PremierOil

Annual Report and Financial Statements

Year to 31 December 2013

Quality Project Portfolio

DELIVERING VALUE

PremierOil

DELIVERING VALUE

OUR STRATEGY IS TO GROW SHAREHOLDER VALUE THROUGH INVESTMENT IN HIGH QUALITY OIL AND GAS PROJECTS WITHIN A DISCIPLINED FINANCIAL FRAMEWORK. IN 2013, BOTH OUR SHORTER- AND LONGER-TERM PROJECTS TOOK SIGNIFICANT STEPS FORWARD.



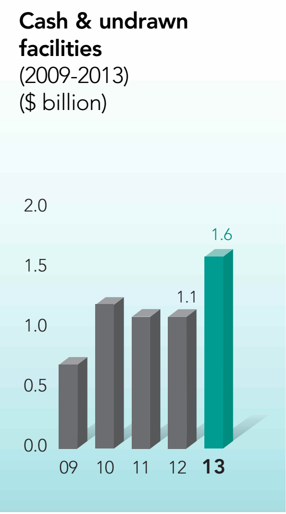


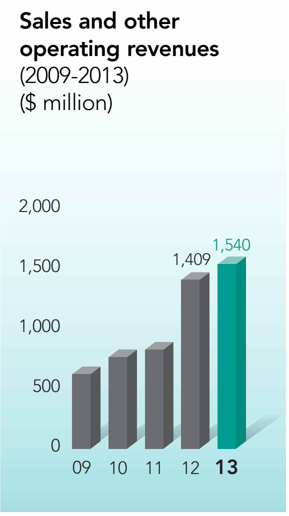
FINANCIAL HIGHLIGHTS

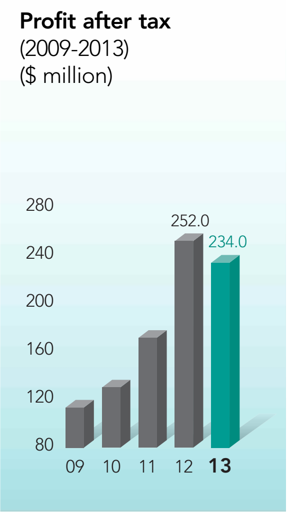
2013 – Well financed, strongly profitable and rapidly growing cash flows

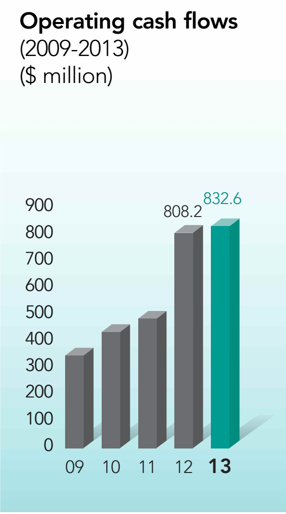
Financial /

- Strong underlying profitability: profit after tax of US$234.0 million (2012: US$252.0 million) after impairment charges of US$67.9 million (post-tax)
- Operating cash flow of US$832.6 million (2012: US$808.2 million)
- Recommended dividend payment of 5 pence per share (2012: 5 pence)
- Board has approved share buyback programme of up to £75 million









Total sales reached a new record level of US$1.5 billion, and operating cash flow is a record US$832.6 million

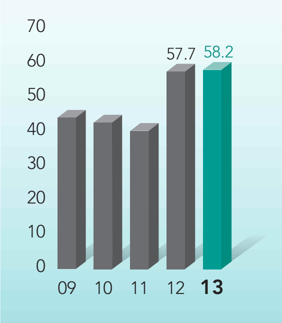
OPERATIONAL HIGHLIGHTS

85 per cent success rate in exploration

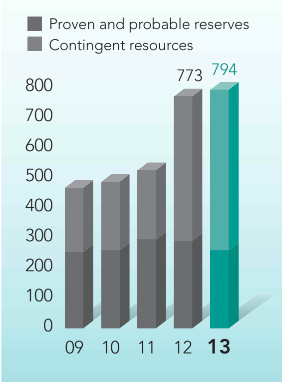
Operational /

- 2013 production of 58.2 kboepd (2012: 57.7 kboepd); average production of 69 kboepd in December
- Catcher development approval expected in the first half of 2014; Solan first oil targeted for the fourth quarter of 2014; Bream and Sea Lion progressing to sanction decision
- Six discoveries from seven exploration wells adding around 40 mmboe of reserves and resources; finding costs of US$5.3/boe pre-tax
- 13 firm exploration and appraisal wells planned for 2014 targeting 140 mmboe of unrisked resources

Working interest production
(2009-2013)
(kboepd)



Reserves and Resources
(2009-2013)
(mmboe)



40 million barrels of reserves and resources added from exploration success and a further 800 million barrels of unrisked prospective resources added through acreage acquired in Brazil, Kenya, Norway and the UK

Premier is a leading FTSE 250 independent exploration and production company with oil and gas interests in the North Sea, South East Asia, Pakistan and the Falkland Islands. Our strategy is to grow shareholder value through investment in high quality projects within a disciplined financial framework. We seek to maintain the highest standards of corporate responsibility.

Quality Project Portfolio

Over the following pages we profile and explain some of our key assets

OPTIMISATION OF PRODUCTION

"In Vietnam, we are focused on optimising production from the Chim Sáo field. We also look forward to our hard work on the Premier-operated Dua project coming to fruition with the development expected on-stream in 2014."

1/

"Dua is one of four Premier-operated developments which are expected to be brought on-stream during 2014."

Project

Chim Sáo (Phase II)

Location / Vietnam

FIRST OIL FROM THE PREMIER-OPERATED DUA PROJECT IS TARGETED FOR MID-2014 AND WILL EXTEND THE PLATEAU PRODUCTION FROM THE CHIM SÁO OIL FIELD. IN ADDITION, HIGHER OPERATIONAL EFFICIENCY IS ANTICIPATED FROM CHIM SÁO FOLLOWING UPGRADES TO THE FACILITY AND TRANSFER OF THE OPERATIONS AND MAINTENANCE CONTRACT TO PREMIER.

Profile / Premier discovered the Chim Sáo and Dua oil fields in Block 12W offshore Vietnam in 2006. In July 2009, Premier increased its interest in the fields from 37.5 per cent to 53.125 per cent through the acquisition of Delek Energy's interest for US$72 million. The Premier-operated Chim Sáo field was brought on-stream in October 2011, just six years after the initial discovery. The field is currently producing 30 kboepd and deliverability remains ahead of original development plans. First oil from the Dua oil field, which is being developed as a subsea tie-back to Chim Sáo, is targeted for the first half of 2014. The field, which will be able to produce 10 kboepd, will maintain the plateau production from Chim Sáo.

Highlights and achievements /

- Chim Sáo surpassed the milestone of US$2 billion of gross oil revenues and 20 million barrels of oil production in 2013
- Oil sold at premium to Brent
- Subsea equipment installed at Dua and tied back to floating production, storage and offtake vessel (FPSO)

Outlook /

- Continued optimisation of Chim Sáo production
- Improving operational efficiency and uptime
- Dua expected on-stream mid-2014

INVESTING IN HIGH RETURN PROJECTS WHERE PREMIER IS DEVELOPMENT OPERATOR

"We are looking forward to bringing on-stream our first operated development in the North Sea. This will be a significant milestone for Premier and underlines our commitment to investing in projects which offer superior returns."

2

"Solan will be the fourth development that Premier will bring on-stream during 2014, further endorsing our capabilities as operator."

Project

Solan

Location / UK

THE PREMIER-OPERATED 42 MILLION BARREL SOLAN OIL FIELD, WEST OF SHETLAND, IS EXPECTED ON-STREAM IN THE FOURTH QUARTER OF 2014. AFTER A RAMP UP PERIOD, THE PROJECT WILL ADD AROUND 14 KBOPD TO PREMIER'S PRODUCTION PROFILE AND GENERATE A SIGNIFICANT INCREASE IN THE COMPANY'S CASH FLOW.

Profile / Premier purchased a 60 per cent stake in the Solan field in 2011 and was appointed development operator in January 2012. The upfront acquisition cost was US$10 million with Premier providing a carry and financing package to the previous owner during the development phase. Premier will recover its loan from an enhanced share of the field's cash flows. The Solan field received final project sanction in April 2012 and is now in full execution mode. The platform, which is being fabricated in Scotland, and the subsea storage tank, which is being constructed in Dubai, are over 80 per cent complete. Development drilling commenced in April 2013 and reached the reservoir on prognosis. Pressure data from the reservoir indicates good reservoir connectivity. The heavy lift installation, hook up and commissioning works are planned for the 2014 summer weather window. First oil is targeted for the fourth quarter of 2014 with an initial gross production rate of 24 kbopd following ramp up.

Highlights and achievements /

- Development drilling progressing
- Tank, topsides and jacket over 80 per cent complete

Outlook /

- First oil scheduled for the fourth quarter of 2014
- Significant impact on cash flow
- Rapid project payback from 84 per cent of cash flows

3 /

"The Premier-operated Catcher project is expected to generate a pre-tax IRR in excess of 20 per cent."

Project

Catcher

Location / UK

FINAL GOVERNMENT SANCTION OF THE PREMIER-OPERATED CATCHER PROJECT IS SCHEDULED FOR THE SECOND QUARTER OF 2014. THE PROJECT, WHICH IS EXPECTED ON-STREAM IN 2017, WILL HAVE A PEAK PRODUCTION OF 50 KBOPD AND WILL CREATE A NEW PRODUCTION HUB IN THE CENTRAL NORTH SEA.

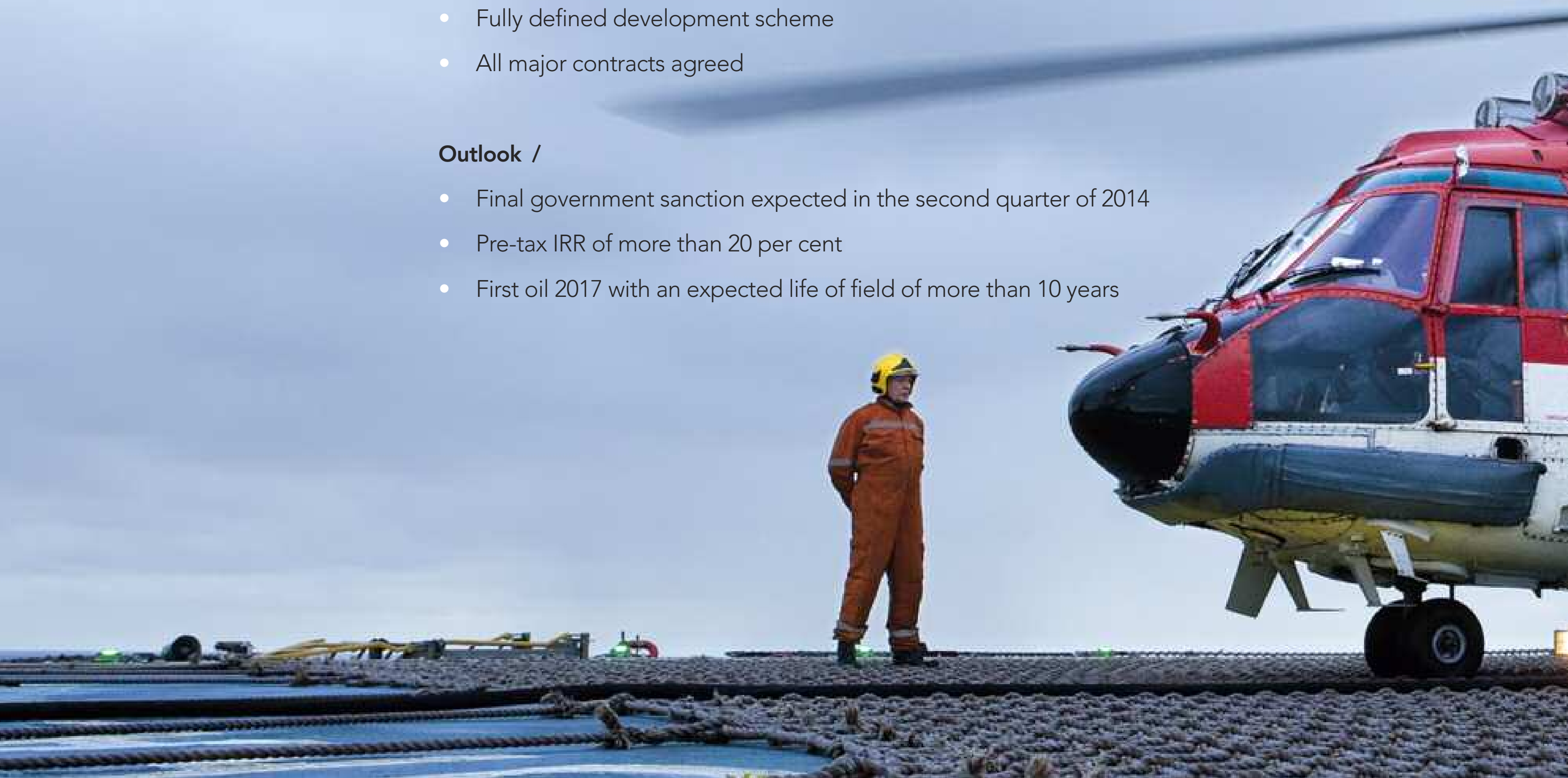
Profile / Premier acquired its initial interest in the Catcher area as a result of its 2009 Oilexco acquisition. The Catcher discovery was made in August 2010. Premier subsequently increased its stake to 50 per cent and assumed operatorship in January 2012. Follow-up wells discovered Varadero, Burgman, Carnaby and, most recently in April 2013, Bonneville. The development concept (a subsea tie-back of the Catcher, Varadero and Burgman fields to a FPSO) was agreed in December 2012 and final government sanction of the project is expected in the second quarter of 2014. Gross reserves under the initial development scheme are 92 mmboe. First oil is scheduled for 2017 and production is expected to peak at 50 kbopd. At that time, it is expected that Catcher will account for approximately six per cent of the entire UKCS production.

Highlights and achievements /

- Creating a new North Sea production hub
- Gross reserves of 92 mmboe with an upside of 140 mmboe
- Fully defined development scheme
- All major contracts agreed

Outlook /

- Final government sanction expected in the second quarter of 2014
- Pre-tax IRR of more than 20 per cent
- First oil 2017 with an expected life of field of more than 10 years



FOCUSED ON CAPITAL EFFICIENCY AND DELIVERING SUPERIOR RETURNS

"Catcher is an important project for the Central North Sea adding up to 50 kboepd of production and creating a new production hub. At that time, Premier will be responsible for over 5 per cent of the UKCS production. The project will also generate a strong increase in our cash flow."

4

"Sea Lion (Phase 1) is a 293 million barrel oil field located in the North Falkland Basin in a water depth of 450 metres. The project is expected to yield an IRR of around 20 per cent."

Project

Falkland Islands

Location / South Atlantic Ocean

PHASE 1 OF THE SEA LION DEVELOPMENT IS TARGETED FOR FINAL PROJECT SANCTION IN 2015, ONCE THE DETAILED ENGINEERING STUDIES AND THE FARM-DOWN OF PREMIER'S INTEREST IN THE PROJECT HAVE BEEN ACHIEVED. IN ADDITION, PREMIER WILL TARGET 1 BILLION BARRELS OF GROSS UNRISKED PROSPECTIVE RESOURCES FROM OUR PLANNED FOUR WELL EXPLORATION PROGRAMME.

Profile / Premier farmed-in to 60 per cent of Rockhopper's licence interests in the Falkland Islands and assumed operatorship of the Sea Lion development project in 2012 for an upfront consideration of US$231 million. Premier will also pay an exploration carry of up to US$48 million and, subject to field development plan approval, a development carry of up to US$722 million. In 2013, Premier further increased its equity in licences PL004a and PL004c to 36 per cent via a farm-in with Falkland Oil and Gas Ltd.

Following extensive conceptual engineering and design work on the Sea Lion project, a development scheme was agreed in December 2013. A phased approach utilising a tension leg platform (TLP) with a permanent drilling rig was selected. Phase 1 will recover 293 million barrels of oil over 25 years from 32 wells while Phase 2 will be optimised to incorporate any additional exploration or appraisal success. Premier will farm-down its equity interest in the project prior to final sanction which is targeted for 2015. Premier will also explore the remaining potential in the North Falkland Basin and looks forward to commencing a four well exploration and appraisal programme in 2015.

Highlights and achievements /

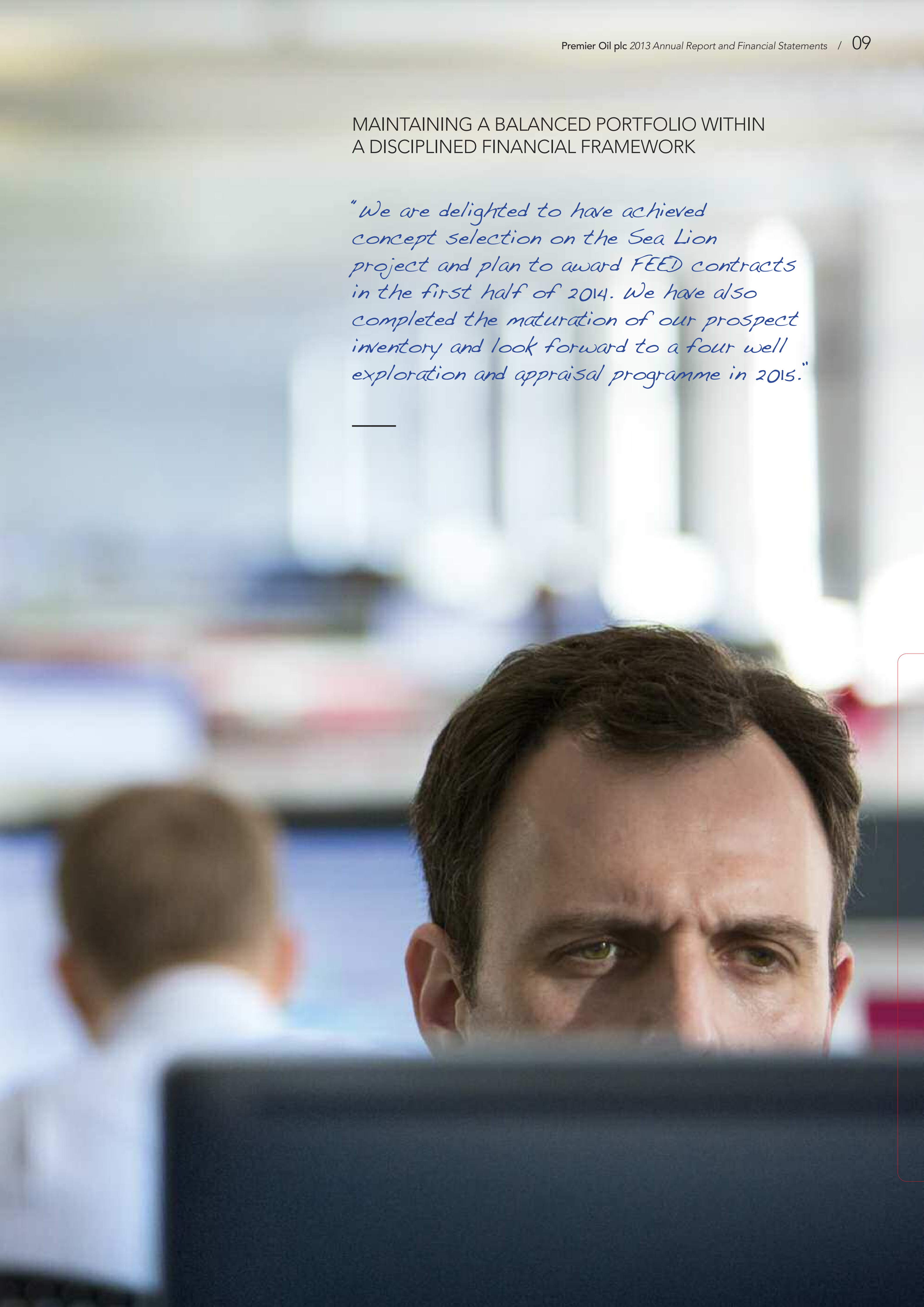
- Concept selection achieved: a TLP was found to offer a more robust and lower cost development scheme than a new build FPSO-scheme
- Prospect inventory matured
- Exposure to exploration upside increased and ownership interest in the three licence blocks aligned

Outlook /

- Progress detailed engineering studies and farm-down process
- Final project sanction targeted for 2015
- Exploration of the remaining potential of the North Falkland Basin

MAINTAINING A BALANCED PORTFOLIO WITHIN A DISCIPLINED FINANCIAL FRAMEWORK

"We are delighted to have achieved concept selection on the Sea Lion project and plan to award FEED contracts in the first half of 2014. We have also completed the maturation of our prospect inventory and look forward to a four well exploration and appraisal programme in 2015."



WHERE WE OPERATE

Strong business units

PREMIER IS ORGANISED INTO SIX BUSINESS UNITS WITH EXPLORATION TEAMS REPORTING DIRECTLY TO A CENTRAL EXPLORATION FUNCTION. IN TOTAL WE MANAGE A GROWING RESERVES AND RESOURCES BASE CLOSE TO 800 MMBOE.

Falkland Islands

High return project

OPERATIONAL OVERVIEW

2013 – rising cash flows, projects progressing and exploration success

Robin Allan
Director, Business Units

Neil Hawkings
Director, Falkland Islands

Andrew Lodge
Exploration Director

PRODUCTION

Strategy /

We seek to maximise value from our current production base, which is focused around floating production systems and our Asia gas position, to generate cash flows which are either reinvested in high return opportunities or distributed to shareholders.

Outlook /

- 2014 production guidance of 58-63 kboepd
- Significant cash flow growth underpinned by Solan and Catcher projects

DEVELOPMENT

Strategy /

We aim to replenish our development portfolio with good quality projects through new acquisitions and/or successful exploration. We focus on projects where we can utilise our strong operating capabilities and are best positioned to add value.

Outlook /

- Four operated projects (Dua, Pelikan, Naga and Solan) expected on-stream in 2014
- Project sanction of Catcher in the first half of 2014
- Bream partner sanction decision by year-end 2014
- Sea Lion sanction in 2015

EXPLORATION

Strategy /

Premier is building an increasingly material exploration programme, targeting high impact opportunities in known geologies – rifts and frontal fold belts – in emerging plays. We are also reducing exposure to mature basins and prioritising capital efficiency.

Outlook /

- 13 exploration and appraisal wells planned for 2014 targeting 140 mmboe
- Four exploration and appraisal wells in the Falkland Islands in 2015
- Maturing high impact prospects in Brazil, Iraq and Norway for 2015/16 drilling
- Continued high grading of exploration portfolio

Delivering our vision

Mike Welton

Chairman

> We now look forward to the future production growth that our portfolio is capable of delivering and anticipate excellent rates of return from our key new projects.
> Four fields are due on-stream in 2014 and solid progress was made during the year on our longer-term developments – Catcher, Bream and Sea Lion.

The industry context

The global economy showed tentative signs of recovery during 2013. Energy demand grew modestly whilst commodity prices remained broadly stable for the third year running. Costs have risen in certain areas of the oil services sector and governments around the world continue to seek to extract higher fiscal take from the industry. This has led investors to question the return on capital across the sector. Nonetheless discerning investments in good quality projects still deliver good returns. Debt capital markets remain liquid and offer ready access to conservatively-managed companies with strong balance sheets.

Premier's performance

Premier continues to generate strong profit, rising cash flows and a healthy return on capital. 2013 also saw a much improved year of exploration, and an increase in our reserves and resources to 794 mmboe (2012: 773 mmboe). We strive to ensure that return on capital is maximised and that our financial strength and investment profile are balanced.

I wrote in my 2012 statement that with the Huntington field on-stream, production would rise to a run rate of around 75 thousand barrels of oil equivalent per day (kboepd). It has been frustrating that, despite new production during the year, the portfolio also suffered from some operational issues which were largely beyond the company's control. Save for a short period towards the end of the year we did not exceed our target. The specific issues we faced however have been resolved, we have learned the lesson of not planning for the unexpected and have adjusted our expectations accordingly for the future.

We now look forward to the future production growth that our portfolio is capable of delivering and anticipate excellent rates of return from our key new projects. Four fields are due on-stream in 2014 and solid progress was made during the year on our longer-term developments – Catcher, Bream and Sea Lion. The Solan field is scheduled to come on-stream in the fourth quarter of this year, we expect to pass final government sanction on Catcher shortly, and to be close to sanction on Sea Lion by the end of the year.

