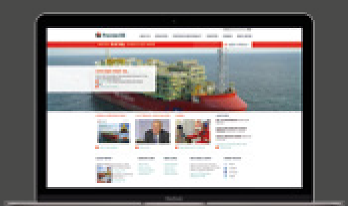
PremierOil

2017 Annual Report and
Financial Statements

Year to 31 December

Building value...

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



Read more online at **premier-oil.com**

Operational highlights

Production averaged

75 kboepd

(2016: 71.4 kboepd)

In line with market guidance (75-80 kboepd)

Catcher first oil achieved

60 kbopd

Increased gross peak production guidance

World class Zama oil discovery

400-800 mmbbls

Gross unrisked P90-P10 resources

Non-core asset disposals

US$300m

Consideration announced in 2017

Financial highlights

Low operating costs of

US$16.4/boe

(2016: US$15.8/boe)

Low cost base expected to be sustainable in the medium-term

Positive free cash flow

US$71.2m

(2016: US$(580)m)

Positive free cash flow generation including disposals

Significantly reduced capex

US$275.6m

(2016: US$662.6m)

Excluding abandonment related expenditure

Net debt

US$2.7bn

(2016: US$2.8bn)

Rising free cash flow will drive debt reduction through 2018 and 2019

...through operational focus

Our **operational focus** has led to a strong production performance from our existing assets this year, delivered from a sustainably low cost base.

Following the successful delivery of our Catcher project, we aim to **maintain momentum** by selectively investing in those opportunities within our development portfolio that will provide the best financial returns.

Turn over to see how we will achieve this

50
millionth
barrel
produced

Chim Sáo

High operating efficiency

Excellent reservoir performance

Chim Sáo delivered a robust production performance which, combined with continued low operating costs, resulted in the Vietnam business generating strong operating cash flows. During the period, gross cumulative production passed 50 million barrels, in excess of the original total volumes envisaged at project sanction.

14.9
kboepd
average
net production

Successful completion of the refinancing

Read more in the Financial Review on page 38

Operational focus

High operating efficiency and production performance underpins Premier's strategy for debt reduction and its ability to invest in new projects.

Natuna Sea Block A

Read more in the Business Unit Reviews on page 30

Delivering Catcher

Increased market share

Business unit generating strong positive net cash flow

Natuna Sea Block A delivered a stable performance in 2017 with continuing strong Singapore demand leading to an increase in Premier's market share under our principal gas sales contract.

12.9
kboepd
average
net production

Increased Singapore market share to **49%**

Huntington

Production ahead of expectation

Strong performance through astute reservoir management

Improved reservoir management and high FPSO operating efficiency led to a production performance ahead of budget. This, together with FPSO contract extension at a reduced rate, has led to a longer forecast asset life and an upward revision in reserves.

13.0
kboepd
average
net production

Production ahead of budget by **28%**

Delivering Catcher

Successfully executing key projects like Catcher drives a further increase in production, generating material cash flows.

Forecast reduction in total project cost

30%

Catcher

First oil from Catcher was successfully delivered in December 2017, on schedule and with forecast total project costs 30 per cent below the sanctioned budget. After completing construction and pre-commissioning activity, the Catcher FPSO departed Singapore on 10 August and arrived in the field on 18 October. The installation, hook-up and commissioning work proceeded to plan and a successful tanker trial took place in late November in advance of first oil on 23 December. Positive drilling results continued throughout 2017 leading to an increase in estimated gross peak production to 60,000 bopd. Premier has a 50 per cent operated equity interest.

Key milestones in the Catcher project

- ☑ June 2014 – Field Development Plan approved by UK Government
- ☑ Jan 2015 – FPSO construction started
- ☑ 2015/16 – Subsea infrastructure programmes carried out
- ☑ Aug 2016 – FPSO hull arrives in Singapore for construction and pre-commissioning
- ☑ Aug 2017 – 12th well completed (last of the pre-first oil wells)
- ☑ Aug 2017 – FPSO departs Singapore for the North Sea
- ☑ Oct-Dec 2017 – Hook-up and commissioning programme following arrival in the field
- ☑ Dec 2017 – First oil delivered from the Catcher field

Forecast gross peak production

60

kbopd

Demonstrating each stage of our business model in action

Catcher is an example of how Premier has taken an asset from exploration through to first oil.

Exploration

2010 – 2013

The Catcher field was discovered by the Catcher exploration well drilled in 2010 and further exploration drilling confirmed the presence of hydrocarbons at both Varadero and Burgman in 2011.

Development

2013 – 2017

The Catcher Field Development Plan was approved in 2014 by the UK Government. The subsea infrastructure programme was carried out in 2015/16 and development drilling activities started in 2015. The FPSO arrived in the field from Singapore in October 2017 for the final hook-up and commissioning programme.

Production

2017 onwards

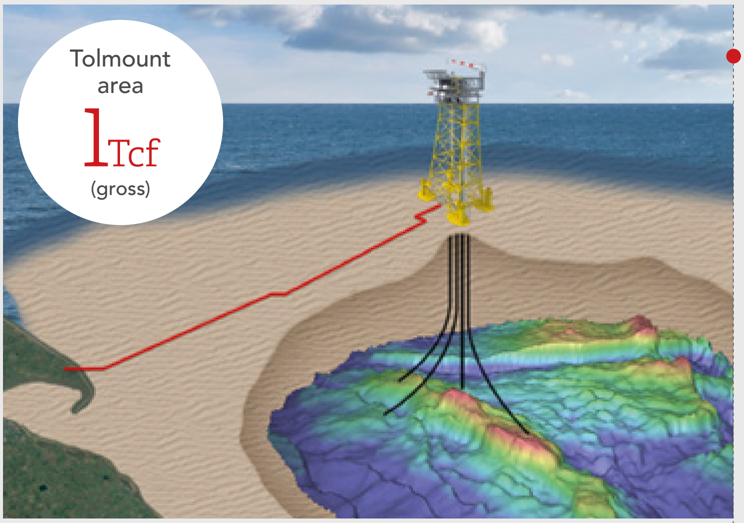
First oil was delivered in December 2017 initially from the Catcher field. Production is being ramped up to 60,000 bopd in 2018 1H in a phased manner with Varadero in January 2018 and then from Burgman. Production is being constrained while final commissioning activities on the FPSO are completed.

Read more in Our Business Model on page 8

Deleveraging the balance sheet

Read more in the Financial Review on page 38

Maintaining momentum



Tolmount

Economically robust project even at low gas prices

Targeting project sanction in 2018

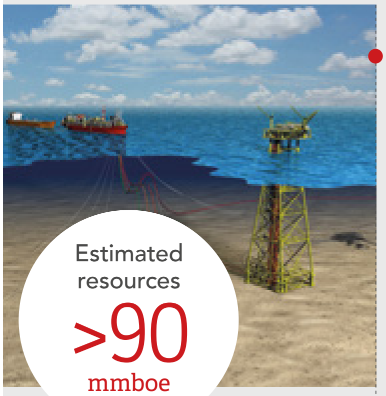
Premier's operated gas project in the Southern Gas Basin will provide the next phase of growth for Premier. Good progress has been made on the initial development phase, targeting gross resources of 540 Bcf (100 mmboe) in the Tolmount Main structure. The development concept was selected and FEED has been carried out during 2017. Alongside FEED, Premier entered into an innovative infrastructure financing arrangement, reducing our share of estimated capex.

Sea Lion Phase 1

Premier has a 60% operated interest

Forecast project breakeven US$45/bbl

The Sea Lion Phase 1 project in the Falkland Islands has an important part to play in Premier's long-term production growth story. Post FEED, which was completed in 2016, the focus in 2017 has been on progressing commercial, regulatory and funding workstreams ahead of any project sanction.



Tuna

Premier holds a 65% operated interest in the Tuna licence

The Tuna licence in Indonesia contains the Kuda Laut and Sing Laut fields, both discovered in 2014. During November an agreement to export Tuna gas to Vietnam was signed by the Indonesian and Vietnamese governments, providing a commercial export opportunity for the Tuna field.

Maintaining momentum

Portfolio of around 750 million barrels of discovered but undeveloped reserves and resources.

Fuelling growth

Read more in the Financial Review on page 38

Future growth

Read more about our progress in 2017 and future growth opportunities in the Chief Executive Officer's Review on page 12

Learn more about our portfolio optionality in the Business Unit Reviews on page 30

Zama

World class oil discovery

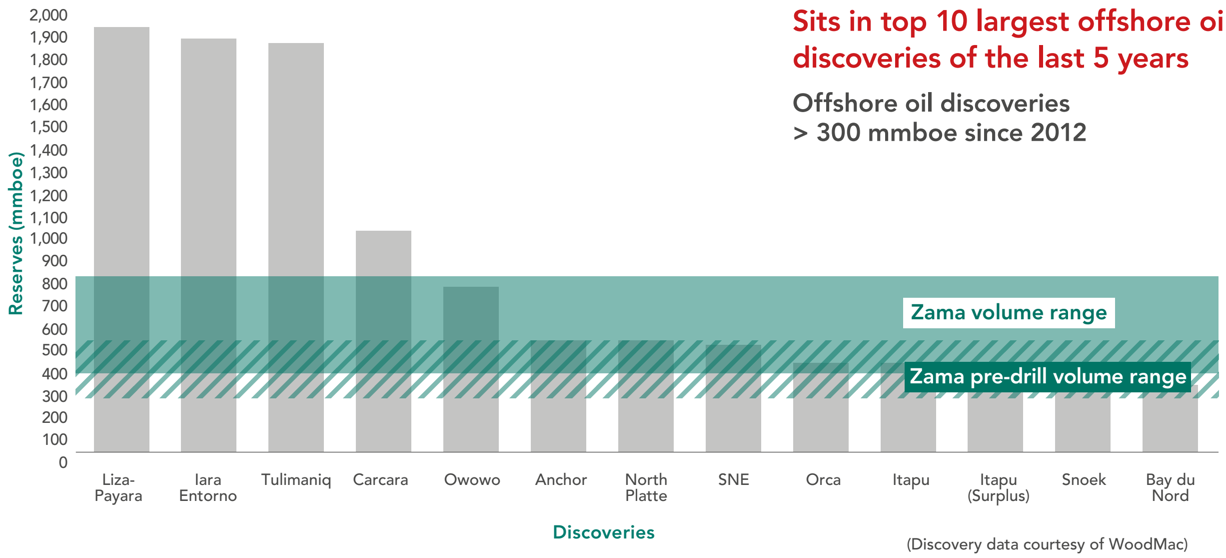
Located in the Sureste Basin in the Gulf of Mexico, one of the world's most prolific hydrocarbon provinces

Premier successfully entered Mexico in the first international licence round for 70 years in 2015. In 2017, Premier drilled its first exploration well in the Sureste Basin offshore Mexico. The well targeted the Zama prospect and resulted in a significant oil discovery. Initial estimates of the gross oil-in-place volumes for the overall Zama structure are 1.2-1.8 billion barrels, with an estimated gross recoverable resource range of 400-800 mmbbls, including volumes in the neighbouring block.

Work is now underway with our joint venture partners, Talos Energy (Operator) and Sierra Oil & Gas, and with PEMEX in the neighbouring block, to progress the appraisal of this significant discovery starting later in 2018 or early 2019.

Sits in top 10 largest offshore oil discoveries of the last 5 years

Offshore oil discoveries > 300 mmboe since 2012



(Discovery data courtesy of WoodMac)

A proven track record of reserve and resource growth

Premier aims to increase net asset value by developing high quality projects. We seek to increase our reserve and resource base through both acquisition and exploration activity, depending upon prevailing market conditions. Our business model has not changed but it had to be adapted to the volatile oil price environment.

Inputs

Committed and integrated corporate responsibility

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

Link to strategy: 1

Operate and develop high quality projects

Maximising low cost production, delivering timely projects.

Link to strategy: 2

Disciplined financial control

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

Link to strategy: 3

Highly trained staff

Capable in-house operating teams supported by functional experts.

Link to strategy: 4

How we create value

Country and stakeholder benefits

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.

Long-term growth

Premier's high-graded exploration portfolio provides the Group with organic growth opportunities in the longer term such as the Zama discovery in Mexico.

Development

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

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.

Financial discipline, risk management and rigorous corporate governance

Our strategy

Our business model is inherently linked to our strategy and supports all four pillars of it:

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 in Our Strategy on page 16

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

Production

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

Short-term cash generation

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

Managing our risks and strict financial discipline are critical to our business. All of our operations are carried out with a background of rigorous corporate governance.

Outputs

Shareholder value

↑

Strong cash flow

↓

Debt reduction

Reduced inventory levels provide oil price support for 2018

Commodity prices have remained volatile but as predicted in 2016, the impact of OPEC cuts, strong demand growth and the effect of several years of underinvestment across the industry, saw the rebalancing of global oil inventories accelerate through 2017. Industry investment in exploration and development, outside of US shale, remains weak but is also recovering from a low base with new areas such as Mexico, where Premier has enjoyed first mover advantage, gaining increasing interest.

Key long-term trends

Commodity prices

Brent oil prices remained volatile during 2017, trading as low as US$44/bbl in the first half of the year before rising into the year-end to finish at close to US$67/bbl. The increase in prices was driven by continued strong global demand and OPEC cohesion around implementation of agreed output reductions, offsetting fears of increased US shale output as the market began to rebalance inventory levels. UK gas prices remain seasonally volatile, exacerbated by the closure of the Rough storage facility, but have generally been trending higher year-on-year in line with the improvement in global energy prices.

Foreign exchange rates

After falling significantly in 2016 post the Brexit referendum and hitting a low of US$1.20/£ in January 2017, sterling has recovered during 2017 to end at US$1.35/£ as markets have adjusted to potential Brexit outcomes. This is despite relatively weak GDP growth figures and lagging interest rate progression compared to the USA.

Investment and costs

Global capital expenditure by the industry remains low by historical standards, but has stabilised after three years of decline with balance sheet preservation, especially by USA shale players, continuing to be a priority. There are signs that the oversupply in the drilling market is reversing as older units are retired, whilst service sector costs have also stabilised, with signs of selective but modest inflation as oil prices have recovered.

Exploration

Exploration activity globally remained muted in 2017, largely reflecting the discretionary nature of spend. However, a number of significant new discoveries were made especially in Mexico, which saw the first wells drilled after the country opened up its oil and gas activity to foreign investment.

Acquisitions and disposal activity

2017 saw an increase in M&A activity in the North Sea, with private equity active in deals such as Chysaor's acquisition of a package of assets from Shell and Neptune's announced acquisition of Engie's upstream assets.

Read more in Principal Risks on page 22

Our response

Premier looks to reduce volatility in revenues and protect downside to commodity price fluctuations through a rolling hedging programme, whilst retaining upside to any potential medium-term rally in prices. For 2018, the Company has hedged approximately 40 per cent of its oil production through a mixture of forward sales and swaps at an average price of US$58/bbl, with a further 13 per cent of production covered by options with an average floor price of US$56/bbl. In addition, 29 per cent of UK gas production has been hedged at an average price of 47 pence/therm.

Premier has considerable operating cost exposure in sterling from its North Sea operations, and a proportion of its capital expenditure on Catcher is also sterling. This is partially hedged by the sterling revenue streams from its UK gas production, whilst the Company also undertakes forward hedging to reduce the volatility of changes in US$/£. Premier also has £250 million of sterling debt which has been hedged by cross-currency swaps at the time those debt arrangements were put in place.

Premier secured an innovative financing arrangement for the Tolmount development, entering an infrastructure partnership regarding the development of the facilities. Premier has also signed Letters of Intent with a number of potential suppliers for its Sea Lion project to enable it to lock in service costs at attractive rates. Long-term contracts signed over the last few years across its production bases, including revised FPSO lease contracts on Chim Sáo and Huntington, also ensure that the Company is partially insulated from any cost inflation that may occur as oil prices and consequent demand for services, recover.

Premier's exploration spend was modest in 2017 as the focus remained on delivering committed projects and managing the balance sheet and liquidity. However, consistent with the policy of selective exploration exposure, the Company participated in the significant 400-800 mmbbls Zama oil discovery in Mexico. The Company's exploration strategy remains focused on acquiring high impact licences in proven areas, within a framework of disciplined capital allocation.

Premier continued to monetise non-core assets and rationalise its portfolio, announcing the disposal of its Pakistan business for US$65 million and the sale of its Wytch Farm assets for US$200 million. The latter transaction arose as a result of private equity's appetite to deploy capital, although the sale to Verus Petroleum was subsequently pre-empted by the Wytch Farm Operator Perenco. The Company also announced the sale of its interest in the non-core ETS pipeline system in the North Sea, releasing hidden value from the E.ON acquisition the year before.

"A year of strong production and operational delivery has put us in a solid position to restore balance sheet stability and selectively invest in projects that deliver the highest financial returns."

Tony Durrant
Chief Executive Officer

2017 saw continued volatility in commodity prices contributing to economic and market uncertainty for the industry. For Premier, the year contained three very significant highlights with a world class oil discovery at Zama offshore Mexico, first oil from the Catcher development, and the completion of our comprehensive debt refinancing. These events, together with a strong production performance from the existing business, continuing cost control and selective disposals of non-core assets, mean that Premier is already delivering ahead of its strategic plan agreed at the time of the refinancing. More recently, the outlook has improved with oil prices closing 2017 at a two-year high of US$66.9/bbl.

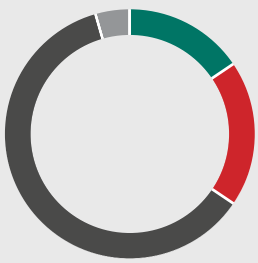
Regardless of the external environment, Health, Safety, Environment and Security ('HSES') matters will always be of paramount importance to us and we will not compromise on the integrity and safety of our people and our operations. We continue to set ourselves challenging HSES targets to drive continuous improvement. Our HSES performance in 2017, as measured against our Group aggregate HSES targets, improved. In addition, all of our production and drilling operations retain their OHSAS 18001 and ISO 14001 certifications. More broadly, our corporate responsibility efforts continue to be guided by the Ten Principles of the UN Global Compact, to which we remain committed.

Total Group revenue (US$)

1,102m

(2016: 983m)

Revenue by region (US$m)



Indonesia	172
Vietnam	210
United Kingdom	674
Pakistan & Mauritania	46

In the near-term, Premier's focus is on reducing debt by utilising the Group's cash flow generated from our low cost stable production base. In 2017, Premier delivered production of 75.0 kboepd, in line with full year guidance and up five per cent on 2016. This increase in production was driven by a record first half underpinned by high operating efficiency across the portfolio and a full-year contribution from the ex-E.ON assets.

Our South East Asia assets performed well during 2017. In Indonesia, demand from Singapore for our gas was strong and our operated Natuna Sea Block A fields secured an increased market share within its principal gas sales contract ('GSA1') of 49.6 per cent against a contractual share of 47.25 per cent. It also delivered record production under the second gas sales contract ('GSA2'). Across the border in Vietnam, gross production from the Premier-operated Chim Sáo field passed 50 million barrels, in excess of the original total sanctioned volumes. The field exceeded expectations both in terms of operating efficiency and better than expected reservoir performance, with a successful well intervention programme helping to mitigate natural decline from the field. Year-end production levels were also boosted by a further 6.5 kboepd (gross) after completing a low cost, two well infill drilling programme.

Our 2017 performance in the context of our 2016 expectations

2017 has been another strong year for Premier from an operational standpoint:

- ☑ Production of 75 kboepd, in line with guidance
- ☑ Low cost base maintained, capex savings achieved
- ☑ Catcher first oil delivered, on schedule and under budget
- ☑ US$300m non-core disposals
- ☑ Progress made on Tolmount and Sea Lion
- ☑ World class oil discovery at Zama, Mexico
- ☑ Refinancing completed, debt reduction underway

	Working interest		Entitlement	
Production (kboepd)	**2017**	2016	**2017**	2016
Indonesia	**14.1**	14.3	**10.3**	10.1
Pakistan and Mauritania	**6.5**	7.9	**6.4**	7.9
UK	**39.5**	33.0	**39.5**	33.0
Vietnam	**14.9**	16.2	**13.0**	15.1
Total	**75.0**	71.4	**69.2**	66.1

UK production, which represents over half of Group production, grew 20 per cent from 2016, principally as a result of a full year's contribution from the ex-E.ON assets, which continue to exceed expectations at the time of acquisition. The Huntington field saw particular outperformance, contributing 13.0 kboepd, and it remains the highest net producer in our UK portfolio prior to the ramp up of production from the Catcher Area. The continuing strong reservoir performance, together with an improved lease rate structure on the FPSO agreed with Teekay, means that we expect Huntington to continue to produce longer than previously envisaged. The long-life Elgin-Franklin field continued to benefit from an ongoing infill drilling programme and our Babbage gas field delivered a strong performance in 2017 underpinned by well intervention and optimisation of the existing well stock. Production from the Solan field was lower than originally expected due to poorer performance in the East reservoir. This has resulted in a write down in recoverable reserves leading to a non-cash impairment charge in the year. Current production from Solan is performing in line with our revised expectations and we continue to evaluate options to improve production levels and recovery. Profits from UK production continue to be sheltered by Premier's brought forward cumulative tax loss and allowance position.

In December, we were delighted to safely deliver first oil from the Catcher Area, marking a significant milestone for Premier. The successful execution of this project on schedule, and with total project costs expected to be some 30 per cent below the original sanctioned budget, is testament to the hard work, skill and capability of the project team and our contractors. We are bringing the development on-stream in a phased manner from the three fields that make up the Catcher Area, firstly from the Catcher field, then Varadero and shortly from Burgman, as the final commissioning activities on the FPSO are completed. Once the field is fully operational we will be producing at a plateau production rate of 60 kbopd (gross) which we expect to achieve during April. Development drilling throughout the project has been encouraging with 14 wells now completed and a further 4 wells to be drilled by September 2018. Catcher is an example of Premier's capability to deliver full-cycle FPSO projects from exploration through to production and the increased cash flows it generates will play an important role in our debt reduction plans in 2018 and beyond.

During 2018, we expect Group production to increase to 80-85 kboepd reflecting the phased ramp up from the Catcher Area, offset by natural decline in certain of our fields and the impact of disposals.

Strict management of our operating cost base and our committed capital expenditure have remained a key focus for Premier in 2017. Our operating costs were US$16.4/boe (2016: US$15.8/boe) in line with budget, reflecting changes in the production portfolio and ongoing cost saving initiatives. We continue to see opportunities for further savings from collaboration initiatives and competitive retendering, and expect to maintain a low cost base for the medium-term. 2017 capital expenditure was well below our original guidance as we secured further savings on the Catcher project and on our drilling campaign in Mexico. As the current phase of the Catcher development completes in the middle of 2018, Premier's forward committed capex will fall significantly.

Priorities for 2018

Looking ahead to 2018, our priorities are:

- Deliver 2018 production guidance of 80-85 kboepd
- Deliver Catcher production ramp up of 60 kbopd (gross)
- Progress Tolmount project to sanction decision
- Progress financing, fiscal and commercial initiatives for Sea Lion
- Appraise Zama in 2H/early 2019 and define development plans
- Maintain a competitive cost base
- Deliver debt reduction

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

Alongside increasing production and cost control discipline, our selective disposal programme of non-core assets announced in 2017 has enabled us to start deleveraging our balance sheet. These disposals included the sale of our Pakistan business that will complete after the receipt of Pakistani authorities' approval, the ongoing rationalisation of assets acquired with the E.ON portfolio and the disposal of our non-operated interest in the Wytch Farm field which completed in December. These disposals, which will generate consideration of US$300 million, are an important part of meeting our debt reduction targets.

In the medium-term, Premier intends to invest selectively in our portfolio of future projects, to maintain and grow our production in the 2019-2021 timeframe and deliver value for all stakeholders. In July we were delighted to announce a material exploration success in Mexico. The world class oil discovery at the Zama-1 exploration well vindicated our strategy of focusing on under-explored but proven hydrocarbon basins and our initial estimates for the full field are a P90-P10 gross unrisked resource range of 400-800 mmbbls, well ahead of pre-drill expectations. Premier continues to work with both our joint venture partners and PEMEX in the neighbouring block to secure a pre-unitisation agreement to progress the appraisal of this significant discovery. Discussions are underway to secure an option on a rig to undertake the appraisal programme, which is expected to commence in the second half of 2018 or early 2019.

Our next development is an incremental gas project in Indonesia, which was sanctioned by the Board in March 2017. Bison, Iguana, Gajah Puteri ('BIGP'), which is designed to back fill our existing Singapore and domestic gas sales contracts, is proceeding well and is on budget and scheduled to deliver first gas in 2019.

Our Tolmount Main gas development in the Southern North Sea, which will provide the next significant phase of our growth, is targeted for project sanction in 2018. This initial phase is targeting gross resources of 540 Bcf (100 mmboe) and is an economically robust project for Premier even at low gas prices.

There is also significant resource upside, currently estimated at a further 400 Bcf (gross) in the Greater Tolmount Area.

	Proven and probable 2P reserves (mmboe)	2P reserves and 2C contingent resources (mmboe)
1 January 2017	353	835
Production	(27)	(27)
Net additions, revisions, discoveries	(12)	120
Disposals, relinquishments	(12)	(26)
31 December 2017	**302**	**902**

FEED work is progressing well, the environmental assessments for the project are underway and a draft Field Development Plan has been submitted to the OGA. We are pleased to have agreed an innovative financing arrangement for the project, establishing an infrastructure partnership for the field facilities. The impact of this arrangement is to reduce Premier's share of the capex required to develop this large gas field to approximately US$100 million.

Our Sea Lion project in the Falkland Islands is Premier's largest pre-development project with around 400 mmboe reserves and resources (net to Premier) to be developed over several phases. With considerable progress made in 2016 to optimise the project economics for the first phase of the development, work in 2017 focused on the commercial, regulatory and fiscal work streams and on securing a financing solution. Discussions are ongoing with senior debt providers and supply chain contractors to secure suitable funding and commercial terms. Letters of Intent have now been signed with contractors for the provision of a range of services including vendor financing. Premier is working towards a final investment decision by the end of 2018.

At 31 December 2017, Group proven and probable ('2P') reserves, on a working interest basis, were 302 mmboe (2016: 353 mmboe) and total 2P reserves and 2C resources increased to 902 mmboe (2016: 835 mmboe).

The decrease in 2P reserves is driven by the impact of 2017 production, a downward revision to our Solan 2P reserve estimates and the disposal of our Wytch Farm interests. This is partially offset by upward revisions to our estimates of 2P reserves at both Huntington and Babbage. The increase in our 2C resources of 118 mmboe was principally a result of the Zama oil discovery offshore Mexico, the addition of Tolmount East as a contingent resource and upward revision to the Sea Lion Phase 2 resources including the 2015 Zebedee discovery.

The completion of the refinancing of our debt facilities in July, marked a major milestone for Premier and has established a solid foundation for us to fulfil our strategic plans. Debt reduction remains our top priority, but the refinancing provides the headroom and flexibility to plan for future investment in selective new projects. At year-end, net debt stood at US$2.7 billion. Positive free cash flow including disposals was offset by adjustments to reflect the terms and costs of the refinancing and non-cash foreign exchange movements. Post year-end, Premier invited our convertible bondholders to accelerate the conversion of their bonds. Approximately US$200 million was converted resulting in a further reduction in net debt.

As we enter 2018, our stable production delivered from a competitive operating cost base and lower capital commitments will generate increasing free cash flows, which in the short-term will be directed at reducing our debt. Looking forward, we will selectively invest in new development projects within a strict capital discipline framework to provide growth in the medium-term and deliver future value for all stakeholders.

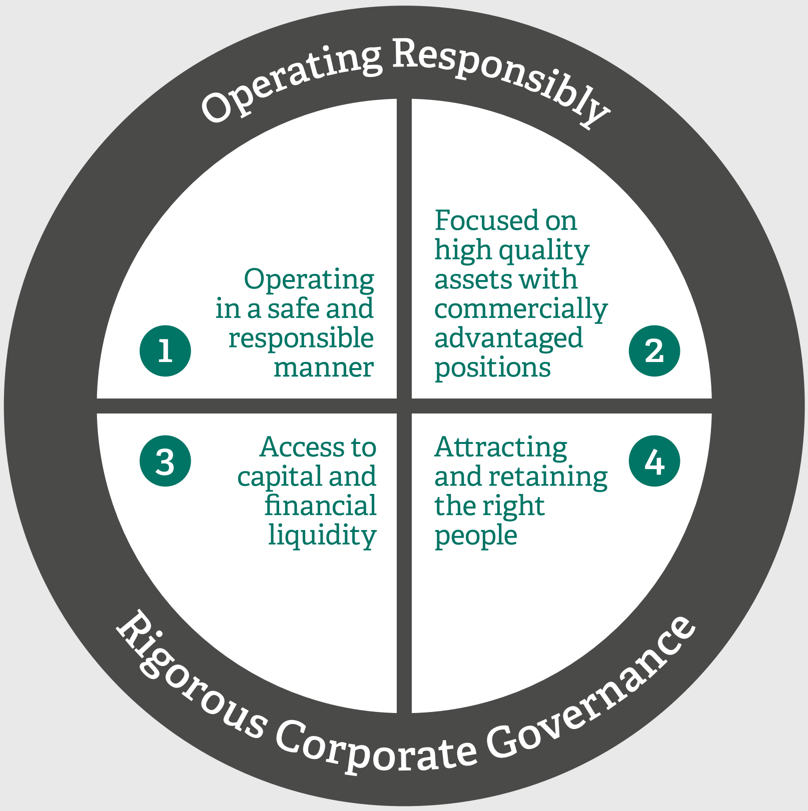
Tony Durrant
Chief Executive Officer

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 about our four strategic pillars overleaf

Creating value throughout the oil life cycle

1

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 focus on operational delivery across all our activities in a safe and responsible manner.

PROGRESS IN 2017

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 strong production performance for the Group in 2017. We delivered first oil from our operated Catcher development safely and on time, with 7 million man hours completed without a lost time injury. We also operated drilling campaigns in Indonesia, Vietnam and in the North Sea. Our continued focus on process safety and asset integrity saw us complete 2017 without any major process safety events from our operated assets or drilling activities. Our HSES performance overall, measured using a blended weighted score covering a range of key HSES metrics, was above expectations.

Tier 1 significant process safety ('LOPC') events

Zero

PRIORITIES FOR 2018

- Continue to operate all of our assets in a safe and responsible manner
- Ensure the safety of our workforce remains paramount
- Ensure any potential risk to the environment is minimised
- Maintain the high levels of operating efficiency across our operated assets

RELEVANT RISK AREA

- HSES

2

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 strong operating capability 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 significant resource base.

PROGRESS IN 2017

Our UK Business Unit performed well with our tax advantaged production from the UK increasing by 20 per cent in 2017. This will be further enhanced in 2018 following the successful delivery of first oil from Catcher in December. Good progress was made on the Tolmount gas project in the North Sea, which will provide the next phase of growth for the UK business beyond Catcher. 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, with production surpassing 50 million barrels, in excess of the original total volumes envisaged at project sanction. In the Falklands, progress on the first phase of the Sea Lion project focused on the commercial, regulatory and funding workstreams. A world class oil discovery in Mexico added to our portfolio of future growth opportunities.

Tolmount project capex for Premier reduced to (US$m)

100

PRIORITIES FOR 2018

- Deliver ramp up of gross production from Catcher to 60 kbopd and complete the remaining development wells
- Progress BIGP, the next development in Indonesia
- Sanction Tolmount gas development project
- Advance appraisal programme for Zama discovery in Mexico
- Progress financing solution for Sea Lion ahead of final investment decision

RELEVANT RISK AREA

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

Jane Hinkley, Chairman of the Remuneration Committee

Read more in the Directors' Remuneration Report on page 81

3

Access to capital and financial liquidity

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

PROGRESS IN 2017

Premier completed its comprehensive refinancing in July, maintaining its existing debt facilities and extending maturities to 2021 and beyond. This significant milestone established a solid foundation for Premier to fulfil its strategic plans. Premier intends to continue to focus on reducing its absolute level of debt, but the refinancing also provides the headroom and flexibility to invest selectively in the business. The Company had net debt of US$2.7 billion at year-end, down from the previous year, with cash and undrawn facilities of US$541 million. We have also hedged approximately 50 per cent and 29 per cent of our oil and UK gas production respectively for 2018 to mitigate against the risk of lower commodity prices and to protect our liquidity.

Cash and undrawn facilities (US$m)

541

PRIORITIES FOR 2018

- Prioritise reducing our absolute level of debt (subject to commodity prices)
- Prioritise capital to sanctioned and capital efficient 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

RELEVANT RISK AREA

- 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.

PROGRESS IN 2017

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. An outsourced management service for UK contractors was implemented to optimise capability, control costs and facilitate future staff resourcing requirements, as Premier returns to growth.

A Group-wide Talent Management programme, relating to both succession planning and career progression, was introduced and will be rolled out in 2018. Alongside this a Group-wide Staff Engagement Survey was carried out, the results of which will further inform the Talent Management initiative and frame specific HR initiatives in the future.

2017 employee turnover (%)

7

PRIORITIES FOR 2018

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

RELEVANT RISK AREA

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

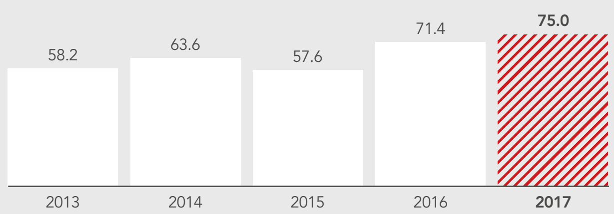
Measuring our performance

The Board monitors the Group's progress against its Key Performance Indicators to assess performance and the 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 Group's business plans. Despite the ongoing challenging conditions during 2017, Premier continued to deliver on a number of its key metrics.

Operational KPIs

2 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.

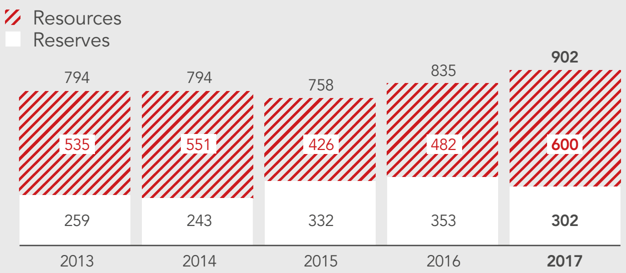
2017 PROGRESS

Average daily production in 2017 was 75.0 kboepd, in line with our market guidance and up five per cent on 2016. The increase in production on the prior year was driven by continued high operating efficiency across the Group and a full year contribution from the E.ON assets acquired in 2016. In December, our operated Catcher project was brought on-stream which will contribute materially to Group production in 2018. Premier also sanctioned the development of the Bison, Iguana, Gajah Puteri gas fields which will support our long-term contracts under which we deliver gas into Singapore. Progress was also made on our Tolmount gas project which will provide the next phase of growth beyond Catcher.

2018 EXPECTATIONS

In 2018, Premier expects production from its existing producing assets to increase to 80-85 kboepd, reflecting the phased ramp up from the Catcher Area, offset by natural decline in certain of our fields and the impact of disposals.

2 Reserves and resources (mmboe)



OBJECTIVE

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

2017 PROGRESS

Proven and probable ('2P') reserves at the end of 2017 were 302 mmboe (2016: 353 mmboe). The reduction reflects the impact of 2017 production, a downward revision in reserves at Solan as a result of poorer than expected reservoir performance, and the disposal of our Wytch Farm interests. This was partially offset by upwards revisions in estimates of both Huntington and Babbage reserves as a result of extended forecast field lives facilitated by better than expected reservoir performance. Premier also added 118 mmboe of resources principally as a result of the Zama oil discovery offshore Mexico, the addition of Tolmount East as a contingent resource and upward revision to the Sea Lion Phase 2 resources including the 2015 Zebedee discovery.

2018 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 2018. In particular, Premier expects to sanction the Tolmount gas project in the North Sea during the year which will add to our 2P reserves. Offsetting this will be production and further non-core disposals including the completion of the sale of our Pakistan business which accounted for 8 mmboe of our 2P reserves at the end of 2017.

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

Key to progress

- Above expectations
- In line with expectations
- Below expectations

Read more in the Financial Review on page 38

1 HSES Index

Non-financial measure

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 HSES performance using a blended, weighted score covering a range of key HSES metrics.

2017 PROGRESS

Overall performance was at or just above expectation. Both our recordable injury and high potential incident rates fell compared to 2016, and we continued to see very strong process safety performance, with only one (IOGP Tier 2) process safety event and strong process safety and asset integrity audit results from our operated assets.

Environmental performance was broadly similar to 2016 with both, greenhouse gas intensity and hydrocarbon spills to sea, showing very small reductions on the previous year.

Senior management visits to our operated facilities to demonstrate their commitment to our HSES values were supported in 2017 by Premier's first ever Global HSE Day, when coordinated visits by senior managers and other events with a HSES focus were held at all our facilities and office locations worldwide.

2018 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 Association of Oil & Gas Producers ('IOGP'), with the aim of driving continuous improvement year-on-year. In 2018, we will introduce new leading corporate metrics focused on process safety (including maintenance and integrity metrics) and routinely report performance alongside our other existing KPIs. We will also be reviewing our major HSES Management System documents to ensure their continuing relevance to our business and also their alignment with evolving international management system standards. For more information on our HSES management practices, please see page 51.

Corporate HSES KPIs

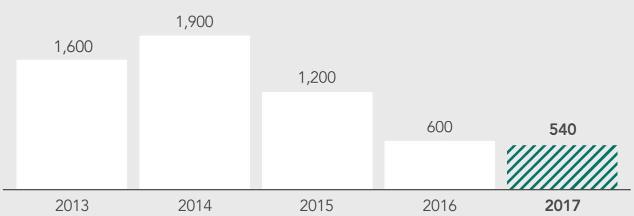
Issue	Premier Oil metric	2017	2016	2015
Occupational health and safety	Fatalities	**0**	0	0
	Lost work day cases ('LWDC')	**3**	6	3
	Restricted work day cases ('RWDC')	**0**	1	2
	Medical treatment cases ('MTC')	**6**	6	4
	Total recordable injury rate ('TRIR')[1]	**1.47**	1.95	1.27
	High potential incident rate ('HiPoR')[1]	**0.65**	1.20	1.13
	Man hours worked (million)	**6.1**	6.7	7.1
Process safety and asset integrity	Process safety events (IOGP Tier 1)	**0**	0	0
	Process safety events (IOGP Tier 2)	**1**	0	3
Environment	GHG intensity (operated assets) (te CO_2e / 1000 te production)	**183**	186[2]	219[3]
	Unplanned hydrocarbon released to sea (total te)	**1.9**	2.2	0.9
Leadership	HSES leadership visits	**18**	13	n/a

106% Overall HSES Index score

1 Per million man hours.
2 Greenhouse gas emissions from our Solan asset were not included in our reported greenhouse gas intensity figure for 2016.
3 Our greenhouse gas intensity figure for 2015 was revised in 2016, following diesel under-reporting at our Balmoral asset.

Financial KPIs

2 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, where necessary, will seek farm-in partners for drilling programmes and development projects to maintain this discipline.

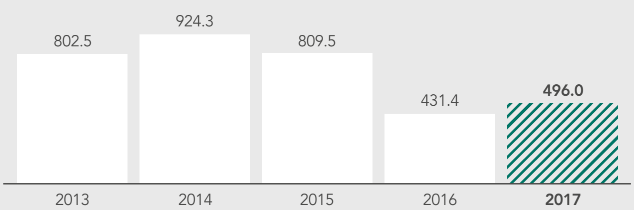
2017 PROGRESS

During 2016, Premier completed a comprehensive refinancing, preserving the Group's debt facilities, resetting financial covenants and extending maturities out to 2021. This, together with a strong production performance, and continuing focus on maintaining a low operating cost base and reduced capital commitments from existing operations, enabled us to deliver our capital investment programme including first oil from our operated Catcher project.

2018 EXPECTATIONS

Premier will continue to take appropriate steps in 2018 to ensure it maintains sufficient liquidity to deliver its strategic plans. We 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 as well as selectively 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.

3 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.

2017 PROGRESS

Premier's operating cash flow for 2017 of US$496.0 million (2016: US$431.4 million) benefited from an improvement in the external macro environment which saw the oil price average US$54.2/bbl (2016: US$43.7/bbl). Premier realised an average oil price for the year post hedge of US$52.1/bbl (2016: US$52.2/bbl). The increase in operating cash flow was helped by a strong production performance and tight cost control.

2018 EXPECTATIONS

Future production growth together with Premier's low cost base, will underpin 2018 operating cash flow. In particular, production from the new Catcher Area will contribute materially to the Group's operating cash flow as it ramps up during the first half of 2018. Premier will continue to look to hedge to protect its future cash flows and our investment programme. We have hedged approximately 50 per cent of 2018 oil production with an average floor price of US$58/bbl and 27 per cent of our UK gas production at 47 pence/therm.

Our strategic pillars

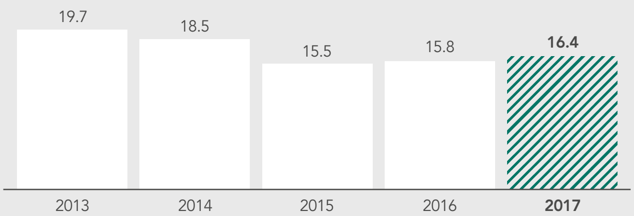
1. Operating in a safe and responsible manner
2. Focused on high quality assets with commercially advantaged positions
3. Access to capital and financial liquidity
4. Attracting and retaining the right people

Key to progress

- Above expectations
- In line with expectations
- Below expectations

Read more about how all of our KPIs are linked to Executive Directors' remuneration. For full disclosure, please see the Directors' Remuneration Report on page 81

3 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.

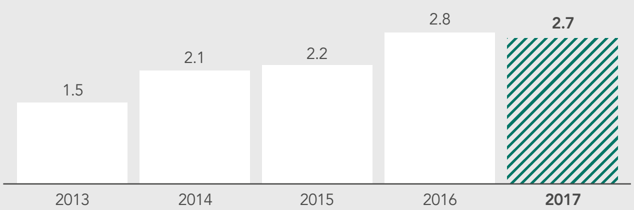
2017 PROGRESS

Operating costs remained low at US$16.4/boe in 2017 (2016: US$15.8/boe), in line with our budget but a small increase on 2016 due to portfolio mix effects in the production base. The low cost base continues to be driven by high operating efficiencies across our producing portfolio, and ongoing cost savings across the business. It reflects the significant cost reductions that have been achieved over the last two years.

2018 EXPECTATIONS

Premier expects operating costs in 2018 to be between US$17-18/boe, and to maintain a low cost base for the medium-term, underpinned by continued focus on maximising operating efficiencies, from collaboration initiatives and competitive re-tendering.

3 Net debt (US$ billion)



OBJECTIVE

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

2017 PROGRESS

Net debt at year-end was US$2.7 billion. Positive free cash flow generation including disposals, was offset by adjustments to reflect the terms and the costs of the refinancing and non-cash foreign exchange movements on non-dollar denominated debt.

2018 EXPECTATIONS

Premier is targeting further debt reduction during 2018. With forecast low operating costs, reducing capital expenditure, and increasing production from our UK tax advantaged assets as Catcher production ramps up, Premier is well placed to deliver on this target. Post year-end, Premier invited its convertible bondholders to accelerate the conversion of their bonds, which further reduced the net debt.

Managing our principal risks

"Risks are assessed throughout the Company using a methodical process."

Iain Macdonald
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.

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 24 to 27.

Significant risks during 2017

- Oil price weakness and volatility
- Cash generation and ability to fund existing and planned projects
- Failure to finalise the refinancing of the Company's debt facilities
- 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 OGA and other relevant bodies
- Timing and uncertainty of decommissioning liabilities
- Financial viability of key suppliers and partners
- Ability to maintain core competencies

Significant risks in 2018

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

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

To facilitate assessment of the main risks facing the business, specific risks are identified by each asset, project, business unit and corporate function. These risks are then consolidated and amalgamated to provide an overview of the key risk factors facing each level of the organisation.

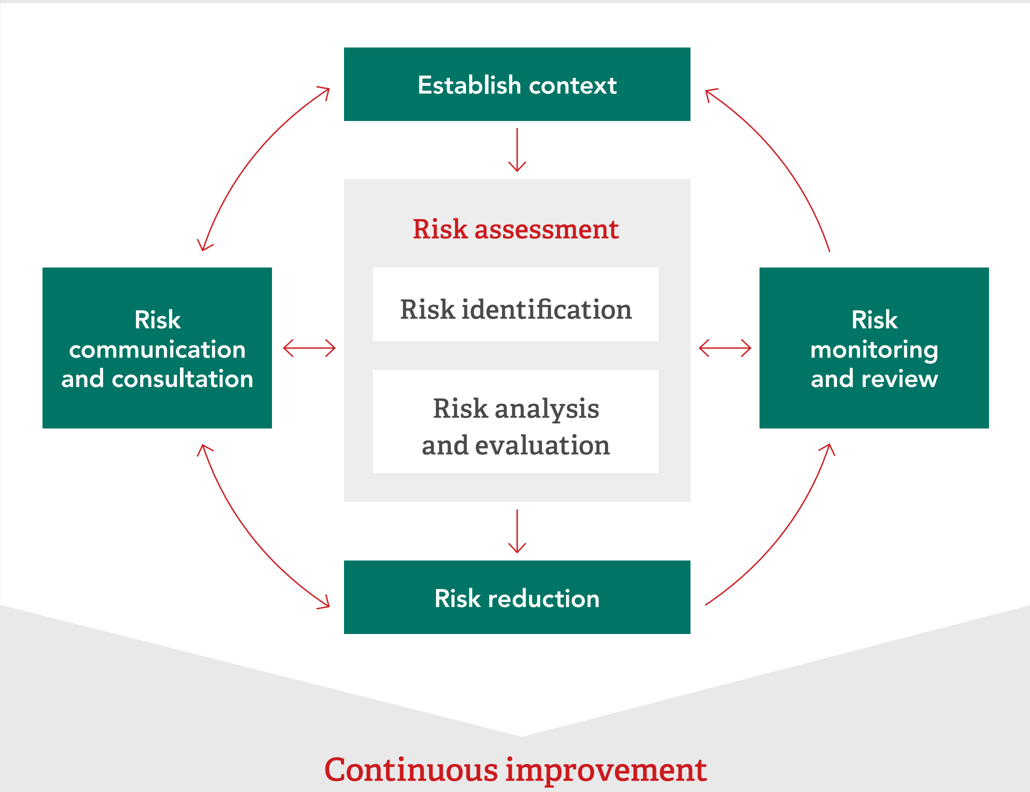
Premier attempts to minimise the likelihood and mitigate the impact of the known risks facing its business. According to the nature of the risk and the Board approved risk appetite, Premier may elect to accept or tolerate the risk as-is, treat the risk with controls and mitigating actions, transfer the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

Group risk management framework

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

A systematic process for the identification, assessment, reduction, monitoring and communication of risk is undertaken across the Company's business units and functions.

Regular reviews are undertaken to review risks and the measures required or in place to control or mitigate them. The reviews help ensure that risks emerging as a result of changes in the business activities or the business environment are captured and managed.



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.

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

Risk management

Premier believes that risk management is just good management, leading to better quality decision-making and improving the likelihood of achieving business objectives.

Premier has adopted a framework for risk management based on ISO 31000 principles and guidelines. During 2017, Premier rolled out a new Risk Management Standard to formalise this framework and drive the consistency and reliability of risk management across the Group by setting minimum requirements for each element. The Group Audit and Risk Function is responsible for administering the risk management framework and for its continued improvement. The framework is illustrated above.

Establish context

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

Continued on page 28

Key to change in likelihood	Increase	No change	Decrease

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

PRINCIPAL RISK FACTOR	RISK DETAIL	CHANGE IN LIKELIHOOD
FINANCIAL RISKS		
Commodity price volatility LINK TO STRATEGY 3	• Oil and gas prices are affected by global supply and demand and can be subject to significant fluctuations. • Factors that influence these include operational issues, natural disasters, adverse weather, climate change regulation, political and security instability, conflicts, economic conditions and actions by major oil-exporting countries. • Price fluctuations can affect our business assumptions and our ability to deliver on our strategy. • **Specific risks for 2018:** inability to execute a satisfactory oil hedging programme due to low forward oil prices and market backwardation; lack of credit lines for hedging.	No change
Financial discipline and governance LINK TO STRATEGY 3	• Sufficient funds may not be available to finance the business and fund existing and planned growth projects. • Breach of delegated authority. • Financial fraud. • **Specific risks for 2018:** reduced flexibility to manage the business due to new controls agreed with lenders; breach of revised banking covenants; and inability to execute corporate actions including funding development projects such as Sea Lion.	Decrease
OPERATIONAL RISKS		
Production and development delivery and decommissioning execution LINK TO STRATEGY 1 2	• Uncertain geology, reservoir and well performance. • Availability of oilfield services including FPSOs and drilling rigs, technology and engineering capacity, and skilled resources. • Adverse fiscal, regulatory, political, economic, social, security (including cyber) and weather conditions. • Immaturity of decommissioning in the UK resulting in uncertain cost and timing estimates for decommissioning of assets. • Potential consequences include reduced or deferred production, loss of reserves, cost overruns and failure to fulfil contractual commitments. • **Specific risks for 2018:** failure of new Catcher asset to fully deliver to expectations.	No change
Joint venture partner alignment and supply chain delivery LINK TO STRATEGY 2	• Major operations and projects in the oil and gas industry are conducted as joint ventures. The joint venture partners may not be aligned in their objectives and this may lead to operational inefficiencies and/or project delays. Several of our major operations are operated by our joint venture partners and our ability to influence is sometimes limited due to our small interest in such ventures. • Premier is heavily dependent on supply chain providers to deliver products and services to time, cost and quality criteria and to conduct its business in a safe and ethical manner. • **Specific risks for 2018:** access to and cost of appropriate service providers if oil prices recover.	No change

HOW IS IT MANAGED?	KEY ACTIONS IN 2017/18
• Oil and gas price hedging programmes to underpin our financial strength and protect our capacity to fund future developments and operations. • Premier's investment guidelines ensure that our investment opportunities are robust to downside price scenarios.	• Oil hedging programme continued with fixed price term sales and options to provide some protection in the event of an extended period of low oil prices. • Economics of investment decisions tested against downside price scenarios. • Discretionary spend actively managed.
• Premier maintains access to capital markets through the cycle by proactive engagement with banks and lenders as evidenced by the completion of its refinancing in 2017. • Strong financial discipline. Premier has an established finance management system to ensure that it is able to maintain an appropriate level of liquidity and financial capacity and to manage the level of assessed risk associated with the financial instruments. The management system includes a defined delegation of authority to reasonably protect against risk of financial fraud in the Group. • An insurance programme is maintained to reduce the potential impact of the physical risks associated with exploration and production activities. In addition, business interruption cover is purchased for a proportion of the cash flow from producing fields. Cash balances are invested in short-term deposits with minimum A credit rating banks, AAA managed liquidity funds and A1/P1 commercial paper, subject to Board approved limits.	• Continued engagement with lenders. • Economics of investment decisions tested against downside project scenarios. • Discretionary spend actively managed. • Sales and contractor financing schemes for new growth projects. • Planned programme of corporate actions. • Enhancement of the design and operating effectiveness of the finance management systems.
• Effective management systems governing geoscience, reservoir engineering and production operations activities, including rigorous production forecasting and reporting, field and well performance monitoring, and independent reserves auditing. • Effective project execution management systems, including contracting strategy and cost controls together with capable project teams and functional oversight. • Long-term development planning to ensure timely access to FPSOs, rigs and other essential services. • Preference for operatorship. • Specialist decommissioning team in place coupled with continued focus on delivering asset value to defer abandonment liabilities.	• Active tracking and management of any production losses. • Continued engagement with UK Government on decommissioning. • Rationalised and refined local operating procedures.
• Due diligence and regular engagement with partners in joint ventures in both operated and non-operated operations and projects. • Pursue strategic acquisition opportunities, where appropriate to gain a greater degree of influence and control. • Defined management system for management of non-operated ventures. • Due diligence of supply chain providers, including diligence of financial solvency, anti-bribery and corruption controls, and controls to prevent facilitation of tax evasion. • Monitor contractual performance and delivery.	• Implementation of comprehensive contract performance management programme for major contracts.

