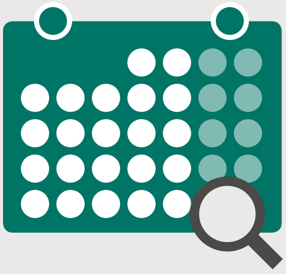
The Company's website also provides detailed information on the Group's activities. Information regarding the Company's share capital, including details of significant shareholders, is included in the Directors' Report on pages 122 to 123.

Remuneration consultation

A shareholder consultation process was held between December 2016 and the end of February, regarding the proposed re-design of our remuneration plans and policy for the Executive Directors and senior management. The Remuneration Committee engaged the Company's largest shareholders as well as voting advisory bodies with adjustments made to the proposal in response to feedback from shareholders.

Further details regarding the proposals, which will be put to a shareholder vote at the 2017 Annual General Meeting ('AGM'), are included on pages 92 to 105 of the Directors' Remuneration Report.

2016 shareholder engagement



January
- Trading and Operations Update

February
- Full-Year results

February/March
- Full-Year results roadshow

May
- Trading and Operations Update
- Annual General Meeting

July
- Trading and Operations Update

August
- Half-Year results

August/September
- Half-Year results roadshow

November
- Trading and Operations Update

December/February 2017
- Remuneration consultation

Shareholder communications

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 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 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 also 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.

For further information:
www.premier-oil.com/premieroil/investors

David Lindsell

Chairman of the
Audit and Risk Committee

Membership and meetings held

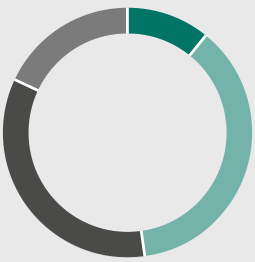
Members	Scheduled Meetings attended (eligible to attend)	Ad-hoc Meetings attended (eligible to attend)
David Lindsell	4(4)	1(1)
Anne Marie Cannon	4(4)	1(1)
Joe Darby	4(4)	1(1)
Iain Macdonald[1]	3(3)	0(0)
Former members		
Michel Romieu	1(1)	1(1)

1 Iain Macdonald was appointed to the Committee on 1 May 2016 and was therefore only eligible to attend three Committee meetings during 2016.

Role of the Committee

- Monitors and reviews the effectiveness of the Company's risk management and internal control systems, including in particular the identification of emerging risks and the effectiveness of actions taken to mitigate them, together with the results of the programme of reviews of these systems and management's response to the review findings
- 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 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 auditor's independence and objectivity and the effectiveness of the audit process
- Develops and implements policy on the engagement of the external auditor to supply non-audit services
- Monitors the enforcement of the Company's Code of Conduct and the adequacy and security of its whistleblowing procedure

How the Committee spent its time during the year (%)[1]



Governance	11
Risk management and internal control	37
Financial reporting	34
Audit	18

1 The allocations do not include the time spent on the external audit tender during 2016 as this was an exceptional item.

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 at www.premier-oil.com.

The members of the Committee are currently myself, Anne Marie Cannon, Joe Darby and Iain Macdonald, all of whom are independent Non-Executive Directors. Iain Macdonald succeeds Michel Romieu who stood down from the Board and the Committee at the close of the Annual General Meeting on 11 May 2016. The Board is satisfied that the membership of the Committee meets the requirement for recent and relevant financial experience.

The meetings of the Committee are normally attended by the Finance Director, the Group Financial Controller, the Group Head of Corporate Services, the Audit and Risk Manager and representatives of the auditors. Other Executive Directors or senior managers are required to attend when significant risk management or control issues relating to their area of responsibility are considered by the Committee. During the year, the Committee meets privately with the Group Head of Corporate Services and the 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 is required to meet at least three times per year and has an agenda linked to events in the Company's financial calendar.

Activities during the year

The Committee held four scheduled meetings and one ad-hoc meeting during 2016.

In February 2016, the Committee reviewed the draft 2015 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 internal controls so as to be able to approve the statements on internal control and the management of risk in the Corporate Governance Report. As part of this review, the Committee reviewed with management the hydrocarbon reserves reporting process. In completing its review of the effectiveness of risk management and internal controls, the Committee discussed the specific operational issues that had arisen in 2015, and significant risks foreseen for 2016 with particular emphasis on risks arising due to the acquisition of the E.ON assets. The Committee reviewed the effectiveness of the audit process and the independence of the auditors as a basis for considering their reappointment, and reviewed its own effectiveness. The Committee took note of enhanced Corporate Responsibility reporting for 2015, following application of new Global Reporting Initiative ('GRI') reporting guidelines. The Committee reviewed and approved its report for inclusion in the Annual Report and Financial Statements.

At its June meeting, the Committee reviewed issues that were expected to affect the Half-Year results, including the future oil price assumption and consequent asset impairments, the fair value accounting for the acquisition of the E.ON assets including the resulting increase in the deferred tax asset, and the impact of the Group's refinancing process with its lenders on the going concern basis of accounting. The Committee discussed the implications of changes in the Group's risk profile since the previous meeting (relating in particular to the oil price), the status of risk management and business control reviews, and progress on embedding the new risk management system ARROW across the Group and in addressing recommendations arising from the benchmarking of the Group's business management system in 2015. The Committee received a report on a Code of Conduct issue in the Indonesia business unit and was satisfied that appropriate steps had been taken to address the issue. It also reviewed and approved the additional procedures required, including the constitution of a Disclosure Committee, to ensure compliance with the EU Market Abuse Regulation. At its June meeting, the Committee also agreed the process and timing for the external audit tender process to be carried out later in the year.

During 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 major business risks, risk management and business controls reviews, and received an introduction to the forthcoming new Business Management System platform. The Committee approved the terms of the invitation to tender for the external audit.

In November, the Committee reviewed the status of the 2016 risk management and internal control reviews, focusing on the significant findings during 2016 and actions arising and major control improvements made during 2016. 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 its annual update on the arrangements in place to address cyber security. At this meeting the Committee also discussed the outcome of the external audit tender process and agreed to recommend to the Board that the appointment of Ernst & Young LLP as the Company's auditors should be proposed at the 2017 AGM.

The Committee met in February and again in March 2017 to review the key accounting and reporting issues relating to the 2016 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 28 to 35 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 2016 risk management and internal control reviews and was briefed on matters arising from the corporate governance returns for 2016.

As discussed in more detail on page 88, the Committee also reviewed the effectiveness of the audit process and the independence of Deloitte 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 process designed to identify and mitigate the principal risks facing the Group. There is an ongoing 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 28 to 35.

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 and procedures for ensuring that the Group's financial reporting processes and the preparation of its consolidated accounts comply with all relevant regulatory reporting requirements. These policies are applied consistently by the finance reporting teams at head office and 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.

Group Audit and Risk

An annual risk-based programme of reviews is proposed to the Committee following discussion between Group Audit and Risk and functional and business unit management. There are three levels of review as follows:

Level 1

Local internal management team review e.g. business unit manager site safety review.

Level 2

Group function review of business units or asset/project e.g. drilling preparedness review, project safety review.

Level 3

External third-party certification e.g. oil and gas reserves certification, ISO/OHSAS certification.

The Committee considers and approves the programme, and monitors and reviews the scope and results of the reviews carried out at each meeting, receiving reports covering progress against plan, significant findings and the action plans in place to address them.

In reviewing the findings from these reviews, the Committee noted that the work carried out had been directed towards the Group's principal risks, thereby providing assurance to the Committee on key issues and challenges facing the Group. Recommendations to improve internal controls and/or to mitigate risks were agreed with the relevant business unit or corporate function after each review and progress in implementing the recommendations was monitored by Group Audit and Risk.

Financial reporting

The Committee reviewed the 2016 Half-Year and Full-Year financial results announcements and 2016 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 2016 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 in particular the following major items that required significant judgement and estimation in preparing the 2016 financial statements:

Going concern

The Committee reviewed in detail management's projections of the Group's liquidity position under the terms of the existing financing facilities and under the revised terms of the Group's borrowing facilities that are expected to be agreed shortly by its lending groups. Key assumptions in the projections include those related to oil and gas prices during the period, cost saving initiatives and portfolio management options available during the forecast period. The key assumptions were assessed and challenged by the Committee.

Although, at 31 December 2016, the Group had significant availability of financing, the Group's projections indicate that, under the existing facilities, it is likely that a breach of one or more of the Group's financial covenants will occur in respect of the next testing period which is currently for the 12 month period ending 31 March 2017. However, as noted above, revised terms of the Group's borrowing facilities are expected to be approved shortly by the Group's lenders and the rolling monthly deferral of covenant tests is expected to continue until then. Forecasts and projections indicate that, once the revised terms are approved, the Group will, at currently forecast oil prices and production levels, have sufficient liquidity under its revised covenants for a period of at least 12 months from the date of approval of the Annual Report and Financial Statements.

The Committee was satisfied that an appropriate degree of caution had been applied in exercising the judgements needed in making the assumptions and estimates in the forecasts and projections, and concluded that the statement on going concern in the Financial Review on page 52 is fair and balanced.

The Committee has advised the Board that it is reasonable for the Directors to expect that the Group will be able to obtain the approvals required to finalise the refinancing process with its lending groups, thereby resolving this material uncertainty, that the Group will as a result 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 2016 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 exploration and evaluation 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. Details of the Group's E&E assets are provided in note 9 to the financial statements on page 152.

Oil and gas reserves
Unit-of-production depreciation, depletion and amortisation charges are principally measured based on management's estimates of proved and probable oil and gas reserves. Estimates of proved and probable reserves are also used in the determination of impairment charges. Proved 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 153, an impairment charge of US$652.2 million has been recognised in respect of the Solan field in the UK North Sea. This has been partially offset by a reversal of impairment credit recognised of US$96.0 million mainly in relation to the Huntington, Chim Sáo and Kyle fields. 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 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 in particular that, consistent with the long-term planning assumptions used by the Company, assumed future oil and gas prices were based on forward price curves for two years, US$65/bbl in 2019 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 153). 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.

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 on page 154 is appropriate.

Fair value of assets and liabilities acquired from E.ON
In April 2016, Premier completed the acquisition of all of E.ON's UK North Sea assets. The acquisition has been accounted for as a business combination with the assets and liabilities acquired recognised at fair value as of the acquisition date.

The fair values of the oil and gas properties and intangible assets acquired have been determined using valuation techniques based on discounted cash flows using forward curve commodity prices for the near-term period followed by the Company's medium to long-term price assumptions, a market based pre-tax discount rate and cost and production profiles consistent with the 2P reserves acquired with each asset. The financial instruments acquired have been valued using our forward curve oil and gas price assumptions at the date of the acquisition. The decommissioning provisions recognised have been created based on Premier's internal estimates.

The Committee discussed with management the key judgements made when determining the fair value of the assets and liabilities acquired, ensured that the assumptions for the fields were consistent with those used in the Company's wider long-term forecasts and that the macro-economic assumptions were consistent with those used for impairment testing.

The Committee was satisfied that the fair values were reasonably determined by management using reasonable assumptions consistent with the Company's long-term modelling and forecasts.

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, including the significant reduction in the US dollar amount of decommissioning estimates due to the weakness of sterling against the US dollar. The Committee was satisfied that the approach applied was fair and reasonable. The Committee was also satisfied that the discount rate used to calculate the provision was appropriate. Further information on decommissioning provisions is provided in note 17 on page 157.

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 in the UK, it must be probable that sufficient taxable profits will be available against which the tax losses 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, which were based on the same assumptions as those used in the asset impairment review, support the recognition of a net deferred tax asset of US$1,111.4 million resulting in a tax credit of US$522.0 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 150 and 164 respectively.

External audit

Audit effectiveness

The Committee reviewed the auditors' work plan at the start of the audit cycle, considering in particular the auditors' assessment of the significant areas of risk in the Group's financial statements, which for 2016 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 twice in 2016 and in March 2017 at the conclusion of the 2016 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.

Auditor 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 team 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 material 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 148.

Deloitte 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 2016.

Notification of change of auditor

On 18 November 2016, Premier Oil plc announced that, following the completion of a formal audit tender process, led by the Company's Audit and Risk Committee, the Board approved the proposed appointment of Ernst & Young LLP as the Company's auditor for the financial year commencing 1 January 2017. The appointment remains subject to approval by shareholders at the Annual General Meeting to be held on 17 May 2017. The Company's current auditor, Deloitte LLP, has conducted the audit for the year ending 31 December 2016.

The background to the formal audit tender process, which was conducted in accordance with requirements under the UK Corporate Governance Code and The Statutory Auditors and Third Country Auditors Regulations 2016, is included in Premier's 2015 Annual Report and Financial Statements.

The audit tender process in action

June – August 2016	August – September 2016	October – November 2016	November 2016	May 2017
Tender process designed and approved by the Committee.	Candidate firms selected and requests for proposal issued.	Oral presentations by candidate firms to senior management and the Committee.	Board approves Committee recommendation to appoint Ernst & Young LLP as auditor.	Proposed appointment of Ernst & Young LLP to be tabled at the 2017 AGM.

Audit appointment

The Committee considers the reappointment of the auditors each year.

As disclosed in the 2015 Annual Report and Financial Statements, the Audit and Risk Committee decided to conduct a formal tender process for the external audit in accordance with the UK Corporate Governance Code and The Statutory Auditors and Third Country Auditors Regulations 2016. A request for proposal was sent to suitable candidates in September 2016 and a series of meetings between the candidate firms and senior management of Premier were held in October 2016. In November 2016, all members of the Audit and Risk Committee, led by the Chairman, attended presentations made by all participating candidate firms.

Following completion of the presentations, the Committee recommended to the Board that it propose to the 2017 AGM the appointment of Ernst & Young LLP as external auditor of the Company for the year ended 31 December 2017.

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

David Lindsell
Chairman of the Audit and Risk Committee

8 March 2017

Handover to Iain Macdonald

On 31 March 2016, it was announced that Iain Macdonald would join the Board as a Non-Executive Director and a member of the Audit and Risk Committee with effect from 1 May 2016. At that time, it was also announced that David Lindsell would be retiring from the Board at the 2017 AGM and that Iain would take on the role of Chairman of the Committee following David's departure.

In preparation for succeeding David as Chairman of the Committee, Iain's induction has involved:

- Attendance at all Audit and Risk Committee meetings since appointment
- Ongoing meetings with David Lindsell regarding Committee process and performance
- Meetings with Executive Committee members covering their areas of functional responsibility and the role of the ExCo
- A demonstration of the Group's Business Management System ('BMS') by the Group Audit and Risk Function
- Meetings with members of the Finance Team and all of the Finance Director's direct reports below ExCo level, including the Group Audit and Risk Manager
- A visit to the UK Business Unit in Aberdeen to meet with key asset managers and senior leadership team members
- A visit to the Keppel yard in Singapore to see the Catcher FPSO
- Meetings with the Vietnam and Indonesia Business Unit managers

Mike Welton
Chairman of the Nomination Committee

Membership and meetings held

Members	Meetings attended (eligible to attend)
Mike Welton	3(3)
Anne Marie Cannon	3(3)
Joe Darby	3(3)
Tony Durrant	3(3)
Jane Hinkley	3(3)
David Lindsell	3(3)
Iain Macdonald[1]	1(1)
Former members	
David Bamford[2]	1(2)
Michel Romieu	2(2)

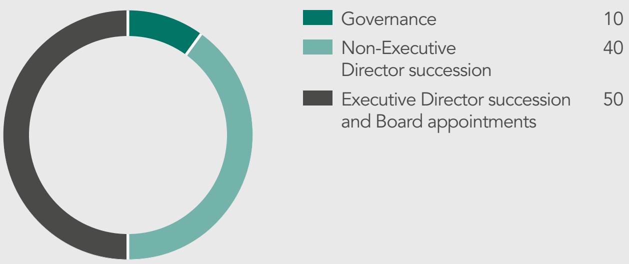
1 Iain Macdonald was appointed to the Committee on 1 May 2016 and was therefore only eligible to attend one Nomination Committee meeting during 2016.

2 David Bamford was unable to attend one meeting due to a prior commitment.

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 (%)



Dear shareholder,

It has been another busy year for the Committee, with much of the Committee's time focused on succession planning and development, both at Board and senior management levels. The Committee also spent time considering changes to our senior management team structure in view of the expanded UK business unit, following the E.ON acquisition.

Executive succession planning, leadership development and Executive Board changes

The work reported last year, on succession planning activities, undertaken to ensure the stability and continuity of experience, capability and performance within management, has continued. During 2016, the focus of this work was on senior management 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.

Neil Hawkings, Director South East Asia and Falkland Islands, stepped down from the Board on 30 June 2016 but continues to work for Premier on a consultancy basis, providing support as appropriate to the Executive Committee on an advisory basis. In view of Neil stepping down from the Board, and the acquisition of the E.ON portfolio in the first half of 2016, the Committee considered the consequent proposed changes to the senior management team structure, with a particular focus on the UK business unit leadership structure. A detailed presentation was given by the Group HR Director and UKBU team in our Aberdeen office, providing an opportunity for the Board to meet team members in person.

Non-Executive Director succession planning and Board changes during 2016

At the Board level, all Directors continued to provide input into a skills and diversity matrix, to assist in mapping the range and strength of skills and experience of current members as well as the Board's diversity in terms of age, ethnicity, nationality and gender. The output of this exercise was then mapped against the desired balance in view of the strategic objectives of the Company and anticipated skills and knowledge required. The output of this exercise was used in drawing up the role specification for the Audit and Risk Committee Chair designate position, alongside other governance requirements. Ridgeway Partners, an external search consultancy, was selected to facilitate the recruitment process. Ridgeway Partners are a signatory to the Voluntary Code of Conduct for Executive Search Firms and have no other connection with the Company. Having carefully considered the role specification and skills and diversity matrix, in March 2016 the Committee recommended to the Board the appointment of Iain Macdonald as an independent Non-Executive Director, member of the Audit and Risk and Nomination Committees, and Audit and Risk Committee Chair designate ahead of David Lindsell's proposed retirement at the 2017 AGM. Iain has undergone a comprehensive induction programme, which continues into 2017, to ensure the seamless transfer of responsibility from David to Iain.

In April 2016, we also announced that David Bamford and Michel Romieu, both independent Non-Executive Directors, would be stepping down from the Board at the 2016 AGM as part of our ongoing succession planning. With the size of the Executive component of the Board having reduced, and in the current commodity price environment, it was deemed appropriate that the number of Non-Executive Directors serving on the Board should be reduced.

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 2016. In doing so, the Committee considered the need for continuity of Committee membership to maintain the knowledge and insight of Committees, while at the same time giving due and careful consideration to the need to refresh membership and taking into account the ongoing Board changes that occurred during the year. In reviewing the composition of the Board and Committees, the Committee paid particularly careful attention to the independence of those Non-Executive Directors having served more than six years on the Board, and those approaching the end of their nine-year term. In addition, the externally facilitated Board and Committee effectiveness review, conducted towards the end of 2016, included questions regarding the perceived independence of fellow Board members. Having conducted the review of independence and performance during the year, the Committee recommended that each of the Directors continuing to serve on the Board following the 2017 AGM should be put forward for re-election by shareholders at the 2017 AGM. In making this recommendation, the Committee evaluated each Director in light of their performance, commitment to the role, and capacity to discharge their responsibilities fully, given their time commitments to other companies.

As announced in January 2017, Joe Darby, Senior Independent Director, who was due to reach Board tenure of nine years from his first election by shareholders in June 2017, will be stepping down from the Board at the forthcoming AGM alongside David Lindsell, Chairman of the Audit and Risk Committee. In addition, I will step down as Chairman of the Board, having served eight years in the role, on completion of the current refinancing programme and identification of a suitable successor.

The Nomination Committee is currently overseeing our recruitment activity, including the process to identify a successor for my role. In addition, the composition of our Board Committees remains under review as the above succession and ongoing Board changes continue. The Committee will ensure that your Board continues to have the appropriate balance of skills, knowledge and experience to lead Premier going forward.

Diversity

The Board fully embraces a culture based upon equal opportunities in the workplace. Further information regarding our commitment to fair and competitive terms of employment and safe working conditions is included in the Corporate Responsibility Review on pages 54 to 65.

Proactive succession planning

In 2014, in view of three of our Non-Executive Directors predicted to reach the end of their nine-year tenure at or around the same time in 2017, an analysis exercise was undertaken and a map produced which charted each of the governance roles fulfilled by those Directors, for consideration alongside our skills and diversity matrix. The proactive succession plan arising from this exercise has been used in all recruitment processes since that date and led to the Board changes that have taken place during 2015 and 2016 and that will continue to take place through 2017. By planning ahead and considering the changing strategy of the Company, your Nomination Committee has taken steps to ensure a measured approach with carefully planned changes to your Board of Directors to ensure the future success of leadership.

At the Board level, we are committed to ensuring that the process for all Board appointments is conducted, and appointments made, on merit, against objective criteria and with due regard to the benefits of diversity on the Board, including gender.

When preparing for a new Board appointment, an external search company is selected and requested to prepare a short list which takes into account the capabilities, skills and experience required for the role, as well as diversity of the Board in its widest sense, including gender diversity. The Board considers the proportion of women on the Board as part of its assessment when selecting a candidate for a Board position. We currently have two female Non-Executive Directors, Jane Hinkley and Anne Marie Cannon, on a Board of nine which equates to 22 per cent. The Committee reviewed its approach to gender diversity on the Board during the year and chose to maintain its practice of embracing diversity in all its forms without setting any measurable objectives relating to gender diversity.

Committee terms of reference review

The Committee reviewed its terms of reference in 2016 and amendments were proposed to the Board for adoption. The terms of reference for the Nomination Committee are available at www.premier-oil.com.

Outlook for 2017

As we look forward to the year ahead, the Committee will continue to focus its efforts on succession planning and the active engagement and development of our employees, making sure that our workforce is best positioned to take the Company forward and deliver the Company's strategic objectives whilst fostering a culture in which staff can optimise career opportunities, both nationally and internationally. We will also continue our work on Non-Executive Director succession planning as outlined above and in seeking to find a suitable Chairman to lead the Company going forward.

On behalf of the Nomination Committee

Mike Welton
Chairman of the Nomination Committee
8 March 2017

Chairman's statement

Jane Hinkley
Chairman of the
Remuneration Committee

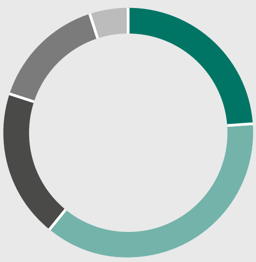
Membership and meetings held

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:

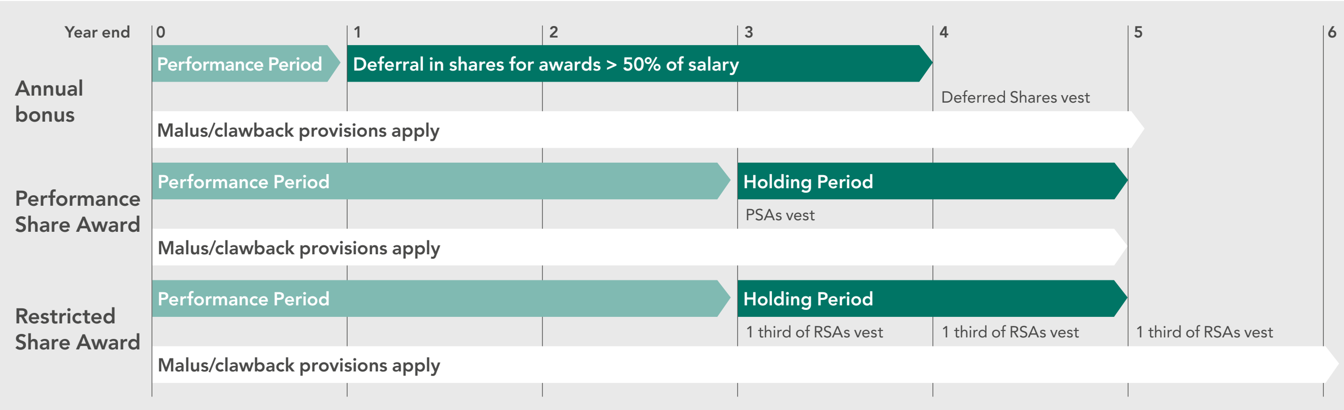
- the maximum long-term incentive opportunity is significantly reduced from c.530 per cent to c.215 per cent of salary;
- a Performance Share Award ('PSA') and a modest Restricted Share Award ('RSA') in place of the current Equity Pool Awards, Performance Share Awards and Matching Share Awards;
- the 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.