Our exploration programme in 2013 was successful with six discoveries out of seven wells drilled. The Luno II discovery in Norway is of particular note, with follow-on drilling expected in 2014. We also had success with near-field discoveries in Indonesia, Pakistan and the UK. We were pleased to be awarded three blocks in Brazil in the 11th Licensing Round which are in proven plays, but relatively under-explored, and we continue to seek early stage exploration acreage to add to the portfolio. In 2014 and 2015 we particularly look forward to the results of our drilling in Indonesia, Norway, Kenya, and a four well programme in the Falkland Islands.

Rationalisation of the portfolio has become a key focus for Premier this year. During 2013 we realised value for undeveloped assets in Norway and Vietnam and this programme will continue into 2014. The group also raised some US$700 million of new debt financing in the fourth quarter on very favourable terms and we go into a re-financing of our main bank facility later this year in a strong position. The combination of options in our asset portfolio and continuing access to debt capital markets gives us significant flexibility to manage our financial position on a prudent basis.

Health, safety and environmental matters continue to be of paramount importance to us. Our production operations management systems at Balmoral in the UK, and at Anoa and Gajah Baru in Indonesia retained their OHSAS 18001 and ISO 14001 certifications, as did our worldwide drilling management systems. We reiterate our commitment to protecting our people, our assets, our revenues and our reputation through maintaining the highest possible standards. We continue to be a member of the FTSE4Good Index in recognition of our health, safety, environmental and social performance.

Future plans

In 12 months time I intend to be able to report further continued progress across the portfolio: growth in operating cash flow; start-up of the Pelikan, Naga, Dua and Solan fields as planned; sanction of the Catcher project and commencement of facility construction; significant progress in the front-end engineering and design (FEED) studies for Sea Lion; realisation of value from our disposal programme; further success in our exploration drilling endeavours; the addition of acreage to the portfolio and that our health, safety and environment (HSE) record is acceptable to us and our regulators. Members of the Board, including the non-executives, have had frequent direct contact with our leading shareholders during the last few months and I am confident that the plans we have in place are strongly supported.

Board personnel

An immediate priority for the Board is the recruitment of a Chief Executive following the announcement in February 2014 of Simon Lockett's intention to step down from the position. We are grateful to Simon for agreeing to ensure a smooth transition by remaining in post until a successor is appointed and we thank him for devoting so much energy, dedication and spirit to the role. During Simon's tenure the business has grown significantly in production, reserves and resources and operating cash flow and we wish him well in future endeavours.

CHAIRMAN'S STATEMENT / (continued)

In July, we were very sad to announce the death of Professor David Roberts. He had contributed enormously to the Board during his seven years with us, by application of his extensive industry experience and knowledge. Professor Roberts' passing deprived the Board particularly of expertise and skills in the field of exploration. In January 2014, we were able to announce the expected addition to the Board in May of David Bamford, who brings considerable experience in technical and exploration roles at operational and Board level. We also announced the arrival of Anne Marie Cannon as a new Non-Executive Director. Anne Marie brings over 30 years experience in senior and Board level roles as an adviser and executive in the sector. We welcome both David and Anne Marie to the Board.

Shareholder returns

Our objective remains to deliver consistent, measurable capital growth to our shareholders, with exposure to additional returns from a disciplined investment in exploration. Premier's share price fell by seven per cent overall during the year which although disappointing represented an outperformance relative to many of our peers. Over the five years prior to the end of 2013 the overall return to shareholders stands at 58 per cent. We are of course keen to see this performance improve going forward.

In 2012, our confidence in our growing cash flows was reflected in the proposed dividend which was approved at the Annual General Meeting (AGM) in June 2013. We said at the time that future payouts would depend on the progression of cash flows over time and our capital requirements for our projects. I am pleased that the Board is again proposing a dividend for 2013, of 5 pence per share, to be approved by shareholders at the May 2014 AGM. We are also intending to initiate a share buyback programme, reflecting the significant gap between our share price and underlying asset value. This programme will be reviewed on a quarterly basis by the Board.

On behalf of the Board as well as myself, I would like to express my appreciation of the continued hard work and dedication of Premier's staff, all of whom are also shareholders and share the disappointment of a depressed share price that does not reflect the underlying value of the company, but who continue to inspire us with their enthusiasm and commitment.

Mike Welton
Chairman

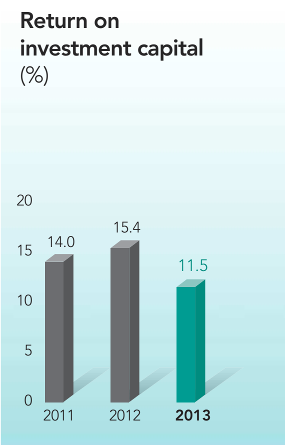
CHIEF EXECUTIVE'S REVIEW

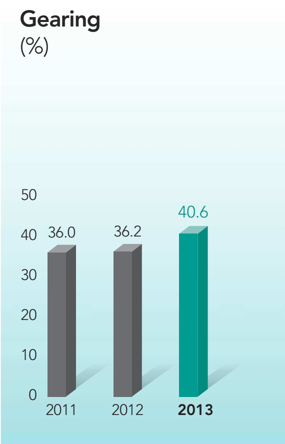
Creating strong returns

"As our asset portfolio grows, we are developing the project execution and production operations skills to ensure that our projects can be delivered successfully and in a cost effective manner."

Simon Lockett

Chief Executive





Strategy and Business Model

Our strategy is to grow shareholder value through investment in high quality oil and gas projects within a disciplined financial framework. We seek to maintain the highest standards of corporate responsibility.

We look to identify and develop projects where we can realise superior returns. We have a track record of robust returns on investment.

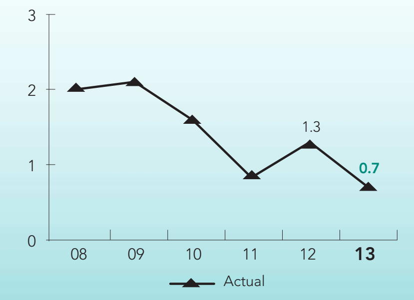
Through recent successful developments such as Chim Sáo in Vietnam and Gajah Baru in Indonesia, we have grown the confidence and capability to take on complex operated development projects, typically offshore and utilising floating production systems. As our asset portfolio grows, we are developing the project execution and production operations skills to ensure that our projects can be delivered successfully and in a cost effective manner.

To underpin the longer-term value of the business we explore for oil and gas in both our historical areas of operation and in emerging basins that offer the potential for material upside. We target basins with rift and frontal fold belt structures in which we can draw on the expertise we have gained finding oil and gas in these types of basins in Indonesia, the North Sea and Pakistan.

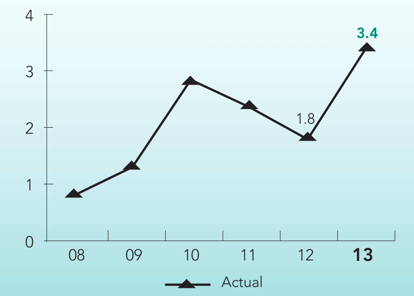
Our disciplined financial framework is designed to maintain a sound balance sheet and strong funding position. We plan our business on a conservative base oil price (currently US$85/bbl ('real')), ensuring that we maintain adequate covenant headroom and gearing levels that are well within a Board guideline maximum of 50 per cent. We continually seek to high-grade our asset portfolio including disposing of assets that are no longer core and by selectively making acquisitions where we believe our position is advantaged. Through this approach to portfolio management we can focus the efforts of our people, drive cash flow growth, and manage our risk exposure.

CHIEF EXECUTIVE'S REVIEW / (continued)

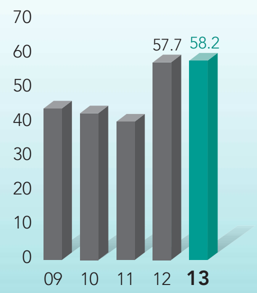
High potential incident (HIPO) frequency
per million man-hours



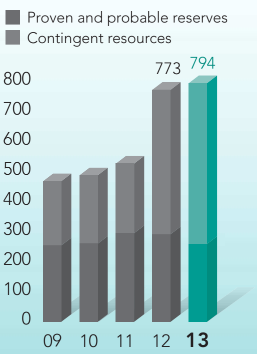
Total recordable injuries rate (TRIR)
per million man-hours



Working interest production
(kboepd)



Reserves and resources
(mmboe)



Our combination of robust cash generation and conservative financing approach means that we benefit from excellent access to debt markets and continuing strong market appetite from debt investors.

In summary, we are pleased to continue to offer our shareholders the opportunity to benefit from sustained distributions, value growth within a disciplined financial framework, and the potential for upside from selective exposure to the most promising exploration plays.

Key Performance Indicators

Premier measures its performance in line with its strategic objectives of growing the value of the underlying assets of the business and creating significant returns for shareholders. Specifically, key performance indicators (KPIs) are used to measure progress against agreed targets in the areas of safety, production performance, growth in reserves and resources and the maintenance of financial strength. These KPIs also link to senior management's remuneration.

Operating safely

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

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

In 2013, Premier achieved a TRIR performance of 3.4 per million man-hours (2012: 1.8). Despite a weaker performance relative to last year, the majority of recordable incidents were of a minor nature. The total number of man-hours increased from 6 million hours in 2012 to 12 million in 2013. Premier continues to focus on health and safety procedures and standards, provide frequent training and ongoing communication to employees and contractors.

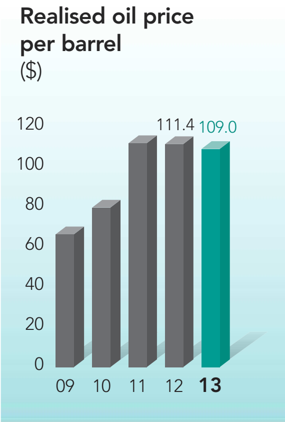
Premier's HIPO performance improved in 2013, reaching its lowest level over the last six years and well within the target of 1.5 HIPOs per million man-hours. Premier continues to ensure that key lessons are learned and disseminated for all HIPOs and company-wide Safety Alerts are issued, citing key causes and preventative actions required.

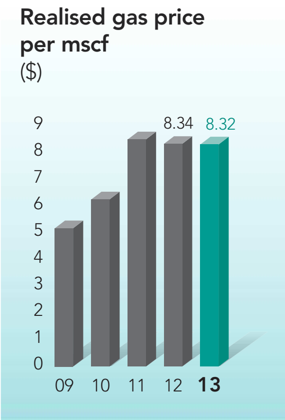
Building the strong production base

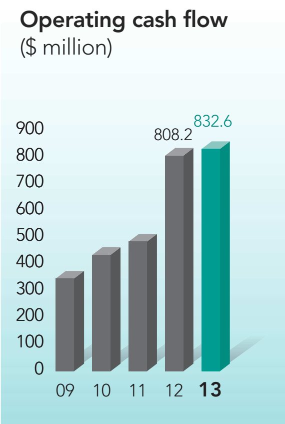
One of the metrics by which Premier's growth performance is measured is by the compound annual growth rate in net asset value (NAV) per share. Premier targets and, over the eight-year period to end-2013, has achieved a 10 per cent growth in NAV per share per year.

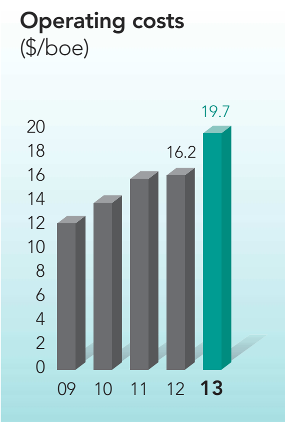
Premier also aims to build on its existing production base in order to sustain and continue to deliver growth. This is measured using daily average production and the number of development projects being brought through to sanction. Average daily production in 2013 was 58.2 kboepd. 2013 achieved first oil and gas from the UK North Sea fields Huntington and Rochelle. Premier is targeting average production of 58-63 kboepd for 2014.

Premier's production goal is underpinned by the pipeline of development projects being progressed across the portfolio, and the ability to commercialise and bring on-stream these projects is key to the company's success. In 2013, Premier completed the Anoa Phase 4 compression project and progressed the recently sanctioned Solan, Pelikan, Naga and Dua projects towards first oil and gas in 2014. Premier also progressed the Catcher project towards sanction this year.









Delivering growth

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

Premier also undertakes acquisitions to access additional resources. In 2013, the company increased its stake in the Bream project in Norway and in two licences situated in the North Falkland Basin which include the Isobel/Elaine and Jayne East prospects. More recently the company farmed into Block 2B, onshore Kenya. A successful year in exploration also added to Premier's reserve and resource base. Notable successes included the Luno II and Bonneville discoveries in the North Sea, the gas discovery at Matang in Indonesia, and the Kadanwari-32 well in Pakistan.

Reserves and resources increased to 794 mmboe (2012: 773 mmboe). In addition, 2013 saw Premier add approximately 72 mmboe of contingent resources and in excess of 207 million barrels of unrisked prospective resources to its portfolio.

Premier added reserves and resources through exploration at a pre-tax finding cost of US$5.3/barrel (bbl) during 2013.

Maintaining financial strength

A key strategic objective of the group is to maintain financial strength in order to invest in the future of the business and deliver significant returns to shareholders. Despite production constraints at the Huntington and Chim Sáo fields the company registered a strong profit after tax of US$234.0 million (2012: US$252.0 million). The operating cash flow of the company in 2013 was US$832.6 million (2012: US$808.2 million).

Premier's portfolio of crudes was sold at an average of US$109.0/bbl (2012: US$111.4 bbl). Realised average gas prices, a significant portion of which tracks oil price movement, achieved US$8.32 thousand standard cubic feet (mscf) in 2013 (2012: US$8.34/mscf).

Operating costs per barrel of oil equivalent (boe) rose to US$19.7 in 2013 (2012: US$16.2/boe). Rising cash flows, along with successful bank and bond market transactions, provide Premier with the funding required for future growth. Ability to add new capital and sufficient covenant headroom are monitored closely to ensure that the company has the funds to meet forecast cash requirements and maintain liquidity throughout the cycle.

CHIEF EXECUTIVE'S REVIEW / (continued)

Our operations

In 2013, we saw good performance across the portfolio, offset by some significant operational issues which held back short-term growth.

	Working interest		Entitlement	
Production (boepd)	**2013**	2012	**2013**	2012
Indonesia	**13,700**	14,200	**8,800**	8,800
Pakistan	**14,900**	15,600	**14,900**	15,600
Mauritania	**600**	600	**400**	500
UK	**14,900**	12,100	**14,900**	12,100
Vietnam	**14,100**	15,200	**13,400**	14,600
Total	**58,200**	57,700	**52,400**	51,600

In the UK, good production continued from the Wytch Farm, Scott and Telford fields. Production from the Balmoral area was impacted by a temporary shutdown of the facility and the shut-in of five wells on the Balmoral field for maintenance. The non-operated Huntington field began producing in April but was restricted due to start-up problems with the gas compression system, issues with the gas detection system and operational issues on the gas export pipeline. These issues have been resolved and Huntington achieved rates of up to 35 kboepd (gross) from December onwards. The Rochelle field was brought on-stream in October following earlier storm damage to the East Rochelle well. The Kyle field continues to await reinstatement of the production facilities scheduled for September 2014.

The Premier-operated Chim Sáo field in Vietnam produced strongly for the first half of the year. Gas export was interrupted in August following third party damage to the pipeline forcing a curtailment of oil production. The pipeline was rapidly repaired and production returned to normal levels in November. Demand for Premier's Indonesian gas in the Singapore market remained buoyant and our Anoa and Gajah Baru platforms achieved record rates of production. The contractual share for the Natuna Sea Block A was again increased and overall Premier-operated facilities contributed 52 per cent of the gas delivered to Singapore through the West Natuna Transportation System (WNTS) pipeline.

In Pakistan, production fell as expected as natural field decline at the Zamzama, Bhit and Qadirpur fields was partially offset by increased production at Kadanwari.

Material progress was made on our development projects during 2013. In Indonesia, fabrication and installation of the Pelikan and Naga facilities were completed. Development drilling will start in the second quarter of 2014 and first gas from both is expected in the second half. In Vietnam, the subsea structures and other equipment for tying Dua back to the Chim Sáo FPSO were completed and installed and first oil is planned for mid-2014, following the development drilling programme.

In the UK, the construction of the jacket, topsides and tank for the Solan project continued during 2013. To achieve the target of first oil in the fourth quarter of this year, it will be necessary to complete the installation during the available summer weather window in the West of Shetlands. The Catcher project reached the point of sanction and contract award, both of which are imminent. In the Falkland Islands, the Sea Lion project passed through concept selection at the end of the year and is now entering the FEED phase.

Premier had a strong year of exploration drilling with six discoveries out of seven wells. We were particularly pleased with the results from the Luno II well in Norway, and we also had near-field discoveries in Indonesia, Pakistan and the UK. We continued to pursue acreage in under-explored areas and were delighted with the award of three blocks in proven basins in Brazil's 11th Licensing Round. 13 firm wells are planned for our 2014 exploration programme and we are particularly looking forward to results from drilling in Indonesia in the first half of the year, with campaigns in Norway and the Falkland Islands to follow.

During 2013 we divested our equity interests in Block 07/03 in Vietnam (containing the Cá Rồng Đỏ discovery that we made in 2009) and in licence PL378 in Norway (containing the Grosbeak discovery that we made in 2009). We also relinquished various exploration licences in the UK North Sea, so as to be better able to focus our capital on our best prospects. We will continue our programme of asset disposals during 2014.

As at 31 December 2013 proven and probable (2P) reserves, on a working interest basis, were 259 mmboe (2012: 292 mmboe). Increased resource estimates in the Falkland Islands, and discoveries at Luno II in Norway and Matang in Indonesia have boosted resources so we ended the year with 794 mmboe, up from 773 mmboe one year earlier.

	Proven and probable (2P) reserves (mmboe)	**2P reserves and 2C contingent resources (mmboe)**
1 January 2013	292	773
Production	(21)	(21)
Net additions, revisions and disposals	(12)	42
31 December 2013	**259**	**794**

Simon Lockett
Chief Executive

BUSINESS UNIT REVIEW

Falkland Islands

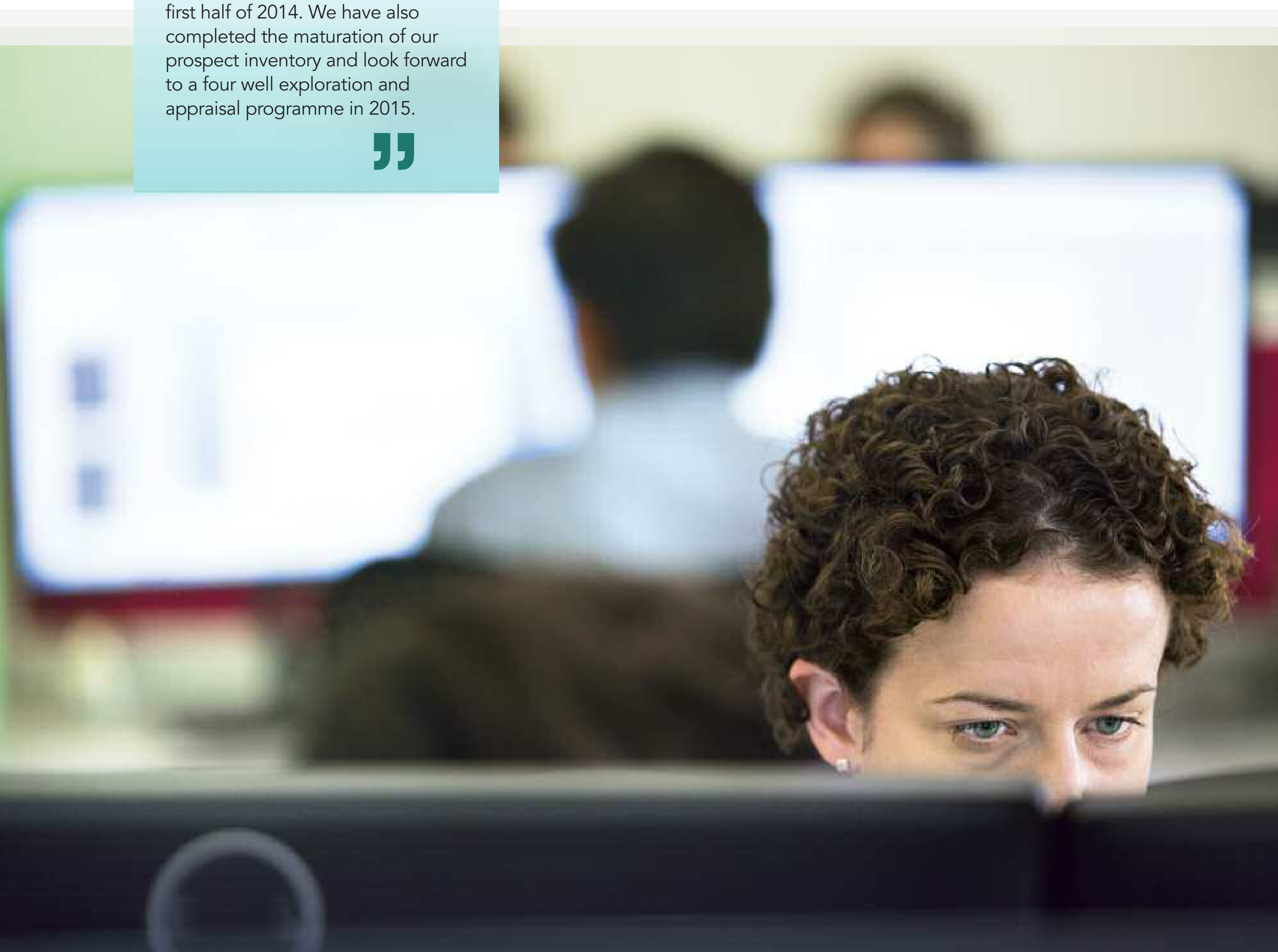
High return project

EXTENSIVE CONCEPTUAL ENGINEERING AND DESIGN WORK WAS UNDERTAKEN ON THE SEA LION PROJECT THROUGHOUT THE YEAR. A revised development scheme involving a tension leg platform (TLP) development was found to offer a number of advantages over the previous new build FPSO scheme and the TLP scheme was chosen to be progressed through FEED during 2014. Premier is targeting project sanction for the first phase of the development in 2015. Plans for an exploration campaign, expected to commence in 2015, were progressed on the basis of a rig share with other operators.

Highlights and achievements /

- Concept selection achieved: a TLP was found to offer a more robust and lower cost development scheme than a new build FPSO scheme
- Prospect inventory matured
- Exposure to exploration upside increased and ownership interest in the three licence blocks aligned

“**We are delighted to have achieved concept selection** on the Sea Lion project and plan to award FEED contracts in the first half of 2014. We have also completed the maturation of our prospect inventory and look forward to a four well exploration and appraisal programme in 2015.”



DEVELOPMENT //

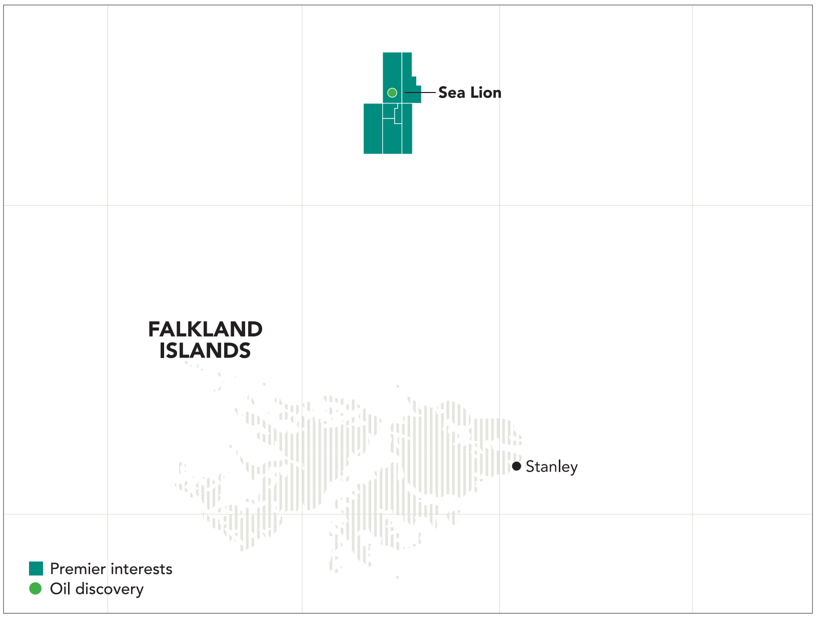
During the year the project team, in conjunction with consulting engineering companies, progressed a comprehensive set of studies as part of the concept selection phase to define the development plan. These studies included detailed work in areas such as metocean studies, facilities design (including turret design and topsides layout), flow assurance methodologies, subsea equipment layout and installation methods, reservoir studies and drilling trajectories.