Key to change in likelihood	Increase	No change	Decrease

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

PRINCIPAL RISK FACTOR	RISK DETAIL	CHANGE IN LIKELIHOOD
OPERATIONAL RISKS		
Organisational capability LINK TO STRATEGY 4	• The capability of the organisation may be inadequate for Premier to deliver its strategic objectives. The capability of the organisation is a function of both the strength of its personnel and the effectiveness of its business management system. • Premier may be unable to attract or retain personnel with the right skills and competencies or to deliver suitable succession plans for senior roles. • The business management system may be inadequate or may not be sufficiently complied with. • **Specific risks for 2018:** unable to attract, challenge or retain key staff due to lack of affordability to pursue all the growth opportunities within the portfolio; increasing competition for talent in a potentially resurgent market place.	No change
Exploration success and reserves addition LINK TO STRATEGY 2	• Premier may fail to identify and capture new acreage and resource opportunities to provide a portfolio of drillable exploration prospects and future development projects. • Specific exploration programmes may fail to add expected resource and hence value. • Lender controls may reduce ability to capture and execute exploration programme. • **Specific risks in 2018:** inability to access quality global opportunity set due to lender restrictions in a highly competitive market.	No change
CORPORATE RESPONSIBILITY RISKS		
Health, safety, environment and security LINK TO STRATEGY 1	• Significant asset integrity, process safety or wells incident on operated asset. • Significant incident arising from natural disaster, pandemic, social unrest or other external cause. • Consequences may include injury, loss of life, environmental damage and disruption to business activities.	No change
Host government: political and fiscal risks LINK TO STRATEGY 1 2	• Premier operates or maintains interests in some countries where political, economic and social transition is taking place or there are current sovereignty disputes. Developments in politics, security, laws and regulations can affect our operations and earnings. • Consequences may include expropriation of property; cancellation of contract rights; limits on production or cost recovery; import and export restrictions; price controls, tax increases and other retroactive tax claims; and increases in regulatory burden or changes in local laws and regulations. • Consequences may also include threats to the safe operation of Company facilities.	No change

HOW IS IT MANAGED?	KEY ACTIONS IN 2017/18
• Premier has created a competitive reward package including bonus and long-term incentive plans to incentivise loyalty and performance from the existing skilled workforce. • Continue to strengthen organisational capability to achieve strategic objectives. This includes resource and succession planning, competency and leadership development. • Continuous improvement of business management system and related controls appropriate to the size and market position of the Company.	• Development and implementation of staff engagement plans following the staff survey in 2017. • Revitalised communication and understanding of the reward programme introduced in 2016. • Increased focus on Diversity & Inclusion across the Group. • Continued phased rollout of the Talent Management programme, including continued senior level succession at local and Group levels.
• Focus on geologies we know well and in which we can build a competitive advantage. • Continuous improvement in exploration management system with strong functional oversight. • Manage exploration portfolio to maintain alignment with strategic growth and spend targets.	• Close out actions for managing exploration commitments and minimise spend or manage phasing relating to these commitments. • Rebuild exploration portfolio with high quality assets. • Progress discovered resource at Zama, Tolmount East and Tuna via appraisal into reserves. • Continued engagement with lenders.
Comprehensive HSES management systems including: • Asset integrity and process safety assurance with appropriate third-party verification and performance monitoring. • Routine HSES auditing. • Valid Safety Cases on all operated assets. • Management of change. • Crisis management and emergency response processes in place and regularly tested. • Business interruption insurance. • Learning from internal and third-party incidents.	• Continuous improvement of HSES management system and the auditing of principal controls. • Build awareness of identification and management of Major Hazards. • Enhanced process safety and asset integrity monitoring. • Senior management visits to operated facilities to demonstrate commitment to HSES values.
• Premier strives to be a good corporate citizen globally, and seeks to forge strong and positive relationships with governments, regulatory authorities and the communities where we do business. Premier engages in respectful industry-wide lobbying and sustainable corporate responsibility and community investment programmes. • Premier maintains a portfolio of interests which includes operations in both lower and higher risk environments. • Rigorous adherence to Premier's Business Ethics Policy and Global Code of Conduct. • Monitor and adhere to local laws and regulations. • Active monitoring of the political, economic and social situation in areas where we do business. • Business continuity plans tailored to pre-defined levels of alert.	• Close engagement with Falkland Islands and UK governments on key aspects of Sea Lion project.

Continued from page 23

Risk assessment
A matrix of risk impact versus likelihood is used to identify, assess and communicate risks at all levels in the Company. The matrix facilitates consideration of risk inter-dependency and amalgamation of similar specific risks across the organisation. Risks are categorised according to level and escalated up the organisation as appropriate.

Risk reduction
Risk reduction may include the acceptance or tolerance of the level of the risk as-is or the implementation of active risk reduction measures based on a Board approved risk appetite. A risk visualisation model is widely used to facilitate the identification of appropriate risk reduction measures. Particular attention is given to risks with potential health, safety, environmental and security consequences to ensure that controls or mitigations are identified to reduce the level of the risk to as low as reasonably practicable.

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

Internal controls

Business Management System
Internal controls within Premier are governed by the Business Management System ('BMS'). The BMS is comprised of the Group policies set by the Board, together with a nested set of management systems for each function and business unit involved in carrying out Premier's business. A management system may consist of policies, standards, procedures and processes as required to govern the activities undertaken by the function or business unit.

During 2017, Premier implemented a new controlled BMS platform across the Company. The platform provides a controlled environment in which to further improve the control of, and staff access to, the management systems in force across the Company.

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

During 2017, the Group Audit and Risk Function conducted a review of the effectiveness of its audits and reviews across the Company. The findings and recommendations from the review were endorsed by the Audit and Risk Committee and will provide a basis to drive the continued improvement in the coverage and execution of audits and reviews across the Company during 2018.

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

The BMS, the risk management framework and the programme of audits and reviews together form the ongoing process for identifying, evaluating and managing the principal business risks faced by the Company. This process has been in place for the year under review and up to the date of approval of the Annual Report and Financial Statements. It is regularly reviewed by the Audit and Risk Committee and provides the Board with reasonable assurance that appropriate controls are in place to provide effective management of business risks and to safeguard the Group's assets against inappropriate use or loss and fraud.

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

Assessment period

The Board conducted this review for a period of three years to 31 March 2021, 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, following first oil from the Catcher field in December 2017.
- Under the Group's revised borrowing facilities which were finalised during 2017, most of the Group's current borrowing facilities are available until May 2021, with the convertible bonds available until May 2022.

Review of financial forecasts

The Projections are based on:

- the Group's latest life of field production and expenditure forecasts on an asset by asset basis, together with a variety of portfolio management opportunities which are currently under active consideration;
- management's best estimate of future commodity prices (based on recent forward curves for 2018 and 2019, US$70/bbl for 2020 and US$75/bbl real for 2021, adjusted for the Group's hedging programme); and
- the revised financial covenant tests and profile required by the revised borrowing facilities. The Projections assess the Group's financial projected performance against these revised financial covenants, for which more details are provided in note 15 to the financial statements, on page 153.

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

Review of principal risks

The Group's principal risks and uncertainties, set out in detail on pages 24 to 27, have been considered over the period.

Under the Projections, the Group is expected to have sufficient liquidity over the three-year period and is forecasting to be able to operate within the requirements of the financial covenants in its borrowing facilities. Furthermore, no further refinancing of the Group's borrowing facilities are forecast.

As part of the refinancing completed in 2017, the Group amended its financial covenants. These progressively tighten over the next 12 months with the Net Debt/EBITDA and EBITDA/Interest covenants returning to 3.0x for the 12 months ended 31 March 2019, and testing periods thereafter. In downside scenarios, where oil and gas prices were to fall and remain significantly below those currently being realised, or production levels were to be significantly below current performance, then, in the absence of any mitigating actions, a breach of one or more of the financial covenants might arise once the financial covenants are tightened. Potential mitigating actions could include further non-core asset disposals, additional hedging activity or deferral of expenditure.

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

Conclusion

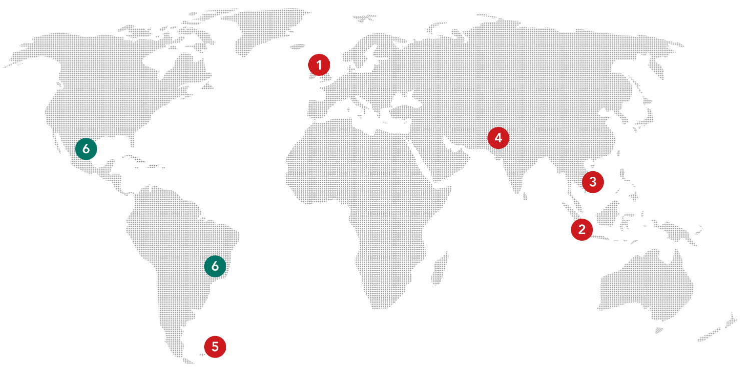
The Directors' assessment has been made with reference to the Group's current position and prospects, the Group's strategy and availability of funding, the Board's risk appetite and the Group's principal risks and how these are managed, as detailed in the Strategic Report. The Directors have also considered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

SNAPSHOT

Strong performance across the portfolio

Premier has seven offices world wide with 783 employees and is organised into five business units – UK, Indonesia, Vietnam, Pakistan and the 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.

Premier's operations

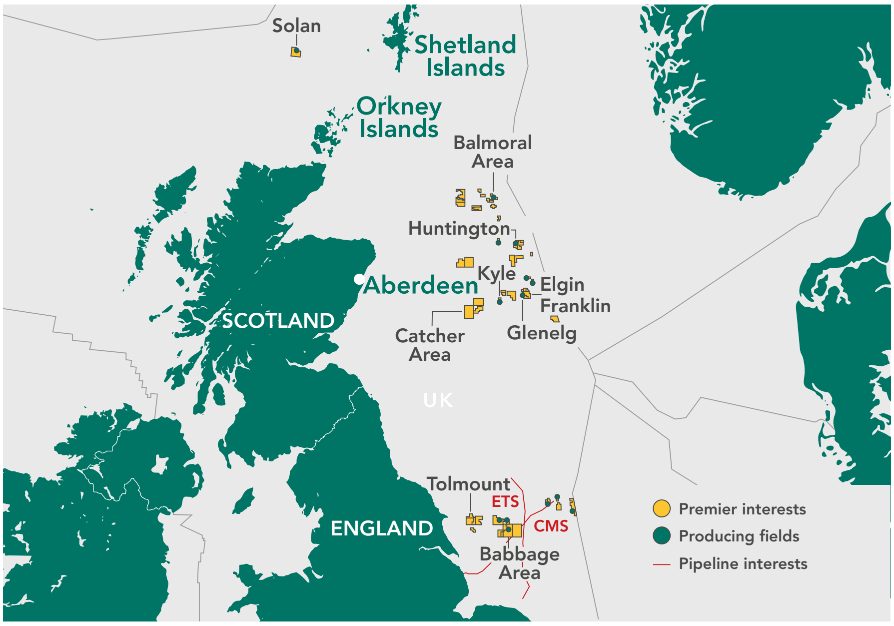


1. United Kingdom (p. 31) 2. Indonesia (p. 33)
3. Vietnam (p. 35) 4. Pakistan and Mauritania (p. 36)
5. The Falkland Islands (p. 36)

6. Exploration (p. 37)

United Kingdom

1



The UK delivered 20 per cent higher production in 2017, with a full year's contribution from the E.ON assets acquired during 2016 and high operating efficiency across the portfolio. First oil from the Catcher Area, which was delivered on 23 December on schedule, and with total forecast project costs some 30 per cent below the sanctioned budget, will deliver a further increase to UK production in 2018. Looking forward, we expect to sanction the Tolmount gas project during 2018, providing the next phase of growth for the UK business, which is expected to average around 50 kboepd (net) over the next five years.

Production

Production from Premier's UK fields averaged 39.5 kboepd (net) (2016: 33.0 kboepd (net)), up 20 per cent on 2016. Following delivery of first oil from Catcher at the end of the year, there will be further production growth in 2018, despite the impact of the Wytch Farm disposal in December. Production from the Catcher Area is currently ramping up and is expected to reach plateau rates during April.

The Premier-operated Huntington field (100 per cent interest) was the highest producer in the UK portfolio in 2017 with production averaging 13.0 kboepd (2016: 10.8 kboepd), 28 per cent higher than budget. This strong performance was achieved by improved reservoir management and high FPSO operating efficiency. The lease agreement with Teekay, the owner of the Voyageur Spirit FPSO, has been extended beyond April 2018 for a minimum of a year, with a revised lower lease cost structure. The combination of better than expected reservoir performance and a lower FPSO lease rate, has led Premier to increase its estimate of Huntington's remaining net 2P reserves by 4 mmboe.

Production from the non-operated Elgin-Franklin field (5.2 per cent interest) was marginally below budget, averaging 5.4 kboepd (net). Strong underlying field performance as a result of an ongoing infill drilling campaign was offset by an extended summer maintenance shutdown required to replace a large platform riser shutdown valve, and by downtime of the Forties Pipeline System ('FPS') export pipeline during the fourth quarter of 2017. 2018 production to the end of February has averaged 7.7 kboepd (net), above expectations, due to contributions from infill drilling and high operating efficiency. The non-operated Glenelg field (18.75 per cent interest), a satellite field within the Elgin-Franklin area, produced intermittently during 2017 due to downhole scaling in the single well. This is likely to require an intervention in 2018/19 to rectify fully.

A successful well intervention programme and continued production optimisation of the existing well stock led to the Premier-operated Babbage field (47 per cent interest) delivering 3.1 kboepd (net), ahead of budget. In addition, field operating costs were reduced by more than 20 per cent as a result of the platform being transitioned to a Not Permanently Attended Installation ('NPAI') in April. Premier will continue to undertake production optimisation activities at the field, which are expected to add incremental production for low additional expenditure in coming years. As a result of the improved production performance and lower operating costs, Premier now anticipates a longer than expected field life beyond 2030, and has revised upwards its estimates of Babbage's remaining net 2P reserves.

In the Southern North Sea, similar well optimisation efforts, including reinstatement of inactive wells and interventions in existing well stock, have seen production restart at the Rita gas field (74 per cent interest) after being shut in for almost two years. There have also been successful well reinstatements at the Johnston gas field (50.1 per cent interest). These low cost activities typically deliver short-term cash payback in less than 12 months.

Production from the Premier-operated Solan field (100 per cent interest) averaged 5.9 kboepd, lower than originally expected, as a result of the first production well ('P1') being shut in for a period in February following the failure of the existing electric submersible pump ('ESP'). P1 is currently producing as expected on free flow and as a result, the Company has no immediate requirement for workover operations. Production rates from the second producer ('P2') remain limited due to poor reservoir performance in the eastern part of the field. During the year, further topside enhancements were completed with the successful installation and commissioning of a water injection upgrade and produced water handling projects. Options to improve production levels and recovery at Solan continue to be evaluated, including a possible further drilling campaign starting in 2019 or 2020. Premier has reduced its estimates of Solan's remaining net 2P reserves, reflecting lower expected recovery from the asset over its economic life. This reduction does not take account of any potential upside from the deeper Triassic play on the Solan licence or the impact of any potential third-party volumes across the Solan infrastructure, which are currently being assessed.

Production from the Premier-operated Balmoral Area performed as expected delivering 2.2 kboepd (net) (2016: 2.1 kboepd (net)). Previous plans for cessation of production at Balmoral by April 2019 have been re-evaluated, driven by the asset's performance and improving market oil prices. Planning for the decommissioning of the area is well advanced, including the disposal and sale of the Balmoral Floating Production Vessel ('FPV'). Some decommissioning work has started, and during the fourth quarter, the Helix Well Op's Seawell intervention vessel entered four old suspended Balmoral water injection wells to gather information on well status and to prepare the wells for later abandonment. Premier is now considering moving cessation of production out to 2021, subject to partner and Government approvals. In order to do this, some modest further investment on wells, subsea and topsides may be required to maintain performance and asset integrity, whilst a lower but appropriate level of decommissioning planning works would also continue.

Production from the non-operated Wytch Farm field (33.8 per cent interest) averaged 4.4 kboepd (net) (2016: 5.1 kboepd (net)), reflecting natural reservoir decline and a reduced contribution following disposal of the asset in December.

UK unit operating costs for the year were US$23/boe (2016: US$24/boe) as a result of favourable asset uptime, continued cost control measures and a full year's contribution from the E.ON assets. In 2018, Premier expects a further reduction in the UK operating costs per barrel, with increased production from the start-up of the Catcher Area and the lower leased FPSO rates at Huntington, offsetting natural decline at certain fields.

Development

Catcher

First oil was successfully delivered on schedule on the Premier-operated Catcher project on 23 December. The Catcher Area (50 per cent interest) comprises three fields – Catcher, Varadero and Burgman – with production initially started from the Catcher field. Total forecast capex remains at US$1.6 billion, 30 per cent lower than the sanctioned estimate.

Following successful final construction and pre-commissioning activity during the period, the Catcher FPSO departed the Keppel shipyard in Singapore on 10 August and completed its journey to the UK via the Suez Canal, without incident and ahead of schedule. The vessel then completed a planned stop at Nigg Port, Scotland for preparatory work ahead of arrival at the Catcher field location on 18 October. By 20 October, it was successfully connected infield to the pre-installed buoy and had completed the initial rotation test. The installation, hook-up and commissioning ('IHUC') work has proceeded to plan. All production and injection risers were permanently hung-off, shutdown valving installed and subsea control umbilicals attached. The remaining offshore construction period of work was complete by the end of November, when the focus switched to final commissioning of subsea systems and the interfaces with the vessel. A trial for oil tanker offloading completed successfully in the third week of November, ahead of first oil in December.

The initial production wells from the Catcher field were cleaned up and tested at rates in excess of 20 kbopd (gross) each, in line with expectations and reflecting initial high productivity. As planned, production is being ramped up in phases with first oil from Varadero brought on in early January, to be followed by Burgman shortly. Production levels have had to be deliberately constrained during the ramp up phase while commissioning of the full gas processing modules and the water injection systems on the FPSO are carried out. Water injection was brought on in mid-February and the final gas compression commissioning is underway. Following this, full production from the Catcher Area of 60 kbopd (gross) is expected during April. The first two export cargos, of over 500,000 barrels each, were lifted on 23 January and 18 February and both were sold at a premium to Brent.

Drilling activities using the Ensco 100 rig have continued with operations ahead of schedule and under budget. Fourteen production and injection wells have been drilled and completed with consistently positive reservoir results, with 12 of these wells being tied-in ahead of first oil. The rig is currently drilling the CCP6 well on the second Catcher template and will drill a further Catcher well before moving to the Burgman field. A total of 18 wells will be drilled by September 2018 before a planned drilling break. As a result of initial production from the field and these positive well results to date, Premier is encouraged about the potential overall recovery from the Catcher Area, and continues to target peak plateau production of approximately 60 kbopd (gross), 20 per cent higher than that envisaged at sanction.

Premier and its joint venture partners are already examining future Catcher Area development opportunities to make full use of the newly commissioned facilities. Studies are underway for the future development of the 2016 Laverda discovery in conjunction with an infill well in the northern area of the Catcher field. These future activities, amongst others, are planned to provide incremental production from 2020 onwards.

Pre-development

Good progress has been achieved on the Premier-operated Tolmount project (50 per cent interest) in the Southern Gas Basin. It is envisaged that the initial phase, which will target the Tolmount Main structure, will recover 540 Bcf (gross) of gas from four producing wells at a production capacity of up to 300 mmscfd (gross).

In February 2017, the development concept, comprising a standalone normally unmanned installation ('NUI') and a new gas export pipeline to shore, was selected. A commercial Heads of Terms was also signed with a terminal operator to process the Tolmount fluids and to undertake terminal modification works on behalf of the Tolmount project.

FEED work is progressing well, with platform and pipeline FEED completed and tenders received for the project scopes under evaluation. Bids are also being evaluated from drilling rig providers to cover the development drilling programme, and the earlier drilling of the Tolmount East appraisal well in 2019.

Alongside the FEED process, Premier signed a Heads of Terms to enter into an infrastructure partnership for the Tolmount development with Dana Petroleum and CATS Management Limited, whereby they will jointly finance, construct and own the Tolmount platform and export pipeline as a standalone development, as well as undertaking the onshore modifications at the onshore gas receiving terminal. The Tolmount field will be tied-in to the platform, and a tariff will be paid to the infrastructure owners by the upstream partners for the transportation of gas production through the infrastructure over the life of the field. As a result, Premier's share of capex is estimated to be approximately US$100 million. Fully termed agreements are being progressed ahead of project sanction which is scheduled during 2018.

Exploration

During 2017, well operations on the Ravenspurn North Deep well (five per cent carried interest), which was testing the deep Carboniferous play underlying the Ravenspurn North field in the Southern Gas Basin, were completed. The well was plugged and abandoned.

Premier continues to actively manage its UK exploration portfolio. In September, Premier exited the P2184 Licence which carried a commitment well obligation on the Ekland prospect and a further four licences were relinquished by the end of the year. This includes the P2136 Artemis Licence, where a well commitment was offset against other activity in the UKCS.

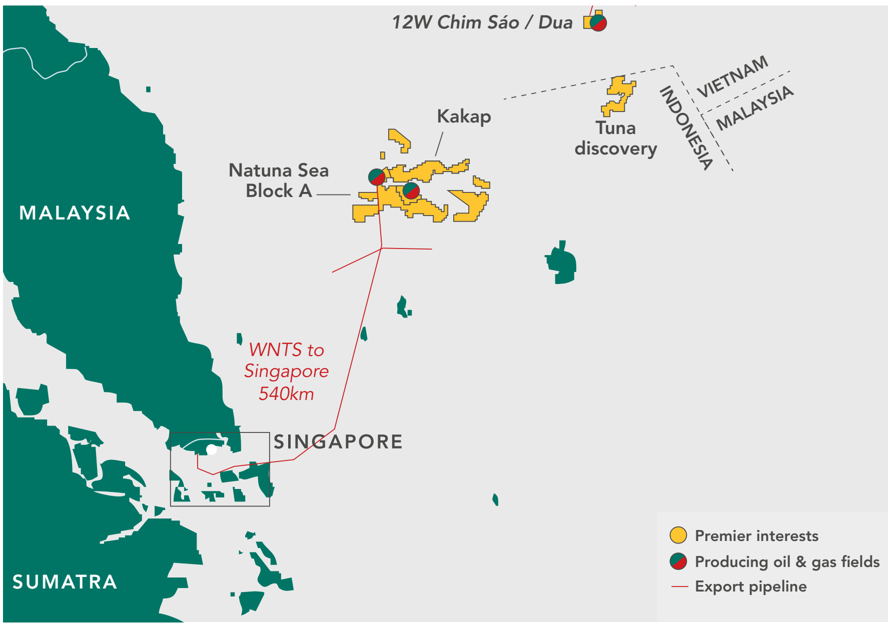
Portfolio management

During the first half of the year, Premier exercised its pre-emption rights to acquire an additional 3.71 per cent of the Wytch Farm field for approximately US$15 million, taking Premier's overall interest in the field to 33.8 per cent. Subsequently, Premier agreed to dispose of its entire 33.8 per cent interest in the Wytch Farm field to Perenco UK Limited for a cash consideration of US$200 million, realising an attractive valuation in excess of that implied from the previous transaction and above Premier's internal valuation. Premier was also able to release Letters of Credit, amounting to approximately US$75 million, held in respect of future field abandonment liabilities. The sale completed in December, generating a pre-tax profit on disposal of approximately US$133 million.

Premier continued its programme of non-core asset disposals in 2017 principally from the E.ON portfolio acquired in 2016. It disposed of its interests in the Austen and Arran fields in the Central North Sea during the year, and in December announced the disposal of its 30 per cent interest in the Esmond Transportation System ('ETS') pipeline for up to US$31.6 million. These disposals, together with the relinquishment of other licences, has meant that Premier has actively managed its current UK licence position down from 63 blocks in 2016 to 39 blocks today, and this rationalisation activity is expected to continue in 2018.

Indonesia

2



The Premier-operated Natuna Sea Block A fields delivered a robust and stable performance in 2017 with production of 12.9 kboepd (net), underpinned by supplying an increased market share of 49.6 per cent within GSA1, and strong Singapore demand for gas deliveries under GSA2. This, together with continued low operating costs of US$9.6/boe, once again led to the Indonesian Business Unit generating material positive net cash flows for the Group.

Production and development

Production from Indonesia in 2017, on a working interest basis, was in line with budget at 14.1 kboepd (net) (2016: 14.3 kboepd (net)). The Premier-operated Natuna Sea Block A fields (28.67 per cent interest) delivered 12.9 kboepd (net), while production from the non-operated Kakap field (18.75 per cent interest) averaged 1.2 kboepd (net). Operating efficiency remained high at over 99 per cent.

Premier sold an average of 234 BBtud (gross) (2016: 237 BBtud) from its operated Natuna Sea Block A fields during 2017. Singapore demand for gas sold under GSA1 remained robust, averaging 286 BBtud (2016: 297 BBtud). Premier's Anoa and Pelikan fields delivered 143 BBtud (gross) (2016: 132 BBtud (gross)), capturing 49.6 per cent (2016: 44.4 per cent) of GSA1 deliveries, above Natuna Sea Block A's contractual share of 47.2 per cent. Natuna Sea Block A's contractual share for 2018 has been increased to 51.7 per cent.

	Gas supply by contract					
	GSA1		GSA2		GSA5	
BBtud (gross)	**2017**	2016	**2017**	2016	**2017**	2016
Anoa (Pelikan field)	**143**	132	**–**	–	**–**	–
Gajah Baru (Naga field)	**–**	–	**91**	94	**–**	11
Total Block A	**143**	132	**91**	94	**–**	11
Kakap	**17**	17	**–**	–	**–**	–
Total	**160**	149	**91**	94	**–**	11

Gajah Baru and Naga delivered production of 91 BBtud (gross) (2016: 94 BBtud (gross)) under GSA2, representing 100 per cent nomination delivery by Premier. There were no deliveries under GSA5 (2016: 11 BBtud (gross)) following the expiry of the Domestic Gas Supply Agreement.

Gas sales from the non-operated Kakap field averaged 17 BBtud (gross) (2016: 17 BBtud (gross)) while gross liquids production was 2.6 kbopd (2016: 2.7 kbopd). Gross liquids production from the Anoa field was 1.1 kbopd (2016: 1.4 kbopd), underpinned by successful well intervention work.

Premier continues to benefit from a low cost base in Indonesia, delivering further cost reductions in 2017. Based on current production levels, Natuna Sea Block A remains well placed to deliver operating costs of around US$9/boe into the medium-term.

The Anoa development well ('WL-5X'), which made the Lama discovery under Anoa in 2012, was recompleted in August 2017. The well was brought on-stream to carry out a long-term production test which will help to define the potential of these deeper zones within the Anoa field.

The development of the BIGP gas fields was sanctioned in 2017 which marks the next generation of Natuna Sea Block A projects to support Premier's long-term gas contracts into Singapore. The EPCI contract for BIGP, which will be developed as subsea tiebacks to existing infrastructure, was executed in October 2017 and development drilling is planned for early 2019. First gas remains on budget and on schedule for the second half of 2019.

In January, Premier was granted a three-year extension to the exploration period of the Premier-operated Tuna PSC licence where the evaluation of potential development scenarios for the 2014 Kuda Laut and Singa Laut discoveries, now collectively known as the Tuna field (65 per cent interest), is ongoing. In November, a Memorandum of Understanding between PetroVietnam, SKK Migas (on behalf of the Indonesian Government) and Premier for future gas sales from the Tuna field in Indonesia into Vietnam was signed, enhancing future commercialisation. In 2018, a farm-out process has been launched with a view to funding Premier's share of an appraisal campaign in 2019.

Exploration and appraisal

As a result of the production performance, the WL-5X well brought on-stream in August, Premier is reprocessing 3D seismic over the Anoa field to enhance the seismic imaging across the Lama Play area. Premier will use this reprocessed data to identify and mature Lama Play leads and prospects on its Natuna Sea Block A acreage.

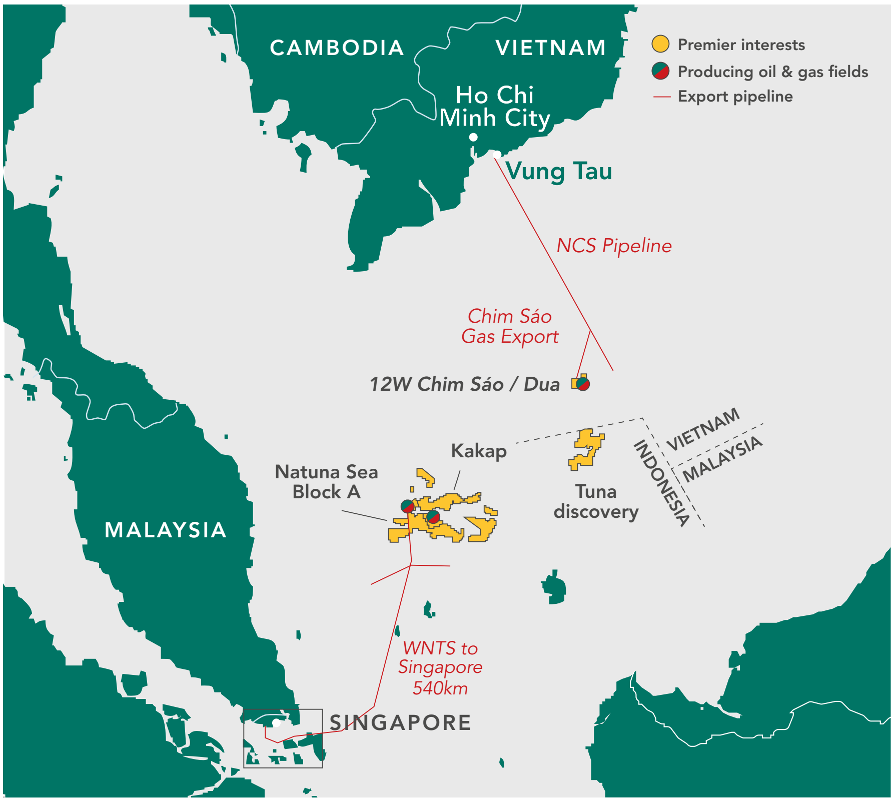
Since the year-end, Premier together with its joint venture partners has been awarded the Andaman II licence (40 per cent, operated interest) in the North Sumatra Basin offshore Aceh, Indonesia. The licence has the potential to deliver significant gas volumes into North Sumatra and adds a potentially material gas play to Premier's Indonesian portfolio.

Portfolio management

In December, Premier signed a sale and purchase agreement with Batavia Oil to sell its entire 18.75 per cent non-operated interest in the Kakap field for a cash consideration of US$3.2 million. Completion is subject to approval from the Government of Indonesia.

Vietnam

3



The Vietnam business generated strong operating cash flows in 2017 due to a higher than budgeted production performance combined with continued low operating costs. During the period, gross cumulative production surpassed 50 million barrels, in excess of the original volumes estimated at project sanction.

Production

Production from the Premier-operated Block 12W (53.13 per cent interest), which contains the Chim Sáo and Dua fields, was ahead of budget, averaging 14.9 kboepd (net) (2016: 16.2 kboped (net)) underpinned by high operating efficiency, excellent reservoir performance and a successful well intervention programme, which helped to mitigate natural decline from the fields.

A two well infill drilling programme completed in December 2017, proved highly successful, adding incremental net production of 3.3 kboepd and further extending the long-term potential from the field. The infill drilling programme comprised two low cost wells. The first well was a side-track of a water injector well no longer required which was recompleted as a production well, while the second well was drilled from the final unused slot on the Chim Sáo wellhead platform. Using lessons learnt from previous drilling campaigns, reservoir performance has been improved and production increased, with some further zones remaining unperforated. This will allow Premier to target bringing further incremental production on-stream in 2018.

Overlying the two main reservoirs in the Chim Sáo field are several smaller but significant hydrocarbon bearing sandstones which are intersected by the production wells. In 2017, as the rate of hydrocarbon flow from the main reservoirs reduced, the shallower reservoirs of selected wells were perforated to access new zones. In addition, producing zones in several wells were worked over to accelerate hydrocarbon production. This intervention programme on existing wells, reduced the rate of natural production decline and contributed 1.0 kboepd (net) to Premier's 2017 production at a cost of only US$4/barrel.

Chim Sáo's operating efficiency remained at over 90 per cent in 2017. This was the result of safe and reliable operations and maintenance services, minimal unplanned events, and planned shutdown and slowdown campaigns being completed on schedule.

During 2017, Chim Sáo operating costs remained low at US$9.8/boe (2016: US$8.7/boe). Low costs were maintained by replacing the supply vessel contract at depressed market rates, improved vessel management, and the impact of the lower Chim Sáo FPSO lease rate agreed at the end of 2016. These savings, along with Chim Sáo crude continuing to sell at premiums to the Brent oil price, contributed to a positive net operating cash flow from the Vietnam Business Unit in 2017, despite the cost of the infill programme.

Pakistan and Mauritania

4

Premier's Pakistan business continued to generate positive and stable net cash flows for the Group. During 2017, the average realised gas price was US$3.0/mscf while operating costs remained low at US$4.2/boe (US$0.6/mscf).

Pakistan

Production and development

Net production in Pakistan averaged 6.2 kboepd (39.1 mmscfd) (2016: 7.5 kboepd (47.4 mmscfd)) from Premier's six non-operated producing gas fields. The fall in production reflects natural decline in the main gas fields, which was partially offset by successful well intervention campaigns at the Bhit and Badhra fields.

Mmscfd	Production 2017	2016	Equity interest %
Bhit	**7.0**	8.4	6.0
Badhra	**4.6**	5.7	6.0
Qadirpur	**14.9**	16.1	4.75
Kadanwari	**4.1**	5.5	15.79
Zamzama	**7.9**	11.3	9.38
Zarghun South	**0.6**	0.4	3.75
Total	**39.1**	47.4	

Portfolio management

In April, Premier announced the sale of its Pakistan business to Al-Haj Group for US$65.6 million. To date, Al-Haj has paid deposits of US$25.0 million. Completion of the sale is awaiting final approvals from the Pakistani authorities and in the meantime Premier continues to collect the cash flows generated from the Pakistan assets.

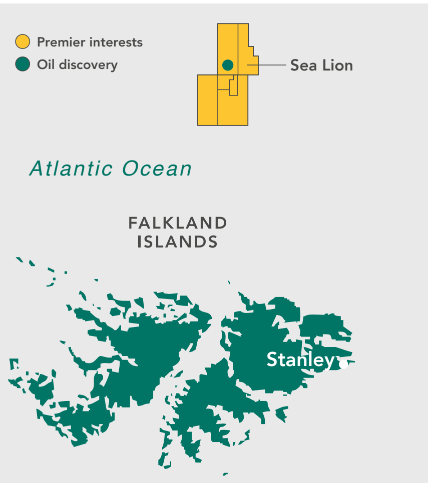
Mauritania

Production and development

Production from the Chinguetti field (8.12 per cent interest) averaged 257 bopd (2016: 368 bopd) net to Premier during 2017. The fall in production was driven by natural decline from the existing wells. As a result of these low production volumes and resulting marginal cash flows, the joint venture partners ceased production from the field on 30 December 2017 and the FPSO is being prepared for sail away. A drill ship has now been mobilised to the Chinguetti field to start a six-month campaign for temporary suspension of wells starting with the water injection wells. The permanent abandonment of the wells is scheduled for 2019. The field abandonment and decommissioning plan is awaiting approval by the Government of Mauritania. In addition, plans are being prepared for the abandonment of the suspended exploration and appraisal wells on the previously relinquished Banda and Tiof discoveries.

The Falkland Islands

5



The focus in 2017 for the Premier-operated Sea Lion Phase 1 project has been on progressing commercial and regulatory work streams and on securing commitments from key contractors for the project.

Pre-development

The Sea Lion project and the wider North Falklands Basin, has the potential to be significant for Premier and the strategy is to develop the discovered resources in several phases. Sea Lion Phase 1 (60 per cent interest), which is targeting gross reserves of over 220 mmbbls in PL032, will utilise a conventional FPSO based scheme, very similar to Premier's successful Catcher development. Engineering design work which was largely completed in 2016, focused on optimising the facilities design and installation methodology required, reducing the estimated gross capex to first oil to US$1.5 billion.

During 2017, Premier focused on securing agreement with key supply chain contractors for the project. Good progress was made in this respect with Letters of Intent signed with a number of contractors for the provision of a range of services and vendor financing. Further discussions with senior debt providers, including commercial banks and export credit finance agencies, will progress in 2018.

Alongside this, Premier continued to engage with the Falkland Islands Government ('FIG') on environmental, fiscal and other regulatory matters with a view to obtaining the consents and agreements necessary to be in a position to reach a final investment by the end of 2018. As part of this process, the latest drafts of the Field Development Plan and Environmental Impact Statement ('EIS') for Sea Lion Phase 1, were submitted to FIG and the formal public consultation of the EIS commenced in January 2018.

It is estimated that a subsequent Phase 2 development will recover over 300 mmbbls (gross) from the remaining volumes in PL032 and the satellite accumulations in the north of the adjacent PL004. During 2017, further technical analysis carried out on Phase 2, including the 2015 Zebedee discovery in PL004, has resulted in an increase in net 2C resources at the year-end.

Exploration

6

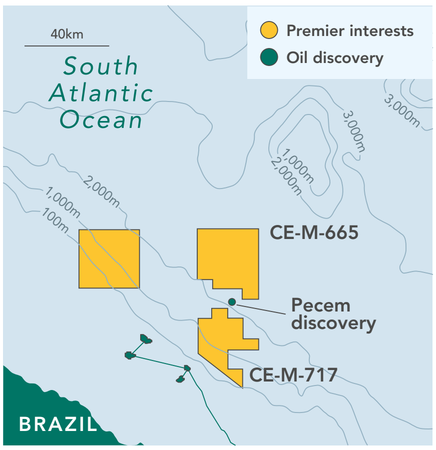
In recent years, Premier's strategy has been to focus its exploration portfolio on under-explored but proven hydrocarbon basins rather than traditional but now mature areas, with priority given to lower cost operating environments. This strategy resulted in a major success with the world class oil discovery at the Zama-1 well offshore Mexico during 2017, capitalising on Premier's first mover advantage as the country opened up to foreign investment.

Mexico

During 2017, Premier, together with its joint venture partners Talos Energy (Operator) and Sierra Oil & Gas, drilled the Zama prospect in Block 7 in the Sureste Basin, offshore Mexico which resulted in a significant oil discovery. The Zama-1 well encountered a continuous oil bearing interval of over 335 metres (1,100 feet), and up to 200 metres of net oil bearing reservoir in upper Miocene sandstones with no water contact. Initial tests of hydrocarbon samples recovered to the surface showed light oil with API gravities between 28 and 30 degrees. Premier's initial gross oil-in-place estimates are 1.2-1.8 billion barrels, with an estimated recoverable P90-P10 gross resource range of 400-800 mmbbls. These estimates include those volumes that extend into the neighbouring block which is operated by PEMEX. The joint venture is now working with PEMEX to secure a pre-unitisation agreement in order to progress the appraisal programme, which is expected to commence on Premier's block in the second half of 2018 or in early 2019. Our joint venture is close to securing an option on a rig to complete the appraisal programme on Block 7 and PEMEX has indicated that they intend to appraise the Zama discovery on their licence with a well scheduled to spud in the second quarter of 2018. In addition to appraisal well planning, pre-FEED scoping studies have been received from seven vendors aiding appraisal planning and identifying additional data to be acquired in the up and coming drilling programme. Premier holds a 25 per cent paying interest in Block 7.

Premier also currently holds a carried 10 per cent interest in Block 2, with an option to increase to 25 per cent or to exit. The joint venture is evaluating which prospect will be the first to be drilled, targeting a well in 2019. Premier continues to evaluate opportunities for growth in Mexico, from future licensing rounds.

Brazil



Premier received 4,000 km^2 of final processed broadband seismic data across all three of its Ceará Basin blocks in April 2017. The data has now been interpreted, the best prospects selected and the wells are being planned in advance of a potential drilling campaign in 2019 or 2020. Significant progress has been made on obtaining environmental and drilling permits, as 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 October, the ANP, the Brazilian Government regulator, published an option to all Round 11 awards that entitles Premier to request extension of its licences by a further two years to at least July 2021.

SNAPSHOT

A solid foundation to deliver on our strategy

1. Completion of the refinancing

- Comprehensive refinancing of all of Premier's facilities completed in July 2017.
- The refinancing provides a solid foundation for Premier to deliver its strategic plans by preserving the Group's debt facilities including liquidity and resetting financial covenant headroom.
- Maturities for all facilities extended to May 2021 and beyond.

2. Deleveraging the balance sheet

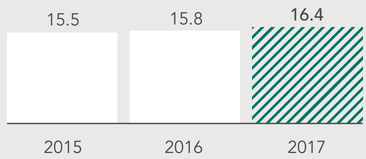
- Net debt reduction in 2017 of US$41 million, resulting in closing net debt of US$2,724 million.
- Successful completion of early exchange of US$205.8 million of the convertible bonds in January 2018, and ramp up of Catcher production will accelerate net debt reduction in 2018, at current oil prices.

3. Selective investment in future growth opportunities

- Strengthening balance sheet allows for ongoing investment in future growth opportunities at an appropriate level of equity interest to Premier's financial circumstances.
- Significant progress on next generation of growth projects made during 2018 (BIGP, Tolmount, Sea Lion and Tuna).

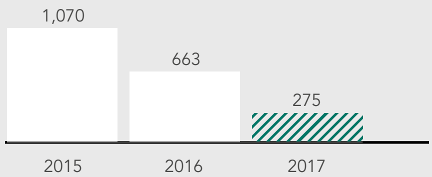
Operating cost per barrel (US$/bbl)

16.4



Capex (US$m)

275



Overview

2017 saw continuing oil price volatility. Brent crude opened the year at US$56.6/bbl before falling to US$44.8/bbl in June and then strengthening considerably in the second half of the year to close at US$66.9/bbl at 31 December 2017. The average for 2017 was US$54.2/bbl against US$43.7/bbl for 2016. Subsequent to the year-end, prices improved during January reaching a high of US$71.3/bbl, before falling to US$64.2/bbl on 7 March 2018, below the year-end observed price.

Against this economic backdrop we have achieved our best ever full year of production, averaging 75.0 kboepd (2016: 71.4 kboepd), resulting in total revenue from all operations of US$1,102 million compared with US$983.4 million in 2016, and Free Cash Flow after disposals of US$71 million (2016: US$580 million cash outflow). In addition, we successfully completed the refinancing of all of our debt facilities in July 2017 and reached first oil on the Catcher field in the UK North Sea in December 2017.

“Against a backdrop of an improving oil price and higher production, Premier delivered positive cash flow after disposals, enabling debt reduction, which we expect to accelerate in 2018.”

Richard Rose
Finance Director

Business performance

EBITDAX for the year from continuing operations was US$589.7 million compared to US$494.1 million for 2016. The increase in EBITDAX is mainly due to higher production and sales volumes realised during the year.

Business performance (continuing operations) (US$ million)	2017	2016
Operating profit/(loss)	**33.8**	(170.1)
Add: Amortisation and depreciation	**415.6**	326.4
Add: Impairment charge on oil and gas properties	**252.2**	561.9
Add: Exploration expense and pre-licence costs	**17.1**	58.5
Less: Gain on disposal of assets	**(129.0)**	–
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[1]	**589.7**	494.1

1 Prior year has been restated for results from the Pakistan Business Unit, which has been reclassified as a discontinued operation in the year.

Income statement

Production and commodity prices

Group production on a working interest basis averaged 75.0 kboepd compared to 71.4 kboepd in 2016. This was driven by high operating efficiency, better than predicted reservoir performance on certain fields and a full period contribution from the E.ON portfolio acquired in April 2016. Average entitlement production for the period was 69.2 kboepd (2016: 66.1 kboepd).

Premier realised an average oil price for the year of US$52.9/bbl (2016: US$44.1/bbl). Including the effect of oil swaps which settled during 2017, the realised oil price was US$52.1/bbl (2016: US$52.2/bbl).

In the UK, average natural gas prices achieved were 47.2 pence/therm (2016: 47.6 pence/therm), which included 95.8 million therms which were sold under fixed price master sales agreements. Gas prices in Singapore, linked to high sulphur fuel oil (‘HSFO’) pricing and in turn, therefore, linked to crude oil pricing, averaged US$8.4/mscf (2016: US$7.8/mscf).

Total revenue from all operations (including Pakistan) increased to US$1,102 million (2016: US$983.4 million). From continuing operations (excluding Pakistan), sales revenue increased to US$1,043.1 million from US$937.0 million for the prior year.

Cost of operations

Cost of operations comprises operating costs, changes in lifting positions, inventory movements and royalties. Cost of operations for the Group from continuing operations was US$455.4 million for 2017, compared to US$412.7 million for 2016.

Operating costs (US$ million)	2017	2016
Continuing operations	**438.4**	402.7
Discontinuing operations (Pakistan)	**9.6**	10.1
Operating costs	**448.0**	412.8
Operating costs per barrel	**16.4**	15.8

Amortisation and depreciation of oil and gas properties (US$ million)	2017	2016
Continuing operations	**409.0**	318.3
Discontinuing operations (Pakistan)	**7.2**	13.9
Total (US$ million)	**416.2**	332.2
Depreciation, depletion and amortisation (‘DD&A’) per barrel	**15.2**	12.7

The increase in absolute operating costs reflects a full-year contribution from the former E.ON assets and the Solan field. Ongoing cost reduction initiatives, successful contract renegotiations and strict management of discretionary spend continue to deliver low and stable operating costs. On a per barrel basis, operating costs increased by 4 per cent due to portfolio mix effects in the production base.

The DD&A charge has increased to US$15.2 per barrel, reflecting the accelerated DD&A charge attributable to Solan in the UK.

Impairment of oil and gas properties
A non-cash net impairment charge of US$252.2 million (pre-tax) (US$170.9 million post-tax) has been recognised in the income statement. This relates principally to the Solan field in the UK North Sea as a result of a reduction in the 2P reserves expected to be recovered from the asset over its economic life, partially offset by the recognition of a reversal of impairment for the Huntington asset in the UK. The reversal of impairment is principally caused by a 12-month extension in the life of the asset and a reduction in the lease rate payable for the FPSO. After recognition of the net impairment charge there is US$2,381.0 million capitalised in relation to PP&E assets and US$240.8 million for goodwill.

Exploration expenditure and pre-licence costs
Exploration expense and pre-licence expenditure costs amounted to US$17.1 million (2016: US$58.5 million). After recognition of these expenditures, the exploration and evaluation assets remaining on the balance sheet at 31 December 2017 amount to US$1,061.9 million, principally for the Sea Lion and Tolmount assets, as well as our share of drilling costs for the Zama prospect in Mexico.

General and administrative expenses
Net G&A costs of US$16.8 million (2016: US$24.1 million) reduced year-on-year. 2016 included E.ON's unallocated G&A costs which fell significantly post integration of the E.ON operations into the Group's UK Business Unit. Underlying gross G&A has fallen in 2017 and is broadly in line with 2015 levels.

Finance gains and charges
Finance costs, other finance expenses and losses of US$329.0 million, have increased compared to the prior year (US$258.8 million), principally due to a step up in the interest margin on our financing facilities following the completion of the refinancing.

Taxation
The Group's total tax credit for 2017 is US$96.1 million (2016: US$522.6 million restated for the exclusion of the Pakistan Business Unit) which comprises a current tax charge for the period of US$74.8 million and a non-cash deferred tax credit for the period of US$170.9 million.

The total tax charge represents an effective tax rate of 26.2 per cent (2016: 126.3 per cent). The low effective tax rate for the year is primarily impacted by two UK-specific deferred tax items. The first is the impact of ring fence expenditure supplement claims in the UK during the year (US$69.1 million credit) and the second is the element of the UK impairment charge for the year that does not attract a deferred tax offset (US$19.6 million charge). After adjusting for the net impact of the above items of US$49.5 million, the underlying Group tax charge for the period is a credit of US$145.6 million and an effective tax rate of 40 per cent.

The Group has a net deferred tax asset of US$1,297.5 million at 31 December 2017 (2016: US$1,111.4 million). The increase in deferred tax asset primarily arises due to new UK tax losses and allowances generated in the year. The Group continues to recognise its deferred tax assets in respect of UK tax losses and allowances in full.

Loss after tax
Loss after tax is US$253.8 million (2016: profit of US$122.6 million) resulting in a basic loss per share of 49.4 cents from continuing and discontinued operations (2016: earning of 24.0 cents). The loss after tax in the year is driven by the non-cash impairment charges recognised and the one-time fees expensed in relation to the Group's refinancing, partially offset by the gain on disposal of the Wytch Farm interests.

Cash flows
Cash flow from operating activities was US$496.0 million (2016: US$431.4 million) after accounting for tax payments of US$69.6 million (2016: US$60.9 million). The increase in operating cash flows was largely driven by higher production and sales volumes.

Capital expenditure in 2017 totalled US$275.6 million (2016: US$662.6 million).

Capital expenditure (US$ million)	2017	2016
Fields/development projects	**236.8**	533.1
Exploration and evaluation	**37.6**	126.6
Other	**1.2**	2.9
Total	**275.6**	662.6

The principal development project was the Catcher field in the UK and the majority of exploration spend was related to the drilling programme on the Zama prospect in Mexico. In addition, cash expenditure for decommissioning activity in the period was US$25.7 million. Further to this, US$16.7 million of cash was placed into long-term abandonment escrow accounts for future decommissioning activities.

In 2018, development and exploration spend is expected to be around US$300 million, of which US$170 million relates to the Catcher development (including a one-off contractual first oil payment made to the FPSO provider BW Offshore) and US$45 million to exploration. Capex will be weighted to the first half of 2018 as spending on the Catcher project completes with the drilling programme on the asset due to finish by the end of the third quarter. Abandonment spend is expected to be approximately US$80 million in 2018, before taking into account the benefits of cost recovery and tax relief.

Discontinued operations, disposals and assets held for sale

During the year, Premier signed a share purchase agreement with Al-Haj Energy Limited ('Al-Haj') for the sale of Premier Oil Pakistan Holdings BV, which comprises Premier's Pakistan Business Unit, for a cash consideration of US$65.6 million. During the year, Al-Haj paid a cash deposit to Premier of US$25.0 million.

The disposal of the Pakistan Business Unit is expected to complete in 2018 and, as this is within 12 months of the balance sheet date, the business unit has been classified as a disposal group held for sale and presented separately in the balance sheet. Results for the disposal group in both the current and prior periods have been presented as a discontinued operation. Profit after tax for the business unit for the year is US$16.4 million (2016: US$22.7 million). Assets and liabilities held for sale in relation to the Pakistan disposal group are US$52.2 million and US$25.4 million, respectively.

In September 2017, Premier entered into a sale and purchase agreement to sell its entire interests in Licences PL089 and P534, which contain the Wytch Farm field ('Wytch Farm'), to Verus Petroleum SNS Limited ('Verus') for a cash consideration of US$200 million, subject to certain customary financial adjustments. The disposal included the additional 3.71 per cent equity interest Premier acquired in September 2017 for US$9.8 million.

The disposal was subject to the pre-emption rights of existing joint venture partners and Premier subsequently received notification from Perenco UK Limited ('Perenco') of its intention to exercise those rights. Therefore, in November 2017, Premier entered into a sale and purchase agreement with Perenco on materially the same terms as those agreed with Verus.

The disposal to Perenco completed in December 2017, with Premier receiving final cash consideration, after working capital adjustments, of US$177.1 million. This resulted in a gain on disposal of US$133.0 million, and enabled Premier to release letters of credit totalling approximately US$75 million, which had been issued in relation to future decommissioning liabilities that were transferred as part of the disposal.

In December 2017, Premier entered into separate sale and purchase agreements to dispose of its entire equity interest in the ETS pipeline in the UK for total consideration of US$31.6 million (including a potential future payment of US$3.5 million linked to the future development of the Pegasus field) and its entire non-operated interest in the Kakap field in Indonesia for US$3.2 million. The assets and liabilities for both of these interests have been classified as assets held for sale in the balance sheet at 31 December 2017.

Refinancing

In July 2017, Premier completed a comprehensive refinancing of its debt facilities with the lenders under the Company's Revolving Credit Facility ('RCF'), Term Loan, Schuldschein ('SSL') and US Private Placement ('USPP') notes (together the 'Private Lenders'), the retail bonds and the convertible bonds. Completion of the refinancing provides a solid foundation for Premier to deliver its strategic plans by preserving the Group's debt facilities, resetting financial covenant headroom and extending maturities to 2021 and beyond.

During the year it was determined that the refinancing represented a substantial modification of the terms of the USPPs, the SSL and the convertible bonds. Accordingly, extinguishment accounting has been applied for the USPPs, SSL and convertible bonds, resulting in the derecognition of the carrying amount of the financial liability and the recognition of a new financial liability for each of these revised facilities at their fair value. The derecognition includes costs in relation to the refinancing of US$83.7 million.

Furthermore, it was determined that the refinancing did not represent a substantial modification of the terms of the RCF, the Term Loan or the retail bonds. Therefore, refinancing costs in relation to the RCF, the Term Loan and the retail bonds of US$121.6 million have been deducted from the carrying amount of these financial liabilities in the balance sheet. These costs, along with previous unamortised arrangement fees, will be amortised over the revised term of these facilities.

The total refinancing costs include the recognition of the USPP make-whole adjustment, amendment and adviser fees, including the recognition of the equity and synthetic warrants at fair value. In connection with the refinancing, Premier issued 71.0 million equity warrants and 21.4 million synthetic warrants to its Private Lenders and retail bondholders and 18.1 million equity warrants to its convertible bondholders in July 2017. At issue, the equity warrants had an exercise price of 42.75 pence and are exercisable from their issuance until 31 May 2022.

The fair value liability for the equity and synthetic warrants recognised on the date of issue was US$47.7 million. Prior to the end of the year, 13.9 million equity warrants had been exercised by warrant holders. The closing fair value at 31 December 2017 was US$59.8 million.

Balance sheet position

Net debt

Net debt at 31 December 2017 amounted to US$2,724.2 million (31 December 2016: US$2,765.2 million), with cash resources of US$365.4 million (31 December 2016: US$255.9 million). With the refinancing completed, the maturity of all of Premier's facilities has been extended to May 2021, except for the convertible bonds which are May 2022. Therefore, all of Premier's facilities have been classified as long-term debt on the year-end balance sheet.