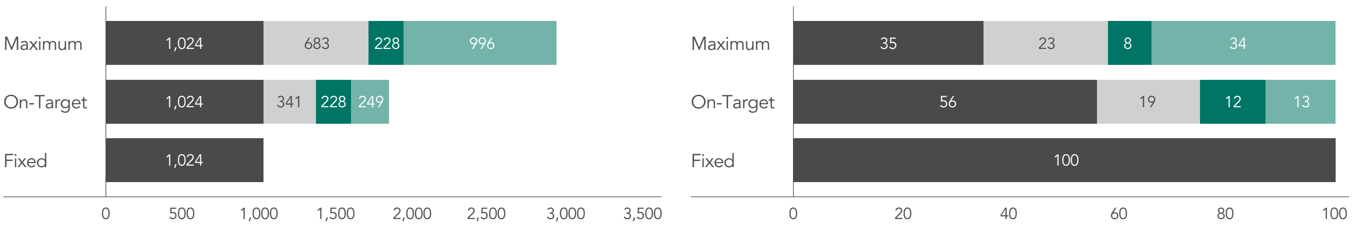
The performance scenario charts below show the estimated remuneration that could be received by the current Executive Directors for 2017, both in absolute terms and as a proportion of the total package under different performance scenarios. The assumptions underlying each performance scenario are detailed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

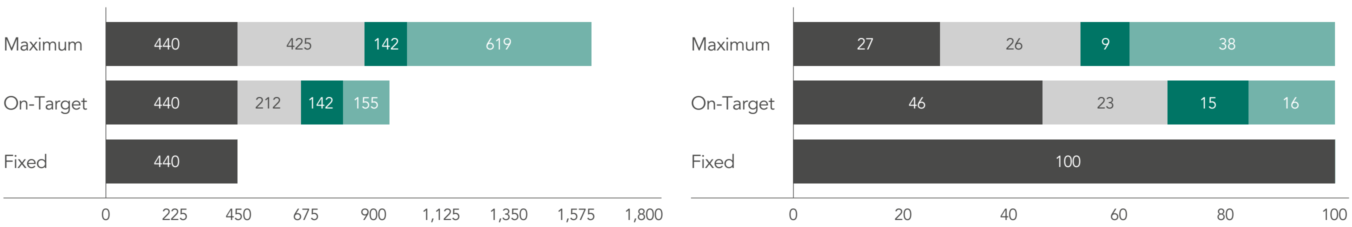
Tony Durrant, Chief Executive Officer

(£'000s) (%)



Richard Rose, Finance Director[1]

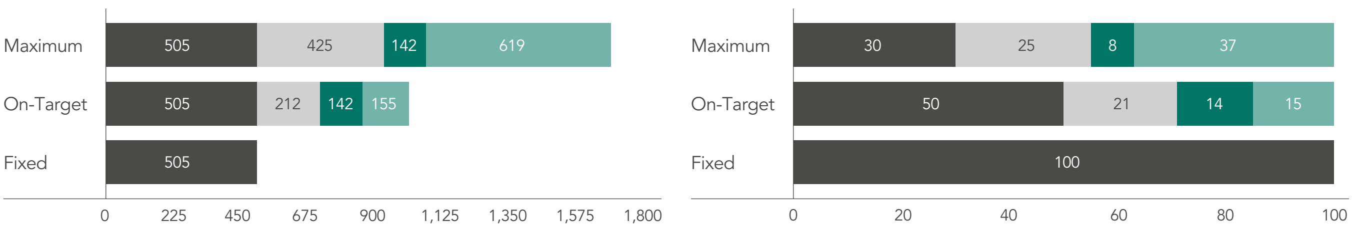
(£'000s) (%)



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) (%)



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.

Annual Report on Remuneration

Remuneration Committee membership and considerations during 2016

Jane Hinkley was Chairman of the Remuneration Committee during 2016 and there were two other members who are also independent Non-Executive Directors. Joe Darby and David Lindsell served as members throughout the year. David Bamford, also an independent Non-Executive Director, served as a member of the Committee until his resignation as a Director on 11 May 2016. Members of the Committee meet without any executives present for part of each meeting. The Chief Executive Officer attended meetings of the Committee by invitation but absented himself when the Committee discussed matters relating to his remuneration. Mike Fleming, Group HR Director, attended meetings as appropriate. Rachel Rickard, Company Secretary, acted as Secretary to the Committee throughout the year. Members of the Board and any other employees attending Committee meetings leave the meeting where their own remuneration is being discussed.

The Committee acts within its agreed 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;
- approving the Directors' Remuneration Report, ensuring compliance with related governance provisions and legislation;
- reviewing bonus outcomes for the Group, including Executive Directors; and
- considering the remuneration policies and practices across the Group.

During 2016, the Committee met five times. All meetings were scheduled in advance with no ad-hoc meetings held.

Key activities of the Committee during the year included:

- discussion of alternative structures for a new long-term incentive plan for Directors and members of senior management to replace the 2009 Long Term Incentive Plan ('LTIP');
- consulting with shareholders in regard to a new Directors' Remuneration Policy, including the structure of a proposed new long-term incentive plan (the 'Premier Oil 2017 Long Term Incentive Plan') for Executive Directors and certain members of senior management;
- determining the remuneration for Executive Directors;
- determining the termination arrangements for Neil Hawkings (Director Falkland Islands & S.E. Asia) who stepped down from the Board on 30 June 2016;
- considering remuneration policies and practices across the organisation;
- approving the issue of an invitation under the Company's SAYE Scheme to all employees as well as awards to be made to the broader employee population (excluding Directors and certain members of senior management) under the Company's Performance Value Share Plan ('PVSP');
- determining the 2015 bonus outcome and bonus targets for 2016;
- reviewing and approving a redundancy policy for former E.ON employees following acquisition of E.ON's UK North Sea assets;
- considering and subsequently approving awards to Executive Directors and members of senior management under the LTIP, including setting performance conditions;
- considering annual pay adjustments for the Executive Directors and senior management alongside the broader employee population and determination of the market and performance adjustment for Richard Rose (Finance Director);
- monitoring dilution limits across the Company's share schemes and ensuring that share awards were made with due consideration to limiting shareholder dilution;
- monitoring performance of outstanding awards under the LTIP;
- reviewing pension arrangements for Executive Directors;
- consideration of gender pay gap reporting requirements;
- consideration of the independence of the Committee's remuneration advisers;
- reviewing the Committee's terms of reference; and
- reviewing the Committee's performance.

Advisers

Kepler Associates, 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 2016 Kepler provided advice on remuneration for executives and, in particular, on the Company's long-term incentive arrangements. They also reviewed the Directors' Remuneration Report, provided advice on market and best practice guidance, 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 2016 was £58,625 on the basis of time and materials.

During the year the Committee also took advice from PwC to provide performance updates on outstanding LTIP awards, including the vesting of the 2014 Equity Pool, Performance Share Awards and Matching Share Awards. Total fees for PwC for the provision of remuneration services in 2016 were £30,500 on a fixed fee basis. The Committee also sought advice from Berwin, Leighton & Paisner LLP in relation to a review of Executive Director pension arrangements and settlement arrangements for Neil Hawkings. Total fees for 2016 for Berwin, Leighton & Paisner LLP were £12,692 on the basis of time and materials.

The Committee evaluates the support provided by its advisers annually and is satisfied that the advice it received in 2016 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. The Remuneration Policy was last approved by shareholders at the Company's 2014 AGM and, in accordance with the Act, must be submitted for shareholder approval at the 2017 AGM.

A revised remuneration policy is proposed for 2017 (the '2017 Remuneration Policy') and a separate resolution to approve the 2017 Remuneration Policy will be put forward to shareholders at the 2017 AGM for approval by way of a binding vote. It is proposed that the 2017 Remuneration Policy will apply from the date of the Company's 2017 AGM.

Votes received in respect of approval of the Directors' Remuneration Policy submitted to shareholders in 2014 are set out in the table below together with those received at the 2016 AGM in respect of a resolution to approve the Directors' Annual Report on Remuneration, which is submitted to shareholders at each AGM for approval by way of an advisory vote and sets out how the Remuneration Policy has been applied during the relevant financial year.

Resolution	Votes FOR and % of votes cast		Votes AGAINST and % of votes cast		Votes WITHHELD
Directors' Remuneration Policy (2014 AGM)	289,525,378	86.12%	46,648,769	13.88%	2,542,395
Directors' Annual Report on Remuneration (2016 AGM)	243,771,336	98.68%	3,261,258	1.32%	1,954,458

Following a detailed review of the Remuneration Policy and after consultation with our major shareholders, the 2017 Remuneration Policy was approved by the Remuneration Committee on 6 March 2017 for submission to shareholders. The Committee will be seeking shareholder approval for this revised policy at the 2017 AGM. The 2017 Remuneration Policy is set out on pages 96 to 105. The Remuneration Policy approved in 2014 can be found on the Company's website www.premier-oil.com.

Annual Report on Remuneration continued

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 2016 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.

	Salary[1] £'000s		Taxable benefits[2] £'000s		Bonus[3] £'000s		Long-term incentives[4] £'000s		Pension[5] £'000s		Other Payments[6] £'000s		Total £'000s	
Director	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
Robin Allan	**353.8**	353.8	**22.7**	21.8	**227.8**	35.4	**0**	0	**128.1**	128.1	**1.5**	9.0	**733.9**	548.1
Tony Durrant	**569.0**	569.0	**26.2**	23.3	**378.4**	56.9	**0**	0	**429.2**	385.2	**1.5**	6.0	**1,404.3**	1,040.4
Richard Rose	**300.0**	300.0	**22.1**	19.8	**197.7**	30.0	**0**	0	**55.8**	54.1	**1.8**	9.3	**557.4**	413.2
Former Director														
Neil Hawkings[7]	**183.7**	353.8	**11.8**	22.2	**89.3**	35.4	**0**	0	**47.4**	126.1	**1.1**	6.3	**333.3**	543.8

Notes to 2016 figures (unless stated):

1 Salary is shown on a gross basis.

2 Taxable benefits include medical and dental insurance, car allowance, life assurance, income protection, personal accident insurance and a subsidised gym membership. In particular, in 2016, Robin Allan, Tony Durrant and Richard Rose received a car allowance of £15,000 and Neil Hawkings received a car allowance of £7,788 (£15,000 per annum pro-rated for his period of service).

3 Robin Allan, Tony Durrant and Richard Rose received total annual bonus awards for the year ended 31 December 2016 of 64.4 per cent of salary, 66.5 per cent of salary and 65.9 per cent of salary respectively. Bonus amounts above 50 per cent of salary will be awarded in the form of deferred shares ('Deferred Bonus Awards'). Neil Hawkings received a total bonus award of 50.5 per cent of salary pro-rated to reflect his period of service during the year. The number of Deferred Bonus Awards to be granted to Robin Allan, Tony Durrant and Richard Rose 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 2016 Results. The Deferred Bonus Awards vest at the end of a three-year period from the date of grant subject to continued employment. Further details of the 2016 total annual bonus awards to each Executive Director, including performance criteria, achievement and resulting awards are set out on page 111.

4 Long-term incentives include awards granted under the Premier Oil 2009 Long Term Incentive Plan ('LTIP') subject to a performance period ending in the relevant financial year. In 2015 and 2016 the relevant performance targets for such awards were not achieved and the awards lapsed. Further details of performance conditions for the LTIP are contained in the 2014 remuneration policy, a copy of which can be found on the Company's website www.premier-oil.com.

5 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 112 of the Annual Report on Remuneration for further details on total pension entitlements for each Executive Director.

6 Other payments include SIP awards and SAYE options. Robin Allan, Tony Durrant and Richard Rose were granted undiscounted SAYE options during the year; as no discount was applied, the embedded value of these options is nil. Payments for 2015 include SAYE options granted at a discount of 20 per cent to market value. Each Executive Director was awarded SIP Matching Awards during the year; SIP awards are valued as the number of Matching Awards granted multiplied by the share price at date of award. Full details of Executive Director SAYE options and SIP share awards are available on page 121 of the Annual Report on Remuneration.

7 Neil Hawkings stepped down as a Director of the Company on 30 June 2016. Details shown above are for the period 1 January to 30 June 2016. His salary includes an accrued holiday payment of £6,802.88. For further detail regarding Neil Hawkings' leaving arrangements, please see page 109. For the purpose of comparability with other Directors, the £47,400 pension figure for Neil Hawkings was recalculated at 31 December 2016 using a statutory factor of 20. The amount he received as at his date of leaving was £392,600.

Single total figure of remuneration for Non-Executive Directors

	Base fee £'000s		Additional fees[1] £'000s		Expenses[2] £'000s		Total £'000s	
Director	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
Mike Welton (Chairman)	**169.6**	169.6	**–**	–	**–**	–	**169.6**	169.6
Anne Marie Cannon	**53.0**	53.0	**–**	–	**–**	–	**53.0**	53.0
Joe Darby	**53.0**	53.0	**10.6**	10.6	**1.2**	1.6	**64.8**	65.2
Jane Hinkley	**53.0**	53.0	**10.6**	10.6	**0.1**	–	**63.7**	63.6
Iain Macdonald[3]	**35.3**	–	**–**	–	**–**	–	**35.3**	–
David Lindsell	**53.0**	53.0	**10.6**	10.6	**–**	–	**63.6**	63.6
Former Directors								
David Bamford[4]	**19.3**	53.0	**–**	–	**0.2**	0.2	**19.5**	53.2
Michel Romieu[5]	**19.3**	53.0	**–**	–	**0.6**	1.4	**19.9**	54.4

Notes:

1 During the year, Joe Darby acted as Senior Independent Director, David Lindsell was Chairman of the Audit and Risk Committee, Jane Hinkley was Chairman of the Remuneration Committee and Mike Welton was the Company Chairman and was also Chairman of the Nomination Committee. Mike Welton waived any additional fees payable for his role as Chairman of the Nomination Committee.

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

3 Iain Macdonald was appointed as a Director on 1 May 2016. His annual fee for 2016 was £53,000 per annum in line with the other Non-Executive Directors. The total figure shown for 2016 reflects the fee paid to him for service from 1 May 2016 to 31 December 2016.

4 David Bamford resigned as a Director on 11 May 2016. His annual fee for 2016 was £53,000 per annum in line with the other Non-Executive Directors. The total figure shown for 2016 reflects the fee paid to him for service from 1 January to 11 May 2016.

5 Michel Romieu resigned as a Director on 11 May 2016. His annual fee for 2016 was £53,000 per annum in line with the other Non-Executive Directors. The total figure shown for 2016 reflects the fee paid to him for service from 1 January to 11 May 2016.

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 (2015: £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 is also the Chairman of the Nomination Committee and currently waives any fee for this role. Fees for the Chairman and the Non-Executive Directors were last increased effective from 1 January 2013 following a review in 2012. Fees for the Chairman and Non-Executive Directors were originally scheduled to be reviewed in December 2014; the biennial review has been postponed for a further year. In view of the current market environment it was agreed that any increase in fee would be inappropriate at this point in time. The next review of fees for the Chairman and Non-Executive Directors is scheduled for the end of 2017 with any change proposed to take effect from 1 January 2018.

Executive Director changes (audited)

Neil Hawkings stepped down as an Executive Director and from his position as Director, South East Asia and Falkland Islands on 30 June 2016. The Committee determined Neil Hawkings' exit arrangements in accordance with his service agreement and the Remuneration Policy. The Committee determined Neil Hawkings would receive good leaver status in relation to outstanding incentive awards. The following arrangements were agreed:

2016 Annual bonus payment

Neil Hawkings would receive an annual bonus payment for 2016 equivalent to the percentage awarded to the remaining Executive Directors for corporate performance targets and reduced on a time worked basis to reflect his departure date of 30 June 2016. Full details of bonus targets and outcomes are set out on page 110. No bonus was payable in relation to individual targets.

Long Term Incentive Plan awards

Neil Hawkings' existing LTIP awards will vest, subject to performance, having been pro-rated on a time worked basis, at their normal vesting date, in accordance with the good leaver provisions in the Company's LTIP rules.

Pension related benefits

In relation to the Company's contractual obligations to Neil Hawkings to provide a pension substantially as if he was a member of the defined benefit pension scheme without the earnings cap, the Company's obligations were settled by a lump sum payment of £392,600 gross.

Legal fees

Neil Hawkings received a contribution of £2,500 plus VAT towards legal fees incurred in connection with his departure.

The annual bonus payment and pension related benefits are included within the single total figure of remuneration table on page 108.

Annual bonus in respect of 2016 performance (audited)

In line with the Policy, during 2016 Executive Directors participated in non-pensionable annual bonus arrangements. The 2016 annual bonus provided for awards of between 0 per cent and 100 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 2016 bonus payout, the Committee reviewed performance against each measure and applied judgement to determine the overall bonus level, taking into account other aspects of performance including overall Company performance and the oil sector environment. In terms of personal performance, the Remuneration Committee assessed 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 2016. The Committee agreed that the formulaic outcome of the bonus payments were reflective of the strong underlying operations of the business and the delivery of results during the year. In particular, the Committee noted that the proposed level of bonus payments reflected this and the significant progress made to the completion of the refinancing during the year.

Annual Report on Remuneration continued

The 2016 annual bonus scorecard was based 80 per cent on financial and operational targets and 20 per cent on personal objectives. The table below details the financial and operational performance categories, their relative weightings and achievement against specific targets. Each Executive Director's achievement against the personal targets is also summarised below.

			2016 Targets					
			Performance target ranges					
KPI category	Subcategory	Measure	Threshold	Target	Stretch	Actual Performance	Weighting	Formulaic outcome for the year (% of total bonus opportunity)
Operating Safely	HSES	% weighted HSES Index	90%	100%	110%	101%	5%	2.5%
Building the strong production base	Production	Daily average rate of production (excluding Solan) (kboepd)	56.4	63.5	65.5	66.9	10%	10%
	Development	Solan – annualised production rate (kboepd)	9.0	10.0	11.0	4.5	5%	0%
		Catcher – maintain project budget and schedule	£1,413m gross project budget	£1,363m gross project budget	£1,300m gross project budget	£1,216m gross project budget	10%	10%
Delivering growth	Exploration	By end 2016 propose an EMV positive programme for Brazil including reduction in 2017/18 net cost exposure to less than US$90m	<US$100m	<US$90m	<US$80m	US$83.5m	5%	4%
Maintaining financial strength	Finance	Maintain covenant headroom/avoid further covenant amendments	Amend covenants to avoid default mid and end 2016	Amend and achieve 6.5x covenant tests at 30 June and 31 December	Pass covenant tests at 30 June and 31 December with >US$250m headroom	June 5.08x Dec 5.47x	10%	5%
		Absolute level of debt no greater than budget on US$45 oil price case	Budget +5%	Budget (US$2,860m)	Budget -5%	US$2,820m (Budget -1.4%)	5%	3%
Delivering Group strategy	Business Development	Specific project milestone[1]	Threshold performance relating to development progress and costs	Target performance relating to development progress and costs	Stretch performance relating to development progress and costs	Ongoing	10%	0%
		Make at least one material acquisition that is NPV/value-adding and covenant-accretive	US$100m+ NPV, covenant headroom improvement US$250m	US$200m+ NPV, covenant headroom improvement US$500m	US$400m+ NPV, covenant headroom improvement US$1bn	E.ON UK US$363.5m NPV covenant headroom improvement <US$1bn	10%	6%
	Organisation	Further cost reductions in G&A and Operating Expenditure against budget (US$ million)	Opex <498 G&A <243	Opex <474 G&A <231	Opex <449 G&A <220	Opex: 420 G&A: 194	10%	10%
Sub-total: Corporate KPIs							80%	50.5%
Personal	Tony Durrant	A selection of targets relating to strategic planning, shareholder engagement, leadership and senior management succession planning.					20%	16.0%
	Robin Allan	A combination of production and development targets supporting the corporate KPIs as well as succession planning for key reporting roles.						13.9%
	Richard Rose	A combination of targets supporting the corporate KPIs and including maintaining financial strength, cost controls, systems and maximising income.						15.4%
Total							**100%**	**Between 64.4% and 66.5%**

Notes:

1 Project ongoing and for reasons of confidentiality targets cannot be disclosed at this time. Disclosure will be made in the 2017 Annual Report where this does not compromise the interests of the Company.

The Committee considered these awards commensurate with the strong operational performance and strategic delivery during the reporting period. In assessing both the corporate and individual targets, the Committee took account of (i) a record production of 71.5 kbopd; (ii) significantly reduced operating and development costs; (iii) a significant acquisition and subsequent integration; and (iv) good progress towards the conclusion of a highly complex debt refinancing exercise. The following was noted in particular, whilst considering the personal performance of Executive Directors:

Tony Durrant: Leadership and execution of low-oil price environment strategy, driving down cost, re-balancing the portfolio and ensuring future balance sheet recovery whilst retaining growth upside through high operational integrity and notably, the progression of Catcher, Tolmount, Sea Lion and Mexico activities.

Robin Allan: Successful acquisition and integration of the E.ON business into the UKBU, strengthening and diversifying our North Sea portfolio and building both operational and leadership strength in depth.

Richard Rose: Architect and personal delivery of the Group refinancing exercise and relentless drive for cost reduction and improved forecasting across the Group.

Bonus award in respect of 2016 performance (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 Deferred Shares.

Director	Bonus as % of salary	Total value £	Cash amount £	Amount to be awarded as deferred shares £
Robin Allan	64.4%	227,815	176,875	50,940
Tony Durrant	66.5%	378,385	284,500	93,885
Richard Rose	65.9%	197,700	150,000	47,700
Former Director				
Neil Hawkings[1]	50.5% (and pro-rated)	89,321	89,321	0

Notes:

1 Neil Hawkings stepped down as a Director on 30 June 2016. The Committee determined that the bonus would be 50.5 per cent of Neil Hawkings' annual salary as at 30 June 2016 pro-rated to his term of service during 2016.

LTIP vesting outcomes in 2016 (audited)

LTIP awards were granted in 2014 as Equity Pool Awards and Performance Share Awards (see pages 119 to 120 for further detail on the LTIP award). The 2014 LTIP award cycles completed their three-year performance periods on 31 December 2016. The vesting conditions of these awards are described in the 2014 Policy, a copy of which can be accessed via the Company's website www.premier-oil.com.

The constituents of the comparator group for the 2014 Performance Share Award cycle are detailed on page 120 of the Annual Report on Remuneration.

The outcomes of the 2014 LTIP awards are as follows:

- Equity Pool Awards: over the performance period, the threshold of 10 per cent compound annual growth was not met, and, as a result, awards under the 2014 Equity Pool will not vest
- Performance Share Awards: over the performance period, the Company's TSR was below the median of the comparator group. As a result, the 2014 Performance Share Awards will not vest as the threshold was not met

LTIP awards granted in 2016 (audited)

The grant of LTIP awards to Executive Directors under the 2016–2018 cycle was approved in principle by the Committee in August 2016. However, 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 and was postponed. Accordingly, no LTIP awards were granted to Executive Directors in 2016. It is anticipated that the awards will be granted as soon as reasonably practicable following the release of the Company's 2016 results. As to the details of the awards, in view of market conditions, the Committee determined that the Performance Share Awards would be scaled back by 50 per cent and that there would be no Matching Award. In addition, the Equity Pool Awards will be subject to a cap of 50 per cent of salary on vesting. Details of the awards approved by the Committee are set out in the table below. Performance for these awards will be measured between 1 January 2016 and 31 December 2018, and will be based on equity value per share and relative TSR as detailed in the 2014 Policy, a copy of which can be found on the Company's website www.premier-oil.com.

2016-2017 cycle

Director	% salary to be awarded as Performance Shares before scale back[1]	Number of actual Performance Shares to be awarded[2, 3, 4]	% of Equity Pool[5]
Robin Allan	125%	294,203	4.25
Tony Durrant	150%	567,864	6.00
Richard Rose	125%	249,500	4.25

Notes:

1 The number of Performance Shares was determined by reference to the relevant percentage of salary divided by the closing market price of Premier Oil shares on the five dealing days immediately following announcement of the Company's Half-Year results (£0.7515) and scaled back by 50 per cent.

2 The face value of the awards will be calculated by reference to the average price of the Company's shares over the five dealing days immediately preceding the date of grant and in the event that this value exceeds the individual limit in the Plan, awards will be scaled back to the individual limit.

3 For Performance Share Awards, 25 per cent of the shares would be received for threshold performance, which is TSR equal to the median of the comparator group. The constituents of the comparator group are detailed on page 120.