A phased approach to development was selected. It is envisaged that an initial northern development recovering 293 million barrels (mmbbls) from Sea Lion using 32 wells, will be followed by a southern area development tied back to the host facilities to recover the remaining reserves. The second phase of development will be optimised to incorporate any additional exploration or appraisal success.

A development concept involving a TLP with an integral drilling rig was selected as it offers a more robust and lower cost development scheme than a new build FPSO-based scheme. Work is now ongoing to optimise the design specifications for the TLP scheme and to prepare the documentation for FEED which is expected to begin in the second quarter of 2014. A draft field development plan (FDP) will be submitted by the end of 2014 and project sanction is expected in 2015.

Given Premier's current 60 per cent level of equity in the development, a decision has been taken to seek a suitable partner for the project.

Neil Hawkings
Director, Falkland Islands



BUSINESS UNIT REVIEW / Falkland Islands (continued)

EXPLORATION //

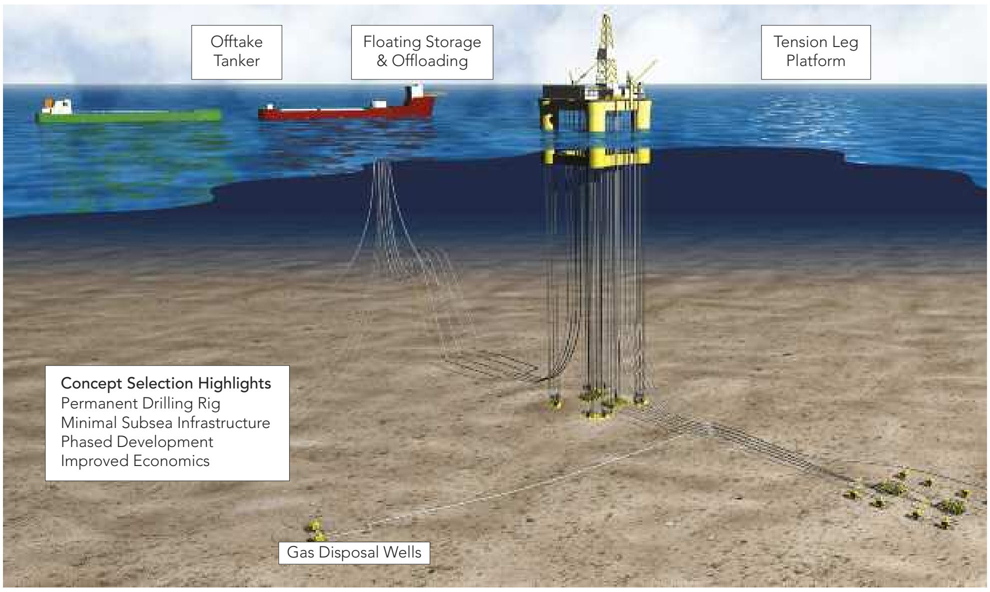
The prospect inventory has been matured in collaboration with partners, resulting in a planned exploration programme of four wells with multiple stacked targets. The programme will include a well to confirm the presence of a gas cap in the west of Sea Lion. Premier is working to participate in a multi-operator drilling programme starting in 2015. A rig tender has been issued to the market and bids are being evaluated.

In October, Premier and Rockhopper announced they had signed a Heads of Agreement with Falkland Oil and Gas Ltd (FOGL) to farm-in to licences PL004a and PL004c, which are adjacent to the Sea Lion development and include the Isobel/Elaine and Jayne East prospects. The transaction, which is due to complete in the first quarter of 2014, will result in the increase of Premier's equity in both licences to 36 per cent and assumption of operatorship.

Outlook /

- Progress detailed engineering studies and farm down process
- Final project sanction targeted for 2015
- Exploration of the remaining potential of the North Falkland Basin

SEA LION PHASE 1 DEVELOPMENT – TLP



BUSINESS UNIT REVIEW

Indonesia

Building on our strong gas market share in Singapore

IN 2013, PREMIER CONTINUED TO INCREASE GAS DELIVERABILITY FROM ITS NATUNA SEA FACILITIES FOLLOWING THE SUCCESSFUL COMPLETION OF THE ANOA PHASE 4 COMPRESSION PROJECT. The Pelikan and Naga projects were progressed towards first gas in 2014. Exploration planning work also continued in preparation for the arrival of two drilling rigs in the first quarter of 2014. One rig will be devoted to drilling on the Natuna Sea Block A Production Sharing Contract (PSC) and the second will drill two exploration wells on the Tuna PSC.

"**Deliverability in 2013 remained strong with both Anoa and Gajah Baru achieving record production rates.** We look forward to bringing on-stream Pelikan and Naga in 2014 and continuing to build our capacity to deliver gas into Singapore."

Highlights and achievements /

- Natuna Sea Block A's contractual share of Gas Sales Agreement (GSA) 1 increased to 39.4 per cent
- Anoa Phase 4 successfully completed; adding 15 per cent export capacity
- Average price of $17/mscf achieved (GSA1)
- Gas discovery at Matang

BUSINESS UNIT REVIEW / Indonesia (continued)

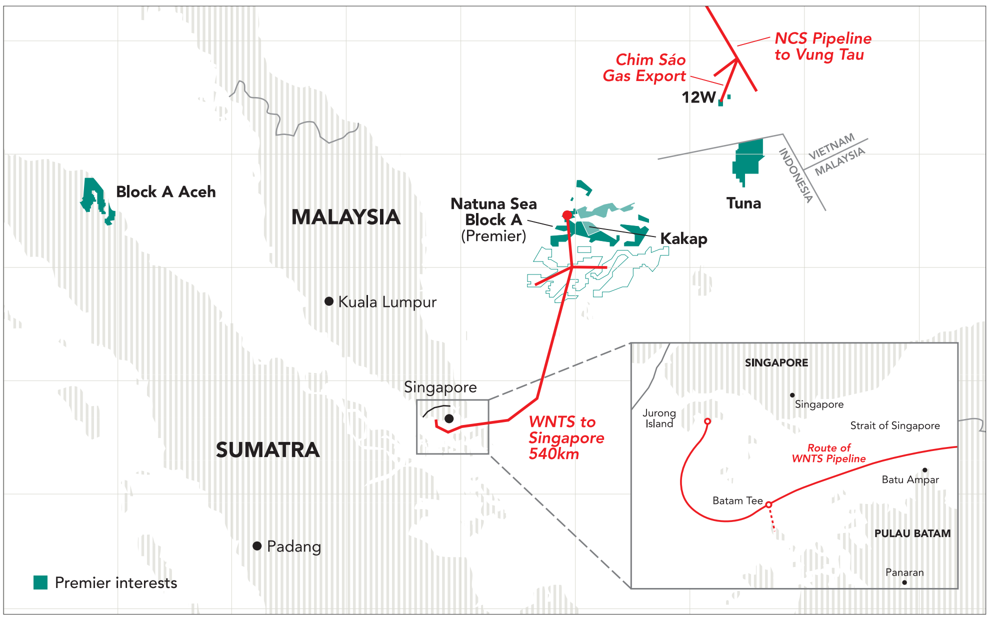
PRODUCTION AND DEVELOPMENT //

Singapore demand remained robust during the year, despite the arrival of LNG imports, at well above minimum contract volumes. The Premier-operated Natuna Sea Block A sold an average of 208 billion British thermal units per day (BBtud) (gross) (2012: 217 BBtud) from its gas export facilities. The non-operated Kakap Block contributed gas sales of a further 34 BBtud (gross) (2012: 33 BBtud). Gross liquids production from the Block A Anoa field averaged 1,700 barrels of oil per day (bopd) (2012: 2,400 bopd) and 3,700 bopd from Kakap (2012: 3,500 bopd). Overall, net production from Indonesia in 2013, on a working interest basis, was 13,700 barrels of oil equivalent per day (boepd) (2012: 14,200 boepd) and Premier-operated facilities provided the majority (52 per cent) of the gas supplied to Singapore through the WNTS pipeline.

Despite a necessary shutdown for the final completion of Anoa Phase 4, production performance for the year remained strong. The Anoa field averaged 126 BBtud (gross) (2012: 144 BBtud) capturing 39.9 per cent of GSA 1 supply against a contractual share of 36.9 per cent. The contractual share for Natuna Sea Block A for 2014 has now been increased to 39.4 per cent of GSA1. Sales from Gajah Baru, which are dedicated to GSA2, averaged 81 BBtud (gross) (2012: 72 BBtud). Both the Gajah Baru and Anoa platforms each achieved record peak production rates in excess of 200 BBtud.

The fabrication and installation of the Pelikan and Naga projects progressed well during the year. The two gas fields will maintain the profiles of GSA1 and GSA2 with 150 billion cubic feet (bcf) of reserves. Onshore fabrication of both the Pelikan and Naga wellhead platforms was completed on time and within budget and the facilities were loaded out and installed in the third quarter. Planning for the development drilling campaign is now far advanced. First gas from both fields is expected in the second half of 2014.

The Phase 4 brownfield project to upgrade the Anoa gas production facility and add 15 per cent export capacity was successfully completed, tested and brought into service within budget in the third quarter. Over its service life this compression project will deliver up to 200 bcf of reserves from the Anoa field into Singapore.



On the non-operated Block A Aceh, the operator continued to progress the gas development project. All engineering, procurement, construction and installation (EPCI) bids for the facilities are now in place and an in-principle agreement reached on a revised gas price with the end user and the Indonesian government. The success of the Matang-1 well, which discovered gas in April 2013, caused the joint venture to consider the potential for alternative development scenarios. Premier will seek to dispose of its interest in Block A Aceh in 2014.

Roberto Lorato
President
Premier Oil Indonesia

EXPLORATION AND APPRAISAL //

In 2012, the Anoa WL-5X exploration well flowed 17 million standard cubic feet per day (mmscfd) of gas from the deep fractured sands of the Lama formation beneath the Anoa field on Natuna Sea Block A. The well opened up a new play in the West Natuna area and in 2013 a number of Lama formation prospects have been developed. Premier plans to drill the first of these prospects with the Ratu Gajah exploration well which will spud in the first quarter of 2014. Anoa WL-5X will be followed up in late 2014 or early 2015 with the nearby Anoa West-1 Lama appraisal/development well. Premier continues to mature additional Lama prospects in the area for drilling in 2015 and beyond.

The Matang-1 exploration well on Block A Aceh reached total depth on 21 March 2013 and penetrated over 90 feet into a gas accumulation at the top of the Bampo Limestone formation. The well was subsequently tested and flowed gas at commercial rates of 25 mmscfd. The gas is relatively sweet and lean compared to the gas found in the surrounding fields in Block A Aceh. The gross resource estimate for the Matang structure remains in line with the pre-drill estimate of 100 to 400 bcf. The joint venture is currently planning an appraisal well on Matang in 2015.

In 2013, Premier prepared for oil exploration drilling in Kuda Laut and Singa Laut, two adjacent prospects in the Premier-operated Tuna PSC. The Kuda Laut-1 well, which will drill through Miocene sands within a four-way dip closure, is scheduled to spud in the first quarter of 2014. The well will then be side-tracked to Singa Laut to drill an adjoining three-way dip closed structure with sandstone reservoirs in both the lower Miocene and Oligocene sections.

Outlook /

- Pelikan and Naga due on-stream in 2014
- Kuda Laut and Singa Laut to be drilled in 2014
- Two wells targeting the deeper Lama play planned in 2014

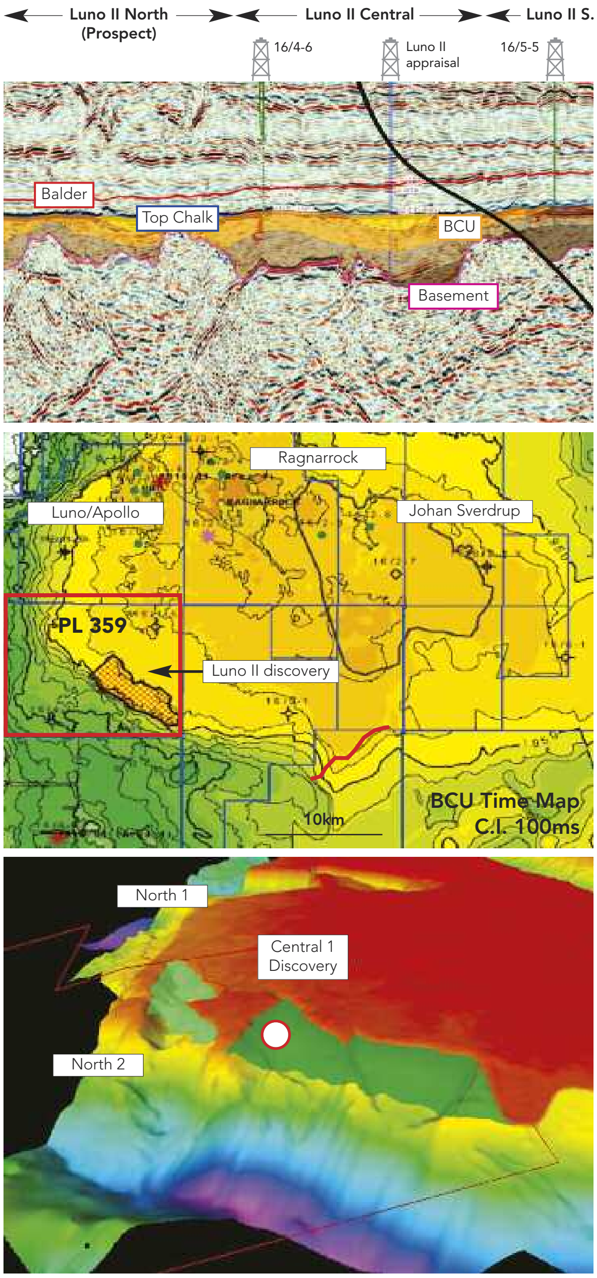
BUSINESS UNIT REVIEW

Norway

Continued active exploration

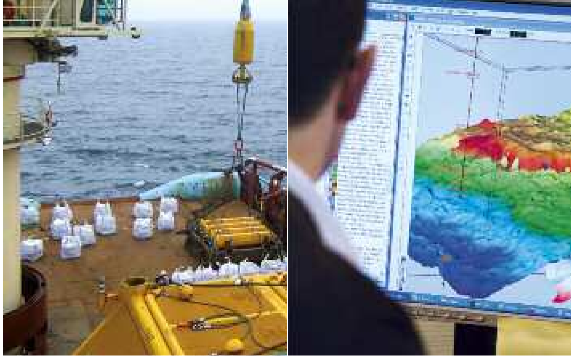
PREMIER CONTINUED TO PROGRESS THE DEVELOPMENT OF THE BREAM PROJECT TOWARDS SANCTION FOLLOWING THE TRANSFER OF OPERATORSHIP. The company also continued to build on its position on the emerging Mandal High play through the award of two operated licences in the Award in Pre-defined Areas (APA) 2013 Licensing Round. Prospect maturation of the Myrhauk well, which will be Premier's first test of the play, is progressing to schedule and drilling is expected to commence late 2014, or early 2015.

> "We look forward to Premier's first test of the Mandal High, where we have built up a strong acreage position, as well as to the Premier-operated Bream project progressing towards sanction decision."



Highlights and achievements /

- Acquired operatorship of the Bream project
- Significant oil discovery at Luno II on the south west margin of the Utsira High
- Profitable sale of the Grosbeak discovery
- Built on acreage position around Mandal High with rig secured for 2014/2015 drilling



DEVELOPMENT //

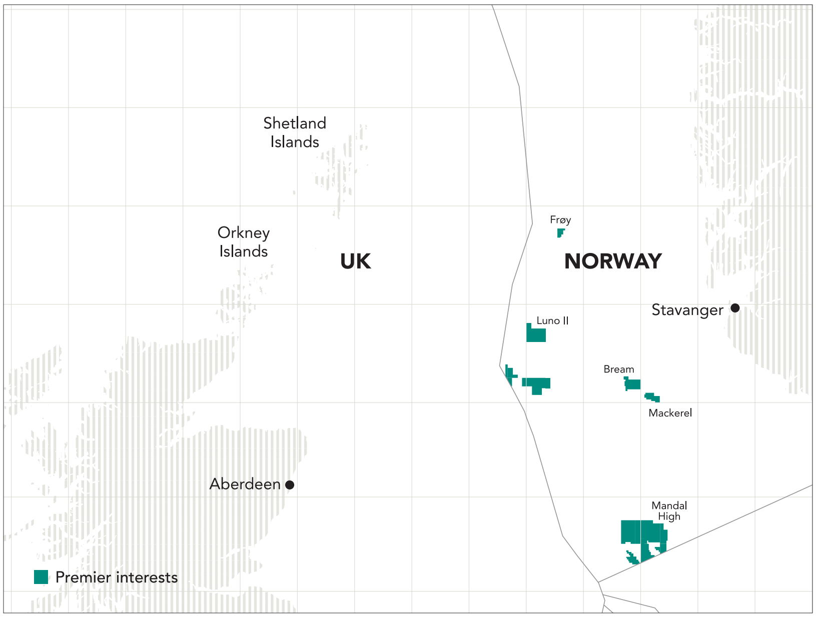
Commercialising and gaining control of the Bream project was a key focus during 2013, with Premier taking over operatorship of the field development via the purchase of an additional 10 per cent equity in licence PL407 in July. A second parallel transaction was also agreed which facilitated equity alignment between PL407 and the adjacent Premier-operated PL406, which contains the Mackerel discovery. The equity alignment of these two joint ventures simplifies the development of Bream and the tie-back of the Mackerel field as a single integrated project. The transactions were completed and operatorship formally transferred in December.

A formal concept selection decision will now take place during the first quarter of 2014 and an investment decision is planned for late 2014, or early 2015.

The Bream development concept is planned to be a FPSO with subsea production and water injection wells. The Mackerel development will be a 17 km subsea tie-back to the Bream facilities. An exploration well on the adjacent Herring prospect is planned during the development phase and, if successful, would contribute additional resources to the overall project.

Work continued on the non-operated Frøy field to identify a viable development concept. Technical studies for a joint processing hub involving other fields in the area were completed during the first half of the year. Commercial discussions with other field owners and further subsurface and facilities studies continue regarding identified options.

Nic Braley
Business Unit Manager
Premier Oil Norway



BUSINESS UNIT REVIEW / Norway (continued)

EXPLORATION //

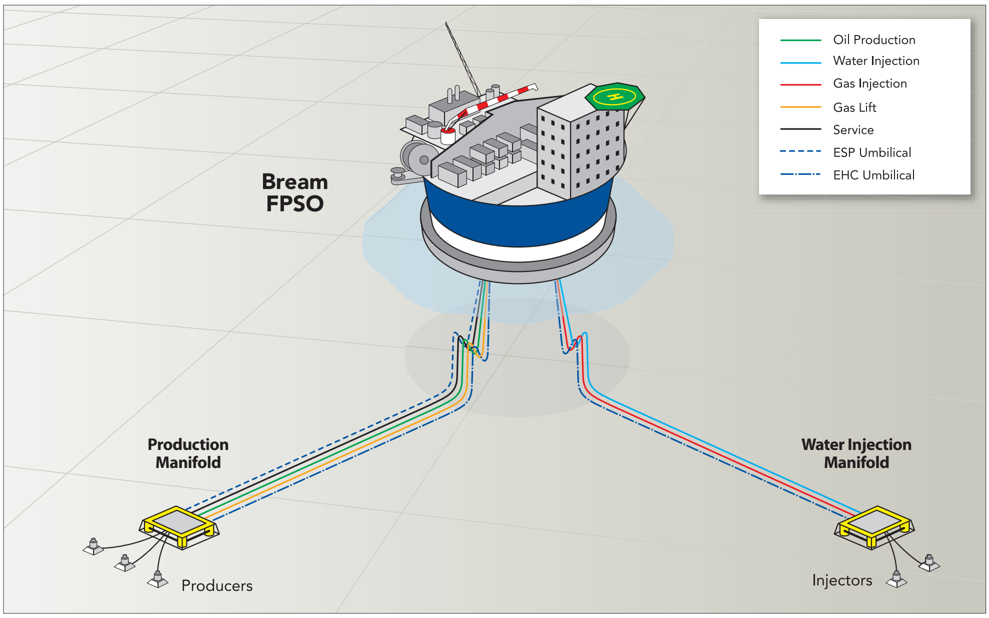
A significant discovery was made by the Luno II well on licence PL359 in May 2013. The production test achieved an average flow rate of 2,044 bopd of good quality (36 degrees API) crude oil through a 48/64 inch choke, with a gas to oil ratio of 1,012 standard cubic feet per barrel. The discovery will be appraised in 2014.

Premier continued to mature its operated position in and around the Mandal High area. A site survey was obtained and a drilling rig contracted for the Myrhauk prospect with a spud date planned for the end of 2014 or early 2015. Building on regional knowledge and extensive datasets covering the Mandal High, Premier applied for, and was awarded, two new operated licences (PL725 and PL726) under the APA 2013 Licensing Round. The two new blocks are an eastern extension of the Upper and Middle Jurassic Mandal High plays and contain large stratigraphic traps that will be further evaluated using re-processed seismic data. Both blocks were secured on a two-year drill or drop option.

As part of Premier's ongoing portfolio management, licences PL378 and PL378B, which contain the Grosbeak discovery and a potential extension of the Skarfjell discovery, were sold to Capricorn Norge, a wholly-owned subsidiary of Cairn Energy plc, for US$16.0 million in cash, at a profit of US$9.4 million.

Outlook /

- Bream project sanction decision expected by year-end
- Active exploration and appraisal programme planned including Premier's first test of the Mandal High
- Continued focus on portfolio management



BUSINESS UNIT REVIEW

Pakistan

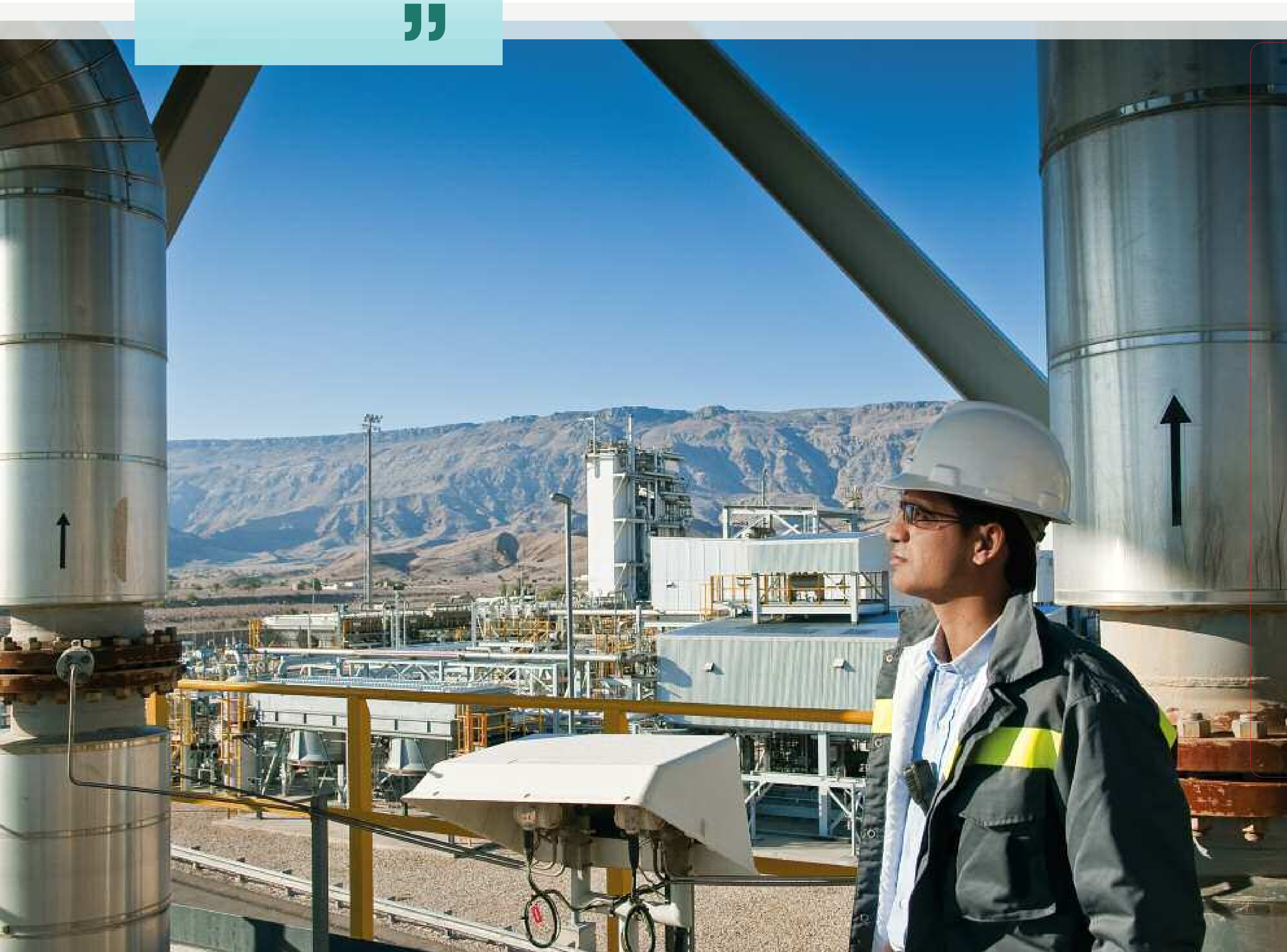
Near-field exploration successes

IN PAKISTAN, PREMIER HAD ITS EIGHTH CONSECUTIVE EXPLORATION AND APPRAISAL SUCCESS IN 2013 WHICH, IN CONJUNCTION WITH A SUCCESSFUL INFILL AND STEP-OUT PROGRAMME, CONTINUED TO SLOW THE NATURAL DECLINE OF OUR PRODUCING FIELDS. Five near-field exploration and appraisal wells are planned to be drilled in 2014.