At 31 December 2017, Premier retained significant cash of US$297.2 million, once cash of US$68.2 million held on behalf of our joint venture partners is excluded, and undrawn facilities of US$244.0 million, giving Liquidity of US$541.2 million (31 December 2016: US$592.9 million).

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

Provisions

The Group's decommissioning provision increased to US$1,432.1 million at 31 December 2017, up from US$1,325.3 million at the end of 2016. The increase is driven by the addition of provisions relating to the new Catcher field.

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, Free Cash Flow, DD&A per barrel, Net Debt and Liquidity and are defined in the glossary.

Financial risk management

Commodity prices

At 31 December 2017, the Group had 3.6 mmbbls of open oil swaps at an average price of US$55.9/bbl. The fair value of these oil swaps at 31 December 2017 was a liability of US$31.7 million (2016: liability of US$18.3 million), which is expected to be released to the income statement during 2018 as the related barrels are lifted. Furthermore, during the year, the Group paid total premiums of US$6.3 million to enter into oil option agreements for 2.9 mmbbls at an average price of US$53.5/bbl. Out of these options, 1.1 mmbbls expired in 2017 and 1.8 mmbbls will mature during 2018 and are an asset on the Group's balance sheet with a fair value at 31 December 2017 of US$0.2 million (2016: asset of US$3.5 million). Included within physically delivered oil sales contracts are a further 1.8 mmbbls of oil that will be sold for an average fixed price of US$54.6/bbl during 2018 as these barrels are delivered.

During 2017, forward oil swaps of 1.5 mmbbls expired resulting in a net charge of US$11.4 million (2016: US$104.9 million credit) 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 gain of US$28.2 million on its outstanding foreign exchange contracts (2016: loss of US$58.6 million). The Group currently has £150.0 million retail bonds, €63.0 million long-term senior loan notes and a £100.0 million term loan in issuance which have been hedged under cross currency swaps in US dollars at average fixed rates of US$1.64:£ and US$1.37:€.

Interest rates

The Group has various financing instruments including senior loan notes, convertible bonds, UK retail bonds, term loans and revolving credit facilities. As at year-end, 51 per cent of total borrowings are fixed or has been fixed using the interest rate swap markets. On average, the cost of drawn funds for the year was 7.3 per cent. Mark-to-market credits on interest rate swaps amounted to US$4.6 million (2016: credit of US$1.0 million).

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

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.

As part of the refinancing completed in 2017, the Group amended its financial covenants. These progressively tighten over the next 12 months with the Net Debt/EBITDA and EBITDA/Interest covenants returning to 3.0x for the 12 months ended 31 March 2019. At year-end, the Group continued to have significant liquidity and headroom on the financial covenants within its borrowing facilities. The Group's forecasts show that, at currently observed oil and gas prices and prevailing production, the Group will have sufficient financial headroom for the 12 months from the date of approval of the 2017 Annual Report and Financial Statements. In downside scenarios, where oil and gas prices were to fall and remain significantly below those currently being realised or production levels were to be significantly below current performance, then, in the absence of any mitigating actions, a breach of one or more of the financial covenants might arise outside of the 12-month going concern assessment period. Potential mitigating actions could include further non-core asset disposals, additional hedging activity or deferral of expenditure.

Accordingly, after making enquiries and considering the risks described above, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Directors continue to adopt the going concern basis of accounting in preparing these Consolidated Financial Statements.

Business risks

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

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

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

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

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

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

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

Richard Rose
Finance Director

SNAPSHOT

A commitment to responsible behaviour

As a long-standing member of both the FTSE4Good Index and the UN Global Compact, we are committed to behaving responsibly and maintaining the highest possible standards in everything we do.

Total recordable injury rate ('TRIR')	High Potential Incident Rate ('HiPoR')	Process Safety LOPC (Tier 1 & Tier 2 events)
1.47	0.65	1
per million man hours	per million man hours	Tier 2 event

Greenhouse Gas Intensity	Total Economic Distribution
183	923
tonnes CO_2e per thousand tonnes of production	US$ million

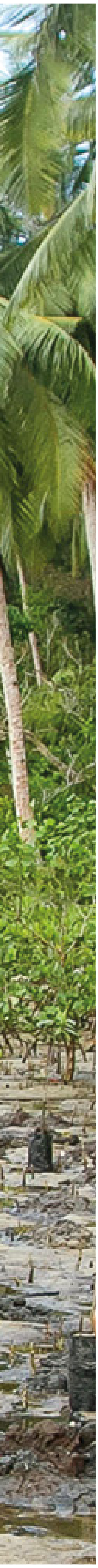
Our approach to the following key corporate responsibility issues is explained throughout this chapter:

A Principles, frameworks and standards Page 45

B Materiality Page 47

C High-level material issues Page 49

Read more in our online 2017 Corporate Responsibility Report: **www.premier-oil.com/2017-corporate-responsibility-report**



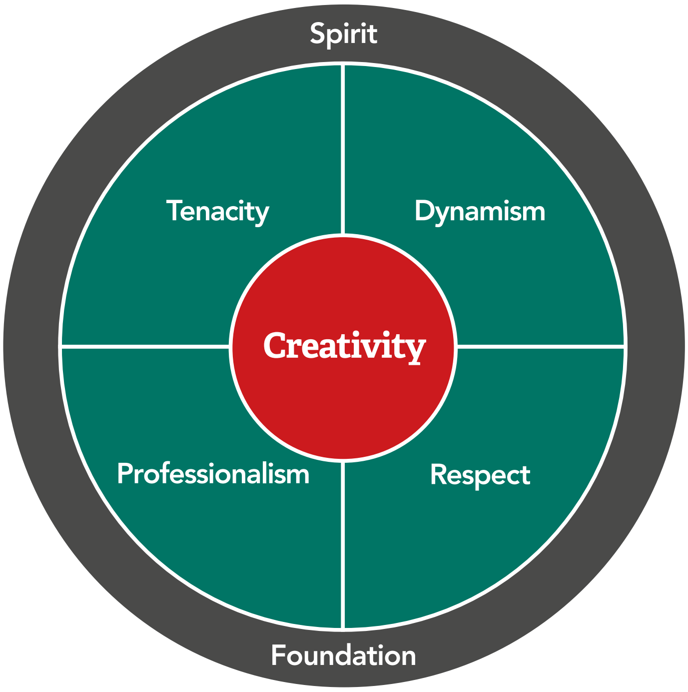
Principles, frameworks and standards

A

Our values, Group policies and relevant externally developed principles and standards guide our behaviour and help us maintain a consistent track record of responsible and effective performance. These are summarised below and on page 46.

Our values

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



We are guided by our overarching Corporate Responsibility Policy, which, amongst other commitments, requires Premier to act with respect for people, communities and the environment. We are also guided by the following supporting policies:

- Business Ethics Policy and associated Global Code of Conduct.
- Health, Safety, Environment and Security ('HSES') Policy.
- Community Investment Policy.
- Human Rights Policy.
- Equal Opportunities and Diversity Policy.
- Tax Policy.

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

How corporate responsibility is governed

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

In 2017, the principal topics arising from Premier's activities that have economic, social and environmental impacts on stakeholders, and the Premier managers and executives responsible for overseeing them on a day-to-day basis, were:

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

Third-party assurance

As part of the third-party assurance process undertaken for our 2017 Corporate Responsibility Report, ERM Certification and Verification Services ('CVS') has confirmed:

- The integrity of selected indicators used throughout this chapter.
- The alignment of the materiality process described on pages 47 to 48 with the requirements of the Global Reporting Initiative G4 Sustainability Reporting Guidelines.

The ERM CVS assurance statement can be viewed at www.premier-oil.com/2017-corporate-responsibility-report

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	
Tax 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 approach to risk management)	www.iso.org

Materiality

B

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

Materiality assessment

In line with the Global Reporting Initiative G4 Guidelines, our corporate responsibility reporting is structured around our most significant corporate responsibility issues. These issues have been prioritised (in conjunction with third-party experts and with input from external stakeholders) on the basis of:

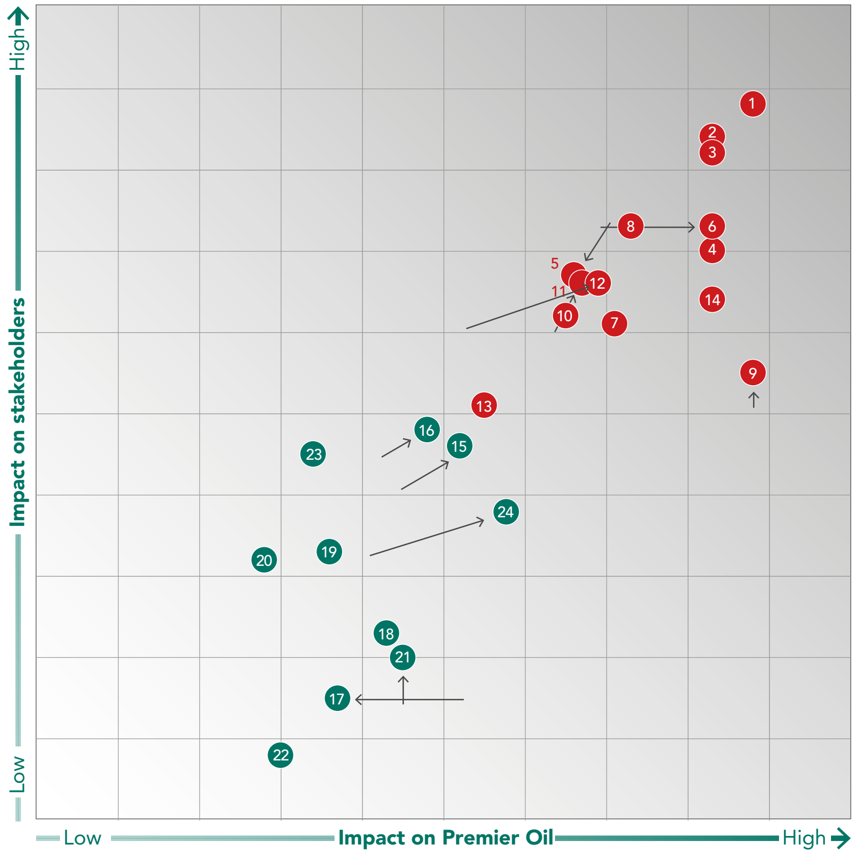
- the potential/actual impact of Premier on stakeholders and their interests; and
- the potential/actual impact of stakeholders on Premier and the achievement of its business objectives.

The steps involved in our materiality process are shown on page 48.

Material issues

The outcomes of this assessment are displayed on the corporate responsibility materiality matrix. Presentation of an issue as 'non-material' on this matrix does not mean it is 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 online 2017 Corporate Responsibility Report.

Corporate responsibility materiality matrix



Arrows indicate key shifts in our material and non-material issues in 2017.

Material issues

1. Process safety and asset integrity
2. Emergency preparedness
3. Value generation and distribution
4. Effluents and waste
5. Employee engagement
6. Occupational health and safety
7. Governance and ethics
8. Climate change and GHGs
9. Public policy and government relations
10. Environment (General)
11. Workforce
12. Responsible supply chain management[1]
13. Human rights
14. Decommissioning

Non-material issues

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

1 Details of Premier's responsible supply chain management efforts can be found on pages 49 to 50 and 56 to 57.

The principal changes in material and non-material issues resulting from our 2017 assessment include the following:

- Inclusion of 'Decommissioning' as a new, material issue – reflecting the work Premier is undertaking in preparation for the safe decommissioning of its late-life assets in the UK North Sea.
- Increased significance of 'Responsible supply chain management' – reflecting the potential impact of challenging market conditions since late 2014 on the commercial viability and operational effectiveness of Premier's contractors. Premier enhanced the financial due diligence it undertakes on elements of its supply chain throughout 2017 and plans to heighten controls to prevent facilitation of tax evasion by members of that supply chain during 2018.
- Increased significance of 'Cyber security', which remains a non-material issue – reflecting recent examples of major cyber attacks against a number of multinational companies, increasing reliance on automated production processes and connectivity within the oil and gas industry, and the role of hostile, foreign third parties.
- Reduced significance of 'Employee engagement' – reflecting internal revaluation of the issue.
- Increased significance of 'Occupational health and safety' – reflecting internal revaluation of the issue.
- Increased significance of 'Biodiversity' – reflecting the potential environmental impacts arising from our Sea Lion Project on the Falkland Islands. For more information on these potential impacts and Premier's proposed control measures, see our online GRI G4 Table[2].

Materiality assessment process

1. Research:
Desk-based review of events, activities and relationships in 2017 likely to affect the 2016 prioritisation of Premier's material issues. These include:
- Premier's activities and relationships
- Operating contexts
- Stakeholders
- External events and trends

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

3. Initial adjustment:
Re-prioritisation of material issues in light of steps 1 and 2.

4. Integration of stakeholder input:
Further adjustment of material issues in light of:
- Business unit perceptions of local stakeholder issues
- External feedback from our stakeholder engagement sessions

5. Finalisation of the 2017 materiality assessment
Update of materiality matrix.

2 Available at: www.premier-oil.com/2017-corporate-responsibility-report.

High-level material issues

C

The following section provides an overview of our material corporate responsibility issues. It explains why these issues are material to us, how they are managed, and the outcomes of our management efforts.

Details of our principal risks related to these issues can be found on pages 22 to 29.

Further information about our corporate responsibility activities and performance can be found in our online 2017 Corporate Responsibility Report.

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.

To view the outcome of this mapping process, see our online 2017 Corporate Responsibility Report.

SUSTAINABLE DEVELOPMENT GOALS

Governance and business ethics

Why this issue is material

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

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

Please note, business ethics is recognised as a key element of the following principal risks identified by Premier: 'financial discipline and governance', 'joint venture partner alignment and supply chain delivery', and 'host government: political and fiscal risks'. More information can be found on pages 24 to 27.

Policies

For details about our corporate governance framework and activities, see pages 58 to 61 and 66 to 72.

Our Business Ethics Policy supports our overall Corporate Responsibility Policy, and requires Premier's employees and contractor personnel to behave ethically and with personal integrity. Our Global Code of Conduct (the 'Code') develops the Business Ethics Policy, establishing specific standards (including in relation to anti-corruption) for our employees and contractor personnel to follow. The Code 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.

How we implement our policies

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

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

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

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

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

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

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

Employees found to have breached the requirements of the Code will be subject to a disciplinary procedure and, in extreme cases, instant dismissal and referral to the relevant law enforcement authorities. Contracts of contractor personnel found to have breached the Code may be terminated. Any breach of the Code by our business partners will result in either an agreed corrective action plan and measures to avoid a recurrence, or potential termination where contractually permissible.

Outcomes

Key indicators – Governance and business ethics

Material issue	Premier Oil metric	2017	2016	2015	Our performance in 2017
Governance and ethics	Significant legal sanctions in relation to business ethics	**0**	0	0	During 2017, no significant legal sanctions were imposed on Premier. However our UK Business Unit was subject to sanctions relating to non-compliances with the European Union Emissions Trading Scheme. See our online 2017 Corporate Responsibility Report for more information.
	Disciplinary actions or dismissals for breaches of the Code	**0**	0	0	No employees or contractor personnel were dismissed or faced disciplinary action for breaches of the Code in 2017, as such actions were not deemed necessary. One non-material breach of our Code by a Premier employee occurred in 2017. Premier took corrective actions in response to the incident and is satisfied that these will prevent a reoccurrence of the non-compliance.
	New members of our workforce[3] receiving induction training on the Code	**100%**	100%	100%	All new members of our workforce received induction training, which addresses all aspects of the Code, including anti-bribery.
	Existing members of our workforce[3] assigned refresher training on the Code / completed training[4]	**100% / 95%**	68% / 94%	N/A[5]	As of March 2018, 95% of our workforce had completed the training assigned to them in 2017. We will closely monitor completion of this training throughout 2018.

3 'Workforce' includes both employees and contractor personnel.
4 As of 7 March 2018.
5 All employees and contractor personnel are required to undertake training on the Code on an annual basis. Before 2017, some of our employees and contractor personnel received training on a triennial basis. As such, no refresher courses were assigned in 2015.

Health, safety and security

Why this issue is material

Given the potential hazards involved in offshore oil and gas operations, the application of rigorous health, safety and security practices is essential. Not only does this help to avoid negative impacts upon the health and security of our employees, contractors and joint venture partners, it also enables us to maintain our:

- operational continuity;
- regulatory compliance; and
- corporate reputation.

Our most significant health, safety and security issues are:

- occupational health and safety;
- process safety and asset integrity;
- emergency preparedness; and
- employee and asset protection.

Please note, Premier has identified 'health, safety, environment and security' as a principal risk. More information can be found on pages 26 to 27.

Policy

Our HSES Policy sets out the Company's expectations with regards to health, safety, environment and security management. It commits Premier to:

- continually improving our performance;
- assessing and managing risks;
- planning and preparing for potential emergencies; and
- maintaining high quality, documented systems and processes.

How we implement our policy

Occupational health and safety

Our 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 BMS. These include our Golden Rules, which are designed to help address the most common causes of serious incidents in the oil and gas industry.

The management system is applied across our global operational activities and defines how HSES issues should be managed throughout the hydrocarbon exploration, development, production and decommissioning lifecycle. The management system is externally certified to the OHSAS 18001 health and safety management system standard for our production facilities and drilling operations.

In this context, we frequently review our operations to assess the risk of major accidents and to conduct assurance of controls designed to prevent their occurrence. We also monitor our HSES performance closely and report this information on an ongoing basis to the Executive Committee and to the Board.

Process safety and asset integrity

Our HSES Management System defines Premier's objectives and minimum requirements for process safety and asset integrity in all operations, as well as the responsibilities, verification and validation required to provide assurance that they have been met.

A system of Process Safety and Asset Integrity Performance Reporting is applied at all of our operated assets. Each asset undertakes a self-assessment of the status of six critical 'barriers': plant integrity, plant maintenance, plant control, people, procedures and recovery (i.e. emergency response) – each of which have a role in the management of major accident hazards. Assessment scores are reported monthly and provide assurance that the barriers are suitable to manage the hazard risks. They are also used as leading key performance indicators to highlight poor or deteriorating performance and to drive continuous improvement.

Emergency preparedness

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

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

Employee and asset protection[6]

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

Outcomes

Key indicators – Health, safety and security

Material issue	Premier Oil metric	2017	2016	2015	Our performance in 2017
Occupational health and safety	Fatalities†	**0**	0	0	We recorded strong occupational health and safety performance in 2017, experiencing no recordable injuries at our Indonesia Business Unit and three of our operated assets in the UK North Sea. Our 2017 HiPoR (0.65) was a significant improvement on our 2016 HiPoR of 1.20, while our 2017 TRIR (1.47) fell in comparison to our 2016 TRIR of 1.95.
	Lost work day cases ('LWDC')†	**3**	6	3	
	Restricted work day cases ('RWDC')†	**0**	1	2	
	Medical treatment cases ('MTC')†	**6**	6	4	
	Total recordable injury rate ('TRIR')[7]†	**1.47**	1.95	1.27	
	High Potential Incident Rate ('HiPoR')[7]†	**0.65**	1.20	1.13	
	Man hours worked (million)†	**6.1**	6.7	7.1	
Process safety and asset integrity	Process safety events (IOGP Tier 1)†	**0**	0	0	Only one Tier 2 event and no Tier 1 events occurred in 2017, reflecting the ongoing focus on process safety and asset integrity across the Group.
	Process safety events (IOGP Tier 2)†	**1**	0	3	
Emergency preparedness	Number of emergency response exercises	**209**	173	77	Numerous emergency response exercises were undertaken across the Group in 2017, reflecting our ongoing efforts to maintain and where possible strengthen our emergency response capabilities. The increase in the number of reported exercises since 2015 reflects our more detailed tracking and reporting of these events over time.

† Data for 2017 assured by ERM CVS.
6 No significant security incidents directly affected our personnel in 2017.
7 Per million man hours.

Environment

Why this issue is material

During 2017, all of our operated activities were conducted offshore. This included drilling for, and the extraction of, both oil and gas from sub-surface reservoirs (in cooperation with our operational contractors) for transport by pipeline and/or third-party shipping partners to international markets. Unless otherwise managed, these activities have the potential to negatively impact water quality, air quality and local ecosystems. Any failure to avoid and/or mitigate these impacts would have material reputational and regulatory consequences.

Our most significant environmental issues relate to:

- effluents and waste, including the prevention of spills and the responsible management of hazardous materials; and
- greenhouse gas emissions associated with energy consumption and flaring at our facilities.

Please note, Premier has identified 'health, safety, environment and security' and (with regards to climate change regulation) 'host government: political and fiscal risks' and 'commodity price volatility' as principal risks. More information can be found on pages 24 to 27.

Policy

Our HSES Policy commits us to minimising our environmental impacts and never knowingly compromising our environmental standards to meet our operational objectives.

In addition, while not a formal policy, our Carbon Strategy describes Premier's approach to managing carbon emissions and the risks and opportunities associated with climate change. Amongst other things, the strategy describes Premier's commitment to managing these risks in an effective and responsible manner.

How we implement our policy

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

As required by our HSES Management System, we perform baseline surveys and prepare environmental and social impact assessments ('ESIAs') for all of our operated activities[8]. The assessments address our:

- physical impacts;
- ecosystem impacts; and
- socio-economic impacts.

During this process, we gauge the significance of each impact and consider how each can be reduced to a level that is 'as low as reasonably practicable' ('ALARP').

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

Effluents and waste

All our operated offshore assets extract oil, gas and formation water from offshore reservoirs. We separate the oil, gas and water using our on-site processing plant. The water is then either re-injected into the reservoir to maintain underground pressure or it is cleaned, filtered and then discharged into the sea. All planned discharges are cleaned to meet or exceed national standards, using standard separation techniques. Discharges of this water from our offshore production operations did not take place in any protected areas.

We collect hazardous and non-hazardous waste materials from our global drilling and production operations, which are taken to shore and disposed of. This includes drill cuttings, used oil, scrap

8 When we carry out impact assessments (e.g. social and/or environmental impact assessments), these typically involve significant stakeholder engagement. For example, in 2017, we submitted Environmental Impact Statements to the UK Department for Business, Energy and Industrial Strategy for the offshore and onshore elements of our Tolmount project. To support the development of these statements, we conducted an extensive stakeholder engagement campaign. As part of the approval process, the Environmental Impact Statements were also made available for public consultation.

metal, wood, plastic and other materials. Where feasible, we segregate and recycle as much non-hazardous waste as possible and encourage the use of recycled input materials.

Climate change and greenhouse gas emissions

Our approach to minimising carbon emissions involves:

- the application of effective design and, wherever practicable, energy-efficient technology;
- the efficient operation of our existing equipment and infrastructure, including the minimising of flaring and venting where possible; and
- the responsible use of energy.

We also:

- conduct environmental ALARP studies during the design phase of all new projects;
- set specific, measurable, attainable, relevant and time-bound ('SMART') annual greenhouse gas intensity targets to drive operational efficiency at our operated production assets; and
- aspire (through target setting and the measures explained above) to achieve a carbon intensity for steady-state operated production that is in line with the overall industry intensity figure published by the IOGP.

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

We integrate carbon and climate change-related risks into our overall enterprise risk management framework where relevant. We recognise the potential physical risks that climate change poses to our operations. These might include heightened storm risks and long-term sea level rises.

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

Premier also monitors the numerous corporate-level risks that climate change poses to the Company. Foremost among these is the evolving fiscal and legislative response to climate change in our countries of operation. The 2015 Paris Agreement reflects the commitment of the international community in this respect. Premier will continue to monitor the developing policy environment at an international and national level and will adapt our future carbon emissions strategy accordingly.

For more information about how related physical risks are managed, please see page 51 ('Health, safety and security'), and, for related regulatory risks, please see pages 24 to 27 ('host government: political and fiscal risks' and 'commodity price volatility')[9].

Outcomes

Key indicators – Environment[10]

Material issue	Premier Oil metric	2017	2016	2015[11]	Our performance in 2017
Climate change and GHGs	Total Scope 1 GHG emissions (te)[12†]	**946,323**	846,096	826,330	Our total GHG emissions increased in 2017 compared to the previous year. The increase reflects the inclusion (for the first time) of a full year of emissions data from the E.ON assets we acquired in 2016, as well as increased drilling activity. Our GHG intensity improved slightly on our 2017 target of 185 tonnes per thousand tonnes of production, while our energy intensity remained broadly stable.
	Total Scope 2 GHG emissions (te)[13†]	**877**	964	1,000	
	GHG intensity (operated assets) (te CO_2e/1,000 te of production)†	**183**	186[14]	219	
	Energy consumption (GJ/te of production)	**2.3**	2.2	2.3	
Effluents and waste	Unplanned hydrocarbon released to sea (te)†	**1.9**	2.2	0.9	The amount of hydrocarbon released to sea was less in 2017 than in 2016. The amount of waste materials produced also fell, primarily as fewer drill cuttings were generated by our drilling activities. Hydrocarbon in produced water increased, following a series of unplanned shutdowns at our Balmoral asset.
	Hydrocarbon in produced water (ppm-wt)†	**10.6**	9.1	9.1	
	Waste materials produced (te)†	**5,810**	8,176	6,377	
	Spending on environmental protection measures (US$m)	**7.1**	8.4	5.5	

† Data for 2017 assured by ERM CVS.
9 During 2017, no post-control physical impacts associated with climate change affected our operations. Furthermore, no significant negative impacts upon our business associated with climate change regulation were experienced.
10 Our environmental performance reporting is aligned with IPIECA reporting guidance and the Global Reporting Initiative Sustainability Reporting Guidelines.
11 Our total Scope 1 greenhouse gas emissions and greenhouse gas intensity figures for 2015 were revised in 2016, following diesel under-reporting at our Balmoral asset.
12 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.
13 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) (2015) and International Energy Agency (2012) guidance. A different factor is used for each country, and is applied to the total energy consumption in our onshore facilities (offices and warehouses). Emission factors are used to give an estimate of CO_2 equivalent.
14 Greenhouse gas emissions from our Solan asset were not included in our reported greenhouse gas intensity figure for 2016.

Employees

Why this issue is material

We recognise that our current and future success is strongly related to our ability to recruit, retain and motivate high quality, skilled employees and contractor personnel. Any failure in this regard has the potential to undermine our operational capabilities, management effectiveness and, ultimately, our profitability. Accordingly, we seek to treat our people fairly, offer meaningful professional development and deliver rewards commensurate with employee performance.

Key issues in this regard include:

- workforce profile; and
- employee engagement.

Premier has identified employee attraction, retention and succession as key elements of the principal risk 'organisational capability'. See pages 26 to 27 for more information.

Policies

Our management of human resource issues is guided by our Corporate Responsibility Policy, Human Rights Policy (page 56), Business Ethics Policy and the Code (page 49), and our Equal Opportunities and Diversity Policy.

How we implement our policies

Our Human Resources Management System supports our day-to-day management of human resource matters, and includes guidance relating to:

- performance;
- resourcing;
- reward; and
- competency management[15].

This guidance is hosted on the People Portal – Premier's online human resources information system – and BMS. The BMS helps us achieve an appropriate balance between consistent corporate policy requirements and flexible, local-level requirements across the Group[16].

To help ensure that we uphold our policy commitments, we monitor and analyse human resources data across the Group on a continuous basis. This includes data describing our workforce profile and turnover rate, as well as a variety of feedback that we receive through our employee engagement activities.

Workforce profile

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

As required by our Equal Opportunities and Diversity Policy, we seek to treat people fairly, equally and without prejudice, irrespective of gender, race, age, disability, sexual orientation or any other discriminatory attributes. The policy applies to all permanent and temporary staff, contractor personnel and job applicants. Employee obligations in this respect are set out in our Employee Handbook. These prohibit employees from carrying out discrimination (whether direct or indirect), harassment and victimisation.

We have also sought to protect jobs across the Company throughout the last three years of challenging economic conditions. Our efforts include:

- a continued focus on sustainable cost reduction efforts within our supply chains, and contractor personnel workforce;
- redeployment of staff to new roles where possible, in order to avoid redundancy; and
- seeking to retain high-performing employees through our appraisal and reward framework.

Outcomes

Key indicators – Employees

Material issue	Premier Oil metric	2017	2016	2015	Our performance in 2017
Workforce	Number of employees at end of year/turnover during the year	**783/51**	799/164[18]	829/119	The size of our workforce was predominantly stable in 2017, reflecting the increased financial stability provided by the finalisation of the Group's refinancing in July 2017, our continued efforts to protect jobs where possible, our low turnover rate and our focus on recruiting only for roles of high importance.
	Gender balance of total employee workforce (male/female)	**595/188**	604/195	612/217	Female participation rates in our total employee workforce, senior management and Board of Directors stood at 24, 11 and 22 per cent respectively. We recognise that women are typically under-represented in the oil and gas sector. Accordingly, we aim to ensure that our own management systems, practices and working culture do not discourage or restrict female access to – and success within – our workforce.
	Gender balance at senior management level[19 20] (male/female)	**99/12**	99/13	90/12	
	Gender balance at Board level (male/female)	**7/2**	7/2	9/2	
Employee engagement	Number of employee surveys	**2**	1	2	We conducted two employee surveys in 2017. One was a Group-wide survey that provided valuable insights into employee satisfaction and engagement levels. The other was a survey of the workforce at our UK Business Unit, which measured perceptions of workplace wellbeing.
	Percentage of employees receiving performance reviews	**98**	99	99	In 2017, 98 per cent of employees received performance reviews against their Individual Performance Contracts, and were assigned a performance rating by their managers. This high completion rate reflects our commitment to ensuring employees have well-defined and communicated annual targets and receive structured performance feedback.

15 We encourage all staff to develop their professional skills, to the advantage of both the individual and the Company. We are committed to supporting our staff with the achievement of this objective, through the provision of experiential learning opportunities, coaching and training. We do not currently employ any disabled people. Our commitment to supporting staff with the development of their professional skills applies 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.
16 Premier complies with all local labour laws, including those related to working hours and overtime.
17 Where relevant, this includes information about economic and financial factors affecting the Company's performance.
18 One hundred and fourteen of the employees that left the Company in 2016 had joined Premier as a result of our acquisition of the E.ON assets in April 2016.
19 Senior management is defined as Grade 5 and above.
20 Some members of our Board are also part of senior management and are therefore not included in these figures. This applied to three Board members in 2017 and 2016, and four in 2015.

Employee engagement
Premier encourages open and ongoing communication between employees and managers. We keep employees informed about wider Company issues[17] via a number of communication mechanisms, including:

- regular team meetings;
- the Company intranet;
- messages from our Chief Executive Officer and business unit managers;
- ongoing email communications;
- town hall staff meetings at each business unit, attended by visiting members of the Executive Committee and senior management; and
- the release of the Company's Half-Year and annual operational and financial results, as well as trading and operations updates.

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

We also gather feedback through:

- regular performance reviews;
- our formal non-recriminatory human resources grievances procedure, should employees feel uncomfortable raising issues through normal management channels; and
- our confidential, independently managed whistleblower hotline.

We respect the right of all employees to join a legitimate trade union and bargain collectively. We support organised labour through, amongst other things, carrying out official collective consultations in Indonesia, Vietnam and the UK. We have a collective bargaining agreement in place at our Indonesia and Vietnam Business Units. These agreements cover 512 employees, representing 65 per cent of the Company's total employee workforce.

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

Community relations

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

- the potential and actual impacts of our activities (and those of our partners) on local fishing communities;
- the role of certain onshore communities as transit and logistics points for our offshore operations;
- the positive impact our community investment has on our reputation and social licence to operate;
- the potential and actual impacts of the non-operated, onshore production assets in Pakistan and at Wytch Farm in the UK, in which we had interests during 2017; and
- the potential for new onshore operations in the future.

We are careful to minimise our negative impacts on local communities, if they do occur[21].

Policy
Our approach to interacting with local communities is governed by our Community Investment Policy. Amongst other commitments, it requires Premier to:

- invest in well-planned social projects that support the development priorities of host communities and governments;
- work to achieve a net positive socio-economic impact on local communities; and
- treat neighbours with respect and understanding, acknowledging community governance and seeking free and informed consent prior to initiating operations that have a potentially significant social impact on the community.

How we implement our policy
We implement our policy through our Community Investment Management System, which is aligned with IPIECA Standards. The system helps us to systematically identify, manage, evaluate and budget our engagements in host countries.

It focuses on the following key aspects:

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

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

Given the offshore nature of our operations, we have relatively limited direct interaction with local communities. Despite this, we recognise the importance of engaging with those stakeholders that are or could be affected by our activities.

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

We also invest in community projects to help deliver sustainable social, economic and environmental benefits for local communities and host governments.

Outcomes
Key indicators – Community relations

Material issue	Premier Oil metric	2017	2016	2015	Our performance in 2017
Value generation and distribution	Community investment spend (US$m)	**0.74**	0.69	0.88	In 2017, our community investment spending supported a variety of community projects and initiatives in our host countries. Areas of focus included environmental conservation, healthcare, education and social care. For more information, please see our online 2017 Corporate Responsibility Report.

21 No material impacts of this nature took place in 2017. 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.

Society

Why this issue is material

We recognise that our activities can affect national – and local-level stakeholders – and vice versa. As such, we strive to avoid and/or minimise any negative impacts we might have and to maximise our positive impacts across a range of issues.

Key issues in this regard are:

- human rights;
- public policy and government relations;
- value generation and distribution; and
- decommissioning.

Please note, Premier has identified 'host government: political and fiscal risks' as a principal risk. More information can be found on pages 26 to 27.

Policies

Our policies guide how we interact with stakeholders throughout society. The most relevant are our overarching Corporate Responsibility Policy, Human Rights Policy, Risk Management Policy, Tax Policy, Community Investment Policy (page 55), Business Ethics Policy and the Code (page 49). These policies are implemented through our associated management systems. Amongst other commitments, our policies require us to:

- engage with stakeholders in our efforts to respect and promote the fundamental rights set out in the Universal Declaration of Human Rights[22];
- act transparently with all stakeholders in full respect of the rule of law;
- contribute to the development goals and value creation objectives of host countries;
- support the socio-economic sustainability and well-being of communities through local procurement and other engagement with local business; and
- not seek to engage in artificial tax avoidance arrangements.

How we implement our policies

Human rights

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

- embed human rights[23];
- conduct risk assessments;
- develop action plans;
- carry out implementation and monitoring; and
- audit and review compliance and performance.

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

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

We implemented our human rights grievance procedure in 2017. The procedure enables Premier to better identify and address actual or potential human rights impacts, whether they are directly or indirectly associated with our activities.

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

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

All new contractors undergo an initial risk-based HSES assessment via pre-qualification, bidding and/or negotiation. Any that we consider to be 'high risk' are subjected to a more detailed HSES screening. We also carry out performance reviews of some of our most significant contracts following their award, these reviews include the HSES performance of the contractor.

Furthermore, all material new contracts are now assessed for human rights and labour rights risks, following the pilot testing of our Supply Chain Contractor Due Diligence Process across the operated business units during 2017. This process 'red flags' potential issues of concern, triggering (where relevant) a full due diligence process tailored to Premier's specific needs. This due diligence enables us to effectively manage the identified risks, which may include appropriate mitigations, before contracts are entered into.

All major commitments include relevant HSES, human rights and prevention of forced/involuntary labour and human trafficking obligations. We also maintain a Company presence at major construction and fabrication yards undertaking work for Premier. This is in order to ensure their adherence to relevant human rights, labour rights and HSES obligations within their contracts.

Public policy and government relations

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

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

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

- Association of British Independent Oil Exploration Companies ('BRINDEX').
- Falkland Islands Petroleum Licensees Association.
- Indonesian Petroleum Association.

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

Value generation and distribution

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

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

- employ nationals where they are appropriately qualified; and
- use contractors based in our host countries, where they are able to meet our operational and economic requirements.

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

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

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

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

Decommissioning

At present, only one of Premier's operated production fields (Caledonia) has been declared inactive[24]. We are in the process of developing Decommissioning Programmes for the Greater Balmoral Area, Caledonia, Huntington and Hunter and Rita fields, some of which we plan to submit for public consultation and regulatory approval during the course of 2018.

Premier has developed a clear strategy to decommission our operated assets in a continuous, sequential fashion, incorporating learnings, progressive improvements and new technology where appropriate as we execute the Decommissioning Programmes. We have an experienced in-house team who are committed to undertaking decommissioning activity in a safe and efficient manner. Our activities in this respect are guided by our HSES Policy and standards.

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

Outcomes

Key indicators – Society[25]

Material issue	Premier Oil metric	2017	2016	2015	Our performance in 2017
Human rights	Identified violations of our Human Rights Policy (by Premier and its employees)	**0**	0	0	No violations were identified in 2017. This is a reflection of our human rights due diligence efforts, as well as the offshore and relatively remote nature of our operated activities.
	Significant negative human rights or labour rights impacts identified in our supply chain	**0**	0	0	No significant negative human rights or labour rights impacts were identified in our supply chain during 2017. Following the full implementation of our Supply Chain Contractor Due Diligence Process, we plan to increase the number of contracts we screen against human rights and labour rights criteria throughout 2018.
Public policy and government relations	Value of political donations and contributions (US$)	**0**	0	0	We made no political donations or contributions in 2017. All of our interactions with host governments were conducted in line with our Business Ethics Policy and the Code.
Value generation and distribution	Economic value distributed (US$m)[26]	**923**[27]	825	705	Throughout 2017 we continued to generate significant levels of economic value, much of which was distributed to stakeholders throughout our host societies.

24 We define 'inactive sites' as production fields that are no longer producing, but have not yet been decommissioned, as well as subsea infrastructure that is no longer economically viable for production (this includes: subsea wells, templates, manifolds and flow lines, and umbilicals that have been flushed of hydrocarbon and other chemicals disconnected from production assets, prior to decommissioning).
25 During 2017, none of Premier's assets were decommissioned and no Decommissioning Programmes were finalised.
26 i.e. operating costs, royalties, staff costs, dividends, finance costs, corporate income tax payments and community investments.
27 In 2017, Premier paid US$70 million in the form of corporate income tax payments to our host governments. We did not engage in artificial tax avoidance arrangements and met all statutory and transparency requirements with respect to tax matters.

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

7 March 2018

SNAPSHOT

Our governance framework

Compliance overview

Leadership
In 2017, Mike Welton stepped down as a Director and Chairman of Premier's Board as part of the Board's succession plan and Roy A Franklin was appointed as his successor.

The roles of Chairman and Chief Executive Officer remain separate and Premier's new Chairman brings significant leadership experience to the Board.

See page 62

Effectiveness
The Board has a diverse range of skills, knowledge and experience and comprises 22 per cent female Directors. Several Board appointments were made during the year which ensure that the Board continues to be independent and has the necessary skills, knowledge and experience to successfully deliver the Company's strategy. The Board comprises a majority of Non-Executive Directors, all of whom are independent. A detailed induction programme was undertaken by new Board members during 2017.

An internal Board evaluation was conducted in 2017 and it is envisaged that an external Board evaluation will be undertaken in 2018.

See pages 70 to 71

Accountability
The Board monitors risks and controls on an ongoing basis and has conducted an annual assessment of the effectiveness of its systems of risk management and internal control.

See pages 22 to 29

Shareholder engagement
Regular dialogue takes place with institutional investors, retail investors and analysts through meetings, presentations and conferences.

Consultation on a new Directors' Remuneration Policy continued during the first quarter of 2017.

See page 73

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

See pages 81 to 113

Board composition (number of Directors)[1]

Chairman	1
Executive Directors	3
Non-Executive Directors	5

1 As at 7 March 2018.

Read more in the Board of Directors section on page 62

Dear shareholder,

I am pleased to present my first Corporate Governance Report to you since my appointment as Chairman of your Board on 1 September 2017 following the planned retirement of Mike Welton, who had served as Premier's Chairman since October 2009.

I look forward to working with the Board, the management team and all of our stakeholders as we enter the next exciting phase in the Company's development.

Our governance framework
Premier has established a clear vision and core values that complement and support the Board's strategy. These values are at the heart of all Premier's activities and good corporate governance provides the framework through which these values are embedded throughout the organisation.

Our governance framework not only ensures that the right decisions are taken at the right time, it provides a framework to support all that we do. This report describes the structure of our corporate governance framework and will help you to understand how the Company has been run, how risks are managed, how controls are monitored, and how key decisions have been taken during 2017.

Board focus during 2017
2017 has been a challenging year for your Board. A significant amount of time has been invested in ensuring the successful completion of the comprehensive refinancing of the Company's debt facilities. The level of skills, experience,

"Good corporate governance provides a sound framework through which we can successfully deliver our strategy and return value to our stakeholders."

Roy A Franklin
Chairman

independence and knowledge on your Board, the time commitment of the Directors and the management team, and our strong corporate governance have ensured sound judgements were made within a framework of prudent and effective controls.

The refinancing represents a significant milestone for the Company and now provides the headroom and flexibility to enable your Board to plan for future investment in selective new projects. Further details of our refinancing are contained in the Financial Review and note 15 of the Financial Statements.

Throughout the year, your Board has continued to focus on the immediate objective of debt reduction through active portfolio management, execution of developments and the maximisation of production from a low cost base. The delivery of Catcher marked an important milestone for Premier and the cash flows generated from the field will play a significant role in reducing debt.

Whilst our immediate strategy of debt reduction has been a key focus for your Board, significant attention has also been given to Premier's longer-term strategy of investing selectively in future projects to deliver growth and value for all of our stakeholders. The significant Zama discovery in Mexico further increases the optionality within our already considerable portfolio of undeveloped projects and demonstrates our ability to deliver our longer-term strategy and return to growth.

In all matters, Health, Safety, Environment and Security ('HSES') has been central to the Board's decision-making. HSES matters will always be of paramount importance and regardless of the external business environment, your Board will not compromise on the integrity of our systems and the safety of our people and operations.

Board changes and succession planning

A key priority for your Board during 2017 has been the search for suitable candidates for the position of Chairman and for two new Non-Executive Directors, following the planned retirement of Mike as Chairman and David Lindsell and Joe Darby as Non-Executive Directors.

These changes formed part of a carefully constructed succession plan and, on 10 August 2017, Dave Blackwood and Mike Wheeler were appointed as Non-Executive Directors and on 1 September 2017, I was appointed Chairman. Further information on the process used in relation to these Board appointments is contained in the Nomination Committee Report on page 79.

Dave brings with him strong oil and gas experience and technical expertise and Mike's appointment strengthens the Board's corporate financing expertise, thus ensuring that the Board is well placed to deliver both its immediate and longer-term strategy.

In terms of my appointment as Chairman, my previous leadership experience and knowledge of the oil and gas industry will serve me well in ensuring continued strong leadership of your Board. On behalf of the Board, I would like to thank Mike for his strong leadership as Chairman, particularly during the challenging industry downturn and the period leading up to the successful completion of the Company's refinancing in July 2017.

I would also like to thank David and Joe on behalf of the Board for their significant contribution over the course of their nine-year tenures as Non-Executive Directors, laterally as Chairman of the Audit and Risk Committee and Senior Independent Director ('SID') respectively, and to welcome our two new Non-Executive Directors to the Board.

On 17 May 2017, Jane Hinkley succeeded Joe as SID. The Board is confident that her diverse experience serving in various Non-Executive Director roles and her recent engagement with shareholders in respect of the implementation of the Company's new Remuneration Policy will serve her well in this important role.

As part of the Board's succession plan, on 17 May 2017 and, following David's retirement, Iain Macdonald took up the position as Chairman of the Audit and Risk Committee.

Diversity

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

Further details on our Board Diversity Policy can be found on page 80, including details of how the Policy has been implemented and the results of implementation in the year ended 31 December 2017.

Board effectiveness

During 2017, the Board carried out a review of its effectiveness through its annual Board evaluation programme. The outcome from this review will inform continual improvement to ensure the effective operation of your Board. As your new Chairman, it was important that I gained an in-depth understanding of the dynamics of your Board. The focus on one-to-one meetings for our Board evaluation has enabled me to understand more fully how the Board operates thereby supporting leadership. It is envisaged that the 2018 Board evaluation process will be conducted externally.

A detailed induction programme was undertaken by all Directors recruited during the year, further details of which are contained on page 70. In addition, the Board continues to enhance its knowledge through detailed presentations given to the Board by management, thus ensuring that your Board has an in-depth understanding of the Company's operations. Case studies on these sessions can be found on pages 71 and 72.

Remuneration

In May 2017, our shareholders approved a new Remuneration Policy which will support the successful achievement of our strategy. Our Remuneration Committee spent a significant amount of time consulting with shareholders to ensure that the Policy is aligned both with our objectives and with best practice. Further details of our Remuneration Policy are contained on pages 84 to 94.

Engagement with our shareholders

Engagement with all our stakeholders remains a priority for your Board. In addition to our regular dialogue with shareholders throughout the year, extensive consultation with investors continued during 2017 as part of the Company's refinancing. Further details of our engagement with shareholders can be found on page 73.

Board focus during 2018

A key priority for 2018 will be to ensure that the Company continues to reduce its debt. Accordingly, active portfolio management, cost controls and production efficiencies will be a key focus for Board agendas.

Your Board will also continue to focus on building a portfolio of future projects for selective investment and further growth.

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

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

Roy A Franklin
Chairman

Compliance statement

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

It is the Board's view that, 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 2017.

The reasons for non-compliance with Code Provision E.2.4 are set out below.

The General Meeting held on 15 June 2017 to approve the refinancing of the Company's debt facilities was held on less than 14 working days' notice to ensure that the Company met the required completion date under the terms of the agreement.

The General Meeting held on 7 December 2017 to approve the proposed sale of the Company's Wytch Farm interests was held on less than 14 working days' notice to enable closure of the sale during December and to avoid extending the associated Letters of Credit into 2018.

The Board

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

As at 31 December 2017, 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 7 March 2018, including membership of Board Committees, are set out on pages 62 to 65.

Roy A Franklin
Chairman

Tony Durrant
Chief Executive Officer

Richard Rose
Finance Director

Robin Allan
Director, North Sea and Exploration

Dave Blackwood
Non-Executive Director

Anne Marie Cannon
Non-Executive Director

Jane Hinkley
Senior Independent Non-Executive Director

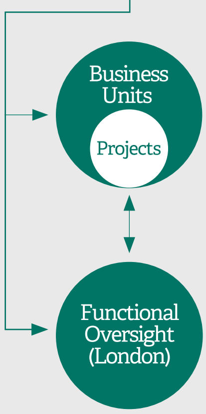
Iain Macdonald
Non-Executive Director

Mike Wheeler
Non-Executive Director

The Committees

Executive Committee

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



Audit and Risk Committee

Iain Macdonald (Chair)
Dave Blackwood
Mike Wheeler

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

Full Committee report on pages 74 to 78

Nomination Committee

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

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

Full Committee report on pages 79 to 80

Remuneration Committee

Jane Hinkley (Chair)
Dave Blackwood
Anne Marie Cannon

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 81 to 113

The Board

Board tenure as at 7 March 2018

Roy A Franklin
Chairman

Board tenure
6 months

Current external roles
- Non-Executive Director and Deputy Chairman of Statoil ASA
- Non-Executive Director of Wood plc
- Member of the Advisory Board of Kerogen Capital LLC
- Chairman of privately held Cuadrilla Resources Ltd
- Chairman of privately held Energean Israel Ltd

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

Skills and experience
Roy has more than 40 years' experience as an executive in the oil and gas industry. He spent 18 years at BP and has served on a number of international energy boards in non-executive roles. He has extensive experience in chairing boards of listed companies.

Committee membership
N

Independent
Yes[1]

Tony Durrant
Chief Executive Officer

Board tenure
12 years 8 months

Current external roles
Member of the Advisory Committee of Flowstream Commodities

Past roles
- Non-Executive Director and Chairman of the Audit & Risk and Remuneration Committees of Greenergy Fuels
- Managing Director and Head of the European Natural Resources Group at Lehman Brothers

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 75,000 boepd.

Committee membership
N

Independent
Not applicable

Richard Rose
Finance Director

Board tenure
3 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 adviser to the Company in his previous corporate brokering roles. He has extensive knowledge of debt and equity markets which has been invaluable for Premier in completing the comprehensive refinancing of the Group's debt facilities.

Committee membership
None

Independent
Not applicable

1 Chairman was independent on appointment.

Key to Committee membership

(A) Audit and Risk (N) Nomination
(R) Remuneration ● Chairman of Committee

Robin Allan
Director, North Sea and Exploration

Board tenure
14 years 3 months

Current external roles
– Chairman of The Association of British Independent Oil Exploration Companies ('BRINDEX')
– Board member of Oil & Gas UK

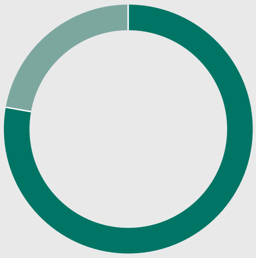
Past roles
– Within Premier, Robin has previously served in a variety of roles including: Director: Asia, Director of Business Development and Country Manager in Indonesia
– Robin joined Premier in 1986 from Burmah Oil

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
None

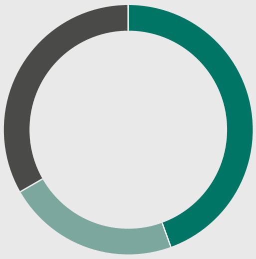
Independent
Not applicable

Gender diversity (number of Directors)[1]



Male	7
Female	2

Length of tenure (number of Directors)[1]



< 3 years	4
3–6 years	2
7–10 years	3

1 As at 7 March 2018.

For further detail regarding Board changes during 2017 and ongoing succession planning, please refer to the Nomination Committee Report on pages 79 to 80.

Dave Blackwood
Non-Executive Director

Board tenure
7 months

Current external roles
– Senior Advisor to Evercore Partners Ltd

Past roles
– Non-Executive Director of Expro International Group Holding Ltd
– Senior Independent Director of Valiant Petroleum plc
– Managing Director of BP North Sea
– Vice Chair of Aberdeen City and Shire Economic Future ('ACSEF')

Skills and experience
Dave has over 40 years' experience in the oil and gas sector, 27 years of which were spent in various global roles within BP, including heading up BP's upstream business in the UK and Norway. He has a strong understanding of the technical and commercial issues at play in an exploration and production company and has broad experience in developing and managing large scale complex energy assets throughout the world, from exploration through to decommissioning.

Committee membership
A N R

Independent
Yes

Anne Marie Cannon
Non-Executive Director

Board tenure
4 years 1 month

Current external roles
– Deputy Chair of Aker BP ASA
– Non-Executive Director of Aker ASA
– Non-Executive Director and Chairman of the Remuneration Committee of STV Group plc

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

Skills and experience
Anne Marie has over 35 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
N R

Independent
Yes

Jane Hinkley
Senior Independent Non-Executive Director

Board tenure
7 years 6 months

Current external roles
– Non-Executive Director and Chairman of the Remuneration Committee of Vesuvius plc
– Chairman of Teekay GP LLC

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

Skills and experience
As a qualified accountant, Jane has a strong knowledge of finance and significant listed company experience within the oil and gas 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
R N

Independent
Yes

Key to Committee membership

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

Iain Macdonald
Non-Executive Director

Board tenure
1 year 10 months

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

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

Skills and experience
With his extensive experience in senior financial and operational roles at BP, Iain brings a wealth of experience to his role as Chairman of the Audit and Risk Committee, which he assumed in May 2017 following a year-long transition period.

Committee membership
A N

Independent
Yes

Mike Wheeler
Non-Executive Director

Board tenure
7 months

Current external roles
- Chairman of Citadel Securities Europe and Chairman of the Audit Committee
- Chairman of Glitnir
- Non-Executive Director and Chairman of the Audit Committee of Sunseeker International

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

Skills and experience
Mike has held senior roles in businesses across a variety of sectors, bringing a diverse outlook and a broad range of experience to the Board. His career at KPMG spanned 30 years, including serving as Global Chairman, Restructuring. He has built up significant expertise in the areas of restructuring and finance through his role at KPMG and experience serving on audit and risk committees.

Committee membership
A N

Independent
Yes

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 15 years' experience gained across a variety of industries and sectors in FTSE 100 and FTSE 250 listed companies, including three years within the financial services sector. As Company Secretary, Rachel is responsible for advising the Board, through the Chairman, on all governance matters.

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

The role of the Board

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

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

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

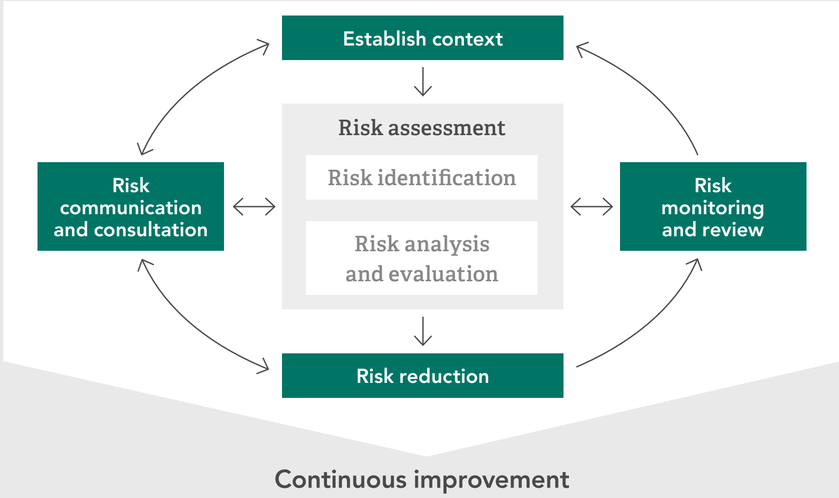
Risk management and internal control

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

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

Further details about the systems used for ongoing monitoring and annual review of the Company's risk management and internal control systems are set out on pages 23 and 28 of the Principal Risks section of the Strategic Report and on pages 75 and 76 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 71.
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 controls and risk management; corporate responsibility; financing; investor relations; corporate reporting; Board Committee related activity, including matters requiring Board sanction; and other corporate governance matters.