4 Any dividends paid accrue on Performance Share Awards and will be paid on vesting as shares, in proportion to performance achieved.

5 The funding of the Equity Pool is based on three-year annualised compound growth in the Company's equity value per share. Further details can be found in the Company's 2014 Policy. At the point of vesting, awards will be capped at 50 per cent of salary.

The constituents of the comparator group for outstanding Performance Share Award cycles are detailed on page 120. As the 2013 LTIP awards did not vest in 2016, no corresponding Matching Share Awards were granted during 2016.

Annual Report on Remuneration continued

Total pension entitlements (audited)

In line with the Policy, as Directors who joined the Company prior to 20 August 2013, Robin Allan, Tony Durrant and Neil Hawkings 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 (£150,600 for the 2016/17 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 2016 are as follows:

Director	(a) Accrued pension as at 31 December 2015[1,3] £'000s pa	(b) Accrued pension in (a) after allowing for inflation[1,3] £'000s pa	(c) Accrued pension as at 31 December 2016[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]	79.7	79.7	87.1	148.0	19.9	128.1
Tony Durrant[4]	89.4	89.4	112.5	462.0	32.8	429.2
Former Director						
Neil Hawkings[4,6]	64.8	64.8	67.5	54.0	6.6	47.4

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.

6 Neil Hawkings left service on 30 June 2016; the accrued pension under (c) relates to service completed up to that date. The value of growth in accrued pension under (f) was calculated at 31 December 2016 using a capitalisation factor of 20.

In respect of 2016, Tony Durrant and Neil Hawkings elected to receive a salary supplement, whilst Robin Allan elected to receive a combination of pension contributions and a salary supplement. During 2015 a review was carried out for the Directors who were members (or deemed members) of the Scheme 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. In January 2015, the Committee decided not to make the target funding payments for the prior year and following the review in December 2015, the Committee approved target funding payments for Robin Allan, Tony Durrant and Neil Hawkings, as detailed in the table on page 113, reflecting the level of increase required to meet 90 per cent of the accrued target pension values. These payments were approved for payment in four instalments during the course of 2016, the first of which was made in January 2016.

Richard Rose receives a combination of pension contributions (to the defined contribution scheme) and a salary supplement totalling 20 per cent of salary including the cost of National Insurance contributions to the Company.

Payments made by the Company in respect of pension benefits in relation to 2016 are also summarised below:

Director	Salary supplements £'000s	Pension contributions £'000s	Target funding payments £'000s	Total pension benefits paid by Company £'000s
Robin Allan	53.4	10.0	480.8[1]	544.2
Tony Durrant	100.0	–	579.1[1]	679.1
Richard Rose	30.8	25.0	N/A	55.8
Former Director				
Neil Hawkings[2]	31.1	–	563.7[1]	594.8

Notes:

1 The target funding payments for Robin Allan, Tony Durrant and Neil Hawkings relate to pension top-up payments approved by the Committee in December 2015 made in four instalments during 2016. Neil Hawkings received two of the instalments before stepping down as a Director on 30 June 2016 with a balancing payment as detailed below.

2 In relation to the Company's contractual obligations to Neil Hawkings to provide a pension substantially as if he was a member of the defined benefit pension scheme without the earnings cap, the Company's obligations were settled by a lump sum payment of £392,600.

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)
	2016 £'000s	2015 £'000s	% change	% change
Salary	**569.0**	569.0	0%	1.1%
Taxable benefits	**26.2**	23.3	12.45%	32.1%
Annual bonus[2]	**378.4**	56.9[3]	565.03%	279.2%
Total	**973.6**	649.2	49.97%	26.3%

Notes:

1 UK-based employees who were employed for the full year in both 2015 and 2016.

2 Includes cash bonus and amount deferred into shares (amounts above 50 per cent of salary are deferred into shares).

3 Discretion was applied in 2015 to reduce the total annual bonus to 10 per cent of salary for all employees.

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 2015 and 31 December 2016. Total shareholder distribution expenditure is comprised of dividends and share buybacks. In December 2014, a decision was taken by the Board to postpone the share buyback programme pending a recovery in the oil price and, as a result, no shares were re-purchased during 2015 and 2016. The Company did not pay a dividend in the financial years ending 31 December 2015 and 31 December 2016.

	2016 US$ million	2015 US$ million	% change
Remuneration paid to or receivable by all employees of the Group	**121.0**	132.4	(8.6)%
Distributions to shareholders by way of dividend	**–**	–	0%
Distributions to shareholders by way of share buyback	**–**	–	0%

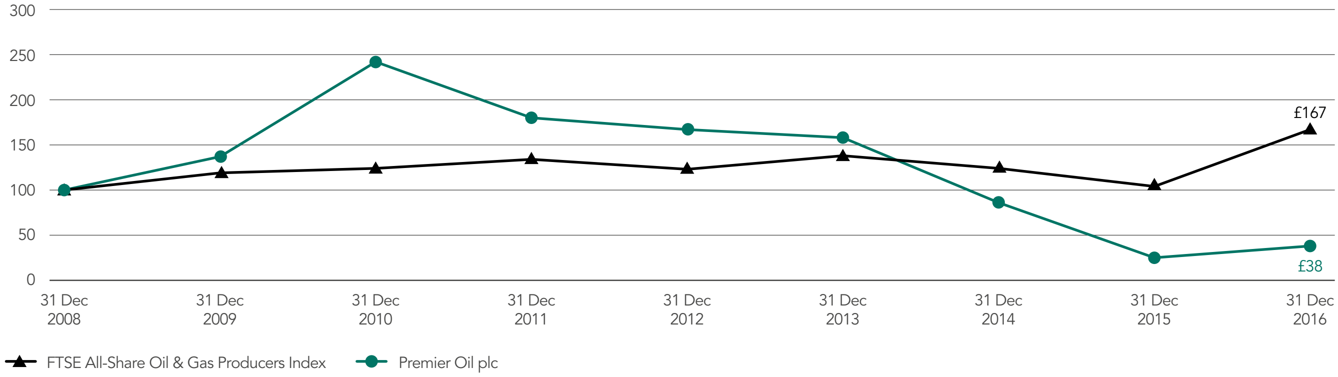
Annual Report on Remuneration continued

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 eight 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.

8-year TSR performance

Value of £100 invested on 31 December 2008



The table below shows the CEO single figure of remuneration for the past eight 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 funding rate as % of maximum	Asset Pool funding rate 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	40%	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%

Notes:

1 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.

2 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.

Implementation of Executive Director Remuneration Policy for 2017

Remuneration in 2017 will be consistent with the Policy described on pages 96 to 105, subject to shareholder approval.

Salary

The salaries of the Executive Directors are reviewed annually to ensure they remain appropriate. In consideration of the challenges posed by market conditions, no salary increases have been awarded to the CEO and Director, North Sea and Exploration for 2017. The average salary increase across the Group's UK operations is 0.42 per cent.

Our current Finance Director, Richard Rose, joined the Board in September 2014. Following careful consideration, the Committee determined that the Finance Director's salary in 2017 be increased 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. His salary has remained unchanged since the date of his appointment and the Committee is comfortable that this new salary is appropriate for our Finance Director. In increasing only Richard Rose's salary, the Committee has adopted the same approach as with the rest of the Company's UK employees where pay rises have only been awarded where individual performance and comparability merit such increases.

Director	Position	Salary from 1 January 2016 £	Salary from 1 January 2017 £	Percentage increase £
Robin Allan[1]	Director, North Sea and Exploration	353,750	353,750	0%
Tony Durrant[1]	Chief Executive Officer	569,000	569,000	0%
Richard Rose	Finance Director	300,000	353,750	17.92%

Notes:
1 2017 salaries remain frozen for a third consecutive year for Robin Allan and Tony Durrant.

Pension, benefits and all-employee share plans

The Company will offer Executive Directors pension, taxable benefits and tax-advantaged all-employee share plans for 2017 in line with the Policy on pages 96 to 105.

Annual bonus

For 2017, the Executive Director annual bonus opportunity is up to 120 per cent of salary subject to shareholder approval of the 2017 Remuneration Policy. Annual performance will be assessed against a performance scorecard of which 80 per cent will be based on financial and operational measures (see table below) and 20 per cent on personal objectives. The 2017 corporate and personal objectives, along with threshold and stretch target values, will be disclosed, to the extent that they are not commercially sensitive, in the 2017 Directors' Remuneration Report. In the current climate the Committee will consider carefully the oil market outlook, the Company's position and the outcome for 2017 in deciding whether and at what level to award bonuses for that year. Any bonus paid will be assessed against the achievement of the 2017 performance targets. The table below also summarises the criteria used to assess each target and the relative weighting of each:

KPI	Subcategory	Target		Weighting
Operating safely	HSES	% weighted HSES Index		8%
Building the strong production base	Production	Daily average kboepd		8%
		Operating efficiency		4%
	Development	Near-term project milestones	Catcher	12%
			Tolmount	4%
Delivering growth	Exploration	Achievement of specified strategic objective		8%
Maintaining financial strength	Finance	Refinancing		8%
		Absolute level of debt		8%
		Cost base goal for Opex		4%
		Cost base goal for gross G&A		4%
Delivering Group strategy	Business Development	Achievement of specified strategic objective		4%
		Achievement of specified strategic objective		8%
Sub-total Corporate KPIs				**80%**
Personal targets				20%
Total				**100%**

Annual Report on Remuneration continued

Long-term incentive plan

In 2015 and 2016, the Committee reviewed the effectiveness of the 2009 Long Term Incentive Plan both for the wider employee population as well as for the Executive Directors. Following that review, in December 2015 a new incentive scheme (the 'Premier Value Share Plan' or 'PVSP') was introduced for the wider employee population. The Committee consulted with shareholders during 2016 on the detail of its proposal in relation to a separate Long Term Incentive Plan (the '2017 Long Term Incentive Plan') for Executive Directors and certain members of senior management. Further details of the new LTIP can be found in the Policy Report on pages 99 to 100. Subject to approval of the new Policy and the new LTIP, it is the intention of the Committee to grant Performance Share Awards and Restricted Share Awards following the 2017 AGM. The vesting of Performance Share Awards is based on the Company's TSR performance relative to a comparator group of international oil and gas sector peers. Up to 25 per cent of the awards vest for median performance, with full vesting for upper quartile performance. The vesting of Restricted Share Awards is subject to a financial underpin based on the Company's capital structure and balance sheet strength. The financial underpins are those set by the terms of the Company's refinancing, currently three times net debt to EBITDA and the absolute debt level at the vesting date.

Implementation of Non-Executive Director Remuneration Policy for 2017

Non-Executive Director fees were last increased with effect from 1 January 2013. The next review of fees for Non-Executive Directors is scheduled for the end of 2017 with any change proposed to take effect from 1 January 2018. Non-Executive Director fees for 2017 are as follows:

Role	Fee type	From 1 January 2016 £	From 1 January 2017 £	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 three-year period ending 31 December 2016.

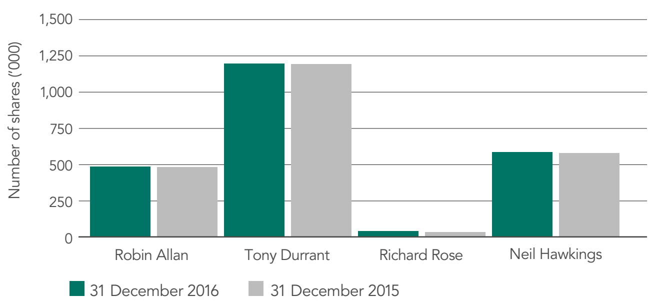
Year	Annual bonus	Long-term incentives
2014	Bonus outcome for 2014 for corporate targets reduced to 24% (formulaic outcome 40%).	N/A
2015	Total bonus outcome for 2015 reduced to 10% (formulaic outcome ranged from 55.8% to 58.1%)	N/A
2016	None	LTIP awards scaled back by 50%; Equity Pool Awards vesting capped at 50% of salary; LTIP PSA awards scaled back 50%; Matching Award removed

Statement of Directors' shareholding and scheme interests (audited)

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 100 per cent of salary (200 per cent for the CEO). Shareholding guidelines will increase to 250 per cent for all Executive Directors following approval of the 2017 Policy.

The graphs below show the number and value of Executive Directors' shareholding and scheme interests as at 31 December 2015 and 31 December 2016 respectively.

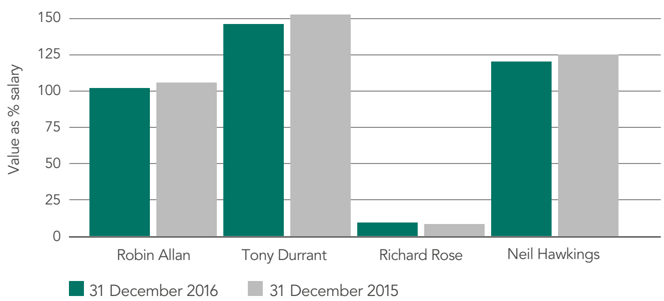
Total shares owned outright[1]



Note:

1 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') some of which may be subject to forfeiture on leaving the Company, dependent upon the time for which they have been held.

Value of shareholding as a percentage of salary[1 2]



Notes:

1 In addition to total shares owned outright, the above shareholdings include deferred awards under the LTIP (where performance conditions have been achieved and awards are subject to a holding period).

2 The valuation of shareholdings as at 31 December 2016 has been calculated using an average of the mid-market closing price between 1 October and 31 December 2016 (£0.659). The valuation of shareholdings as at 31 December 2015 has been calculated by reference to the mid-market closing price between 1 October and 31 December 2015 (£0.691).

The table below summarises the Directors' interests in shares, including those held under outstanding LTIP, SAYE and SIP awards, as at 31 December 2016. Further details of all outstanding awards are disclosed on pages 118 to 121.

Director	Owned outright at 31 December 2016[1]	Deferred shares subject to continued employment at 31 December 2016 (or date of leaving)	Deferred shares at 31 December 2016 (or date of leaving)	Unvested shares subject to performance at 31 December 2016[4] (or date of leaving)	Unvested SAYE options at 31 December 2016 (or date of leaving)	Total share interests at 31 December 2016 (or date of leaving)
Robin Allan	487,692	–	59,878[2]	410,196	42,857	1,000,623
Anne Marie Cannon	10,000	–	–	–	–	10,000
Joe Darby	23,108	–	–	–	–	23,108
Tony Durrant	1,199,089	–	63,870[2]	862,529	42,857	2,168,345
Jane Hinkley	13,234	–	–	–	–	13,234
David Lindsell	17,332	–	–	–	–	17,332
Iain Macdonald	–	–	–	–	–	0
Richard Rose	40,866	–	26,135[3]	308,936	42,857	418,794
Mike Welton	22,531	–	–	–	–	22,531
Former Directors						
David Bamford[5]	1,514	–	–	–	–	1,514
Neil Hawkings[6]	585,455	–	59,878[2]	410,196	–	1,055,529
Michel Romieu[7]	20,000	–	–	–	–	20,000

Notes:

1 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.

2 Deferred shares awarded on 14 May 2013 under the Premier Oil 2009 Long Term Incentive Plan and subject to a three-year deferral period but which would vest in full on cessation of employment in all circumstances save for summary dismissal. Vesting of the awards to Robin Allan and Tony Durrant has been delayed due to share trading restrictions and it is expected that the awards will vest following the release of the Company's 2016 results. Awards held by Neil Hawkings vested on his cessation of employment.

3 Deferred shares under a Conditional Share Award ('CSA') received on joining the Company to "buy-out" the share awards he forfeited on resignation from his former employer. The CSA reflects the expected value of his forfeited awards and consists of 26,135 shares valued using the mid-market closing share price on 8 September 2014 of £3.413. The CSA vests subject to Richard Rose remaining employed by the Company on 31 December 2016 and subject to any share trading restrictions. Vesting of the award has been delayed due to share trading restrictions and it is expected that the award will vest following the release of the Company's 2016 Results.

4 Unvested shares subject to performance include 2014 Performance Share Awards, for which the performance period completed on 31 December 2016 and no awards vested. See page 111 of the Annual Report on Remuneration for further details on performance criteria and achievement.

5 Interests reported as at 11 May 2016, the date on which David Bamford's directorship ceased.

6 Interests reported as at 30 June 2016, the date on which Neil Hawkings' directorship ceased. The figures exclude 197 Partnership Shares and 197 Matching Shares purchased on 1 July 2016 under the terms of the Share Incentive Plan with contributions taken from Neil Hawkings' June salary.

7 Interests reported as at 11 May 2016, the date on which Michel Romieu's directorship ceased.

Sourcing of shares and dilution limits

Awards under all of the Company's share schemes may be met using a combination of market purchases, financed by the Company through the Premier Oil plc Employee Benefit Trust, and newly issued shares. The Company complies with the Investment Association's recommended guidelines on shareholder dilution through employee share schemes: awards under the Group's discretionary schemes which may be satisfied with new issue shares must not exceed 5 per cent of the Company's issued share capital in any rolling 10-year period, and the total of all awards satisfied with new issue shares under all plans must not exceed 10 per cent of the Company's issued share capital in any rolling 10-year period.

As of 31 December 2016, 818,775 shares were held by the Employee Benefit Trust (2015: 1,777,454) and the commitments to issue new shares are summarised below:

Shares issued or committed to be issued in the 10-year period to 31 December 2016	Number of shares	Percentage of issued share capital	Dilution limit	Percentage of dilution limit used
New issue shares under AEP, LTIP and historical Executive Share Option Schemes within 5% limit	7,836,035	1.53%	25,541,183	30.68%
As above plus SAYE within 10% limit	24,443,532	4.79%	51,082,366	47.85%

Share price movements during 2016

The mid-market closing price of the Company's shares on 31 December 2016 was £0.740 (31 December 2015: £0.485). The intra-day trading price of the Company's shares during 2016 was between £0.190 and £0.820.

Annual Report on Remuneration continued

Executive Director external appointments

Executive Directors are permitted to accept non-executive appointments outside the Company providing that the Board's approval is sought. During the year, Tony Durrant received a fee of £50,000 (2015: £46,666) and a bonus of £2,000 (2015: nil) in relation to his role as a Non-Executive Director of Greenergy Fuels Holdings Limited. Tony Durrant also served as an Advisory Committee Member of FlowStream Commodities Ltd for which he received an annual fee of US$20,000 (2015: US$20,000). Robin Allan is Chairman of the Association of British Independent Oil Exploration Companies ('BRINDEX') and receives no fee for this role.

Outstanding share awards under the annual bonus, LTIP and share option schemes

Annual bonus scheme

As at 31 December 2016 there were no outstanding share awards held in respect of the deferred element of previous annual bonus awards for Directors.

Deferred Bonus Awards for performance in the year ended 31 December 2016 have been approved by the Committee and it is anticipated that they will be granted as soon as practicable following the release of the Company's 2016 results. 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 will vest at the end of a three-year period commencing from the date of grant of the awards subject to continued employment. Malus and clawback provisions apply to the Deferred Bonus Awards.

Amounts to be deferred into shares are as follows:

Directors	Bonus deferred into shares £
Robin Allan	50,939.98
Tony Durrant	93,884.98
Richard Rose	47,700.00

LTIP Equity Pool Awards

As at 31 December 2016, three Equity Pools were outstanding, as follows:

			Outstanding Equity Pool allocation (% of Pool)		
Cycle	Performance period	Starting market capitalisation	Tony Durrant[2]	Robin Allan	Richard Rose[3]
2014[1]	01.01.14 – 31.12.16	£1,660m	6.00% (pro-rated)	4.25%	4.25% (pro-rated)
2015	01.01.15 – 31.12.17	£1,178m	6.00%	4.25%	4.25%
2016	01.01.16 – 31.12.18	£350m	6.00%[4]	4.25%[4]	4.25%[4]

Notes:

1 The Committee determined in February 2017 that the 2014 Equity Pool Awards would not vest. For further details see page 111.

2 Tony Durrant was awarded 4.25 per cent of each Equity Pool cycle when serving as Finance Director. Additional Equity Pool points were awarded on 22 August 2014 in recognition of his appointment as Chief Executive Officer, bringing his share of the Equity Pool to 6 per cent per cycle but with the additional 1.75 per cent pro-rated to reflect the period for which he served as Chief Executive Officer during each cycle.

3 Richard Rose joined as Finance Director on 8 September 2014. On 9 September 2014 he was awarded an equivalent of 4.25 per cent of each of the three Equity Pools pro-rated to reflect the time served by him on the Board within each cycle.

4 On 25 August 2016, the Committee approved the grant of Equity Pool Awards to Directors. The awards will be granted at the same time as the 2016 Performance Share Awards as detailed on page 111 which is anticipated to be as soon as reasonably practicable following the release of the Company's 2016 results.

LTIP Performance Shares

In each of 2014 and 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, with adjustments made for Tony Durrant and Richard Rose during 2015 as detailed in notes 2 and 3 below. The grant of Performance Share Awards in 2016 was approved by the Remuneration Committee in August 2016 and details of the awards are set out on page 111. 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 it is anticipated that the awards will be granted as soon as reasonably practicable following the release of the Company's 2016 results.

As at 31 December 2016, the Executive Directors had the following outstanding Performance Share Awards:

Director	Date of grant	Awards held at 1 January 2016	Granted	Lapsed	Vested	Awards held at 31 December 2016 or at date of leaving if earlier	Market price of shares on date of award	Performance period	Earliest vesting date
Robin Allan	14.05.13	109,732	–	(109,732)	–	–	393.30p	01.01.13 – 31.12.15	01.01.16
	28.02.14	145,888	–	–	–	145,888[1]	303.10p	01.01.14 – 31.12.16	01.01.17
	27.02.15	264,308	–	–	–	264,308	167.30p	01.01.15 – 31.12.17	01.01.18
		519,928	**–**	**(109,732)**	**–**	**410,196**			
Tony Durrant	14.05.13	119,910	–	(119,910)	–	–	393.30p	01.01.13 – 31.12.15	01.01.16
	22.08.14	13,005[2]	–	(13,005)	–	–	334.70p	01.01.13 – 31.12.15	01.01.16
	28.02.14	159,394	–	–	–	159,394[1]	303.10p	01.01.14 – 31.12.16	01.01.17
	22.08.14	92,974[2]	–	–	–	92,974[1]	334.70p	01.01.14 – 31.12.16	01.01.17
	27.02.15	510,161	–	–	–	510,161	167.30p	01.01.15 – 31.12.17	01.01.18
		895,444	**–**	**(132,915)**	**–**	**775,534**			
Richard Rose	09.09.14	20,266[3]	–	(20,266)	–	–	341.30p	01.01.13 – 31.12.15	01.01.16
	09.09.14	84,788[3]	–	–	–	84,788[1]	341.30p	01.01.14 – 31.12.16	01.01.17
	27.02.15	224,148	–	–	–	224,148	167.30p	01.01.15 – 31.12.17	01.01.18
		329,202	**–**	**(20,266)**	**–**	**308,936**			
Former Director									
Neil Hawkings[4]	14.05.13	109,732	–	(109,732)	–	–	393.30p	01.01.13 – 31.12.15	01.01.16
	28.02.14	145,888	–	–	–	145,888[1]	303.10p	01.01.14 – 31.12.16	01.01.17
	27.02.15	264,308	–	–	–	264,308	167.30p	01.01.15 – 31.12.17	01.01.18
		519,928	**–**	**(109,732)**	**–**	**410,196**			

Notes:

1 The Committee determined in January 2017 that the 2014 Performance Share Awards will not vest. For further details see page 111.

2 Additional Performance Share Awards were granted to Tony Durrant on 22 August 2014 using the closing mid-market price on 21 August 2014 (334.70p) to calculate the number of shares under award.

3 Performance Share Awards were granted to Richard Rose on joining the Company on 9 September 2014 using the closing mid-market price on 8 September 2014 (341.30p) to calculate the number of shares under award.

4 Neil Hawkings left the Company on 30 June 2016; awards in the above table reflect activity between 1 January 2016 and 30 June 2016. Following his departure, outstanding awards were pro-rated to reflect his leaving date and will vest at the same time as other awards subject to performance conditions being met. Neil Hawkings did not receive a 2016 award.

Annual Report on Remuneration continued

LTIP Deferred Shares and Matching Shares

At 31 December 2016, the Executive Directors held outstanding awards of Deferred Shares and Matching Awards granted under the LTIP as set out below. No awards were made during 2016.