“**Another successful year** with the drill bit has ensured that we continue to partially offset the natural decline of our producing fields in Pakistan, resulting in strong cash flows from the business unit.”

Highlights and achievements /

- Average production of 14.9 kboepd with 96 per cent uptime achieved
- Infill wells established new productive zones in our Badhra, Bhit and Kadanwari fields
- Seventh and eighth consecutive exploration and appraisal success in Pakistan



BUSINESS UNIT REVIEW / Pakistan (continued)

PRODUCTION AND DEVELOPMENT //

Average production in Pakistan during 2013 was 14,900 boepd net to Premier, around five per cent lower than in 2012 (15,600 boepd). Annual production uptime for the fields was 96 per cent.

Production from the Qadirpur gas field averaged 3,600 boepd net to Premier in 2013, a four per cent decline on the field's 2012 production (3,700 boepd). This was due in part to the natural decline of the field but also the shutdown of a power plant which resulted in increased flare gas and process losses. In a bid to maintain current production levels, two new large centrifugal compressors have been commissioned.

Production from the Kadanwari gas field averaged 2,900 boepd net to Premier during 2013, 11 per cent higher than 2012 (2,600 boepd). This year-on-year growth was a result of the successful restoration of the K-27 well, a full-year of production from the K-29 development well, which was tied-in to production at the end of 2012, and the K-32 well which came on-stream in July 2013.

The Zamzama gas field produced 5,100 boepd net to Premier during 2013 (2012: 5,800 boepd) as the field entered a phase of natural decline. The Zam-9 well was successfully tied-in at the end of January 2013. The field is currently producing around 4,000 boepd net to Premier.

Production from Bhit/Badhra gas fields averaged 3,300 boepd net to Premier during 2013, representing a seven per cent decline year-on-year (2012: 3,500 boepd), primarily driven by the natural decline in the Bhit gas field. This decline was partially offset by higher production from the new Badhra area B wells, and two subsequent development wells are planned in 2014. A compressor reconfiguration project is being considered to improve ultimate recovery and would consist of installing new compressors at Bhit and the relocation of up to three existing Bhit compressors to Badhra to maximise well deliverability.

Development of the Zarghun South gas field, in which Premier holds a 3.75 per cent working interest, continued through 2013. The laying of the gas pipeline is nearing completion and first gas remains on track for the third quarter of 2014 with an expected initial run rate of 20 mmscfd. All costs continue to be carried by the operator.

EXPLORATION AND APPRAISAL //

In March, Premier made a discovery with the K-32 well which was subsequently tied into the Kadanwari production facilities. The same play has also been found to extend into the recently drilled K-35 development well. The third tight gas pilot well, K-31H, was drilled horizontally into the targeted G-Sand, where six hydraulic fractures were carried out. Initial flow rates were encouraging and final tie-in is expected shortly. An exploration programme of two wells is scheduled for 2014, including the K-36 well which is currently drilling.

In May 2013, the BBN-2 well was spudded and the appraisal of the two new Mughalkot sand levels was successfully completed in October. The production test of the new sands achieved a commingled flow rate of 30 mmscfd through a 181/64 inch choke. In addition, gas has also flowed to surface from Parh Limestone in an open-hole test. Development of this gas will be carried out after a field study.

Mehran Inayat Mirza
Business Unit Manager
Premier Oil Pakistan

Outlook /

- Five exploration and appraisal wells planned for 2014
- Infill development programme ongoing
- Sanction of Bhit/Badhra compression reconfiguration project aimed at improving ultimate recovery

BUSINESS UNIT REVIEW

Mauritania

THE CHINGUETTI FIELD CONTINUES TO GENERATE POSITIVE CASH FLOW, AND EXPLORATION DRILLING IN THE AREA HAS RESUMED.

PRODUCTION AND DEVELOPMENT //

In Mauritania, 2013 working interest production from the Chinguetti field averaged 600 boepd (2012: 600 boepd).

The execution phase of the Banda development is proceeding following approval by the government of Mauritania of the FDP. Gas sales negotiations and arrangement of payment guarantees with prospective buyers are under way and bids for major components including the subsea production system, umbilical, pipeline and process plant have been received and are under evaluation. Project approval is expected by the second quarter of 2014.

Subsurface studies of Tevet were completed in May 2013 and a conditional declaration of commerciality was submitted to the government of Mauritania to develop, subject to market availability, the Tevet gas resources (69 bcf gross) through the Banda facilities.

EXPLORATION //

The Tapendar-1 well on licence PSC C-10, targeting the untapped deeper cretaceous potential, is expected to spud in March 2014, with the results of that well in the second quarter of 2014.

BUSINESS UNIT REVIEW

United Kingdom

Rising cash flows

RISING PRODUCTION FROM TWO NEW FIELDS, HUNTINGTON AND ROCHELLE, UNDERPINNED A STRONG RISE IN CASH FLOWS FOR THE UK BUSINESS UNIT. Development activity continues to focus on delivering the Solan project in the fourth quarter of 2014 and on progressing the Catcher development to project sanction. Premier also continued to add valuable resources to its UK North Sea portfolio from near-field exploration success at Bonneville.

Highlights and achievements /

- Production from UK fields averaged 14.9 kboepd, up 23 per cent
- Solan project progressed with tank, topsides and jacket over 80 per cent complete
- Catcher Field Development Plan submitted to DECC, project budget submitted to partners
- Continued exploration portfolio management through selective licence divestment

"In 2013 we brought two new fields on-stream, progressed the Premier-operated Solan and Catcher projects and enjoyed a successful exploration campaign. We look forward to rising cash flows underpinned by our new developments and a continued focus on optimising levels of operating efficiency."

BUSINESS UNIT REVIEW / United Kingdom (continued)

PRODUCTION //

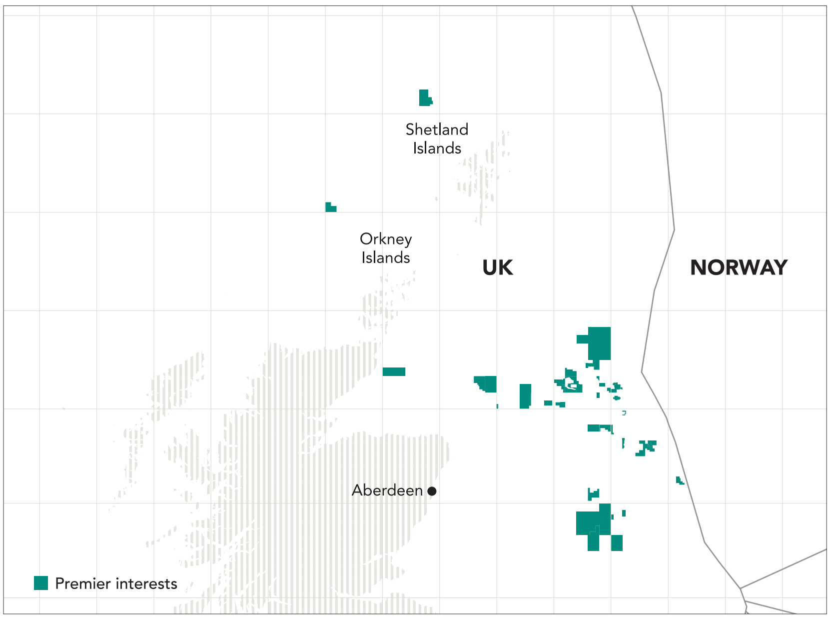
Production from Premier's UK fields increased to 14,900 boepd, compared to 12,100 boepd during 2012.

Strong production was achieved from the Wytch Farm field as a result of two new Frome wells being brought on-stream, the successful completion of several well workovers and the restart of water injection at Furzey Island. Operating efficiency from Wytch Farm also improved, averaging 87 per cent, up from 82 per cent for the same period last year. The Scott and Telford fields also performed above expectations due to improved operating efficiency and a successful well intervention programme.

Production from the Balmoral area was lower due to a temporary shutdown of the Balmoral floating production vessel (FPV) in April and the temporary shut-in of five Balmoral wells, the Stirling 20z well and the Brenda D3 well. In October, a diving support vessel was utilised for a successful repair of the subsea template to enable production to restart from Stirling 20z and two Balmoral wells (B3 and B5). A successful workover utilising a well intervention vessel enabled Brenda D3 to re-start in early December. Further well maintenance is planned for the second quarter of 2014.

The Kyle field remained shut-in during the year. The Banff FPSO, which handles Kyle production, was damaged during exceptionally bad weather at the end of 2011. Since then it has been off location while repairs are undertaken. Property damage and business interruption insurance claims have been settled to the value of US$55 million. The field reinstatement project has been sanctioned, with the field expected to restart production in the third quarter of 2014.

The non-operated Huntington development was successfully completed in April and production commenced via the Voyager Spirit FPSO. Initial production was restricted following start-up issues with the gas compression system and subsequent concerns with gas venting.



Both of these issues have since been resolved. A new power turbine was installed in August to address the vibration issues associated with the second compression train and the primary hydrocarbon blanketing system, which recycles gas from cargo tanks, was fully commissioned in August. However, production remained below capacity in the fourth quarter due to a gas export restriction imposed by the CATS gas export system operator. The restrictions were progressively lifted from November onwards and the field achieved a run rate of 35 kboepd (gross) in December.

On the non-operated Rochelle field, the West Rochelle well was successfully completed and tested in June. It was tied back to the Scott platform and commenced production in October. Rochelle achieved a peak daily spot production rate of 2,438 boepd (net to Premier) from the West Rochelle single producer. The second and final production well, E2, was successfully tied back to the Scott platform in January. During the restart of production a subsea construction isolation valve failed to open, preventing start-up and production from both East and West Rochelle wells. A diving support vessel is currently in the field, has opened the valve and production is expected to start imminently.

Mike Skitmore
Business Unit Manager
Premier Oil UK

DEVELOPMENT //

The Premier-operated Solan project, West of Shetland, is now well into the execution phase. Drilling of the four wells – two producers and two water injectors – commenced in April. Drilling operations have been suspended as planned between November and March during the severe winter period and the rig sublet elsewhere. A subsea storage tank is under construction in Dubai, with a target to sail away in mid-2014. Meanwhile construction of the topsides and jackets is progressing at Burntisland Fabricators in Fife to meet sail away and installation by the Thialf Heerema vessel in mid-2014. Hook up and commissioning is planned to be undertaken prior to the end of the summer weather window West of Shetlands ahead of first oil, scheduled for the fourth quarter of 2014. The field is expected to produce approximately 40 mmbbls gross (Premier equity 60 per cent) with an estimated initial production rate of 24 kbopd (gross) following ramp up.

Considerable progress has been achieved on the Premier-operated Catcher area project since the development concept (a subsea tie-back of the Catcher, Varadero and Burgman fields to a FPSO) was agreed in December 2012. Reservoir modelling has been completed and well locations and sequence have also been optimised. Tenders for the well systems, Christmas trees and a heavy duty jack-up rig were received in July and August and have been fully evaluated. It is envisaged that development drilling, which will entail the continuous drilling of up to 14 producers and eight water injectors, will commence in 2015 and continue beyond first oil. Subsea FEED for the Catcher area project has also been completed. Premier received the EPCI bids for the subsea facilities in October and bid evaluation is on schedule to meet the April 2014 target date for contract award. The funded tender process for the construction and operating contract for the FPSO is near to completion with final offers from the three FPSO contractors evaluated by a dedicated commercial team and a preferred bidder identified. A draft development work programme and budget has been issued to partners and the FDP submitted to DECC, initiating the process to target sanction in the second quarter of 2014. Capital expenditure for the field is estimated at US$2.2 billion including 30 per cent allowances and contingencies. Gross reserves under the initial development scheme are 92 mmboe. The development scheme makes provision for the tie-back of additional discoveries in the future.

BUSINESS UNIT REVIEW / United Kingdom (continued)

EXPLORATION //

Premier drilled two wells – the Bonneville exploration well and the Lacewing exploration well – in the UK Central North Sea in 2013. Both wells were plugged and abandoned as hydrocarbon discoveries.

The Bonneville well (28/9a-6) and its sidetrack (28/9a-6z), which were drilled in April, discovered oil in excellent quality reservoirs with average porosities of approximately 30 per cent. Initial sampling indicated that the oil quality is similar to that established at the nearby Burgman discovery which was 25 degrees API. The estimated oil in place from the Bonneville discoveries is approximately 30 mmbbls, in line with pre-drill predictions.

The high pressure, high temperature Lacewing exploration well (23/22b-6Z), which spudded in June, encountered a gas column in excess of 100 feet in the Triassic reservoir. Premier managed its capital exposure to this opportunity by farming down prior to drilling in return for a partial carry on the well.

Premier continued its portfolio upgrading through the relinquishment of a number of exploration licences in the UK North Sea during the first six months of the year. This included selective acreage in the Moray Firth and exploration licences to the West of the Orkney Islands.

In August 2013, Premier successfully farmed-in for a 37.5 per cent interest in blocks 13/24c and 13/25, which contain the Bagpuss and Blofeld prospects. The prospects, which Premier evaluates to be heavy oil targets, are located on the Halibut Horst which is a well-defined basement high within the Moray Firth. A well was drilled in 1981 on the Bagpuss prospect. Internal subsequent analysis of the well result suggests that the Bagpuss and Blofeld prospect together could contain around 1 billion barrels of oil in place. It is envisaged that an initial well on one of these features will spud in 2015.

Outlook /

- Catcher project sanction targeted for the second quarter of 2014
- First oil from Solan scheduled for the fourth quarter of 2014
- Current disposal programme of non-core assets
- Exploration reduced to a smaller number of key wells

BUSINESS UNIT REVIEW

Vietnam

Optimising Chim Sáo production

CHIM SÁO ACHIEVED THE MILESTONES OF US$2 BILLION OF OIL REVENUES AND 20 MMBBLS OF OIL PRODUCTION, JUST OVER TWO YEARS AFTER FIRST OIL.
To improve further the operational efficiency of Chim Sáo a number of field upgrades are being undertaken. Simultaneously the Dua project continues to progress with first oil expected later this year.

“In Vietnam, we continue to focus on optimising production from the Chim Sáo field. We also look forward to our hard work on the Premier-operated Dua project coming to fruition with the development expected on-stream in 2014.”

Highlights and achievements /

- Chim Sáo surpassed the milestone of US$2 billion of oil revenues and 20 million barrels of oil production in 2013
- Oil sold at premium to Brent
- Subsea equipment installed at Dua and tied back to FPSO

BUSINESS UNIT REVIEW / Vietnam (continued)

Phil MacLaurin
Business Unit Manager
Premier Oil Vietnam

PRODUCTION AND DEVELOPMENT //

Production from the Chim Sáo oil field in Block 12W averaged 12.5 kbopd and 7.7 mmscf/d of gas net to Premier in 2013. Following damage to the gas export pipeline by a third party in late August, oil production was cut to reduce gas being flared. The pipeline was reinstated for gas export in November and production has since returned to above 30 kboepd (gross). The costs of repair are the subject of an insurance claim.

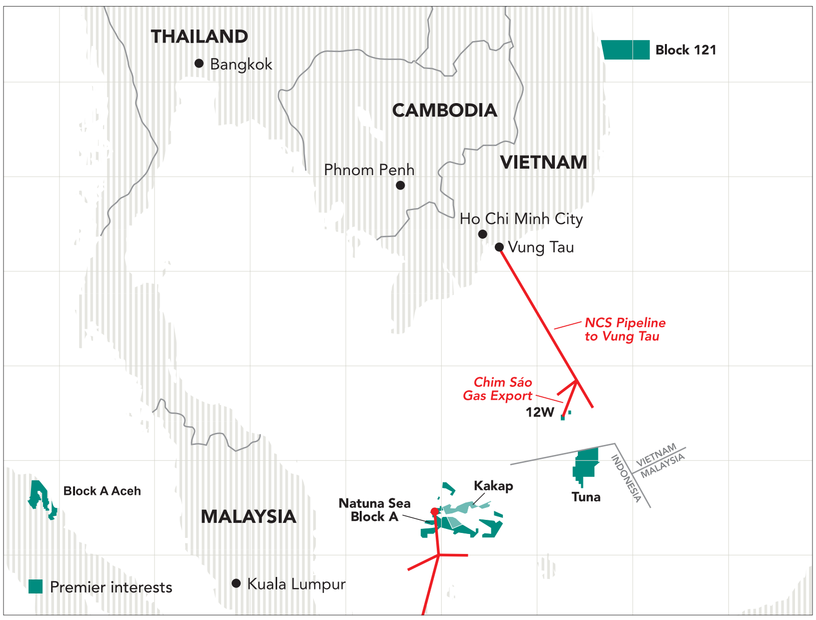
Significant upgrades are being made to the Chim Sáo FPSO to improve the reliability of power generation and to increase the number of the offshore workforce, both critical to improving operational efficiency.

The Dua development project, which is a subsea tie-back to Chim Sáo, continued with subsea equipment now installed at Dua and tied back to the FPSO via flowlines and umbilicals. Drilling of the three Dua production wells commenced in February 2014 following the completion of the new-build West Telesto drilling unit. First oil from Dua is targeted for mid-2014. The field is expected to extend the plateau production from Block 12W.

EXPLORATION AND APPRAISAL //

In the Phu Khanh Basin offshore east Vietnam, Premier participated in the frontier exploration well 121-CV-1X, on Block 121. The well, which was plugged and abandoned in July, penetrated water bearing sandstones in the primary Pre-Miocene objective and proved an active petroleum system by penetrating two thin thermogenic gas bearing sands within the Miocene section. Coals with source potential were encountered within the Oligocene section. The results of the well are being integrated with existing seismic data. Further 2D seismic is planned for 2014.

In mid-July Premier sold 100 per cent of the shares in its wholly owned subsidiary Premier Oil Vietnam South BV (POVS) for a consideration of up to US$100 million. POVS held a 30 per cent operated interest in Block 07/03 offshore Vietnam, which contains the Cá Rồng Đỏ oil and gas discovery and the Ca Duc (Silver Sillago) exploration prospect. The transaction included an immediate cash payment of US$45 million and a subsequent cash payment of US$55 million dependent on subsequent milestones being achieved.



Outlook /

- Continued optimisation of Chim Sáo production
- Improving operational efficiency and uptime
- Dua expected on-stream mid-2014

BUSINESS UNIT REVIEW

New Country Entry –

Exploration

High-grading exploration

PREMIER CONTINUED TO CAPTURE HIGH IMPACT EMERGING PLAYS THROUGHOUT 2013. THE AWARD OF TWO OPERATED BLOCKS IN THE CEARÁ RIFT BASIN AND A NON-OPERATED BLOCK IN THE HIGHLY CONTESTED FOZ DO AMAZONAS BASIN IN THE BRAZILIAN 11TH LICENSING ROUND 2013, AS WELL AS THE FARM-IN TO THE NORTH FALKLAND BASIN AND OUR ENTRY INTO A LICENCE IN THE ONSHORE SOUTHERN ANZA RIFT BASIN IN KENYA, WERE THE PRIME EXAMPLES OF THIS SUCCESS.

Highlights and achievements /

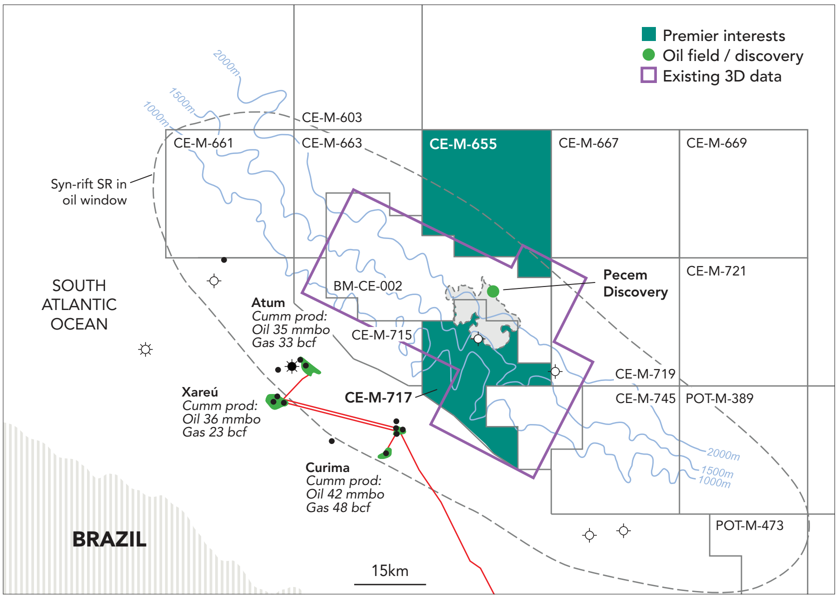
- Three blocks awarded in Brazil's 11th Licensing Round
- Successful entry into the Southern Anza rift basin onshore Kenya
- Interests across exploration licences in the North Falkland Basin aligned and exposure to exploration upside increased
- In total, 800 mmboe of unrisked prospective resources added through new country entry

"**In 2013 our new ventures team successfully captured new acreage** in proven but under explored basins in Brazil, Kenya and Norway, adding over 800 mmboe of unrisked prospective resources. We also continue to high-grade our exploration portfolio through divestment and relinquishment of licences that do not meet our internal metrics on a risk reward basis."