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

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

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

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

Board Committees

The Board has established Audit and Risk, Remuneration and Nomination Committees. Each Committee has formal terms of reference approved by the Board, copies of which can be found on the Company's website. The Company Secretary provides advice and support to the Board and all Board Committees. Board Committees are authorised to engage the services of external advisers as they deem necessary.

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

Executive Committee and management structure

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

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

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

Disclosure Committee

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

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

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

Matters Reserved for the Board

Corporate strategy

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

Finance

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

Expenditure

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

Risk management and internal control

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

Corporate governance

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

Shareholder communication

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

Succession planning and appointments

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

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

The BMS provides access to policies, standards and procedures across the Group and facilitates their regular review and update, thus ensuring that our internal control framework remains robust and is effectively communicated across the Group. During 2017, as part of the ongoing development of Premier's BMS, a process to rationalise Premier's policies, standards and procedures and to standardise their design was undertaken and will continue through 2018. This will further strengthen Premier's internal control framework.

Further details of the BMS are provided on page 28 of the Strategic Report.

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

During 2017, the Board spent a significant amount of time reviewing progress on the proposed refinancing of the Company's debt facilities which was successfully completed in July 2017. A Board Committee was established to progress matters related to the refinancing and regular updates were provided to the full Board leading up to completion.

In June 2017, the Board conducted an in-depth review of the Group's strategy, in particular its post-refinancing strategy. As part of this review, a Group strategy meeting was held and presentations were given by the Group Commercial and Strategy Manager and external advisers. Reports from the Group Development and Operations Manager and the Head of Exploration were also considered.

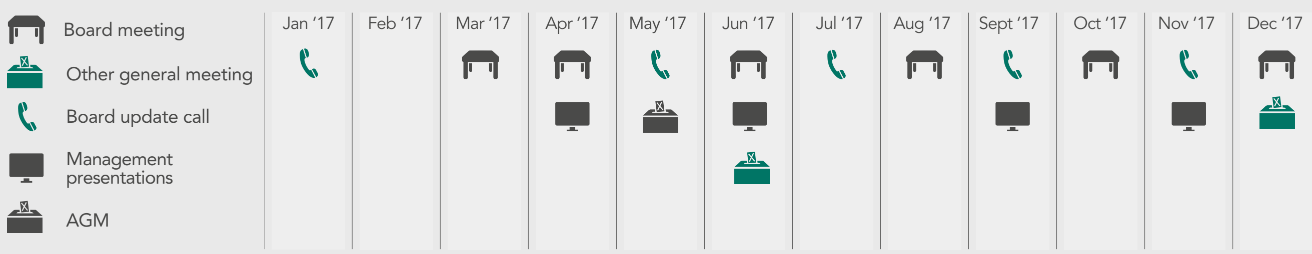
Throughout the year, the Board regularly reviewed the progress of development and exploration projects and considered changes to the Company's asset portfolio, including the sale of the Company's Pakistan business and Wytch Farm assets. HSES matters were continually monitored by the Board, including reviewing monthly update reports on HSES performance.

The Board also reviewed key policies forming the basis of the Company's governance framework, including the Group's Code of Conduct, Business Ethics Policy and its policy on anti-slavery and human trafficking.

There were several changes to Board and Committee membership during 2017. Regular updates were provided to the Board on the search for suitable candidates for the position of Chairman and for two new Non-Executive Director positions. All Board members met with candidates on a one-to-one basis and provided feedback to the Nomination Committee. The retiring Chairman was not involved in the selection of his successor. Further details of the appointment process can be found on page 80.

The Board also attended detailed management presentation 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. Further details are contained on page 70.

Meetings held during 2017



The number of meetings of the Board held during 2017 and individual attendance by Directors

Current Directors	Scheduled	
Roy A Franklin[2]	2 / 2	100%
Robin Allan	6 / 6	100%
Dave Blackwood[1]	3 / 3	100%
Anne Marie Cannon	6 / 6	100%
Tony Durrant	6 / 6	100%
Jane Hinkley	6 / 6	100%
Iain Macdonald	6 / 6	100%
Richard Rose	6 / 6	100%
Mike Wheeler[1]	3 / 3	100%

Former Directors		
Joe Darby[3]	3 / 3	100%
David Lindsell[3]	3 / 3	100%
Mike Welton[4]	4 / 4	100%

Key
- Attended
- Entitled to attend

Notes:
1 Dave Blackwood and Mike Wheeler were appointed as Directors on 10 August 2017.
2 Roy A Franklin was appointed as a Director and Chairman of the Board on 1 September 2017.
3 Joe Darby and David Lindsell stepped down as Directors on 17 May 2017.
4 Mike Welton stepped down as a Director and Chairman of the Board on 1 September 2017.

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

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				
• Met with representatives of the Company's various lending groups to discuss proposals for the refinancing of the Group's debt facilities.	• Met with major institutional shareholders and shareholder representative bodies to consult on the proposed new Remuneration Policy, which was approved by shareholders at the 2017 Annual General Meeting.	• Received and discussed feedback from roadshows/presentations to investors by the CEO and CFO.	Shareholder engagement activity (see page 73) Directors' Remuneration Report (see pages 81 to 113)	3
Corporate strategy				
• Reviewed and approved the Company's strategy and business plan. • Participated in a Group strategy meeting attended by senior management and external advisers.	• Reviewed and discussed monthly reports from the Company's business units on the status of agreed objectives to deliver corporate strategy. • Reviewed potential disposal and acquisition opportunities.	• Attended an in-depth management presentation session which included strategy in Indonesia and Vietnam. • Reviewed and approved the sale of the Company's Pakistan business and Wytch Farm assets.	Company's business model and strategy (see pages 8 and 16, respectively) Chief Executive Officer's Review (see pages 12 to 15)	1 2 3 4
Finance and expenditure				
• Reviewed and approved refinancing proposals for the Group's debt facilities. • Regularly reviewed the status of the Group's banking covenants. • Reviewed the annual budget and kept under review cost management underlying the Group's short-term strategy of cost reduction.	• 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 Group's hedging policy. • Reviewed and approved the Group's insurance arrangements. • Reviewed and approved the Group's Tax Policy.	Financial Review (see pages 38 to 43) Financial Statements (see pages 118 to 176)	3
HSES and risk management				
• Reviewed and discussed the Group's risk profile and, in particular, the Group's principal risks. • Reviewed 2018 corporate HSES KPIs and HSES plan. • Reviewed and discussed HSES performance.	• Received reports from the Audit and Risk Committee on the effectiveness of the Group's risk management and internal control systems. • Reviewed the Group's risk management and internal control framework.	• Reviewed and approved the Company's policy on anti-slavery and human trafficking. • Received a management presentation covering the Group's risk management and internal control systems.	Risk Management (see pages 22 to 29) Principal Risks (see pages 24 to 27) Corporate Responsibility Review (see pages 44 to 57)	1
Corporate governance				
• Considered bi-monthly updates on developments in corporate governance and legislation. • Reviewed the terms of reference for the Audit and Risk, Nomination and Remuneration Committees. • Approved a revised Schedule of Matters Reserved for the Board.	• Reviewed corporate policies forming part of the Group's governance framework. • Reviewed and discussed the outcome of the Board's annual performance evaluation and agreed actions for 2018. • Approved Directors' potential conflicts of interest.	• In consultation with the Nomination Committee, reviewed the independence of Non-Executive Directors. • In consultation with the Audit and Risk Committee, reviewed the performance of the external auditors.	Governance section of the Annual Report (see pages 58 to 117)	1 2 3 4
Corporate social responsibility ('CSR')				
• Reviewed ethical performance and control systems.	• Reviewed the Group's Code of Conduct and Business Ethics Policy. • Considered bi-monthly updates in respect of environmental KPIs.	• Reviewed and approved the Company's Corporate Responsibility Report.	Corporate Responsibility Review (see pages 44 to 57)	1
Succession planning and appointments				
• Monitored progress with the Company's succession plan for the Chairman and Non-Executive Directors. • Considered potential candidates for the position of Chairman and, following a recommendation from the Nomination Committee, approved the appointment of Roy A Franklin as successor to Mike Welton.	• Considered potential candidates for two new Non-Executive Director positions and, following a recommendation from the Nomination Committee, approved the appointment of Dave Blackwood and Mike Wheeler as Non-Executive Directors.	• As recommended by the Nomination Committee, approved the appointment of Jane Hinkley as Senior Independent Director ('SID') following the retirement of Joe Darby as a Director and SID. • In consultation with Committee chairmen, considered and approved changes to Board Committee membership.	Nomination Committee Report (see pages 79 and 80) Governance section of the Annual Report (see pages 58 to 117)	4
Employees				
• Reviewed and approved proposals for awards to the wider employee population under the Company's share award schemes.			Directors' Remuneration Report (see pages 81 to 113)	4

Board appointments
Premier is an international business and has to manage a variety of political, technical and commercial risks. It is crucial therefore that the Board has the appropriate mix of skills, knowledge and experience as well as independence to enable it to meet these challenges.

To this end, the Nomination Committee reviews the structure, size and composition of the Board and makes recommendations to the Board with regard to any changes that are deemed necessary with due regard for the benefits of diversity on the Board, including gender diversity.

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

This process was followed in 2017 for the recruitment of the Chairman's successor as well as the recruitment of two new Non-Executive Directors. These changes were part of a carefully planned succession programme and ensure the continued independence of the Board as well as strengthening the Board's technical expertise and knowledge of corporate financing. Further details on the recruitment and appointment process are contained in the Nomination Committee Report on pages 79 to 80.

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

- a comprehensive briefing session with the Company Secretary to discuss the proposed induction programme and to provide details of Board and governance procedures;
- an introduction to the Company's online resource centre for Directors, through which they can access key corporate governance documents, including details of the policies and procedures forming part of the Group's governance framework; a dedicated resource library containing comprehensive information on key projects; copies of past Board presentations; and copies of external communications such as investor presentations, annual reports and corporate social responsibility reports;
- one-to-one meetings with each of the Executive Directors, members of senior management and external advisers; and
- meetings with other functional representatives as requested by Directors.

Shareholders are given the opportunity to meet with new Directors upon request or at the next Annual General Meeting following their appointment and, in the case of the Chairman, meetings are offered to the Company's major shareholders.

During 2017, a tailored induction programme was designed for the Chairman and each new Non-Executive Director. Internal meetings were held with members of senior management covering HSES & Technical Safety, Finance, Human Resources, Business Development, Operations, Exploration, Strategy, Audit and Risk, Legal, Investor Relations and Governance. Meetings were also held with each of the Directors on a one-to-one basis.

During the course of 2018, new Directors will meet with the Company's external advisers and meetings have been scheduled for the Chairman to meet with the Company's major shareholders.

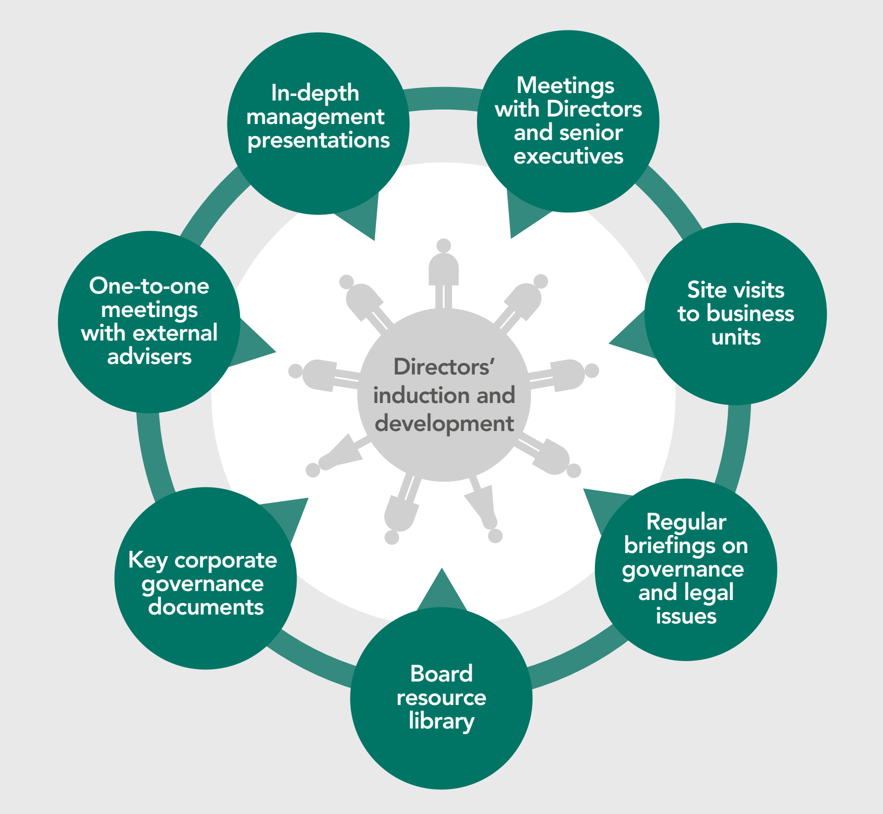
Board development
As part of the Board's annual rolling agenda, in-depth management presentations are planned throughout the year. These sessions are held outside main Board meetings and are designed to give the Board insight into key aspects of the Company's operations, its development projects and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

During 2017, management presentations were given on: developments and strategy in Indonesia and Vietnam; the Catcher development project; the Sea Lion project; and decommissioning. In addition, a Group strategy meeting was held, attended by members of senior management and external advisers. Case studies on two of the management presentation sessions can be found on pages 71 and 72.

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

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

Directors' induction and development



Case study

Board effectiveness

Indonesia and Vietnam strategy and Catcher development update

In April 2017, Directors attended a two-day working session in Singapore to review the Company's strategy in Indonesia and Vietnam and gain a deeper insight into the Catcher development project. Detailed management presentations were given by members of the Company's Indonesia and Vietnam Business Units and a further presentation was given in respect of the Catcher development project. Throughout the session, management had the opportunity to pose questions to the Board and Board members had the opportunity to discuss matters directly with management.

Directors also visited the Keppel shipyard in Singapore to view progress of the construction of the FPSO for the Catcher development and to meet with members of the Catcher project team.

The agenda included the following key areas:

Indonesia

- BIGP development project.
- Gas market outlook – Singapore and domestic.
- Forward strategy – existing producing fields; future developments, exploration and appraisal.

Vietnam

- Business environment – economic, political and industry context.
- Strategic objectives.
- Decommissioning.
- Employee matters.

Catcher

- Overall project update and budget status.
- 2017 wells update.
- Future area development potential.
- Catcher FPSO update.
- Safety performance.
- Internal control and assurance.

Board performance evaluation

An externally facilitated performance evaluation was last undertaken in 2016. The 2017 performance evaluation was undertaken internally and facilitated by the Interim Company Secretary. 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.

Due to the changes in Board membership and the short tenure of some of the new Directors and the Chairman, it was agreed that the 2017 Board performance evaluation would be conducted entirely through one-to-one meetings between the Chairman and each Director and the Interim Company Secretary. This process was mirrored for the Nomination Committee which is chaired by the Chairman.

The process enabled the Chairman to gain a more in-depth knowledge of matters relating to Board and Nomination Committee performance and to identify key issues relating to performance to be considered going forward.

It is the intention that an externally facilitated Board performance evaluation will be carried out in 2018.

Matters considered in the Board performance evaluation included:

- Board and Committee size and composition.
- Board skills and experience.
- Board dynamics.
- Frequency and duration of meetings.
- Quality of Board support.
- Balance between operational oversight and strategic discussion.
- Risk management and internal control.
- Succession planning and human resource management.

Due to material changes in Committee membership, it was agreed with the Remuneration Committee Chairman that the evaluation of the Remuneration Committee's performance would be conducted through one-to-one discussions between the Committee Chairman and each member.

For the evaluation of the performance of the Audit and Risk Committee, it was agreed with the Audit and Risk Committee Chairman that the evaluation would be conducted via the use of questionnaires completed by Committee members and regular attendees.

Led by the Senior Independent Director, the Non-Executive Directors reviewed the Chairman's performance taking into account the views of the Executive Directors.

The results of the evaluation were then discussed by the Board and each of the Committees and actions for 2018 were agreed.

2016 performance evaluation

Actions identified for 2017 from the externally facilitated 2016 performance evaluation included ensuring that the following matters were a key focus for the Board in 2017: succession planning and ongoing recruitment processes in respect of the Chairman and NEDs; successful introduction of a new Remuneration Policy; the successful completion of the refinancing; and the review of strategy post-refinancing. These actions were all completed during 2017.

2017 performance evaluation

Actions identified for 2018 from the internally facilitated 2017 Board performance evaluation included conducting a full review of Committee composition going forward and undertaking an externally facilitated Board performance evaluation in 2018, once the new Board becomes more established following the material changes to membership during 2017.

Case study
Board effectiveness

Decommissioning
In November 2017, all Directors attended an in-depth management presentation session on the subject of decommissioning.

Presentations were structured to provide the Directors with an overview of the technical aspects of decommissioning, the applicable regulatory regimes, and Premier's approach to decommissioning, including its current activities and the outlook to 2028. The presentation also covered new technologies and innovations which, amongst other things, will facilitate the improvement of the environmental impact of decommissioning.

Directors and presenters had the opportunity to hold further discussions in an informal setting.

The agenda included the following key areas:

Overview of decommissioning
- Regulatory regimes, stakeholder consultation, safety and CSR matters.
- Market sector information.

Premier's approach to decommissioning in the UK
- Safety.
- Planning and programming.
- UK regulatory, environmental and supply chain activities.
- Outlook to 2028 and phasing of decommissioning activity with particular emphasis on decommissioning of the Balmoral infrastructure in the North Sea.
- UK decommissioning team.

How decommissioning is undertaken
- Detailed explanation using one of Premier's assets as an example.

The following members of senior management presented to the Board:
- Decommissioning Manager – UK
- Development Projects Manager – UK
- Group Development and Operations Manager

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

All Directors have access to the Company Secretary and, if required, can take legal advice at the Company's expense. Directors also have access to an online Board resource library, further details of which are on page 70.

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

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

For any term beyond six years for a Non-Executive Director, performance is subject to a particularly rigorous review. It was agreed that Jane Hinkley, who has served as a Director for over seven years and will be standing for re-election, continues to provide sound, independent judgement and to make a significant contribution to the Board and its Committees. All Non-Executive Directors standing for election or re-election are considered to be independent.

Following satisfactory performance effectiveness reviews, the Nomination Committee recommended and the Board approved that each of the Directors be put forward for election or re-election at the 2018 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 92 and 94 respectively.

The main responsibilities of each Board role are set out on page 66 of this report. Full biographies can be found on pages 62 to 65. These set out the skills, knowledge and experience of each Director as well as current and previous appointments.

Conflicts of interest
Under statute, a Director has a duty to avoid a situation in which he or she has, or may have, a direct or indirect interest that conflicts, or 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 2017 these procedures were enforced and adhered to appropriately.

Power of Directors and process for amending Articles of Association
Details regarding the Company's Articles of Association and any amendment thereto, including the powers of Directors under the Articles, are included in the Directors' Report on page 114.

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.

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

Approximately 200 meetings were held with investors and prospective investors during 2017. 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 114 to 116.

Remuneration consultation

A shareholder consultation process was held between December 2016 and February 2017 regarding the proposed re-design of our Remuneration Policy for the Executive Directors and senior management. The Remuneration Committee consulted the Company's largest shareholders as well as voting advisory bodies to obtain feedback on the proposed policy. Adjustments were made to the proposed policy in response to feedback from shareholders.

Following the Annual General Meeting, a further consultation process took place in respect of the outcome of voting on the resolution to approve the Remuneration Report. Further details can be found on pages 96 and 97.

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.

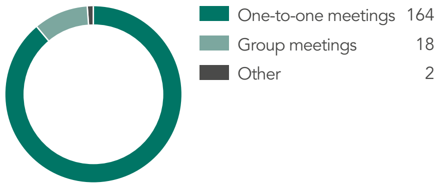
In accordance with current regulations, the Company uses its website as its default method of publication for statutory documents to reduce printing costs and help reduce our impact on the environment. All shareholders are offered the choice of receiving shareholder documentation, including the Annual 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.

Investor contact by type



Investor contact by location of investor

2017 shareholder engagement

January
- Trading and Operations update
- Consultation on Directors' remuneration

February
- Full-Year Results
- Further consultation on Directors' remuneration

February/March
- Full-Year Results roadshow

April
- Engagement with shareholders and voting advisory bodies on matters to be considered at the Annual General Meeting

May
- Trading and Operations update
- Annual General Meeting
- Post AGM consultation on Directors' remuneration (see page 82 of the Directors' Remuneration Report)

June
- General Meeting in respect of the refinancing

July
- Trading and Operations update

August
- Half-Year Results

August/September
- Half-Year Results roadshow

November
- Trading and Operations update

December
- General Meeting to approve the sale of Premier's Wytch Farm Assets

Iain Macdonald

Chairman of the Audit and Risk Committee

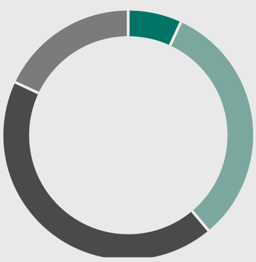
Membership and meetings held

Members	Scheduled Meetings attended (eligible to attend)	Ad-hoc Meetings attended (eligible to attend)
Iain Macdonald	4(4)	1(1)
Dave Blackwood	1(1)	0(0)
Mike Wheeler	0(0)	0(0)
Former members		
Anne Marie Cannon	4(4)	1(1)
Jane Hinkley	3(3)	0(0)
David Lindsell	1(1)	1(1)
Joe Darby	1(1)	1(1)

Role of the Committee

- Monitors and reviews the effectiveness of the Company's risk management and internal control systems, including the identification of emerging risks and the effectiveness of actions taken to mitigate them, together with the results of the programme of audits and reviews of these systems and management's response to any 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 audits and reviews undertaken, and the adequacy of management's response to matters raised.
- Monitors the integrity of the Company's financial statements and any formal announcements relating to the Company's financial performance and the significant financial reporting judgements they contain.
- Reviews the external auditors' independence and objectivity and the effectiveness of the audit process.
- Develops and implements policy on the engagement of the external auditors to supply non-audit services.
- Monitors the enforcement of the Company's Global Code of Conduct and the adequacy and security of its whistleblowing procedure.

How the Committee spent its time during the year (%)



Governance	7
Risk management and internal control	32
Financial reporting	43
Audit	18

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 Dave Blackwood, Mike Wheeler and myself, all of whom are independent Non-Executive Directors. I have assumed the role of Chairman of the Committee, succeeding David Lindsell who stood down from the Board and the Committee at the close of the Annual General Meeting on 17 May 2017. Dave joined the Committee on his appointment as a Non-Executive Director on 22 August 2017 and Mike Wheeler was appointed to the Committee in December 2017. Anne Marie Cannon and Jane Hinkley stood down from the Committee on 12 December 2017, whilst Joe Darby stood down from the Board and Committee at the close of the Annual General Meeting on 17 May 2017. 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 Audit and Risk Manager and representatives of the auditors. Other members of the Executive Committee or senior managers are required to attend when significant risk management or internal control matters relating to their area of responsibility are considered by the Committee. During the year, the Committee meets privately with the Group Audit and Risk Manager and with the Company's auditors. The Company Secretary acts as secretary to the Committee.

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

Meetings

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

Activities during the year

The Committee held four scheduled meetings and one ad-hoc meeting during 2017.

In March 2017, the Committee reviewed the 2016 Full-Year Results and the Annual Report and Financial Statements, discussed with the auditors their audit findings and completed its annual review of the effectiveness of the Company's risk management and internal control systems so as to be able to approve its statements on risk management and internal control in the Annual Report. In completing this review, the Committee discussed specific operational issues that had arisen in 2016 and significant risks foreseen for 2017, with particular emphasis on risks arising due to the refinancing of the Group's credit facilities. The Committee reviewed and endorsed the schedule of reportable audits and reviews of the internal controls planned for the year. The Committee reviewed with management the hydrocarbon reserves reporting process and undertook a review of its own effectiveness. Finally, the Committee reviewed and approved its report for inclusion in the Annual Report and Financial Statements.

At its June meeting, the Committee reviewed issues that were expected to affect the Half-Year Results, including the future oil price assumption and consequent asset impairments and the impact of the Group's refinancing process on the going concern basis of accounting. Ernst & Young LLP, following their appointment in May 2017, formally met with the Committee for the first time in their capacity as external auditors. EY gave the Committee an update on the process of the transition of the external audit and also their perspective on the key risks likely to affect the Half-Year Results. The Committee received updates on the current major business risks, including learnings from recent incidents and materialised risks. Of note, the Committee endorsed the publication of a new Group Risk Management Standard which is designed to facilitate the reliable and consistent management of risk across the Group. The Committee also reviewed progress and significant findings from the audits and reviews that were conducted over the period, including a detailed report on an HSES review of the Company's operations in Indonesia.

At the August meeting, the Committee reviewed the Half-Year Results and discussed the auditors' report on their review of the Half-Year Results. The Committee received updates on the current major business risks and significant findings from the reported audits and reviews conducted over the period. Of note, the Committee received a detailed report on a recent Group-wide review of the effectiveness of its audits and reviews and endorsed the recommendations arising. The Committee also received a progress update on actions set out in the annual control improvement plans put in place by the group functions and business units for the year.

In November, the Committee noted the most significant findings arising from the audits and reviews of the internal controls conducted during the year, including learnings from incidents or materialised risks and progress on closing out actions arising from the audits and reviews. As part of this review, the Committee received an update on the implementation of recommendations in relation to the Company's Indonesian operations following the HSES review earlier in the year. The Committee considered expected accounting and reporting issues relating to the Full-Year Results and the auditors' work plan (which built on the discussions held at the time of the Half-Year Results), and reviewed and approved the proposed audit fee. In addition, the Committee received a report on the Company's preparedness for new tax regulatory requirements and reviewed the coverage and sufficiency of insurance cover in the Group. Finally the Committee received an update on the arrangements in place to manage cyber security which include the appointment of an Information Security Manager.

The Committee met in January and again in March 2018 to review the key accounting and reporting issues relating to the 2017 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 22 to 29 and to report to the Board that, in the Committee's view, the Annual Report and Financial Statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy. The Committee's review included the going concern statement and viability statement included within the Annual Report and Financial Statements and the forecasts prepared by management on which the statements are based. In completing its annual review of the effectiveness of the risk management and internal control systems, the Committee reviewed the close-out of the audits and review from 2017 and the control improvement plans put in place by each function and business unit for 2018. As discussed in more detail on page 78, the Committee also reviewed the effectiveness of the audit process and the independence of Ernst & Young LLP.

Risk management and internal control

The Committee continues to be responsible for reviewing the design and operating effectiveness of the Group's risk management system. This system is designed to assess, reduce, monitor and communicate the principal risks facing the Group. 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 22 to 29.

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

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

Audit and review of internal controls

An annual risk-based programme of audits and reviews is proposed to the Committee following discussion between the Group Audit and Risk Manager and the functional and business unit management teams. The Company conducts three levels of review:

Level 1: Local management team review e.g. business unit manager site safety review.

Level 2: Group function review of business unit 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 approves the programme, and at each meeting receives reports covering progress against the plan, any significant findings emerging and, most recently, progress of the closeout of actions agreed to address the findings.

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 mitigate risks were agreed with the relevant business unit or group function after each review and progress in implementing the recommendations was monitored by the applicable group function and overseen by the Group Audit and Risk Manager.

Financial reporting

The Committee reviewed the 2017 Half-Year and Full-Year financial results announcements and 2017 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 2017 financial statements. The areas of focus for the Committee included consistency of application of accounting practices and policies; compliance with financial reporting standards and stock exchange and legal requirements; the appropriateness of assumptions and judgements in items subject to estimation; the going concern assumption; the clarity and completeness of disclosures in the financial statements; and, in relation to the Annual Report and Financial Statements, whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

The Committee considered the following major items that required significant judgement and estimation in preparing the 2017 financial statements:

Going concern

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

Following the completion of the Group's refinancing of its credit facilities, at 31 December 2017, the Group had significant availability of financing and the Group's base case projections indicated that the Group will be able to operate under the requirements of its existing borrowing facilities and will have sufficient financial headroom throughout the going concern period, which is currently for the 12-month period ending 31 March 2019.

The Committee is satisfied that an appropriate degree of caution has been applied in exercising the judgements needed in making the assumptions and estimates in the forecasts and projections, and has concluded that the statement on going concern in the Financial Review on pages 42 and 43 is fair and balanced.

The Committee has advised the Board that it is reasonable for the Directors to expect that the Group will have adequate resources to continue in operational existence for the foreseeable future and, accordingly, that the going concern basis is the appropriate basis of preparation for the 2017 financial statements.

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

The Committee satisfied itself by reference to the Group's business plan and discussion with management that, in respect of all E&E assets, either commercially viable resources have been discovered or substantive expenditure on further exploration and evaluation activities in the specific area is budgeted or planned and an unexpired licence period remains. Details of the Group's E&E assets are provided in note 9 to the financial statements on page 146.

Accounting for the refinancing

The Committee reviewed in detail the accounting for the refinancing which completed in 2017. The key judgement focussed on whether or not the modifications of the terms of each financing facility represented a substantial modification under the requirements of IAS 39 and, principally, whether the NPV of the revised cash flows discounted at the original effective interest rate were at least 10 per cent different from the discounted present value of the remaining cash flows of the original finance facility. This was assessed by management individually for each finance facility and the Committee reviewed the inputs and outputs of each assessment.

The Committee was satisfied that the modified terms of the USPPs, SSL and convertible bond notes represented a substantial modification and that the modified terms of the RCF, Term Loan and retail bond notes did not represent a substantial modification. Details of the accounting for the refinancing are provided in note 15 to the financial statements on pages 150 to 153.

Oil and gas reserves

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

The Committee considered reports from management on the process applied to calculate the reserves estimates, addressing in particular the extent to which the methodology and techniques applied by the Company were generally accepted industry practice, whether the methodology and techniques applied were consistent with those applied in prior years, and the experience and expertise of the managers who prepared and reviewed the estimates. During 2017, ERC Equipoise was appointed as the new reserves auditor following a competitive tender process.

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 147, an impairment charge of US$296.6 million has been recognised, principally in respect of the Solan field (US$268.1 million pre-tax and US$180.5 million post-tax) in the UK North Sea as a result of a downgrade in the reserves expected to be economically extracted from the asset. This has been partially offset by a reversal of impairment of US$44.4 million (pre-tax) in relation to the Huntington field in the UK North Sea principally due to the agreement of a lease extension for the FPSO at a reduced rate. In order to determine whether an asset is impaired or whether a reversal of impairment is required, management assess whether any indicators for impairment or reversal of impairment exist for the Group's producing and development oil and gas properties. Where such an indicator exists, the future discounted net cash flows the Company expects to derive from the asset must be estimated. Such estimates are based on a number of assumptions including future oil and gas prices, the latest estimates of costs to be incurred in bringing fields under development into production, oil and gas reserves estimates, production rates and the associated cost profiles and discount rates that reflect risks specific to individual assets.

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

The Committee noted 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$70/bbl in 2020 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 148). The Committee also noted that forecast field development costs were based on detailed and carefully reviewed current estimates.

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

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

Provisions for decommissioning costs

Estimates of the cost of future decommissioning and restoration of hydrocarbon facilities are based on current legal and constructive requirements, technology and price levels, while estimates of when decommissioning will occur depend on assumptions made regarding the economic life of fields which in turn depend on such factors as oil prices and operating costs. The Committee therefore discussed with management the estimation process and the basis for the principal assumptions underlying the cost estimates, noting in particular the reasons for any major changes in estimates as compared with the previous year. The Committee was satisfied that the approach applied was fair and reasonable. The Committee was also satisfied that the discount rate used to calculate the provision was appropriate. Further information on decommissioning provisions is provided in note 17 on page 154.

Taxation

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

The Committee discussed with management their projections of probable UK taxable profits and noted that these projections include existing producing assets and certain currently unsanctioned development projects. The projections use underlying assumptions which are consistent with those used in the asset impairment review and support the recognition of a net deferred tax asset of US$1,297.5 million resulting in a tax credit of US$96.1 million for the year. Further details of the deferred tax asset and the assumptions used to estimate the amount of tax recoverable in respect of tax losses and allowances are provided in notes 6 and 19 to the financial statements on pages 142 and 160, respectively.

A number of new legislative tax requirements came into effect in 2017 that introduce significant changes to the international tax system to combat tax avoidance and move towards a more transparent corporate environment. These include the requirement to publish a board approach to Tax Policy, file a country-by-country report, maintain transfer pricing master and local files and ensure reasonable preventative procedures are in place to prevent associated persons facilitating tax evasion. The Group has met its current obligations in respect of each of these requirements. The Group's Tax Policy was approved by the Board and published on the Group's website in December 2017.

External audit

External auditors

Following the competitive tender process for the provision of external audit services in 2016 and approval by shareholders at the Group's 2017 Annual General Meeting, Ernst & Young LLP was appointed as the Group's external auditors with effect from the financial year which commenced on 1 January 2017. A resolution to re-appoint Ernst & Young LLP as the Group's external auditors will be proposed at the Group's 2018 Annual General Meeting.

Audit effectiveness

The Committee reviewed the auditors' work plan at the start of the audit cycle, considering in particular the effectiveness of the transition of the new external auditors from Deloitte to Ernst & Young and the new auditors' assessment of the significant areas of risk in the Group's financial statements. For 2017, the significant areas of risk corresponded with the major areas of judgement identified by the Committee discussed above, and the scope of their work. At the conclusion of the audit, the Committee discussed with the auditors the findings of the audit, including key accounting and audit judgements, the level of errors identified during the audit, the recommendations made to management by the auditors and management's response. The Committee met privately with the auditors in 2017 and in March 2018 at the conclusion of the 2017 audit.

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

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

Auditors' independence and objectivity

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

The Committee believes that certain non-audit work may be carried out by the auditors without compromising their independence and objectivity. The allocation of non-audit work is considered by reference to the Company's policy on the provision of non-audit services by the auditors, which can be found on the Company's website. The use of the auditors for services relating to accounting systems or the preparation of financial statements is not permitted, and neither are various other services, such as valuation work, which could give rise to conflicts of interest or other threats to the auditors' objectivity that cannot be reduced to an acceptable level by applying safeguards. The Committee believes that certain non-audit assurance and advisory services may be best performed by the auditors as a result of their unique knowledge of the Company. Any 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 141.

Ernst & Young LLP were required to confirm to the Committee that they have both the appropriate independence and objectivity to allow them to continue to serve the members of the Company. The Committee also requires the auditors to confirm that in providing non-audit services, they comply with the Ethical Standards for Auditors issued by the UK Auditing Practices Board. This confirmation was received for 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

Iain Macdonald
Chairman of the Audit and Risk Committee

7 March 2018

Roy A Franklin

Chairman of the Nomination Committee

Membership and meetings held

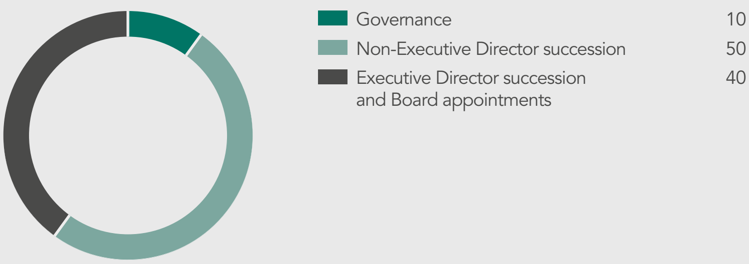
Members	Meetings attended (eligible to attend)
Roy A Franklin (Committee Chairman)[1]	2(2)
Dave Blackwood[2]	2(2)
Anne Marie Cannon	3(3)
Tony Durrant	3(3)
Jane Hinkley	3(3)
Iain Macdonald	3(3)
Mike Wheeler[2]	2(2)
Former members	
Joe Darby[3]	1(1)
David Lindsell[3]	1(1)
Mike Welton[4]	1(1)

1 Roy A Franklin was appointed as a member and Chairman of the Committee on 1 September 2017.
2 Dave Blackwood and Mike Wheeler were appointed as members of the Committee on 22 August 2017.
3 Joe Darby and David Lindsell stepped down as Committee members on 17 May 2017.
4 Mike Welton stepped down as a member and Chairman of the Committee on 1 September 2017.

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,

I am pleased to present to you my first report as Chairman of the Nomination Committee. On 1 September 2017, I succeeded Mike Welton as Premier's Chairman and as Chairman of the Nomination Committee following Mike's retirement from the Board. I would like to thank Mike for his hard work in leading the Committee over the past eight years, in particular, during the course of 2017, which was a crucial year for the Company in terms of the search for suitable candidates for two new Non-Executive Directors and the position of Chairman.

The work of the Committee plays a crucial role in ensuring that the Board has the necessary skills, knowledge, experience and independence to enable the Company to achieve its strategic objectives and deliver value to its stakeholders. I look forward to leading the Committee as it continues this important work.

This report outlines details of the Committee's work during the course of 2017, including the process it has used in relation to Board appointments. It also outlines key areas of focus for the Committee in 2018 and provides details of the Board's policy on diversity, a key element in ensuring the Board's effectiveness.

The work of the Committee during 2017

It has been another busy year for the Nomination Committee, with much of the Committee's time focused on succession planning and the search for suitable candidates for the position of Chairman and for two new Non-Executive Directors.

As announced in January 2017, Joe Darby, the Company's Senior Independent Non-Executive Director, and David Lindsell, Non-Executive Director and Chairman of the Audit and Risk Committee, both stepped down as Directors at the conclusion of the Company's 2017 Annual General Meeting. Joe and David had served on the Board for over nine years and the appointment of two new Non-Executive Directors to succeed them ensures the continued refreshment and independence of the Board and its Committees.

On 10 August 2017, Dave Blackwood and Mike Wheeler were appointed to the Board as Non-Executive Directors.

These appointments strengthen the Board's technical knowledge as well as its knowledge of corporate financing and will play a significant part in ensuring that your Board continues to have the necessary skills, knowledge and experience as the Company enters the next phase of its growth and returns to balance sheet strength.

My experience leading other oil and gas companies provides continuity in terms of leadership and I look forward to working with the Board and its Committees as we enter a new phase in our development following the successes of refinancing our debt facilities and bringing Catcher on-stream.

Process for the appointment of Directors

As part of the search for suitable candidates for the positions of Non-Executive Director and Chairman, the Nomination Committee considered in detail the existing skills, knowledge, experience and independence on the Board together with the skills, knowledge, experience, independence and diversity necessary to successfully deliver the Company's strategic objectives. The output from this process was used to draw up a role specification for each position, taking into account the time commitment required for each of the roles.

Ridgeway Partners, an external search consultancy who are a signatory to the Voluntary Code of Conduct for Executive Search Firms and have no other connection with the Company, was selected to facilitate the recruitment process for the position of Chairman and for a Non-Executive Director that would strengthen the Board's technical knowledge. The Nomination Committee, led by the Senior Independent Director, worked with the external search consultancy to identify suitable candidates taking into account the skills, knowledge and experience required for each role, as well as the diversity of the Board in its widest sense. The search consultancy produced detailed profiles of prospective candidates, which were later reduced to a short-list of candidates, including both male and female candidates. Briefing reports were provided to the Committee following meetings with each of the candidates.

The second Non-Executive Director position required extensive knowledge of corporate financing arrangements in companies managing balance sheet recovery. A decision was made not to use an external search consultancy or open advertising for the recruitment of that position because Mike, a candidate with outstanding experience, was available, and the Company believed that taking a decision to secure his services quickly was in the best interests of all stakeholders.

All Directors were given the opportunity to meet with the short-list of candidates for the position of Chairman and for each Non-Executive Director position on a one-to-one basis and provided feedback to the Committee, before a decision was made in respect of each appointment.

Following the rigorous selection process, the Committee submitted their recommendation in respect of each of the Board appointments and the Board accepted those recommendations. The outgoing Chairman did not chair the Committee when it was dealing with the appointment of his successor. The incoming Chairman met the independence test set out in section B.1.1. of the Code on appointment.

During the year, the Committee also considered the appointment of a successor to Joe Darby as Senior Independent Director. After careful consideration of the qualities required of a senior independent director, the Committee recommended to the Board the appointment of Jane Hinkley who succeeded Joe as Senior Independent Director on 17 May 2017. Jane has been a Non-Executive Director of the Company for seven years and undertook a detailed consultation exercise with shareholders on the Board's new Remuneration Policy during the latter part of 2016 and early 2017. We therefore believe that she has the experience necessary to effectively fulfil this role.

Succession planning

During 2017, the Committee has continued to focus on succession planning and the active engagement and development of the Company's employees.

To this end, the Committee reviewed progress with the implementation of a structured programme for talent development across the Group that will ensure the Company has the necessary pipeline of talent and diversity to fulfil its business strategy and objectives. The programme will play a crucial role in the succession planning process for both senior management and Executive Directors.

During the year, the Committee also continued to review the development and leadership potential of senior executives below Board level.

Board Diversity Policy

The Board recognises the benefits of diversity in enhancing the quality of its performance.

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 for the benefits of diversity on the Board, including gender diversity.

The objective of our Board Diversity Policy is to ensure an optimum Board and efficient stewardship to successfully deliver the Company's strategy.

The Committee reviewed its approach to Board diversity during the year and chose to maintain its current policy of embracing diversity in its broadest sense without setting measurable objectives.

Our Policy was implemented in respect of the process undertaken during the year for the appointment of a new Chairman and two new Non-Executive Directors as detailed earlier in this report. This included a careful assessment of each candidate's profile against objective criteria, recognising the benefits of diversity.

We remain committed to ensuring the diversity of our Board, including gender diversity, and currently have two female Non-Executive Directors, Jane Hinkley and Anne Marie Cannon, on a Board of nine Directors which equates to 22 per cent. Further details of the Board's composition are outlined on pages 62 to 65.

The work of the Committee in 2018

In 2018, the Committee will focus on succession planning for our Executive Directors. We aim to ensure that we have a pipeline of senior executives within the Group with the necessary skills and knowledge to succeed our Executive Directors and ensure an effective Board. To this end, the Committee will continue to focus its efforts on the development of our employees and senior management across the Group to ensure that our workforce is best positioned to take the Company forward and deliver the Company's strategic objectives. We will closely monitor the methodology for the review of talent across the Group to ensure that the Company can manage the succession needs of the business. This programme will ensure enhanced staff engagement, performance and retention where all employees can develop to their optimal potential within the Group with due regard to the benefits of diversity, including gender diversity.

Roy A Franklin
Chairman of the Nomination Committee

7 March 2018

Chairman's statement

Jane Hinkley

Chairman of the Remuneration Committee

Membership and meetings held

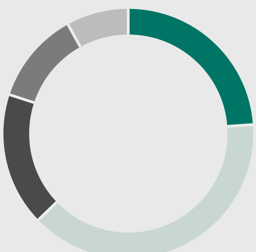
Members	Scheduled Meetings attended (eligible to attend)	Ad-hoc Meetings attended (eligible to attend)
Jane Hinkley (Committee Chairman)	4(4)	1(1)
Dave Blackwood[1]	0(0)	0(0)
Anne Marie Cannon[2]	2(2)	0(0)
Former members		
Joe Darby[3]	2(2)	1(1)
Roy A Franklin[4]	1(1)	0(0)
David Lindsell[3]	2(2)	1(1)
Iain Macdonald[5]	2(2)	0(0)

1 Dave Blackwood was appointed as a member of the Committee on 12 December 2017. No meetings were held between his date of appointment as a member and 31 December 2017.
2 Anne Marie Cannon was appointed as a member of the Committee on 17 May 2017 and was therefore only eligible to attend two Committee meetings during 2017.
3 Joe Darby and David Lindsell stepped down as members of the Committee on 17 May 2017 and were therefore only eligible to attend three Committee meetings during 2017 (two scheduled meetings and one ad-hoc meeting).
4 Roy A Franklin was appointed as a member of the Committee on 1 September 2017 and stepped down as a member on 12 December 2017. He was therefore only eligible to attend one meeting in his capacity as a member of the Committee. He continues to attend meetings in his capacity as Chairman of the Board.
5 Iain Macdonald was appointed as a member of the Committee on 17 May 2017 and stepped down on 12 December 2017. He was therefore only eligible to attend two meetings during 2017.

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 (%)[1]



Setting Executive remuneration	24
Reward policy for Executive Directors	39
Incentive arrangements for all employees	17
Corporate governance matters	12
Other	8

1 The above time allocations do not include the time spent undertaking the shareholder consultation exercise as this was an exceptional item.

Dear shareholder,

On behalf of the Board, I am pleased to present the Directors' Remuneration Report for the financial year ended 31 December 2017. The report summarises our Remuneration Policy, how it has been operated during the year and how it will be implemented in 2018. The report also provides an overview of the key decisions taken by the Committee during the year.

2017 Remuneration Policy and alignment to the Company's strategy

Following shareholder consultation, our new Remuneration Policy (the 'Policy') was put to shareholders and approved at the Company's 2017 Annual General Meeting ('AGM'). The Policy is designed to support our strategy and to ensure that we achieve our objectives and deliver value to our shareholders.

There are four key pillars to our strategy: ensuring that we operate in a safe and responsible manner; focusing on high quality assets with commercially advantaged positions; ensuring that we have access to capital and financial liquidity; and attracting and retaining the right people. Our Policy reflects this strategy: salary, benefits and pensions are sufficiently competitive to attract and retain the right people with the right skills and knowledge; and bonuses and long-term incentives are directly aligned to the four key pillars of our strategy. In particular, with the successful conclusion of our refinancing, particular focus was given in the design of our Policy to the strategic aim of balance sheet recovery in the immediate term to provide the foundation for future long-term sustainable growth.

The total reward maximum quantum was significantly reduced to better reflect current market capitalisation and shareholder experience. This was achieved primarily through the removal of the Matching Share Award which formed part of our 2009 Long Term Incentive Plan ('2009 LTIP'). A new Long Term Incentive Plan ('2017 LTIP') was introduced that importantly aligned more directly with our strategy of debt repayment and out-performance of our peer group companies. It also removed the correlation to the commodity price under the Equity Pool portion of the 2009 LTIP, thus focusing these incentives on outcomes that are directly controllable by management.

The 2017 LTIP comprises two types of awards which support different elements of our strategy. The Performance Share Award aligns reward purely to Relative Total Shareholder Return and the new Restricted Share Award aligns to the primary objective of balance sheet recovery, independent of other performance objectives. Long-term alignment to shareholder interests is maintained with the introduction of a compulsory post vesting Holding Period ending on the fifth anniversary of the date of grant of the awards and the increase of Executive Directors' shareholding requirements to 250% of base salary.

Details of our Policy are set out on pages 84 to 94 of the Remuneration Report. A copy of the full Remuneration Policy Report as approved by shareholders at the 2017 AGM is available on the Company's website www.premier-oil.com.

Shareholder consultation

As part of the development of our 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 for the changes made last year and to seek their views on our proposals. Much of that feedback was incorporated into the final policy design, such as the introduction of a Restricted Share Award performance underpin and the increase to shareholding guidelines, culminating in the vast majority of votes received being in favour of the new Policy (88.18% of votes received).

Consultation continued beyond the AGM with a number of institutional shareholders who had voted against the Directors' Remuneration Report (30.49% of votes received) to better understand the reasons for their lack of support. Details of those areas of concern and further narrative relating to that consultation can be found on pages 96 to 97.

Implementation of our Remuneration Policy in 2017

As disclosed in last year's Directors' Remuneration Report, the Committee decided in principle that, due to market conditions, the awards for 2016 under the 2009 LTIP should be scaled back by 50% and there should be no Matching Awards. The formal grant of these awards could not be made until April 2017 when we were no longer in a restricted trading period for our Directors. This was as a result of our refinancing and the divestment of our Pakistan Business Unit. The Performance Period for these awards remains 1 January 2016 to 31 December 2018.

For 2017, the Committee again decided to scale back significantly awards which were made under the 2017 LTIP, considering it appropriate in the prevailing business environment to restrict the number of shares subject to the award. Both the Restricted Share Award and the Performance Share Award were reduced by 50 per cent. 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 again removed in 2017 (representing 50 per cent of the award) and the Base Award was also scaled back by 50 per cent. The 2017 grants were deferred until September 2017 following approval of the new Policy at the AGM and the release of our Half-Year Results, once again with a three-year Performance Period starting on the first day of the financial year.

The three-year Performance Period relating to the awards granted in 2015, under the terms of the 2009 LTIP, ended in December 2017. As performance for these awards is calculated on Absolute and Relative Total Shareholder Return, with the fall in our share price over the Performance Period and the Company's performance relative to our peer group, the 2015 awards lapsed in full, thus demonstrating the link between Directors' remuneration and share price performance.

The performance targets for the 2017 bonus, and achievement against these targets, are set out on page 99. Whilst not meeting the timing threshold for bonus qualification, the successful delivery of our refinancing was clearly a significant and important milestone. Notwithstanding that, there have also been a number of other successful outcomes against a challenging performance scorecard that have further strengthened the Company in the execution of our near-term strategy: notably first oil by year-end and under budget capex of the Catcher project, both benefitting cash flows and balance sheet improvement in 2018; progressing the Tolmount project towards project sanction in 2018; transformational exploration success with the major Zama discovery in Mexico; accelerated debt repayment through our successful disposal programme of non-core assets; and all underpinned by continued very strong operational and HSES performance across the Group. This performance resulted in a bonus outcome for Directors ranging from 75.0 to 76.1 per cent of salary out of a maximum bonus opportunity of 120 per cent of salary. All awards above 50 per cent of base salary are deferred in shares for three years.

2017 saw the retirement of Joe Darby and David Lindsell and I would like to personally thank both of them for their advice and contributions to the deliberations of the Committee, particularly during a period that has seen significant changes to our remuneration policies throughout the organisation. On their retirement, Iain Macdonald and Anne Marie Cannon, both existing independent Non-Executive Directors, joined the Committee.

Following the appointment of Dave Blackwood and Mike Wheeler as Non-Executive Directors in August 2017 and the appointment of Roy A Franklin as Chairman in September 2017, Committee membership was reviewed and it was agreed that Roy A Franklin and Dave Blackwood would be appointed to the Committee pending a full review of

Committee membership. Accordingly, a further review took place in December 2017 when it was decided that Iain Macdonald would step down as a member of the Committee in order to have further time to devote to his duties as Chairman of the Audit and Risk Committee and Roy A Franklin would step down as a member of the Committee and continue to attend in his capacity as Chairman of the Board.

Further details on how our Policy was applied during the year ended 31 December 2017 can be found in the Annual Report on Remuneration on pages 95 to 113.

Implementation of our Remuneration Policy in 2018

A general 2.5 per cent inflationary pay adjustment, subject to personal performance and pay position to market, was granted for our broader employee population within the UK Company in January 2018. However, it was agreed that the Directors would not receive any increase in salary for 2018.

The 2018 performance targets for the annual bonus are set out in general terms on page 106. The performance targets have been chosen to ensure continued alignment with our strategic objectives. However, for reasons of commercial sensitivity, detailed figures are not given. Our intention is to publish these, together with the bonus outcome, in the Annual Report on Remuneration for 2018.

Long Term Incentive awards for 2018 will comprise both Performance Share Awards and Restricted Share Awards. The Restricted Share Awards will be scaled back by 50%. The Performance Share Awards will be granted in full. This reflects a continued scale back but at a reduced level from the previous year when the Performance Share Awards were also scaled back. In addition, it was determined that full vesting of the Performance Share Awards would occur at upper decile TSR performance compared with upper quartile for the previous year's awards. Further details of the proposed awards are contained on page 107.

Vesting of the awards will be subject to performance measured over a three-year period commencing on 1 January 2018, further details of which are contained on page 107. A Holding Period will be applied ending on the fifth anniversary of the Award Date.

Given the recent changes to the Board and the unchanged salaries for the Executive Directors, the biennial review of the Chairman's and the Non-Executive Directors' fees has been postponed for a further year and hence no further adjustments have been made.

A considerable amount has been achieved in shaping our new Policy, that is now much more relevant to the scale of the Company's operations, the environment we operate in and the strategic and tactical challenges specific to the Company, both in the short and longer term. The dialogue and input of our shareholders throughout the consultation process for those changes has been invaluable in informing and shaping our position and we remain keen to hear our 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

7 March 2018

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 auditors to report to the shareholders on certain parts of the Directors' Remuneration Report and to state whether, in the auditors' opinion, those parts of the report have been properly prepared in accordance with the above regulations. The Chairman's Annual Statement and the Policy Report are not subject to audit. The sections of the Annual Report on Remuneration that are subject to audit are indicated accordingly.