Director	Date of grant	Type of award	Awards held at 1 January 2016	Number of shares made subject to award during 2016	Number of Matching Awards granted during 2016	Number of shares lapsed during 2016	Number of shares released during 2016	Number of shares held at 31 December 2016 (or date of leaving)	Market price of shares on date of award	Performance period	Earliest vesting date[2]
Robin Allan	14.05.13	Deferred Share[1]	59,878	–	–	–	–	59,878[2]	393.30p	–	01.01.16
	24.06.13	Matching Award[3]	149,695	–	–	(149,695)	–	–	336.80p	01.01.13 – 31.12.15	N/A
			209,573			**(149,695)**		**59,878**			
Tony Durrant	14.05.13	Deferred Share[1]	63,870	–	–	–	–	63,870[2]	393.30p	–	01.01.16
	24.06.13	Matching Award[3]	159,675	–	–	(159,675)	–	–	336.80p	01.01.13 – 31.12.15	N/A
			223,545			**(159,675)**		**63,870**			
Former Director											
Neil Hawkings	14.05.13	Deferred Share[1]	59,878	–	–	–	–	59,878[4]	393.30p	–	01.01.16
	24.06.13	Matching Award[3]	149,695	–	–	(149,695)	–	–	336.80p	01.01.13 – 31.12.15	N/A
			209,573			**(149,695)**		**59,878**			

Notes:

1 There are no performance criteria for the Deferred Shares.

2 The release of the Deferred Shares to Robin Allan and Tony Durrant was delayed due to share trading restrictions and it is anticipated that the release will take place following the release of the Company's 2016 results.

3 Matching Awards are subject to the achievement of performance criteria based on TSR against a comparator group of listed companies in the oil and gas sector (see table below for constituents). Full vesting required upper decile performance. The Committee determined in February 2016 that the 2013 Matching Awards would not vest. For further details see page 111.

4 Neil Hawkings stepped down as a Director on 30 June 2016. The Deferred Shares held by Neil Hawkings were released to him on 22 November 2016.

TSR comparator group constituents, by Performance Share Award/Matching Share Award cycle.

Company	2014	2015	2016
Afren[1]	✓	✓	
Africa Oil	✓	✓	
Aker BP			✓
Bankers Petroleum[1]	✓	✓	✓
Beach Energy	✓	✓	✓
Cairn Energy	✓	✓	✓
Cairn India	✓	✓	
Det norske oljeselskap[1]	✓	✓	
Devon Energy	✓	✓	
DNO International	✓	✓	✓
Dragon Oil[1]	✓	✓	
Energi Maga Persada		✓	✓
EnQuest	✓	✓	✓
Etab. Maurel et Prom	✓	✓	✓
Faroe Petroleum			✓
Gas Malaysia	✓	✓	
Genel Energy	✓	✓	✓
Gulf Keystone	✓	✓	✓
Indus Gas	✓	✓	
Ithaca Energy	✓	✓	✓
Lundin Petroleum	✓	✓	✓
Marathon Oil		✓	✓
Noble Energy	✓	✓	✓
Oil Search	✓	✓	
Ophir Energy	✓	✓	✓
Origin Energy	✓	✓	✓
Oryx Petroleum	✓	✓	✓
PTT EP	✓	✓	
Rockhopper Exploration	✓	✓	✓
Salamander Energy[1]	✓	✓	
Santos	✓	✓	✓
Slavneft-Megionneftegaz	✓		
SOCO International	✓	✓	✓
Talisman Energy[1]	✓	✓	
TransGlobe Energy	✓		
Tullow Oil	✓	✓	✓
Woodside Petroleum	✓	✓	

Notes:

1 The following companies delisted during the performance period for the 2014 Awards and were removed from the 2014 comparator group by the Remuneration Committee during its final performance assessment:

- Afren (delisted in August 2015)
- Bankers Petroleum (delisted in October 2016)
- Det norske oljeselskap (delisted in September 2016)
- Dragon Oil (delisted in January 2014)
- Salamander Energy (delisted in March 2015)
- Talisman Energy (delisted in May 2015)

Share Options and Share Incentive Plan

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 (Save As You Earn ('SAYE')) scheme.

SAYE 2009

Executive Directors' interests under this scheme are shown below:

Director	Date of grant	Exercisable dates	Acquisition price per share (£)	Options held at 1 January 2016	Granted	Exercised	Lapsed	Options held at 31 December 2016 (or date of leaving[1])
Robin Allan	07.05.15	01.06.20 – 30.11.20	1.2064	24,867	–	–	(24,867)	–
	04.05.16	01.06.19 – 30.11.19	0.4200	–	42,857	–	–	42,857
								42,857
Tony Durrant	07.05.15	01.06.18 – 30.11.18	1.2064	14,920	–	–	(14,920)	–
	04.05.16	01.06.19 – 30.11.19	0.4200	–	42,857	–	–	42,857
								42,857
Richard Rose	07.05.15	01.06.20 – 30.11.20	1.2064	24,867	–	–	(24,867)	–
	04.05.16	01.06.19 – 30.11.19	0.4200	–	42,857	–	–	42,857
								42,857
Former Director								
Neil Hawkings[1]	07.05.15	01.06.18 – 30.11.18	1.2064	14,920	–	–	(14,920)	–

Note:
1 Neil Hawkings stepped down as a Director of the Company on 30 June 2016.

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 2016	Total Partnership Shares purchased in 2016 at prices between £0.3806 and £0.7625	Total Matching Shares awarded in 2016 at prices between £0.3806 and £0.7625	Shares held on 31 December 2016	Partnership and Matching Shares acquired between 1 January and 8 March 2017
Robin Allan	22,814	2,643	2,643	28,100	996
Tony Durrant	12,363	2,642	2,642	17,647	994
Richard Rose	3,524	3,171	3,171	9,866	1,194
Former Director					
Neil Hawkings[1]	12,965	2,047	2,047	17,059	–

Note:
1 Neil Hawkings participated in the plan until his leaving date of 30 June 2016. The final purchase of Partnership and Matching Shares was made on his behalf on 1 July 2016 with contributions deducted from his June 2016 salary. Shares purchased on 1 July 2016 are included in the above table. Partnership and Matching Share Award prices ranged between £0.3806 and £0.7250 per share during the period from 1 January 2016 to 1 July 2016.

For and on behalf of the Remuneration Committee

Jane Hinkley
Chairman of the Remuneration Committee

8 March 2017

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 2016. 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 124.

Dividend
No dividend is proposed in respect of the year ended 31 December 2016 (2015: nil).

Annual General Meeting
The Company's next AGM will be held on Wednesday 17 May 2017 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 8 March 2017 are shown on pages 70 to 72. David Bamford and Michel Romieu stood down from the Board on 11 May 2016 and Neil Hawkings stood down from the Board on 30 June 2016. Iain Macdonald was appointed as a Director on 1 May 2016.

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 75.

Indemnification of Directors and insurance
The Company has granted an indemnity to each of its Directors under which the Company will, to the fullest extent permitted by law and to the extent provided by the Articles of Association, indemnify them against all costs, charges, losses and liabilities incurred by them in the execution of their duties. The Company also has Directors' and Officers' liability insurance in place and details of the policy are given to new Directors on appointment.

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 pages 165 and 166. The Company has one class of Ordinary Shares which carry 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 2016 AGM, for the allotment of relevant securities is for a nominal amount of up to (i) £21,283,794 and (ii) equity securities up to a nominal amount of £42,567,588 less the nominal amount of any shares issued under part (i) of the authority.

Furthermore, at the 2016 AGM, shareholders authorised the Directors to make market purchases up to a maximum of approximately 15 per cent of the Company's issued share capital (being £9,577,707 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 20 to the consolidated financial statements on page 166. 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 the Annual Report on Remuneration on page 117. 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 8 March 2017, 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
Bank of America Corporation	02.03.2017	37,468,296	7.34%	Indirect
Deutsche Bank AG	02.03.2017	37,160,592	7.27%	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
Schroders plc	12.01.2017	24,688,996	4.83%	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 158 to 163, 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:

- US$2,500 million revolving credit facility agreement between, among others, the Company, certain subsidiaries of the Company and a syndicate of 25 financial institutions, pursuant to which, upon becoming aware of a change of control, the Company and the lenders will enter into negotiations regarding the continuation of facilities. In the event that no such agreement is reached within 30 days of the change of control having occurred, the facility agent shall cancel all commitments under the agreement and declare all amounts due and payable within three business days.
- £100 million and US$150 million term loan facilities between, among others, the Company, certain subsidiaries of the Company and Lloyds Bank plc and Royal Bank of Scotland plc as lenders pursuant to which, upon becoming aware of a change of control, the Company and the lenders will enter into negotiations regarding the continuation of facilities. In the event that no such agreement is reached within 30 days of the change of control having occurred, the facility agent shall cancel all commitments under the agreement and declare all amounts due and payable within three business days.
- The Group has outstanding guaranteed convertible bonds ('GCB') with a principal amount of US$245.3 million. In the event of a change of control, the exchange price for the GCB will be adjusted downwards for a specified period (as described in the articles of the issuer). In addition, the holders of the GCB have the option to redeem the GCB at their principal amount, together with accrued interest.
- 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. If, following a change of control, the issuer cannot obtain an "investment grade" rating for the bonds or any other unsecured and unsubordinated debt of the issuer (as described in the prospectus for the retail bonds), the bonds are redeemable at the option of the noteholders. If 80 per cent in nominal value of the bonds are so redeemed, the Company may redeem the outstanding bonds.
- The Group has outstanding senior loan notes totalling €60 million and US$298 million, which were issued to insurance companies and funds predominantly based in the US. On a change of control, the Company must make an offer to prepay the entire unpaid principal amount of the notes, together with accrued interest, to the noteholders.
- The Company has outstanding German-law governed assignable loan notes ('Schuldschein') totalling US$130 million. On a change of control, the notes are repayable at the option of the noteholders, together with accrued interest.

Political donations

No political donations were made during the year (2015: US$nil).

Significant events since 31 December 2016
Details of significant events since the balance sheet date are contained in note 26 to the financial statements on pages 169 and 170.

Information set out in the Strategic Report
The Strategic Report set out on pages 1 to 65 provides a comprehensive review of the performance of the Company's operations for the year ended 31 December 2016 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 page 62. In addition, information regarding the Company's greenhouse gas emissions is also included in the Corporate Responsibility Review in the Strategic Report on page 61. 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 74 to 121. These sections of the report are incorporated into this report by reference.

For the purposes of Listing Rule 9.8.4C 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 149
9.8.4 (5)	Waiver of emoluments by a director	Directors' Remuneration Report, pages 108 and 109

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

8 March 2017

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 8 March 2017 and is signed on its behalf by:

Tony Durrant
Chief Executive Officer

8 March 2017

Richard Rose
Finance Director

8 March 2017

Opinion on financial statements of Premier Oil plc

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2016 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice ('UK GAAP'), including FRS 101 "Reduced Disclosure Framework"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The financial statements that we have audited comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and Parent Company balance sheets;
- the consolidated cash flow statement;
- the consolidated and Parent Company statements of changes in equity;
- the accounting policies; and
- the related notes 1 to 27 in respect of the Group financial statements and 1 to 10 in respect of the Parent Company financial statements.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRSs as adopted by the European Union. 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 ('UK GAAP') including FRS 101 "Reduced Disclosure Framework".

Emphasis of matter – Going concern

At 31 December 2016 the Group had total borrowings of US$3,003.5 million, of which US$273.0 million was repayable within 12 months. As disclosed within the basis of preparation section of the accounting policies, there is a risk of a covenant breach on the Group's debt facilities in respect of the next testing period which, as part of the lender discussions outlined below, has been deferred on a rolling one month basis and is currently due to be tested for the 12 month period ending 31 March 2017. If a covenant breach occurs then the Group's debt holders on all of the Group's facilities will have the right to request repayment of the outstanding debt and to cancel the relevant facilities.

The Group is currently involved in discussions with its lenders on the terms of a refinancing, the current status of which is disclosed in note 26 of the financial statements.

Whilst we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate, the risk that the refinancing will not be approved by the Group's lenders and shareholders or that the covenant test will not continue to be deferred until approval is received constitutes a material uncertainty that may cast significant doubt over the Company's and the Group's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group or Parent Company were unable to continue as a going concern.

We describe below how the scope of our audit has responded to this risk. Our opinion is not modified in respect of this matter.

Going concern and the Directors' assessment of the principal risks that would threaten the solvency or liquidity of the Group

As required by the Listing Rules we have reviewed the Directors' statement regarding the appropriateness of the going concern basis of accounting contained within the basis of preparation section of the accounting policies and the Directors' statement on the longer-term viability of the Group contained within the Strategic Report on page 35.

Aside from the matters disclosed in the emphasis of matter paragraph above, we have nothing else material to add or draw attention to in relation to:

- the Directors' confirmation on page 28 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity;
- the disclosures on pages 30 to 33 that describe those risks and explain how they are being managed or mitigated;

- the Directors' statement in the basis of preparation section of the accounting policies about whether they consider it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's ability to continue to do so over a period of at least 12 months from the date of approval of the financial statements; and
- the Directors' explanation on page 35 as to how they have assessed the prospects of the Group, 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 Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment.

Independence

We are required to comply with the Financial Reporting Council's Ethical Standards for Auditors and we confirm that we are independent of the Group and we have fulfilled our other ethical responsibilities in accordance with those standards. We also confirm we have not provided any of the prohibited non-audit services referred to in those standards.

Our assessment of risks of material misstatement

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.

The risks included within our report are consistent with those included in our 2015 audit report with the exception of the addition of the risk relating to the fair values of the assets and liabilities acquired from E.ON. In addition, in the prior year we also considered that there was a key risk in relation to inappropriate capitalisation of expenditure within property, plant and equipment which has been removed due to the lack of history of error in this area and the limited judgements required.

Going concern

Risk description	How the scope of our audit responded to the risk	Key observations
We consider the application of the going concern basis of accounting and the related disclosures to be a key risk due to the significant and prolonged fall in oil prices and ongoing oil price volatility. In particular, we consider it likely that without a successful refinancing the Group would not be able to comply with certain of the covenants within its borrowing facilities and that there would be a high degree of judgement as to the Group's ability to complete a refinancing of these borrowing facilities and to obtain any necessary deferrals of the related covenants until the refinancing had been completed. As referenced on page 133 in the financial statements, management has highlighted a material uncertainty regarding the risk that the required refinancing will not be approved by the Group's lenders and shareholders or that the covenant test under its existing facilities will not continue to be deferred until approval is received. Further details of this risk are provided in the Audit and Risk Committee Report on page 86 and a summary of the status of the refinancing is provided in note 26 to the financial statements. We have highlighted the level of uncertainty identified by the Directors in respect of going concern in the "Emphasis of matter – Going concern" paragraph above. We have also considered the level of uncertainty in respect of going concern that will remain if the refinancing proceeds to completion in accordance with the terms outlined in note 26.	To assess the appropriateness of the going concern assumption we: • obtained an understanding of the current status of the proposed refinancing, including the key steps to completion, by discussion with management, reading the most recent draft term sheet and confirming the extent to which this term sheet had been approved by the Group's lenders at the date of signing the financial statements; • obtained management's going concern base case cash flow and covenant forecast for the next 12 months (the going concern period), which was approved by the Board and prepared on the assumption that the refinancing completes in accordance with the terms outlined in note 26 to the financial statements; • compared the cash flow forecasts for 2017 with the Board approved budget for that period, and obtained explanations for any significant differences; • compared the cash flow forecasts used in the going concern model with those used in the asset value-in-use calculations for impairment purposes and obtained explanations for any significant differences; • assessed the historical accuracy of forecasts prepared by management; • compared the oil price assumptions used in these forecasts to third-party forecasts and publicly available forward curves; • tested the mechanical accuracy of the cash flow model and the related financial covenant forecasts; • performed stress tests for a range of reasonably possible downside scenarios (including oil price, production and expenditure) and considered their impact on the ability of the Group to remain within the terms of its borrowing facilities during the going concern period, assuming the refinancing completes in accordance with the latest draft terms; and • considered whether the disclosures in, or referred to in, the basis of preparation section of the accounting policies relating to going concern are balanced, proportionate and clear.	As a result of the above procedures, we concluded that there was a material uncertainty which may cast significant doubt on the Company's and Group's ability to continue as a going concern.

Impairment of oil and gas properties within property, plant and equipment

Risk description	How the scope of our audit responded to the risk	Key observations
This is considered a key risk due to the significant judgements and estimates that need to be made in assessing whether any impairments have arisen at year-end or whether impairments in prior periods should be reversed. Due to the high levels of volatility experienced by commodity markets over recent years and the extended time periods over which the Group's key producing and development assets are expected to operate, the risk of impairment was considered likely to be highly sensitive to assumptions in respect of, in particular, future oil and gas prices and discount rates. Management has performed a review of the producing and development asset portfolio for indicators of impairment and following this has undertaken a full impairment review, based on key assumptions which include: • oil and gas prices; • reserves/production; and • discount rate. As referenced on page 140 of the financial statements the recoverable amount of property, plant and equipment is considered by management as a key source of estimation uncertainty. During the year a net pre-tax impairment charge of US$556.2 million (2015: US$1,023.7 million) was recorded. This comprised a US$652.2 million charge related to the Solan field in the UK, together with impairment reversals relating to a number of fields within the UK, Vietnam and Pakistan business units totalling US$96.0 million. Further details, including the use of a long-term oil price assumption of US$75/bbl (real) and related sensitivity analysis in respect of oil prices and discount rate, are provided in note 10 to the financial statements and in the Audit and Risk Committee Report on page 87.	We challenged the assumptions made by management by comparing them with publicly available information, third party information, our knowledge of the Group and industry as well as budgeted and forecast performance. This included: • comparing oil and gas price assumptions with third party forecasts and publicly available forward curves; • understanding the basis of the reserve estimates used by management; • using our internal valuation specialists to perform an independent recalculation of the discount rate used for each significant country of operation; • completing a scenario analysis, through which we computed what we believed to be a reasonable range of impairment charges or reversals by cash generating unit and comparing management's impairment charges and reversals against this range; and • for impairment reversals, confirming the amount recorded after the reversal does not exceed the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognised in prior years.	We are satisfied that the recoverability of the Group's oil and gas assets within property, plant and equipment has been assessed in accordance with the requirements of IAS 36 (Impairment of Assets) and, based on our scenario analysis, that the impairment charges and impairment reversals recorded by the Group are within an acceptable range.

Recoverability of deferred taxation asset

Risk description	How the scope of our audit responded to the risk	Key observations
At the year end, the Group has recorded a deferred tax asset of US$1,304.0 million (2015: US$871.6 million), which primarily arises due to the existence of significant tax losses in the UK. The recoverability of the deferred tax asset is considered a key risk due to the significant judgements and estimates that need to be made in assessing whether there will be sufficient future taxable profits against which the unused tax losses can be utilised, which in turn relies on key assumptions including future oil and gas prices, production, expenditure and financing costs. As referenced on page 140 of the financial statements, recoverability of the deferred taxation asset is considered by management as a key source of estimation uncertainty. Further details of the Group's deferred tax position are provided in note 19 to the financial statements and in the Audit and Risk Committee Report on page 88.	We evaluated the position taken by management in respect of the recoverability of the Group's deferred tax assets, considering whether the supporting calculations are in accordance with enacted tax legislation and are consistent with the models used for the Group's IAS 36 impairment tests.	We are satisfied that the judgements made by management to support the recoverability of the deferred tax asset are reasonable and that the related calculations are in accordance with enacted tax legislation.

Fair values of the assets and liabilities acquired from E.ON

Risk description	How the scope of our audit responded to the risk	Key observations
This is considered a key risk due to the level of judgement required to determine the fair values of the assets and liabilities acquired from E.ON SE on 28 April 2016 for a total consideration of US$135.0 million, which resulted in negative goodwill of US$228.5 million being recorded in the consolidated income statement. Management has recorded the assets and liabilities acquired using their best estimates of their fair value at the acquisition date, based on key assumptions which included in particular: • future oil and gas prices; • reserves/production; • discount rate; and • decommissioning costs. As referenced on page 140 to the financial statements the fair value of the acquired E.ON assets and liabilities is a key source of estimation uncertainty. Further details of this acquisition and the related fair values recorded by the Group, including why the transaction resulted in the recognition of significant negative goodwill, are provided in note 7 of the financial statements and in the Audit and Risk Committee Report on page 87.	We challenged the assumptions made by management by comparing them with publicly available information, third-party information, our knowledge of the Group and industry as well as budgeted and forecast performance. This included: • comparing oil and gas price assumptions with third-party forecasts and publicly available forward curves at the acquisition date; • understanding the basis of the reserve estimates used by management; • agreeing gross decommissioning cost estimates to third-party support or internal engineer estimates and challenging management where any differences in assumptions existed compared with the Group's other assets; • using our internal valuation specialists to perform an independent recalculation of the discount rate used for the UK; • completing a scenario analysis, through which we computed what we believed to be a reasonable range of fair values and comparing these to the fair values recorded by management; and • challenging management as to why the fair values of the assets and liabilities acquired were significantly in excess of the purchase consideration, leading to the recognition of negative goodwill within the income statement.	We are satisfied that the judgements made by management are reasonable, based on the audit evidence gathered and that the fair values of the assets and liabilities acquired are within an acceptable range.

Decommissioning provision

Risk description	How the scope of our audit responded to the risk	Key observations
Provisions for decommissioning are a judgemental area as they include assumptions around estimated decommissioning costs, timing of the decommissioning, inflation, discount rates and the economic life of a field, which in turn will depend on factors such as oil price and operating costs. As referenced on page 140 of the financial statements decommissioning is considered by management as a key source of estimation uncertainty. The total provision at the end of 2016 was US$1,325.3 million (2015: US$1,062.6 million) and further details are provided in note 17 to the financial statements and in the Audit and Risk Committee Report on page 87.	We have assessed for appropriateness the key assumptions underlying the decommissioning calculation through: • agreeing gross estimates to third-party support or internal engineer estimates; • obtaining supporting evidence for any material revisions in cost estimates during the year; • confirming the decommissioning dates are consistent with the Group's latest internal economic models; • assessing the rate of inflation applied with market information; • comparing the discount rate with available market information; • testing the mechanical accuracy of management's decommissioning provision calculation; and • understanding the levels of development and production activity by field and challenging management as to the completeness of provisions that have been recorded.	We are satisfied that the judgements made by management are reasonable, based on the audit evidence gathered.

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

Risk description	How the scope of our audit responded to the risk	Key observations
In accordance with the relevant accounting standards, E&E costs are written off unless commercial reserves have been established or the appraisal process is not completed. This was considered a key risk due to the significant judgements and estimates that are required to be assessed; these include but are not limited to the significant and prolonged fall in oil price and the judgement regarding estimated reserves and resources in place. As referenced on page 140 of the financial statements the recoverable amount of intangible exploration and evaluation assets is considered by management as a key source of estimation uncertainty. Further details of the Group's E&E assets and the impairments of US$48.0 million (2015: US$95.4 million) which arose during the year are provided in note 9 of the financial statements and in the Audit and Risk Committee Report on page 87.	We challenged the outcome of management's review of their E&E assets to assess if there were any indicators of impairments for any of the Group's material field interests by: • participating in meetings with key operational and finance staff to understand the current status and future intention for each asset; • confirming that the Group continues to hold licences for each of its significant E&E assets; • confirming that all assets which remain capitalised are included in future budgets and are considered to contain potentially commercial volumes of hydrocarbons, notwithstanding the current low oil price environment; • where the E&E asset is more progressed and economic assessments are available, for example the Sea Lion prospect in the Falkland Islands and the Tolmount prospect in the UK, obtaining management's economic assessment and understanding the basis on which the asset is considered to be potentially commercial; • identifying any fields where the Group's right to explore is either at, or close to, expiry and assessing the appropriateness of retaining the associated costs as an asset; and • where an asset has been impaired, obtaining supporting evidence for the events that led to the impairment.	We are satisfied that the assets have been treated in accordance with the criteria of IFRS 6 and the Group's E&E accounting policy. In some circumstances the costs of wells from exploration continue to be held on the balance sheet for an extended period of time while development plans are finalised and financing arrangements are agreed, for example in the Falkland Islands and Indonesia, where development is considered by management to remain likely. Based on the audit evidence we have gathered we are satisfied that management has reached these conclusions appropriately.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the Group to be US$12 million (2015: US$15 million), which represents 7 per cent (2015: 4 per cent) of the average normalised pre-tax profit for the last three years, and a reduction on prior year materiality of 20 per cent.