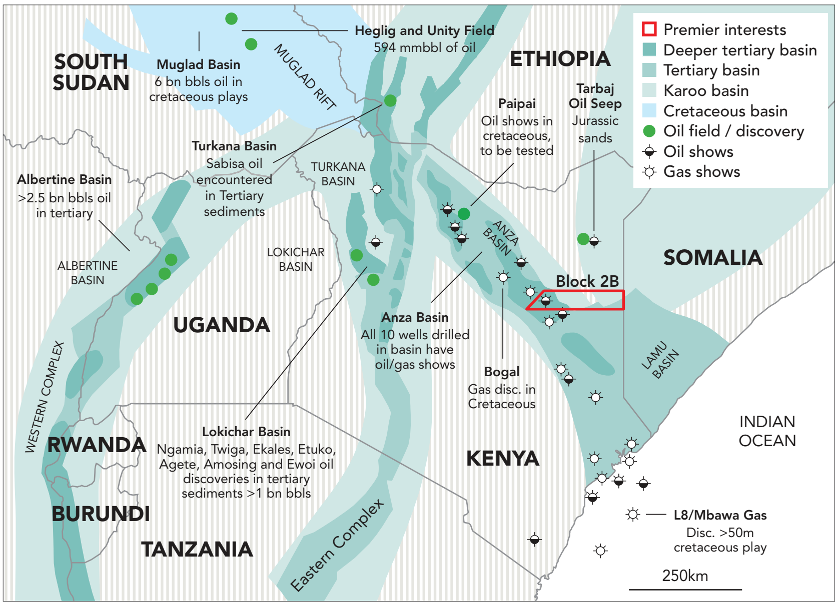
BUSINESS UNIT REVIEW / Exploration (continued)

Andrew Lodge
Exploration Director

BRAZIL – NEW COUNTRY ENTRY



KENYA – SOUTHERN ANZA BASIN



In August 2013, Premier secured 50 per cent operated equity in two licences totalling 1,270 km^2, in the offshore Ceará Basin in Northern Brazil. The Ceará Basin is a Cretaceous rift basin with proven source and reservoir rocks extending out into the deepwater setting. Premier has committed to drilling two wells in CE-M-717 before August 2018. Both Ceará licences also carry commitments to acquire 3D seismic over the entire licence areas. Premier's work programme in Brazil consists of 3D seismic acquisition planned for late 2014, with a view to drilling the first well in 2016. Premier was also awarded a 35 per cent non-operated equity in licence FZA-M-90 in the deepwater Foz do Amazonas Basin. This licence contains a potential high impact Cretaceous exploration play, proven across the border in French Guiana. Premier opened a Brazil office in early 2014, which will be staffed for executing the forward drilling programmes.

The rift system in Kenya is one of the few remaining under-explored onshore, conventional oil plays. In 2013 Premier secured a 55 per cent non-operated equity in onshore Kenya licence 2B, in the Southern Anza Basin. The Anza Basin is a Cretaceous to recent Rift Basin, analogous to the prolific East Africa Rift Systems such as the Lokichar Tertiary Rift Basin which contains several recent oil discoveries. Approximately 100 km of 2D seismic will be acquired in early 2014 and Premier is committed to drilling a well in late 2014 or early 2015. Elsewhere in Kenya, Premier relinquished its non-operated 20 per cent interest in offshore licence L10A, as the identified prospectivity did not satisfy internal threshold criteria on a risked basis. Premier continues to retain a 25 per cent equity in adjacent offshore Block L10B, for which a drill decision will be made in May 2014.

In October 2013, Premier and Rockhopper announced they had signed a Heads of Agreement with Falkland Oil and Gas Ltd (FOGL) to farm-in to licences PL004a and PL004c, which are adjacent to the Sea Lion development and include the Isobel/Elaine and Jayne East prospects. The transaction, which is due to complete in the first quarter of 2014, will result in the increase of Premier's equity in both licences to 36 per cent and assumption of operatorship.

In November 2012, Premier was awarded a 30 per cent non-operated interest in Block 12 in Iraq. Block 12 lies in an under-explored part of one of the world's most prolific oil and gas basins. This is an 8,000 km^2 licence in the foreland basin of the Zagros fold belt, updip from producing fields. Premier has significant exploration experience of foreland basins via its established history in Pakistan. Over the course of the year, the 2014 work programme and budget was approved by the Iraqi ministry of oil and gas and a tender process for 2D and 3D seismic was initiated.

Premier's exploration rights in the Daora, Haouza, Mahbes, Mijek and Laguara blocks offshore the Saharawi Arab Democratic Republic still remain under force majeure, awaiting resolution of sovereignty under a United Nations mandate process. In Egypt, Premier continues the relinquishment process for the North Red Sea-1 licence.

Outlook /

- Premier's first exploration well onshore Kenya to be drilled in late 2014 or early 2015
- Acquisition of 3D seismic across our three new Brazilian licences planned for 2014/2015
- Four well exploration and appraisal programme in the North Falkland Basin in 2015
- Continue to look for opportunities in new countries which can deliver either high impact prospects or play-opening opportunities with significant follow on potential

OUR PEOPLE

Premier seeks to be the employer of choice

IT IS DUE TO THE CONTINUED HARD WORK, DEDICATION AND TALENT OF PREMIER'S MANAGEMENT AND STAFF THAT THE COMPANY CONTINUES TO GENERATE STRONG PROFIT, RISING CASH FLOWS AND HEALTHY RETURN ON CAPITAL. IN TURN, PREMIER'S EXCITING AND INTERESTING PORTFOLIO OF OPERATED PROJECTS, EXPLORATION TRACK RECORD, STRONG PROFITABILITY AND HANDS-ON APPROACH MEANS THAT THE COMPANY IS ABLE TO ATTRACT THE BEST INDIVIDUALS IN THE INDUSTRY.

Tamara Sebire
Catcher Area Development Manager

Michael Smith
Group Planning Manager

Tim Hanson
Group Drilling Manager

Andrei Belopolsky
Exploration New Area Growth Manager

Tim Lane
Group Treasurer

Aurangzeb Bozdar
Group Financial Controller

Tom Clarence-Smith
Falkland Islands External Relations and Commercial Manager

German Beckmann
Country Manager – Brazil

Nigel Wilson
Corporate Services Director

Xuan, Luu Thi Anh
Finance Manager – Vietnam

“Premier’s people are crucial to the success and future of the company.

Premier seeks to improve and provide its employees with the necessary support and encouragement to enable them to realise their full potential and to deliver to the best of their ability.”

Record sales revenue and cash flow

Tony Durrant
Finance Director

> Total sales revenue from all operations reached a **new record level of US$1.5 billion.**

Economic background

The stability in oil prices continued for a third year running, averaging US$108.7/barrel (bbl) against US$111/bbl for the previous two years, and trading in a range of US$119.0/bbl to US$96.8/bbl. Premier's portfolio of crudes traded at a weighted average of US$2.6/bbl premium to Brent, as we continue to realise favourable prices for our Chim Sáo crude in the Asian markets. Premier's average realisations for the year were US$109.0/bbl (2012: US$111.4/bbl) after taking into account timings of actual liftings and export duties paid in Vietnam. Post hedging, realised prices marginally increased to US$109.1/bbl (2012: US$107.5/bbl).

Average gas prices for the group were US$8.32/mscf (2012: US$8.34/mscf). Gas prices in Singapore, linked to High Sulphur Fuel Oil (HSFO) pricing and in turn, therefore, linked to crude oil pricing, averaged US$17.1/mscf (2012: US$18.7/mscf). The average price for Pakistan gas (where only a portion of the contract formulae is linked to energy prices) was US$4.4/mscf (2012: US$4.3/mscf).

Income statement

Production in 2013 averaged 58.2 kboepd (2012: 57.7 kboepd) on a working interest basis. On an entitlement basis, which under the terms of our PSCs allows for additional government take at higher oil prices, production was 52.4 kboepd (2012: 51.6 kboepd). Working interest gas production averaged 174 mmscfd (2012: 180 mmscfd) or approximately 52 per cent of total production.

Total sales revenue from all operations reached a new record level of US$1.5 billion (2012: US$1.4 billion), driven by higher production and the stable oil prices. Cost of sales rose to US$1,034.8 million (2012: US$742.4 million). Operating costs amounted to US$418.9 million (2012: US$342.4 million). Significant items included new field costs in respect of the Huntington field in the UK and costs relating to the gas pipeline repair in Vietnam. Unit operating costs were US$19.7/boe (2012: US$16.2/boe). Underlying unit amortisation (excluding impairment) rose to US$17.7/boe (2012: US$16.4/boe) mainly reflecting commencement of production from the Huntington field in the UK, which has a higher amortisation charge per boe compared to the group average. Impairment charges for the year which related to the Balmoral area amounted to US$178.7 million (2012: US$20.7 million) on a pre-tax basis (US$67.9 million, post-tax). This followed a review of the longer-term plans for the life of the fields in this area, where it was determined that additional maintenance and operating cost expenditure is likely to be required in order to ensure that additional reserves will be extracted. At year-end, decommissioning costs were also updated based on latest estimates of drilling costs and time estimates to abandon the fields. A re-forecast of decommissioning costs has also resulted in a credit to the income statement of US$15.3 million related to Fife area abandonment activities.



production

kboepd

58

reserves

mmboe

259

resources

mmboe

535

Exploration expense and pre-licence expenditure costs amounted to US$106.2 million (2012: US$157.7 million) and US$30.1 million (2012: US$29.2 million) respectively. This includes the write-off relating to the Ca Voi well in Vietnam, the exit from the Blåbaer discovery in Norway, and the relinquishment of various exploration licences in the UK as part of Premier's portfolio management programme. Net administrative costs were US$20.2 million (2012: US$24.2 million).

Operating profits were US$352.0 million (2012: US$455.2 million), the reduction mainly attributable to impairment charges described above. Operating profits include credits from receipts for business interruption insurance on the Kyle field of US$36.9 million, recorded as other operating income. Finance costs and other charges, net of interest revenue and other gains, were US$65.4 million (2012: US$107.6 million). While financial charges, net of capitalised borrowing costs, remained at similar levels, interest revenue, finance and other gains were significantly higher at US$33.0 million mainly due to sterling forward purchase contracts and interest income from partner funding on the Solan field development. The charge for the unwinding of the discounted decommissioning provision increased to US$36.4 million (2012: US$33.2 million) reflecting increased provisions for future decommissioning as industry cost estimates rise.

Pre-tax profits were US$285.4 million (2012: US$359.9 million). The group tax charge for 2013 is US$51.4 million, an effective tax rate of 18 per cent of pre-tax profits. The group's theoretical tax rate is close to 50 per cent, which includes a higher taxation rate in the UK being offset by lower rates in Vietnam and Pakistan. The 2013 group tax charge is reduced as a result of a deferred tax credit in the UK, mainly arising from the Ring Fence Expenditure Supplement allowance. The group has an estimated US$2.3 billion of carried forward UK corporation tax allowances, which will be utilised against UK ring fence profits over time, and are therefore reflected in the deferred tax asset position at the year-end.

Profit after tax is US$234.0 million (2012: US$252.0 million) resulting in a basic earnings per share of 44.2 cents (2012: 47.9 cents).

Dividend and buyback

The Board is proposing a dividend of 5 pence per share (2012: 5 pence per share). This dividend is subject to shareholder approval at the AGM, to be held in London on 14 May 2014. If approved, the dividend will be paid on 21 May 2014 to shareholders on the register as of 22 April 2014. A dividend reinvestment plan (DRIP) is available to shareholders on the UK register who would prefer to invest their dividends in the shares of the company. The last date to elect for the DRIP in respect of this dividend is 26 April 2014.

The Board has approved a share buyback programme of up to £75.0 million, the maximum currently permitted under the group's banking facilities. This programme will be executed by the group's brokers in accordance with a series of parameters set by the Board including the level of share price relative to underlying asset value. The board will review the programme on a quarterly basis.

FINANCIAL REVIEW (continued)

profit after tax

US$234 million

Cash flow

(US$ million)	2013	2012
Operating cash flow	832.6	808.2
Less: Pre-licence exploration costs	(30.1)	(29.2)
Net cash from operating activities	**802.5**	779.0

Net cash from operating activities was US$802.5 million (2012: US$779.0 million) after accounting for tax payments of US$228.3 million (2012: US$233.1 million) and pre-licence costs of US$30.1 million (2012: US$29.2 million). The higher cash flow mainly reflects commencement of production from the Huntington field in the UK.

Capital expenditure in 2013 totalled US$878.0 million (2012: US$771.6 million).

Capital expenditure (US$ million)	2013	2012
Fields/development projects	603.7	569.0
Exploration and evaluation	260.5	187.1
Other	13.8	15.5
Total	**878.0**	771.6

The principal development projects were the Solan, Huntington and Rochelle fields in the UK, the Naga and Pelikan fields in Indonesia and the Dua field in Vietnam. In addition, US$185.9 million funding support was provided to our partner in the Solan project. Repayment of this loan will commence once the project achieves first oil.

Exploration and evaluation spend includes costs principally related to the exploration drilling and pre-development activities in the UK, Vietnam, the Falkland Islands, Norway and Brazil.

operating cash flow

US$833 million

Acquisitions and disposals

In July, Premier announced that it had agreed to acquire an additional 10 per cent interest in licence PL407 in Norway for a consideration of US$5.5 million. PL407 contains the Bream field where Premier now holds a 50 per cent interest and is also the operator. In addition, Premier sold 30 per cent of the adjacent licence PL406 containing the Mackerel discovery for a consideration of US$5.0 million, contingent upon a project development approval in the area. These two transactions aligned the partnership interests across the two licences and were completed following government approval in the year.

Also in July, Premier completed the sale of its 30 per cent operated interest in Block 07/03 offshore Vietnam. The consideration for the sale comprised upfront cash of US$45.0 million with additional contingent payments of US$55.0 million dependent on future exploration appraisal and development milestones on the block.

In August, Premier reached agreement to sell licences PL378 and PL378B in Norway for a total consideration of US$16.0 million. These licences contained the Grosbeak discovery. The transaction was completed during the year.

Balance sheet position

Net debt at 31 December 2013 amounted to US$1,452.9 million (2012: US$1,110.4 million), with cash resources of US$448.9 million (2012: US$187.4 million).

Net debt (US$ million)	2013	2012
Cash and cash equivalents	448.9	187.4
Convertible bonds	(224.2)	(220.2)
Other debt*	(1,677.6)	(1,077.6)
Total net debt	**(1,452.9)**	(1,110.4)

* Other debt includes €120.0 million of long-term senior notes, which are valued at year-end US$1.38:€ spot rate. These will be redeemed at an average of US$1.39:€ due to cross currency swap arrangements. It also included £250.0 million of UK retail bond and long-term bank financing which are valued at year-end US$1.66:£ spot rate. These will be redeemed at an average of US$1.64:£ due to cross currency swap arrangements.

capital investment

US$878 million

During the fourth quarter, the group took advantage of favourable debt market conditions and historically low interest rates to raise new debt of over US$700 million, the proceeds of which were utilised for general corporate purposes including the repayment of existing bank debt. This new debt consisted of long-term senior notes, long-term bank loans and retail bonds. Maturities are between 2017 and 2020 with an average current cost of 3.4 per cent.

The group's principal bank facilities amounting to US$1.5 billion mature in the first half of 2015. As at 31 December drawn letters of credit under the facilities were US$328 million and there were no drawings under the cash facility. Cash and undrawn facilities, including letter of credit facilities, were approximately US$1.6 billion at 31 December.

Financial risk management

Commodity prices

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

At year-end, 4.4 mmbbls of Dated Brent oil were hedged through forward sales for 2014 at an average price of US$103.9/bbl. This volume represents approximately 40 per cent of the group's expected liquids entitlement production in 2014. 192,000 metric tonnes (mt) of HSFO, which drives our gas contract pricing in Singapore, has been sold forward for 2014 at an average price of US$611/mt. These hedges cover approximately 32 per cent of our expected Indonesian gas entitlement production for 2014.

During 2013, forward oil sales of 3.2 mmbbls, and fuel oil collars and forward sales for 144,000 mt expired at a net cost of US$0.8 million (2012: US$60.7 million) which has been offset against sales revenue.

cash and undrawn facilities

US$1.6 billion

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$13.1 million on its outstanding foreign exchange contracts (2012: US$1.5 million). In 2013, the group issued £150.0 million bonds, €20.0 million long-term senior loan notes and £100.0 million term loan which have been hedged under cross currency swaps in US dollars at average fixed rates of US$1.64:£ and US$1.34:€.

Interest rates

The group has various financing instruments including senior notes, convertible bonds, UK retail bonds, term loans and revolving credit facilities. 73 per cent of total borrowings is fixed or has been fixed using the interest rate swap markets. On average, therefore, the cost of drawn funds for the year was 4.7 per cent. Mark-to-market credits on interest rate swaps amounted to US$6.4 million (2012: credit of US$2.5 million), which are recorded as movements in other comprehensive income.

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

Insurance

The group undertakes a significant insurance programme to reduce the potential impact of physical risks associated with its exploration, development and production activities. Business interruption cover is purchased for a proportion of the cash flow from producing fields for a maximum period of 18 months. As previously reported, following exceptionally bad weather in December 2011, the Banff FPSO – which handled Kyle production – lost its anchors and the risers were severely damaged, stopping Kyle production. A claim for business interruption insurance and property damage was negotiated with the underwriters and settled during 2013, the monies received in total amounting to US$55.0 million were offset against the capital expenditure to redevelop the field (US$18.1 million) or credited to the income statement as business interruption income (US$36.9 million).

FINANCIAL REVIEW (continued)

Going concern

The group monitors its capital position and its liquidity risk regularly throughout the year to ensure it has sufficient funds to meet forecast cash requirements. Sensitivities are run to reflect the latest expectations of expenditures, forecast oil and gas prices, and other negative economic scenarios. This is done to manage the risk of funds shortfalls or covenant breaches and to ensure the group's ability to continue as a going concern. The group will refinance a significant portion of its financing facilities and letter of credit facilities expiring in March and April 2015 and it has commenced discussions with its relationship banks with this in mind. Based on our understanding of the bank market appetite and financial position of the company, the Board feels confident that the group will be able to refinance its maturing facilities on reasonable terms.

Despite economic volatility, the directors consider that the expected operating cash flows of the group and the headroom provided by the available borrowing facilities give them confidence that the group has adequate resources to continue as a going concern. As a result, they continue to adopt the going concern basis in preparing the 2013 Annual Report and Financial Statements.

Business risks

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

Effective risk management is critical to achieving our strategic objectives and protecting our 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:

- Health, safety, environment and security (HSES);
- Production and development delivery;
- Exploration success and reserves addition;
- Host government – political and fiscal risks;
- Commodity price volatility;
- Organisational capability;
- Joint venture partner alignment; and
- Financial discipline and governance.

Further information detailing the way in which these risks are managed is provided on pages 72 to 73.

CORPORATE RESPONSIBILITY REVIEW

A social licence to operate

PREMIER RECOGNISES THAT OUR SOCIAL LICENCE TO OPERATE AS A WORLD CLASS EXPLORATION AND PRODUCTION COMPANY HAS TO BE EARNED THROUGH RESPONSIBLE BEHAVIOUR. WE ARE COMMITTED TO APPLYING THE HIGH ETHICAL STANDARDS NECESSARY TO MAINTAIN OUR REPUTATION.

Implementing best practice standards enables us to access new licences, enter new countries, build lasting relationships with local communities, and ultimately maintain our licence everywhere we operate. We have rigorous policies and procedures in place to ensure that our investment and operational decisions take account of the impact our activities might have on local communities and the environment. These policies cover business ethics, human rights, human resources, health, safety and environment, and community investment.

All policies are compliant with applicable legislation and take due account of appropriate standards, industry guidance and relevant best practice.

We commission independent reviews and audits of our policies and supporting management systems in order to assure compliance with the requirements of the following bodies: the Global Reporting Initiative (GRI); the International Petroleum Industry Environmental Conservation Association (IPIECA) Oil and Gas Industry Guidance on Voluntary Sustainability Reporting (2010); the Carbon Disclosure Project; FTSE4Good and the United Nations Global Compact (of which Premier is a signatory).

The summary below gives an overview of how we have applied and delivered on our stated policies in 2013. Additional details are reported in our Corporate Responsibility Report 2013, which is aligned with the GRI's Sustainability Reporting Guidelines. The GRI guidelines represent the most comprehensive and authoritative guidance available to oil and gas companies on sustainability reporting.

The GRI has confirmed that our Corporate Responsibility Report 2013 is prepared in accordance with its Sustainability Reporting Guidelines (G3.1) at Application Level A+, representing an increased level of profile disclosures since our 2012 report. It is our intention to adopt the GRI's G4 guidelines in the next reporting cycle, reflecting our ongoing commitment to continuous improvement and enhanced disclosure.

Further details of our policies and procedures relating to corporate responsibility are available on our website at www.premier-oil.com.

Business ethics

A CULTURE OF INTEGRITY, HONESTY AND FAIRNESS IS EMBEDDED THROUGHOUT PREMIER, AND WE ARE COMMITTED TO TRANSPARENCY, RESPONSIBILITY AND COMPLIANCE IN ALL OUR BUSINESS ACTIVITIES. WE REFUSE TO ENGAGE IN ANY ACTIVITIES, INCLUDING BRIBERY OR CORRUPTION IN ANY FORM, WHICH UNDERMINE THE LEGITIMATE BUSINESS ENVIRONMENT.

Our Global Code of Conduct

Premier's Global Code of Conduct – and associated due diligence process which provides assurance regarding compliance with the Code – is embedded throughout Premier. The Code is available in both English and Bahasa Indonesia for those employees and contractors based at our operations in Indonesia, and supplementary explanatory material is available in Vietnamese for our staff in Vietnam. The Code is compliant with the United Kingdom Bribery Act, and covers:

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

Scope of application

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

Training and monitoring

Premier's legal team continued to deliver a comprehensive set of workshops on the application of the Global Code of Conduct and its requirements to all business units worldwide during 2013. Each of our business units is analysed for risks relating to corruption, some being more exposed than others depending on geography and area of activities. The content of our training takes account of local nuances and cultural norms, in order to equip local teams to manage risks related to business ethics. A briefing on the content of the Code is included in the induction programme for all new employees and consultants and all new employees are expected to complete an ethics training programme within one month of joining the company.

Whistle-blowing hotline

Premier encourages employees, contractors and agency workers to voice their concerns to line managers if they think the company or anyone working on behalf of the company has not acted in accordance with the Global Code of Conduct. Premier provides a confidential and well-publicised independent third party reporting hotline for employees who feel unable to raise concerns via other procedures. This hotline is available 24 hours a day, seven days a week. No reports were made through this service in 2013. No incidents of corruption or non-compliance with the Code were identified in 2013.

Human rights

PREMIER'S HUMAN RIGHTS POLICY EXPLICITLY RECOGNISES THE MORAL, REPUTATIONAL AND OPERATIONAL VALUE OF RESPECTING AND PROMOTING HUMAN RIGHTS, BOTH INSIDE AND OUTSIDE OUR COMPANY. THE POLICY ADDRESSES THE RIGHTS OF OUR EMPLOYEES AS WELL AS OUR EXTERNAL STAKEHOLDERS, IN PARTICULAR THE LOCAL COMMUNITIES WHERE WE OPERATE.

Our Human Rights Policy has been benchmarked against best practice standards – including the United Nations Guiding Principles on Business and Human Rights and the Global Reporting Initiative – as well as the position of our peers in the oil and gas sector. Respecting and promoting human rights includes the need to:

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

Premier's Human Rights Policy is based on the fundamental rights set out in the Universal Declaration of Human Rights, and is guided by the rights enshrined in the core labour conventions of the International Labour Organization and the principles of the United Nations Global Compact. Our policy addresses the rights of our employees – including their health and safety, security arrangements and working conditions – and the development rights of our external stakeholders, in particular local communities. We will apply for corporate membership of the Voluntary Principles on Security and Human Rights in 2014.

Further detail on our performance and alignment with our Human Rights Policy is included in the Corporate Responsibility Report 2013. There were no reported violations of our Human Rights Policy in 2013.

Employees

PREMIER IS COMMITTED TO PROVIDING STAFF WITH FAIR AND COMPETITIVE TERMS OF EMPLOYMENT AND SAFE WORKING CONDITIONS. WE ARE AN EQUAL OPPORTUNITIES EMPLOYER. THIS ENTAILS RESPECTING INDIVIDUALS REGARDLESS OF RACE, CREED, COLOUR, NATIONALITY, ETHNIC ORIGIN, AGE, RELIGION OR BELIEF, GENDER, SEXUAL ORIENTATION, MARITAL STATUS OR DISABILITY.

When recruiting, developing and dealing with employees and service providers, we will treat people fairly, equally and without prejudice. We also respect the right of individual employees to join a legitimate trade union. Through training and appraisal, we encourage staff to develop their own professional skills to the advantage of both the individual and the company. This sentiment is embedded in our employment policies, which apply to all permanent, contractual and temporary staff, and also to all job applicants.

During 2013, we continued to roll out our People Strategy across the organisation, supporting Premier's continued growth in exploration and production activities. The People Strategy promotes efficiency, innovation, knowledge sharing and leadership, all of which are essential to the delivery of our business goals. The strategy is accompanied by a suite of updated tools and processes to facilitate the recruitment, development, deployment and retention of high calibre employees.

There were no reported violations of our employment policies in 2013. There were also no reported incidents of discrimination, and no use was made of our formal grievance procedures.