Policy report

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

The 2017 Remuneration Policy ('Policy') remains unchanged and will therefore not be put to a shareholder vote at the 2018 Annual General Meeting ('AGM'). Shareholder approval will next be sought no later than at the Annual General Meeting to be held in 2020. Details of the Policy have been included in the Directors' Remuneration Report to provide the context within which the Committee has conducted its work during the year. The full Remuneration Policy Report as approved by shareholders at the 2017 AGM, is contained on pages 96 to 105 of the Company's 2016 Annual Report and Accounts, a copy of which can be found in the Investor Relations section of the Company's website www.premier-oil.com.

The Annual Report on Remuneration on pages 95 to 113 sets out how the Policy has been applied during 2017 and how it will be applied throughout the remainder of 2018 and will be put forward to shareholders for an advisory vote at the AGM.

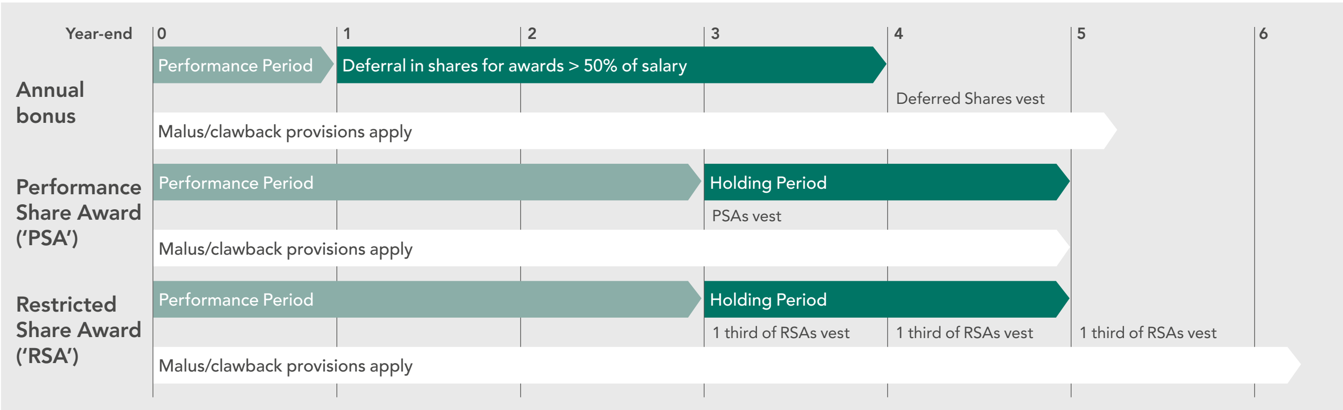
Key principles of our Remuneration Policy

The Committee regularly reviews remuneration policy to ensure it supports shareholder interests and reinforces the business strategy. Overall, the Committee aims to ensure that pay rewards all employees fairly and responsibly for their contributions. Remuneration packages are intended to be sufficiently competitive to attract, retain and motivate individuals of the quality required to achieve the Group's objectives and thereby enhance shareholder value. In addition, the Committee aims to ensure that remuneration policy does not raise environmental, operational, social or governance risks by inadvertently motivating irresponsible behaviours.

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

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

The graphic below indicates how the current incentive structure operates:



The current long-term incentive structure also reflects the long-term incentive arrangements introduced for employees below Executive Committee level, as summarised on page 89. Awards to Directors under the Premier Oil 2017 Long Term Incentive Plan ('2017 LTIP') comprise three key elements – Restricted Share Awards, Performance Share Awards and Deferred Bonus Awards. The combination of these three elements places greater focus on outcomes that are controllable and that reward out-performance of the market rather than outcomes related to the commodity cycle. The maximum opportunity under the 2017 LTIP has been significantly reduced to reflect the Restricted Share Award element. Further details are included in the Policy Table on pages 87 to 88.

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

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

Pension continued

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 5 per cent per annum. The Scheme is subject to an internal earnings cap which is reviewed annually but for Executive Directors, the Company provides for pension benefits above the earnings cap through a 'pension promise', based on the cash equivalent transfer value of benefits accrued within the defined benefit scheme for earnings above the earnings cap. The way this promise is currently administered is as follows: 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 95 to 113

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

Long-term incentives continued

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

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 granted in 2017 are provided in the Annual Report on Remuneration on pages 95 to 113

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 is specifically related to two metrics to assure balance sheet and business strength – the reduction in absolute level of net debt and the reduction of the ratio of net debt to EBITDA targets will be as agreed with our lenders • Underpin metrics for subsequent grants will be selected to specifically reinforce changes to strategic focus in future years

Further details on the Policy

Remuneration Policy for other employees

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

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

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

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

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

Share ownership requirements

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

Details of the current shareholdings of the Executive Directors are provided in the Annual Report on Remuneration on page 109.

Incentive plan discretions

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

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

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

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

Minor changes

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

Provisions of the 2014 Remuneration Policy that will continue to apply

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

- 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 2016 LTIP cycle ('2016 LTIP'). The 2016 LTIP may vest subject to the achievement of three-year performance conditions to 31 December 2018. 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 2016 LTIP is subject to a cap of 50 per cent of salary.
- The grant of Deferred Awards under the 2009 Long Term Incentive Plan. 50 per cent of any shares vesting pursuant to the 2016 LTIP Equity Pool Awards and Performance Share Awards will be deferred into shares in the form of a Deferred Award. The Deferred Shares will be subject to a three-year deferral period ending on 31 December 2021. The awards will not qualify for a Matching Award.
- Good leaver and change of control provisions will continue to apply in accordance with the rules of the 2009 Long Term Incentive Plan.
- Deferred Bonus Awards granted in relation to bonuses for the year ended 31 December 2016.
- Malus and clawback and change of control provisions will continue to apply to all outstanding awards under the 2009 Long Term Incentive Plan and to bonus awards made to Directors for the year ended 31 December 2016.
- Robin Allan was employed by the Company between September 1986 and November 1999 and is entitled to a deferred pension under the Scheme in respect of this period of employment.

Illustration of application of the Executive Director Remuneration Policy

The 2017 Policy is geared towards performance-orientated pay, with a particular emphasis on long-term performance. For example, at 'on-target' performance, approximately 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 compared with arrangements under the 2014 Policy.

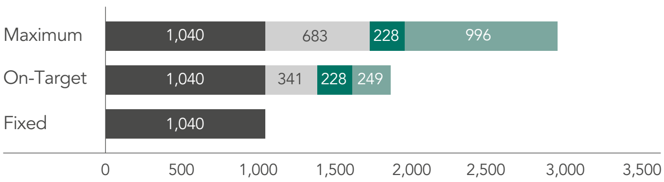
The performance scenario charts below show the estimated remuneration that could be received by the current Executive Directors for 2018, both in absolute terms and as a proportion of the total package under different performance scenarios. The assumptions underlying each performance scenario are detailed in the table below:

	Remuneration receivable for different performance scenarios		
Fixed pay	• 2018 salary, as disclosed in the Annual Report on Remuneration on page 106 • 2017 taxable benefits, as provided in the single figure table on page 97 • Pension contribution of 20 per cent of salary for the Finance Director and 2017 pension benefits for other Executive Directors as provided in the single figure table on page 97		
	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)

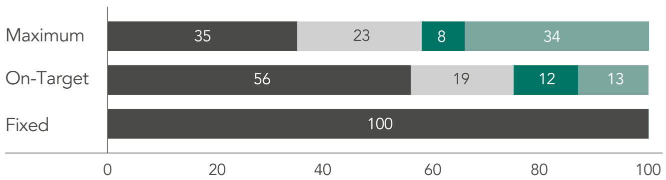
The charts below illustrate the potential reward opportunities for each of the current Executive Directors for the three performance scenarios.

Tony Durrant, Chief Executive Officer

(£'000s)

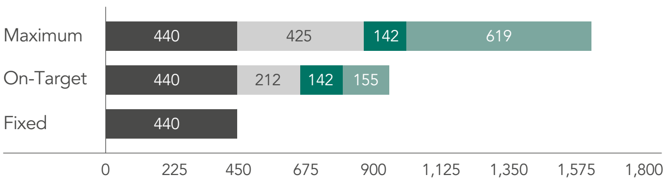


(%)

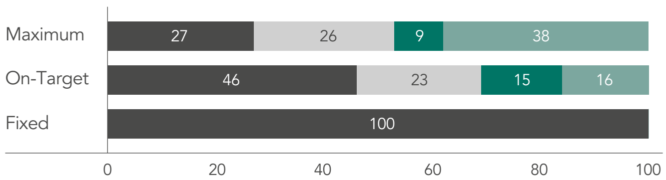


Richard Rose, Finance Director

(£'000s)



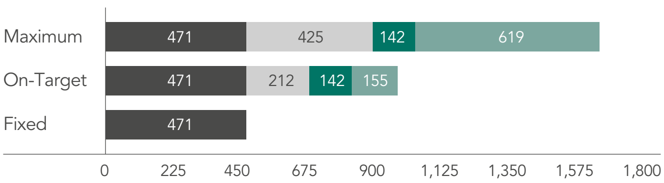
(%)



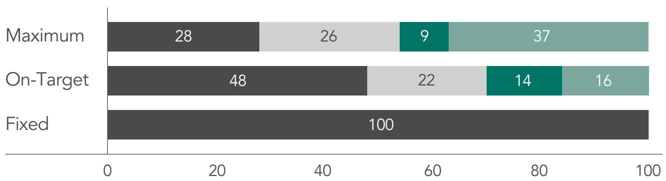
1 Charts for Richard Rose do not include the Conditional Share Award made to him in 2014 to 'buy out' the share awards forfeited on resignation from his former employer.

Robin Allan, Director, North Sea and Exploration

(£'000s)



(%)



Fixed Annual bonus Restricted Share Awards Performance Share Awards

Notes:

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

Approach to remuneration of Executive Directors on recruitment

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

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

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

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

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

Service contracts and exit payments and change of control provisions

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

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

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

The Company will consider termination payments in light of the circumstances on a case-by-case basis, taking into account the relevant contractual terms, the circumstances of the termination and any applicable duty to mitigate. In such an event, the remuneration commitments in respect of the Executive Director contracts could amount to one year's remuneration based on salary, benefits in kind and pension rights during the notice period, together with payment in lieu of any accrued but not taken holiday leave, if applicable. There are provisions for termination with less than 12 months' notice by the Company in certain circumstances. If such circumstances were to arise, the Executive Director concerned would have no claim against the Company for damages or any other remedy in respect of the termination. The Committee would apply general principles of mitigation to any payment made to a departing Executive Director and will honour previous commitments as appropriate, considering each case on an individual basis.

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

Event	Timing of vesting/award	Calculation of vesting/payment
Annual bonus/Deferred Bonus Awards		
'Good leaver'	• 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 110.

Consideration of employment conditions elsewhere in the Company

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

Consideration of shareholder views

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

Non-Executive Director Remuneration Policy

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

Director	Year appointed Director	Date of current appointment letter
Roy A Franklin	2017	10.08.2017
Dave Blackwood	2017	09.08.2017
Anne Marie Cannon	2014	24.01.2017
Jane Hinkley	2010	17.05.2017
Iain Macdonald	2016	13.04.2016
Mike Wheeler	2017	10.08.2017

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

Fees	
Purpose and link to strategy	• 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 2017

As at 31 December 2017, the Committee comprised three Non-Executive Directors, all of whom are independent. Jane Hinkley served as Chair of the Remuneration Committee throughout the year. Membership of the Committee during 2017 is summarised below:

Committee member	Member throughout 2017	Appointed during 2017 (Date)	Stepped down during 2017 (Date)
Jane Hinkley (Chair)	✓	–	–
Dave Blackwood	–	12 December 2017	–
Anne Marie Cannon	–	17 May 2017	–
Joe Darby	–	–	17 May 2017
Roy A Franklin	–	1 September 2017	12 December 2017[1]
David Lindsell	–	–	17 May 2017
Iain Macdonald	–	17 May 2017	12 December 2017

Notes:

1 Roy A Franklin continues to attend Committee meetings in his capacity as Chairman of the Board.

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.

The Group HR Director attended meetings as appropriate. The Company Secretary acts as Secretary to the Committee and attends all meetings of the Committee. Members of the Board and any other employees attending Committee meetings leave the meeting when their own remuneration is being discussed.

The Committee acts within 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 and senior management;
- 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 2017, the Committee met five times. Four meetings were scheduled in advance with one ad-hoc meeting held.

Key activities of the Committee during the year included:

- continuing the consultation process with shareholders in regard to the 2017 Directors' Remuneration Policy (the 'Policy'), including the structure of the 2017 Long Term Incentive Plan ('2017 LTIP');
- considering shareholder feedback on the Policy and approving a final version for submission to shareholders for a binding vote at the 2017 Annual General Meeting;
- considering remuneration policies and practices across the organisation;
- determining the remuneration for Executive Directors, including consideration of annual pay adjustments for the Executive Directors and senior management alongside the broader employee population and reviewing pension arrangements for Executive Directors and employees;
- monitoring dilution limits across the Company's share schemes and ensuring that share awards were made with due regard to limiting shareholder dilution;
- consulting shareholders on the reasons for the significant vote received against the resolution to approve the Directors' Remuneration Report at the 2017 Annual General Meeting (further details can be found on page 96);
- approving the issue of an invitation under the Company's SAYE Scheme to all qualifying employees as well as long-term incentive awards to be made to the broader employee population (excluding Directors and certain members of senior management) under the terms of the Company's Premier Value Share Plan ('PVSP');
- considering and subsequently approving long-term incentive awards to Executive Directors and members of senior management under the terms of the 2017 LTIP, including setting performance conditions;
- determining the 2016 bonus outcome and bonus targets for 2017;
- monitoring performance of outstanding awards under the Premier Oil 2009 Long Term Incentive Plan ('2009 LTIP');
- considering the gender pay gap reporting requirements;
- reviewing market trends in executive remuneration;
- reviewing developments in best practice on executive remuneration;
- consideration of the independence of the Committee's remuneration advisers;
- reviewing the Committee's terms of reference; and
- reviewing the Committee's performance.

Advisers

Kepler, a brand of Mercer Limited which is part of the MMC group of companies ('Kepler'), is the independent adviser to the Committee. Kepler was appointed by the Committee in 2011 through a competitive tender process and was retained during the year. The Committee is of the view that Kepler provides independent remuneration advice to the Committee and does not have any connections with Premier that may impair its independence. Kepler is a founding member and signatory to the UK Remuneration Consultants' Code of Conduct which governs standards in the areas of transparency, integrity, objectivity, confidentiality, competence and due care, details of which can be found at www.remunerationconsultantsgroup.com. In 2017, Kepler provided advice on remuneration for executives, market and best practice guidance, and on the shareholder consultation process for the 2017 Remuneration Policy. They also assisted with the drafting of the Directors' Remuneration Report and attended Committee meetings. Kepler reports directly to the Committee and provides no other services to the Company. Its total fee for the provision of remuneration services in 2017 was £52,359 on the basis of time and materials.

During the year, the Committee also took advice from PwC to provide performance updates on outstanding awards granted under the 2009 and 2017 LTIPs, including the vesting of the 2015 Equity Pool, Performance Share Awards and Matching Share Awards. Total fees for PwC for the provision of remuneration services in 2017 were £19,000 on a fixed fee basis.

The Committee evaluates the support provided by its advisers annually and is satisfied that the advice it received in 2017 was objective and independent.

Voting on remuneration matters

Section 439A of the Companies Act 2006 (the 'Act') requires the Remuneration Policy to be submitted to shareholders for a binding vote every three years or where there is a change in the Remuneration Policy. Accordingly, a new Remuneration Policy was submitted to shareholders for approval at the Company's 2017 Annual General Meeting, the previous policy having been last approved at the Company's 2014 Annual General Meeting. Full details of the Policy are included on pages 84 to 94 of the Directors' Remuneration Report for reference. A copy of the Policy is contained in the Company's 2016 Annual Report and Accounts, a copy of which can be found on the Company's website www.premier-oil.com.

Votes received at the 2017 Annual General Meeting in respect of approval of the 2017 Directors' Remuneration Policy and the Directors' Remuneration Report (comprising the Annual Report on Remuneration and a Statement by the Committee Chairman) are set out below.

Resolution	Votes FOR and % of votes cast		Votes AGAINST and % of votes cast		Votes WITHHELD
Approve 2017 Directors' Remuneration Policy	126,747,108	88.18%	16,991,271	11.82%	273,793
Approve 2017 Directors' Remuneration Report	99,381,186	69.51%	43,595,136	30.49%	1,035,850

Whilst the Policy received the support of the vast majority of shareholders who voted, a significant number of votes were received against the resolution to approve the Directors' Remuneration Report outlining how remuneration policy had been implemented during the year and how it was planned to implement the new Policy in 2017. As a result, following the 2017 Annual General Meeting, the Remuneration Committee analysed the voting outcome and wrote to a number of institutional shareholders who had voted 'against' the resolution to better understand the reasons for the lack of support. Although no responses were received to the letter, the Committee was able to consider feedback received prior to the 2017 Annual General Meeting, setting out reasons for a proposed vote against the Remuneration Report. The reasons predominantly related to the lack of disclosure over the intended 2017 long-term incentive awards, the use of Restricted Share Awards and the level of increase in salary received by our Finance Director for 2017, although there was also positive support for the latter two proposals. These issues were also commented on by bodies representing institutional investors and were discussed with shareholders during the consultation process held in relation to the new Policy. Further information on each of the issues raised and discussed during the engagement process is set out below:

Disclosure of 2017 long-term incentive awards:

As in 2016, the Committee delayed making a decision on the level of awards under its long-term incentive plans until its August meeting. This was done as the Committee was awaiting the outcome of the AGM vote on the 2017 Remuneration Policy and in order to ensure that the awards were made in the light of the most up to date information on the Company's negotiations with its lenders under the terms of our refinancing agreed in July 2017. The decision to defer the grants also presented more time to consider share dilution constraints, which ultimately contributed to a decision to once again significantly scale back awards by 50 per cent, as was the case in 2016. The Committee has given due consideration to the views expressed and these have been taken into consideration in preparing the 2017 Directors' Remuneration Report.

Restricted Share Awards:
The introduction of Restricted Shares as a component of the long-term incentive structure did attract a differing view amongst shareholders during the consultation process. However, our hybrid approach of introducing both Performance Shares and Restricted Shares was approved within the 2017 Directors' Remuneration Policy, being recognised as mapped closely to the specific strategic objectives of the Company and striking the balance between debt repayment and incremental growth. Furthermore, shareholder feedback resulted in the introduction of a performance underpin relating to the Restricted Shares. Shareholding requirements were also increased to at least 250 per cent of salary for all Executive Directors following feedback from shareholders. The Committee considered views expressed by shareholders and is confident that the Policy, which includes the use of Restricted Share Awards, continues to be appropriate with no changes being proposed.

Pay increase for the Finance Director:
The Committee would like to reiterate that it continues to be satisfied that the salary increase awarded to the Finance Director was merited on the basis that it was an increase made on an exceptional basis to recognise his contribution to the major Group refinancing, and, as disclosed in the 2014 Directors' Remuneration Report, he was recruited on a salary approximately 20 per cent below that of his predecessor to reflect his development into the role. Aside from this exceptional adjustment, our Executive Directors have not received a pay review since 2014 due to the challenges of the commodity downturn. The Committee will give due consideration to the views expressed by shareholders when considering pay awards. No increases in salary for Executive Directors have been awarded for 2018.

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

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

Single total figure of remuneration for Executive Directors

The table below reports total remuneration for the year ended 31 December 2017 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	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Robin Allan	**353.8**	353.8	**22.7**	22.7	**265.3**	227.8	**0**	0	**94.1**	128.1	**1.5**	1.5	**737.4**	733.9
Tony Durrant	**569.0**	569.0	**25.6**	26.2	**433.0**	378.4	**0**	0	**445.2**	429.2	**1.5**	1.5	**1,474.3**	1,404.3
Richard Rose	**353.8**	300.0	**22.2**	22.1	**269.2**	197.7	**0**	0	**63.7**	55.8	**1.8**	1.8	**710.7**	577.4

Notes (to 2017 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 2017, Robin Allan, Tony Durrant and Richard Rose received a car allowance of £15,000.
3 Robin Allan, Tony Durrant and Richard Rose received total annual bonus awards for the year ended 31 December 2017 of 75.0 per cent of salary, 76.1 per cent of salary and 76.1 per cent of salary respectively out of a maximum bonus opportunity of 120 per cent of salary. Bonus amounts above 50 per cent of salary will be awarded in the form of deferred shares ('Deferred Bonus Awards'). The number of Deferred Bonus Awards will be calculated by reference to the five-day average price of Premier Oil shares over the period immediately preceding the date of grant. The awards have been approved by the Committee and it is anticipated that they will be granted as soon as reasonably practicable following the release of the Company's 2017 Results. The Deferred Bonus Awards vest at the end of a three-year period from the date of grant subject to continued employment. Good leaver provisions apply such that awards may vest before the end of the three-year period if an Awardholder leaves in exceptional circumstances such as death, redundancy, change of control and retirement. Further details of the 2017 total annual bonus awards to each Executive Director, including performance criteria, achievement and resulting awards, are set out on pages 98 to 100.
4 Long-term incentives include awards granted under the Premier Oil 2009 Long Term Incentive Plan ('2009 LTIP') subject to a performance period ending in the relevant financial year. In 2016 and 2017 the relevant performance targets for such awards were not achieved and the awards lapsed in full. Further details of performance conditions for the 2009 LTIP are contained in the 2014 Remuneration Policy, a copy of which can be found on the Company's website www.premier-oil.com.
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 103 of the Annual Report on Remuneration for further details on total pension entitlements for each Executive Director.
6 Other payments for Robin Allan, Tony Durrant and Richard Rose comprise Share Incentive Plan ('SIP') awards only. SIP awards are valued as the number of Matching Awards granted multiplied by the share price at date of award. Other payments would normally include both SIP and Save As You Earn ('SAYE') awards. No SAYE awards were granted to the Executive Directors in 2017. No discount was applied to SAYE awards granted in 2016 and therefore the embedded value of those options was nil. Participation in the SIP and SAYE schemes is available to all qualifying UK employees. Full details of Executive Director SAYE options and SIP awards are available on page 113 of the Annual Report on Remuneration.

Single total figure of remuneration for Non-Executive Directors

	Base fee £'000s		Additional fees £'000s		Expenses[1] £'000s		Total £'000s	
Director	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Roy A Franklin (Chairman)[2]	**56.5**	–	**–**	–	**3.0**	–	**59.5**	–
Dave Blackwood[3]	**20.9**	–	**–**	–	**–**	–	**20.9**	–
Anne Marie Cannon	**53.0**	53.0	**–**	–	**–**	–	**53.0**	53.0
Jane Hinkley[4]	**53.0**	53.0	**17.2**	10.6	**0.1**	0.1	**70.3**	63.7
Iain Macdonald[5]	**53.0**	35.3	**6.6**	–	**0.2**	–	**59.8**	35.3
Mike Wheeler[6]	**20.9**	–	**–**	–	**–**	–	**20.9**	–
Former Directors								
Joe Darby[7]	**19.2**	53.0	**3.9**	10.6	**0.4**	1.2	**23.5**	64.8
David Lindsell[8]	**19.2**	53.0	**3.9**	10.6	**–**	–	**23.1**	63.6
Mike Welton[9]	**113.7**	169.6	**–**	–	**–**	–	**113.7**	169.6

Notes to 2017 figures (unless stated):

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

2 Roy A Franklin was appointed as a Director and Chairman of the Board on 1 September 2017. His annual fee is £169,600 in line with his predecessor's annual fee. The base fee shown for 2017 reflects the fee paid to him for service from 1 September to 31 December 2017. The Chairman waived the additional fee payable under the Policy for chairing the Nomination Committee.

3 Dave Blackwood was appointed as a Director on 10 August 2017. His annual fee is £53,000 per annum in line with the other Non-Executive Directors. The base fee shown for 2017 reflects the fee paid to him for service from 10 August to 31 December 2017.

4 Jane Hinkley was appointed as Senior Independent Director ('SID') on 17 May 2017 for which she receives an annual fee of £10,600. In addition, she receives an annual fee of £10,600 for acting as Chairman of the Remuneration Committee. The figure shown for additional fees in 2017 reflects her annual fee of £10,600 for acting as SID pro-rated to her period of service from 17 May to 31 December 2017 together with her annual fee of £10,600 for acting as Chairman of the Remuneration Committee.

5 Iain Macdonald was appointed Chairman of the Audit and Risk Committee on 17 May 2017 and receives an annual fee of £10,600 for this position. The figure shown for additional fees in 2017 reflects his annual fee pro-rated to his period of service from 17 May to 31 December 2017.

6 Mike Wheeler was appointed as a Director on 10 August 2017. His annual fee is £53,000 per annum in line with the other Non-Executive Directors. The total figure shown for 2017 reflects his annual fee pro-rated to his period of service from 10 August to 31 December 2017.

7 Joe Darby stepped down as a Director and SID on 17 May 2017. His annual base fee for 2017 was £53,000 in line with the other Non-Executive Directors. The figure shown for 2017 reflects his annual base fee pro-rated to his period of service from 1 January to 17 May 2017. In addition, he received an additional fee in 2016 and 2017 for his services as SID. The figure shown for 2016 reflects the fee paid to him for services throughout the year. The figure shown for 2017 reflects his annual fee of £10,600 pro-rated to his period of service from 1 January to 17 May 2017.

8 David Lindsell stepped down as a Director and Chairman of the Audit and Risk Committee on 17 May 2017. His annual base fee for 2017 was £53,000 per annum in line with the other Non-Executive Directors. The figure shown for 2017 reflects his annual base fee pro-rated to his period of service from 1 January to 17 May 2017. In addition, he received a fee in 2016 and 2017 for his services as Chairman of the Audit and Risk Committee. The figure shown for 2016 reflects the fee paid to him for services throughout the year. The figure shown for 2017 reflects his annual fee of £10,600 pro-rated to his period of service from 1 January to 17 May 2017.

9 Mike Welton stepped down as a Director and Chairman of the Board on 1 September 2017. The figure shown for 2017 reflects his annual fee of £169,600 pro-rated to his period of service from 1 January to 1 September 2017. No additional fees were paid for his role as Chairman of the Nomination Committee.

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 (2016: £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 receives no additional fee for this role. Fees for Non-Executive Directors and the position of Chairman were last increased effective from 1 January 2013 following a review in 2012. Fees for Non-Executive Directors and the position of Chairman were originally scheduled to be reviewed in December 2014. The biennial review has been postponed for another year. The next review of fees for the Chairman and Non-Executive Directors is scheduled for the end of 2018 with any change proposed to take effect from 1 January 2019.

Payments for loss of office (audited)

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

Payments to past Directors (audited)

There were no payments to past Directors during the year. As reported in the 2016 Directors' Remuneration Report, Neil Hawkings retained an interest in the 2015 LTIP with any vesting subject to performance and pro-rated on a time worked basis. These interests comprise 264,308 shares under the PSA and a 4.25% share of the EPA pool pro-rated to his period of services. As stated on page 101, the Committee determined that the 2015 LTIP awards will lapse. There are no further outstanding awards for Neil Hawkings.

Performance conditions for annual bonus awards in respect of 2017 performance (audited)

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

In assessing the 2017 bonus payout, the Committee reviewed performance against each measure in the performance scorecard and considered the overall Company performance and the oil sector environment. In terms of personal performance, the Remuneration

Committee assessed Executive Director performance against a series of specific individual performance targets focused on the delivery of financial and operational objectives which were agreed at the start of 2017. Further details are set out on page 100.

The Committee agreed that the formulaic outcome of the bonus payments was reflective of the strong underlying operations of the business and the delivery of results during the year. In particular, the Committee noted the completion of the Company's refinancing, the major Zama discovery in Mexico, first oil achieved from Catcher, strong production coupled with cost reductions across the Group, progress on a number of next generation growth projects (BIGP, Tolmount, Sea Lion, Tuna) and a successful disposal programme of non-core assets, such as Wytch Farm, to pay down debt.

The 2017 annual bonus scorecard was based 80 per cent on financial and operational targets and 20 per cent on personal targets. The table below details the financial and operational performance categories, their relative weightings and achievement against specific targets. The table on page 100 provides further details on the Directors' personal objectives.

			2017 Corporate targets					
			Performance target ranges					
KPI category	Subcategory	Measure	Threshold	Target	Stretch	Actual performance	Weighting	Outcome for the year (% of maximum bonus opportunity)
Operating Safely	HSES	% weighted HSES Index	90%	100%	110%	106%	8%	7.0%
Building the strong production base	Production	Daily average rate of production (kboepd)	75.0	78.5	80.0	75.0	8%	2.0%
		Operating efficiency	89%	91%	93%	90%	4%	1.0%
	Development	Catcher – on-stream by year-end at or below gross project budget	31 December 2017	1 December 2017	1 November 2017	23 December 2017 and below gross project budget	12%	6.0%
		Bring Tolmount project to Final Investment Decision ('FID')[1]	Threshold performance related to progress	Target performance related to progress	Stretch performance related to progress	Threshold performance achieved	4%	1.0%
Delivering growth	Exploration	Commercial discovery at Zama (MMstb)	95	185	315	600	8%	8.0%
Maintaining financial strength	Finance	Complete refinancing based on current term sheets	30 June	31 May	30 April	28 July	4%	0.0%
		Reduce net debt at year-end 2017 (from year-end 2016) after disposals (before payment in kind and make-whole adjustments) (US$m)	+50	0	-50	-51	12%	12.0%
		Beat cost base goals – Opex ($/bbl)	17.50	16	14.50	16.50	4%	1.5%
		Beat cost base goals – G&A (US$m)	170	160	150	150	4%	4.0%
Delivering Group strategy	Business Development	Complete budgeted disposal programme at or above indicated level (US$m)	120	140	160	212	4%	4.0%
		Specific milestone in relation to the Sea Lion project[1]	Threshold performance relating to progress	Target performance relating to progress	Stretch performance relating to progress	Threshold performance achieved	8%	2.0%
Sub-total: Corporate KPIs							80%	48.5%
Personal targets (see page 100 for further details)	Robin Allan:	A combination of production and development targets supporting the corporate KPIs as well as succession planning for key reporting roles.						14.0%
	Tony Durrant:	A selection of targets relating to strategic planning, shareholder engagement, leadership and senior management development.					20%	14.9%
	Richard Rose:	A combination of targets supporting the corporate KPIs and including maintaining financial strength, cost controls, systems and maximising income.						14.9%
Total							**100%**	**Between 62.5% and 63.4%**

Notes:

1 For reasons of commercial sensitivity, details of the progress milestones cannot be disclosed at this time. Disclosure will be made in the 2018 Annual Report where this does not compromise the interests of the Company.

Retrospective disclosure of performance conditions for annual bonus awards in respect of 2016 performance

The Committee disclosed in the 2016 Directors' Remuneration Report that the Business Development performance target for 2016 relating to a specific project milestone could not be disclosed for reasons for reasons of commercial sensitivity. No bonus was paid in relation to this target as threshold performance for a critical development milestone for a specific asset was not achieved.

2017 Personal objectives

The achievement against personal objectives represented 20 per cent of the total bonus opportunity. The outcome is summarised below:

Director	Overview of performance	Key achievements in the year	Outcome for the year (% of maximum bonus opportunity)
Robin Allan	Delivery of strategic direction and tactical execution across the Group with a focus on exploration and growth and the UK Business Unit, both of which have delivered significant milestones of Group performance improvement.	• Signed Pakistan business disposal agreement and ensured continued safety, engagement and operational delivery of Pakistan team towards the point of completion. • World class Zama discovery in Mexico. • Delivery of first oil from Catcher in the UK. • Progression of the Tolmount development project. • Operational cost reduction, process optimisation and portfolio consolidation in the UK.	14.0%
Tony Durrant	Directed the Company towards an out-performance of the Group objectives, notably: securing the corporate refinancing; rebuilding balance street strength through the disposal of non-core assets; and delivering the framework for future growth through strong operational and financial leadership discipline, strict prioritisation of future investment and return and strengthening organisation capability.	• Leadership of the Executive Committee and out-performance of the 2017 business plan. • Completion of the corporate refinancing and strengthening of the balance sheet and the reduction of net debt. • Strategic review approved by the Board and lenders as applicable. • Promotion of investor relations and strengthening of confidence in the investment case with shareholder base. • Provision of support to the Board with the successful Chairman and Non-Executive Director succession process. • Strengthening organisational delivery and succession capability.	14.9%
Richard Rose	Completion of the complex corporate refinancing process with banks and lenders externally and detailed coordination of financial and operational disciplines internally, across the organisation in accordance with that process. Ensures that commitment to the terms of the refinancing is underpinned by robust management accounting, enhanced reporting, cost optimisation and risk management.	• Completion of refinancing. • Directed corporate hedging strategy and crude marketing optimisation. • Supported Chief Executive Officer in Investor Relations. • Enhanced production/capex/opex reporting aligned to refinancing reporting. • Stretch delivery of Business Development disposal objectives, notably Wytch Farm.	14.9%

Bonus award in respect of 2017 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	75.0%	265,313	176,875	88,438
Tony Durrant	76.1%	433,009	284,500	148,509
Richard Rose	76.1%	269,204	176,875	92,329

It is anticipated that Deferred Bonus Awards will be granted as soon as practicable following the release of the Company's 2017 results. The number of Deferred Shares 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.

LTIP vesting outcomes in 2017 (audited)

LTIP awards were granted in 2015 as Equity Pool Awards and Performance Share Awards (see pages 110 to 111 for further detail on the LTIP awards). The 2015 LTIP award cycles completed their three-year performance periods on 31 December 2017. 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 2015 Performance Share Award cycle are detailed on page 112 of the Annual Report on Remuneration.

The outcomes of the 2015 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 2015 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 2015 Performance Share Awards will not vest as the threshold was not met.

LTIP awards granted in 2017 under the terms of the 2009 Long Term Incentive Plan (audited)

The grant of LTIP awards to Executive Directors under the 2009 LTIP (2016-2018 cycle) was approved in principle by the Committee in August 2016. Due to prolonged trading restrictions as a result of the ongoing refinancing of the Group's debt, the grant of the awards could not take place and was postponed until the end of the Restricted Period. The awards were granted on 12 April 2017 following the release of the Company's 2016 results.

The 2009 LTIP comprises Equity Pool Awards, Performance Share Awards and Matching Share Awards:

- Equity Pool Awards: based on an allocation of units (settled in shares) in the Equity Pool. The Equity Pool is funded by a percentage share of three-year annualised compound growth in the Company's equity value per share above a threshold;
- Performance Share Awards: conditional share awards vesting on three-year TSR relative to a comparator group of international oil and gas sector peers;
- Equity Pool Awards and Performance Share Awards are measured over three years. 50 per cent of the shares vesting from the Equity Pool and Performance Shares are subject to compulsory deferral for a further three years and are eligible for a discretionary Matching Share Award.

In view of market conditions, the Committee determined that the Performance Share Awards would be scaled back by 50 per cent relative to the Policy maximum and that there would not be a Matching Award. In addition, the Committee determined a cap on any Equity Pool Awards vesting of 50 per cent of salary (rather than 100 per cent of salary as per the 2014 Policy). Details of the awards granted are set out in the table overleaf.

Performance for these awards will be measured between 1 January 2016 and 31 December 2018. Performance conditions are as follows:

- Equity Pool Awards: Threshold performance requires compound growth in the Company's equity value per share of at least 10 per cent per annum at which 1 per cent of the compound growth is credited to the Equity Pool. A maximum of 2.5 per cent of the compound growth is credited to the Equity Pool when growth in equity value per share is 20 per cent per annum. The funding rate is based on straight-line interpolation between these points.
- Performance Share Awards: 25 per cent vest for median TSR performance vs. the comparator group, with full vesting for upper quartile performance and straight-line vesting in between. The constituents of the comparator group are detailed on page 112.

Awards are subject to malus and clawback provisions. Further details can be found in the 2014 Policy.

2016-2018 cycle		Equity Pool Awards		Performance Share Awards[1,2]	
Director	Award date	% of Equity Pool[3]	Face value[4] £000s	Performance Shares awarded	Face value[5] £000s
Robin Allan	12.04.17	4.25	176.9	294,203	193.7
Tony Durrant	12.04.17	6.00	284.5	567,864	373.9
Richard Rose	12.04.17	4.25	176.9	249,500	164.3

Notes:
1 Any dividends paid accrue on Performance Share Awards and will be paid on vesting as shares, in proportion to performance achieved.
2 The number of Performance Shares was determined by reference to the relevant percentage of salary divided by the average of the closing prices of a Premier Oil share over the five dealing days immediately preceding the award date (65.85p) and scaled back by 50 per cent.
3 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.
4 The face value of the Equity Pool Awards is calculated as the full vesting value based on 2018 salary (maximum value of the award on vesting capped at 50 per cent of salary).
5 The face value of the Performance Share Awards is calculated as the maximum number of shares that would vest if targets were met in full, multiplied by the average of the closing prices of a Premier Oil share over the five dealing days immediately preceding the award date: 65.85p.

LTIP awards granted in 2017 under the terms of the 2017 Long Term Incentive Plan (audited)

In view of market conditions and to mitigate possible shareholder dilution, the Committee determined that LTIP awards to be granted under the terms of the 2017 LTIP (2017-2019 cycle) would be scaled back by 50 per cent relative to the Policy maximum.

The LTIP awards were granted to Executive Directors on 1 September 2017 and comprise:

- Performance Share Awards: conditional share awards vesting on three-year TSR relative to a comparator group of international oil and gas sector peers.
- Restricted Share Awards: conditional share awards vesting over three, four and five years subject to achievement of a financial underpin measured at the end of year three.

Details of the awards are set out in the table below. Performance for these awards will be measured between 1 January 2017 and 31 December 2019. Performance conditions are as follows:

- Performance Share Awards: 25 per cent vesting for median TSR performance vs. the comparator group, with full vesting for upper quartile performance and straight-line vesting in between. The constituents of the comparator group are detailed on page 112.
- Restricted Share Awards: subject to a financial underpin based on the reduction in absolute level of net debt and the reduction of the ratio of net debt to EBITDA target as agreed with the Company's lenders.

Awards are subject to malus and clawback provisions, and any awards vesting will be subject to a Holding Period such that the total time horizon is five years. Further details of the 2017 LTIP are set out in the 2017 Policy on pages 87 to 88.

2017-2019 cycle		Performance Share Awards[1]			Restricted Share Awards[1]		
Director	Award date	% salary to be awarded as Performance Share Awards after scale back[2]	Number of Performance Share Awards granted[3]	Face value[4] £'000	% salary to be awarded as Restricted Share Awards after scale back[2]	Number of Restricted Share Awards granted[3]	Face value[5] £'000
Robin Allan	01.09.2017	87.5%	562,784	309.5	20%	128,636	70.8
Tony Durrant	01.09.2017	87.5%	905,227	497.9	20%	206,909	113.8
Richard Rose	01.09.2017	87.5%	562,784	309.5	20%	128,636	70.8

Notes:
1 Any dividends paid accrue on Performance Share Awards and Restricted Share Awards and will be paid on vesting as shares, in proportion to performance achieved.
2 Awards were scaled back by 50 per cent of the maximum award permitted under the terms of the 2017 Policy (175 per cent of salary for Performance Share Awards and 40 per cent of salary for Restricted Share Awards).
3 The number of Performance Share Awards and Restricted Share Awards was determined by reference to the relevant percentage of salary divided by the average of the closing market prices of a Premier Oil share over the five dealing days immediately preceding the award date: 55.0p.
4 The face value of the Performance Share Awards is the maximum number of shares that would vest if the performance target was met in full, multiplied by the average of the closing prices of a Premier Oil share over the five dealing days immediately preceding the award date: 55.0p.
5 The face value of the Restricted Share Awards is the maximum number of shares that would vest if the financial underpin was met, multiplied by the average of the closing market prices of a Premier Oil share over the five dealing days immediately preceding the award date: 55.0p.

Total pension entitlements (audited)

In line with the Policy, as Directors who became Directors of the Company prior to 20 August 2013, Robin Allan and Tony Durrant receive a pension substantially as if they were contributing members of the Company's final salary Retirement and Death Benefits Plan (the 'Scheme') and, in regard to service completed subsequent to their appointment as Directors, not subject to the Scheme's cap on pensionable earnings (£154,200 for the 2017/18 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 2017 are as follows:

Director	(a) Accrued pension as at 31 December 2016[1,3] £'000s pa	(b) Accrued pension in (a) after allowing for inflation[1,3] £'000s pa	(c) Accrued pension as at 31 December 2017[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]	87.1	88.0	93.7	114.0	19.9	94.1
Tony Durrant[4]	112.5	113.6	137.5	478.0	32.8	445.2

Notes:
1 The amounts of accrued pension under (a) and (c) represent the accrued pension entitlements of the Director as at the stated dates.
2 The values under (d) have been calculated by applying a capitalisation factor of 20 to the difference between amounts shown in (c) and (b) and are principally due to the additional pension accrued over the year.
3 The values stated above correspond with the target level of final salary pension provision; in practice, the pension benefits for these Directors are principally established through individual money purchase arrangements and salary supplements.
4 Members of the Scheme have the option to pay additional voluntary contributions; none of the Directors have elected to do so.
5 In addition to the current provision noted above, Robin Allan is entitled to a deferred pension under the Scheme in respect of service with the Company between September 1986 and November 1999.

In respect of 2017, Tony Durrant and Robin Allan elected to receive a salary supplement. During 2016, 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. Following the review in December 2016, the Committee approved target funding payments for Robin Allan and Tony Durrant, as detailed in the table below, 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 2017.

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 2017 are also summarised below:

Director	Salary supplements £'000s	Pension contributions £'000s	Target funding payments £'000s	Total pension benefits paid by Company £'000s
Robin Allan[1]	62.2	0.0	363.0	425.2
Tony Durrant[1]	100.0	0.0	762.0	862.0
Richard Rose	51.2	12.5	N/A	63.7

Notes:
1 The target funding payments for Robin Allan and Tony Durrant relate to pension top-up payments approved by the Committee in December 2016 made in four instalments during 2017.

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)
	2017 £'000s	2016 £'000s	% change	% change
Salary	**569.0**	569.0	0%	0.4%
Taxable benefits	**25.6**	26.2	(2.3)%	43.9%
Annual bonus[2]	**433.0**	378.4	14.4%	3.3%
Total	**1,027.6**	973.6	5.5%	1.8%

Notes:
1 UK-based employees who were employed for the full year in both 2016 and 2017.
2 Includes cash bonus and amount deferred into shares (amounts above 50 per cent of salary are deferred into shares).

Relative importance of spend on pay

The table below shows the Company's actual expenditure on shareholder distributions and total employee pay expenditure for the financial years ending 31 December 2016 and 31 December 2017. 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 2016 and 2017. The Company did not pay a dividend for the financial years ending 31 December 2016 and 31 December 2017.

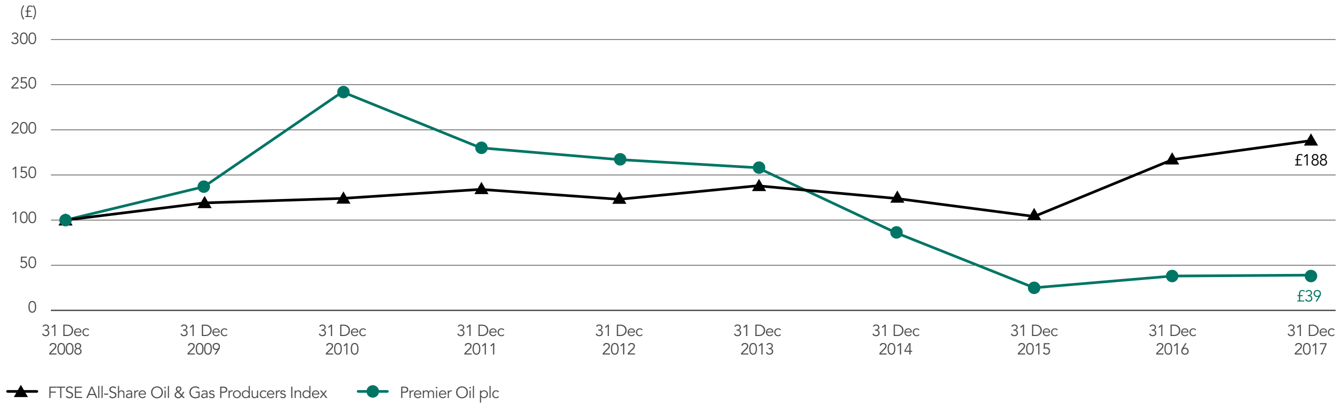
	2017 US$ million	2016 US$ million	% change
Remuneration paid to or receivable by all employees of the Group	**110.5**	121.0	(8.7)%
Distributions to shareholders by way of dividend	**–**	–	0%
Distributions to shareholders by way of share buyback	**–**	–	0%

Comparison of Company performance

The chart below compares the value of £100 invested in Premier shares, including re-invested dividends, on 31 December 2008 compared to the equivalent investment in the FTSE All-Share Oil & Gas Producers Index over the last nine 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.

9-year TSR performance

Value of £100 invested on 31 December 2008



The table below shows the CEO single figure of remuneration for the past nine 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%
2017	Tony Durrant	1,474.3	63.4%	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 2018

For 2018, there will be a continued level of scale back of Long Term Incentive Restricted Share Awards and an increase in stretch relative performance of the Performance Share Awards.

Salary

The salaries of the Executive Directors are reviewed annually to ensure they remain appropriate. No salary increases have been awarded to Executive Directors for 2018. The average salary increase (inclusive of promotions) across the Group's UK operations is 3.8 per cent.

Director	Position	Salary from 1 January 2017 £	Salary from 1 January 2018 £	Percentage increase £
Robin Allan	Director, North Sea and Exploration	353,750	353,750	0%
Tony Durrant	Chief Executive Officer	569,000	569,000	0%
Richard Rose	Finance Director	353,750	353,750	0%

Pension, benefits and all-employee share plans

The Company will offer Executive Directors pension, taxable benefits and tax-advantaged all-employee share plans for 2018 in line with the Policy on pages 84 to 94.

Annual bonus

For 2018, the Executive Director annual bonus opportunity is up to 120 per cent of salary in line with the 2017 Remuneration Policy. Annual performance will be assessed against a performance scorecard of which 80 per cent of the maximum bonus will be based on financial and operational measures and 20 per cent of the maximum bonus on personal objectives. The Committee will consider carefully the oil market outlook, the Company's underlying performance and the outcome for 2018 in deciding whether and at what level to award bonuses for that year. The specific 2018 corporate and personal objectives, along with threshold, target and stretch values, will be disclosed, to the extent that they are not commercially sensitive, in the 2018 Directors' Remuneration Report. In line with the Policy, any bonus in excess of 50 per cent of salary will be deferred in shares for three years. The table below summarises the criteria used to assess each target and the relative weighting of each:

Corporate KPIs representing 80% of maximum bonus opportunity

KPI	Subcategory	Target	Weighting (% of maximum corporate bonus opportunity)
Operating safely	HSES	TRIR (injury rate per million man hours)	4%
		LOPC (Tier 1 and 2 process safety)	4%
		Spills (kgs/year)	4%
		Leadership visits	4%
Building a strong production base	Production	Daily average kboepd – Catcher	15%
		Daily average kboepd – Rest of Portfolio	15%
Maintaining financial strength	Finance	Net debt covenant target	10%
		EBITDA covenant target	10%
		Cost base goal for opex	5%
		Cost base goal for gross G&A	5%
Delivering Group strategy	Exploration	Achievement of specified near-term strategic objective	8%
	Development	Achievement of specified near-term strategic objective	8%
	Commercial	Achievement of specified near-term strategic objective	8%
Total			**100%**

Personal targets representing 20% of maximum bonus opportunity

Robin Allan:	A combination of production and development targets supporting the corporate KPIs as well as succession planning for key reporting roles.
Tony Durrant:	A selection of targets relating to strategic planning, shareholder engagement, leadership and senior management development.
Richard Rose:	A combination of targets supporting the corporate KPIs and including maintaining financial strength, cost controls, systems and maximising income.

2017 Long Term Incentive Plan

The Committee has agreed to make awards to the Executive Directors under the terms of the 2017 Long Term Incentive Plan for 2018. The awards will comprise Restricted Share Awards equivalent to 20 per cent of base salary, representing a scale back of 50 per cent of the maximum award of 40 per cent under the Policy, and Performance Share Awards equivalent to 175 per cent of base salary with no scale back applied. In determining the level of awards, the Committee again took account of market conditions and possible shareholder dilution. It is proposed that the awards will be made as soon as possible following the release of the Company Full-Year Results for 2017.

Performance for these awards will be measured between 1 January 2018 and 31 December 2020. Performance conditions will be as follows:

- Performance Share Awards: subject to a Performance Target based on the Company's TSR performance relative to a comparator group of international oil and gas sector peers. 25 per cent of the awards will vest for median TSR performance vs. the comparator group, with full vesting for upper decile performance and straight-line vesting in between. This represents an additional stretch from upper quartile to upper decile of the comparator group for the 2018-2020 performance period. The constituents of the comparator group will be the same group of companies as those applicable to the 2017 Performance Share Awards (see page 112).
- Restricted Share Awards: subject to a financial underpin based on a reduction of the ratio of net debt to EBITDA, as agreed with the Company's lenders, over the course of the performance period (currently three times net debt to EBITDA). If the performance underpin is achieved, Restricted Share Awards will vest in one third increments on the third, fourth and fifth anniversary of the award date subject to continued employment and the Committee's assessment of underlying Company performance. No awards will vest unless the performance underpin is achieved.

Awards will be subject to malus and clawback provisions, and any awards vesting will be subject to a Holding Period such that the total time horizon is five years.

Implementation of Non-Executive Director Remuneration Policy for 2018

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 2018 with any change proposed to take effect from 1 January 2019. Non-Executive Director fees for 2018 are as follows:

Role	Fee type	From 1 January 2017 £	From 1 January 2018 £	Percentage increase
Chairman	Total fee	169,600	169,600	0%
Other Non-Executive Directors	Basic fee	53,000	53,000	0%
	Committee Chairmanship	10,600	10,600	0%
	Senior Independent Director	10,600	10,600	0%

Exercise of Committee discretion

The table below illustrates how the Committee has exercised discretion in relation to long-term incentives and the bonus plan over the four-year period ending 31 December 2017.

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	2009 Long Term Incentive Plan: Performance Share Awards scaled back by 50% of maximum potential opportunity; Equity Pool Awards vesting capped at 50% of base salary; Matching Award removed
2017	None	2017 Long Term Incentive Plan: Restricted Share Awards and Performance Share Awards scaled back by 50% of maximum potential opportunity.

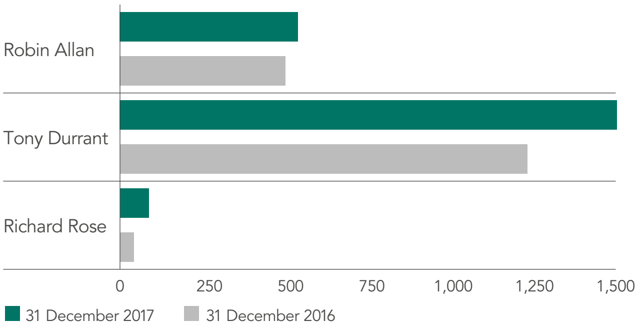
On 5 March 2018, the Committee agreed to exercise discretion in relation to the planned 2018 share awards such that Restricted Share Awards would again be scaled back by 50 per cent of the maximum opportunity and full vesting of Performance Share Awards would be subject to upper decile TSR performance relative to a peer group of oil and gas companies as opposed to upper quartile performance.

Statement of Directors' shareholding and share 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 250 per cent of salary.

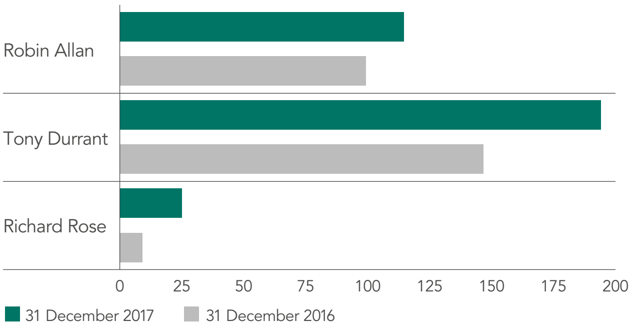
The graphs below show the number and value of Executive Directors' shareholding and scheme interests as at 31 December 2016 and 31 December 2017 respectively.

Total shares owned outright[1]
('000)



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, shareholdings include deferred shares where performance conditions have been achieved and awards are subject to a holding period. The number of deferred shares included is the net number of shares after deduction of 47 per cent to reflect withholding for tax and National Insurance.
2 The valuation of shareholdings as at 31 December 2017 has been calculated using an average of the mid-market closing price between 1 October and 31 December 2017 (69.89p). The valuation of shareholdings as at 31 December 2016 has been calculated by reference to the mid-market closing price between 1 October and 31 December 2016 (65.90p).

The table below summarises the Directors' interests in shares, including those held under outstanding LTIP, SAYE and SIP awards, as at 31 December 2017. Further details of all outstanding awards are disclosed on pages 110 to 113.