Consistent with the prior year, pre-tax profit has been normalised by adjusting for significant impairments which would distort materiality year-on-year. In addition, in 2016 we have also excluded the US$228.5 million negative goodwill recorded due to the E.ON transaction and a further US$75.7 million credit to the income statement in relation to decommissioning which arose due to the significant weakening of sterling during the year. Consistent with 2015, we have determined materiality by using the average normalised pre-tax profit for the last three years due to the significant volatility in oil prices and the difficulty in predicting their future direction. In addition, although not our primary metric, due to the importance to the Group of its extensive exploration and development portfolio not yet in production, we have also considered the Group's net assets base, noting that US$12 million represents 1.5 per cent of this figure at 31 December 2016 (2015: US$15 million represented 2 per cent of net assets).

In order to ensure that we gain sufficient assurance and oversight of misstatements throughout the Group, materiality for each of the reporting components has been set at between US$6 million and US$9 million (2015: US$7.5 million and US$10 million), depending on the relative size of the component.

We agreed with the Audit and Risk Committee that, to align with market practice, we would report to the Committee all audit differences in excess of US$0.6 million (2015: US$0.3 million), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit and Risk Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level. Based on that assessment, and as in the prior year, we focused our Group audit scope primarily on the audit work at six key locations: UK – London, UK – Aberdeen, Vietnam, Indonesia, Pakistan and the Falkland Islands. These were subject to a full audit, whilst a further two locations were subject to an audit of specified account balances, where the extent of our testing was based on our assessment of the risks of material misstatement and of the materiality of the Group's operations at those locations. The key locations identified above represent the principal business units and account for materially all of the Group's revenue, profit before tax and net assets.

At the parent entity level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit or audit of specified account balances.

The Group audit team performs the Group audit work in respect of UK – London and the Falklands Islands and continues to follow a programme of planned visits that has been designed so that the Senior Statutory Auditor or senior members of the Group audit team visit other key locations and review the work performed on significant risks by the component auditors. In the year, all but the Pakistan location was either directly audited or visited by either the Senior Statutory Auditor or a senior member of his team. For the location not visited we included the component audit team in our team briefings, discussed their risk assessment, participated in a number of telephone meetings with the component auditor and reviewed documentation of the findings from their work, including their audit clearance and supporting materials.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;
- 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 the applicable legal requirements.

In light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report and the Directors' Report.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

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

- we have not received all the information and explanations we require for our audit; or
- 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 are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns. We have nothing to report arising from these matters.

Corporate Governance Statement

Under the Listing Rules we are also required to review the part of the Corporate Governance Statement relating to the Company's compliance with ten provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.

Our duty to read other information in the Annual Report

Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Directors' statement that they consider the Annual Report is fair, balanced and understandable and whether the Annual Report appropriately discloses those matters that we communicated to the Audit and Risk Committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.

Respective responsibilities of Directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

David Paterson ACA (Senior statutory auditor)
For and on behalf of Deloitte LLP

Chartered Accountants and Statutory Auditor
London, United Kingdom

8 March 2017

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, none of which have a material impact on the Group's annual results.

- IAS 1 (amendments) Disclosure initiatives
- IFRS 10, IFRS 12 and IAS 28 (amendments) Investment Entities: Applying the Consolidation Exception
- IFRS 11 (amendments) Accounting for Acquisitions of Interests in Joint Operations
- IAS 16 and IAS 38 (amendments) Clarification of Acceptable Methods of Depreciation and Amortisation
- IAS 16 and IAS 41 (amendments) Agriculture: Bearer Plants
- IAS 27 (amendments) Equity Method in Separate Financial Statements
- Annual Improvements to IFRSs: 2012–2014 Cycle; Amendments to: IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, IFRS 7 Financial Instruments: Disclosures, IAS 19 Employee Benefits and IAS 34 Interim Financial Reporting

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 9 Financial Instruments
- IFRS 14 Regulatory Deferral Accounts
- IFRS 15 Revenue from Contracts with Customers
- IFRS 16 Leases
- IFRS 10 and IAS 28 (amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- IAS 12 (amendments) Recognition of Deferred Tax Assets for Unrealised Losses
- IAS 7 (amendments) Disclosure Initiative
- IFRS 2 (amendments) Classification and Measurement of Share-based Payment Transactions
- IFRS 4 (amendments) Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

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 9 will affect both the measurement of and disclosures relating to financial instruments. IFRS 16 is likely to require a number of potentially significant changes to the treatment of our lease arrangements, in particular the FPSO lease arrangements for Catcher and Chim Sáo, whereby we expect to recognise the leased FPSOs as assets and liabilities from these lease arrangements on our balance sheet from 1 January 2019, with a consequential impact on the profile and phasing of income statement recognition. IFRS 15 may have an impact on revenue recognition and related disclosures.

It is not practicable to provide a reasonable estimate of the effect of IFRS 9, IFRS 15 and IFRS 16 until a detailed review has been completed.

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 and the fair value recognised for the E.ON net assets acquired.

The financial statements have been prepared on the going concern basis. Further information relating to the use of the going concern assumption, including details of a related material uncertainty around the risk of a covenant breach prior to finalisation of the refinancing process, is provided in the "Going Concern" section of the Financial Review as set out on page 52.

The principal accounting policies adopted are set out overleaf.

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.

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

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

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 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 2016, 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.

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.

Sales revenue and other income

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

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

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

Oil and gas assets

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

(a) Exploration and evaluation assets

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

Pre-licence costs

Costs incurred prior to having obtained the legal rights to explore an area are expensed 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 a field development plan has been approved or a gas sales agreement has been signed. 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) on the previous page.

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 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.

Pipelines are depreciated on a unit-of-throughput basis.

(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 under lifts and over lifts of crude oil are measured at net realisable value, 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.

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. Past service cost is also recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested.

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

Royalties

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

Leasing

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

Financial instruments

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

Trade receivables

Trade receivables are stated at 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

Trade payables are stated at amortised cost.

Derivative financial instruments

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

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

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

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

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

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

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.

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 20 on page 166.

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.

Critical accounting judgements and key sources of estimation uncertainty

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

- the application of the going concern basis of accounting (basis of preparation section above) (which is not a key source of estimation uncertainty);
- carrying value of intangible exploration and evaluation assets (note 9 on page 152);
- fair value of assets and liabilities acquired from E.ON (note 7 on page 151);
- carrying value of property, plant and equipment (note 10 on page 153);
- proved and probable reserves estimates (note 10 on page 153);
- decommissioning costs (note 17 on page 157; and
- tax and recognition of deferred tax assets (note 19 on page 164).

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2016

	Note	2016 US$ million	2015 US$ million
Continuing operations			
Sales revenues	1	**983.4**	1,067.2
Other operating (costs)/income	17	**(6.1)**	31.9
Cost of sales	2	**(767.1)**	(661.0)
Impairment charge on oil and gas properties	10	**(556.2)**	(1,023.7)
Reduction in decommissioning estimates	17	**75.7**	–
Exploration expense	9	**(48.0)**	(95.4)
Pre-licence exploration costs		**(10.4)**	(13.6)
Excess of fair value over costs of acquisition	7	**228.5**	–
Costs related to the acquisition of subsidiaries	7	**(21.6)**	–
Profit on disposal of non-current assets		**–**	1.2
General and administration costs		**(24.1)**	(14.4)
Operating loss		**(145.9)**	(707.8)
Share of profit/(loss) in associate	27	**1.8**	(1.9)
Interest revenue, finance and other gains	5	**13.2**	40.7
Finance costs, other finance expenses and losses	5	**(259.7)**	(160.6)
Loss before tax		**(390.6)**	(829.6)
Tax	6	**522.0**	(241.1)
Profit/(loss) for the year from continuing operations		**131.4**	(1,070.7)
Discontinued operations			
Loss for the year from discontinued operations[1]		**(8.8)**	(33.1)
Profit/(loss) after tax		**122.6**	(1,103.8)
Earnings/(loss) per share (cents):			
From continuing operations			
Basic	8	**25.7**	(209.6)
Diluted	8	**25.4**	(209.6)
From continuing and discontinued operations			
Basic	8	**24.0**	(216.1)
Diluted	8	**23.7**	(216.1)

Note:
1 Discontinued operations relate to the disposal of the Norway business unit which completed in December 2015.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Note	2016 US$ million	2015 US$ million
Profit/(loss) for the year		**122.6**	(1,103.8)
Cash flow hedges on commodity swaps:			
(Losses)/gains arising during the year		**(38.3)**	164.4
Less: reclassification adjustments for gains in the year		**(92.4)**	(278.9)
	18	**(130.7)**	(114.5)
Tax relating to components of other comprehensive income		**56.1**	76.0
Cash flow hedges on interest rate and foreign exchange swaps	18	**3.3**	19.8
Exchange differences on translation of foreign operations		**3.0**	(37.0)
Gains/(losses) on long-term employee benefit plans[1]		**0.2**	(0.1)
Other comprehensive expense		**(68.1)**	(55.8)
Total comprehensive income/(expense) for the year		**54.5**	(1,159.6)

Note:
1 Not expected to be reclassified subsequently to profit and loss account.

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

CONSOLIDATED BALANCE SHEET

As at 31 December 2016

	Note	2016 US$ million	2015 US$ million
Non-current assets:			
Intangible exploration and evaluation assets	9	**1,011.4**	749.7
Property, plant and equipment	10	**2,726.2**	2,611.7
Goodwill	10	**240.8**	240.8
Investment in associate	27	**6.2**	5.3
Long-term receivables	11	**143.4**	12.0
Deferred tax assets	19	**1,304.0**	871.6
		5,432.0	4,491.1
Current assets:			
Inventories		**22.3**	20.8
Trade and other receivables	11	**315.1**	274.4
Derivative financial instruments	18	**34.9**	118.3
Cash and cash equivalents	12	**255.9**	401.3
		628.2	814.8
Total assets		**6,060.2**	5,305.9
Current liabilities:			
Trade and other payables	13	**(412.6)**	(472.0)
Short-term provisions	17	**(56.1)**	(24.8)
Derivative financial instruments	18	**(57.2)**	(2.2)
Short-term debt	15	**(273.0)**	–
Deferred income	14	**(27.3)**	(20.9)
		(826.2)	(519.9)
Net current (liabilities)/assets		**(198.0)**	294.9
Non-current liabilities:			
Long-term debt	15	**(2,730.5)**	(2,615.1)
Deferred tax liabilities	19	**(192.6)**	(193.3)
Deferred income	14	**(88.1)**	(87.6)
Derivative financial instruments[1]	18	**(101.6)**	(74.3)
Long-term provisions	17	**(1,312.1)**	(1,080.9)
		(4,424.9)	(4,051.2)
Total liabilities		**(5,251.1)**	(4,571.1)
Net assets		**809.1**	734.8
Equity and reserves:			
Share capital	20	**106.7**	106.7
Share premium account		**275.4**	275.4
Merger reserve		**374.3**	374.3
Retained earnings		**122.3**	46.3
Other reserves		**(69.6)**	(67.9)
		809.1	734.8

Note:
1 Includes derivative financial instruments of US$74.3 million which have been reclassified to long-term in the prior year to reflect the maturity of these instruments.

The financial statements were approved by the Board of Directors and authorised for issue on 8 March 2017.

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 2016

		Attributable to the equity holders of the parent							
						Other reserves			
	Note	Share capital US$ million	Share premium account US$ million	Retained earnings US$ million	Merger reserve US$ million	Capital redemption reserve US$ million	Translation reserve US$ million	Equity reserve US$ million	Total US$ million
At 1 January 2015		106.7	275.4	1,142.3	374.3	8.1	(48.7)	14.1	1,872.2
Purchase of ESOP Trust shares		–	–	(0.9)	–	–	–	–	(0.9)
Provision for share-based payments	20	–	–	23.0	–	–	–	–	23.0
Transfer between reserves[1]		–	–	4.5	–	–	–	(4.5)	–
Loss for the year		–	–	(1,103.8)	–	–	–	–	(1,103.8)
Other comprehensive expense		–	–	(18.8)	–	–	(37.0)	–	(55.8)
At 1 January 2016		106.7	275.4	46.3	374.3	8.1	(85.7)	9.6	734.8
Purchase of ESOP Trust shares		–	–	0.2	–	–	–	–	0.2
Provision for share-based payments	20	–	–	19.7	–	–	–	–	19.7
Transfer between reserves[1]		–	–	4.6	–	–	–	(4.6)	–
Profit for the year		–	–	122.6	–	–	–	–	122.6
Other comprehensive expense		–	–	(71.1)	–	–	3.0	–	(68.1)
At 31 December 2016		**106.7**	**275.4**	**122.3**	**374.3**	**8.1**	**(82.7)**	**5.0**	**809.1**

Note:

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

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2016

	Note	2016 US$ million	2015 US$ million
Net cash from operating activities	22	**431.4**	809.5
Investing activities:			
Capital expenditure		**(678.1)**	(992.2)
Acquisition of subsidiaries	7	**(135.0)**	–
Cash balance acquired in the period	7	**24.9**	–
Decommissioning funding	11	**(62.3)**	–
Disposal of oil and gas properties		**(8.8)**	219.6
Loan to joint venture partner		**–**	(77.9)
Net cash used in investing activities		**(859.3)**	(850.5)
Financing activities:			
Purchase of ESOP Trust shares		**0.2**	(0.9)
Proceeds from drawdown of long-term bank loans		**435.0**	775.0
Debt arrangement fees		**(26.3)**	(9.6)
Repayment of long-term bank loans		**–**	(300.0)
Repayment of senior loan notes		**–**	(209.4)
Interest paid		**(126.3)**	(91.6)
Net cash from financing activities		**282.6**	163.5
Currency translation differences relating to cash and cash equivalents		**(0.1)**	(13.0)
Net (decrease)/increase in cash and cash equivalents		**(145.4)**	109.5
Cash and cash equivalents at the beginning of the year		**401.3**	291.8
Cash and cash equivalents at the end of the year	22	**255.9**	401.3

1. Operating segments

The Group's operations are located and managed in six business units; namely the Falkland Islands, Indonesia, Pakistan (including Mauritania), Vietnam, the United Kingdom and the Rest of the World. The results for Norway, which was sold in 2015, are reported as a discontinued operation in the prior year balances.

Some of the business units currently do not generate revenue or have any material operating income.

The Group is engaged in one business of upstream oil and gas exploration and production.

	2016 US$ million	2015 US$ million
Revenue:		
Indonesia	**141.1**	215.4
Pakistan (including Mauritania)	**52.3**	88.9
Vietnam	**192.0**	227.8
United Kingdom	**598.0**	535.1
Total Group sales revenue	**983.4**	1,067.2
Other operating income – United Kingdom	**–**	31.9
Interest and other finance revenue	**0.7**	29.3
Total Group revenue from continuing operations	**984.1**	1,128.4
Group operating loss:		
Indonesia	**35.6**	62.0
Pakistan (including Mauritania)	**26.7**	12.2
Vietnam	**86.3**	27.0
United Kingdom	**(225.0)**	(721.9)
Rest of the World	**(35.0)**	(59.1)
Unallocated[1]	**(34.5)**	(28.0)
Group operating loss	**(145.9)**	(707.8)
Share of profit/(loss) in associate	**1.8**	(1.9)
Interest revenue, finance and other gains	**13.2**	40.7
Finance costs and other finance expenses	**(259.7)**	(160.6)
Loss before tax from continuing operations	**(390.6)**	(829.6)
Tax	**522.0**	(241.1)
Profit/(loss) after tax from continuing operations	**131.4**	(1,070.7)
Loss from discontinued operations	**(8.8)**	(33.1)
Balance sheet		
Segment assets:		
Falkland Islands	**642.9**	591.4
Indonesia	**480.2**	560.3
Pakistan (including Mauritania)	**44.8**	59.3
Vietnam	**399.0**	388.2
United Kingdom	**4,136.5**	3,122.5
Rest of the World	**66.0**	64.6
Unallocated[1]	**290.8**	519.6
Total assets	**6,060.2**	5,305.9

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

	2016 US$ million	2015 US$ million
Liabilities:		
Falkland Islands	**(45.6)**	(69.1)
Indonesia	**(244.5)**	(261.0)
Pakistan (including Mauritania)	**(76.3)**	(95.8)
Vietnam	**(202.1)**	(218.4)
United Kingdom	**(1,516.8)**	(1,137.2)
Rest of the World	**(3.5)**	(10.5)
Unallocated[1]	**(3,162.3)**	(2,779.1)
Total liabilities	**(5,251.1)**	(4,571.1)
Other information		
Capital additions and acquisitions:		
Falkland Islands	**59.2**	149.9
Indonesia	**(2.7)**	39.6
Norway	**–**	17.0
Pakistan (including Mauritania)	**0.9**	24.0
Vietnam	**(7.4)**	(23.9)
United Kingdom	**1,247.7**	1,505.5
Rest of the World	**26.4**	38.8
Total capital additions and acquisitions	**1,324.1**	1,750.9
Depreciation, depletion, amortisation and impairment:		
Indonesia	**52.7**	92.6
Pakistan (including Mauritania)	**7.8**	42.9
Vietnam	**45.0**	106.2
United Kingdom	**790.4**	1,107.1
Rest of the World	**0.6**	1.6
Total depreciation, depletion, amortisation and impairment	**896.5**	1,350.4

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

Out of the total Group worldwide sales revenues of US$983.4 million (2015: US$1,067.2 million), revenues of US$598.0 million (2015: US$535.1 million) arose from sales of oil and gas to customers located in the UK.

Included in assets arising from the United Kingdom segment are non-current assets (excluding deferred tax assets) of US$2,640.6 million (2015: US$2,137.5 million) located in the UK. Included in depreciation, depletion, amortisation and impairment are impairment charges in relation to the UK (net US$587.8 million) and impairment reversals for Vietnam (US$25.9 million) and Pakistan (US$5.7 million).

Revenue from three customers (2015: two customers) each exceeded 10 per cent of the Group's consolidated revenue and amounted to US$155.4 million and US$157.4 million, arising from sales of crude oil (2015: US$132.5 million), and US$112.0 million arising from sales of gas (2015: US$166.7 million) across all operating segments.

2. Cost of sales

	Note	2016 US$ million	2015 US$ million
Operating costs		**412.8**	323.6
Gas purchases		**12.4**	–
Stock overlift/underlift movement		**(12.1)**	(11.4)
Royalties		**13.7**	22.1
Amortisation and depreciation of property, plant and equipment:			
Oil and gas properties	10	**332.2**	315.9
Other fixed assets	10	**8.1**	10.8
		767.1	661.0

3. Auditor's remuneration

	2016 US$ million	2015 US$ million
Audit fees:		
Fees payable to the Company's auditor for the Company's Annual Report	**0.7**	0.8
Audit of the Company's subsidiaries pursuant to legislation	**0.2**	0.3
	0.9	1.1
Non-audit fees:		
Other services pursuant to legislation – interim review	**0.1**	0.2
Tax services	**0.3**	0.1
Corporate finance services[1]	**1.0**	–
Other services[2]	**0.1**	0.1
	1.5	0.4

Notes:
1 Corporate finance services relate to reporting accountant services in relation to the E.ON acquisition (see note 7).
2 Other services relate to fees payable to the Company's auditors for the audit of 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

	2016 US$ million	2015 US$ million
Staff costs, including Executive Directors:		
Wages and salaries	**102.3**	113.4
Social security costs	**7.3**	8.9
Pension costs:		
Defined contribution	**8.6**	9.8
Defined benefit	**2.8**	0.3
	121.0	132.4

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 20 on page 165.

	2016	2015
Average number of employees during the year[1]:		
Technical and operations	**557**	608
Management and administration	**244**	263
	801	871

Note:
1 Staff numbers include Executive Directors.

5. Interest revenue and finance costs

	Note	2016 US$ million	2015 US$ million
Interest revenue, finance and other gains:			
Short-term deposits		**0.7**	0.8
Gain on forward contracts	18	**3.3**	3.8
Derivative gain	18	**1.9**	–
Gain on extinguishment of debt		**–**	3.8
Loan to joint venture partner		**–**	27.9
Exchange differences and others		**7.3**	4.4
		13.2	40.7
Finance costs:			
Bank loans, overdrafts and bonds		**(110.3)**	(68.1)
Payable in respect of convertible bonds		**(10.9)**	(10.7)
Payable in respect of senior loan notes		**(28.7)**	(23.4)
Long-term debt arrangement fees		**(11.1)**	(8.8)
Exchange differences and others		**(4.9)**	–
		(165.9)	(111.0)
Other finance expenses:			
Unwinding of discount on decommissioning provision	17	**(58.3)**	(46.1)
Provision for doubtful loan to joint venture partner		**–**	(33.2)
Loss on forward contracts	18	**(54.6)**	(20.6)
Finance expense on deferred income	14	**(14.9)**	(8.5)
		(127.8)	(108.4)
Gross finance costs and other finance expenses		**(293.7)**	(219.4)
Finance costs capitalised during the year		**34.0**	58.8
		(259.7)	(160.6)

The amount of finance costs capitalised was determined by applying the weighted average rate of finance costs applicable to the borrowings of the Group of 4.6 per cent (2015: 4.4 per cent) to the expenditures on the qualifying assets.

During the year a currency exchange gain of US$7.3 million was credited to income (2015: US$3.5 million gain). This excluded exchange gains and losses arising on financial instruments measured at fair value through profit or loss.

6. Tax

	2016 US$ million	2015 US$ million
Current tax:		
UK corporation tax on profits[1]	**(3.0)**	(2.3)
UK petroleum revenue tax	**(0.8)**	19.4
Overseas tax	**53.5**	80.1
Adjustments in respect of prior years	**(7.7)**	1.4
Total current tax	**42.0**	98.6
Deferred tax:		
UK corporation tax	**(544.3)**	187.4
UK petroleum revenue tax	**(14.4)**	(10.6)
Overseas tax	**(5.3)**	(34.3)
Total deferred tax	**(564.0)**	142.5
Tax on loss on ordinary activities	**(522.0)**	241.1

Note:
1 The UK corporation tax current tax credit of US$3.0 million includes a US$3.3 million UK tax refund relating to decommissioning costs incurred in 2016 and carried back to prior periods.

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

	2016 US$ million	2015 US$ million
Group loss on ordinary activities before tax	**(390.6)**	(829.6)
Group loss on ordinary activities before tax at 58.4% weighted average rate (2015: 47.4%)	**(228.3)**	(393.2)
Tax effects of:		
Income/expenses that are not taxable/deductible in determining taxable profit	**7.3**	8.0
Financing costs disallowed for UK supplementary charge	**14.4**	20.1
Non-deductible field expenditure	**63.2**	71.0
Tax and tax credits not related to profit before tax (mainly Ring Fence Expenditure Supplement)	**(61.2)**	(144.3)
Unrecognised tax losses	**2.8**	406.2
Adjustments in respect of prior years	**0.7**	10.6
Utilisation and recognition of tax losses not previously recognised	**(392.5)**	(2.5)
Effect of change in tax rates	**161.2**	168.1
Recognition that decommissioning provision will unwind at 50%	**(27.1)**	–
Write down of deferred tax asset previously recognised	**–**	97.1
Recognition of investment allowances not previously recognised	**(62.5)**	–
Tax (credit)/charge for the year	**(522.0)**	241.1
Effective tax rate for the year	**133.6%**	(29.0%)

The weighted average rate is calculated based on the tax rates weighted according to the profit or loss before tax earned by the Group in each jurisdiction. The change in the weighted average rate year-on-year relates to the mix of profit and loss in each jurisdiction. The tax credit not related to profit before tax includes the impact of a UK Ring Fence Expenditure Supplement claim in the UK (US$61.2 million).

The deferred tax credit arises largely as a result of the recognition of UK tax losses and investment allowances (US$455.8 million) after an increase in the estimated future profitability of the Group's UK assets following the acquisition of the E.ON North Sea business.

This has been partially offset by a charge of US$161.2 million in relation to the supplementary charge rate change from 20 per cent to 10 per cent during the year, with the adverse impact of this change mitigated by US$27.1 million as the rate applicable to the reversal of certain temporary differences on decommissioning remained unchanged.

The future effective tax rate for the Group is impacted by the mix of jurisdictions in which Premier operates (with corporation tax rates ranging from 20 per cent to 55 per cent), assumptions around future oil prices and changes to tax rates and legislation.