	Gender		Age group				
Country	Male	Female	18-25	26-40	41-50	51-65	Over 65
Falkland Islands	22	9	–	13	10	8	–
Indonesia	340	58	2	209	135	52	–
Norway	21	10	–	11	12	6	2
Pakistan	13	1	–	6	6	2	–
Singapore	5	8	–	3	5	5	–
United Kingdom	161	76	5	101	70	58	3
Vietnam	37	46	4	50	22	7	–
Total	**599**	**208**	**11**	**393**	**260**	**138**	**5**
Composition of senior management (defined as Gd5 and above)	94%	6%	–	4%	49%	45%	2%

Health and safety

PREMIER IS COMMITTED TO OPERATING RESPONSIBLY IN ORDER TO ENSURE THE SAFETY OF EVERYONE INVOLVED IN OUR OPERATIONS AND TO PROTECT THE ENVIRONMENT. WE WILL NEVER KNOWINGLY COMPROMISE OUR HEALTH AND SAFETY STANDARDS TO MEET OPERATIONAL OBJECTIVES.

Our health, safety and environment (HSE) Policy recognises the need to:

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

We review and update our corporate HSES Management System on an ongoing basis to facilitate continuous improvement in health and safety performance. Premier's Golden Rules support the HSES Management System. They are designed to help address the most common causes of serious incidents at operating facilities in our industry. Reinforcement of the Golden Rules during 2013 has been a key part of our commitment to excellence and continuous improvement in health and safety performance.

Every Premier employee is accountable and has a personal responsibility for health, safety and environment. Employees are also expected to 'stop the job' if they see or believe something that is unsafe or can be better controlled.

Premier has been certified to OHSAS 18001 and ISO 14001 since 2004 for global drilling, and since 2006 for our Indonesian production operations. Our Chim Sáo production operation in Vietnam was audited by ERM CVS in December 2013. The facility is progressing well towards full certification, with a third audit scheduled for 2014. The Anoa and Gajah Baru sites in Indonesia and the Balmoral site in the North Sea retained their drilling certifications in 2013.

CORPORATE RESPONSIBILITY REVIEW (continued)

Occupational safety performance

In 2013, we worked 11.7 million man-hours (2012: 6.1 million man-hours). The increase on the previous year was mainly due to a number of projects moving into the construction phase (7.6 million man-hours related to construction in 2013, up from 2.0 million man-hours in 2012). The majority of these man-hours were worked by contractors (2013: 9.8 million man-hours; 2012: 4.3 million man-hours). There were no construction projects at Premier-operated sites during 2013.

	Total			Premier sites 2013		Contractor sites 2013	
Key safety parameters and indicators	2011	2012	**2013**	**Employees**	**Contractors**	**Employees**	**Contractors**
Fatalities	1	–	**–**	**–**	**–**	**–**	**–**
Lost Work Day Cases (LWDC)	7	5	**18**	**–**	**6**	**–**	**12**
Restricted Work Day Cases (RWDC)	3	2	**5**	**–**	**1**	**–**	**4**
Medical Treatment Cases (MTC)	5	4	**17**	**–**	**6**	**–**	**11**
Total Recordable Injury Rate (TRIR) *	2.4	1.8	**3.4**	**–**	**5.7**	**–**	**3.6**
High Potential Incident Rate (HIPOR) *	0.8	1.3	**0.7**	**0.8**		**0.7**	

* per million man-hours worked

Note: Occupational safety data for 2011 and 2012 aggregates Premier employees and contractors, whereas data for 2013 shows employees and contractors both separately and in combined form. We have presented additional detail on HSE performance for 2013 following our analysis of the issues that have emerged from increased construction activity.

Total recordable injuries

The total recordable injury rate (TRIR) for Premier employees at Premier-operated sites was 0.0 per million man-hours for 2013. The TRIR for Premier employees at contractor-operated sites was also 0.0 for 2013. Both these TRIR figures – well within our target performance rate of 2.0 per million man-hours – reflected the strong HSE performance of Premier employees. Significant improvements were reported in particular at our Chim Sáo site in Vietnam, where employee and contractor injury rates decreased from 2.8 per million man-hours in 2012 to 0.8 in 2013.

Nevertheless, our overall TRIR performance deteriorated, increasing from 1.8 per million man-hours in 2012 to 3.4 in 2013. This included a TRIR of 3.6 for contractors working at contractor-operated sites and a TRIR of 5.7 for contractors working at Premier-operated sites.

In order to improve HSE performance and build on lessons learnt, in late 2013 we instigated a more proactive approach to manage the issues at contractor facilities – an approach that is continuing in 2014 and will be maintained.

High potential incidents (HIPOs)

Insight into HIPOs and their rate of occurrence enable us to learn how to prevent or mitigate future incidents. This involves addressing the root causes of these incidents. We believe HIPOs are a leading indicator of potential major accidents and serious injuries. The assessment of HIPOs complements the proactive testing of asset integrity safety systems and management under our Safety Case regime.

There was a decrease in the number of HIPOs during the reporting cycle, from 1.3 per million man-hours in 2012 to 0.7 in 2013. This was well below our target rate of 1.5 for 2013. Eight HIPOs in total were recorded in 2013, the same amount as in 2012. Five of these occurred at our North Sea operations, and the other three at our Vietnam operations. There was a significant decrease in the HIPO frequency rate in both the drilling phases (2013: 0.0, 2012: 2.5) and the production phases (2013: 1.6, 2012: 3.3). However, there was an increase in the HIPO frequency rate at construction sites working on our projects, from 0.0 in 2012 to 0.7 in 2013.

All eight HIPOs identified in 2013 were investigated in depth. Corrective actions were identified and their implementation monitored. Safety alerts based on each incident were made available to all employees in order to share learning across the organisation. Safety alerts are mandatory for all HIPOs but may also be issued where there are incidents that require heightened awareness and caution.

Process safety performance

One way of recording process safety events is through the measurement of loss of primary containment (LOPC). This is a new performance measure proposed by the International Association of Oil and Gas Producers (OGP), and adopted by Premier. Further work is required to harmonise process safety performance measurement across the industry, and we will continue to work with OGP. We are a member of its Process Safety Subcommittee, and will assist in the development of an industry-wide approach to indicators and reporting.


Loss of primary containment

During 2013, there were 40 LOPC events (2012: 41) at our operations. Of these, one was a Tier One LOPC event (2012: nil) and two were Tier Two events (2012: seven). The remaining 37 incidents were events of lesser significance, which included small gas leaks and contained oil spills that did not reach the environment. Tier One events are those where there is a significant loss of containment from a process system i.e. gas over 500kg and oil over 1,000kg (per hour). Tier Two events are those releases of lesser consequence i.e. gas over 50kg and oil over 100kg (per hour). We measure the number of incidents or rate per activity man-hour at both our operated drilling and production operations, and use the total as a performance measure. In 2014, we will continue to review and refine the parameters within which LOPC events are being reported.

Safety by design

Premier has integrated process safety protocols into the project safety reviews (PSRs) of all projects. These reviews, carried out at each project phase, provide assurance that material HSE issues have been identified and are being effectively managed throughout the project. A typical project will require six strategic reviews as a project moves from concept to construction and then to operation. PSRs are aligned with our project approval gates, at which time strategic decisions are made to either progress a project further towards the operations stage or to delay or divest.

Safety Cases are in place at all our operated installations. Our Safety Case regime is consistent with United Kingdom regulatory standards. We believe this represents best practice and implement such cases at all our operated production facilities worldwide, even when not required by the local regulatory regime. A Safety Case is developed during the early stages of a project, becomes more detailed as a project nears the operations stage, and must be complete before production commences.

Each case includes a review and impact assessment of the relevant process safety risks against established safety benchmarks and, when necessary, further steps are required to be taken to reduce risks to a level that is 'as low as reasonably practicable' (the ALARP principle). Our operating assets are reviewed every five years to ensure continued compliance. Safety Cases are reviewed by either the local regulatory authority or a competent independent third party to provide assurance of compliance.

Environment

PREMIER FOCUSES ON PROTECTING THE ENVIRONMENT IN LINE WITH OUR STATED COMMITMENT TO REDUCE OUR IMPACT TO A LEVEL THAT IS AS LOW AS REASONABLY PRACTICABLE. THIS INVOLVES ONGOING ASSESSMENT AND MONITORING OF ENVIRONMENTAL IMPACTS AT ALL OUR OPERATIONS.

Environmental assessment, management and reporting are major elements of Premier's HSE risk management process. We conduct baseline surveys and prepare environmental and social impact assessments for each new operated activity. This involves an assessment of our potential impact on the physical, socio-economic and biological environments, including biodiversity and the rights of indigenous peoples. We measure and review each impact in turn and gauge both its significance and how it can be reduced to a level that is as low as reasonably practicable.

Potential actions to improve environmental performance are screened based on cost, duration and impact to determine which are feasible for implementation.

CORPORATE RESPONSIBILITY REVIEW (continued)

Environmental indicators and targets

We report our environmental performance in line with the IPIECA Oil and Gas Industry Guidance on Voluntary Sustainability Reporting (2010) and the GRI Sustainability Reporting Guidelines. Our emissions performance is benchmarked against an industry database compiled and published by the OGP. As an oil and gas company with production facilities in the North Sea, we comply with the European Union Emissions Trading Scheme and submit an annual, externally verified report on our emissions profile to the United Kingdom Department of Energy and Climate Change. We also participate in the Carbon Disclosure Project. In 2013, we achieved a carbon disclosure score of 66 out of 100 (2012: 66), which is broadly equivalent to the median average achieved by other FTSE listed oil and gas companies.

Key environmental parameters and indicators	**2013**	2012	2011	2010
Greenhouse gas intensity (tonnes per thousand tonnes of production)	**288**	242	305	185
Oil spills (tonnes)	**0.1**	0.8	2.7	1.3
Oil in produced water (parts per million)	**11**	10	14	11
Energy use (gigajoules per tonne of production)	**1.9**	2.0	2.6	2.1

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

Climate change and greenhouse gas emissions

Greenhouse gas emissions associated with hydrocarbon combustion at Premier-operated facilities amounted to 958,566 tonnes in 2013 (2012: 890,809 tonnes). This increase in total emissions was largely due to unexpected flaring at Chim Sáo and its associated offshore production, storage and offloading facility.

Premier's operated emissions intensity increased from 242 tonnes per thousand tonnes of production in 2012 to 288 tonnes in 2013. Our Anoa and Gajah Baru sites in Indonesia delivered strong performances in terms of decreased emissions, with an average intensity of 165 tonnes per thousand tonnes of production (2012: 175 tonnes) and 104 tonnes per thousand tonnes of production (2012: 119 tonnes) respectively. Nevertheless, our total greenhouse gas intensity exceeded the OGP industry median (160 tonnes per thousand tonnes of production), mainly due to Chim Sáo.

As well as monitoring greenhouse gas emissions from our operated assets, we calculate emissions on an equity basis for production across our global portfolio. Greenhouse gas intensity from flaring and fuel gas combustion associated with our full equity portfolio amounted to 214 tonnes per thousand tonnes of production (2012: 170 tonnes).

In 2013, energy consumption at our head office in London was approximately 297,533 kilowatt hours (equivalent to 1.1 gigajoules, GJ). This was significantly less than five per cent of the group's total energy consumption during 2013, which totalled approximately 6,349,108 GJ.

Spills and discharges

The total volume of produced water discharged from our operations in 2013 amounted to 2,262,998 tonnes (2012: 3,905,611 tonnes). The average oil in produced water increased slightly from 10 parts per million weight (ppm-wt) in 2012 to 11 ppm-wt in 2013.

In 2013, there were 12 spills to the environment (2012: 13 spills), five of which were hydrocarbon spills (2012: 11 spills) and seven of which were chemical spills (2012: two spills). None of the hydrocarbon spills was over one barrel (bbl) of oil. The total volume of hydrocarbon spills amounted to 0.1 tonnes (2012: 0.8 tonnes); all these spills were associated with our production operations. The seven chemical spills totalled 5.0 bbls or 0.7 tonnes (2012: 0.02 bbls or 0.002 tonnes).

We maintain oil spill contingency plans for each of our operations and have ongoing contracts with oil spill response specialists to provide support in the unlikely event of a major incident.

Community investment

PREMIER RECOGNISES THAT OUR WIDER SOCIAL LICENCE TO OPERATE AS AN INTERNATIONAL OIL AND GAS COMPANY MUST BE EARNED THROUGH BEHAVIOUR WHICH DOES NOT COMPROMISE THE WELLBEING OF CURRENT OR FUTURE GENERATIONS. THIS RESPONSIBLE BEHAVIOUR IS A KEY DETERMINANT OF OUR LONG-TERM BUSINESS SUCCESS.

As a responsible investor, we recognise the value of building positive external relationships and partnerships with communities, governments, non-governmental organisations, joint venture partners and other stakeholders. Our Community Investment Policy has been benchmarked against best practice standards and our peers in the oil and gas sector. It includes requirements to:

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

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

No incidents of non-compliance with this policy were reported in 2013.

Increased community investment in 2013

All our operations are supported by local community engagement and development programmes. In 2013, Premier disbursed a total of US$1,154,000 on charitable donations and community projects, an increase of 71 per cent on the amount disbursed in 2012. The significant expansion of our community investment reflects an increase in charitable donations from our London, Indonesia and Vietnam offices, as well as the inclusion of non-operated joint venture community projects in Pakistan.

By order of the Board

S C Lockett
Chief Executive

26 February 2014

BOARD OF DIRECTORS

Robin Allan (54)
Director, Business Units
Board tenure: 10 years 2 months

- Joined Premier in July 1986
- Joined the Board in 2003 as Director of Business Development before appointed Director – Asia in 2009
- Returned to London in 2012 to take up role as Director, Business Units

Anne Marie Cannon (56) I
Non-executive Director
Board tenure: 1 month

- Joined Premier on 1 February 2014 as a non-executive director (Committee membership to be confirmed in due course)
- 30 years' experience in the energy and banking sectors, including roles at Shell UK, J. Henry Schroder Wagg and British Borneo
- Previously a Senior Advisor to the Natural Resources Group at Morgan Stanley focusing on upstream mergers and acquisitions
- Currently Deputy Chair of the Board of Det Norske Oljeselskap

Joe Darby (65) I, A, R, N
Senior Independent non- executive Director
Board tenure: 6 years 5 months

- Joined Premier's Board as non-executive director in 2007 and is the Senior Independent non-executive director
- 40 years of experience in energy sector, including Chief Executive of LASMO plc, non-executive directorships at Nordaq Energy plc, British Nuclear Fuels plc, Mowlem plc, Faroe Petroleum plc and Centurion Energy, Inc
- Currently non-executive director of Alkane Energy plc and Gulfsands Petroleum plc






David Lindsell (66) I, A, R, N
Non-executive Director
Board tenure: 6 years 1 month

- Joined Premier's Board in January 2008 as a non-executive director
- Chairman of Premier's Audit and Risk Committee
- Partner at Ernst & Young LLP for nearly 30 years, Deputy Chairman of the Financial Reporting Review Panel, 2008-2012
- Currently non-executive director of Drax Group plc and Hellermanntyton Group plc

Simon Lockett (49) N
Chief Executive
Board tenure: 10 years 2 months

- Joined Premier in January 1994
- Joined Premier's Board in December 2003 as Operations Director before being appointed Chief Executive in March 2005

Andrew Lodge (57)
Exploration Director
Board tenure: 4 years 10 months

- Joined Premier in April 2009 as Exploration Director
- Previously Vice President – Exploration at Hess, responsible for Europe, North Africa, Asia and Australasia
- Prior to Hess, worked at BHP Petroleum, and BP
- Currently a non-executive director of Egdon Resources plc

Tony Durrant (55)
Finance Director
Board tenure: 8 years 7 months

- Joined Premier in June 2005, becoming Finance Director in July 2005
- Qualified as a Chartered Accountant with Arthur Andersen, joining the investment banking division of Lehman Brothers in 1987, going on to become a Managing Director and Head of the European Natural Resources Group
- Non-executive director and chairman of the audit & risk committee of Greenergy Fuels Holdings Ltd

Neil Hawkings (52)
Director, Falkland Islands
Board tenure: 7 years 11 months

- Joined Premier in May 2005, after more than 20 years with ConocoPhillips, working in a variety of engineering, commercial and management roles around the world
- Joined Premier's Board in March 2006 as Operations Director, and appointed Director, Falkland Islands in January 2014

Jane Hinkley (63) I, R, N
Non-executive Director
Board tenure: 3 years 5 months

- Joined Premier's Board in September 2010 as a non-executive director
- Chairman of Premier's Remuneration Committee
- Qualified Chartered Accountant with executive experience primarily in international shipping
- Previously held roles with Navion Shipping AS, Gotaas-Larsen Shipping Corporation and Revus Energy ASA
- Currently non-executive director of Vesuvius plc, and an independent director on board of Teekay GP LLC

Independent = I

Committee Membership
Audit and Risk = A
Remuneration = R
Nomination = N

Michel Romieu (74) I, A, N
Non-executive Director
Board tenure: 6 years 1 month

- Joined Premier's Board as non-executive director in January 2008
- Over 35 years of experience in the international energy sector, including 25 years with the Elf Group
- Established own consultancy specialising in providing advice to gas industry, is a lecturer at the French Petroleum Institute
- Currently President of Uprigaz

Mike Welton (67) Independent on appointment, N
Chairman
Board tenure: 4 years 8 months

- Joined Premier's Board in June 2009 as a non-executive director and became Chairman in October 2009
- Chairman of the Nomination Committee
- Currently a director of Morrison Utility Services and High Speed Two, a government owned LLC
- Sits on the advisory board of Montrose Associates and Alexander Proudfoot
- Previously Chief Executive of Balfour Beatty plc, and Chairman of Southern Water Services Ltd, Hanson plc, the Turkish/British Business Council and the UK Government's Railway Sector Advisory Group

CORPORATE GOVERNANCE REPORT

Statement from the Chairman

Your Board is committed to the highest standards of stewardship and governance and aims to create a culture which demands the same commitment and performance in all our business activities.

Good governance provides a framework that allows the right decisions to be taken by the right people at the right time. The information provided below will help you to understand how the Board has run the company, managed risks, monitored control, and describe how decisions have been taken.

During the year I led the review of our Board's effectiveness in conjunction with an external facilitator and am pleased to report below on the outcome and related actions arising from the review.

Mike Welton, Chairman

This report describes the manner in which the company has applied the main principles of governance set out in the UK Corporate Governance Code (the Code) of September 2012 and complied with the Code provisions. It is the Board's view that the company has fully complied with the Code throughout 2013 save for with respect to provision B.1.2 which stipulates that at least half the Board, excluding the Chairman, should comprise non-executive directors determined by the Board to be independent. Subsequent to the unexpected death of Professor David Roberts in July 2013, this requirement of the Code has not been met by the company. However, with the appointment of Anne Marie Cannon to the Board on 1 February 2014 the company is now in compliance with respect to this provision of the Code.

While the Board supports the value of the Code, it does not believe that good governance can be defined merely in terms of compliance with a set of rules. The Board is committed to high standards of stewardship and governance and aims to create a culture which demands the same commitment and performance in all our business activities. This is enshrined in our Code of Conduct which was updated and rolled out to our employees in 2011.

The Board

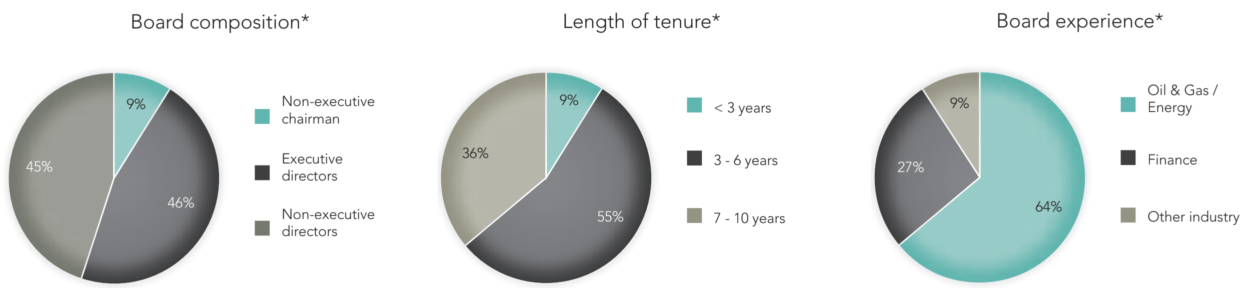
The role of the Board

The Board sets the company's strategic objectives and ensures that they are properly pursued and that major business risks are actively monitored and managed. This goes beyond regulatory compliance and puts the interests of our shareholders at the heart of the Board's decision-making.

The Board is responsible for overall group strategy, acquisition and divestment policy, approval of major capital expenditures, the overall group debt and equity structure and consideration of significant financing matters. The Board continued to focus its efforts in 2013 on strategic issues which will create shareholder value, monitoring performance against agreed objectives and planning future business opportunities.

Board composition

As at 31 December 2013 the Board of Directors was comprised of the Chairman, Chief Executive, four other executive directors and four independent non-executive directors. On 1 February 2014 Anne Marie Cannon joined the Board as an independent non-executive director. David Bamford is expected to join the Board as an independent non-executive director with effect from 1 May 2014. Biographical details of each director in service as at 26 February 2014, including membership of Board committees, are set out in the Board of Directors section of the Annual Report and Financial Statements as well as in the notice of Annual General Meeting. In accordance with the Code, all directors stand for annual re-election by shareholders at each AGM. Biographical details for David Bamford, who will also be standing for election at the Annual General Meeting, are included in the notice of Annual General Meeting. Details of the executive directors' service contracts and the non-executive directors' letters of appointment are laid out in the Policy Report of the Directors' Remuneration Report.



*as at 26 February 2014

The Board (continued)

Chairman and Chief Executive

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

Non-executive Directors

The non-executive directors bring independent judgement to bear on issues of strategy and resource, including key 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.

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

Non-executive directors are appointed for a specified term of three years subject to annual re-election and to Companies Act provisions relating to the removal of a director. The terms and conditions of their appointment are made available for inspection. 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 and 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, directors have access to independent professional advice at the company's expense.

Senior Independent Director

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

Appointments and development

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

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 within 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.

CORPORATE GOVERNANCE REPORT (continued)

How the Board operates

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

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

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

Delegated authorities

Board committees

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

The number of meetings of the Board and its committees during 2013, and individual attendance by directors, is shown below:

	Board	Audit and Risk	Remuneration	Nomination
Number of meetings	**8**	**4**	**6[1]**	**2**
Attendance:				
R A Allan	8	–	–	–
J Darby	8	4	6	1
A R C Durrant	8	–	–	–
N Hawkings	8	–	–	–
I J Hinkley	8	–	6	2
D C Lindsell	8	4	5	2
S C Lockett	8	–	–	2
A G Lodge	8	–	–	–
Professor D G Roberts[2]	2	–	2	–
M Romieu	7	4	–	2
M W Welton	7	–	–	2

Notes:

1. There were five scheduled meetings of the Remuneration Committee during the year. One meeting was additionally called (attended only by Ms I J Hinkley and Mr J Darby).
2. Professor D G Roberts died on 4 July 2013.

Delegated authorities (continued)

Executive Committee and management structure

The Board has delegated the day-to-day running of the group to the Chief Executive who has established an Executive Committee (EXCO) to assist him in this role. Following the expansion of EXCO in 2012, further developments to EXCO made in early 2014 include:

- The creation of the role of Director, Falkland Islands, in recognition of the importance of the growth and development of this business to the group's success; and
- The role of Group Development and Operations Manager replaces the previous role of Operations Director.

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

Delegation of Authority

Responsibility levels are communicated throughout the group as part of the Business Management System and through an authorisation manual which sets out, inter alia, delegated authority levels, segregation of duties and other control procedures. This manual was updated in 2013 to reflect changes in the organisational structure of the group.

Board performance evaluation

The Board worked with an external facilitator, Wickland Westcott, in 2013 to conduct the annual Board evaluation. The evaluation process consisted of a written questionnaire and a series of one-to-one interviews with all directors. In addition, the facilitator attended and observed proceedings at a Board meeting. The questionnaire and interviews covered a number of key areas including strategy, succession planning, Board size and composition, risk management and the relationship between Board and management. The results of the evaluation were then considered by the Chairman and discussed by the Board as a whole.

The performance of the Chairman was evaluated by the senior independent director, who conducted interviews with all the directors. The performance of individual non-executive directors, other than the Chairman, was evaluated by the Chairman, with input from the committee chairmen and the other directors. The performance of the Chief Executive and other executive directors was evaluated by the Chairman and non-executive directors.