Director	Owned outright at 31 December 2017[1] (or date of leaving)	Deferred shares subject to continued employment at 31 December 2017[2] (or date of leaving)	Unvested shares subject to performance at 31 December 2017[3] (or date of leaving)	Unvested SAYE options at 31 December 2017 (or date of leaving)	Total share interests at 31 December 2017 (or date of leaving)
Robin Allan	524,561	77,357	1,249,931	42,857	1,894,706
Dave Blackwood	–	–	–	–	–
Anne Marie Cannon	10,000	–	–	–	10,000
Tony Durrant	1,464,474	142,574	2,190,161	42,857	3,840,066
Roy A Franklin[4]	–	–	–	–	–
Jane Hinkley	13,234	–	–	–	13,234
Iain Macdonald	23,076	–	–	–	23,076
Richard Rose	85,317	72,437	1,165,068	42,857	1,365,679
Mike Wheeler	30,000	–	–	–	30,000
Former Directors					
Joe Darby[5]	23,108	–	–	–	23,108
David Lindsell[6]	17,332	–	–	–	17,332
Mike Welton[7]	22,531	–	–	–	22,531

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 subject to continued employment comprise Deferred Bonus Awards. The awards are subject to malus and clawback in the event of a material misstatement of the Company's financial results, gross misconduct or material error in the calculation of performance conditions. The Committee may exercise clawback until the later of: (i) one year from vesting, or (ii) the completion of the next audit after vesting.
3 Unvested shares subject to performance include Performance Share Awards held under the 2009 LTIP (2015-2017 cycle and 2016-2018 cycle) and Performance Share Awards and Restricted Share Awards held under the 2017 LTIP (2017-2019 cycle). The performance period for the LTIP awards granted under the 2015-2017 cycle completed on 31 December 2017 and no awards vested. See page 101 of the Annual Report on Remuneration for further details on performance criteria and achievement.
4 Roy A Franklin purchased 60,000 Premier Oil shares on 31 January 2018.
5 Interests reported as at 17 May 2017, the date on which Joe Darby's directorship ceased.
6 Interests reported as at 17 May 2017, the date on which David Lindsell's directorship ceased.
7 Interests reported as at 1 September 2017, the date on which Mike Welton'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 2017, 796,147 shares were held by the Employee Benefit Trust (2016: 818,775) 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 2017	Number of shares	Percentage of issued share capital	Dilution limit	Percentage of dilution limit used
New issue shares under discretionary share plans within 5% limit (includes LTIPs and shares issued to executives under the historical Asset and Equity Plan and Executive Share Option Scheme)	14,075,225	2.68%	26,252,290	53.62%
As above plus all-employee share plans within 10% limit (includes SAYE, PVSP and shares issued to employees under the historical Asset and Equity Plan)	38,074,370	7.25%	52,504,580	72.52%

Share price movements during 2017
The mid-market closing price of the Company's shares on 31 December 2017 was 76.25p (31 December 2016: 74.00p). The intra-day trading price of the Company's shares during 2017 was between 99.50p and 42.75p.

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 served as a Non-Executive Director of Greenergy Fuels Holdings Limited for which he received a fee of £27,885 (2016: £50,000) and a bonus of £nil (2016: £2,000) for his services as a Non-Executive Director. He stepped down from the Board of Greenergy Fuels Holdings Limited on 10 May 2017. Tony Durrant also served as an Advisory Committee Member of FlowStream Commodities Ltd for which he receives an annual fee of US$20,000. US$10,000 of the annual fee was received during the year (2016: US$20,000). Robin Allan is Chairman of the Association of British Independent Oil Exploration Companies ('BRINDEX') and received no fee for this role. Robin Allan is also a Board member of Oil & Gas UK for which he receives no fee.

Outstanding share awards
Annual bonus scheme – Deferred Bonus Awards
As at 31 December 2017 the following Deferred Bonus Awards were held in respect of the deferred element of the annual bonus awarded for the year ended 31 December 2016.

Director	Date of grant	Awards held at 1 January 2017	Granted	Lapsed	Vested	Awards held at 31 December 2017	Market price of shares on date of award[1]	Earliest vesting date
Robin Allan	12.04.17	–	77,357	–	–	77,357	65.85p	12.04.20
Tony Durrant	12.04.17	–	142,574	–	–	142,574	65.85p	12.04.20
Richard Rose	12.04.17	–	72,437	–	–	72,437	65.85p	12.04.20

Notes:
1 The average of the closing prices of a Premier Oil share over the five dealing days immediately preceding the award date.

2009 Long Term Incentive Plan – Deferred Share Awards
At 31 December 2017, the Executive Directors held no outstanding Deferred Share Awards under the 2009 LTIP. Details of shares released during the year pursuant to Deferred Share Awards are shown in the table below. No Deferred Share Awards were granted during the year under the terms of the 2009 LTIP.

Director	Date of grant	Type of award	Awards held at 1 January 2017	Number of shares made subject to award during 2017	Number of Matching Awards granted during 2017	Number of shares lapsed during 2017	Number of shares released during 2017[1]	Number of shares held at 31 December 2017	Market price of shares on date of award	Performance period	Earliest vesting date[2]
Robin Allan	14.05.13	Deferred Share	59,878	–	–	–	(59,878)	–	393.30p	N/A	01.01.16
Tony Durrant	14.05.13	Deferred Share	63,870	–	–	–	(63,870)	–	393.30p	N/A	01.01.16

Note:
1 There were no further performance conditions applicable to the vesting of Deferred Share Awards.
2 Vesting of the share awards was delayed due to prolonged trading restrictions. Awards vested on 23 March 2017 following the end of the restricted period. The closing price of the Company's shares on the date of vesting was 65.50p.

2009 Long Term Incentive Plan – Equity Pool Awards
As at 31 December 2017, two Equity Pools were outstanding, as follows:

			Outstanding Equity Pool allocation (% of Pool)		
Cycle	Performance period	Starting market capitalisation	Tony Durrant	Robin Allan	Richard Rose
2015[1]	01.01.15 – 31.12.17	£1,178m	6.00%	4.25%	4.25%
2016	01.01.16 – 31.12.18	£350m	6.00%	4.25%	4.25%

Notes:
1 The Committee determined on 17 January 2018 that the 2015 Equity Pool Awards would not vest. For further details see page 101.

2009 Long Term Incentive Plan – Performance Share Awards

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. Due to prolonged trading restrictions as a result of the ongoing refinancing of the Group's debt, the grant of the awards could not take place in 2016 and the awards were granted following the release of the Company's 2016 results in March 2017.

As at 31 December 2017, the Executive Directors had the following outstanding Performance Share Awards under the 2009 Long Term Incentive Plan:

Director	Date of grant	Awards held at 1 January 2017	Granted	Lapsed	Vested	Awards held at 31 December 2017	Market price of shares on date of award	Performance period	Earliest vesting date
Robin Allan	28.02.14	145,888	–	(145,888)	–	–	303.10p	01.01.14 – 31.12.16	01.01.17
	27.02.15	264,308	–	–	–	264,308[1]	167.30p	01.01.15 – 31.12.17	01.01.18
	12.04.17[4]	–	294,203	–	–	294,203	66.50p	01.01.16 – 31.12.18	01.01.19
		410,196	**294,203**	**(145,888)**	**–**	**558,511**			
Tony Durrant	28.02.14	159,394	–	(159,394)	–	–	303.10p	01.01.14 – 31.12.16	01.01.17
	22.08.14	92,974[2]	–	(92,974)	–	–	334.70p	01.01.14 – 31.12.16	01.01.17
	27.02.15	510,161	–	–	–	510,161[1]	167.30p	01.01.15 – 31.12.17	01.01.18
	12.04.17[4]	–	567,864	–	–	567,864	66.50p	01.01.16 – 31.12.18	01.01.19
		762,529	**567,864**	**(252,368)**	**–**	**1,078,025**			
Richard Rose	09.09.14	84,788[3]	–	(84,788)	–	–	341.30p	01.01.14 – 31.12.16	01.01.17
	27.02.15	224,148	–	–	–	224,148[1]	167.30p	01.01.15 – 31.12.17	01.01.18
	12.04.17[4]	–	249,500	–	–	249,500	66.50p	01.01.16 – 31.12.18	01.01.19
		308,936	**249,500**	**(84,788)**	**–**	**473,648**			

Notes:
1 The Committee determined on 17 January 2018 that the 2015 Performance Share Awards will not vest. For further details see page 101.
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 The 2016 Performance Share Awards were approved by the Committee in August 2016. The grant of the awards was postponed due to prolonged trading restrictions as a result of the Company's refinancing. The grants were made on 12 April 2017 following the release of the Company's 2016 Final Results.

2017 Long Term Incentive Plan – Performance Share Awards

The 2017 LTIP was approved by shareholders at the 2017 Annual General Meeting and replaces the 2009 LTIP. Under the 2017 Policy, Performance Share Awards may be granted up to 175 per cent of salary. This amount was scaled down to 87.5 per cent of salary for awards granted to Executive Directors in 2017.

As at 31 December 2017, the Executive Directors had the following outstanding Performance Share Awards under the 2017 LTIP:

Director	Date of grant	Awards held at 1 January 2017	Granted	Lapsed	Vested	Awards held at 31 December 2017	Market price of shares on date of award	Performance period	Earliest vesting date
Robin Allan	01.09.17	–	562,784	–	–	562,784	55.50p	01.01.17 – 31.12.19	01.09.20[1]
Tony Durrant	01.09.17	–	905,227	–	–	905,227	55.50p	01.01.17 – 31.12.19	01.09.20[1]
Richard Rose	01.09.17	–	562,784	–	–	562,784	55.50p	01.01.17 – 31.12.19	01.09.20[1]

Notes:
1 Vested awards are subject to a Holding Period ending on 1 September 2022.

TSR comparator group constituents, by Performance Share Awards

Company	2015	2016	2017	Company	2015	2016	2017
Afren[1]	✓			Indus Gas	✓		
Africa Oil	✓			Ithaca Energy[1]	✓	✓	
Aker BP (formerly Det norske oljeselskap)[2]	✓	✓	✓	Lundin Petroleum	✓	✓	✓
Bankers Petroleum[1]	✓	✓		Marathon Oil	✓	✓	
Beach Energy	✓	✓	✓	Noble Energy	✓	✓	
Cairn Energy	✓	✓	✓	Oil Search	✓		
Cairn India[1]	✓			Ophir Energy	✓	✓	✓
Devon Energy	✓			Origin Energy	✓	✓	✓
DNO International	✓	✓	✓	Oryx Petroleum	✓	✓	✓
Dragon Oil[1]	✓			PTT EP	✓		
Energi Mega Persada	✓	✓	✓	Rockhopper Exploration	✓	✓	✓
EnQuest	✓	✓	✓	Salamander Energy[1]	✓		
Etab. Maurel et Prom	✓	✓	✓	Santos	✓	✓	✓
Faroe Petroleum		✓	✓	SOCO International	✓	✓	✓
Gas Malaysia	✓			Talisman Energy[1]	✓		
Genel Energy	✓	✓	✓	Tullow Oil	✓	✓	✓
Gulf Keystone	✓	✓	✓	Woodside Petroleum	✓		

Notes:

1 The following companies delisted during the performance period for the 2015 Awards and were removed from the 2015 comparator group by the Remuneration Committee during its final performance assessment:
- Afren (delisted in August 2015)
- Bankers Petroleum (delisted in October 2016)
- Cairn India (delisted in April 2017)
- Dragon Oil (delisted in January 2014)
- Ithaca Energy (delisted in June 2017)
- Salamander Energy (delisted in March 2015)
- Talisman Energy (delisted in May 2015)

2 In September 2016, Det norske oljeselskap ASA changed its name to Aker BP ASA following the merger of Det norske oljeselskap ASA with BP Norge ASA.

2017 Long Term Incentive Plan – Restricted Share Awards

Under the 2017 Directors' Remuneration Policy, Restricted Share Awards may be granted up to 40 per cent of salary. This amount was scaled down to 20 per cent of salary for awards granted to Executive Directors in 2017. As at 31 December 2017, the Executive Directors had the following outstanding Restricted Share Awards under the 2017 Long Term Incentive Plan:

Director	Date of grant	Awards held at 1 January 2017	Granted	Lapsed	Vested	Awards held at 31 December 2017	Market price of shares on date of award	Performance period	Earliest vesting date
Robin Allan	01.09.17	–	128,636	–	–	128,636	55.50p	01.01.17 – 31.12.19	01.09.20[1]
Tony Durrant	01.09.17	–	206,909	–	–	206,909	55.50p	01.01.17 – 31.12.19	01.09.20[1]
Richard Rose	01.09.17	–	128,636	–	–	128,636	55.50p	01.01.17 – 31.12.19	01.09.20[1]

Note:
1 Subject to the performance underpin and continued employment, one third of the total award vests on 1 September 2020, a further one third vests on 1 September 2021 and the balance of the awards vests on 1 September 2022. Vested awards are subject to a Holding Period ending on 1 September 2022.

Conditional Share Awards

On 23 March 2017, 26,135 deferred shares vested to Richard Rose pursuant to a Conditional Share Award Agreement dated 9 September 2014. The award was granted on joining the Company to buy out awards forfeited from his previous employer and which vested subject to continued employment to 31 December 2016; further details can be found in the 2014 Directors' Remuneration Report, a copy of which is available on the Company's website www.premier-oil.com. The market price of Premier Oil shares on the date of the award was 341.3p. The market price on the date of vesting was 66.50p.

All-employee schemes

The Executive Directors may also participate, on the same terms as all other eligible employees, in a Share Incentive Plan ('SIP') and a Savings Related Share Option Scheme ('SAYE Scheme').

Executive Directors' interests under the SAYE Scheme are shown below:

Director	Date of grant	Exercisable dates	Acquisition price per share	Options held at 1 January 2017	Granted	Exercised	Lapsed	Options held at 31 December 2017
Robin Allan	04.05.16	01.06.19 – 30.11.19	42.00p	42,857	–	–	–	42,857
Tony Durrant	04.05.16	01.06.19 – 30.11.19	42.00p	42,857	–	–	–	42,857
Richard Rose	04.05.16	01.06.19 – 30.11.19	42.00p	42,857	–	–	–	42,857

Shares held beneficially in the SIP by the Executive Directors were as follows:

Director	Shares held on 1 January 2017	Total Partnership Shares purchased in 2017 at prices between £0.525 and £0.882	Total Matching Shares awarded in 2017 at prices between £0.525 and £0.882	Shares held on 31 December 2017	Partnership and Matching Shares acquired between 1 January and 7 March 2018
Robin Allan	28,100	2,334	2,334	32,768	960
Tony Durrant	17,647	2,333	2,333	22,313	960
Richard Rose	9,866	2,800	2,800	15,466	1,152

For and on behalf of the Remuneration Committee:

Jane Hinkley
Chairman of the Remuneration Committee

7 March 2018

The Directors present their Annual Report on the affairs of the Group, together with the audited Group financial statements and Auditors' Report for the year ended 31 December 2017. 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 116.

Dividend

No dividend is proposed in respect of the year ended 31 December 2017 (2016: nil).

Annual General Meeting

The Company's next Annual General Meeting will be held on Wednesday 16 May 2018 at 11.00am. The Notice of 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 7 March 2018 are shown on pages 62 to 65. Joe Darby and David Lindsell stood down as Directors at the conclusion of the Company's Annual General Meeting on 17 May 2017. Dave Blackwood and Mike Wheeler were appointed as Directors on 10 August 2017. Mike Welton stepped down as a Director and Chairman of the Company on 1 September 2017 and on that date, Roy A Franklin was appointed as a Director of the Company and succeeded Mike Welton as Chairman.

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 67.

Indemnification of Directors and insurance

During the financial year, the Company had in place an indemnity to each of its Directors and the Company Secretary under which the Company will, to the fullest extent permitted by law and to the extent provided by the Articles of Association, indemnify them against all costs, charges, losses and liabilities incurred by them in the execution of their duties. The indemnity was in force for all Directors who served during the year. The Company also has Directors' and Officers' liability insurance in place.

Share capital

Details of the Company's issued share capital, together with details of any movement in the issued share capital during the year, are shown in note 20 to the consolidated financial statements on page 162. The Company has one class of Ordinary Shares which carries no right to fixed income. Each share carries the right to one vote at General Meetings of the Company.

Subject to applicable law and the Company's Articles of Association, the Directors may exercise all powers of the Company, including the power to authorise the issue and/or market purchase of the Company's shares, subject to an appropriate authority being given to the Directors by shareholders in a General Meeting and any conditions attaching to such authority. The current authority, approved at the Annual General Meeting held on 17 May 2017 ('2017 AGM'), for the allotment of relevant securities is for a nominal amount of up to (i) £21,284,319 and (ii) equity securities up to a nominal amount of £42,568,638 less the nominal amount of any shares issued under part (i) of the authority.

In addition to the authority given at the 2017 AGM, at the General Meeting held on 15 June 2017, in connection with the Company's refinancing which was completed on 28 July 2017 shareholders authorised the Directors to allot Ordinary Shares in the Company and to grant rights to subscribe for, or to convert any security into, Ordinary Shares in the Company up to a nominal amount of £59,039,247.10. This authority is specific to the issue of shares pursuant to the terms of the Company's refinancing. Further details are contained in the Circular to Shareholders dated 30 May 2017, a copy of which can be accessed in the Shareholder Information section of the Company's website.

Furthermore, at the 2017 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 £9,577,943 in nominal value) excluding treasury shares. Any shares purchased under this authority may either be cancelled or held as treasury shares provided that the number of shares held does not exceed 10 per cent of issued share capital. No shares were bought back during the year.

There are no specific restrictions on the size of a holding nor on the transfer of shares, both of which are governed by the general provisions of the Articles of Association and prevailing legislation. The Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights. Details of employee share schemes are set out in note 21 to the consolidated financial statements on pages 162 to 164. 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 109. 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

The Company 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 7 March 2018, 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
Artemis Investment Management LLP	13.05.2015	25,451,951	4.98%	Direct & Indirect
Aviva plc and its subsidiaries[1]	27.04.2009	3,933,529	4.95%	Direct & Indirect
AXA Investment Managers SA	03.03.2017	23,907,981	4.68%	Indirect
Ameriprise Financial Inc	20.01.2012	24,666,346	4.66%	Direct & Indirect
Dimensional Fund Advisors LP	25.01.2018	27,895,398	3.65%	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 155 to 160, related to various financial instruments and exposure of the Group to price, credit, liquidity and cash flow risk.

Significant agreements

The following significant agreements contain provisions entitling counterparties to exercise the following rights, in the event of a change of control of the Company:

- Under the US$718,967,054 super senior revolving credit facility agreement between, among others, the Company, certain subsidiaries of the Company and a syndicate of financial institutions, upon a change of control the commitments under the agreement would be cancelled and all amounts owing would be immediately due and payable.
- Under the US$1,781,032,945 senior revolving credit facility agreement between, among others, the Company, certain subsidiaries of the Company and a syndicate of financial institutions, upon a change of control the commitments under the agreement would be cancelled and all amounts owing would be immediately due and payable.
- Under the £100 million and US$150 million term loan facilities between, among others, the Company, certain subsidiaries of the Company and current lenders, upon a change of control, the commitments under the agreement would be cancelled and all amounts owing would be immediately due and payable.
- The Group has outstanding guaranteed convertible bonds ('GCB') with a principal amount of US$237.9 million. In the event of a change of control, the exchange price for the GCB would be adjusted downwards for a specified period. In addition, the bondholders would have the option to redeem the GCB at 101% of their principal amount, together with any 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. Upon a change of control, the bonds would become immediately redeemable, together with any accrued interest.
- The Group has outstanding senior loan notes totalling €63.6million and US$335 million, which were issued to insurance companies and funds predominantly based in the US. Upon a change of control, the entire unpaid principal amount of the notes would become immediately prepayable, together with any accrued interest.
- The Company has an outstanding English-law governed term loan facility totalling US$130 million. Upon a change of control, the commitments under the facility would be cancelled and all amounts owing would be immediately due and payable, together with accrued interest.

Political donations

No political donations were made during the year (2016: US$nil).

Significant events since 31 December 2017

Details of significant events since the balance sheet date are contained in note 27 to the financial statements on page 170.

Information set out in the Strategic Report

The Strategic Report set out on pages 1 to 57 provides a comprehensive review of the performance of the Company's operations for the year ended 31 December 2017 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 and training of disabled persons and employee involvement, is included within the Corporate Responsibility Review in the Strategic Report on pages 54 to 55. In addition, information regarding the Company's greenhouse gas emissions is also included in the Corporate Responsibility Review in the Strategic Report on page 53. 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 58 to 113. 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 142
9.8.4 (5)	Waiver of emoluments by a director	Directors' Remuneration Report, page 98

Auditors

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 auditors are 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 auditors are 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

7 March 2018

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 7 March 2018 and is signed on its behalf by:

Tony Durrant
Chief Executive Officer

Richard Rose
Finance Director

Independent Auditors' Report to the Members of Premier Oil plc

For the year ended 31 December 2017

Opinion

In our opinion:

- Premier Oil plc's Group financial statements and Parent Company financial statements (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 2017 and of the Group's loss 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; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006, and, as regards to the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements of Premier Oil plc ('Premier') that comprise:

Group	Parent
Consolidated balance sheet as at 31 December 2017	Company balance sheet as at 31 December 2017
Consolidated income statement for the year then ended	
Consolidated statement of comprehensive income for the year then ended	
Consolidated statement of changes in equity for the year then ended	Company statement of changes in equity for the year then ended
Consolidated cash flow statement for the year then ended	
Accounting policies notes 1 to 28 to the financial statements, including a summary of significant accounting policies	Related notes 1 to 10 to the company financial statements including a summary of significant accounting policies

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, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

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

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

Use of our report

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

Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the Annual Report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the Annual Report set out on page 24 that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation set out on page 22 in the Annual Report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the Directors' statement set out on page 42 in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least 12 months from the date of approval of the financial statements;
- whether the Directors' statement in relation to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the Directors' explanation set out on page 29 in the Annual Report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Overview of our audit approach

Key audit matters	• Audit transition • Recoverability of oil and gas assets, including estimation of oil and gas reserves • Deferred tax asset recoverability • Going concern assessment and covenant compliance • Decommissioning provision • Refinancing accounting
Audit scope	• We performed an audit of the complete financial information of nine components and audit procedures on specific balances for a further 11 components • The components where we performed full or specific audit procedures accounted for 100% of earnings before interest, taxation, depreciation and amortisation ('EBITDA'), Revenue and Total assets
Materiality	• Overall Group materiality of US$12 million which represents 2% of EBITDA, excluding profit on disposal of non-current assets

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. We communicated key audit matters and our planned response to each risk to the Audit and Risk Committee in our November audit planning report. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Audit transition

Risk	Our response to the risk	Key observations communicated to the Audit and Risk Committee
In the year of transition, as auditors we have to: • establish our knowledge of Premier by understanding specific risks, controls, policies and processes. This enables us to identify the risks of material misstatement within Premier's financial statements and to determine the scope of our audit; • establish the appropriateness of comparative amounts and the account balances at the beginning of the period being audited; and • understand accounting policies applied by Premier to ensure that these are consistently applied between periods and are in accordance with IFRSs.	The principal procedures performed included: • shadowing the predecessor auditors in closing meetings during the 2016 year-end at Group and all key locations (London, Aberdeen, Jakarta and Ho Chi Minh). This provided us with insights on key issues and the audit approach; • holding planning meetings with Group and key location management in order to obtain an understanding of the business and processes; • understanding accounting policies and historic accounting judgements by discussions with Group management and reviewing documentation on specific accounting topics; • reviewing the predecessor auditors' 2016 audit files in all key locations. This built on our knowledge gained through shadowing during their year-end 2016 close meetings; and • site visits by the Group audit partner to all key locations. We built upon the knowledge gained through these procedures as we undertook our audit work and refined our views on risks and scope accordingly.	In our first report presented to the Audit and Risk Committee in June 2017, we communicated the procedures that we had carried out in order to establish our audit base in the year of transition. In our audit planning report to the Audit and Risk Committee in November 2017, we presented our initial views of risks of material misstatement, the procedures we planned to undertake in response to the risks and our planned year-end audit materiality and scope. We formally confirmed to the Audit and Risk Committee in the March 2018 meeting that nothing had come to our attention that materially impacted on the opening balances and comparative amounts.

For the year ended 31 December 2017

Recoverability of oil and gas assets, including estimation of oil and gas reserve volumes

Risk	Our response to the risk	Key observations communicated to the Audit and Risk Committee
Net impairment charge: US$252m (2016: US$556m). Tangible oil and gas properties: US$2,369m (2016: US$2,710m). Intangible evaluation and exploration ('E&E') assets: US$1,062m (2016:US$1,011m). **Refer to the Audit and Risk Committee Report (pages 76 and 77); Accounting policies (page 128); and notes 9 and 10 of the Consolidated Financial Statements (pages 146 to 148).** Accounting standards require management to assess at each reporting date whether indicators of asset impairment exist. Where indicators of impairment (or reversal) exist, management must carry out an impairment test. Management's available capital budget could pose a risk to the commercial ability to progress intangible assets to the development stage. Management prepare their tangible asset impairment tests under the value-in-use methodology. The models include a number of accounting estimates and judgements performed by management including: future oil and gas prices, discount rates, inflation rates, production forecasts, operating and capital expenditures, and reserve volume estimates for each cash-generating unit ('CGU'). Changes to any of these key inputs could lead to a potential impairment or a reversal of impairment. This risk has remained consistent with the prior year.	Our response was primarily performed by the Group audit team, with input from our three audit teams responsible for components, covering 100% of the net impairment charge. We evaluated the completeness of management's assessment of the indicators of impairment or reversal for both intangible and tangible oil and gas assets through obtaining corroborating evidence to support management's assessment. In conjunction with our EY valuations specialists, we assessed the reasonableness of management's key assumptions, including oil and gas prices, discount rates, and inflation rate. Where an indicator of impairment or reversal of an oil and gas property existed, we obtained the underlying VIU model and tested the model integrity and appropriateness of management's assumptions in estimating future cash flows. Our audit procedures also focused on the estimation of oil and gas reserve volumes including assessing the appropriateness of reliance on management's third party reserve estimators and management's internal reserve estimators. We performed procedures to evaluate their objectivity and competency. We also compared the estimates of the third party estimator with the internal reserve estimates and sought support for significant differences in estimates. We also obtained an understanding and tested the design and implementation of key controls related to the asset impairment and the reserves estimation processes.	We reported to the Audit and Risk Committee in the March 2018 meeting that: • there was sufficient external evidence to support the reasonableness of Premier's price assumptions – both in the short and long-term; • the impairment discount rate adopted by management for the UK was at the lower of an acceptable range of discount rates and the inflation rate assumption was at the higher end of market data; • the cost assumptions adopted by management were appropriate and reasonable; and • we had not identified any errors or factual differences between Premier's internal and external oil and gas reserves and resource estimates that would materially impact the financial statements. Where indicators of impairment reversals were present, we were satisfied that the decisions to reverse the previously recorded impairments were appropriate. Based on the results of audit procedures performed, we concluded that the net impairment charge was reasonable. In addition, as a result of audit procedures performed, we considered management's conclusion that there are no indicators of impairment relating to the carrying values of E&E assets across the Group as reasonable.

Deferred tax asset recoverability

Risk	Our response to the risk	Key observations communicated to the Audit and Risk Committee
US$1,462m (2016: US$1,304m). **Refer to the Audit and Risk Committee Report (page 77); Accounting policies (page 128); and note 19 of the Consolidated Financial Statements (page 160).** The recognition of material deferred tax asset balances is supported by forecasted future taxable profits, primarily in the UK, which are underpinned by management's assumptions on taxable profits, including oil and gas price assumptions, the timing of unwinding of the deferred tax assets and impact of the asset disposal programme. In some cases, the utilisation of these deferred tax assets extends over the full life of the fields. Sustained low commodity prices increase the risk that sufficient future taxable profits to support the recognition of deferred tax assets may not be realised. This risk has remained consistent with the prior year.	Our response was performed by the Group and Aberdeen component audit teams covering 100% of the deferred tax balance. We ensured the forecasts used by management for assessing the recoverability of deferred tax assets are consistent with those used for assessing asset impairment. We evaluated the reasonableness of tax planning strategies applied in determining the recoverability of deferred tax assets. We also obtained an understanding and tested the design and implementation of key controls related to the recoverability assessment.	We reported to the March 2018 meeting of the Audit and Risk Committee that the deferred tax assets recognised are appropriate; however, we noted that their utilisation is highly dependent on forecast taxable profits generated from a number of North Sea fields. We noted that the assumptions underlying the profit forecasts were consistent with those used for asset impairment testing and the going concern assessment.

Going concern assessment and covenant compliance

Risk	Our response to the risk	Key observations communicated to the Audit and Risk Committee
Refer to the Audit and Risk Committee Report (page 76); Accounting policies (page 128); and note 15 of the Consolidated Financial Statements (page 150). A refinancing agreement was finalised in July 2017 reducing the uncertainty around Premier's ability to remain a going concern. Ongoing covenant compliance is a key consideration for the going concern basis of accounting. If oil and gas prices were to remain significantly below those currently being realised or if production levels were to be significantly below current performance then, in the absence of any mitigating actions, a breach of one or more of the financial covenants may arise.	Our response was performed by the Group and Aberdeen audit teams. We tested the relevant cash flow forecasts and financing facilities in the cash flow model. We ensured the budget and forecast used in the model has been approved by the Board and considered prior year forecast versus actual to assess historical accuracy. We considered the reasonableness of all key assumptions as well as their consistency with other areas of the audit. We obtained the covenant ratio compliance calculations and recalculated them to ensure there were no breaches for each covenant ratio throughout the going concern period under Premier's price assumptions. We performed sensitivity tests on the cash flow models, including loan covenants. We also tested the integrity of management's going concern model and obtained an understanding and tested the design and implementation of key controls related to the processes.	We reported to the March 2018 meeting of the Audit and Risk Committee that we believed that the going concern assumption adopted in the 2017 financial statements is appropriate, based on the headroom estimated under the base case. We noted that under production and oil price downside stress cases, covenants could be breached; however, we are satisfied that the going concern assumption is appropriate based on Premier's price assumptions and mitigating actions.

Decommissioning provision

Risk	Our response to the risk	Key observations communicated to the Audit and Risk Committee
US$1,432m (2016: US$1,325m). **Refer to the Audit and Risk Committee Report (page 77); Accounting policies (page 128); and note 17 of the Consolidated Financial Statements (page 154).** Decommissioning provisions are inherently subjective given they are based on estimates of costs that will be settled in the future. Management's estimate has been based on Premier's internal estimates or, as applicable, third party operator estimates. This risk has remained consistent with the prior year.	We performed audit procedures over this risk area in five business units, which covered 100% of the decommissioning provision. We have tested the reasonableness of management's discount rate used for the decommissioning provision based on market data. We evaluated the models used by management to determine the decommissioning cost estimate including testing the integrity of the model for mechanical and mathematical accuracy. We compared actual spend in the year to the provision estimate. Where management utilised an internal or external specialist, we assessed their objectivity and competency. We also obtained an understanding and tested the design and implementation of key controls related to the process.	We reported to the March 2018 meeting of the Audit and Risk Committee that having considered the components that make up the decommissioning estimate in combination, we were satisfied the overall decommissioning provision is reasonable.

Refinancing accounting

Risk	Our response to the risk	Key observations communicated to the Audit and Risk Committee
Refer to the Audit and Risk Committee Report (page 76); Accounting policies (page 128); and note 15 of the Consolidated Financial Statements (page 151). The refinancing of the Group's debt facilities was completed during July 2017. Due to the complexity of the refinancing and associated accounting, we deem it to be a significant risk in the current year. The accounting is governed by IAS 39, Financial Instruments: Recognition and Measurement. The most critical judgement relates to whether the refinancing is regarded as a substantial or non-substantial modification. This judgement is made on a facility by facility basis and IAS 39 sets out a '10%-test', which is a key determinant of whether a modification is substantial. The 10% test involves discounting the new cash flows at the old effective interest rate and comparing the result to the current carrying value. If the difference is greater than 10%, the modification is substantial. The difference in accounting for substantial versus non-substantial modification is significant. For a substantial modification, all original fees and new fees are written off to the income statement and the new debt is recognised at fair value.	Our response was performed by the Group audit team, covering 100% of the amount at risk. We audited the calculations prepared by management on a facility by facility basis and recalculated the results of the 10% test. We considered a number of specific technical accounting issues relating to the refinancing and considered management's conclusions on those issues. In each case, we considered the contrary arguments and concluded that the judgements management had reached were appropriate. We also considered the impact of the accounting on covenant compliance. We also obtained an understanding and tested the design and implementation of key controls related to the refinance accounting.	We reported to the March 2018 meeting of the Audit and Risk Committee that given the range of different accounting treatments, we considered the potential bias that could impact management in concluding on the appropriate accounting. We did not detect any bias from management and concluded management's assessment of substantial versus non-substantial modification for each facility is reasonable. For each facility, we considered contrary arguments and in each case concluded that the judgement management had reached was appropriate.

Revenue recognition is a significant risk presumed by ISAs (UK). It is not included above, as Premier's revenue streams are largely routine in nature and do not involve significant judgement or use of significant estimates. Consequently, the auditing of revenue recognition did not have the greatest effect on our overall audit strategy, the allocation of resources in the audit or in directing the efforts of the engagement team.

In the prior year, the predecessor auditors' report included a key audit matter in relation to fair values of the assets and liabilities acquired from E.ON. This accounting was concluded in the prior year and therefore is not a key audit matter in the current year.

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the Group and effectiveness of Group-wide controls, and changes in the business environment when assessing the level of work to be performed at each entity.

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements of the 41 reporting components of the Group, we selected 20 components covering entities within United Kingdom, Vietnam, Indonesia, Brazil, Mexico, the Falkland Islands, Pakistan and Mauritania, which represent the principal business units within the Group.

Of the 20 components selected, we performed an audit of the complete financial information of nine components ('full scope components') which were selected based on their size or risk characteristics. For the remaining 11 components ('specific scope components'), we performed audit procedures on specific accounts within that component that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile.

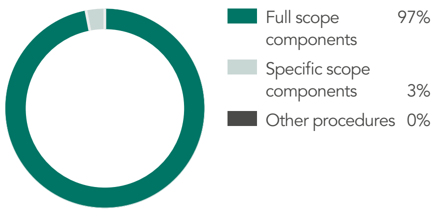
The reporting components where we performed audit procedures accounted for 100 per cent of the Group's EBITDA, Revenue and Total assets. For the current year, the full scope components contributed 97 per cent of the Group's EBITDA, 97 per cent of the Group's Revenue and 85 per cent of the Group's Total assets. The specific scope components contributed 3 per cent of the Group's EBITDA, 3 per cent of the Group's Revenue and 15 per cent of the Group's Total assets. The audit scope of these components may not have included testing of all significant accounts of the component but will have contributed to the coverage of the Group tested.

For the remaining 21 components, we performed other procedures including the following to respond to any potential risks of material misstatement to the consolidated financial statements:

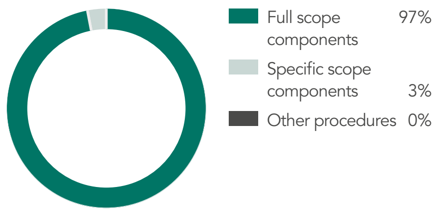
- review of Group-wide entity level controls, including the level of CEO, CFO and other Group management oversight;
- analytical review procedures on a legal entity basis;
- test consolidation journals, intercompany eliminations and foreign currency translation recalculations;
- enquiry of management about unusual transactions in these components; and
- review of minutes of Board meetings held throughout the period.

The charts below illustrate the coverage obtained from the work performed by our audit teams.

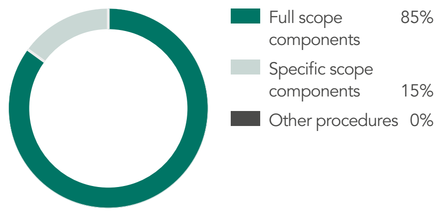
EBITDA



Revenue



Total assets



Changes from the prior year

Procedures performed on the Pakistan operations and related disposal accounting were performed by the Group audit team, rather than engaging a local audit team.

Involvement with component teams

In establishing our overall approach to the Group audit, we determined the type of work that needed to be undertaken at each of the components by us, as the Group audit engagement team, or by component auditors from other EY global network firms operating under our instruction. For nine full scope and one specific scope component where the work was performed by three EY component teams (Aberdeen, Ho Chi Minh and Jakarta), we determined the appropriate level of involvement to enable us to determine that sufficient audit evidence had been obtained as a basis for our opinion on the Group as a whole.

The Group audit team interacted regularly with the EY component teams during each stage of the audit, were responsible for the scope and direction of the audit process and reviewed key working papers. The Group audit team followed a programme of planned visits that was designed to ensure that the Senior Statutory Auditor visited all component teams during the current year's audit cycle. Additional visits were undertaken by other members of the Group audit team to the component teams in Aberdeen, Ho Chi Minh and Jakarta. These visits involved discussing the audit approach with the component team and any issues arising from their work, meeting with local management, attending planning and closing meetings, and reviewing key audit working papers on risk areas. The Group audit team interacted regularly with the component teams during various stages of the audit, reviewed key working papers and were responsible for the scope and direction of the audit process. This, together with the additional procedures performed at Group level, gave us appropriate evidence for our opinion on the consolidated financial statements. We maintained continuous and open dialogue with our EY component teams in addition to holding formal meetings half yearly to ensure that we were fully aware of their progress and results of their procedures.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be US$12 million, which is 2 per cent of EBITDA, excluding profit on disposal of non-current assets. In the prior year audit, the predecessor auditor adopted a materiality for the Group of US$12m based on 7 per cent of the average normalised pre-tax profit for the last three years. We believe that EBITDA provides us with a suitable basis for setting materiality as this measure is a particular focus of lenders, which is the basis of the covenants included in the new loan agreements and is a key performance indicator of the Group.

We determined materiality for the Parent Company to be US$8 million, which is 0.5 per cent of total assets.

During the course of our audit, we reassessed initial materiality and no changes were made.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 50 per cent of our planning materiality, namely US$6m. We have set performance materiality at this percentage based on our assessment of likelihood of misstatements based on our review of prior year audit adjustments and adjustments identified as part of our 2017 half year review.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was US$1.5m to US$4m.

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit and Risk Committee that we would report to them all uncorrected audit differences in excess of US$0.6m (2016: US$0.6m), which is set at 5 per cent of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the Annual Report, other than the financial statements and our auditors' report thereon. The Directors are responsible for the other information.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- **Fair, balanced and understandable,** set out on page 117 – the statement given by the Directors that they consider the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit and Risk Committee reporting,** set out on page 74 to 78 – the section describing the work of the Audit and Risk Committee does not appropriately address matters communicated by us to the Audit and Risk Committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code,** set out on page 117 – the parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

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

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

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

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement set out on page 117, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

For the year ended 31 December 2017

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

The objectives of our audit, in respect to fraud, are: to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to Premier and determined that the most significant are those that relate to the reporting framework (IFRSs, Companies Act 2006, the UK Corporate Governance Code and Listing Rules of the UK Listing Authority) and the relevant tax compliance regulations in the jurisdictions in which the Group operates. In addition, we concluded that there are certain significant laws and regulations that may have an effect on the determination of the amounts and disclosures in the financial statements and laws and regulations relating to health and safety, employee matters, environmental and bribery and corruption practices.
- We understood how the Group is complying with those frameworks by making enquiries of management and with those responsible for legal and compliance procedures. We designed audit procedures to identify non-compliance with such laws and regulations identified in the paragraph above, including corroborating our enquiries through our review of Board minutes, papers provided to the Audit and Risk Committee and correspondence received from regulatory bodies, and noted that there was no contradictory evidence.
- We assessed the susceptibility of Premier's consolidated financial statements to material misstatement, including how fraud might occur, by incorporating data analytics and manual journal entry testing into our audit approach. Our journal entry audit procedures focused on addressing the risk of management override of controls at all full and specific audit scope entities, as well as review scope entities that are not dormant. Our audit procedures also covered post-closing year-end journal entries. We used our data analytics techniques to focus our testing on higher risk manual journal entries, journal entries related to the debt covenants, in particular unusual account pairing impacting revenue and completeness of costs, and other search criteria that could indicate management override or fraud. Data completeness checks were carried out to ensure that the journal entry population was complete.
- Other procedures performed to address the risk of management override included assessing the key accounting estimates for evidence of management bias, evaluating the business rationale for significant unusual and one-off transactions, reviewing the minutes of the Board of Directors and Audit and Risk Committee, and including a level of unpredictability in our testing.

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

Other matters we are required to address

- We were appointed by the Company on 17 May 2017 to audit the financial statements for the year ending 31 December 2017 and subsequent financial periods.

The period of total uninterrupted engagement including previous renewals and reappointments is one year, covering the year ending 31 December 2017.

- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent Company and we remain independent of the Group and the Parent Company in conducting the audit.
- The audit opinion is consistent with the additional report to the Audit and Risk Committee.

Gary Donald (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP

Statutory Auditor, London

7 March 2018

Notes:

1 The maintenance and integrity of the Premier Oil plc website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

2 Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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.

- Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative
- Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses
- Amendments to IFRS 12 Disclosure of Interests in Other Entities: Clarification of the scope of disclosure requirements in IFRS 12

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
- IFRS 2 (amendments) Classification and Measurement of Share-based Payment Transactions
- IFRS 4 (amendments) Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
- IFRS 17 Insurance Contracts
- Transfers of Investment Property — Amendments to IAS 40
- Annual Improvements 2014-2016 Cycle (issued in December 2016

Other than as disclosed below, the Directors do not expect that the adoption of the other Standards listed above will have a material effect on the financial statements of the Group in future periods.

IFRS 15 Revenue from Contracts with Customers ('IFRS 15') was issued in May 2014 and is effective 1 January 2018. When effective, IFRS 15 will replace all current revenue standards and interpretations in IFRS. IFRS 15 provides a single model of accounting for revenue arising from contracts with customers based on the satisfaction of performance obligations identified by the entity. Premier will adopt IFRS 15 on 1 January 2018 and has elected to apply the 'modified retrospective' transition approach to implementation of IFRS 15. Following identification of performance obligations and allocation of transaction price to such performance obligations, revenue is recognised under IFRS 15 when or as the entity satisfies a performance obligation by transferring a promised good or service to a customer. A good or service is transferred when the customer obtains control of that good or service.

Given the nature of Premier's oil marketing and gas sales agreements, with control passing to the customer upon transfer of physical possession, Premier principally satisfies its performance obligations at a point in time as opposed to over a period of time and therefore accounting for revenue under IFRS 15 does not represent a significant change from current practice.

Transactions with joint venture partners or collaborators are generally not considered to fall within the scope of IFRS 15 because they are not customers. As under/overlift adjustments represent transactions between the entity and its joint venture partners, under/overlift adjustments to revenue are no longer considered permissible following adoption of IFRS 15. Premier's accounting policy is to adjust for over/underlift positions through cost of sales, measured at market value, whilst recognising an liability/asset to reflect the value of crude to be settled in future periods and will therefore not be affected by the adoption of IFRS 15. Due to IFRS 15 disclosure requirements Premier expects to provide a more detailed disaggregation of its revenue by type as well as detail on performance obligations and any significant judgements made in applying the standard. Additional disclosures will be presented for the year ended 31 December 2018 as part of the 2018 Annual Report and Accounts.

IFRS 9 Financial Instruments became effective on 1 January 2018 and will affect both the measurement of and disclosures relating to financial instruments. However, we do not expect this to give rise to any material adjustments to the Group's accounting policies. However, the carrying amount of borrowings refinanced in the year which were not considered substantially modified will increase on transition by the present value of the additional interest payable.

IFRS 16 becomes effective from 1 January 2019 and it 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.

Basis of preparation

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

The financial statements are prepared under the historical cost convention except for derivative financial instruments that have been measured at fair value, including the equity and synthetic warrants, and the recognition of the substantially modified convertible bond notes during the year.

The financial statements have been prepared on the going concern basis. Further information relating to the use of the going concern assumption, is provided in the 'Going Concern' section of the Financial Review as set out on page 42.

The principal accounting policies adopted are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year. Control is achieved when a company is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

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

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

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

Critical accounting judgements

Details of the Group's significant accounting judgements 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);
- carrying value of intangible exploration and evaluation assets (note 9 on page 146), in relation to whether commercial determination of an exploration prospect had been reached;
- accounting for the refinancing (note 15 on page 151), as to whether the Group's borrowing facilities were substantially modified;
- carrying value of property, plant and equipment (note 10 on page 148) regarding assessing assets for indicators of impairment;
- decommissioning costs (note 17 on page 154), relating to the timing of when decommissioning would occur; and
- tax and recognition of deferred tax assets (note 19 on page 161), relating to the extent to which future cash flows are included.

Key sources of estimation uncertainty

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

- carrying value of property, plant and equipment (note 10 on page 148), where the key assumptions relate to oil and gas prices expected to be realised, 2P production profiles and estimated future costs;
- decommissioning costs (note 17 on page 154, where the key assumptions relate to the discount and inflation rates applied, applicable rig rates and expected timing of COP from each field;
- estimating the fair value of the equity and synthetic warrants recognised in the year (note 18 on page 157), where key assumptions relate to expected timing of exercise and future share price volatility; and,
- tax and recognition of deferred tax assets (note 19 on page 161), where key assumptions relate to oil and gas prices expected to be realised, 2P production profiles and estimated future costs.

Business combinations

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

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments (see below). All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with relevant IFRSs with any gains or losses recorded in the income statement, unless it is classified as equity.

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

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

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

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

Goodwill

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

If, after reassessment, the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the excess is recognised immediately in profit or loss as an excess of fair value over cost.

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

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

Interest in joint arrangements

A joint arrangement is one in which two or more parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

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

A joint venture, which normally involves the establishment of a separate legal entity, is a contractual arrangement whereby the parties that have joint control of the arrangement have the rights to the arrangement's net assets. The results, assets and liabilities of a joint venture are incorporated in the consolidated financial statements using the equity method of accounting. During 2017, 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.

Discontinued operations

A disposal group qualifies as discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and represents a separate major line of business or geographical area of operation. Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the statement of profit or loss.

Sales revenue and other income

Sales of petroleum production are recognised when risks and rewards are transferred which is typically when goods are delivered or the title has passed to the customer. Under the Group's joint operation arrangements, revenue is recognised according to the actual liftings. However, where liftings do not match working interest or entitlement interest, an adjustment is made to cost of sales representing the amount due to/from joint venture partners representing over/underlift movements.

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

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

Oil and gas assets

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

(a) Exploration and evaluation assets

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

Pre-licence costs

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

Exploration and evaluation costs

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

Tangible assets used in E&E activities (such as the Group's vehicles, drilling rigs, seismic equipment and other property, plant and equipment used by the Company's Exploration Function) are classified as property, plant and equipment. However, to the extent that such a tangible asset is consumed in developing an intangible E&E asset, the amount reflecting that consumption is recorded as part of the cost of the intangible asset. Such intangible costs include directly attributable overhead, including the depreciation of property, plant and equipment utilised in E&E activities, together with the cost of other materials consumed during the exploration and evaluation phases. E&E costs are not amortised prior to the conclusion of appraisal activities.

Treatment of E&E assets at conclusion of appraisal activities

Intangible E&E assets related to each exploration licence/prospect are carried forward until the existence (or otherwise) of commercial reserves has been determined subject to certain limitations, including review for indications of impairment. If commercial reserves have been discovered, the carrying value, after any impairment loss, of the relevant E&E assets, is then reclassified as development and production assets, once 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) above.

The cost of oil and gas properties also includes the cost of acquisitions and purchases of such assets, directly attributable overheads, finance costs capitalised, and the cost of recognising provision for future restoration and decommissioning.

Depreciation of producing assets

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

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

(c) Impairment of oil and gas properties' assets

An impairment test is performed whenever events and circumstances arising during the development or production phase indicate that the carrying value of an oil and gas property may exceed its recoverable amount.

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

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

(d) Acquisitions, asset purchases and disposals

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

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

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

(e) Decommissioning

Provision for decommissioning is recognised in full when the related facilities are installed. The amount recognised is the present value of the estimated future expenditure. A corresponding amount equivalent to the provision is also recognised as part of the cost of the related oil and gas property. This is subsequently depreciated as part of the capital costs of the production facilities. Any change in the present value of the estimated expenditure is dealt with from the start of the financial year as an adjustment to the opening provision and the oil and gas property. The unwinding of the discount is included as a finance cost.

Inventories

Inventories, except for petroleum products, are valued at the lower of cost and net realisable value. Petroleum products and underlifts and overlifts of crude oil are measured at net realisable value using an observable year-end oil or gas market price, and included in inventories and other debtors or creditors respectively.

Tax

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

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

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

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

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.

For the year ended 31 December 2017

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

Translation of foreign currencies

In the accounts of individual companies, transactions denominated in foreign currencies, being currencies other than the functional currency, are recorded in the local currency at actual exchange rates as of the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at the balance sheet date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Any gain or loss arising from a change in exchange rate subsequent to the dates of the transactions is included as an exchange gain or loss in the income statement. Non-monetary assets held at historic cost are translated at the date of purchase and are not retranslated.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are generally translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised as other comprehensive income or expense and are transferred to the Group's translation reserve. When an overseas operation is disposed of, such translation differences relating to it are recognised as income or expense.

Group retirement benefits

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

The Group operates a defined benefit pension scheme, which requires contributions to be made to a separately administered fund. The cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at each balance sheet date. Actuarial gains and losses are recognised immediately in the statement of comprehensive income.

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

Royalties

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

Leasing

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

Financial instruments

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

Trade receivables

Trade receivables are stated at amortised cost as reduced by appropriate allowances for estimated irrecoverable amounts.

Bank borrowings

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

Borrowing costs

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

Trade payables

Initial recognition of trade payables is at fair value. Subsequently they are stated at amortised cost.

Derivative financial instruments

The Group uses derivative financial instruments (derivatives) to manage its exposure to changes in foreign currency exchange rates, interest rates and oil price fluctuations. During the year the Group issued equity and synthetic warrants in connection with the refinancing, which are also accounted for as derivatives.

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 21 on page 163.

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.

Consolidated Income Statement

For the year ended 31 December 2017

	Note	2017 US$ million	2016 US$ million Restated[1]
Continuing operations			
Sales revenues	1	**1,043.1**	937.0
Other operating income/(costs)	17	**18.8**	(6.1)
Costs of operation	2	**(455.4)**	(412.7)
Depreciation, depletion, amortisation and impairment	1	**(667.8)**	(888.3)
Reduction in decommissioning estimates		**–**	75.7
Exploration expense and pre-licence costs	9	**(17.1)**	(58.5)
Excess of fair value over costs of acquisition		**–**	228.5
Costs related to the acquisition of subsidiaries		**–**	(21.6)
Profit on disposal of non-current assets	7	**129.0**	–
General and administration costs		**(16.8)**	(24.1)
Operating profit/(loss)		**33.8**	(170.1)
Interest revenue, finance and other gains	5	**12.6**	15.0
Finance costs, other finance expenses and losses	5	**(329.0)**	(258.8)
Loss on substantial modification	15	**(83.7)**	–
Loss before tax from continuing operations		**(366.3)**	(413.9)
Tax	6	**96.1**	522.6
(Loss)/profit for the year from continuing operations		**(270.2)**	108.7
Discontinued operations			
Profit for the year from discontinued operations	7	**16.4**	13.9
(Loss)/profit after tax		**(253.8)**	122.6
(Loss)/earnings per share (cents):			
From continuing operations			
Basic	8	**(52.6)**	21.3
Diluted	8	**(52.6)**	20.8
From continuing and discontinued operations			
Basic	8	**(49.4)**	24.0
Diluted	8	**(49.4)**	23.5

Note:
1 Restated for the classification of the Pakistan Business Unit as a discontinued operation and certain line items to match current year classification.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2017

	Note	2017 US$ million	2016 US$ million Restated[1]
(Loss)/profit for the year		**(253.8)**	122.6
Cash flow hedges on commodity swaps:			
Losses arising during the year		**(25.6)**	(38.3)
Less: reclassification adjustments for losses/(gains) in the year		**11.4**	(92.4)
	18	**(14.2)**	(130.7)
Cash flow hedges on interest rate and foreign exchange swaps:			
(Losses)/gains arising during the year		**(33.9)**	60.9
Less: reclassification adjustments for losses/(gains) in the year		**23.1**	(57.6)
	18	**(10.8)**	3.3
Tax relating to components of other comprehensive income	19	**7.5**	56.1
Exchange differences on translation of foreign operations		**(4.9)**	3.0
Gains on long-term employee benefit plans[2]		**–**	0.2
Other comprehensive expense		**(22.4)**	(68.1)
Total comprehensive (expense)/income for the year		**(276.2)**	54.5

Notes:
1 Restated for the classification of the Pakistan Business Unit as a discontinued operation.
2 Only item above 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 2017

	Note	2017 US$ million	2016 US$ million
Non-current assets:			
Intangible exploration and evaluation assets	9	**1,061.9**	1,011.4
Property, plant and equipment	10	**2,381.0**	2,726.2
Goodwill	10	**240.8**	240.8
Long-term receivables	11	**160.8**	149.6
Deferred tax assets	19	**1,461.5**	1,304.0
		5,306.0	5,432.0
Current assets:			
Inventories		**13.5**	22.3
Trade and other receivables	11	**340.6**	315.1
Derivative financial instruments	18	**14.5**	34.9
Cash and cash equivalents	12	**365.4**	255.9
Assets held for sale	7	**96.6**	–
		830.6	628.2
Total assets		**6,136.6**	6,060.2
Current liabilities:			
Trade and other payables	13	**(572.9)**	(412.6)
Short-term provisions	17	**(91.2)**	(56.1)
Derivative financial instruments	18	**(99.8)**	(57.2)
Short-term debt	15	**–**	(273.0)
Deferred income	14	**(13.1)**	(27.3)
Liabilities directly associated with assets held for sale	7	**(46.6)**	–
		(823.6)	(826.2)
Net current assets/(liabilities)		**7.0**	(198.0)
Non-current liabilities:			
Long-term debt	15	**(2,972.6)**	(2,730.5)
Deferred tax liabilities	19	**(164.0)**	(192.6)
Deferred income	14	**(80.3)**	(88.1)
Derivative financial instruments	18	**(108.3)**	(101.6)
Long-term provisions	17	**(1,370.9)**	(1,312.1)
		(4,696.1)	(4,424.9)
Total liabilities		**(5,519.7)**	(5,251.1)
Net assets		**616.9**	809.1
Equity and reserves:			
Share capital	20	**109.0**	106.7
Share premium account		**284.5**	275.4
Other reserves	26	**223.4**	427.0
		616.9	809.1

The financial statements were approved by the Board of Directors and authorised for issue on 7 March 2018.