7. Acquisition of subsidiaries

On 28 April 2016, the Group acquired 100 per cent of the share capital of E.ON E&P UK Ltd ('E.ON'), a wholly owned subsidiary of E.ON SE, a German listed utility. The acquisition of E.ON brings additional high quality assets to Premier's UK North Sea business, the opportunity for cost and operating synergies in the North Sea, a more balanced production portfolio and adds significant immediate production and cash flow.

The Group reached agreement on the acquisition on 13 January 2016 and it was approved by Premier shareholders on 25 April 2016. Premier paid total cash consideration of US$135.0 million including working capital adjustments. The acquisition has been accounted for as a business combination. The fair values of the identifiable assets and liabilities acquired were reported as provisional in our Half-Year report and have now been finalised for the purposes of the Full-Year 2016 financial statements.

The fair values of the oil and gas properties and intangible exploration and evaluation assets acquired have been determined using valuation techniques based on discounted cash flows using forward curve commodity prices at the acquisition date, a discount rate based on market observable data and cost and production profiles consistent with the proved and probable reserves acquired with each asset. The financial instruments acquired have been valued using our forward curve oil and gas price assumptions at the date of the acquisition. The decommissioning provisions recognised are based on Premier's internal estimates.

The fair value of the identifiable assets and liabilities of E.ON as at the date of acquisition were:

	Provisional fair value as included in the Half-Year report US$ million	Adjustment US$ million	Final fair value US$ million
Assets:			
Intangible exploration and evaluation assets	105.7	94.1	199.8
Oil and gas properties	600.0	–	600.0
Other fixed assets	7.1	–	7.1
Long-term decommissioning funding asset	85.9	(2.6)	83.3
Inventory	2.7	–	2.7
Trade and other receivables	51.4	–	51.4
Derivative financial instruments	59.4	–	59.4
Cash and cash equivalents	24.9	–	24.9
	937.1	91.5	1,028.6
Liabilities:			
Trade and other payables	(50.0)	–	(50.0)
Decommissioning obligations – current	(13.7)	–	(13.7)
Decommissioning obligations – non-current	(565.9)	151.7	(414.2)
Deferred tax liabilities	(65.6)	(121.6)	(187.2)
	(695.2)	30.1	(665.1)
Total identifiable net assets acquired at fair value	241.9	121.6	363.5
Total consideration	(135.0)	–	(135.0)
Excess of fair value over cost (negative goodwill)	106.9	121.6	228.5

The adjustments to the provisional half-year value predominantly relates to an increase in the fair value of the Tolmount field recognised within exploration and evaluation assets and a reduction in the decommissioning estimates for several of the fields acquired to align Premier's estimates either with those of the field operator or E.ON's underlying decommissioning cost estimate. The reduction in the decommissioning estimate for the Ravenspurn North and Johnston fields has resulted in an adjustment to the fair value of the long-term decommissioning funding receivable from E.ON SE. Deferred tax has been recognised on the above adjustments.

The excess of fair value of the net assets acquired over the purchase consideration has arisen primarily due to E.ON SE's strategic decision to exit the UK and Norway E&P sectors, and Premier's willingness to acquire the entire UK business. This has been recognised immediately in the consolidated income statement.

From the date of acquisition to 31 December 2016, E.ON contributed US$201.9 million to Group revenue and increased the Group's loss before tax by US$40.9 million. If the acquisition of E.ON had taken place at the beginning of the year, E.ON's contribution to Group revenue for year ended 31 December 2016 would have been US$336.1 million and would have increased the Group's loss before tax by US$43.9 million.

Costs related to the acquisition represent transaction costs of US$5.6 million and the recognition of a settlement provision of US$16.0 million in respect of employee costs. This settlement provision was fully utilised in the second half of 2016.

8. Earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on the profit/(loss) after tax and on the weighted average number of Ordinary Shares in issue during the year. Basic and diluted earnings/(loss) per share are calculated as follows:

	2016	2015
Earnings/(loss) (US$ million)		
Earnings/(loss) from continuing operations	**131.4**	(1,070.7)
Effect of dilutive potential Ordinary Shares:		
Interest on convertible bonds	**10.9**	–
Earnings/(loss) for the purposes of diluted earnings/(loss) per share on continuing operations	**142.3**	(1,070.7)
Loss from discontinued operations	**(8.8)**	(33.1)
Earnings/(loss) for the purposes of diluted earnings/(loss) per share on continuing and discontinued operations	**133.5**	(1,103.8)
Number of shares (millions)		
Weighted average number of Ordinary Shares for the purposes of basic earnings per share	**510.8**	510.8
Effects of dilutive potential Ordinary Shares:		
Contingently issuable shares	**48.8**	–
Weighted average number of Ordinary Shares for the purposes of diluted earnings per share	**559.6**	510.8
Earnings/(loss) per share from continuing operations (cents)		
Basic	**25.7**	(209.6)
Diluted	**25.4**	(209.6)
Loss per share from discontinued operations (cents)		
Basic	**(1.7)**	(6.5)
Diluted	**(1.7)**	(6.5)

The inclusion of the contingently issuable shares in 2016 produces diluted earnings per shares. In 2015 there were 40.7 million anti-dilutive potential Ordinary Shares mainly comprising shares to be issued on conversion of convertible bonds.

9. Intangible exploration and evaluation ('E&E') assets

	Note	US$ million
Cost:		
At 1 January 2015		825.7
Exchange movements		(37.2)
Additions during the year		217.9
Disposals		(161.3)
Exploration expense		(95.4)
At 31 December 2015		749.7
Exchange movements		6.1
Additions during the year		103.8
Acquisition of subsidiaries	7	199.8
Exploration expense		(48.0)
At 31 December 2016		**1,011.4**

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 for drilling the Laverda/Slough and Bagpuss prospects in the North Sea and Foz in Brazil.

The outcome of ongoing exploration, and therefore whether the carrying value of E&E assets will ultimately be recovered, is inherently uncertain. The balance carried forward is predominantly in relation to the Group's prospects in the Falklands Islands and the Tolmount project in the UK.

The disposal in 2015 is for E&E costs that were held in relation to the Group's Norway business unit.

10. Property, plant and equipment

	Oil and gas properties US$ million	Other fixed assets US$ million	Total US$ million
Cost:			
At 1 January 2015	5,498.6	59.9	5,558.5
Exchange movements	–	(2.0)	(2.0)
Asset acquisition	614.8	–	614.8
Additions during the year	912.3	5.9	918.2
Disposals	–	(2.4)	(2.4)
At 31 December 2015	7,025.7	61.4	7,087.1
Exchange movements	(8.5)	(4.8)	(13.3)
Acquisition of subsidiaries	600.0	7.1	607.1
Additions during the year	411.4	2.0	413.4
Disposals	–	(1.4)	(1.4)
At 31 December 2016	**8,028.6**	**64.3**	**8,092.9**
Amortisation and depreciation:			
At 1 January 2015	3,091.3	37.2	3,128.5
Exchange movements	–	(1.3)	(1.3)
Charge for the year	315.9	10.8	326.7
Impairment charge	1,023.7	–	1,023.7
Disposals	–	(2.2)	(2.2)
At 31 December 2015	4,430.9	44.5	4,475.4
Exchange movements	(0.4)	(3.4)	(3.8)
Charge for the year	332.2	8.1	340.3
Impairment charge	556.2	–	556.2
Disposals	–	(1.4)	(1.4)
At 31 December 2016	**5,318.9**	**47.8**	**5,366.7**
Net book value:			
At 31 December 2015	2,594.8	16.9	2,611.7
At 31 December 2016	**2,709.7**	**16.5**	**2,726.2**

Note:
Finance costs that have been capitalised within oil and gas properties during the year total US$34.0 million (2015: US$58.8 million), at a weighted average interest rate of 4.6 per cent (2015: 4.4 per cent). Other fixed assets include items such as leasehold improvements, motor vehicles and office equipment.

In April 2016, Premier completed the acquisition of E.ON. For further details of the assets and liabilities acquired see note 7.

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.

Impairment charge

The impairment charge in the current year relates to the Solan asset in the UK. The impairment charge of US$652.2 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 an oil price assumption equal to the Dated Brent forward curve in 2017 and 2018, US$65/bbl in 2019 and US$75/bbl in 'real' terms thereafter (2015: long-term price of US$80/bbl (real)) and were discounted using a pre-tax discount rate of 8 per cent for the UK assets (2015: 8 per cent) and 12.5 per cent for the non-UK assets (2015: 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 is a reduction of the 2P reserves expected to be recovered from the asset over its economic life and the reduction in the long-term oil price assumption to US$75/bbl (real). The recoverable amount of the Solan asset based on the value-in-use assumptions set out above is US$570.4 million.

10. Property, plant and equipment continued

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 on the previous page.

A reversal of impairment of US$96.0 million has been credited to the income statement for the year, which has partially offset the impairment charge recognised. The reversal of impairment relates to Huntington (UK, US$50.0 million), Chim Sáo (Vietnam, US$25.9 million), Kyle (UK, US$14.4 million) and Kadanwari (Pakistan, US$5.7 million). An increase in the short-term price assumption and in increase in the 2P reserves on Chim Sáo have driven the reversal of impairment recognised. The recoverable amounts of the assets at 31 December 2016 was Huntington US$61.8 million, Chim Sáo US$583.1 million, Kyle US$31.9 million and Kadanwari US$9.1 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 8 per cent (2015: 8 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 2030. 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$143.2 million. If the discount rate was 1 per cent higher or if the long-term oil price assumption US$5/bbl lower, being reasonably possible changes in key assumptions, no impairment charge would arise.

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 further impairment charge of approximately US$28.3 million. A US$5/bbl reduction in the long-term oil price (to US$70/bbl (real)) would increase the impairment charge by approximately US$58.0 million. The value of the reversal of impairment recognised in the year would be unaffected by either an increase in the discount rate by 1 per cent or a reduction in the long-term oil price assumption to US$70/bbl (real).

11. Receivables

Trade and other receivables

	2016 US$ million	2015 US$ million
Trade receivables	**149.4**	132.0
Other receivables	**79.9**	93.2
Prepayments	**56.4**	15.6
Tax recoverable	**29.4**	33.6
	315.1	274.4

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	**2016 US$ million**	2015 US$ million
Other long-term receivables		**76.1**	11.5
Decommissioning funding asset		**66.7**	–
Long-term employee benefit plan surplus	24	**0.6**	0.5
		143.4	12.0

Other long-term receivables include US$71.1 million of cash held in escrow accounts for expected future decommissioning expenditure in Indonesia and Vietnam (2015: US$8.3 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 provide 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 £63.0 million from E.ON. At 31 December 2016, a long-term decommissioning funding asset of US$66.7 million has been recognised utilising the year end £/US$ exchange rate.

12. Cash and cash equivalents

	Note	2016 US$ million	2015 US$ million
Cash at bank and in hand		**255.5**	127.9
Short-term deposits		**0.4**	273.4
	22	**255.9**	401.3

Included within cash at bank and in hand balances are joint venture partners' share of cash balances of US$46.4 million and US$6.6 million held as security for the Mexican letter of credit.

13. Trade and other payables

	2016 US$ million	2015 US$ million
Trade payables	**63.5**	65.2
Other payables	**13.2**	9.4
Accrued expenses	**290.7**	332.8
Tax payable	**45.2**	64.6
	412.6	472.0

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

14. Deferred income

In June 2015, Premier received US$100.0 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$7.9 million during the year reflecting barrels delivered to FlowStream in the period since first oil from Solan. This has been offset by the finance charge for the year of US$14.9 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

	Note	2016 US$ million	2015 US$ million
Short-term debt:			
Bank loans	18	**273.0**	–
Long-term debt:			
Convertible bonds		**237.5**	232.9
Bank loans	18	**1,835.0**	1,697.0
Senior loan notes	18	**491.1**	493.1
Retail bonds	18	**184.5**	220.5
Total borrowings		**3,021.1**	2,643.5
Less unamortised issue costs and debt arrangement fees		**(17.6)**	(28.4)
Carrying value of total debt		**3,003.5**	2,615.1

A maturity analysis showing the ageing profile of the total borrowings is shown in note 18 on page 161.

At the year end, the Group's principal credit facilities comprised:

- US$2.5 billion revolving and letters of credit facility maturing in 2019;
- US$150.0 million and £100.0 million term loans maturing in 2017;
- US$428.0 million and €60.0 million senior loan notes maturing from 2018 to 2024;
- £150.0 million of retail bonds maturing in 2020; and
- US$245.3 million of convertible bonds maturing in 2018.

The Company has financing in US$, £ and €. The £ and € loans have been swapped into US$ at the transaction dates. In total, £250.0 million and €60.0 million have been swapped into US$ using cross currency swap markets at an average exchange rate of US$1.64:£1 and US$1.37:€1 respectively. However, all liabilities in currencies other than US$ have been translated at the exchange rate prevailing at the year end.

15. Borrowings continued

Financial covenants

Financial covenants are the same across all the Group's financings except for the £150.0 million retail bonds and US$245.3 million convertible bonds which have no financial covenants. These financial covenants are tested on half-year (annualised) and full-year bases.

As at 31 December 2016, the Group had received waivers from its lending groups to defer the testing of the year end financial covenants to the 12 month period ended 31 January 2017. Subsequent to the year end, the Group received a further deferral of the testing period to the 12 month period ending 31 March 2017. The waivers have been received to allow the Group the time to finalise the refinancing of its debt facilities with the lenders. Subsequent to the year end, an agreement in principle was reached with the Group's Private Lenders. Full details of this agreement are provided in note 26 on page 169.

Convertible bonds

The bonds were issued on 1 November 2012, with a par value of US$245.3 million, exchange price of £4.34 (US$7.00 at fixed exchange rate) per share and a coupon of 2.5 per cent. These are convertible into Ordinary Shares of the Company at any time from 11 August 2016 until six days before their maturity date of 27 July 2018. Under the terms, the exchange price is to be adjusted on the occurrence of certain events, including any payment of dividends by the Company. The exchange price was adjusted to £4.21 (US$6.79) per share in prior periods. The total number of Ordinary Shares to be issued, if all bonds are converted at this adjusted exchange price, is 36,117,351. If the bonds have not been previously purchased and cancelled, redeemed or converted, they will be redeemed at par value on 27 July 2018. Interest of 2.5 per cent per annum will be paid semi-annually in arrears up to that date.

	US$ million
Bonds – net	
Total liability component at 1 January 2015	**228.1**
Interest charged	**10.6**
Interest paid	**(6.1)**
Total liability component at 1 January 2016	**232.6**
Interest charged	**10.9**
Interest paid	**(6.1)**
Total liability component at 31 December 2016	**237.4**

The total interest charged on the new bonds has been calculated by applying an effective annual interest rate of 4.55 per cent to the liability component for the period. The non-cash accrual of interest will increase the liability component (as the cash interest is only paid at 2.5 per cent) to US$245.3 million to maturity.

Retail bonds

In December 2013, the Company put in place a £500.0 million Retail eligible Euro Medium Term Notes ('EMTN') programme 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 have a fixed coupon of 5 per cent and maturity of seven years.

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 2016 and 31 December 2015.

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

	Note	2016	2015
Net debt (US$ million)	22	**(2,765.2)**	(2,242.2)
Net assets (US$ million)		**809.1**	734.8
Net assets plus net debt (US$ million)		**3,574.3**	2,977.0
Gearing ratio (%)		**77.4**	75.3

16. Obligations under leases

	2016 US$ million	2015 US$ million
Minimum lease payments under operating leases recognised as an expense in the year	**94.7**	93.5
Outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:		
Within one year	**155.2**	48.1
In two to five years	**523.2**	151.8
Over five years	**226.1**	721.0
	904.5	920.9

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.

17. Provisions

	Note	2016 US$ million	2015 US$ million
Decommissioning		**1,325.3**	1,062.6
Onerous contract		**1.2**	3.8
Contingent consideration		**24.0**	24.1
Long-term employee benefit plan deficit	24	**17.7**	15.2
		1,368.2	1,105.7

	Note	2016 US$ million	2015 US$ million
Decommissioning costs:			
Total provisions at 1 January		**1,062.6**	871.3
Revision arising from:			
New provisions and changes in estimates		**10.9**	200.0
Payments		**(28.6)**	(6.3)
Acquisition of subsidiaries	7	**427.9**	–
Disposals		**–**	(0.4)
Exchange differences		**(205.8)**	(48.1)
Unwinding of discount on decommissioning provision	5	**58.3**	46.1
Total provisions at 31 December		**1,325.3**	1,062.6
Reclassification of short-term provisions to current liabilities		**(54.9)**	(21.1)
Long-term provisions at 31 December		**1,270.4**	1,041.5

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

17. Provisions continued

The increase in decommissioning provisions during the year was primarily due to the E.ON acquisition (US$427.9 million – see note 7 on page 151) partially offset by foreign exchange gains of US$205.8 million and other downward changes in estimates of US$10.9 million.

The large foreign exchange gain relates to the Group's UK North Sea business unit where the underlying decommissioning costs will largely be incurred in £ and has been principally caused by a significant reduction in the US$/£ exchange rate at 31 December 2016. Included within the foreign exchange gain is an amount of US$75.7 million which has been credited to the income statement, representing a reduction in the decommissioning cost estimate in excess of the carrying value recognised for the underlying assets.

Onerous contract

The onerous contract relates to the ongoing FPSO lease commitments for the Group's interest in the Chinguetti field in Mauritania, following the decision to fully impair the related field interest in the prior year.

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 IAS 39 hierarchy and is held at fair value through profit and loss. The movement in fair value for the year is US$6.1 million and has been recognised within other operating costs.

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, convertible bonds, 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 and liquidity risk. The Group uses derivative financial instruments to hedge certain risk exposures. The use of financial derivatives is governed by the Group's policies, 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 hedging is undertaken using swaps, collar options, reverse collars, collar structures and hedges embedded in long-term crude offtake agreements. Oil is hedged using Dated Brent oil price options. Indonesian gas is hedged using HSFO Singapore 180cst which is the variable component of the gas price. With the E.ON acquisition, the Group now has UK natural gas production for which price risk is hedged by selling gas forward through fixed price sales contracts.

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

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 borrowing, 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.

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 IAS 39 hierarchy. The estimate of Chrysaor contingent consideration is based on level 3 in IAS 39 hierarchy, see note 17 above.

As at 31 December 2016, the Group held the following financial instruments measured at fair value (excluding any primary financial instruments such as cash and bank loans):

Assets measured at fair value

Financial assets at fair value through profit and loss:

	2016 US$ million	2015 US$ million
Oil forward sale contracts	15.0	98.2
Gas forward sale contracts	0.4	16.0
Oil put options	3.5	–
Fair value of gas contracts acquired from E.ON	10.0	–
Forward foreign exchange contracts	1.1	–
Interest rate swaps	5.1	4.1
DVA adjustment	(0.2)	–
Total	34.9	118.3

The above includes US$14.2 million in respect of oil and gas forward sales contracts which had expired by 31 December 2016 but were cash settled in January 2017.

Liabilities measured at fair value

Financial liabilities at fair value through profit and loss:

	2016 US$ million	2015 US$ million
Oil forward sale contracts	18.3	–
Cross currency swaps[1]	144.0	80.6
Forward foreign exchange contracts	–	2.2
CVA adjustment	(3.5)	(6.3)
Total	158.8	76.5

Note:

1 Of which US$101.6 million (2015: US$74.3 million) are classified within non-current liabilities.

Income statement

Fair value movements recognised in the income statement in the year:

	2016 US$ million	2015 US$ million
Interest revenue, finance and other gains:		
Change in fair value of embedded derivative within gas contract	1.9	–
Forward foreign exchange contracts	3.3	3.8
	5.2	3.8
Finance costs:		
Fixed price gas contracts acquired from E.ON	(21.8)	–
Oil forward sale contracts acquired from E.ON	(23.9)	–
Cross currency swaps	(6.0)	(23.0)
CVA/DVA adjustment	(1.8)	2.4
Oil put options	(1.1)	–
	(54.6)	(20.6)

18. Financial instruments continued

Statement of comprehensive income

Fair value movements recognised in the statement of comprehensive income for the year:

	2016 US$ million	2015 US$ million
Cash flow hedges:		
Commodity swaps – gas	**(14.9)**	(11.0)
Commodity swaps – oil	**(115.8)**	(103.5)
	(130.7)	(114.5)
Cross currency swaps	**(57.4)**	(19.1)
Interest rate swaps	**1.0**	7.7
CVA/DVA adjustment	**(1.2)**	3.9
	(57.6)	(7.5)
Unrealised exchange differences	**60.9**	27.3
Cash flow hedges on interest rate and foreign exchange swaps	**3.3**	19.8

Commodity price risk

Oil

At 31 December 2016, the Group had 1.5 million barrels of Dated Brent oil hedged through forward sales for 2017 at an average floor price of US$45.8/bbl. The forward sales have been designated as cash flow hedges and were assessed to be effective, with a fair value movement of US$115.8 million charge (2015: US$103.5 million charge) in retained earnings.

In December 2016, the Group paid total premium of US$4.6 million to enter into oil option agreements for 1.8 mmbls at an average price of US$50.7/bbl. These options will be settled during 2017 and are an asset on the Group's balance sheet with a fair value at 31 December 2016 of US$3.5 million. 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 1.7 mmbls of oil that will be sold for an average fixed price of US$55.3/bbl during 2017 as these barrels are delivered. As these instruments are physically settled they do not meet the definition of financial instruments under IAS 39 and are accounted for as they are delivered.

Oil forward sales contracts acquired from E.ON were fair valued as part of the business combination accounting (see note 7, page 151) but hedge accounting was not adopted for these instruments. The fair value recognised on acquisition for these instruments has been released to the income statement during the year in line with deliveries.

During the year, forward oil sales contracts for 5.3 million barrels matured generating an income of US$104.9 million (2015: US$252.1 million). This income is an addition to sales revenue.

Indonesian gas

During the year, Singapore 180 HSFO contracts for 72,000 mt expired, generating an income of US$21.1 million (2015: income of US$26.8 million) which has been included in the sales revenue. These instruments were designated as cash flow hedges and were assessed to be effective. At year end there were no open HSFO contracts.

The Group has forward UK gas sales for 132 mm therms at an average price of 48p/therm at 31 December 2016. These contracts will be physically settled during 2017 and in the first half of 2018 and, therefore, do not meet the definition of a financial instrument under IAS 39. As these instruments were acquired from E.ON during the year, they were recognised at fair value as part of the business combination accounting (see note 7, page 151). The fair value of the asset for this at 31 December 2016 was US$10.0 million, with the movement since acquisition of US$19.9 million being recognised as a finance cost within the income statement in the year.

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 in 10 per cent in oil prices would increase the mark-to-market loss of these instruments, and hence other comprehensive income, by US$11.4 million. A decrease in 10 per cent in forward oil prices would reduce the mark-to-market loss by US$15.9 million.

Interest rate risk

At 31 December 2016 US$800.0 million (2015: US$800.0 million) of the Group's long-term bank borrowings have been swapped from floating rate to fixed rate. Under these interest rate swap contracts, the Group has agreed to exchange the difference between fixed and floating interest amounts calculated on agreed notional principal amounts. Such contracts enable the Group to mitigate the risk of changing interest rates and the cash flow exposure on the issued variable rate debt held.

These contracts have been designated as cash flow hedges and are assessed as effective. The fair value of interest rate swaps at the reporting date is determined by discounting the future cash flows using the forward curves at this date.

Interest rate swaps sensitivity analysis
The key variable which affects the fair value of the Group's hedging instruments is market expectations about future interest rates.

An increase of 50 basis points in this variable would increase the mark-to-market value, and hence other comprehensive income, by US$6.7 million.

As the interest rates are historically at a low level, no sensitivity for a decrease of 50 basis points is required.

Foreign currency exchange risk
The majority of the 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 £100.0 million term loan at a fixed exchange rate of US$1.64: £1, senior loan notes €25.0 million at a fixed rate of US$1.328: €1 and €35.0 million at a fixed rate of US$1.423: €1.

All of the amounts above have been hedged under cross currency swaps into US dollars.

In addition, to cover sterling exposures an amount of £478.4 million was purchased and matured with spot and forward contracts during the year (2015: £546.3 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 2016 and 2015. The Group does not require collateral or other security to support receivables from customers or related parties. The credit risk on liquid funds and other derivative financial instruments is limited because the counter-parties 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 on page 147, whereby the revenue from three customers each exceeded 10 per cent of the Group's consolidated revenue in 2016 (2015: two).