Key outcomes from the evaluation included a desire to increase the number of informal meetings of directors throughout the year. Succession planning for Board and senior executive positions and talent management and capability initiatives were also identified as areas for increased focus going forward.

There is no other connection between Wickland Westcott and the company.

Induction, information and support

New directors receive a full, formal and tailored induction to the company. This consists of information covering the operations of the Board as well as meetings with the Board, Chief Executive, other executive directors, members of senior management and external advisers. All non-executives have access to the company's senior management between Board meetings and the Board holds one meeting each year in one of the business units to allow non-executives to meet and engage with local staff. In addition, the continuing development of Board members is supported through deep dives into specific business areas as well as regular updates on changes to the legal and regulatory landscape. Directors are also offered the opportunity to attend external training courses to further complement their skills and knowledge. Shareholders are given the opportunity to meet with new directors upon request or at the next AGM following their appointment. The company has directors' and officers' liability insurance in place and details of the policy are given to new directors on appointment. Formal procedures are in place to enable individual Board members to take independent advice at the company's expense where appropriate.

Conflicts of interest

A director has a duty to avoid a situation in which he or she has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the interests of the company. Formal procedures are in place to ensure the Board's powers of authorisation of conflicts or potential conflicts of interest of directors are operated effectively. The Board is satisfied that during 2013 these procedures were enforced and adhered to appropriately.

CORPORATE GOVERNANCE REPORT (continued)

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 soundly managed and that the system of internal controls is effective. Risk management processes and systems of internal control are designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable, and not absolute, assurance that material financial irregularities will be detected.

Business management system

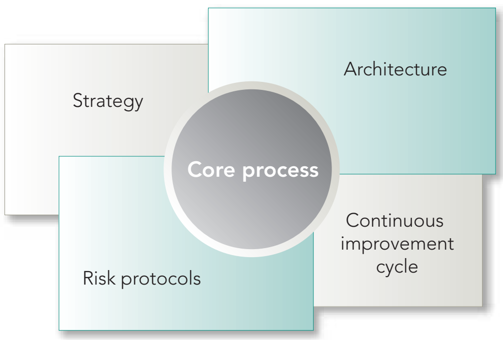
Internal controls within Premier are governed by the business management system (BMS) which has undergone significant technical upgrade during 2013, a process which will continue through 2014. This system is composed of the policies, standards, procedures, processes and guidelines for every function involved in carrying out Premier's business including Risk, Health, Safety, Environment and Security (HSES), Corporate Responsibility, Operations, Exploration, Business Development, Finance and other business support services. Corporate group functional management systems are complemented by local management systems within the business units which are designed to supplement the group management systems with guidance specifically required in order to operate and manage the business under local conditions and in compliance with local laws and regulations.

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

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

Risk management

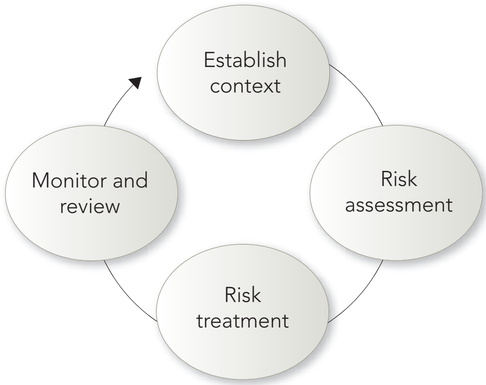
Premier believes that risk management is just part of good management which leads to quality decision making and achievement of targets for growth of the business. The risk management process is central to Premier's BMS and the group's management system has been developed in accordance with the risk management principles and guidelines of ISO 31000 (Risk Management – Principles and Guidelines). The processes developed by the company cover all key elements of ISO 31000:



Risk management and internal controls in Premier (continued)

Risk management (continued)

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



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

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

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

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

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

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

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

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

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

In 2013 Premier ran an externally-facilitated internal survey (following on from a similar survey in 2010) with a representative cross-section of senior and middle management employees across the group to better understand how well risk management best practice is embedded through the group. Through 2014 and beyond, Premier will implement a prioritised improvement plan which resulted from the survey outcomes. We are also developing a set of risk management KPIs in order to better measure progress.

CORPORATE GOVERNANCE REPORT (continued)

Risk management and internal controls in Premier (continued)

Audit and review

The effective operation of internal control procedures is reviewed by planned audits. An annual programme of audit and review is agreed between functional and business unit management and approved by the Audit and Risk Committee. The programme adopts a risk based focus and includes an audit of management system effectiveness and control as well as targeting key operational, financial and organisational delivery milestones. During the course of its review of the risk management and internal control systems, the Audit and Risk Committee has not identified nor been advised of any failings or weaknesses which it has determined to be significant.

A process of business control reviews has been developed and implemented across the group. This process is designed, inter alia, to provide assurance to the Board that Premier is embedding effective risk management into its operations. Significant findings from these reviews are presented to the Audit and Risk Committee which monitors the implementation of recommendations for control improvements. A rolling three-year plan to cover all operations is in place. In addition, where we are the operator, audits of joint venture operations are carried out by our joint venture partners. Where one of our partners is the operator, we seek visibility of the most significant risks identified and managed by the joint venture partners.

The business management system, risk management processes and programme of audits and reviews form the ongoing process for identifying, evaluating and managing the significant risks faced by the company. This process has been in place for the year under review. Up to the date of approval of the Annual Report and Financial Statements, it is regularly reviewed by the Audit and Risk Committee and Board. This 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 from inappropriate use or from loss and fraud.

Communication with shareholders

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

In accordance with current regulations, the company uses its website as its default method of publication for statutory documents to reduce printing costs and help benefit the environment. All shareholders are offered the choice of receiving shareholder documentation, including the annual report, electronically or in paper format, as well as the choice of submitting proxy votes either electronically or by post.

The company promotes the use of online shareholder services at www.premier-oil-shares.com (Share Portal). On this website, shareholders are able to access their shareholding and to update their address or submit queries on their account directly to the company's Registrar. Shareholders also have the ability to vote online prior to the 2014 AGM. The Share Portal encourages shareholders to register to receive communications by e-mail, rather than by post, thus further reducing the number of documents printed and distributed. Shareholders who have actively registered receive an e-mail notifying them when the company has added a statutory document to its website. For each new registration processed, the company will donate £1 to Pure Leapfrog, a UK charity dedicated to combating climate change.

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

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

By order of the Board

S C Huddle
Company Secretary

26 February 2014

AUDIT AND RISK COMMITTEE REPORT

David Lindsell
Chairman of the Audit and Risk Committee

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

- the integrity of the company's financial statements, and other formal announcements relating to the company's financial performance and the significant financial reporting judgements they contain;
- the effectiveness of the risk management and internal control systems, including in particular as regards the identification of emerging risks and the effectiveness of actions taken to mitigate them, together with the results of the programme of reviews of these systems and management's response to the review findings;
- the effectiveness and objectivity of the company's Group Audit and Risk function, the appropriateness of its work plan, the results of reviews undertaken, and the adequacy of management's response to matters raised;
- the appropriateness of the company's relationship with the external auditor and the effectiveness and objectivity of the audit process; and
- the enforcement of the company's code of conduct and the adequacy and security of its whistle-blowing procedure.

The terms of reference of the Committee are reviewed annually by the Committee and then by the Board, and are available on the company's website at www.premier-oil.com. The Committee's terms of reference were updated during the year to reflect the recent changes to the UK Corporate Governance Code, in particular to require the Committee to advise the Board on whether the Committee believes 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 company's performance, business model and strategy.

Throughout 2013 the Committee consisted of myself, Joe Darby and Michel Romieu all of whom are independent non-executive directors. The Board is satisfied that the membership of the Committee meets the requirement for recent and relevant financial experience.

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

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

Meetings

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

Activities during the year

The Committee met four times in 2013 and has met once in 2014 to date.

Its January and March 2013 meetings focused primarily on the status of the 2012 risk management and internal control reviews, the 2013 plan for such reviews, and the 2012 full-year audited results and Annual Report and Financial Statements together with the Committee's annual review of the effectiveness of internal controls. In January the Committee discussed the launch of a root-and-branch review during 2013 of the group's IT Security Policy. In March the Committee reviewed progress in the development of the group's new HR Information System, previously identified as one of the risk areas for the group. The Committee was also briefed on the Corporate Governance Returns for 2012 which had identified no material omissions, deficiencies, weaknesses or non-compliance issues in Premier's management systems.

At its August meeting the Committee reviewed the half-year results and discussed the external auditor's report on its review of the half-year report and also considered the results of the group internal control reviews carried out in the first half of the year, the outcomes of and actions arising from a senior employee survey on risk culture, and progress in the development of a new corporate business management system. The August meeting also received a presentation on Cyber Security, prompted by a number of government initiatives on this subject. The Committee requested that it be kept updated on progress in managing risks in this area.

In December 2013 the Committee considered accounting and reporting issues relating to the full-year results and the external auditor's work plan, reviewed and approved the proposed audit fee, reviewed the status of the 2013 risk management and internal control reviews, focusing on the significant findings and actions, and reviewed and approved the scope of the 2014 audit plan for such reviews (steered by the major business risks faced by the group).

Activities during the year (continued)

In February 2014 the Committee reviewed the 2013 full-year results and the Annual Report and Financial Statements, discussed with the external auditor's its audit findings, and completed its annual review of the effectiveness of internal controls so as to be able to approve the statements on internal control and the management of risk in the Corporate Governance Report. The Committee also reviewed the effectiveness of the audit process and the independence of the auditor as a basis for considering reappointment, and reviewed its own effectiveness.

Risk management and internal control

The Audit and Risk Committee continues to be responsible for reviewing the adequacy and effectiveness of the group's risk management process designed to identify and mitigate the key risks facing the group. There is an ongoing process of refinement and embedding of risk management best practice through the group in accordance with the principles and guidelines set out in ISO 31000. Risk management and internal control in the group is discussed more fully in the Corporate Governance Report on pages 64 and 66. The Corporate Risk Register (CRR) is the principal record of information about identified risks and the controls in place to mitigate them, at departmental, asset/project, business unit and corporate function levels. Ongoing development and refinement of the CRR during 2013 has enabled risks and mitigating processes to be described in a more complete and consistent manner and the programme of financial and operational control reviews to be prioritised further against the most significant group business risks as ranked in the CRR. CRR functionality is continuously being improved to allow risks assessed to have a significant potential impact (which can be measured in terms of effect on net present value or other severity of consequence) and a higher likelihood of occurrence to be flagged and referred automatically up to the next level(s) in the organisation, enabling more effective top-down monitoring of risk.

Group Audit and Risk

An annual risk-based programme of audit and review is proposed to the Committee following discussion by Group Audit and Risk with functional and business unit management. The Committee considers and approves the programme, and monitors and reviews the scope and results of the audits and reviews carried out at each meeting, receiving reports covering progress against plan, significant findings and the action plans in place to address them.

Some thirty reviews of aspects of risk management and internal controls in operations and corporate functions were carried out during the year. In reviewing the findings from these reviews, the Committee noted that the work carried out had been increasingly directed towards the group's major risks, enabling the Committee to focus on the key issues and challenges facing the group. Recommendations to improve internal controls and/or to mitigate risks were agreed with the relevant business unit or corporate function management after each review and progress in implementing the recommendations was monitored by Group Audit and Risk.

The group continues to use both Premier staff with the necessary expertise and experience and third-party specialists to carry out the programme of review. In addition the group obtains independent confirmation of the effectiveness of internal controls from a variety of external sources, including joint venture and governmental financial and operational audits.

Financial reporting

The Committee reviewed the 2013 half-year and full-year financial results announcements and 2013 Annual Report and Financial Statements with the Finance Director and Group Financial Controller and considered the findings from the external auditor's review of the interim results and the audit of the 2013 financial statements. The areas of focus for the Committee included consistency of application of accounting practices and policies; compliance with financial reporting standards, 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 performance, business model and strategy.

The Committee considered in particular the following major financial statement items that require significant judgement and estimation:

Oil and gas reserves

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

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

Impairment of oil and gas properties

The determination of whether impairment of an oil and gas property has occurred and the extent of any such impairment or its reversal is necessarily based on a number of assumptions and judgements, relating in particular to future oil and gas prices, production volumes and costs together with the time value of money relating to the future cash flows involved.

The Committee received a detailed report on the outcome of the impairment review by management and noted that the oil and gas price assumptions were consistent with those used for budgeting and capital investment appraisal purposes and that production volumes were derived from the oil and gas reserves estimates discussed above, applying the same assumptions regarding future costs. As explained in note 9 to the financial statements, an impairment charge of US$178.7 million was made in respect of the Balmoral area. The Committee discussed with management the review that was carried out of the longer-term plans for the life of fields in the area and in particular the conclusion that additional maintenance and operating cost expenditure is expected to be required in order to ensure that remaining reserves will be extracted, together with greater decommissioning costs than previously anticipated, thereby reducing the recoverable amount of the asset and giving rise to the impairment loss.

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.

Recoverability of exploration and evaluation assets

The Committee satisfied itself by reference to the group's business plan and discussion with management that, in respect of all exploration and evaluation assets, either commercially viable resources have been discovered or substantive expenditure on further exploration and evaluation activities in the specific area is budgeted or planned.

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.

Taxation

The group currently produces oil and/or gas in five countries and is subject to complex hydrocarbon and corporate tax regimes in each of them. Judgements must be applied in order to make provision for the amounts of tax that are expected to be settled. Also, in order to continue to recognise the substantial deferred tax asset relating to tax losses in the UK, it must be probable that sufficient taxable profits will be available against which the tax losses can be utilised. This in turn requires assumptions about future profitability. The Committee discussed with management the status of discussions with relevant tax authorities and considered management's views on open issues, together with any related professional advice from external tax advisers. The Committee also discussed with management their projections of probable UK taxable profits to support the continued recognition of the deferred tax asset. Based on these discussions the Committee concluded that management's judgements regarding uncertain tax positions and the provisions made, and the continued recognition of the deferred tax asset, were appropriate.

As well as reviewing the above areas with management, the Committee received written commentary from Deloitte LLP (Deloitte) on each of them in their paper to the Committee on their audit findings, and these matters were discussed in detail during our February 2014 meeting.

External audit

Audit effectiveness

The Committee reviewed the auditor's work plan at the start of the audit cycle, considering in particular the auditor's assessment of the significant areas of risk in the group's financial statements, which for 2013 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 auditor 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 auditor and management's response. The Committee met privately with the external auditor twice in 2013 and in February 2014 at the conclusion of the 2013 audit.

The Committee also assessed the effectiveness of the audit process, based on its own direct 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 external auditor's fulfilment of the agreed audit plan and any variations from the plan;
- the robustness and perceptiveness of the auditor in handling the key accounting and audit judgements; and
- the quality of the auditor's recommendations for financial reporting process and control improvements.

AUDIT AND RISK COMMITTEE REPORT (continued)

External audit (continued)

Auditor independence and objectivity

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

The Committee believes that certain non-audit work may be carried out by the external auditor without compromising its 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 auditor, which can be found on the company's website. The use of the external auditor 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 auditor's objectivity that cannot be reduced to an acceptable level by applying safeguards. The Committee believes that there is non-audit work such as certain assurance and advisory services that may be best performed by the auditor as a result of its 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 external 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 external auditor to satisfy itself that the assignments concerned did not give rise to threats to the auditor's independence and objectivity. Details of audit and non-audit fees in the current year are provided in note 3 to the financial statements.

Deloitte are required to confirm to the Committee that they have both the appropriate independence and objectivity to allow them to continue to serve the members of the company. The Committee also requires the external auditor to confirm that in providing non-audit services, the auditor complies with the Ethical Standards for Auditors issued by the UK Auditing Practices Board. This confirmation was received for 2013.

In accordance with the Ethical Standards for Auditors, the audit engagement partner rotates at least every five years. The current audit engagement partner has been in the role for two years.

External audit appointment

The Committee considers the reappointment of the external auditor each year. Based on its review of the effectiveness of the 2013 audit and of the independence and objectivity of the external auditor, the Committee concluded that the auditor's effectiveness and independence has not been impaired in any way. The Committee has reported accordingly to the Board and recommended that the reappointment of Deloitte be proposed to shareholders for the year ending 31 December 2014.

Deloitte were initially appointed external auditor of the company in 2004 and the audit has not been put out to tender since that date. The rules governing audit appointments have recently been in a considerable state of flux. The UK Corporate Governance Code 2012 introduced a provision requiring FTSE 350 companies to put the external audit contract out to tender at least every ten years, or to explain why they have not done so. Under transitional arrangements published by the Financial Reporting Council, a company that has put the audit contract out to tender or changed audit firm in or after 2000 may defer the tender process. On this basis, the company would be able to defer an audit tender for a number of years. However, the Competition Commission has since announced that the requirement to put the external audit contract out to tender at least every ten years will be made mandatory by means of an Order from 2014 and the associated transitional provisions reduce the deferral period as they apply to us, to no later than the year ending 31 December 2018. Finally, European Union rules, are also close to finalisation and look likely to require auditor rotation every ten years, which individual Member States can extend to twenty years subject to a tender process at the mid-point of this cycle. The Audit and Risk Committee will consider the likely timing of an audit tender process once the details of these impending requirements are clear.

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.

By order of the Board

D C Lindsell
Chairman of the Audit and Risk Committee

26 February 2014

COMPANY RISK FACTORS

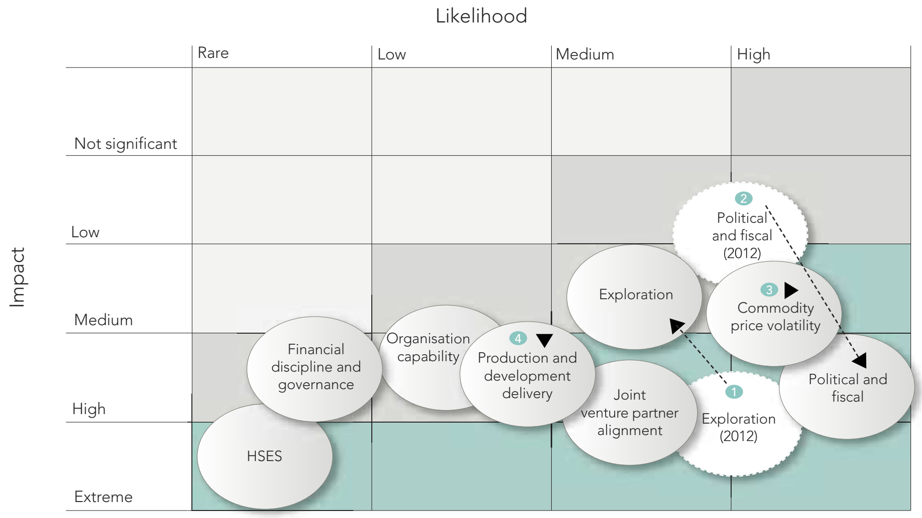
Premier's business may be impacted by various risks leading to failure to achieve strategic targets for growth, loss of financial standing, cash flow and earnings, and reputation. Not all of these risks are wholly within the company's control and the company may be affected by risks which are not yet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

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

A critical part of the risk management process is to assess the impact and likelihood of risks occurring so that appropriate mitigation plans can be developed and implemented. Risk severity matrices are developed across Premier's business to facilitate assessment of risk. The specific risks identified by 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 key risk factors identified from this approach are represented in the matrix below (which highlights and justifies significant movements since the previous reporting period) and the accompanying table summarises their potential impacts and our approach to managing them. The assessment of the impact and likelihood takes into account the risk mitigation measures currently applied.



Explanation of Risk Factor Movements compared with 2012 Annual Report:

1. **Exploration:** Exploration success in 2013 has reduced Likelihood. 2014 activity includes a number of potentially high-impact wells and (further in the future) Sea Lion, Iraq, Brazil and Kenya licences could be transformational.
2. **Political and Fiscal:** With the bare-boat tax proposals in the 2013 Chancellor's Autumn Statement, UK has confirmed its reputation as one of the more volatile fiscal environments. Significant political instability (often violent) in an increasing number of the countries of operational interest. Increasing resource nationalism in others. Growing Chinese assertiveness within South China Sea increases risk of stumbling into open conflict and disruption.
3. **Commodity price volatility:** US shale oil production increases likelihood of global oil price drop in 2014. Middle East, Ukraine Maghreb and sub-Saharan political instability (potentially violent) brings supply-side risks. Uncertain trajectory of Chinese economy increases demand-side volatility.
4. **Production and development delivery:** Impact has increased because cash flow from current and future production finances a number of future developments. The operation of ageing assets and mature fields in the UKCS in particular remains challenging.

COMPANY RISK FACTORS (continued)

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

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

NOMINATION COMMITTEE REPORT

Mike Welton
Chairman

On behalf of the Nomination Committee, I am pleased to present our report for the financial year ending 31 December 2013.

Composition and role of the Nomination Committee

The Committee comprises Joe Darby, Jane Hinkley, David Lindsell, Simon Lockett and Michel Romieu and is chaired by me.

The role of the Committee includes:

- Reviewing the structure, size and composition of the Board and making recommendations to the Board should any adjustments be required with due regard for the benefits of diversity on the Board, including gender. The Committee makes assessments on an ongoing basis to ensure that the Board comprises the appropriate skills mix required in light of the strategy of the company in the medium-term;
- Responsibility for preparing descriptions of the role and capabilities required for any Board vacancy and identifying and nominating candidates, subject to Board approval;
- Reviewing the leadership potential of senior executives below Board level, ensuring that appropriate succession and development plans are in place for both Board and senior positions; and
- Reviewing and approving Premier's policy on Board diversity (below) including consideration of objectives for delivery and how the policy can be measured.

Board diversity policy

The Board is 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. When preparing for a new Board appointment, external search companies will be requested to prepare a short list which takes into account the capabilities, skills and experience required for the role, as well as diversity of the Board in its widest sense, including gender diversity. The Board will consider the proportion of women on the Board as part of its assessment when selecting a candidate for a Board position. The Board fully embraces a culture based upon equal opportunities in the workplace. To this end, the Board will maintain its practice of embracing diversity in all its forms but has chosen not to set any measurable objectives.

2013 agenda

The Committee met twice in 2013. Its core agenda concerned future organisation structures at a senior level, in particular the Executive Committee and their direct reports. Key concerns have been to ensure that the organisation has the depth of talent required to run the business units in the future as well as to provide specialist functional leaders as and when needed.

The Committee also monitored a number of new initiatives launched in 2013 which are designed to contribute to the development of future leaders. These included:

- The personal development for middle and senior managers arising from the results of the 360 degree feedback programme for 70 leaders which undertook to identify and clarify development priorities;
- A mentoring programme launched to provide managers with the opportunity to be mentored by a colleague; and
- A new Graduate Programme with the first trainees commencing their three-year programme in October 2013 and working as drilling engineers, a reservoir engineer, a mechanical engineer and a geoscientist. The programme is designed to give them global work experience whilst being sponsored and mentored from the UK.

Following the unexpected death of Professor David Roberts in July 2013, the Committee led the process for the recruitment of two non-executive directors. The Committee agreed a job specification for the vacancies, taking into account the capabilities required for the roles and an estimate of the time commitment required. An external search consultancy, Ridgeway Partners, was selected to facilitate the recruitment process. Ridgeway Partners are a signatory to the Voluntary Code of Conduct for Executive Search Firms. A gender-neutral list of potential candidates for the roles was provided by Ridgeway Partners to ensure that gender diversity, as well as diversity in general, was taken into account by the Committee and the Board in selecting the chosen candidates. Ridgeway Partners has no other connection with the company. The new directors are David Bamford and Anne Marie Cannon.

Planning for 2014

The Nomination Committee has also focused on the development and implementation of a number of new programmes in 2014 to identify and develop talented people in the group. These include:

- The completion of a competency mapping project to identify the skills and expertise required for particular functional and business unit management roles;
- The roll-out of a talent review programme to identify those with the highest potential to grow into future senior leaders and consider the appropriate succession plans to enable them to fulfill their potential;
- The bedding in of the UK Graduate Programme; and
- The development of a leadership programme with an external partner to develop the commercial and behavioural skills needed to lead the business in the future.

The key focus for the Nomination Committee continues to be the need to develop the talent that Premier will require in order to grow the business in line with agreed strategies and plans.