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 2017

	Attributable to the equity holders of the parent			
	Share capital US$ million	Share premium account US$ million	Other reserves US$ million	Total US$ million
At 1 January 2016	106.7	275.4	352.6	734.7
Purchase of ESOP Trust shares	–	–	0.2	0.2
Provision for share-based payments	–	–	19.7	19.7
Profit for the year	–	–	122.6	122.6
Other comprehensive expense	–	–	(68.1)	(68.1)
At 1 January 2017	106.7	275.4	427.0	809.1
Issue of Ordinary Shares	2.3	9.1	1.1	12.5
Net release of ESOP Trust shares	–	–	(0.2)	(0.2)
Provision for share-based payments	–	–	14.5	14.5
Incremental equity component of revised convertible bonds	–	–	57.2	57.2
Loss for the year	–	–	(253.8)	(253.8)
Other comprehensive expense	–	–	(22.4)	(22.4)
At 31 December 2017	**109.0**	**284.5**	**223.4**	**616.9**

Consolidated Cash Flow Statement

For the year ended 31 December 2017

	Note	2017 US$ million	2016 US$ million
			Restated[1]
Net cash from operating activities	22	**496.0**	431.4
Investing activities:			
Capital expenditure		**(275.6)**	(662.6)
Acquisition of subsidiaries		**–**	(135.0)
Cash balance acquired in the period		**–**	24.9
Decommissioning pre-funding	11	**(16.7)**	(62.3)
Decommissioning expenditure		**(25.7)**	(15.5)
Proceeds from disposal of oil and gas properties		**202.3**	(8.8)
Net cash used in investing activities		**(115.7)**	(859.3)
Financing activities:			
Issuance of Ordinary Shares		**0.8**	–
Net (release)/purchase of ESOP Trust shares		**(0.2)**	0.2
Proceeds from drawdown of long-term bank loans		**45.0**	435.0
Debt arrangement fees		**(86.0)**	(26.3)
Interest paid		**(223.7)**	(126.3)
Net cash from financing activities		**(264.1)**	282.6
Currency translation differences relating to cash and cash equivalents		**(6.7)**	(0.1)
Net increase/(decrease) in cash and cash equivalents		**109.5**	(145.4)
Cash and cash equivalents at the beginning of the year		**255.9**	401.3
Cash and cash equivalents at the end of the year	22	**365.4**	255.9

Note:
1 Restated for certain line items to match current year classification.

1. Operating segments

The Group's operations are located and managed in five business units: namely the Falkland Islands, Indonesia, Vietnam, the United Kingdom and the Rest of the World. The results for Pakistan are reported as a discontinued operation; the income statement in the prior year has been restated to reflect this and certain line items to match current year reclassification. The results for Mauritania have been reclassified into the Rest of the World Business Unit.

Some of the business units currently do not generate revenue or have any material operating income.

The Group is only engaged in one business of upstream oil and gas exploration and production.

	2017 US$ million	2016 US$ million
		Restated
Revenue:		
Indonesia	**171.8**	141.1
Vietnam	**210.7**	192.0
United Kingdom	**655.9**	598.0
Rest of the World[1]	**4.7**	5.9
Total Group sales revenue	**1,043.1**	937.0
Other operating income – United Kingdom	**18.8**	–
Interest and other finance revenue	**1.7**	0.7
Total Group revenue from continuing operations	**1,063.6**	937.7
Group operating profit/(loss):		
Indonesia	**65.3**	35.6
Vietnam	**82.6**	86.3
United Kingdom	**(86.4)**	(225.0)
Rest of the World[1]	**(5.0)**	(32.2)
Unallocated[2]	**(22.7)**	(34.8)
Group operating profit/(loss)	**33.8**	(170.1)
Interest revenue, finance and other gains	**12.6**	15.0
Finance costs and other finance expenses	**(329.0)**	(258.8)
Loss on substantial modification	**(83.7)**	–
Loss before tax from continuing operations	**(366.3)**	(413.9)
Tax	**96.1**	522.6
(Loss)/profit after tax from continuing operations	**(270.2)**	108.7
Profit from discontinued operations	**16.4**	13.9
Balance sheet		
Segment assets:		
Falkland Islands	**633.1**	642.9
Indonesia	**440.4**	480.2
Pakistan (including Mauritania)	**–**	44.8
Vietnam	**374.4**	399.0
United Kingdom	**4,116.2**	4,136.5
Rest of the World[1]	**96.0**	66.0
Assets held for sale	**96.6**	–
Unallocated[2]	**379.9**	290.8
Total assets	**6,136.6**	6,060.2

Notes:

1 Segmental income, assets, liabilities and capital additions for Mauritania have been included within the Rest of the World for the current year.

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

For the year ended 31 December 2017

1. Operating segments continued

	2017 US$ million	2016 US$ million
Liabilities:		
Falkland Islands	**(8.2)**	(45.6)
Indonesia	**(223.9)**	(244.5)
Pakistan (including Mauritania)	**–**	(76.3)
Vietnam	**(203.4)**	(202.1)
United Kingdom	**(1,802.1)**	(1,516.8)
Rest of the World[1]	**(54.8)**	(3.5)
Liabilities directly associated with assets held for sale	**(46.6)**	–
Unallocated[2]	**(3,180.7)**	(3,162.3)
Total liabilities	**(5,519.7)**	(5,251.1)
Other information		
Capital additions and acquisitions:		
Falkland Islands	**12.9**	59.2
Indonesia	**7.4**	(2.7)
Pakistan (including Mauritania)	**7.1**	0.9
Vietnam	**20.2**	(7.4)
United Kingdom	**444.3**	1,247.7
Rest of the World[1]	**28.7**	26.4
Total capital additions and acquisitions	**520.6**	1,324.1
Depreciation, depletion, amortisation and impairment:		
Indonesia	**57.2**	52.7
Vietnam	**64.5**	45.0
United Kingdom	**542.9**	790.4
Rest of the World	**3.2**	0.2
Total depreciation, depletion, amortisation and impairment (continuing operations)	**667.8**	888.3
Total depreciation, depletion, amortisation and impairment[3] (discontinued operations)	**7.3**	8.2

Notes:
1 Segmental income, assets, liabilities and capital additions for Mauritania have been included within the Rest of the World for the current year.
2 Unallocated expenditure, assets and liabilities include amounts of a corporate nature and not specifically attributable to a geographical segment. These items include corporate general and administration costs, pre-licence exploration costs, cash and cash equivalents, mark-to-market valuations of commodity contracts and interest rate swaps, convertible bonds, warrants and other short-term and long-term debt.
3 Depreciation, depletion and amortisation for the Pakistan Business Unit was charged until 30 June 2017, which was the date of reclassification to an asset held for sale.

Out of the total Group worldwide sales revenues of US$1,043.1 million (2016: US$937.0 million restated), revenues of US$655.9 million (2016: US$598.0 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$2,455.7 million (2016: US$2,640.6 million) located in the UK. Included in depreciation, depletion, amortisation and impairment are net impairment charges in relation to the UK of US$252.2 million (2016: US$587.9 million).

Revenue from three customers (2016: three customers) each exceeded 10 per cent of the Group's consolidated revenue and amounted to US$240.3 million arising from sales of crude oil (2016: two customers amounting to US$155.4 million and US$157.4 million), and US$121.4 million and US$168.3 million arising from sales of gas (2016: one customer US$112.0 million).

2. Costs of operation

	2017 US$ million	2016 US$ million
		Restated[1]
Operating costs	**438.4**	402.7
Gas purchases	**5.5**	12.4
Stock overlift/underlift movement	**1.3**	(12.1)
Royalties	**10.2**	9.7
	455.4	412.7

Note:
1 Restated for the classification of the Pakistan Business Unit as a discontinued operation.

3. Auditors' remuneration

	2017 US$ million	2016 US$ million[2]
Audit fees:		
Fees payable to the Company's auditor for the Company's Annual Report	**0.6**	0.7
Audit of the Company's subsidiaries pursuant to legislation	**0.3**	0.2
	0.9	0.9
Non-audit fees:		
Other services pursuant to legislation – interim review	**0.2**	0.1
Tax services	**–**	0.3
Corporate finance services[1]	**0.4**	1.0
Other services	**–**	0.1
	0.6	1.5

Notes:
1 Other services relate to fees payable to the Company's auditor for the audit of the Company's joint operations and other assurance services.
2 The 2016 audit and non-audit fees were paid to Deloitte LLP.

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 auditors' objectivity that cannot be reduced to an acceptable level by applying safeguards.

4. Staff costs

	2017 US$ million	2016 US$ million
Staff costs, including Executive Directors:		
Wages and salaries	**94.0**	102.3
Social security costs	**6.8**	7.3
Pension costs:		
Defined contribution	**6.7**	8.6
Defined benefit	**3.0**	2.8
	110.5	121.0

Staff costs above are recharged to joint venture partners or capitalised to the extent that they are directly attributable to capital projects. The above costs include share-based payments to employees as disclosed in note 21 on page 162.

	2017	2016
Average number of employees during the year:		
Technical and operations	**531**	557
Management and administration	**258**	244
	789	801

For the year ended 31 December 2017

5. Interest revenue and finance costs

	Note	2017 US$ million	2016 US$ million
			Restated[1]
Interest revenue, finance and other gains:			
Short-term deposits and loans		**1.7**	0.7
Derivative gains	18	**10.9**	5.2
Exchange differences and other gains		**–**	9.1
		12.6	15.0
Finance costs:			
Bank loans, overdrafts and bonds		**(177.3)**	(110.3)
Payable in respect of convertible bonds		**(13.3)**	(10.9)
Payable in respect of senior loan notes		**(34.3)**	(28.7)
Long-term debt arrangements fees		**(22.0)**	(11.1)
Exchange differences and other costs		**(34.7)**	(4.9)
		(281.6)	(165.9)
Other finance expenses:			
Unwinding of discount on decommissioning provision	17	**(62.5)**	(57.4)
Derivative losses	18	**(33.0)**	(54.6)
Finance income/(expense) on deferred income	14	**6.8**	(14.9)
		(88.7)	(126.9)
Gross finance costs and other finance expenses		**(370.3)**	(292.8)
Finance costs capitalised during the year		**41.3**	34.0
		(329.0)	(258.8)

Note:
1 Restated for the classification of the Pakistan Business Unit as a discontinued operation.

The amount of finance costs capitalised was determined by applying the weighted average rate of finance costs applicable to the borrowings of the Group of 7.3 per cent (2016: 4.6 per cent) to the expenditures on the qualifying assets.

6. Tax

	2017 US$ million	2016 US$ million
		Restated[1]
Current tax:		
UK corporation tax on profits	**(0.8)**	(3.0)
UK petroleum revenue tax	**(8.2)**	(0.8)
Overseas tax	**75.6**	44.6
Adjustments in respect of prior years	**8.2**	0.7
Total current tax	**74.8**	41.5
Deferred tax:		
UK corporation tax	**(146.2)**	(544.4)
UK petroleum revenue tax	**–**	(14.4)
Overseas tax	**(24.7)**	(5.3)
Total deferred tax	**(170.9)**	(564.1)
Tax on loss on ordinary activities	**(96.1)**	(522.6)

Note:
1 Restated for the classification of the Pakistan Business Unit as a discontinued operation.

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

	2017 US$ million	2016 US$ million
		Restated[1]
Group loss on ordinary activities before tax	**(366.3)**	(413.9)
Group loss on ordinary activities before tax at 29.1% weighted average rate (2016: 58.1%)[1]	**(106.6)**	(240.6)
Tax effects of:		
Income/expenses that are not taxable/deductible in determining taxable profit	**40.6**	9.4
Financing costs disallowed for UK supplementary charge	**16.4**	14.4
Non-deductible field expenditure	**36.1**	63.2
Tax and tax credits not related to profit before tax (mainly ring fence expenditure supplement)	**(69.9)**	(60.7)
Unrecognised tax losses	**6.1**	2.8
Adjustments in respect of prior years	**(3.2)**	8.6
Utilisation and recognition of tax losses not previously recognised	**(0.8)**	(392.5)
Effect of change in tax rates	**(0.5)**	161.5
Recognition that decommissioning provision will unwind at 50%	**(14.3)**	(27.1)
Recognition of investment allowances not previously recognised	**–**	(61.6)
Tax credit for the year	**(96.1)**	(522.6)
Effective tax rate for the year	**26.2%**	126.3%

Note:
1 Restated for the classification of the Pakistan Business Unit as a discontinued operation.

The deferred tax credit primarily arises due to UK-specific deferred tax items. This includes the deferred tax credit associated with the UK impairment charge for the period (US$101.8 million) which is partially offset by an element of the UK impairment charge for the year that does not attract a deferred tax offset (US$19.6 million). This also includes the deferred tax credit which arises on the generation of new UK ring fence tax losses, allowances and ring fence expenditure supplement which are recognised in full for deferred tax purposes.

The weighted average rate is calculated based on the tax rates weighted according to the profit or loss before tax earned by the Group in each jurisdiction. The change in the weighted average rate year-on-year relates to the mix of profit and loss in each jurisdiction.

The future effective tax rate for the Group is impacted by the mix of jurisdictions in which the Group operates (with corporation tax rates ranging from 20 per cent to 55 per cent), assumptions around future oil prices and changes to tax rates and legislation.

7. Discontinued operations, disposals and assets held for sale

	2017 US$ million	2016 US$ million
Net profit for the year attributable to Pakistan Business Unit	**16.4**	22.7
Completion of disposal of Norway Business Unit	**–**	(8.8)
Net profit for the year from discontinued operations	**16.4**	13.9

Note:
The disposal of the Norway Business Unit completed in December 2015.

	2017 US$ million
Assets held for:	
Pakistan Business Unit	**52.2**
Esmond Transportation System ('ETS')	**27.0**
Kakap field	**17.4**
Total assets classified as held for sale	**96.6**
Liabilities held for:	
Pakistan Business Unit	**(25.4)**
Esmond Transportation System ('ETS')	**(7.0)**
Kakap field	**(14.2)**
Total liabilities classified as held for sale	**(46.6)**

For the year ended 31 December 2017

7. Discontinued operations, disposals and assets held for sale continued

Disposals – Wytch Farm interests

In September 2017, Premier announced that it had entered into a sale and purchase agreement ('SPA') to sell its entire interests in Licences PL089 and P534, which contain the Wytch Farm field ('Wytch Farm'), to Verus Petroleum SNS Limited ('Verus') for a cash consideration of US$200 million, subject to certain customary financial adjustments, and that Premier would be able to release Letters of Credit totalling approximately US$75 million which have been issued in relation to future decommissioning liabilities that were to be transferred to Verus as part of the proposed disposal.

The disposal was subject to the pre-emption rights of existing joint venture partners and Premier subsequently received notification from Perenco UK Limited ('Perenco') of its intention to exercise those rights. Therefore, in November 2017, Premier entered into a sale and purchase agreement with Perenco on materially the same terms as those agreed with Verus.

The disposal completed in December 2017, with Premier receiving final cash consideration, after working capital adjustments, of US$177.1 million. This resulted in a gain on disposal of US$133.0 million.

Assets held for sale

Esmond Transportation System ('ETS')

In December 2017, Premier signed an SPA to sell its entire equity interest in the Esmond Transportation System ('ETS') pipeline to CATS Management Limited (an Antin Infrastructure Partners portfolio company).

Under the terms of the SPA, Premier will receive cash consideration of up to £23.6 million (US$31.6 million) for its entire 30 per cent interest in ETS. The consideration consists of an initial up front payment of £21.0 million (US$28.1 million) (subject to certain customary financial adjustments) payable on completion, plus a future potential payment of up to £2.6 million (US$3.5 million) linked to the achievement of certain key milestones in respect of any future development of the Pegasus field.

The assets and liabilities for Premier's ETS interest have been classified as assets held for sale in the balance sheet as at 31 December 2017, as the disposal is expected to complete within the next 12 months. An impairment charge has not been recognised at the time of this reclassification, as the initial up front consideration of US$28.1 million is greater than the carrying value of the ETS assets and liabilities held on Premier's Group balance sheet.

Kakap

In December 2017, Premier signed an SPA with Batavia Oil to sell its entire 18.75 per cent non-operated interest in the Kakap field for a consideration of US$3.2 million. Completion is subject to receiving approval from the Government of Indonesia. Completion is expected to be achieved within the next 12 months; therefore, the assets and liabilities for Kakap have been classified as assets held for sale in the balance sheet as at 31 December 2017. On reclassification, an impairment charge of US$4.2 million has been recognised so that the carrying value of Premier's interest in the Kakap field is equal to the agreed consideration. This charge has been recognised in the income statement against the gain on disposal recognised for Wytch Farm.

Discontinued operations – Pakistan Business Unit

In April 2017, Premier announced it had reached agreement and signed an SPA with Al-Haj Energy Limited ('Al-Haj') for the sale of Premier Oil Pakistan Holdings BV, which comprises Premier's Pakistan Business Unit, for a cash consideration of US$65.6 million. During the year, Al-Haj paid a deposit to Premier of US$25.0 million.

The disposal of the Pakistan Business Unit is expected to complete in 2018 and, as this is within 12 months of the balance sheet date, the business unit was classified as a disposal group held for sale on 30 June 2017 and presented separately in the year-end balance sheet.

The results of the disposal group which have been included as discontinued operations in the consolidated income statement were as follows:

	2017 US$ million	2016 US$ million
Revenue	40.8	46.4
Expenses	(22.4)	(23.1)
Profit before tax	18.4	23.3
Attributable tax charge	(2.0)	(0.6)
Net profit for the period from discontinued operations	16.4	22.7

During the period to 31 December 2017, the Pakistan disposal group contributed US$16.8 million (2016: US$29.4 million) to the Group's net operating cash flows and paid US$6.8 million (2016: US$8.5 million) in respect of investing activities. There were no financing cash flows in either the current or the prior years.

The consideration to be received for the Pakistan disposal group is greater than the carrying value of the net assets for the disposal group. Therefore, no impairment has been recognised on reclassification of the disposal group and a profit on disposal is expected to be recognised when the transaction completes. The effect of the disposal group on segment results is disclosed in note 1.

The major classes of assets and liabilities comprising the disposal group classified as held for sale are as follows:

	2017 US$ million
Property, plant and equipment	23.3
Long-term receivables	0.4
Deferred tax asset	0.8
Inventory	9.0
Trade and other receivables	17.8
Cash	0.9
Pakistan assets classified as held for sale	**52.2**
Trade and other payables	(7.8)
Long-term provisions	(17.6)
Pakistan liabilities classified as held for sale	**(25.4)**
Net assets of disposal group	**26.8**

Following completion of the disposal, Premier have retained a provision of US$16.4 million in relation to potential costs in relation to the business unit for the period of ownership prior to the disposal. This provision is not included in the discontinued operations assets and liabilities in the table above.

8. (Loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the (loss)/profit after tax and on the weighted average number of Ordinary Shares in issue during the year. Basic and diluted (loss)/earnings per share are calculated as follows:

	2017 US$ million	2016 US$ million Restated[1]
Loss/(earnings)		
(Loss)/earnings from continuing operations	(270.2)	108.7
Effect of dilutive potential Ordinary Shares:		
Interest on convertible bonds – anti-dilutive	–	–
(Loss)/earnings for the purposes of diluted (loss)/earnings per share on continuing operations	(270.2)	108.7
Profit from discontinued operations	16.4	13.9
(Loss)/earnings for the purposes of diluted (loss)/earnings per share on continuing and discontinued operations	(253.8)	122.6
Number of shares (millions)		
Weighted average number of Ordinary Shares for the purposes of basic (loss)/earnings per share	513.7	510.8
Effects of dilutive potential Ordinary Shares:		
Contingently issuable shares – anti-dilutive	–	–
Weighted average number of Ordinary Shares for the purposes of diluted (loss)/earnings per share	513.7	510.8
(Loss)/earnings per share from continuing operations (cents)		
Basic	(52.6)	21.3
Diluted	(52.6)	20.8
Earnings per share from discontinued operations (cents)		
Basic	3.2	2.7
Diluted	3.2	2.7

Note:

1 Restated for the classification of the Pakistan Business Unit as a discontinued operation.

There are 98.3 million potentially dilutive contingently issuable shares related to unexercised equity warrants and share options and the inclusion of these contingently issuable shares gives rise to an anti-dilutive loss and earnings per share for both continuing and discontinued operations. Furthermore, there are 259.3 million potentially dilutive shares related to the convertible bonds at 31 December 2017. The inclusion of the convertible bond interest and shares to be issued on conversion of convertible bonds also produces an anti-dilutive loss and earnings per share for both continuing and discontinued operations.

For the year ended 31 December 2017

9. Intangible exploration and evaluation ('E&E') assets

	Total US$ million
Cost:	
At 1 January 2016	749.7
Exchange movements	6.1
Additions during the year	103.8
Acquisition of subsidiaries	199.8
Exploration expense[1]	(48.0)
At 31 December 2016	1,011.4
Exchange movements	(0.9)
Additions during the year	63.1
Assets classified as held for sale	(0.5)
Exploration expense[1]	(11.2)
At 31 December 2017	**1,061.9**

Note:
1 Expensed in the income statement with pre-licence expenses of US$5.9 million in 2017 (2016: US$10.5 million).

The amounts for intangible E&E assets represent costs incurred on active exploration projects. These amounts are written off to the income statement as exploration expense unless commercial reserves are established or the determination process is not completed and there are no indications of impairment. Assets written off in the year include costs incurred on the Ekland licence in the UK.

The outcome of ongoing exploration, and therefore whether the carrying value of E&E assets will ultimately be recovered, is inherently uncertain. To the extent that we have an active licence to continue to explore for resources and have an intention to continue exploration activity, the exploration cost associated with the licence will remain capitalised as an E&E asset on the balance sheet. Once exploration activity has completed and we have no further intention to explore the licence for resources, costs capitalised until that point will be expensed and no further costs associated with the licence will be capitalised.

The balance carried forward is predominantly in relation to the Group's prospects in the Falkland Islands and the Tolmount project in the UK. We continue to progress both Sea Lion and Tolmount projects and are aiming to reach an investment decision on Sea Lion and to sanction Tolmount during 2018.

E&E assets classified as held for sale in the year related to the Kakap entity in Indonesia.

10. Property, plant and equipment

	Oil and gas properties US$ million	Other fixed assets US$ million	Total US$ million
Cost:			
At 1 January 2016	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
Exchange movements	4.6	2.4	7.0
Additions during the year	445.4	2.3	447.7
Asset acquisition	9.8	–	9.8
Assets classified as held for sale	(489.6)	(1.7)	(491.3)
Disposals	(409.4)	(0.6)	(410.0)
At 31 December 2017	**7,589.4**	**66.7**	**7,656.1**
Amortisation and depreciation:			
At 1 January 2016	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
Net impairment charge	556.2	–	556.2
Disposals	–	(1.4)	(1.4)
At 31 December 2016	5,318.9	47.8	5,366.7
Exchange movements	(0.3)	1.8	1.5
Charge for the year	416.2	6.7	422.9
Net impairment charge	252.2	–	252.2
Assets classified as held for sale	(434.6)	(0.9)	(435.5)
Disposals	(332.1)	(0.6)	(332.7)
At 31 December 2017	**5,220.3**	**54.8**	**5,275.1**
Net book value:			
At 31 December 2016	2,709.7	16.5	2,726.2
At 31 December 2017	**2,369.1**	**11.9**	**2,381.0**

Note:
Finance costs that have been capitalised within oil and gas properties during the year total US$41.3 million (2016: US$34.0 million), at a weighted average interest rate of 7.3 per cent (2016: 4.6 per cent). Other fixed assets include items such as leasehold improvements, motor vehicles and office equipment.

Amortisation and depreciation of oil and gas properties is calculated on a unit-of-production basis, using the ratio of oil and gas production in the period to the estimated quantities of proved and probable reserves on an entitlement basis at the end of the period plus production in the period, on a field-by-field basis. Proved and probable reserve estimates are based on a number of underlying assumptions including oil and gas prices, future costs, oil and gas in place and reservoir performance, which are inherently uncertain. Management uses established industry techniques to generate its estimates and regularly references its estimates against those of joint venture partners or external consultants. However, the amount of reserves that will ultimately be recovered from any field cannot be known with certainty until the end of the field's life.

10. Property, plant and equipment continued

Impairment charge

The impairment charge in the current year relates entirely to UK fields and predominantly comprises of Solan (US$268.1 million), the Balmoral Area (US$20.7 million) and Glenelg (US$7.4 million). The impairment charge of US$296.6 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 2018 and 2019, US$70/bbl in 2020 and US$75/bbl in 'real' terms thereafter (2016: two years at forward curve, year three at US$65/bbl followed by a long-term price of US$75/bbl 'real') and were discounted using a pre-tax discount rate of 9 per cent for the UK assets (2016: 8 per cent) and 12.5 per cent for the non-UK assets (2016: 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 Solan over its economic life, a reduction in the expected residual value of the Balmoral Area FPV and a delayed workover for Glenelg. The recoverable amount of the impaired assets based on the value-in-use assumptions set out above is US$246.1 million (Solan), US$18.6 million (Balmoral) and US$35.0 million (Glenelg). The recoverable amount for Glenelg assumes that a workover of the G10 well is performed in 2019, which is management's current expectation based on discussions with the operator. If the workover is delayed or not performed, it is likely to reduce the recoverable amount of the asset, which would have the effect of increasing the impairment charge.

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 above.

A reversal of impairment of US$44.4 million has been credited to the income statement in the year, which has partially offset the impairment charge recognised. The reversal of impairment relates entirely to Huntington in the UK. An increase in the short-term price assumption and an extension in the life of the field have driven the increase in the value-in-use. The recoverable amount of Huntington at 31 December 2017 was US$78.8 million.

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$8.3 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$41.2 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'.

Goodwill

Goodwill of US$240.8 million has been specifically assigned to the Catcher field in the UK, which is considered the cash-generating unit for the purposes of any impairment testing of this goodwill. The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired. The recoverable amounts are determined from value-in-use calculations with the same key assumptions as noted above for the impairment calculations. The discount rate used is 9 per cent (2016: 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 2025. 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$305.7 million. The key assumptions to the calculation of value-in-use of the Catcher asset are discount rate, oil prices, forecasted recoverable reserves and estimated future costs. No reasonable possible change in any of these key assumptions would cause the asset's carrying amount to exceed its recoverable amount.

11. Receivables

Trade and other receivables

	2017 US$ million	2016 US$ million
Trade receivables	**197.5**	149.4
Other receivables	**54.6**	79.9
Prepayments	**65.8**	56.4
Tax recoverable	**22.7**	29.4
	340.6	315.1

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

During the year, cash receipts included US$10.0 million deferred consideration received from Repsol for the disposal of the CRD prospect in Vietnam in 2013, which was recorded in trade receivables in the prior year.

Long-term receivables

	Note	2017 US$ million	2016 US$ million
Other long-term receivables		**97.6**	82.3
Decommissioning funding asset		**62.7**	66.7
Long-term employee benefit plan surplus	24	**0.5**	0.6
		160.8	149.6

Other long-term receivables include US$88.1 million of cash held in escrow accounts for expected future decommissioning expenditure in Indonesia, Vietnam and Mauritania (2016: US$71.7 million).

The decommissioning funding asset relates to the Decommissioning Liability Agreement entered into with E.ON, whereby E.ON agreed to part-fund Premier's share of decommissioning the Johnston and Ravenspurn North assets. Under the terms of the agreement, E.ON will reimburse 70 per cent of the decommissioning costs between a range of £40 million to £130 million based on Premier's net share of the total decommissioning cost of the two assets. This results in maximum possible funding of £63.0 million from E.ON. At 31 December 2017, a long-term decommissioning funding asset of US$62.7 million has been recognised utilising the year-end US$/£ exchange rate.

12. Cash and cash equivalents

	Note	2017 US$ million	2016 US$ million
Cash at bank and in hand		**364.8**	255.5
Short-term deposits		**0.6**	0.4
	22	**365.4**	255.9

Included within cash at bank and in hand balances are partners' share of cash balances on our operated assets of US$51.8 million (2016: US$46.4 million) and US$16.4 million (2016: US$6.6 million) held as security for the Mexican Letters of Credit.

13. Trade and other payables

	2017 US$ million	2016 US$ million
Trade payables	**129.6**	63.5
Other payables	**47.7**	13.2
Accrued expenses	**354.2**	290.7
Tax payable	**41.4**	45.2
	572.9	412.6

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$22.0 million during the year, reflecting barrels delivered to FlowStream and a credit to finance costs of US$6.8 million. The finance credit is due to a revision in the settlement profile of the deferred income balance following the revision to Solan reserves.

The portion of the deferred income that is expected to be delivered to FlowStream within the next 12 months has been classified as a current liability.

15. Borrowings

The Group's loans are carried at amortised cost as follows:

	2017 US$ million			2016 US$ million		
	Carrying value	**Fees**	**Total**	Carrying value	Fees	Total
Bank loans	**2,165.0**	**(106.9)**	**2,058.1**	2,108.0	(12.1)	2,095.9
Senior loan notes	**541.6**	**–**	**541.6**	491.1	(3.7)	487.4
Retail bonds	**202.5**	**(10.1)**	**192.4**	184.5	(1.7)	182.8
Convertible bonds	**180.5**	**–**	**180.5**	237.5	(0.1)	237.4
Total borrowings	**3,089.6**	**(117.0)**	**2,972.6**	3,021.1	(17.6)	3,003.5
Due within one year			**–**			273.0
Due after more than one year			**2,972.6**			2,730.5
Total borrowings			**2,972.6**			3,003.5

A maturity analysis showing the ageing profile of the total borrowings is shown in note 18.

At the year-end, the Group's principal credit facilities comprised:

- bank loans: US$2.5 billion revolving and letter of credit facility ('RCF'), US$150 million and £100 million term loans (together the 'Term Loan');
- senior loan notes: US$335 million and €63.6 million of US Private Placement ('USPP') notes and US$130 million Schuldschein ('SSL');
- £150 million of retail bonds; and
- US$237.9 million of convertible bonds.

All of the above facilities mature in May 2021, except for the convertible bonds which, for those not already converted, mature in May 2022.

The Company has financing in US$, £ and €. The £ and € loans have been swapped into US$ at the original issues 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:£ and US$1.37:€ respectively. However, all liabilities in currencies other than US$ have been translated at the exchange rate prevailing at the year-end.

Refinancing

In July 2017, Premier completed a comprehensive refinancing of its lending facilities (the 'refinancing') with all of the lenders under each facility.

Under the requirements of IAS 39, if an existing financial liability is replaced by another from the same lender, on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, measured at its fair value, such that the difference in the respective carrying amounts together with any costs or fees incurred are recognised in profit or loss. IAS 39 regards the terms of exchanged or modified debt as 'substantially different' if the net present value of the cash flows under the new terms (including any fees paid net of fees received) discounted at the original effective interest rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original debt instrument. Where an exchange or modification of financial liabilities is not considered substantial, no gain or loss is recognised; the fees are capitalised against the carrying value of the liability and any changes to the cash flows are recognised as interest over the remaining term.

Completion of the refinancing also included a comprehensive security package, giving lenders collective security over materially all of the Group's assets.

The RCF, Term Loan, USPPs and SSL (together the 'Private Lenders')

The refinancing included the following key amendments:

- Confirmation of total existing facilities of US$3.9 billion with drawn capacity preserved.
- Alignment of final maturity dates to 31 May 2021 for all facilities.
- Amendment of Premier's financial covenants, such that the net debt to EBITDA cover ratio was 8.5x until the end of 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 at the end of 2018.
- A margin uplift of 1.5 per cent over existing pricing with an additional 1.0 per cent for the SSL lenders.
- Amendment fees of 1.0 per cent with an additional 0.5 per cent for the SSL lenders.
- Issuance of 67,234,316 equity warrants at an exercise price of 42.75 pence per share with a five-year term. In addition, 21,186,736 synthetic warrants have been issued, which have a four-year term.
- Crystallisation of the make-whole fees on the USPPs on the effective date of the refinancing totalling US$41.3 million, which was added to the principal.

The Group concluded that the amendments above represented a substantial modification of the USPPs and the SSL. The carrying values of the USPPs and the SSL have been recognised at fair value of the notes as of the completion date, which for the USPPs includes the make-whole fee added to the principal. The fair values were deemed to be equal to the principal amounts of the debt instruments, as the increase in the interest rate reflects the increased credit risk of the Group. The associated transaction costs were expensed.

The amendments are not considered to be a substantial modification to the RCF or Term Loan.

The retail bonds

Substantially the same economic terms were agreed with the retail bondholders as the Private Lenders. The key terms are:

- Maturity date extended by six months to 31 May 2021.
- Enhanced economics comprising an interest rate uplift of 1.5 per cent and amendment fees of 1.0 per cent.
- Issuance of 3,778,636 equity warrants at an exercise price of 42.75 pence per share with a five-year term. In addition, 189,116 synthetic warrants have been issued, which have a four-year term. These have been issued on the same terms as those issued to the Private Lenders.

The Group concluded that the amendments above did not represent a substantial modification to the retail bonds.

Convertible bonds

The terms of Premier's US$245.3 million convertible bonds were also amended. The key terms 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 in cash.
- Conversion price reset to 74.71 pence (from £4.21), with an exchange rate of £1:US$1.228.
- Issuance of 18,097,019 equity warrants at an exercise price of 42.75 pence per share, on the same terms as those issued to the Private Lenders.
- No cash amendment fee.
- Issuer right to require conversion at the conversion price at any time after one year if the value of Premier's shares is at least 140 per cent of the conversion price for 25 consecutive dealing days.

For the year ended 31 December 2017

15. Borrowings continued

The Group concluded that the above amendments represented a substantial modification to the convertible bonds. The original conversion option had no significant value, therefore the refinancing was accounted for as the settlement of the original liability component with the modified convertible, measured at its aggregate fair value. The carrying value of the debt and equity components prior to the refinancing have been derecognised from the balance sheet and new debt and equity components have been recognised at their revised fair value as of the completion date to reflect the amended terms and conversion price.

The US$58.7 million difference between the equity component of the convertible bonds prior to the completion of the refinancing and the revised fair value has been assigned to the equity reserves, giving a revised equity component of US$64.1 million.

	US$ million
Convertible bonds – prior to the refinancing	
Liability component at 1 January 2016	232.6
Interest charged	10.9
Interest paid	(6.1)
Liability component at 1 January 2017	237.4
Interest charged	5.9
Interest paid	(3.5)
Liability derecognised at 28 July 2017	239.8
Convertible bonds – post the refinancing	
Liability recognised 28 July 2017	181.2
Interest charged	7.3
Interest paid	(2.5)
Partial conversion of convertible bonds	(5.5)
Total liability component at 31 December 2017	180.5

The total interest charged on the new bonds has been calculated by applying an effective annual interest rate of 6.37 per cent pre-partial conversion and 6.23 per cent post-partial conversion to the liability component for the period since the new bonds were issued. The effective annual interest rate on the old bonds was 4.58 per cent. Subsequent to completion, by 31 December 2017 US$7.4 million of convertible bonds were converted by bondholders at 74.71 pence.

Loss on substantial modification

Costs and third-party fees, which include the USPP make-whole adjustment, amendment fees and adviser fees paid and recognition of the warrants at fair value, have been allocated to each facility as follows:

	US$ million
Bank loans	111.8
Senior loan notes	70.2
Retail bonds	9.8
Convertible bonds	13.5
	205.3

Of the total fees above, US$83.7 million in relation to the senior loan notes and convertible bonds have been expensed to the income statement in the year. The fees in relation to the bank loans and retail bonds of US$121.6 million have been capitalised against the carrying value of the debt, and are being amortised over the revised maturity of the facility.

Financial covenants

Financial covenants are the same across all Group 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 a quarterly (annualised) basis.

The financial covenants are as follows:

- Net debt/EBITDA cover ratio of 8.5x until the end of 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 Q1 2019.
- Covenant net debt (which includes issued Letters of Credit) to be less than US$2.95 billion at the end of 2018.

At 31 December 2017, covenant net debt, which includes letters of credit, the equity component of the convertible bond notes and deducting partners' share of JV cash balances, was US$3.2 billion.

Capital management

The primary objective of the Group's capital management policy is to ensure that it maintains healthy capital ratios in order to support its business and increase shareholder value. The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. No changes were made in the objectives, policies or processes during the years ended 31 December 2017 and 31 December 2016.

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	**2017**	2016
Net debt (US$ million)	22	**(2,724.2)**	(2,765.2)
Net assets (US$ million)		**616.9**	809.1
Net assets plus net debt (US$ million)		**3,341.1**	3,574.3
Gearing ratio (%)		**81.5**	77.4

16. Obligations under leases

	2017 US$ million	2016 US$ million
Minimum lease payments under operating leases recognised as an expense in the year	**170.3**	94.7
Outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:		
Within one year	**203.8**	155.2
In two to five years	**509.4**	523.2
Over five years	**142.6**	226.1
	855.8	904.5

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	2017 US$ million	2016 US$ million
Decommissioning		**1,432.1**	1,325.3
Onerous contract		**–**	1.2
Contingent consideration		**10.3**	24.0
Indonesia unfunded termination benefit provision		**19.0**	17.0
Long-term employee benefit plan deficit	24	**0.7**	0.7
		1,462.1	1,368.2

	Note	2017 US$ million	2016 US$ million
Decommissioning costs:			
Total provisions at 1 January		**1,325.3**	1,062.6
Revision arising from:			
New provisions and changes in estimates		**40.2**	10.9
Paid/utilised		**(42.3)**	(28.6)
Acquisition of subsidiaries		**–**	427.9
Liabilities reclassified to held for sale in the year	7	**(22.7)**	–
Disposals	7	**(46.8)**	–
Exchange differences		**115.9**	(205.8)
Unwinding of discount on decommissioning provision	5	**62.5**	58.3
Total provisions at 31 December		**1,432.1**	1,325.3
Reclassification of short-term provisions to current liabilities		**(91.2)**	(54.9)
Long-term provisions at 31 December		**1,340.9**	1,270.4

The decommissioning provision represents the present value of decommissioning costs relating to oil and gas interests in the UK, Indonesia, Vietnam, Pakistan and Mauritania which are expected to be incurred up to 2038. These provisions have been created based on Premier's internal estimates and, where available, operator estimates. Based on the current economic environment, assumptions have been made which are believed to be a reasonable basis upon which to estimate the future liability. These estimates are reviewed regularly to take into account any material changes to the assumptions. However, actual decommissioning costs will ultimately depend upon future market prices for the necessary decommissioning works required, which will reflect market conditions at the relevant time. Furthermore, the timing of decommissioning is likely to depend on when the fields cease to produce at economically viable rates. This in turn will depend upon future oil and gas prices, which are inherently uncertain.

A discount rate of 4.6 per cent and an inflation rate of 2.5 per cent have been applied to all decommissioning estimates when determining the net present value of the decommissioning provision. Rig rates used to determine the relevant part of the decommissioning cost estimates are based on a rolling five-year average observed in the market place for similar types of rigs, except where decommissioning is expected to occur in the near-term and then a spot price (or actual price received during a rig tender process) is used. The oil and gas price assumptions used to determine the field life COP are consistent with those applied for the impairment assessment (see note 10).

The increase in decommissioning provisions during the year was primarily due to the additional Catcher wells drilled during 2017 for the asset to achieve first oil in December 2017.

Decommissioning provisions include expected future obligations for Ravenspurn North and Johnston assets in the UK. The first £63 million of decommissioning expenditure related to these assets is funded via a separate agreement with E.ON (see note 11).

Onerous contract

The onerous contract in the prior year related to the FPSO lease commitment for the Group's interest in the Chinguetti field in Mauritania; following cessation of production in the year, this was released to the income statement.

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 was US$10.7 million and has been recognised within other operating income.

Indonesia unfunded termination benefit provision

In Indonesia, the Group operates a Service, Severance and Compensation pay scheme under a Collective Labour Agreement with the local workforce. In early 2003, the Government of Indonesia introduced a labour law which requires that on dismissal, companies are required to make certain payments to employees that are dependent on numbers of years' service and salary. The 'scheme' effectively provides a termination benefit to employees, but does not represent a defined benefit pension scheme.

The Company operates a defined termination benefit scheme; the cost of providing benefits is determined using the projected unit credit method, with valuations being carried out at each balance sheet date. Gains and losses are recognised immediately. Past service cost is also recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested. The provision recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost.

18. Financial instruments

Financial risk management objectives and policies

The Group's principal financial liabilities, other than derivative financial instruments ('derivatives'), are comprised of accounts payable, bank loans, 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. During the year the Group issued warrants and synthetic warrants in connection with the refinancing and these are also accounted for as derivatives.

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

Derivative financial instruments

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

Oil and gas hedging is undertaken using swaps, collar options, reverse collars, collar structures, hedges embedded in long-term crude offtake agreements and selling forward using fixed price sales contracts. Oil is hedged using Dated Brent oil price options. Indonesian gas is hedged using HSFO Singapore 180cst, which is the variable component of the gas price, and UK gas is hedged by selling gas forward through fixed price contracts and through UK NBP gas swaps and options.

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

18. Financial instruments continued

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. Both the estimate of the Chrysaor contingent consideration (see note 17) and the fair value of the warrants (see below) include estimates based on unobservable inputs and are level 3 in the IAS 39 hierarchy.

As at 31 December 2017, 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:

	2017 US$ million	2016 US$ million
Oil forward sales contracts	–	15.0
Gas forward sales contracts	–	0.4
Oil put options	0.2	3.5
Fair value of gas contracts acquired from E.ON	9.1	10.0
Forward foreign exchange contracts	0.6	1.1
Interest rate swaps	4.6	4.9
Total	**14.5**	34.9

Liabilities measured at fair value

Financial liabilities at fair value through profit and loss:

	2017 US$ million	2016 US$ million
Oil forward sales contracts	36.1	18.2
Cross currency swaps[1]	108.4	140.6
Forward foreign exchange contracts	3.8	–
Warrants	59.8	–
Total	**208.1**	158.8

Note:
1 Of which US$108.3 million (2016: US$101.6 million) are classified within non-current liabilities.

Income statement

Fair value movements recognised in the income statement in the year:

	2017 US$ million	2016 US$ million
Interest revenue, finance and other gains:		
Change in fair value of embedded derivative within gas contract	2.0	1.9
Forward foreign exchange contracts	–	3.3
Cross currency swaps	4.3	–
Interest rate swaps	4.6	–
	10.9	5.2
Finance costs:		
Fixed price gas contracts acquired from E.ON	(3.7)	(21.8)
Oil forward sale contracts acquired from E.ON	–	(23.9)
Cross currency swaps	–	(7.8)
Forward foreign exchange contracts	(4.3)	–
Oil put options	(9.6)	(1.1)
Warrants	(15.4)	–
	(33.0)	(54.6)

Statement of comprehensive income

Fair value movements recognised in the statement of comprehensive income for the year:

	2017 US$ million	2016 US$ million
Cash flow hedges:		
Commodity swaps – gas	–	(14.9)
Commodity swaps – oil	**(14.2)**	(115.8)
	(14.2)	(130.7)
Cross currency swaps	**28.2**	(58.6)
Interest rate swaps	**(5.1)**	1.0
	23.1	(57.6)
Unrealised exchange differences	**(33.9)**	60.9
Cash flow hedges on interest rate and foreign exchange swaps	**(10.8)**	3.3

Commodity price risk

At 31 December 2017, the Group had 3.6 mmbbls of Dated Brent oil hedged through forward sales for 2017 at an average floor price of US$55.9/bbl. The forward sales have been designated as cash flow hedges and were assessed to be effective, with a fair value movement of US$14.2 million charge (2015: US$115.8 million charge) in retained earnings.

In December 2017, the Group paid total premiums of US$6.3 million to enter into oil option agreements for 2.9 mmbbls at an average price of US$53.5/bbl. Out of these options, 1.1 mmbbls expired in 2017 and 1.8 mmbbls will be settled during 2018 and are an asset on the Group's balance sheet with a fair value at 31 December 2017 of US$0.2 million (2016: asset of US$3.5 million). These options will be held at fair value through profit and loss and hedge accounting is not applied.

Included within physically delivered oil sales contracts are a further 1.8 mmbbls of oil that will be sold for an average fixed price of US$54.6/bbl during 2018 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.

During the year, forward oil sales contracts for 1.5 mmbbls matured, generating a loss of US$11.4 million (2016: US$104.9 million income). This loss is a reduction to sales revenue. Additionally during the year oil option contracts for 1.95 mmbbls matured. The premium paid relating to these options has been released to the income statement.

Equity and synthetic warrants

In total, 89.1 million equity warrants and 21.4 million synthetic warrants have been issued. The equity and synthetic warrants were recognised on the balance sheet as derivative financial instruments at the completion date at their fair value of US$47.7 million. To the extent that the warrants related to debt facilities that have been substantially modified, the cost of issuing the liability has been recognised as an expense in the income statement (see note 15).

The fair value of the warrants includes unobservable inputs and is level 3 in the IAS 39 hierarchy. The key assumptions underpinning the fair value relate to the expected future share price of the Company, US$:£ exchange rates and the expected date of exercise of the warrants. The fair value has been determined using a Black-Scholes valuation model.

The equity warrants have an exercise price of 42.75 pence and are exercisable from their issuance until 31 May 2022, at the option of the warrant holder, and are settled with Ordinary Shares of the Company. The synthetic warrants are cash settled by the Group when certain net debt and leverage ratio conditions are achieved, linked to the Group's market capitalisation, and expire in May 2021.

Subsequent to the completion of the refinancing, and prior to the year-end 13.9 million equity warrants have been converted, resulting in an allotment of 4.4 million shares. The closing fair value of the open equity and synthetic warrants at 31 December 2017 was US$46.6 million and US$13.2 million respectively, giving a total of US$59.8 million after the exercise of warrants valued at US$3.3 million and resulting in a loss of US$15.4 million being expensed in the period after completion of the refinancing.

When determining the fair value of the equity and synthetic warrants, if the share price assumed increased by 10 per cent, the closing total fair value recognised for the equity and synthetic warrants at the year-end would have increased by US$8.8 million.

Commodity contract sensitivity analysis

The key variable which affects the fair value of the Group's hedging instruments is market expectations about future commodity prices. An increase of 10 per cent in oil prices would increase the mark-to-market loss of these instruments, and hence other comprehensive income, by US$17.9 million. A decrease of 10 per cent in forward oil prices would reduce the mark-to-market loss by US$18.0 million.

18. Financial instruments continued

Interest rate risk

At 31 December 2017 US$750.0 million (2016: 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.

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, by US$3.0 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$1.33: €1 and €35.0 million at a fixed rate of US$1.42: €1. All of these amounts have been hedged under cross currency swaps into US dollars.

In addition, to cover sterling exposures an amount of £290.5 million was purchased and matured with spot and forward contracts during the year (2016: £478.4 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 2017 and 2016. 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 counterparties are banks with at least single A credit ratings assigned by international credit rating agencies.

An indication of the concentration of credit risk is shown in note 1 on page 140, whereby the revenue from three customers each exceeded 10 per cent of the Group's consolidated revenue in 2017 (2016: three).

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
2017:						
Long-term receivables	**0.4**	**4.3**	**9.1**	**4.9**	**141.6**	**160.3**
Trade and other receivables	**216.7**	**1.6**	**14.4**	**19.2**	**0.2**	**252.1**
Trade and other payables	**(146.2)**	**(4.9)**	**(25.1)**	**(1.1)**	–	**(177.3)**
Bank loans	**(3.6)**	**(8.8)**	**(99.9)**	**(2,516.1)**	–	**(2,628.4)**
Convertible bonds	–	–	–	**(237.9)**	–	**(237.9)**
Senior loan notes	**(0.3)**	**(10.8)**	**(33.8)**	**(643.9)**	–	**(688.8)**
Retail bonds	–	–	**(13.2)**	**(234.1)**	–	**(247.3)**
Total	**67.0**	**(18.6)**	**(148.5)**	**(3,609.0)**	**141.8**	**(3,567.3)**
2016:						
Long-term receivables	–	–	–	78.8	70.2	149.0
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)	27.7	(3,192.5)

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$2,335.0 million (2016: US$2,323.0 million) and letters of credit facilities of US$450.0 million (2016: 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 2017 was US$170.0 million (2016: US$215.0 million).

The undrawn balance of the letter of credit facilities as at 31 December 2017 was US$74.3 million (2016: US$175.7 million).

Interest rate risk profile of financial liabilities

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

	Fixed rate US$ million	Floating rate US$ million	Total US$ million	Fixed rate weighted average interest rate %
2017:				
Bank loans[1]	**750.0**	**1,415.0**	**2,165.0**	**4.95**
Convertible bonds	**237.9**	–	**237.9**	**2.50**
Senior loan notes	**411.6**	**130.0**	**541.6**	**7.65**
Retail bonds	**202.5**	–	**202.5**	**6.50**
Total	**1,602.0**	**1,545.0**	**3,147.0**	
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	

Note:

1 At 31 December 2017 US$750.0 million of the Group's 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 (2016: US$800.0 million).

The floating rate financial liabilities at 31 December 2017 comprised bank borrowings bearing interest at rates set by reference to US$ and £ LIBOR, exposing the Group to a cash flow interest rate risk.

18. Financial instruments continued

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:

	2017 Fair value amount US$ million	2017 Carrying amount US$ million	2016 Fair value amount US$ million	2016 Carrying amount US$ million
Primary financial instruments held or issued to finance the Group's operations:				
Retail bonds	**196.1**	**202.5**	147.6	184.5
Convertible bonds	**266.9**	**180.5**	177.9	237.5

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

	2017 US$ million	2016 US$ million
Deferred tax assets	**1,461.5**	1,304.0
Deferred tax liabilities	**(164.0)**	(192.6)
	1,297.5	1,111.4

	At 1 January 2017 US$ million	Exchange movements US$ million	(Charged)/ credited to income statement US$ million	Credited to retained earnings US$ million	Assets held for sale US$ million	At 31 December 2017 US$ million
UK deferred corporation tax:						
Fixed assets and allowances	(719.6)	(0.6)	(21.8)	–	4.6	(737.4)
Decommissioning	394.5	4.0	78.9	–	(0.5)	476.9
Tax losses and allowances	1,560.1	1.9	77.8	–	–	1,639.8
Investment allowance	64.4	0.1	6.7	–	–	71.2
Derivative financial instruments	(0.7)	(0.5)	4.6	7.5	–	10.9
Total UK deferred corporation tax	1,298.7	4.9	146.2	7.5	4.1	1,461.4
Overseas deferred tax[1]	(187.3)	–	24.7	–	(1.3)	(163.9)
Total	1,111.4	4.9	170.9	7.5	2.8	1,297.5

Note:

1 The overseas deferred tax relates mainly to temporary differences associated with fixed asset balances.

	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

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 2017 are recognised to the extent that taxable profits are expected to arise in the future against which the UK ring fence tax losses and allowances can be utilised. In accordance with paragraph 37 of IAS 12 – 'Income Taxes', the Group reassessed its deferred tax assets at 31 December 2017 with respect to UK ring fence tax losses and allowances. The corporate model used to assess whether it is appropriate to recognise the Group's deferred tax losses was re-run, using an oil price assumption of Dated Brent forward curve for two years, followed by US$70/bbl in 2020 and US$75/bbl 'real' terms thereafter and a gas price assumption of forward curve for two years, followed by 49 pence/therm in 2020 and 50.2 pence/therm 'real' terms thereafter. These price assumptions are consistent with those used when assessing the Group's underlying assets for impairment. The cash flows included in the corporate model are predominantly derived from future revenue from UKCS assets which management consider to be probable to arise, including both existing producing assets and certain future currently unsanctioned projects. The results of the corporate model concluded that it was appropriate to continue to recognise the Group's deferred tax assets in respect of UK ring fence tax losses and allowances in full. If the long-term oil price assumption was reduced to US$70/bbl 'real', then in 2017 it would have given rise to a UK derecognition charge of US$18.4 million.

In addition, there are carried forward non-ring fence UK tax losses of approximately US$330.8 million (2016: US$363.8 million) and overseas tax losses of US$130.3 million for which a deferred tax asset has not been recognised.