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

	Less than 1 month 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
2016:						
Long-term receivables	**–**	**–**	**–**	**78.8**	**64.0**	**142.8**
Trade and other receivables	**187.1**	**36.2**	**5.4**	**0.6**	**–**	**229.3**
Trade and other payables	**(75.1)**	**(1.1)**	**(0.1)**	**(0.4)**	**–**	**(76.7)**
Bank loans	**(7.3)**	**(7.3)**	**(359.3)**	**(1,972.6)**	**–**	**(2,346.5)**
Convertible bonds	**(3.1)**	**–**	**(3.1)**	**(248.4)**	**–**	**(254.6)**
Senior loan notes	**(0.3)**	**(7.6)**	**(27.8)**	**(595.4)**	**(42.5)**	**(673.6)**
Retail bonds	**–**	**–**	**(9.4)**	**(210.0)**	**–**	**(219.4)**
Total	**101.3**	**20.2**	**(394.3)**	**(2,947.4)**	**21.5**	**(3,198.7)**
2015:						
Long-term receivables	–	–	–	8.7	2.8	11.5
Trade and other receivables	188.3	9.0	25.5	2.4	–	225.2
Trade and other payables	(63.6)	(5.3)	(4.8)	(0.9)	–	(74.6)
Bank loans	(9.2)	–	(47.9)	(1,865.6)	–	(1,922.7)
Convertible bonds	–	–	(6.1)	(255.1)	–	(261.2)
Senior loan notes	(0.1)	(8.2)	(26.7)	(515.2)	(308.7)	(858.9)
Retail bonds	–	–	(12.6)	(296.6)	–	(309.2)
Total	115.4	(4.5)	(72.6)	(2,922.3)	(305.9)	(3,189.9)

18. Financial instruments continued

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$2,323.0 million (2015: US$2,347.3 million) and letter of credit facilities of US$450.0 million (2015: US$450.0 million), in addition to the convertible bonds, retail bonds and senior loan notes. The undrawn balance of the committed borrowing facilities as at 31 December 2016 was US$215.0 million (2015:US$650.0 million), due for maturity in July 2019.

The undrawn balance of the letter of credit facilities as at 31 December 2016 was US$175.7 million (2015: US$215.2 million), due to mature July 2019.

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 %
2016:				
Bank loans[1]	**800.0**	**1,308.0**	**2,108.0**	**3.10**
Convertible bonds	**245.3**	**–**	**245.3**	**2.50**
Senior loan notes	**361.1**	**130.0**	**491.1**	**6.15**
Retail bonds	**184.5**	**–**	**184.5**	**5.14**
Total	**1,590.9**	**1,438.0**	**3,028.9**	**–**
2015:				
Bank loans[1]	800.0	897.0	1,697.0	3.10
Convertible bonds	245.3	–	245.3	2.50
Senior loan notes	363.1	130.0	493.1	6.15
Retail bonds	220.5	–	220.5	5.14
Total	1,628.9	1,027.0	2,655.9	–

Note:

1 At 31 December 2016 US$800.0 million of the Group's short-term bank borrowings have been swapped from floating interest rates to fixed interest rates and are therefore included as a fixed rate liability in the table above (2015: US$800.0 million).

The floating rate financial liabilities at 31 December 2016 comprised bank borrowings 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:

	2016 Fair value amount US$ million	2016 Carrying amount US$ million	2015 Fair value amount US$ million	2015 Carrying amount US$ million
Primary financial instruments held or issued to finance the Group's operations:				
Retail bonds	**147.6**	**184.5**	108.8	220.5
Convertible bonds	**177.9**	**237.5**	191.1	232.9

The fair value of the retail bonds and convertible bonds are determined by reference to quoted prices for each of the instruments.

The fair value for the bank loans and senior loan notes are considered to be materially the same as the amortised cost of the instruments.

19. Deferred tax

	2016 US$ million	2015 US$ million
Deferred tax assets	1,304.0	871.6
Deferred tax liabilities	(192.6)	(193.3)
	1,111.4	678.3

	At 1 January 2016 US$ million	Exchange movements US$ million	Acquisition accounting 28 April 2016 US$ million	(Charged)/ credited to income statement US$ million	Credited to retained earnings US$ million	At 31 December 2016 US$ million
UK deferred corporation tax:						
Fixed assets and allowances	(581.0)	–	(371.2)	232.6	–	(719.6)
Decommissioning	378.8	–	172.3	(156.6)	–	394.5
Deferred petroleum revenue tax	7.2	–	–	(7.2)	–	–
Tax losses and allowances	1,129.4	–	33.5	397.2	–	1,560.1
Other	–	–	(0.7)	65.1	–	64.4
Derivative financial instruments	(49.1)	0.3	(21.2)	13.2	56.1	(0.7)
Total UK deferred corporation tax	885.3	0.3	(187.3)	544.3	56.1	1,298.7
UK deferred petroleum revenue tax[1]	(14.4)	–	–	14.4	–	–
Overseas deferred tax[2]	(192.6)	–	–	5.3	–	(187.3)
Total	678.3	0.3	(187.3)	564.0	56.1	1,111.4

	At 1 January 2015 US$ million	Exchange movements US$ million	Disposal of asset US$ million	(Charged)/ credited to income statement US$ million	Credited to retained earnings US$ million	At 31 December 2015 US$ million
UK deferred corporation tax:						
Fixed assets and allowances	(756.0)	–	–	175.0	–	(581.0)
Decommissioning	329.8	–	–	49.0	–	378.8
Deferred petroleum revenue tax	15.5	–	–	(8.3)	–	7.2
Tax losses and allowances	1,375.3	–	–	(245.9)	–	1,129.4
Investment allowance	157.2	–	–	(157.2)	–	–
Derivative financial instruments	(125.1)	–	–	–	76.0	(49.1)
Total UK deferred corporation tax	996.7	–	–	(187.4)	76.0	885.3
UK deferred petroleum revenue tax	(25.0)	–	–	10.6	–	(14.4)
Overseas deferred tax[2]	(254.2)	4.3	23.0	34.3	–	(192.6)
Total	717.5	4.3	23.0	(142.5)	76.0	678.3

Notes:
1 The UK deferred Petroleum Revenue Tax ('PRT') credit reflects the reduction in PRT rate to 0 per cent during the period.
2 The overseas deferred tax relates mainly to temporary differences associated with fixed asset balances.

The Group's UK deferred tax assets at 31 December 2015 are recognised to the extent that taxable profits are expected to arise in the future against which the 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 2016 with respect to ring fence tax losses and allowances. The corporate model used to assess whether it is appropriate to recognise the Group's deferred tax losses was re-run, using an oil price assumption of Dated Brent forward curve for two years, followed by US$65/bbl in 2019 and US$75/bbl 'real' terms thereafter. The results of the corporate model demonstrated that as a result of an increase in the Group's estimated future UK profitability arising from the acquisition of assets in the period an additional net amount of US$455.8 million in respect of the Group's UK ring fence deferred tax losses and investment allowances could be recognised, representing full recognition of the associated deferred tax asset.

In addition, there are carried forward non-ring fence UK tax losses of approximately US$363.8 million (2015: US$303.5 million) for which a deferred tax asset has not been recognised on the basis there are insufficient future profits forecast to utilise the losses against.

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.

During the period it was announced that the rate of supplementary charge to tax on UK ring fence profits is to be further reduced from 20 per cent to 10 per cent with effect from 1 January 2016. The Group's deferred tax balances at 31 December 2016 are recognised at the reduced rate which gave rise to a deferred tax charge of US$161.2 million in the income statement to reflect the decrease in the opening deferred tax assets at 1 January 2016.

20. Share capital

	2016 12.5p shares	**2016 £**	2015 12.5p shares	2015 £
Ordinary Shares:				
Called-up, issued and fully paid	**510,823,666**	**63,852,958**	510,811,061	63,851,383

	2016 12.5p shares	2015 12.5p shares
At 1 January	**106.7**	106.7
Purchase and cancellation of own shares	**–**	–
At 31 December	**106.7**	106.7

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

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

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

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

Purchase and cancellation of own shares
During 2016, none of the Company's Ordinary Shares were re-purchased or cancelled.

Share-based payments and share incentive plans
The Group currently operates a Long Term Incentive Plan ('LTIP') for all employees and a Share Incentive Plan and a Save As You Earn Scheme for UK-based and expatriate employees only.

For the year ended 31 December 2016, the total cost recognised by the Company for equity-settled share-based payment transactions is US$19.7 million (2015: US$23.0 million). A credit of US$19.7 million has been recorded in retained earnings (2015: US$23.0 million) for all equity-settled payments of the Group. Like other elements of remuneration, this charge is processed through the time-writing system which allocates cost, based on time spent by individuals, to various entities within the Group. Part of this cost is therefore recharged to the relevant subsidiary undertaking where it is capitalised as directly attributable to capital projects, or is charged to the income statement as operating costs, pre-licence exploration costs or general and administration costs.

20. Share capital continued

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

(i) Long Term Incentive Plan

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

Following a review of the effectiveness of the 2009 LTIP scheme, a new incentive scheme (the 'Premier Value Share Plan' or 'PVSP') was introduced for employees (excluding Directors and certain senior staff) in 2016. The PVSP is made up of two share awards: a guaranteed base award plus a potential multiplier award based on Company performance over a three-year period.

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

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

Volatility	40.0% to 48.0%
Risk free rate of interest	1.0% to 1.7%
Correlation factor with comparator group	0.35 to 0.38

(ii) Share Incentive Plan

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

(iii) Savings Related Share Option Scheme

Under the Savings Related Share Option Scheme, eligible employees with six months or more continuous service can join the scheme. Employees can save up 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.

	2016		2015	
	Options	**Weighted average exercise price**	Options	Weighted average exercise price
Outstanding at the beginning of the year	**2,122,551**	**£1.31**	965,089	£2.62
Granted during the year	**5,369,088**	**£0.42**	2,194,257	£1.21
Lapsed during the year	**(2,115,077)**	**£1.21**	(1,036,795)	£2.30
Exercised during the year[1]	**(12,605)**	**£0.42**	–	–
Outstanding at the end of the year	**5,363,957**	**£0.45**	2,122,551	£1.31

Note:
1 12,605 Ordinary Shares with a nominal value of £1,575.63 were issued under the Group's Share Option Scheme during the year (2015: nil).

The options outstanding at 31 December 2016 had a weighted average exercise price of £0.45 and a weighted average remaining contractual life of 2.9 years.

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

21. Own shares

	US$ million
At 1 January 2015	15.7
Purchase of ESOP Trust shares	1.7
Release of shares for long-term incentive arrangements	(11.2)
At 31 December 2015	6.2
Release of shares for long-term incentive arrangements	(3.5)
At 31 December 2016	**2.7**

The own shares reserve represents the net cost of shares in Premier Oil plc purchased in the market or issued by the Company into the Premier Oil plc Employee Benefit Trust. This ESOP Trust holds shares to satisfy awards under the Group's share incentive plans. At 31 December 2016 the number of Ordinary Shares of 12.5 pence each held by the Trust was 818,775 (2015: 1,777,454).

22. Notes to the cash flow statement

	2016 US$ million	2015 US$ million
Loss before tax for the year	**(390.6)**	(829.6)
Adjustments for:		
Depreciation, depletion, amortisation and impairment	**896.5**	1,350.4
Other operating costs/(income)	**3.1**	(31.9)
Exploration expense	**48.0**	95.4
Excess of fair value over consideration	**(228.5)**	–
Provision for share-based payments	**8.7**	7.2
Reduction in decommissioning estimates	**(75.7)**	–
Share of (profit)/loss in associate	**(1.8)**	1.9
Interest revenue and finance gains	**(13.2)**	(40.7)
Finance costs and other finance expenses	**259.7**	160.6
Other gains and losses	**–**	(1.2)
Deferred income (paid)/received	**(7.9)**	100.0
Operating cash flows before movements in working capital	**498.3**	812.1
Decrease in inventories	**1.3**	5.3
Decrease in receivables	**25.1**	382.1
Decrease in payables	**(33.0)**	(297.6)
Cash generated by operations	**491.7**	901.9
Income taxes paid	**(60.9)**	(94.0)
Interest income received	**0.6**	1.6
Net cash from operating activities	**431.4**	809.5

Analysis of changes in net debt:

	Note	2016 US$ million	2015 US$ million
a) Reconciliation of net cash flow to movement in net debt:			
Movement in cash and cash equivalents		**(145.4)**	109.5
Proceeds from drawdown of long-term bank loans		**(435.0)**	(775.0)
Repayment of long-term bank loans		**–**	300.0
Repayment of senior loan notes		**–**	209.4
Non-cash movements on debt and cash balances (predominantly foreign exchange)		**57.4**	36.1
Increase in net debt in the year		**(523.0)**	(120.0)
Opening net debt		**(2,242.2)**	(2,122.2)
Closing net debt		**(2,765.2)**	(2,242.2)
b) Analysis of net debt:			
Cash and cash equivalents		**255.9**	401.3
Borrowings	15	**(3,021.1)**	(2,643.5)
Total net debt		**(2,765.2)**	(2,242.2)

23. Capital commitments and guarantees

At 31 December 2016, the Group had capital commitments on exploration and development licences totalling US$372.1 million (2015: US$443.9 million). In addition, the Group had issued letters of credit for future decommissioning liabilities totalling £261.8 million and US$6.6 million held as security for the Mexican letter of credit (US$328.6 million) (2015: £163.4 million (US$240.3 million)).

24. Group pension schemes

Balance sheet

	2016 US$ million	2015 US$ million
UK funded pension scheme	0.6	0.5
Total surplus in balance sheet	0.6	0.5

	2016 US$ million	2015 US$ million
UK unfunded pension scheme	0.7	0.7
Indonesia unfunded termination benefit scheme	17.0	14.5
Total liability in balance sheet	17.7	15.2

Funded pensions

The Group operates a defined benefit pension scheme in the UK – The Premier Oil plc Retirement and Death Benefits Plan (the 'Scheme'). The Scheme was closed to new members (aside from the provision of insured death in service benefits) in 1997 and a new scheme, providing benefits on a defined contribution basis, was started. Both schemes are funded by the payment of contributions to separately administered trust funds.

Further details of this Scheme have not been provided as the Scheme is not material to the results of the Group.

Unfunded pensions

In Indonesia, the Group operates a Service, Severance and Compensation pay scheme under a Collective Labour Agreement with the local workforce. This is an unfunded post-employment defined benefit scheme in nature.

In addition, the Group is paying an unfunded pension to a former Director in the UK in regard to which annual increases and a reversionary spouse's pension apply on the same basis as to pensions paid under the Scheme. On the same actuarial basis as used to assess the Scheme's pension costs, the present value as at 31 December 2016 of the future payments projected to be made in respect of UK unfunded pensions is US$0.7million (2015: US$0.7 million).

Defined contribution benefit scheme

The Group operates a defined contribution retirement benefit scheme. The only obligation of the Group with respect to the retirement benefit scheme is to make specified contributions. Payments to the defined contribution scheme are charged as an expense as they fall due. The total cost charged to income of US$8.6 million (2015: US$9.8 million) represents contributions payable to these schemes by the Group at rates specified in the rules of the scheme.

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 and other key members of management 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.

	2016 US$ million	2015 US$ million
Short-term employee benefits	3.6	4.4
Post-employment benefits	2.6	3.3
Other long-term benefits: share-based payments	–	1.7
	6.2	9.4

26. Subsequent events

Refinancing

In February 2017, the Company announced the following:

- Agreement of representatives of its Private Lenders to a long form term sheet, subject to credit approvals
- Agreement of revised key terms between the Company and representatives of its convertible bondholders, subject to agreement by the Private Lenders
- Proposed amended terms to its retail bonds

In return, the lenders will receive a revised security and covenant package, benefits from enhanced economics and exercise certain governance controls.

The long form term sheet has been circulated to the lenders under the Company's Revolving Credit Facility ('RCF'), term loan, Schuldschein and US Private Placement ('USPP') notes (together the 'Private Lenders') for formal Credit Committee approval, with lock-up agreements expected to be received during March 2017. Revised financing documentation will then be finalised with completion of the refinancing currently anticipated by the end of May 2017.

Key terms of the refinancing

The RCF, term loan, USPP notes and Schuldschein notes

Proposed amendments have been largely agreed with the Coordinating Committee of the RCF Group and representatives of the other Private Lenders as follows:

- Confirmation of total existing facilities of US$3.9 billion with drawn capacity preserved
- Alignment of final maturity dates to 31 May 2021
- Amendment of the Company's financial covenants, currently anticipated to be net debt to EBITDA cover ratio test to 9.5x until end 2017, reducing to 5.0x at the end of 2018, before returning to 3.0x from the beginning of 2019
- Interest cover ratio reduced to 1.5x before increasing to 3.0x in 2019
- Covenant net debt (which includes issued letters of credit) to be less than US$2.95 billion by end 2018

Enhanced economics for lenders, including:

- A margin uplift of 1.5 per cent over existing pricing with an additional 1 per cent for the Schuldschein lenders for conversion of their existing bilateral facilities into an English law-based syndicated facility
- Amendment fees of 1 per cent with an additional 0.5 per cent for the Schuldschein lenders
- Equity warrants representing up to 90 million new shares, being 15 per cent of the Company's issued shares (enlarged for the potential new issue) at a price of 42.75 pence per share, equivalent to 7.6 per cent dilution based on the latest closing share price. The warrants will have a five-year term. Alternatively, lenders will have the option to take up synthetic warrants in the form of a deferred fee of comparable value to the equity warrants. Take up of the synthetic warrants will reduce the number of new shares to be issued under the equity warrants
- Crystallisation of the make-whole on the USPP to be calculated at the completion date of the refinancing

A security package which provides priority over unsecured creditors; in addition a portion of the RCF and certain other debt obligations of up to US$800.0 million will receive super-senior status.

Certain governance controls including:

- Annual approval of the Company's overall capex and exploration budgets
- Final sanction of significant new projects
- Certain approval rights in respect of acquisitions and disposals

26. Subsequent events continued

The retail bonds

Substantially the same economic terms are being offered to the retail bondholders as to the Private Lenders. The key terms proposed are:

- Maturity date extended by six months to 31 May 2021
- Enhanced economics comprising an interest rate uplift of 1.5 per cent, amendment fees of 1 per cent and pro-rata participation in the warrant offering as above
- Participation in the security package which gives priority over unsecured creditors, ranking alongside the private debt facilities (with senior status)

Positive feedback has been received from a number of significant retail bondholders who have been consulted on these terms. A prospectus will be issued for retail bondholders to elect between equity warrants and synthetic warrants.

Convertible bonds

On 1 March 2017, the Company announced that amended terms to its US$245 million convertible bonds had been agreed with all members of an ad-hoc committee of convertible bondholders. The key amendments are:

- Maturity date extended to 31 May 2022
- Interest rate to remain at 2.5 per cent, to be paid, at the election of the Company, either in new shares, or from the proceeds of sale of new shares or (subject to the terms of an inter-creditor agreement between the Company and its other lenders) in cash
- Conversion price to be reset at a premium of 20 per cent to the higher of the volume weighted average price of the Company's shares over the period from 1 March 2017 to 22 March 2017 (inclusive) or 62 pence
- Equity warrants representing 3 per cent of the Company's issued share capital (enlarged for the issue of equity warrants under the terms of the overall refinancing) at a price of 42.75 pence per share
- No cash amendment fee
- Issuer right to require conversion at the conversion price at any time after one year if the value of the Company's shares is at least 140 per cent of the conversion price for 25 consecutive dealing days

Implementation of the proposed refinancing

The proposed RCF, term loan, USPP and retail bonds amendments will be effected through a Scottish scheme of arrangement of each of Premier Oil plc and Premier Oil UK Limited (the 'Schemes'), which must be approved by a majority in number and 75 per cent in value of the Scheme creditors attending and voting at the meetings arranged for this purpose.

Schuldschein lenders and the convertible bondholders will each consider and, if they so decide, consent to the terms of the refinancing outside of the Scheme process.

The refinancing will require shareholder approval in respect of the potential issue of the warrant shares and shares that could be issued as a result of the change to the convertible bond conversion price. That approval will be sought at a General Meeting.

27. Investments

Joint ventures

The Group has a 49 per cent interest in Premco Energy Projects Company LLC, a company registered in the United Arab Emirates. The result of this jointly controlled entity, which is indirectly held through subsidiary undertakings and which is involved in business development opportunities across the Middle East and North Africa region, was immaterial to the Group in 2016 and 2015. The Group's 50 per cent interest in Premco Energy Projects BV was liquidated in September 2015.

Associate company

The Group has a 15.11 per cent interest in Egdon Resources plc, a company registered in the United Kingdom, acquired as part of the acquisition of EnCore Oil plc. In 2016, a profit of US$1.8 million (2015: loss of US$1.9 million) was included in the Group's income statement to reflect an increase in the share price of Egdon Resources at 31 December 2016.

Subsidiary undertakings

At 31 December 2016, the Group had investments in the following 100 per cent owned subsidiaries.

Name of company	Business and area of operation	Registered office address
Principal subsidiaries		
Premier Oil Group Limited[1]	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	13 Castle Street, St Helier, Jersey, JE2 3RT
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	Holding company (E&P), 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 EU UK 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 Kakap BV	Exploration, production and development, Indonesia	Atrium Building, 8th Floor, Strawinskylaan 3127, 1077 ZX, Amsterdam, Netherlands
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	Praia de Botafogo, 501 Bloco II, sala 201, Botafogo, Rio de Janeiro, 22.250-040
Premier Oil Exploration and Production Mexico S.A	Exploration, production and development, Mexico	Presidente Masaryk 111, Piso 1, Polanco V Seccion, Mexico City, CP 11560, Mexico

27. Investments continued

Name of company	Business and area of operation	Registered office address
Other subsidiaries		
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	Exploration, production and development, Mauritania	Atrium Building, 8th Floor, Strawinskylaan 3127, 1077 ZX, Amsterdam, Netherlands
FP Mauritania B BV	Exploration, production and development, Mauritania	Atrium Building, 8th Floor, Strawinskylaan 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 A Limited	Dormant	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	Exploration, production and development, Indonesia	Atrium Building, 8th Floor, Strawinskylaan 3127, 1077 ZX, Amsterdam, Netherlands
Premier Oil CCS Limited	Dormant	23 Lower Belgrave Street, London, SW1W 0NR
Premier Oil Congo (Marine IX) Limited	Dormant	13 Castle Street, St Helier, Jersey, JE2 3RT
Premier Oil Exploration (Mauritania) Limited	Exploration, production and development, Mauritania	13 Castle Street, St Helier, Jersey, JE2 3RT
Premier Oil Exploration and Production (Iraq) Limited	Exploration, production and development, Iraq	23 Lower Belgrave Street, London, SW1W 0NR
Premier Oil Exploration Limited	Dormant	4th Floor, Saltire Court, 20 Castle Terrace, Edinburgh, EH1 2EN, Scotland
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, Strawinskylaan 3127, 1077 ZX, Amsterdam, Netherlands
Premier Oil Investments Limited	Dormant	23 Lower Belgrave Street, London, SW1W 0NR
Premier Oil Mauritania B Limited	Exploration, production and development, Mauritania	13 Castle Street, St Helier, Jersey, JE2 3RT
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, Strawinskylaan 3127, 1077 ZX, Amsterdam, Netherlands
Premier Oil Philippines BV	Dormant	Atrium Building, 8th Floor, Strawinskylaan 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, Strawinskylaan 3127, 1077 ZX, Amsterdam, Netherlands
Premier Oil Ventures Limited	Dormant	23 Lower Belgrave Street, London, SW1W 0NR
Premier Oil Vietnam 121 Limited	Exploration, production and development, Vietnam	23 Lower Belgrave Street, London, SW1W 0NR
Premier Oil Vietnam North BV	Exploration, production and development, Vietnam	Atrium Building, 8th Floor, Strawinskylaan 3127, 1077 ZX, Amsterdam, Netherlands
Premier Oil West Tuna Limited	Exploration, production and development, Indonesia	23 Lower Belgrave Street, London, SW1W 0NR
Premier Overseas Holdings Ltd	Dormant	23 Lower Belgrave Street, London, SW1W 0NR
XEO Exploration plc	Dormant	23 Lower Belgrave Street, London, SW1W 0NR

Note:
1 Held directly by Premier Oil plc. All other companies are held through a subsidiary undertaking.

COMPANY BALANCE SHEET

As at 31 December 2016

	Note	2016 US$ million	2015 US$ million
Non-current assets:			
Investments in subsidiaries	3	**563.4**	563.4
Long-term employee benefit plan surplus	7	**0.6**	0.5
Long-term receivables	4	**861.9**	822.2
Total non-current assets		**1,425.9**	1,386.1
Current assets:			
Other receivables	4	**0.7**	–
Total current assets		**0.7**	–
Current liabilities:			
Trade and other payables	5	**(62.5)**	(28.4)
Net current liabilities		**(61.8)**	(28.4)
Non-current liabilities:			
Borrowings	6	**(182.8)**	(218.4)
Long-term employee benefit plan deficit	7	**(0.7)**	(0.7)
		(183.5)	(219.1)
Net assets		**1,180.6**	1,138.6
Equity and reserves:			
Share capital	9	**106.7**	106.7
Share premium account		**275.4**	275.4
Retained earnings		**354.0**	312.0
Other reserves		**444.5**	444.5
		1,180.6	1,138.6

Profit for the year end 31 December 2016 was US$20.5 million (2015: US$20.5 million).

The financial statements of Premier Oil plc (registered number SC234781) were approved by the Board of Directors and authorised for issue on 8 March 2017.

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 2016

	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 2015		106.7	275.4	272.0	374.3	8.1	62.1	1,098.6
Net purchase of ESOP Trust shares		–	–	(0.9)	–	–	–	(0.9)
Profit for the financial year	2	–	–	20.5	–	–	–	20.5
Provision for share-based payments		–	–	23.0	–	–	–	23.0
Movement in cash flow hedges		–	–	(2.5)	–	–	–	(2.5)
Pension costs – actuarial losses		–	–	(0.1)	–	–	–	(0.1)
At 1 January 2016		106.7	275.4	312.0	374.3	8.1	62.1	1,138.6
Net purchase of ESOP Trust shares		–	–	0.2	–	–	–	0.2
Profit for the financial year	2	–	–	20.5	–	–	–	20.5
Provision for share-based payments		–	–	19.7	–	–	–	19.7
Movement in cash flow hedges		–	–	1.4	–	–	–	1.4
Pension costs – actuarial gains		–	–	0.2	–	–	–	0.2
At 31 December 2016		**106.7**	**275.4**	**354.0**	**374.3**	**8.1**	**62.1**	**1,180.6**

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 52.

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 20 of the Group consolidated financial statements on page 165.

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 133 to 140 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 2016 of US$20.5 million (2015: US$20.5 million).

Other comprehensive income for the year was US$1.6 million (2015: US$2.6 million expense).

The auditor's remuneration for audit and other services is disclosed in note 3 to the Group consolidated financial statements on page 148.

3. Fixed asset investments

	2016 US$ million
Cost and net book value:	
At 1 January	**563.4**
Movement in year	–
At 31 December	**563.4**

A list of all investments in subsidiaries held at 31 December 2016, including the name and type of business, the country of operation and the country of incorporation or registration, is given in note 27 to the Group consolidated financial statements on page 171.

4. Receivables

Long-term receivables: amounts falling due after more than one year

	2016 US$ million	2015 US$ million
Amounts owed by subsidiary undertakings	**861.9**	822.2

The amounts owed by subsidiary undertakings comprise a loan which bears interest based on LIBOR and which is not secured. This loan is denominated in US dollars and falls due for repayment in 2020.

4. Receivables continued

Other receivables: amounts falling due within one year

	2016 US$ million	2015 US$ million
Amounts owed by subsidiary undertakings	0.7	–

The carrying values of the Company's debtors approximate to their fair value.

5. Trade and other payables

	2016 US$ million	2015 US$ million
Accruals and other creditors	62.5	28.4

The carrying values of the Company's creditors approximate to their fair value.

6. Borrowings

	2016 Fair value amount US$ million	2016 Carrying amount US$ million	2015 Fair value amount US$ million	2015 Carrying amount US$ million
Retail bonds	147.6	184.5	108.8	220.5

In December 2013, the Company put in place a £500.0 million Euro Medium Term Notes ('EMTN') programme 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 have a fixed coupon of 5 per cent and maturity of seven years.

The carrying value of the retail bonds is stated net of the unamortised portion of the debt arrangement fees of US$1.7 million (2015: US$2.1 million) and the liability is 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 to the Group consolidated financial statements on page 168.

Defined contribution schemes

The Company operates a defined contribution retirement benefit scheme. Further details of this scheme are provided in note 24 to the Group consolidated financial statements on page 168.

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:

- medium-term loans of US$150.0 million and £100.0 million maturing in 2017;
- principal credit facility of US$2.5 billion maturing in 2019;
- senior notes of US$428.0 million and €60.0 million maturing from 2018 to 2024;
- convertible bonds of US$245.3 million maturing in 2018; and
- retail bonds of £150.0 million maturing in 2020.

9. Share capital and share premium

Further details of these items are disclosed in note 20 to the Group consolidated financial statements on page 165.

10. Dividends

No dividend is proposed for the year ended 31 December 2016 (2015: 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$105,780 (£86,000), they have not been disclosed. Where the aggregate payments made in the period for a project or country are less than US$105,780 we have not disclosed the payments made for this project or country.

Our total economic contribution to all stakeholders can be found on page 65 of the Annual Report.

Reporting currency – Payments disclosed in this report have been disclosed in US dollars, consistent with the rest of the 2016 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 such as Petroleum Revenue Tax ('PRT'). 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.

2016 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	–	–	–	–	–	–	178	–	178
	CE-M-717-R11	–	–	–	–	–	–	115	–	115
	Total Brazil	**–**	**–**	**–**	**–**	**–**	**–**	**293**	**–**	**293**
Falkland Islands	Sea Lion	–	–	–	–	–	–	375	–	375
	Corporate	–	–	–	–	–	–	140		140
	Total Falkland Islands	**–**	**–**	**–**	**–**	**–**	**–**	**515**	**–**	**515**
Indonesia	Natuna Sea Block A	3,702	122,792	–	–	–	–	–	–	126,494
	Corporate	–	–	30,437	–	–	–	–	–	30,437
	Total Indonesia	**3,702**	**122,792**	**30,437**	**–**	**–**	**–**	**–**	**–**	**156,931**
Pakistan	Bhit/Badhra	–	–	–	1,382	–	–	–	–	1,382
	Zarghun South	–	–	–	118	–	–	–	–	118
	Kadanwari	–	–	–	659	–	–	–	–	659
	Zamzama	–	–	–	617	–	–	–	–	617
	Qadipur	–	–	–	1,435	–	–	–	–	1,435
	Corporate	–	–	8,800	–	–	–	–	–	8,800
	Total Pakistan	**–**	**–**	**8,800**	**4,211**	**–**	**–**	**–**	**–**	**13,011**
United Kingdom	Wytch Farm	–	–	506	–	–	–	–	–	506
	P354	–	–	–	–	–	–	140	–	140
	Catcher	–	–	–	–	–	–	530	–	530
	Babbage	–	–	–	–	–	–	403	–	403
	Rita	–	–	–	–	–	–	174	–	174
	P1812	–	–	–	–	–	–	184	–	184
	P2271 Lyra	–	–	–	–	–	–	153	–	153
	Tolmount	–	–	–	–	–	–	262	–	262
	Corporate	–	–	(1,335)	–	–	–	–	–	(1,335)
	Total UK	**–**	**–**	**(829)**	**–**	**–**	**–**	**1,846**	**–**	**1,017**
Vietnam	Chim Sáo	509	19,586	–	–	–	450	–	–	20,545
	Corporate	–	–	28,137	15,496	–	–	–	–	43,633
	Total Vietnam	**509**	**19,586**	**28,137**	**15,496**	**–**	**450**	**–**	**–**	**64,178**
Total Group		**4,211**	**142,378**	**66,545**	**19,707**	**–**	**450**	**2,654**	**–**	**235,945**

2016 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	–	–	–	–	–	–	293	–	293
	Total Brazil	**–**	**–**	**–**	**–**	**–**	**–**	**293**	**–**	**293**
Falkland Islands	Department of Mineral Resources	–	–	–	–	–	–	515	–	515
	Total Falkland Islands	**–**	**–**	**–**	**–**	**–**	**–**	**515**	**–**	**515**
Indonesia	SKK Migas	3,702	122,792	–	–	–	–	–	–	126,494
	Directorate General of Taxes	–	–	30,437	–	–	–	–	–	30,437
	Total Indonesia	**3,702**	**122,792**	**30,437**	**–**	**–**	**–**	**–**	**–**	**156,931**
Pakistan	Federal Board of Revenue	–	–	8,800	–	–	–	–	–	8,800
	Directorate General of Petroleum Concession	–	–	–	4,211	–	–	–	–	4,211
	Total Pakistan	**–**	**–**	**8,800**	**4,211**	**–**	**–**	**–**	**–**	**13,011**
United Kingdom	HM Revenue & Customs	–	–	(829)	–	–	–	–	–	(829)
	Department of Energy and Climate Change	–	–	–	–	–	–	1,846	–	1,846
	Total UK	**–**	**–**	**(829)**	**–**	**–**	**–**	**1,846**	**–**	**1,017**
Vietnam	Petro Vietnam	509	19,586	–	–	–	450	–	–	20,545
	HCM Tax Department	–	–	28,137	8,604	–	–	–	–	36,741
	Vung Tau Customs Office	–	–	–	6,892	–	–	–	–	6,892
	Total Vietnam	**509**	**19,586**	**28,137**	**15,496**	**–**	**450**	**–**	**–**	**64,178**
Total Group		**4,211**	**142,378**	**66,545**	**19,707**	**–**	**450**	**2,654**	**–**	**235,945**

Financials		2016	2015	2014	2013	2012
Sales revenues	(US$ million)	**983.4**	1,067.2	1,629.4	1,501.0	1,408.7
(Loss)/profit before tax	(US$ million)	**(390.6)**	(829.4)	(384.0)	285.4	359.9
Net profit/(loss) for the year after tax	(US$ million)	**122.6**	(1,103.8)	(210.3)	234.0	252.0
Cash flow from operating activities	(US$ million)	**431.4**	809.5	924.3	802.5	779.0[1]
Shareholders' funds	(US$ million)	**809.1**	734.8	1,872.2	2,124.4	1,953.5
Net debt	(US$ million)	**(2,765.2)**	(2,242.2)	(2,122.2)	(1,452.9)	(1,110.4)
Per share statistics:						
Revenue per share	(cents/share)	**192.5**	208.9	312.2	283.6	267.6
Earnings/(loss) per share – basic	(cents/share)	**24.0**	(216.1)	(40.3)	44.2	47.9
Earnings/(loss) per share – diluted	(cents/share)	**23.7**	(216.1)	(40.3)	43.2	46.9
Cash flow from operating activities per share	(cents/share)	**84.5**	158.5	177.1	151.6	148.0[1]
Reserves per share – year end	(boe/share)	**0.69**	0.65	0.47	0.49	0.55
Issued Ordinary Shares – average	(million)	**510.8**	510.8	521.9	529.2	526.4
Operations:						
Production (working interest basis)	(kboepd)	**71.4**	57.6	63.6	58.2	57.7
Proved and probable reserves (working interest basis)	(mmboe)	**353.3**	331.9	243.3	259.4	291.9
Employees (average) – UK	(number)	**242**	263	242	248	181
– Overseas	(number)	**559**	608	698	634	551
Key indices:						
Realised average oil price	(US$/bbl)	**44.1**	52.6	98.2	109.0	111.4
Average exchange rates	(US$/£)	**1.36**	1.53	1.65	1.56	1.59
Closing exchange rates	(US$/£)	**1.23**	1.47	1.56	1.66	1.63

Note:
1 Prior year comparative, have been restated to classify pre-licence exploration costs within net cash from operating activities.

Working interest reserves as at 31 December 2016

	Working interest basis														
	Falkland Islands		Indonesia		Pakistan/Mauritania		UK		Vietnam		**Total**		
	Oil and NGLs mmbbls	Gas Bcf	Oil and NGLs mmbbls	Gas Bcf	Oil and NGLs mmbbls	Gas Bcf	Oil and NGLs mmbbls	Gas Bcf	Oil and NGLs mmbbls	Gas Bcf	**Oil and NGLs mmbbls**	**Gas[4] Bcf**	**Oil, NGLs and gas mmboe**
Group proved plus probable reserves:													
At 1 January 2016	128.0	43.8	2.0	250.4	0.3	79.8	104.1	33.5	17.9	29.4	**252.3**	**436.9**	**331.9**
Revisions[1]	(1.5)	–	(0.1)	19.1	(0.1)	11.9	(5.9)	(7.6)	10.3	13.4	**2.7**	**36.8**	**9.7**
Discoveries and extensions[2]	–	–	–	–	–	–	–	–	–	–	**–**	**–**	**–**
Acquisitions and divestments[3]	–	–	–	–	–	–	14.0	126.7	–	–	**14.0**	**126.7**	**37.8**
Production	–	–	(0.3)	(26.1)	(0.1)	(17.4)	(9.0)	(16.6)	(4.4)	(7.2)	**(13.8)**	**(67.3)**	**(26.1)**
At 31 December 2016	126.5	43.8	1.6	243.4	0.1	74.3	103.2	136.0	23.8	35.6	**255.2**	**533.1**	**353.3**
Total Group developed and undeveloped reserves:													
Proved on production	–	–	0.9	127.7	0.1	46.8	33.7	54.4	17.2	23.1	**51.9**	**252.0**	**98.3**
Proved approved/justified for development	102.8	28.5	0.4	47.3	–	–	24.0	33.2	2.3	5.9	**129.5**	**114.9**	**151.1**
Probable on production	–	–	0.1	23.7	–	27.5	20.3	37.3	3.0	2.5	**23.4**	**91.0**	**39.4**
Probable approved/ justified for development	23.7	15.3	0.2	44.7	–	–	25.2	11.1	1.3	4.1	**50.4**	**75.2**	**64.5**
At 31 December 2016	126.5	43.8	1.6	243.4	0.1	74.3	103.2	136.0	23.8	35.6	**255.2**	**533.1**	**353.3**

Notes:

1 Revisions to reserves are based on re-evaluation of production performance; drilling results and future plans in Chim Sáo and Dua (Vietnam); Anoa, Gajah Baru, Pelikan, Naga and Kakap (Indonesia); Catcher Area, Solan, B-Block, Kyle and Wytch Farm (UK); Bhit and Qadirpur (Pakistan).

2 Discoveries in Laverda are not classified as reserves and do not appear in this table.

3 Acquisition of E.ON assets in the UK account for the entire acquisition reserve addition.

4 Proved plus probable gas includes 95 Bcf of fuel gas reserves.

Premier Oil plc categorises petroleum resources in accordance with the 2007 SPE/WPC/AAPG/SPEE Petroleum Resource Management System ('SPE PRMS').

Proved and probable reserves are based on operator, third-party reports and internal estimates and are defined in accordance with the Statement of Recommended Practice ('SORP') issued by the Oil Industry Accounting Committee ('OIAC'), dated July 2001.

The Group provides for amortisation of costs relating to evaluated properties based on direct interests on an entitlement basis, which incorporates the terms of the PSCs in Indonesia, Vietnam and Mauritania. On an entitlement basis reserves were 332.3 mmboe as at 31 December 2016 (2015: 315.5 mmboe). This was calculated at year-end 2016, using an oil price assumption equal to US$58/bbl in 2017, US$58/bbl in 2018, US$65/bbl in 2019 and US$75/bbl in 'real' terms thereafter (2015: Dated Brent, 2016 US$42/bbl, 2017 US$48.5/bbl, US$65/bbl in 2018 and US$80/bbl in 'real' terms thereafter).

SIGNIFICANT WORLDWIDE LICENCE INTERESTS

As at 8 March 2017

	Licence	Blocks	Operator	PO Equity %	Field/Discovery
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)	Desire	4.50	
	PL003b	14/14 (part) & 14/19 (part)	Desire	4.50	
	PL004a	14/15 (part), 14/20, 15/11 (part) & 15/16 (part)	**Premier**	36.00	Isobel Deep
	PL004b	14/15 (part)	**Premier**	36.00	Beverley; Casper South; Zebedee
	PL004c	14/15 (part)	**Premier**	36.00	
	PL032	14/15, 14/10	**Premier**	60.00	Casper North; Sea Lion
	PL033	15/1 (part) & 15/6 (part)	**Premier**	60.00	
Indonesia	Kakap Block	Kakap Block	Star Energy	18.75	Kakap
	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	Block 2	2	Talos	10.00	
	Block 7	7	Talos	25.00	[1]
Pakistan	D&PL No.140/PAK/2000	Kithar	ENI	6.00	Bhit
	D&PL No.150/PAK/2002	2667-1 (Dadu)	Orient Petroleum Pty Limited ('OPPL')	9.38	Zamzama
	D&PL No.160/PAK/2003	Kirthar	ENI	6.00	Badhra
	D&PL No.161/PAK/2003	Bolan	Mari Petroleum	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	PL089	SY88b, SY98a, SZ8a	Perenco	30.39	Wytch Farm (onshore)[2]
	P077	22/12a	Shell	50.00	Nelson[3]
	P087	22/7a	**Premier**	46.50	Nelson[4]
	P110	22/14a (rest of block shallow)	**Premier**	25.04	Huntington
	P111	22/25a	**Premier**	65.99	Merganser[5]
	P114	22/27a	CNR	20.00	
	P119	15/29a (area P)	**Premier**	**100.00**	Ptarmigan
	P164	205/26a	**Premier**	**100.00**	Solan
	P185	15/22 (rest of block, non-Palaeocene formation)	Nexen	50.00	Blackhorse
	P188	22/30b	Total	5.20	Elgin[6]
	P201	16/21a, 16/21d	**Premier**	85.00	Balmoral; Glamis; Stirling[7]
	P201	16/21d A	**Premier**	**100.00**	Brenda
	P213	16/26a (area P)	**Premier**	**100.00**	Caledonia
	P224	29/2a	CNR	20.00	
	P233	15/25a	**Premier**	70.00	Nicol
	P264	23/26d A	**Premier**	**100.00**	Scoter[8]
	P344	16/21b & 16/21c	**Premier**	44.20	Balmoral; Stirling[9]
	P354	22/2a (non-Chestnut field area)	**Premier**	30.00	
	P362	29/5b	Total	5.20	Franklin[10]
	P380	43/26a (Rave (RAVE A)) and (Rave (RAVE B))	**Premier**	35.94	Ravenspurn North[11]
	P380	43/26a (Carboniferous)	BP	5.00	
	P380	43/26a (Residual)	**Premier**	72.22	Johnston[12]
	P452	44/23a (area A)	ConocoPhillips	40.00	Caister
	P452	44/23e D	**Premier**	79.00	Hunter
	P454	44/29b B	Engie	42.67	Orca[13]
	P456	48/2a	**Premier**	47.00	Babbage
	P534	98/6a & 98/7a	Perenco	30.39	Beacon[14]
	P611	44/24a, 44/30a	Engie	42.67	Minke; Orca[15]
	P640	15/24b (area B)	ConocoPhillips	50.00	
	P666	22/30c, 29/5c	Total	5.20	West Franklin[16]
	P686	43/27a	**Premier**	42.22	Johnston[17]
	P748	29/2c	CNR	40.00	Kyle
	P752	29/4d	Total	18.57	Glenelg
	P766	44/21b	**Premier**	68.31	Rita[18]
	P771	44/22c	**Premier**	76.00	Rita[19]
	P1042	15/25b	**Premier**	**100.00**	Brenda
	P1114	22/14b	**Premier**	**100.00**	Huntington
	P1330	42/28d	**Premier**	50.00	Tolmount
	P1430	28/9a	**Premier**	50.00	Burgman; Carnaby; Catcher; Varadero
	P1626	29/3b	Total	25.00	
	P1720	23/16c	Dana	30.00	Arran[20]
	P1823	30/13b	Engie	25.00	Austen
	P2068	22/29b	Total	5.20	Elgin/Franklin[21]
	P2070	28/4a	**Premier**	54.00	Laverda
	P2077	28/8a	**Premier**	54.00	
	P2105	42/28e, 42/29d	**Premier**	50.00	Greater Tolmount
	P2136	47/3k	**Premier**	**100.00**	Greater Tolmount
	P2178	21/17d, 21/18b	**Premier**	40.00	
	P2184	22/18c, 22/19d	**Premier**	40.00	
	P2212	48/1b, 48/2b	**Premier**	50.00	Greater Babbage
	P2290	48/3	**Premier**	50.00	Greater Babbage
	P2301	48/1c	**Premier**	50.00	Greater Babbage
	P2305	42/28c	**Premier**	50.00	Greater Tolmount
Vietnam	Block 12W	12W	**Premier**	53.13	Chim Sáo; Dua

A full list of Premier's global licence interests is available in the Operations section of the Company website: www.premier-oil.com

Notes:

1 In December 2016 Premier elected to exercise its option to increase its equity to 25 per cent subject to CNH approval.
2 Unitised share of 30.09625 per cent.
3 Unitised share of 1.66279 per cent.
4 Unitised share of 1.66279 per cent.
5 Unitised share of 7.9185 per cent.
6 Unitised share of 5.2 per cent.
7 Unitised share of 78.115421 per cent (Balmoral), 68.68 per cent (Glamis; Stirling).
8 Unitised share of 12 per cent.
9 Unitised share of 78.115421 per cent (Balmoral), 68.68 per cent (Stirling).
10 Unitised share of 5.2 per cent.
11 Unitised share of 28.75 per cent.
12 Unitised share of 50.107 per cent.
13 Unitised share of 23.46857 per cent.
14 Unitised share of 30.09625 per cent.
15 Unitised share of 23.46857 per cent.
16 Unitised share of 5.2 per cent.
17 Unitised share of 50.107 per cent.
18 Unitised share of 74 per cent.
19 Unitised share of 74 per cent.
20 Unitised share of 5.12 per cent.
21 Unitised share of 5.2 per cent.

AEP	Asset and Equity Plan
AGM	Annual General Meeting
bbl	barrel
BBtud	billion British thermal units per day
Bcf	billion cubic feet
BMS	Business Management System
boe	barrels of oil equivalent
bopd	barrel(s) of oil per day
DECC	Department of Energy and Climate Change
DSA	Domestic Swap Agreement
EBITDA	Earnings before interest, tax, depreciation and amortisation
ExCo	Executive Committee
FDP	field development plan
FEED	front end engineering and design
FPSO	floating production, storage and offtake vessel
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
IPIECA	International Petroleum Industry Environmental Conservation Association
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
mmbbls	million barrels
mmboe	million barrels of oil equivalent
mmscfd	million standard cubic feet per day
mscf	thousand standard cubic feet
mt	metric tonne
NAV	net asset value
PDO	Plan for Development and Operation
PSA	Performance Share Awards
PSC	production sharing contract
PSR	Project Safety Reviews
Tcf	Trillion cubic feet
TLP	Tension Leg Platform
ToP	Take or Pay
TRIR	total recordable injury rate
TSR	total shareholder return
2P	Proved and probable reserves

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, Net Debt and Liquidity and are defined below.

EBITDAX
Earnings before interest, tax, depreciation, amortisation, impairment, exploration spend and reduction in decommissioning estimates. In the current year it also excludes negative goodwill that arose on the E.ON acquisition. Determined by adjusting operating profit/(loss) for the year. This is a useful indicator of underlying business performance and is a key metric in the calculation of one of our financial covenants.

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.

Net Debt
The net of cash and cash equivalents and short and long-term debt recognised on the balance sheet. This is an indicator of the Group's indebtedness, capital structure and a key metric used in the calculation of one of our financial covenants.

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 letter 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.

Registrar

All enquiries concerning your shareholding should be directed to Capita Asset Services:

Capita 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@capita.co.uk

Share portal

As a shareholder you have direct access to an online share portal operated by Capita 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 Capita 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

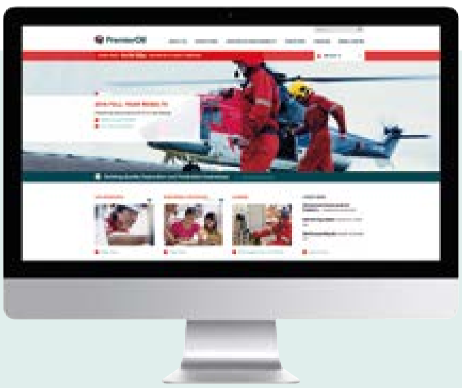
From 6 April 2016 the dividend 'tax credit' will be replaced by a new 'dividend allowance' in the form of a 0 per cent tax rate on the first £5,000 of dividend income per year.

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.

Further details regarding all aspects of shareholder information can be found on our website, www.premier-oil.com



E-communications

Shareholders have the option to receive communications including annual reports and notices of meetings electronically. 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 PMOIY. 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.

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