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

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

For the year ended 31 December 2017

20. Share capital

	2017 12.5p shares	2017 £	2016 12.5p shares	2016 £
Ordinary Shares:				
Authorised, called-up, issued and fully paid	**525,045,801**	**65,630,725**	510,823,666	63,852,958

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

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

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

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

Issue of Ordinary Shares
During the year, the Company issued 14,222,135 Ordinary Shares at a nominal value of 12.5 pence per share. This increased the share capital of the Company by US$2.3 million (2016: nil) to US$109.0 million (2016: US$106.7 million).

Purchase and cancellation of own shares
During 2017, none of the Company's Ordinary Shares were re-purchased or cancelled.

Own shares

	Total US$ million
At 1 January 2016	**6.2**
Release of shares	**(3.5)**
At 31 December 2016	**2.7**
Purchase of ESOP Trust shares	**0.3**
Release of shares	**(1.2)**
At 31 December 2017	**1.8**

The own shares represent the net cost of shares in Premier Oil plc purchased in the market or issued by the Company into the Premier Oil plc Employee Benefit Trust. This ESOP Trust holds shares to satisfy awards under the Group's share incentive plans. At 31 December 2017, the number of Ordinary Shares of 12.5 pence each held by the Trust was 796,147 (2016: 818,775 Ordinary Shares of 12.5 pence each).

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

For the year ended 31 December 2017, the total cost recognised by the Company for equity-settled share-based payment transactions is US$14.5 million (2016: US$19.7 million). A credit of US$14.5 million has been recorded in retained earnings (2016: US$19.7 million) for all equity-settled payments of the Company. Like other elements of remuneration, this charge is processed through the time-writing system which allocates cost, based on time spent by individuals, to various entities within the Premier Oil plc group. Part of this cost is therefore recharged to the relevant subsidiary undertaking, part is capitalised as directly attributable to capital projects and part is charged to the income statement as operating costs, pre-licence exploration costs or general and administration costs.

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

2009 Long Term Incentive Plan ('2009 LTIP')

The 2009 LTIP is comprised of the following three elements: Equity Pool Awards ('EPA'), Performance Share Awards ('PSA') and Matching Share Awards ('MSA'):

- The EPA are funded by a per cent share of the growth in the Company's equity value over a three-year performance period. One per cent of the compound growth is credited to the equity pool at 10 per cent compound annual growth rate ('CAGR'), with maximum funding of 2.5 per cent at 20 per cent CAGR per annum.
- Participants receive a percentage share of the equity pool which vests, if the relevant performance criteria are met, in shares at the end of the performance period.
- Performance Share Awards of up to 150 per cent of salary may be granted under the 2009 LTIP, which vest on three-year TSR relative to a comparator group of oil and gas sector peers. 25 per cent of the award vests for median performance with full vesting for upper quartile performance.
- 50 per cent of vested EPA and PSA shares are subject to compulsory deferral for a further three years for senior executives and are eligible for a discretionary share award.

Awards under the 2009 LTIP were approved by Premier's Remuneration Committee in August 2016 and the awards were granted to the Executive Directors and other members of senior management during the period August 2016 to April 2017 as a result of trading restrictions applying to certain participants over that period. The performance period for the 2016 awards is the period 1 January 2016 to 31 December 2018.

As part of the April 2017 award, the EPA was capped at 50 per cent of salary and the PSA was scaled back by 50 per cent to 75 per cent, with no matching awards.

The EPA and PSA elements of the April 2017 award have been fair valued by the Company using a Monte Carlo simulation model.

The performance period commenced from January 2016. The main assumptions for the calculation are as follows:

Volatility:	48%
Risk-free rate of interest:	1.7%
Correlation factor with comparator group:	0.39

2017 Long Term Incentive Plan ('2017 LTIP')

The new Long Term Incentive Plan ('LTIP') was introduced in the year for Executive Directors and certain senior management. This new LTIP comprises two types of awards which support different elements of the Company's strategy. Vesting of the Performance Share Awards is subject to a performance target measured over the period 1 January 2017 to 31 December 2019 based on Total Shareholder Return relative to a peer group of companies and aligns to longer-term strategic objectives. The new Restricted Share Award ('RSA') aligns to the primary objective of balance sheet recovery, independent of other performance objectives, and vesting of awards is subject to a financial underpin and continued employment.

Long-term alignment to shareholders' interests is maintained with the introduction of a compulsory two-year holding period for both Performance Share Awards and Restricted Share Awards, ending on the fifth anniversary of the award date.

As part of the September 2017 award, the RSA was scaled back by 50 per cent to 20 per cent and the PSA was scaled back by 50 per cent to 87.5 per cent.

The PSA elements of the September 2017 award have been fair valued by the Company using a Monte Carlo simulation model.

The performance period commenced from January 2017. The main assumptions for the calculation are as follows:

Volatility:	83%
Risk-free rate of interest:	0.2%
Correlation factor with comparator group:	0.32

The RSA represents a fixed award equal in value of up to 40 per cent of salary. They vest subject to continued employment in one-third annual increments over three, four and five years, subject to a holding requirement over the full five-year cycle from grant. This fixed value award is being accrued at cost.

At 31 December 2017, there were a total of 7.1 million shares awarded (all during 2017) under the 2017 LTIP (2016: nil).

21. Share-based payments continued

Premier Value Share Plan ('PVSP')

The broader employee population participates in the Premier Value Share Plan ('PVSP'), which forms part of the 2017 LTIP. The PVSP is made up of two awards, Base Awards and Multiplier Awards. Under the PVSP, annual awards of time-vesting restricted shares and three-year performance-vesting shares may be made.

PVSP awards were granted to employees in 2016 and 2017 and these two awards will vest in March 2018 and September 2019 respectively.

Owing to the prevailing business environment, the multiplier element of the PVSP (Multiplier Award) was removed from both the 2016 and 2017 awards, resulting in each employee receiving, in effect, a fixed award at the end of the vesting period (Base Award). The value of the Base Award is set at a fixed percentage of each employee's salary and the number of shares awarded is fixed according to the average closing price of a Premier Oil share over the five dealing days immediately preceding the award date: 75 pence for 2016 awards and 55 pence for 2017 awards. 2016 and 2017 awards were scaled back by 50 per cent.

During 2017, 8.4 million shares were granted and 0.2 million shares were forfeited by employees who left the Company. At 31 December 2017, there were 14.0 million shares outstanding for the PVSP (2016: 5.8 million). No shares were exercised or lapsed during the year.

Share Incentive Plan

Under the Share Incentive Plan employees are invited to make contributions to buy partnership shares. If an employee agrees to buy partnership shares, the Company currently matches the number of partnership shares bought with an award of shares (matching shares), on a one-for-one basis. After three years the employee has the right to receive their original contributions plus the shares awarded in either cash or shares of the Company, at the employee's option. The amount owed by the Company to employees under this scheme is deemed to be insignificant.

Save As You Earn ('SAYE') scheme

Under the SAYE, eligible employees with one month 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.

	2017 Options	**2017 Weighted average exercise price**	2016 Options	2016 Weighted average exercise price
Outstanding at the beginning of the year	**5,363,957**	**£0.45**	2,122,551	£1.31
Granted during the year	**490,776**	**£0.62**	5,369,088	£0.42
Lapsed during the year	**(473,936)**	**£0.61**	(2,115,077)	£1.21
Exercised during the year[1]	**(99,973)**	**£0.42**	(12,605)	£0.42
Outstanding at the end of the year	**5,280,824**	**£0.46**	5,363,957	£0.45

1 99,937 Ordinary Shares with a nominal value of £12,496.63 were issued under the Group's share option scheme during the year (2015: 12,605).

The weighted average share price as at the date of exercise for share options exercised during the year was £0.67.

The options outstanding at 31 December 2017 had a weighted average exercise price of £0.46 and a weighted average remaining contractual life of two years.

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

22. Notes to the cash flow statement

	2017 US$ million	2016 US$ million
		Restated[1]
Loss before tax for the year	**(366.3)**	(413.9)
Adjustments for:		
Depreciation, depletion, amortisation and impairment	**667.8**	888.3
Other operating (income)/costs	**(18.8)**	6.1
Exploration expense	**11.2**	48.0
Excess of fair value over consideration	**–**	(228.5)
Provision for share-based payments	**8.6**	8.7
Reduction in decommissioning estimates	**–**	(75.7)
Interest revenue and finance gains	**(12.6)**	(15.0)
Finance costs and other finance expenses[2]	**412.7**	258.8
Profit on disposal of non-current assets	**(129.0)**	–
Operating cash flows before movements in working capital	**573.6**	476.8
(Increase)/decrease in inventories	**(1.2)**	1.3
(Increase)/decrease in receivables	**(161.3)**	25.1
Increase/(decrease) in payables	**136.6**	(40.9)
Cash generated by operations	**547.7**	462.3
Income taxes paid	**(69.6)**	(60.9)
Interest income received	**1.1**	0.6
Net cash from operating activities	**479.2**	402.0
Net cash from discontinued operating activities	**16.8**	29.4
Total net cash from operating activities	**496.0**	431.4

Notes:
1 Restated for the classification of the Pakistan Business Unit as a discontinued operation.
2 Includes loss on substantial modification.

Analysis of changes in net debt:

	Note	2017 US$ million	2016 US$ million
a) Reconciliation of net cash flow to movement in net debt:			
Movement in cash and cash equivalents		**109.5**	(145.4)
Proceeds from drawdown of long-term bank loans		**(45.0)**	(435.0)
USPP make-whole adjustment		**(41.3)**	–
Adjustment to revised fair value of convertible bonds		**58.6**	–
Partial conversion of convertible bonds		**5.5**	–
Non-cash movements on debt and cash balances (predominantly foreign exchange)		**(46.3)**	57.4
Decrease/(increase) in net debt in the year		**41.0**	(523.0)
Opening net debt		**(2,765.2)**	(2,242.2)
Closing net debt		**(2,724.2)**	(2,765.2)
b) Analysis of net debt:			
Cash and cash equivalents		**365.4**	255.9
Borrowings	15	**(3,089.6)**	(3,021.1)
Total net debt		**(2,724.2)**	(2,765.2)

The carrying amounts of the borrowings on the balance sheet are stated net of the unamortised portion of the refinancing fees of US$117.0 million (2016: US$17.6 million).

23. Capital commitments and guarantees

At 31 December 2017, the Group had capital commitments on exploration and development licences totalling US$207.1 million (2016: US$372.1 million). In addition, the Group had issued letters of credit for future decommissioning liabilities totalling £282.7 million and US$16.4 million held as security for the Mexican Letters of Credit (US$398.0 million) (2016: US$328.6 million).

24. Group pension schemes

Balance sheet

	2017 US$ million	2016 US$ million
UK funded pension scheme	**0.5**	0.6
Total surplus in balance sheet	**0.5**	0.6

	2017 US$ million	2016 US$ million
UK unfunded pension scheme	**0.7**	0.7
Total liability in balance sheet	**0.7**	0.7

Unfunded pensions

The Group is paying an unfunded pension to a former Director in the UK in regard to which annual increases and a reversionary spouse's pension apply on the same basis as to pensions paid under the Scheme.

On the same actuarial basis as used to assess the Scheme's pension costs, the present value as at 31 December 2017 of the future payments projected to be made in respect of UK unfunded pensions is US$0.7 million (2016: US$0.7 million).

Funded pensions

The Group operates a defined benefit pension scheme in the UK – The Premier Oil plc Retirement and Death Benefits Plan ('the Scheme') primarily inflation-linked annuities based on an employee's length of service and final salary. The Scheme was closed to new members (aside from the provision of insured death in service benefits) in 1997 and a new scheme, providing benefits on a defined contribution basis, was started.

Both schemes are funded by the payment of contributions to separately administered trust funds.

The disclosures set out below are based on calculations carried out as at 31 December 2017 by a qualified independent actuary.

The figures have been prepared in compliance with IAS 19 – 'Employee Benefits'.

The Scheme's assets are held in a separate trustee-administered fund to meet long-term pension liabilities to past and present employees. The Trustee of the Scheme is required to act in the best interest of the Scheme's beneficiaries. The appointment of members of the Trustee Board is determined by the trust documentation.

The liabilities of the defined benefit scheme are measured by discounting the best estimate of future cash flows to be paid out of the Scheme using the projected unit credit method. This amount is reflected in the surplus or the deficit in the balance sheet. The projected unit credit method is an accrued benefits valuation method in which the Scheme liabilities make allowance for the projected earnings.

The liabilities set out in this note have been calculated using membership data current as at 31 December 2017. The results of the calculations and the assumptions adopted are shown below.

As at 31 December 2017, contributions are payable to the Scheme by the Group at the rates set out in the schedule of contributions signed by the trustees on 23 March 2015. Under this schedule, the Company contributes on a monthly basis at the rate of 30 per cent of the aggregate of members' pensionable salaries.

Principal assumptions

The principal actuarial assumptions at the balance sheet date were:

	At 31 December 2017	At 31 December 2016
Discount rate	2.4% pa	2.6% pa
RPI inflation	3.2% pa	3.4% pa
CPI inflation	2.2% pa	2.4% pa
Rate of increase in salaries	3.2% pa	3.4% pa
Rate of increase in pensions in payment: LPI (max 5%)	3.1% pa	3.3% pa
Mortality	S2PA Light CMI_2016 1.25% Long term plus one year age rating	S2PA Light CMI_2015 1.25% Long term plus one year age rating
Proportion married	80%	80%
Withdrawals	No allowance	No allowance
Cash commutation	75% of maximum tax-free cash	75% of maximum tax-free cash
Life expectancy of male aged 65 now	22.3	22.4
Life expectancy of male aged 65 in 20 years	23.6	24.0
Life expectancy of female aged 65 now	23.3	23.5
Life expectancy of female aged 65 in 20 years	24.7	25.3

Asset breakdown

The major categories of Scheme assets as a percentage of total Scheme assets are:

	At 31 December 2017	At 31 December 2016
Equities	51.4%	50.1%
Gilts	24.2%	25.0%
Corporate bonds	24.0%	24.8%
Cash	0.4%	0.1%
Total	100.0%	100.0%

Reconciliation of funded status and amount recognised in balance sheet

	At 31 December 2017 US$ million	At 31 December 2016 US$ million
Fair value of Scheme assets	(46.3)	(39.0)
Present value of defined benefit obligation	32.4	29.5
(Surplus)/deficit	(13.9)	(9.5)
Unrecognised amount due to effect of IFRIC14[1]	13.4	8.9
Surplus	(0.5)	(0.6)

Note:

1 The trustees have certain rights to grant benefit increases to members and, accordingly, it has been concluded the Group does not have an unconditional right to the surplus by way of a refund.

Statement of amount recognised in the income statement

	2017 US$ million	2016 US$ million
Current service cost	0.2	0.2
Net interest on the net defined benefit liability/(asset)	–	–
Total	0.2	0.2

24. Group pension schemes continued

Reconciliation of defined benefit obligation

	2017 US$ million	2016 US$ million
Opening present value of defined benefit obligation	**29.5**	32.5
Service cost	**0.2**	0.2
Interest cost	**0.8**	1.1
Actuarial (gains)/losses from changes in demographic assumptions	**(0.5)**	0.3
Actuarial (gains)/losses from changes in financial assumptions	**0.1**	6.4
Changes due to experience adjustments	**0.1**	(1.4)
Benefits paid	**(0.7)**	(4.2)
Currency translation effects	**2.9**	(5.4)
Closing defined benefit obligation	**32.4**	29.5

Reconciliation of fair value of assets

	2017 US$ million	2016 US$ million
Opening fair value of Scheme assets	**39.0**	41.4
Interest income	**1.1**	1.4
Return on assets less interest income	**2.8**	7.5
Contributions by employer	**0.1**	0.1
Benefits paid	**(0.7)**	(4.2)
Currency translation effects	**4.0**	(7.2)
Closing fair value of Scheme assets	**46.3**	39.0
Actual return on Scheme assets	**3.9**	8.9

Statement of amount recognised in other comprehensive income

	At 31 December 2017 US$ million	At 31 December 2016 US$ million
(Gain)/loss from changes in the financial assumptions for value of Scheme liabilities	**0.1**	6.4
(Gain)/loss from changes in the demographic assumptions for value of Scheme liabilities	**(0.5)**	0.3
Changes due to experience adjustments	**0.1**	(1.4)
Return on assets (excluding amounts included in net interest on the net defined benefit liability)	**(2.8)**	(7.5)
Change in the effect of the asset ceiling excluding amounts included in net interest on the net defined liability	**4.2**	0.2
Currency translation effect	**(1.1)**	1.8
Other comprehensive income	**–**	(0.2)

Statement of amount recognised in profit and loss and other comprehensive income

	At 31 December 2017 US$ million	At 31 December 2016 US$ million
Amount recognised in profit and loss	**0.2**	0.2
Other comprehensive income	**–**	(0.2)
Total comprehensive income	**0.2**	–

Sensitivity of balance sheet at 31 December 2017

The results of the calculations are sensitive to the assumptions used. The balance sheet position revealed by IAS 19 calculations must be expected to be volatile, principally because the market value of assets (with significant exposure to equities) is being compared with a liability assessment derived from corporate bond yields.

The table below shows the sensitivity of the IAS 19 balance sheet position to small changes in some of the assumptions. Where one assumption has been changed all the other assumptions are kept as disclosed above.

	Revised (surplus)/deficit US$ million	Change from disclosed (surplus)/deficit US$ million
Discount rate less 0.1% p.a.	(13.4)	0.5
RPI inflation and linked assumptions plus 0.1% p.a.	(13.6)	0.3
Members living one year longer than assumed	(12.8)	1.1

Projected components of pension costs for period to 31 December 2018

Because of the significant volatility in investment markets, it is difficult to project forward the IAS 19 figures for the next year with confidence. The following projections should therefore be treated with caution. Assumptions implicit in the following projections are:

- the interest on the defined benefit liability/(asset) from 31 December 2017 is 2.4% p.a;
- contributions to the Scheme will continue throughout 2018 in accordance with the current Schedule of Contributions in place at the date of signing this report; and
- there will be no changes to the terms of the Scheme.

The amounts recognised in the components of pension expense are:

	2018 US$ million
Current service cost	**0.2**
Interest on defined benefit liability/(asset)	–
Net actuarial (gain)/loss recognised	–
Total	**0.2**

Defined contribution scheme

The Group operates a defined contribution retirement benefit scheme. The only obligation of the Group with respect to the retirement benefit scheme is to make specified contributions. Payments to the defined contribution scheme are charged as an expense as they fall due. The total cost charged to income of US$6.7 million (2016: US$8.6 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 Executive Directors during the year is set out below.

Further information regarding the remuneration of individual Directors is provided in the audited part of the Remuneration Report.

	2017 US$ million	2016 US$ million
Short-term employee benefits	**3.1**	3.6
Post-employment benefits	**1.8**	2.6
Other long-term benefits: share-based payments	**0.1**	–
	5.0	6.2

26. Other reserves

	Note	Retained earnings US$ million	Merger reserve[1] US$ million	Capital redemption reserve[2] US$ million	Translation reserves[3] US$ million	Hedge reserves[4] US$ million	Equity reserve[5] US$ million	Total US$ million
At 1 January 2016		(37.6)	374.3	8.1	(85.7)	83.9	9.6	352.6
Purchase of ESOP Trust shares		0.2	–	–	–	–	–	0.2
Provision for share-based payments	21	19.7	–	–	–	–	–	19.7
Transfer between reserves		4.6	–	–	–	–	(4.6)	–
Profit for the year		122.6	–	–	–	–	–	122.6
Other comprehensive expense		0.2	–	–	3.0	(71.3)	–	(68.1)
At 1 January 2017		109.7	374.3	8.1	(82.7)	12.6	5.0	427.0
Issue of Ordinary Shares		1.1	–	–	–	–	–	1.1
Net release of ESOP Trust shares		(0.2)	–	–	–	–	–	(0.2)
Provision for share-based payments	21	14.5	–	–	–	–	–	14.5
Incremental equity component of revised convertible bonds		–	–	–	–	–	57.2	57.2
Transfer between reserves		4.8	–	–	–	–	(4.8)	–
Loss for the year		(253.8)	–	–	–	–	–	(253.8)
Other comprehensive expense		–	–	–	(4.9)	(17.5)	–	(22.4)
At 31 December 2017		**(123.9)**	**374.3**	**8.1**	**(87.6)**	**(4.9)**	**57.4**	**223.4**

Notes:

1 In 2012 the provisions of the Companies Act 2006 relating to Merger Relief (s612 and s613) were applied to the EnCore plc acquisition. The non-statutory premium arising on shares issued by Premier as consideration has been recognised in the merger reserve.

2 The capital redemption reserve represents the nominal value of shares transferred following the Company's purchase of them.

3 The translation reserve is used to record unrealised exchange differences arising from the translation of the financial statements of entities within the Group that have a functional currency other than US dollars.

4 The hedging reserve is used to record unrealised movements in the Group's hedging instruments.

5 This balance represents the equity component of the convertible bonds. The transfer between reserves relates to the non-cash interest on the convertible bonds.

27. Subsequent events

Convertible bond notes

In January 2018, Premier invited convertible bondholders to exercise their exchange rights in respect of any and all of their bonds. 87.5 per cent, or US$205.8 million of the US$235.2 million bonds outstanding, were accepted for early exchange with an incentive amount of US$50 per US$1,000 in principal of bonds. The exchange resulted in the issue of 231,882,091 Ordinary Shares including 7,578,343 of incentive shares. It is expected that the value of the incentive shares will be expenses in the 2018 income statement.

Subsequent to the year-end, prior to the offer made by the Group, a further US$2.7 million were converted by bondholders.

Equity warrants

Subsequent to the year-end until the date of this report, 8,117,546 equity warrants have been exercised into 7,951,992 Ordinary Shares of the Company.

Debt reduction

Net cash proceeds received for the Wytch Farm disposal of US$176 million in December 2017 were used to pay down and cancel the RCF debt facility in January 2018. This reduced the total available RCF facility from US$2,050 million to US$1,874 million. As a result of this disposal US$75 million Letters of Credit was released. In addition, the US$16.4 million Letters of Credit held for the Zama exploration well in Mexico, which was included within covenant net debt at 31 December 2017, was also released in January 2018.

28. 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 are involved in business development opportunities across the Middle East and North Africa region, was immaterial to the Group in 2017 and 2016.

Subsidiary undertakings

At 31 December 2017, the Group had investments in the following 100 per cent owned subsidiaries.

Principal subsidiaries

Name of company	Business and area of operation	Registered office address
Premier Oil Group Holdings Limited[1]	Intermediate holding company, UK	23 Lower Belgrave Street, London, SW1W 0NR
Premier Oil Group Limited	Intermediate holding company, UK	4th Floor, Saltire Court, 20 Castle Terrace, Edinburgh, EH1 2EN
Premier Oil Finance (Jersey) Limited[1]	Convertible bond issuing company, Jersey	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	Intermediate holding company, UK	23 Lower Belgrave Street, London, SW1W 0NR
Premier Oil E&P UK Limited	Exploration, production and development, UK	23 Lower Belgrave Street, London, SW1W 0NR
Premier Oil E&P UK EU Limited	Exploration, production and development, UK	23 Lower Belgrave Street, London, SW1W 0NR
Premier Oil E&P UK Energy Trading Limited	Gas trading company, UK	23 Lower Belgrave Street, London, SW1W 0NR
Premier Oil Natuna Sea BV	Exploration, production and development, Indonesia	Atrium Building, 8th Floor, Strawinskylaan 3127, 1077 ZX, Amsterdam, Netherlands
Premier Oil 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	Rua Lauro Müller, 116 – Sala 2006, Botafogo, Rio de Janeiro, 22.290-906
Premier Oil Exploration and Production Mexico, S.A. de C.V.	Exploration, production and development, Mexico	Calle Montes Urales, 424, Oficina 03-110 y 03-117 Lomas de Chapultepec V Sección, Miguel Hidalgo, Ciudad de México, 11000

Note:
1 Held directly by Premier Oil plc. All other companies are held through a subsidiary undertaking.

For the year ended 31 December 2017

Other subsidiaries

Name of company	Business and area of operation	Registered office address
EnCore (NNS) Limited	Intermediate holding company, UK	23 Lower Belgrave Street, London, SW1W 0NR
EnCore (VOG) Limited	Dormant	23 Lower Belgrave Street, London, SW1W 0NR
EnCore CCS Limited	Dormant	23 Lower Belgrave Street, London, SW1W 0NR
EnCore Gas Storage Limited	Dormant	23 Lower Belgrave Street, London, SW1W 0NR
EnCore Natural Resources Limited	Dormant	23 Lower Belgrave Street, London, SW1W 0NR
EnCore North Sea Limited	Dormant	23 Lower Belgrave Street, London, SW1W 0NR
EnCore Oil and Gas Limited	Dormant	23 Lower Belgrave Street, London, SW1W 0NR
EnCore Oil Limited	Intermediate holding company, UK	23 Lower Belgrave Street, London, SW1W 0NR
FP Mauritania A BV	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	Dormant	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
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	Dormant	Atrium Building, 8th Floor, Strawinskylaan 3127, 1077 ZX, Amsterdam, Netherlands
Premier Oil West Tuna Limited	Dormant	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

Company Balance Sheet

As at 31 December 2017

	Note	2017 US$ million	2016 US$ million Restated[1]
Non-current assets:			
Investments in subsidiaries	3	**565.5**	563.4
Long-term employee benefit plan surplus	7	**0.5**	0.6
Long-term receivables	4	**955.4**	861.9
Total non-current assets		**1,521.4**	1,425.9
Current assets:			
Other receivables	4	**0.7**	0.7
Total current assets		**0.7**	0.7
Current liabilities:			
Trade and other payables	5	**(61.6)**	(1.8)
Net current liabilities		**(60.9)**	(1.1)
Non-current liabilities:			
Borrowings	6	**(192.4)**	(182.8)
Long-term employee benefit plan deficit	7	**(0.7)**	(0.7)
Derivative financial instruments		**(41.1)**	(60.7)
		(234.2)	(244.2)
Net assets		**1,226.3**	1,180.6
Equity and reserves:			
Share capital	9	**109.0**	106.7
Share premium account		**284.5**	275.4
Retained earnings		**388.2**	354.0
Other reserves		**444.6**	444.5
		1,226.3	1,180.6

Note:
1 Restated for certain line items to match current year classification.

Profit for the year ending 31 December 2017 was US$15.3 million (2016: 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 7 March 2018.

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 2017

	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 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 1 January 2017		106.7	275.4	354.0	374.3	8.1	62.1	1,180.6
Issue of Ordinary Shares		2.3	9.1	1.1	–	–	–	12.5
Net release of ESOP Trust shares		–	–	(0.2)	–	–	–	(0.2)
Profit for the financial year	2	–	–	15.3	–	–	–	15.3
Provision for share-based payments		–	–	14.5	–	–	–	14.5
Movement in cash flow hedges		–	–	1.6	–	–	–	1.6
Derecognition of equity component of modified convertible bonds		–	–	–	–	–	(62.1)	(62.1)
Recognition of equity component of revised convertible bonds		–	–	–	–	–	64.1	64.1
Conversion of convertible bonds		–	–	1.9	–	–	(1.9)	–
At 31 December 2017		**109.0**	**284.5**	**388.2**	**374.3**	**8.1**	**62.2**	**1,226.3**

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 42.

Where required, the equivalent disclosures are given in the Group's consolidated financial statements. Key sources of estimation uncertainty disclosure are provided in the Accounting Policies and in relevant notes to the Group consolidated financial statements as applicable. Details of the Company's share-based payment schemes are provided in note 21 of the Group consolidated financial statements on page 162.

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 127 to 133 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 2017 of US$15.3 million (2016: US$20.5 million).

Other comprehensive income for the year was US$1.6 million (2016: US$2.6 million expense).

The auditors' remuneration for audit and other services is disclosed in note 3 to the Group consolidated financial statements on page 141.

3. Fixed asset investments

	2017 US$ million
Cost and net book value:	
At 1 January	**563.4**
Movement in the year	**2.1**
At 31 December	**565.5**

A list of all investments in subsidiaries held at 31 December 2017, including the name and type of business, the country of operation and the country of incorporation or registration, is given in note 28 to the Group consolidated financial statements on page 171.

During the year, the Company's investment in Premier Oil Finance (Jersey) Limited increased by US$2.1 million, reflecting the increase in the fair value of the equity component of Premier Oil Finance (Jersey) Limited's convertible bonds.

Additionally during the year, the Company's investment in its subsidiary Premier Oil Group Limited was transferred to a newly created 100 per cent owned subsidiary, Premier Oil Group Holdings Limited. This was transferred at cost and therefore there is no further increase in the Company's investments.

4. Receivables

Long-term receivables: amounts falling due after more than one year

	2017 US$ million	2016 US$ million
Amounts owed by subsidiary undertakings	**955.4**	861.9

The amounts owed by subsidiary undertakings comprise a loan which bears interest based on LIBOR. This loan is denominated in US dollars and falls due for repayment in 2021.

Other receivables: amounts falling due within one year

	2017 US$ million	2016 US$ million
Amounts owed by subsidiary undertakings	**0.7**	0.7

The carrying values of the Company's debtors approximate to their fair value.

5. Trade and other payables

	2017 US$ million	2016 US$ million
Derivative financial instruments – warrants	**59.8**	–
Accruals	**1.8**	1.8
	61.6	1.8

The carrying values of the Company's creditors approximate to their fair value.

During the year the Company issued 89.1 million equity warrants and 21.4 million synthetic warrants, of which 13.9 million equity warrants were exercised by year-end. Further details on the warrants are disclosed in note 18 to the Group consolidated financial statements.

6. Borrowings

	2017 Fair value amount US$ million	2017 Carrying amount US$ million	2016 Fair value amount US$ million	2016 Carrying amount US$ million
Retail bonds	**196.1**	**202.5**	147.6	184.5

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 initially had a fixed coupon of 5 per cent and maturity of seven years. Post refinancing the fixed coupon increased to 6.5 per cent, with maturity increasing to 2021.

The carrying value of the retail bonds are stated in the Company balance sheet net of the unamortised portion of the debt arrangement fees of US$10.1 million (2016: US$1.7 million) and the liability is translated at the exchange rate prevailing at the year-end.

Details of the refinancing of the retail bonds, which was not considered to be a substantial modification, as part of the Group's wider refinancing are included in note 15 to the Group consolidated financial statements.

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 166.

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 169.

8. Commitments and guarantees

At the year-end date the Company, together with certain subsidiary undertakings, had jointly guaranteed the Group's borrowing facilities. These consist of the following:

- bank loans: US$2.5 billion revolving and letter of credit facility ('RCF'), US$150 million and £100 million term loans (together the 'Term Loan');
- senior loan notes: US$335 million and €63.6 million of US Private Placement ('USPP') notes and US$130 million Schuldschein ('SSL');
- £150 million of retail bonds; and
- US$237.9 million of convertible bonds.

All of the above facilities mature in May 2021, except for the convertible bonds which mature in May 2022.

9. Share capital and share premium

Further details of these items are disclosed in note 20 to the Group consolidated financial statements on page 162.

10. Dividends

No dividend is proposed for the year ended 31 December 2017 (2016: 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$116,100 (£86,000), they have not been disclosed. Where the aggregate payments made in the period for a project or country are less than US$116,100 we have not disclosed the payments made for this project or country.

Our total economic value distributed to all stakeholders can be found on page 57 of the Annual Report.

Reporting currency – Payments disclosed in this report have been disclosed in US dollars, consistent with the rest of the 2017 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.

2017 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	–	–	–	–	–	–	189	–	189
	CE-M-717-R11	–	–	–	–	–	–	123	–	123
	Total Brazil	**–**	**–**	**–**	**–**	**–**	**–**	**312**	**–**	**312**
Falkland Islands	Sea Lion	–	–	–	–	–	–	375	–	375
	Corporate	–	–	–	–	–	–	142	–	142
	Total Falkland Islands	**–**	**–**	**–**	**–**	**–**	**–**	**517**	**–**	**517**
Indonesia	Natuna Sea Block A	3,635	166,946	35,166	–	–	–	–	–	205,747
	Kakap	–	–	260	–	–	–	–	–	260
	Corporate	–	–	–	–	–	–	–	–	–
	Total Indonesia	**3,635**	**166,946**	**35,426**	**–**	**–**	**–**	**–**	**–**	**206,007**
Pakistan	Bhit/Badhra	–	–	–	1,298	–	–	–	–	1,298
	Zarghun South	–	–	–	233	–	–	–	–	233
	Kadanwari	–	–	–	415	–	–	–	–	415
	Zamzama	–	–	–	537	–	–	–	–	537
	Qadipur	–	–	–	1,347	–	–	–	–	1,347
	Corporate	–	–	4,862	–	–	–	–	–	4,862
	Total Pakistan	**–**	**–**	**4,862**	**3,830**	**–**	**–**	**–**	**–**	**8,692**
United Kingdom	Nelson	–	–	(324)	–	–	–	–	–	(324)
	Ravenspurn North	–	–	–	–	–	–	754	–	754
	Johnston	–	–	–	–	–	–	335	–	335
	Hunter	–	–	–	–	–	–	101	–	101
	Rita	–	–	–	–	–	–	341	–	341
	Huntington	–	–	–	–	–	–	335	–	335
	Balmoral	–	–	–	–	–	–	234	–	234
	Brenda	–	–	–	–	–	–	457	–	457
	Solan	–	–	–	–	–	–	131	–	131
	Catcher	–	–	–	–	–	–	654	–	654
	Tolmount	–	–	–	–	–	–	754	–	754
	Lyra	–	–	–	–	–	–	(277)	–	(277)
	Corporate	–	–	(1,593)	–	–	–	–	–	(1,593)
	Total UK	**–**	**–**	**(1,917)**	**–**	**–**	**–**	**3,819**	**–**	**1,902**
Vietnam	Chim Sáo	895	45,294	–	–	–	450	–	–	46,639
	Corporate	–	–	40,526	19,307	–	–	–	–	59,833
	Total Vietnam	**895**	**45,294**	**40,526**	**19,307**	**–**	**450**	**–**	**–**	**106,472**
Total Group		**4,530**	**212,240**	**78,897**	**23,137**	**–**	**450**	**4,648**	**–**	**323,902**

2017 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	–	–	–	–	–	–	312	–	312
	Total Brazil	**–**	**–**	**–**	**–**	**–**	**–**	**312**	**–**	**312**
Falkland Islands	Department of Mineral Resources	–	–	–	–	–	–	517	–	517
	Total Falkland Islands	**–**	**–**	**–**	**–**	**–**	**–**	**517**	**–**	**517**
Indonesia	SKK Migas	3,635	166,946	–	–	–	–	–	–	170,581
	Directorate General of Taxes	–	–	35,426	–	–	–	–	–	35,426
	Total Indonesia	**3,635**	**166,946**	**35,426**	**–**	**–**	**–**	**–**	**–**	**206,007**
Pakistan	Federal Board of Revenue	–	–	4,862	–	–	–	–	–	4,862
	Directorate General of Petroleum Concession	–	–	–	3,830	–	–	–	–	3,830
	Total Pakistan	**–**	**–**	**4,862**	**3,830**	**–**	**–**	**–**	**–**	**8,692**
United Kingdom	HM Revenue & Customs	–	–	(1,917)	–	–	–	–	–	(1,917)
	Department of Energy and Climate Change	–	–	–	–	–	–	3,819	–	3,819
	Total UK	**–**	**–**	**(1,917)**	**–**	**–**	**–**	**3,819**	**–**	**1,902**
Vietnam	Petro Vietnam	895	45,294	–	–	–	450	–	–	46,639
	HCM Tax Department	–	–	40,526	10,544	–	–	–	–	51,070
	Vung Tau Customs Office	–	–	–	8,763	–	–	–	–	8,763
	Total Vietnam	**895**	**45,294**	**40,526**	**19,307**	**–**	**450**	**–**	**–**	**106,472**
Total Group		**4,530**	**212,240**	**78,897**	**23,137**	**–**	**450**	**4,648**	**–**	**323,902**

Financials		2017[1]	2016	2015	2014	2013
Sales revenues	(US$ million)	**1,083.9**	983.4	1,067.2	1,629.4	1,501.0
(Loss)/profit before tax	(US$ million)	**(347.9)**	(390.6)	(829.4)	(384.0)	285.4
Net (loss)/profit for the year after tax	(US$ million)	**(253.8)**	122.6	(1,103.8)	(210.3)	234.0
Cash flow from operating activities	(US$ million)	**496.0**	431.4	809.5	924.3	802.5
Shareholders' funds	(US$ million)	**616.9**	809.1	734.8	1,872.2	2,124.4
Net debt	(US$ million)	**(2,724.2)**	(2,765.2)	(2,242.2)	(2,122.2)	(1,452.9)
Per share statistics:						
Revenue per share	(cents/share)	**211.0**	192.5	208.9	312.2	283.6
(Loss)/earnings per share – basic	(cents/share)	**(49.4)**	24.0	(216.1)	(40.3)	44.2
(Loss)/earnings per share – diluted	(cents/share)	**(49.4)**	23.7	(216.1)	(40.3)	43.2
Cash flow from operating activities per share	(cents/share)	**96.6**	84.5	158.5	177.1	151.6
Reserves per share – year-end	(boe/share)	**0.59**	0.69	0.65	0.47	0.49
Issued Ordinary Shares – average	(million)	**513.7**	510.8	510.8	521.9	529.2
Operations:						
Production (working interest basis)	(kboepd)	**75.0**	71.4	57.6	63.6	58.2
Proved and probable reserves (working interest basis)	(mmboe)	**301.8**	353.3	331.9	243.3	259.4
Employees (average) – UK	(number)	**237**	242	263	242	248
– Overseas	(number)	**552**	559	608	698	634
Key indices:						
Realised average oil price	(US$/bbl)	**52.9**	44.1	52.6	98.2	109.0
Average exchange rates	(US$/£)	**1.29**	1.36	1.53	1.65	1.56
Closing exchange rates	(US$/£)	**1.35**	1.23	1.47	1.56	1.66

Note:
1 From all operations (continuing and discontinued) unless otherwise stated.

Working interest reserves as at 31 December 2017

	Working interest basis												
	Falkland Islands		Indonesia		Pakistan		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 2017	126.5	43.8	1.7	243.5	0.1	74.3	103.1	136.0	23.8	35.6	**255.2**	**533.2**	**353.3**
Revisions[1]	–	–	0.1	(18.1)	–	(8.7)	(13.0)	33.7	(0.3)	(3.7)	**(13.2)**	**3.3**	**(12.4)**
Discoveries and extensions[2]	–	–	–	–	–	–	–	–	–	–	**–**	**–**	**–**
Acquisitions and divestments[3]	–	–	–	–	–	–	(11.2)	(1.3)	–	–	**(11.3)**	**(1.4)**	**(11.7)**
Production	–	–	(0.3)	(26.0)	–	(14.4)	(9.9)	(24.0)	(4.3)	(5.4)	**(14.5)**	**(69.7)**	**(27.4)**
At 31 December 2017	126.5	43.8	1.5	199.4	0.1	51.2	69.0	144.4	19.2	26.5	**216.2**	**465.4**	**301.8**
Total Group developed and undeveloped reserves:													
Proved on production	–	–	0.8	121.1	0.1	34.9	20.0	80.2	15.8	18.2	**36.6**	**254.5**	**83.3**
Proved approved/ justified for development	102.8	28.5	0.4	36.5	–	–	21.2	26.5	0.5	6.2	**124.7**	**97.7**	**143.3**
Probable on production	–	–	0.1	9.9	–	16.3	5.6	32.4	2.8	1.7	**8.6**	**60.3**	**19.1**
Probable approved/ justified for development	23.7	15.3	0.2	31.9	–	–	22.2	5.3	0.1	0.4	**46.3**	**52.9**	**56.1**
At 31 December 2017	126.5	43.8	1.5	199.4	0.1	51.2	69.0	144.4	19.2	26.5	**216.2**	**465.4**	**301.8**

Notes:

1 Revisions to reserves are based on re-evaluation of production performance; drilling results and future plans in Dua (Vietnam); Anoa and Gajah Baru (Indonesia); Solan, Babbage and Huntington (UK); Qadirpur (Pakistan).
2 The Zama discovery in Mexico is classified as contingent resource and does not appear in this table.
3 Divestment of Wytch Farm (UK).
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 ('OAIC'), dated July 2001.

The Group provides for amortisation of costs relating to evaluated properties based on direct interests on an entitlement basis, which incorporates the terms of the PSCs in Indonesia and Vietnam. On an entitlement basis, reserves were 284.9 mmboe as at 31 December 2017 (2016: 332.3 mmboe). This was calculated at year-end 2017, using an oil price assumption equal to US$65/bbl in 2018, US$61.5/bbl in 2019, US$70/bbl in 2020 and US$75/bbl in 'real' terms thereafter (2016: Dated Brent, 2017 US$58/bbl, 2018 US$58/bbl, US$65/bbl in 2019 and US$75/bbl in 'real' terms thereafter).

In 2018, it is anticipated that there will be changes to SPE Petroleum Resource Management System standards which are likely to include revised commercial requirements for reserve classification. If the Sea Lion development, which is currently booked with 2P reserves of 134 mmboe, does not pass through the Sanction Gate currently planned during 2018, there would be the potential for these resources to be recategorised as contingent at the end of 2018.

Worldwide Licence Interests

As at 7 March 2018

Licence	Blocks	Operator	Premier equity	Unit interest (if applicable)	Associated fields /discoveries
Brazil					
CE-M-661	CE-M-661	Total	30.00		
CE-M-665_R11	CE-M-665	**Premier**	50.00		
CE-M-717_R11	CE-M-717	**Premier**	50.00		Pecem
Falkland Islands					
PL003a	14/14 (part) & 14/19 (part)	Rockhopper	4.50		
PL003b	14/14 (part) & 14/19 (part)	Rockhopper	4.50		
PL004a	14/15 (part), 14/20, 15/11 (part) & 15/16 (part)	**Premier**	36.00		Isobel Deep
PL004b	14/15 (part)	**Premier**	36.00		Beverley; Casper South; Zebedee
PL004c	14/15 (part)	**Premier**	36.00		
PL032	14/5, 14/10	**Premier**	60.00		Casper North; Sea Lion
PL033	15/1 (part) & 15/6 (part)	**Premier**	60.00		
Indonesia					
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					
Mexico Block 2	2	Talos	10.00		
Mexico Block 7	7	Talos	25.00		Zama
Pakistan					
D&PL No.140/PAK/2000	Kirthar	ENI	6.00		Bhit
D&PL No.150/PAK/2002	2667-1 (Dadu)	Orient	9.38		Zamzama
D&PL No.160/PAK/2003	Kirthar	ENI	6.00		Badhra
D&PL No.161/PAK/2003	Bolan	Mari	3.75		Zarghun South
D&PL No.84/PAK/92	Tajjal	ENI	15.79		Kadanwari
D&PL No.85/PAK/93	Qadirpur	OGDCL	4.75		Qadirpur
United Kingdom					
P077	22/12a (Nelson Field (NELS))	Shell	50.00	1.66	Nelson
P087	22/7a (Nelson Field (NELS))	**Premier**	46.50	1.66	Nelson
P111	22/25a (Merganser down to 3,300 metres (MERG))	**Premier**	65.99	7.92	Merganser
P164	205/26a (ALL)	**Premier**	**100.00**		Solan
P185	15/22 (Rest of Block (Non-Palaeocene Formation) (A))	Nexen	50.00		Blackhorse
P188	22/30b (Area A – Elgin Field (ELGN))	Total	5.20	5.20	Elgin; Franklin
P201	16/21a Balmoral & Glamis Field Areas (BALMO), Rest of Block (Exploration Area) (REST), Stirling Field Area (STIRL); and 16/21d Balmoral & Glamis Field Areas (BALMO), Rest of Block (Exploration Area) (REST)	**Premier**	85.00	Balmoral: 78.12 Stirling: 68.68	Balmoral; Glamis; Stirling
P201	16/21d (Brenda Field Area (above 7,500 feet) (A))	**Premier**	**100.00**		Brenda
P213	16/26a (Area P – Caledonia Field Area (P-CAL))	**Premier**	**100.00**		Caledonia
P233	15/25a (ALL)	**Premier**	70.00		Nicol
P264	23/26d (Scoter Field Area (A))	**Premier**	**100.00**	12.00	Scoter
P344	16/21b & 16/21c (Balmoral Field Area (BALM)) and 16/21c (Stirling Field (STIR))	**Premier**	44.20	Balmoral: 78.12 Stirling: 68.68	Balmoral; Stirling
P362	29/5b (ALL)	Total	5.20	5.20	Franklin
P380	43/26a (Rave (RAVE A)) and (Rave (RAVE B))	Perenco	35.94	28.75	Ravenspurn North
P380	43/26a (Ravenspurn North Field Carboniferous Area (RAVE (CA))	BP	5.00		

As at 7 March 2018

Licence	Blocks	Operator	Premier equity	Unit interest (if applicable)	Associated fields /discoveries
United Kingdom (continued)					
P380	43/26a (Residual Area excluding Ravenspurn North (RESID)	**Premier**	72.22	50.11	Johnston
P452	44/23a (Caister Field (AREA AA)	ConocoPhillips	40.00		Caister
P452	44/23e (ALL (D))	**Premier**	79.00		Hunter
P454	44/29b (Orca Field Area (B))	Engie	42.67	23.47	Orca
P456	48/2a (ALL)	**Premier**	47.00		Babbage
P611	44/24a (ALL) and 44/30a (ALL)	Engie	42.67	Orca: 23.47	Minke; Orca
P666	22/30c (ALL) and 29/5c (ALL)	Total	5.20	5.20	Elgin; Franklin; West Franklin
P686	43/27a (ALL)	**Premier**	42.22	50.11	Johnston
P748	29/2c (ALL)	CNR	40.00		Kyle
P752	29/4d (ALL)	Total	18.57		Glenelg
P766	44/21b (ALL)	**Premier**	68.31	74.00	Rita
P771	44/22c (ALL)	**Premier**	76.00	74.00	Rita
P1042	15/25b (ALL)	**Premier**	**100.00**		Brenda
P1114	22/14b (ALL)	**Premier**	**100.00**		Huntington
P1330	42/28d (ALL)	**Premier**	50.00		Tolmount
P1430	28/9a (ALL)	**Premier**	50.00		Burgman; Carnaby; Catcher; Varadero
P2068	22/29b (ALL)	Total	5.20	5.20	Elgin; Franklin
P2070	28/4a (ALL)	**Premier**	54.00		Laverda
P2077	28/8a (ALL)	**Premier**	54.00		
P2212	48/1b (ALL) and 48/2b (ALL)	**Premier**	50.00		Greater Babbage
P2290	48/3 (ALL)	**Premier**	50.00		Greater Babbage
P2301	48/1c (ALL)	**Premier**	50.00		Greater Babbage
P2305	42/28c (ALL)	**Premier**	50.00		Greater Tolmount
Vietnam					
Block 12W	12W	**Premier**	53.13		Chim Sáo; Dua

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
boepd	barrels of oil equivalent per day
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
te	Tonnes
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, DD&A per barrel, Free cash flow, Net Debt and Liquidity and are defined below.

EBITDAX
Earnings before interest, tax, depreciation, amortisation, impairment, exploration spend and other one-off items. In the current year it also excludes the gain on disposal recognised in the income statement. This is a useful indicator of underlying business performance.

Operating cost per barrel
Operating costs for the year divided by working interest production. This is a useful indicator of ongoing operating costs from the Group's producing assets.

DD&A per barrel
Depreciation and amortisation of oil and gas properties for the year divided by working interest production. This is a useful indicator of ongoing rates of depreciation and amortisation of the Group's producing assets.

Free cash flow
Positive cash flow generation from operating, investing and financing activities excluding drawdowns from borrowing facilities.

Net Debt
The net of cash and cash equivalents and long-term debt recognised on the balance sheet. This is an indicator of the Group's indebtedness and capital structure.

Liquidity
The sum of cash and cash equivalents on the balance sheet, and the undrawn amounts available to the Group on our principal facilities, including letters of credit facilities, less our JV partners' share of cash balances. This is a key measure of the Group's financial flexibility and ability to fund day-to-day operations.

Each of the above non-IFRS measures are presented within the Financial Review with detail on how they are reconciled to the statutory financial statements.

Shareholder Information

Registrar
All enquiries concerning your shareholding should be directed to Link Asset Services:

Link Asset Services
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU
United Kingdom

Telephone: UK: 0871 664 0300
(calls cost 12p per minute plus your phone company's access charge).

If you are outside the United Kingdom, please call +44 (0)371 664 0300. Calls outside the United Kingdom will be charged at the applicable international rate.

Lines are open 9.00am – 5.30pm Monday to Friday, excluding public holidays in England and Wales.

Email: shareholderenquiries@linkgroup.co.uk

Share portal
As a shareholder you have direct access to an online share portal operated by Link Asset Services at www.premier-oil-shares.com. You can access the share portal with your Investor Code ('IVC') which can be found on your share certificate. The portal provides a range of services, free of charge, to help you to administer your shareholding quickly and efficiently by allowing you to:

- check your share balance;
- change your address details;
- choose to receive electronic shareholder communications;
- set up or amend a dividend mandate so dividends can be paid directly to your bank account; and
- buy and sell Premier Oil plc shares using the dealing service operated by Link Share Deal.

Dividends

Dividend history
Details of dividend payments made are included within the Shareholder Information section of the Investors area of the Company website: www.premier-oil.com.

Tax on dividends up to April 2016
For any dividends paid up to April 2016, shareholders would have received a tax voucher showing a 10 per cent 'tax credit' representing the tax that has already been paid by the Company on profits generated. This 10 per cent tax credit can be offset against any UK income tax due on dividend income. For more information on the UK dividend tax credit, please visit the HMRC website: www.gov.uk/tax-on-dividends.

Tax on dividends from April 2016
From 6 April 2016 the dividend 'tax credit' was replaced by a new 'dividend allowance' in the form of a 0 per cent tax rate on the first £5,000 of dividend income per year.

UK residents will pay tax on any dividends received over the £5,000 allowance at the following rates:

- 7.5 per cent on dividend income within the basic rate band
- 32.5 per cent on dividend income within the higher rate band
- 38.1 per cent on dividend income within the additional rate band

Dividends received on shares held in an Individual Savings Account ('ISA') will continue to be tax free.

E-communications
Shareholders have the option to receive communications including annual reports and notices of meetings electronically. This is a faster, more environmentally friendly and, for Premier Oil plc, a more cost-effective way for shareholders to receive annual reports and other statutory communications as soon as they are available. For every shareholder that actively registers their email address online, Premier Oil plc has pledged to donate £1 to Pure Leapfrog's carbon offsetting programme which supports carbon reduction projects in Africa, India and other developing countries (www.pureleapfrog.org).

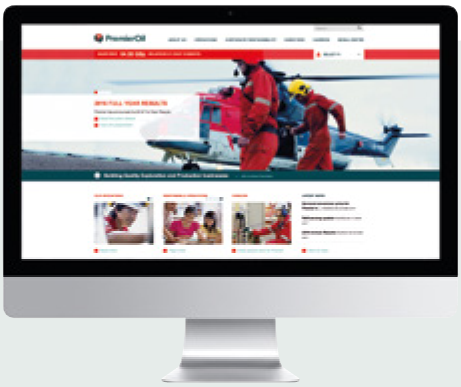
To register for this service, please visit the share portal: www.premier-oil-shares.com. You will need your Investor Code ('IVC') which can be found on your share certificate. Once registered, Premier Oil plc will communicate with you via email rather than post.

Shareholder security
Shareholders are advised to be cautious about any unsolicited financial advice, including offers to buy Premier Oil plc shares at inflated prices, or offers of free reports about Premier. More information can be found at www.fca.org.uk/consumers/scams and in the Shareholder Information section of the Investors area of the Company website: www.premier-oil.com.

American Depositary Receipt programme
Premier Oil plc has a sponsored Level 1 American Depositary Receipt ('ADR') programme which BNY Mellon administers and for which it acts as Depositary. Each ADR represents one Ordinary Share of the Company. The ADRs trade on the US over-the-counter market under the symbol 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.

Further details regarding all aspects of shareholder information can be found on our website, www.premier-oil.com



Designed and produced by **SampsonMay**
Telephone: 020 7403 4099
www.sampsonmay.com

FSC
www.fsc.org
MIX
Paper from responsible sources
FSC® C016486

Printed by **CPI Colour**

This Annual Report is printed on material derived from sustainable sources, and printed using vegetable-based inks. Both the manufacturing paper mill and printer are registered to the Environmental Management System ISO 14001 and are Forest Stewardship Council® (FSC®) chain-of-custody certified. CPI Colour is also a Carbon Neutral Printing Company and reduces its CO_2 emissions to net zero in accordance with The CarbonNeutral Protocol. This carbon offsetting supports the Uchindile Mapanda reforestation programme in Tanzania, an environmental project to establish commercial forests at two locations in Africa.

This report is recyclable and bio-degradable – if you have finished with this document and no longer wish to retain it, please pass it on to other interested readers or dispose of it in your recycled paper waste. Thank you.

Registered Office
Premier Oil plc
4th Floor
Saltire Court
20 Castle Terrace
Edinburgh
EH1 2EN

Registered No. SC234781

Head Office
Premier Oil plc
23 Lower Belgrave Street
London
SW1W 0NR

Tel: +44 (0)20 7730 1111
Email: premier@premier-oil.com

Full contact details for all of our advisers are available on the Company website: www.premier-oil.com