By order of the Board

M W Welton
Chairman

26 February 2014

OTHER STATUTORY DISCLOSURES

The directors present their annual report on the affairs of the group, together with the audited group financial statements for the year ended 31 December 2013. There are certain disclosure requirements which form part of the directors' report and are included elsewhere in this annual report as detailed below. Likely future developments in the business of the company are included within the Strategic Report. Research and development activities are included in the business review. Information regarding the company's policy concerning employees including employment of disabled persons is included within the Corporate Responsibility Report. In addition, information regarding the company's greenhouse gas emissions is included in the Corporate Responsibility Report. Information regarding the company's governance arrangements is included in the Corporate Governance Report and related Board committee reports.

Dividends

The directors propose a final dividend of 5 pence per ordinary share. Subject to shareholder approval at the 2014 AGM, the final dividend will be paid on 21 May 2014 to shareholders whose names appear on the Register of Members on 22 April 2014.

Annual General Meeting

The company's 12th AGM will be held on Wednesday 14 May at 11.00am. The Notice of the AGM, together with details of all resolutions which will be placed before the meeting, accompanies this report and is also available online at www.premier-oil.com.

Directors

The directors who served throughout the year are shown on pages 58 and 59; Professor David Roberts also served as a director until 4 July 2013. Following the financial year end, on 1 February 2014, Anne Marie Cannon was appointed a non-executive director. As announced on 24 January 2014, David Bamford will be joining the Board as a non-executive director with effect from 1 May 2014. Both Anne Marie Cannon and David Bamford will stand for election by shareholders at the 2014 AGM.

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 re-election by shareholders at the next AGM. Further detail regarding the appointment and replacement of directors is included in the Corporate Governance Report.

Directors' indemnities

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

Related party transactions

Andrew Lodge, Exploration Director, is a non-executive director of Egdon Resources plc, an AIM listed company in which Premier Oil plc owns an indirect interest, via its subsidiary EnCore Oil Limited, of 27.07 per cent as at 26 February 2014. EnCore Oil Limited has provided a loan facility to Egdon Resources plc, details of which are given in note 24.

Share capital

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

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. No shares were bought back during the year. The current authority, approved at the 2013 AGM, for the allotment of relevant securities is for a nominal amount of up to (i) £22,046,280 and (ii) equity securities up to a nominal amount of £44,092,560 less the nominal amount of any shares issued under part (i) of the authority. These standard authorities are renewable annually and the directors will seek to renew the authority to issue and buyback its own shares at the 2014 AGM.

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 19. The voting rights in relation to the shares held within the Employee Benefit Trust are exercisable by the trustees but they have 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 Report on page 98. No person has any special rights of control over the company's share capital and all issued shares are fully-paid.

Significant shareholdings

As at 26 February 2014 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 (three 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	Nature of holding
AXA Investment Managers SA[1]	24/10/2011	40,173,814	8.58%	Indirect
Schroders plc	02/02/2012	27,072,247	5.12%	Indirect
Artemis Investment Management LLP	27/11/2013	26,509,959	5.01%	Direct & Indirect
Aviva plc and its subsidiaries[1]	27/04/2009	3,933,529	4.95%	Direct & Indirect
Ameriprise Financial Inc	20/01/2012	24,666,346	4.66%	Direct & Indirect
Norges Bank	10/06/2013	21,351,817	4.04%	Direct
Legal & General Group Plc	20/12/2013	16,089,316	3.04%	Direct

Notes:

1. Interests shown for AXA Investment Managers SA pre-date the EnCore transaction and related share issue in 2012; interests shown for Aviva plc pre-date the Share Split in 2011.

Hedging and risk management

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

Political donations

No political contributions were made during the year (2012: US$nil).

Auditor

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

- so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- the director has taken all reasonable steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

On the recommendation of the Audit and Risk Committee, resolutions to reappoint Deloitte LLP as the company's auditor and to authorise the directors to determine the auditor's remuneration will be put to shareholders at the forthcoming AGM.

By order of the Board

S C Huddle
Company Secretary

26 February 2014

REMUNERATION REPORT

ANNUAL STATEMENT

Jane Hinkley
Chairman of the Remuneration Committee

Dear fellow shareholder

On behalf of the Board, I am pleased to present the 2013 Directors' Remuneration Report which we have presented in accordance with Schedule 8 of the Large and Medium-sized Companies and Groups Regulations 2013. In doing so, we have divided the Report into two sections:

- The Policy Report, which sets out our forward-looking remuneration policy. We propose that this will apply from the date of our 2014 AGM, subject to obtaining shareholder approval at the AGM; and
- The Annual Report on Remuneration, which sets out how our directors were paid in the year ending 31 December 2013 and how the Policy will apply for the year ending 31 December 2014.

As part of the new reporting arrangements, the Directors' Remuneration Report will be subject to two votes at our 2014 AGM. As set out in the Notice to the AGM, the Policy Report will be put to a binding vote, and the Annual Report on Remuneration will be put to an advisory vote. We fully support the aim of these reporting arrangements of increasing transparency, and we welcome any feedback you have on our Remuneration Report.

The Remuneration Committee ('the Committee') aims to ensure that our remuneration policy, which is weighted towards variable performance related pay, serves shareholder interests and closely reflects the company's business strategy. The Committee believes that the current remuneration policy ('the Policy') continues to meet these objectives, and for this reason, we are not proposing any changes to the Policy for 2014.

The Committee is mindful of the need to demonstrate the link between remuneration and performance of the company, and is satisfied that the incentive outcomes in 2013 prove this to be the case. The Long Term Incentive Plan (LTIP) awards granted in 2011 were subject to three year absolute and relative Total Shareholder Return (TSR) performance; the company's TSR over this period was below threshold and as a result the 2011 LTIP awards did not vest – the only LTIP awards to be released in early 2014 will be the deferred 2008 Asset and Equity Plan (AEP) awards. Further, in determining the 2013 annual bonus awards, the Committee assessed performance against a scorecard of financial and operational measures, as well as individual performance; only a proportion of the scorecard targets were achieved, resulting in bonus awards to the executive directors of no more than 26 per cent of salary. The Committee considers that these incentive outcomes are appropriate given the performance of the company during 2013.

During 2014, the Committee will be reviewing the effectiveness of the LTIP (in which all staff are eligible to participate) in attracting, retaining and motivating our global below-Board employee population. As part of this review, the company will assess whether this population could be better incentivised by rewarding those performance metrics that provide better line-of-sight (e.g. project specific measures) rather than share price performance, which can be too remote for many of our staff. Any changes to the LTIP for the below-Board population may, of course, justify some changes to the LTIP structure for the executive directors also. We expect that the review will be concluded during 2014, at which point we will consult shareholders on any substantive changes and seek shareholder approval, as appropriate.

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

Yours sincerely

I J Hinkley
Chairman of the Remuneration Committee

26 February 2014

Directors' Remuneration Report

This report has been prepared in accordance with Schedule 8 of the Large and Medium-sized Companies and Groups Regulations 2013. The Companies Act 2006 requires the auditor to report to shareholders on certain parts of the Directors' Remuneration Report and to state whether, in the auditor's opinion, those parts of the report have been properly prepared in accordance with the 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

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

Specifically, remuneration packages are designed with the following objectives in mind:

- Gear remuneration significantly towards performance-related pay to support direct alignment with shareholders and a highly performance-oriented culture;
- Provide annual incentives that reward achievement of short-term objectives key to delivering the long-term strategy, encompassing financial, operational and strategic measures;
- Ensure a particular emphasis on long-term performance, to encourage direct alignment with shareholders, retention and long-term motivation;
- Incorporate significant deferral requirements to support staff retention and lengthen the incentive time horizon;
- Ensure incentive payments are commensurate with the company's underlying performance.

This section of the report sets out the Policy for executive and non-executive directors which shareholders are asked to approve at the 2014 AGM. If approved, the Policy will come into effect from the date of the AGM. The remuneration package for 2014 is consistent with this Policy and is discussed in more detail in the Annual Report on Remuneration on pages 96 to 97.

Executive director policy

The 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 three relevant comparator groups, comprising: (i) international oil & gas sector companies, (ii) the constituents of the LTIP TSR comparator group, and (iii) UK-listed companies of a similar market capitalisation and revenue to Premier • Adjustments are normally effective 1 January • Salaries are paid monthly in arrears
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. However, 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 • The executive director salaries for the financial year under review are disclosed in the Annual Report on Remuneration
Performance metrics	• Not applicable

REMUNERATION REPORT (continued)

Executive director policy (continued)

Pension	
Purpose and link to strategy	• To help provide a competitive pension provision
Operation	• Executive directors who join Premier on or after 20 August 2013 are eligible to participate in the company's defined contribution personal pension plan and/or receive an equivalent cash supplement • For executive directors who joined prior to 20 August 2013, the company provides a pension substantially as if they are contributing members of the company's final salary Retirement and Death Benefits Plan (the 'Scheme'), which was closed to new members in 1997 • The only pensionable element of pay is salary
Opportunity	• Executive directors who join Premier on or after 20 August 2013 receive pension contributions and/or an equivalent cash supplement equal to 20 per cent of salary • For executive directors who joined prior to 20 August 2013 the Scheme provides a payment on broadly a fiftieths accrual basis up to two-thirds of salary at age 60, with benefits actuarially reduced on early retirement and pensions in payment increased in line with the lower of inflation, or five per cent per annum. The Scheme is subject to an internal earnings cap which is reviewed annually but for executive directors, the company provides for pension benefits above the earnings cap through a 'pension promise', based on the cash equivalent transfer value of benefits accrued within the defined benefit scheme for earnings above the earnings cap. The way that 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 defined benefits 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 and critical illness cover, 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

Executive director policy (continued)

Share Incentive Plan (SIP)	
Purpose and link to strategy	• To encourage share ownership in Premier
Operation	• An HMRC approved scheme under which employees (including executive directors) are invited to make contributions to buy partnership shares using gross pay. If an employee agrees to buy partnership shares the company currently matches the number of partnership shares with 'matching shares' which are subject to continued employment for a minimum of three years • Dividends accrue on both partnership shares and matching shares, and any historical free shares (no longer awarded), and are automatically reinvested
Opportunity	• Employees may spend up to the HMRC permitted allowance to buy partnership shares • Matching shares are granted based on investment in partnership shares and up to the HMRC permitted match
Performance metrics	• Not applicable

Save As You Earn (SAYE)	
Purpose and link to strategy	• To encourage share ownership in Premier
Operation	• An HMRC approved scheme under which employees (including executive directors) are invited to make regular monthly contributions over three or five years to purchase shares through options which are granted at a 20 per cent discount to the mid-market closing price on the day prior to the date of grant
Opportunity	• 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 measured 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 • Each performance measure has Threshold and Stretch targets. The final bonus outcome is determined by the Committee, having assessed achievement against corporate as well as personal targets, taking into account the Committee's broader assessment of overall company performance • Annual bonus awards up to 50 per cent of salary are paid in cash. Any annual bonus earned above 50 per cent of salary is deferred in shares for three years • Dividend equivalents accrue on deferred share awards and are paid on vesting, in accordance with the rules of the bonus plan • Annual bonus payouts and deferred shares are also subject to clawback in the event of 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 the payment of the bonus or the vesting of the shares, or (ii) the completion of the next audit after payment/vesting
Opportunity	• The annual bonus provides for awards of between 0 per cent and 100 per cent of salary for executive directors

REMUNERATION REPORT (continued)

Executive director policy (continued)

Annual Bonus (continued)	
Performance metrics	• Performance is assessed against a scorecard encompassing several performance categories, which may include some or all of: production, exploration, HSES, finance, business development, and personal and strategic objectives • Normally, the Committee would not expect the weighting for any performance category 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 uses its judgment to determine the overall scorecard outcome based on the achievement of the targets and the Committee's broad assessment of 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 page 92

LTIP	
Purpose and link to strategy	• To support alignment with shareholders by reinforcing the delivery of absolute and relative returns to shareholders, through the delivery of strong share price growth and 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 LTIP comprises three elements: Equity Pool Awards, Performance Share Awards and Matching Share Awards • Equity Pool Awards are based on an allocation of units in the Equity Pool. The Equity Pool is funded by a percentage share of the growth in the company's equity value per share over a performance period, if growth above the threshold level has been achieved. At the end of a performance period, Equity Pool Awards are awarded as shares calculated on the mid-market closing share price on the day prior to the date of award • Performance Share Awards are conditional share awards granted annually, with the grant value defined as a percentage of salary at the date of grant • 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, which is granted as shares and is subject to a further three-year performance period • For Performance Share Awards and Matching Share Awards, dividend equivalents may accrue and be paid on vesting in proportion to performance achieved, in accordance with the rules of the Plan • Award levels are reviewed before each award cycle to ensure they remain appropriate • All LTIP awards are subject to 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
Opportunity	• Executive directors may be awarded a share of the Equity Pool. The Committee intends to continue with the existing approach of awarding not more than 6 per cent of the Equity Pool to any one individual, though it retains the discretion under the Plan to award more than 6 per cent in exceptional circumstances, such as recruitment. The value of vested awards is subject to a limit of 100 per cent of salary, but which may be exceeded, at the discretion of the Committee, up to the full value warranted by the size of the Equity Pool provided the Committee is satisfied with the underlying performance of the company. The Committee also has discretion to reduce the size of the Equity Pool if the formulaic outcome is not reflective of the company's underlying performance • Performance Share Awards may be granted up to 150 per cent of salary • Matching Share Awards may be granted up to 2.5 times the number of shares deferred

Executive director policy (continued)

LTIP (continued)

Performance metrics	• The funding of the Equity Pool is based on three-year annualised compound growth in the company's equity value per share. Threshold performance requires compound growth in the company's equity value per share of at least 10 per cent per annum at which 1 per cent of the compound growth is credited to the Equity Pool. A maximum of 2.5 per cent of the compound growth is credited to the Equity Pool when growth in equity value per share is 20 per cent per annum. The funding rate is based on straight-line interpolation between these points • Performance Share Awards vest on three-year TSR relative to a comparator group of international oil and gas sector peers. 25 per cent vests for median performance, with full vesting for upper quartile performance and straight-line vesting in between • Matching Share Awards vest on three-year TSR relative to a comparator group of international oil and gas sector peers. 25 per cent vests for median performance, with full vesting for upper decile performance and straight-line vesting in between • Before finalising long-term incentive payouts, the Committee assesses the underlying financial and operational performance of the company, and if appropriate, may reduce the level of vesting. In assessing the underlying performance of the company, the Committee may consider Net Asset Value per share, finding and development costs per barrel, delivery of the strategy, relative TSR, returns on invested capital, reserves replacement, operating cash flow, earnings per share (EPS) growth, health and safety record, and other measures as the Committee deems appropriate • 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 of 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

Further details on the policy

Performance measure selection

Annual bonus

The annual bonus is based on a corporate scorecard capturing financial, operational and strategic objectives that are key to achieving our long-term strategy. Performance measures, weightings and targets are set at the beginning of the year to reflect KPIs, business priorities and other corporate objectives, and encompassing both financial and non-financial criteria.

Performance targets are set at such a level as to be stretching but achievable, with regard to the particular strategic priorities and economic environment in a given performance period.

LTIP

The LTIP ensures alignment with shareholders, being based on both absolute and relative TSR. The chart below illustrates how the three elements of the LTIP operate. A single cycle of the LTIP covers a total of six years:

2014	2015	2016	2017	2018	2019	2020
1. LTIP Equity Pool cycle						
2. LTIP Performance Share cycle						
Performance period			***Deferral period***			
Award			50% of vested award is released			Balance is released
			3. LTIP Matching Share cycle			
			Performance period			
			Award			Vested award is released

Further details on the policy (continued)

The Committee believes TSR appropriately rewards the delivery of the company's strategy and also aligns management's interests with those of shareholders. Absolute TSR captures the absolute return delivered to shareholders and relative TSR measures performance on a relative basis, thereby helping to negate the impact of uncontrollable forces such as oil price movements on the reward delivered through the LTIP. The review of the company's underlying performance before LTIP payouts are finalised ensures the impact of external factors are taken into account where appropriate. The performance measures applied to LTIP awards are reviewed periodically to ensure they continue to support shareholders' interests and are appropriately aligned to Premier's long-term strategy.

Targets are geared to provide the opportunity to achieve above market levels of pay only through exceptional sustained relative TSR performance over six years.

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.

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 potentially delivered through long-term share-based incentives to ensure maximum alignment with shareholders. 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 deferred bonus and LTIP until such a time they have reached a holding worth 100 per cent of salary (200 per cent for the Chief Executive). Details of the current shareholdings of the executive directors are in the Annual Report on Remuneration on page 98.

Payments from existing awards

Any commitment made prior to, but due to be fulfilled after, the approval and implementation of the remuneration Policy detailed in this report will be honoured. Such commitments are as follows:

- The AEP preceded the LTIP as the company's main long-term incentive and expired in 2009. Messrs Lockett, Allan, Durrant, Hawkings and Lodge hold awards under this plan, the last of which are due to vest in 2014. Details of the AEP awards are provided in the Annual Report on Remuneration on page 103.
- Mr R A 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. The pension he had accrued as at November 1999 was £25,409. Further information on Mr Allan's pension arrangements is provided in the Annual Report on Remuneration on page 94.

Illustration of application of the executive director remuneration policy

Remuneration is significantly geared towards performance-orientated pay, with particular emphasis on long-term performance. For example, at 'on-target' performance, approximately 55 per cent of the Chief Executive's remuneration package is delivered through variable components, rising to approximately 88 per cent at 'maximum' performance. The maximum value is delivered only if upper quartile TSR is delivered against sector peers over six years, with a requirement for upper decile performance in the last three years.

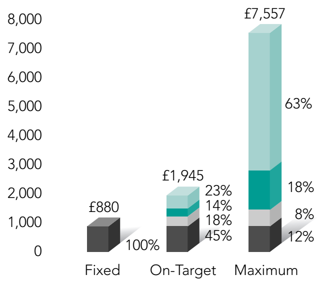
Illustration of application of the executive director remuneration policy (continued)

The performance scenario charts illustrate remuneration receivable for different performance scenarios. The assumptions underlying each performance scenario are provided in the table below:

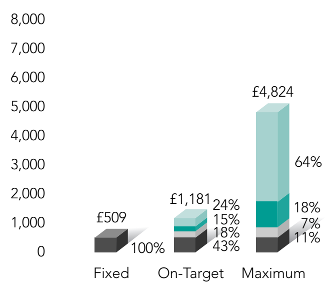
	Remuneration receivable for different performance scenarios		
	Fixed	**On-Target**	**Maximum**
Fixed pay	• 2014 salary, as disclosed in the Annual Report on Remuneration on page 96 • 2013 pension and taxable benefits as provided in the single figure table in the Annual Report on Remuneration on page 91		
Annual bonus	Nil payout	Payout of 60 per cent of salary	Payout of 100 per cent of salary
LTIP	Nil payout	• Equity Pool based on 1 per cent of the change in market value and equity value per share appreciation of 10 per cent per annum compound growth • Performance Shares vesting at 25 per cent of award • Matching Share Awards (matched over deferred Equity Pool Awards and Performance Share Awards) vesting at 25 per cent of award	• Equity Pool equity value per share growth based on 2.5 per cent of the change in market value and equity value per share appreciation of 20 per cent per annum compound growth • All Performance Shares vest in full • All Matching Share Awards (matched over deferred Equity Pool Awards and Performance Share Awards) vest in full

The charts below illustrate the potential reward opportunities for each executive director for the three performance scenarios.

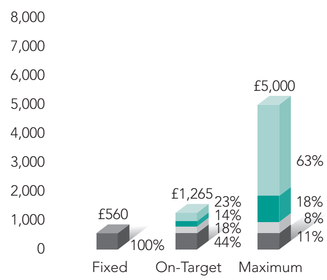
S C Lockett, Chief Executive
(£000s)



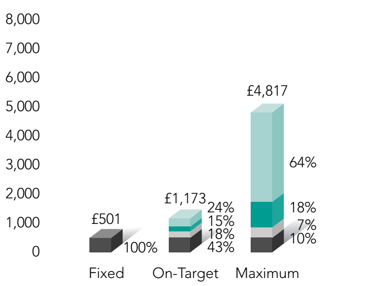
R A Allan, Director, Business Units
(£000s)



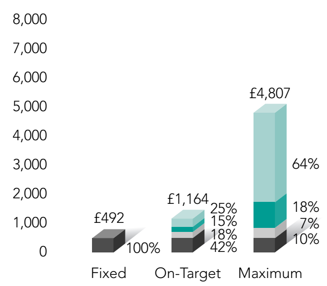
A R C Durrant, Finance Director
(£000s)



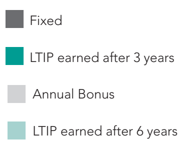
N Hawkings, Director, Falkland Islands
(£000s)



A G Lodge, Exploration Director
(£000s)



The percentages represent the proportion that each type of pay contributes to the total remuneration in that particular scenario.



Note:

The valuation of Deferred Bonus Shares, Performance Share Awards and Matching Share Awards excludes share price appreciation. However, Equity Pool Awards assume equity value per share compound growth of 10 per cent p.a. at on-target performance and equity value per share growth of 20 per cent p.a. at maximum performance. It should also be noted that the LTIP is subject to a performance period of up to six years: EPA and PSA awards are assessed on three year performance and MSA awards, which are based on the number of EPA and PSA shares deferred, are subject to a further three year performance period.

Approach to executive director recruitment remuneration

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 approach to variable pay on recruitment is summarised in the table below:

Component	Approach	Maximum annual opportunity
Annual Bonus	The annual bonus described in the Policy Table will apply to new appointees with the relevant maximum being pro-rated to reflect the proportion of employment over the year. Targets for the individual element will be tailored towards the executive	100 per cent of salary
LTIP	New appointees will be granted awards under the LTIP on the same terms as other executive directors, as described in the Policy Table	Equity Pool Awards: up to 6 per cent of the Equity Pool, which may be exceeded in exceptional circumstances Performance Share Awards: up to 150 per cent of salary Matching Share Awards: up to 2.5 times the number of deferred Equity Pool Awards and deferred Performance Shares

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 executive directors are as follows:

Director	Contract date	Unexpired term of contract
S C Lockett	09.12.03	Rolling contract
R A Allan	09.12.03	Rolling contract
A R C Durrant	01.07.05	Rolling contract
N Hawkings	23.03.06	Rolling contract
A G Lodge	20.04.09	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 and benefits in kind and pension rights during the notice period, together with payment in lieu of any accrued but untaken holiday leave, if applicable. There are provisions for termination with less than 12 months' notice by the company in certain circumstances. If such circumstances were to arise, the executive director concerned would have no claim against the company for damages or any other remedy in respect of the termination. The Committee would apply general principles of mitigation to any payment made to a departing executive director and will honour previous commitments as appropriate, considering each case on an individual basis.

Service contracts and exit payments and change of control provisions (continued)

The table below summarises how the awards under the annual bonus and LTIP 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		
'Good leaver'	• Annual bonuses are paid at the same time as to continuing employees • Unvested deferred share 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 share awards
Change of control[1]	• Annual bonuses are paid and unvested deferred share awards vest on effective date of change of control	• 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
LTIP		
'Good leaver'	• On normal vesting date (or earlier at the Committee's discretion)	• Unvested awards vest to the extent that any performance conditions have been satisfied and a pro-rata reduction applies to the value of the awards to take into account the proportion of vesting period not served • Deferred shares vest in full
'Bad leaver'	• Unvested awards lapse	• Unvested awards lapse on cessation of employment • Outstanding deferred shares vest on cessation of employment
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 served • Outstanding deferred shares vest in full

Notes:

1. In certain circumstances, the Committee may determine that deferred share awards under the annual bonus and both unvested and deferred awards under the LTIP will not vest on a change of control and 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 98.

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 the company-wide pay tracks against the market. When awarding salary increases to executive directors, the Committee takes account of the salary increases across the group, 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 from time to time to discuss the remuneration Policy. 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. In relation to the 2013 financial year, the Committee Chairman contacted Premier's major shareholders and proxy advisor firms. Feedback from the consultation was predominantly positive. Shareholders generally support the executive director remuneration structure, which ensures pay is highly performance-orientated and heavily weighted to long-term performance, and little concern was noted with regard to the annual bonus and salaries. Some shareholders suggested that the Committee consider simplifying the multifaceted LTIP and that greater disclosure of assessment of the LTIP underpin would be beneficial. Premier is mindful of the views it receives in its annual consultations. To this end, the company will continue to review the structure of the LTIP and will, in years when the LTIP meets its performance thresholds, disclose performance under the LTIP underpins subject to commercial sensitivity issues.

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 in the 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
M W Welton	2009	16.10.2012
A M Cannon[1]	2014	24.01.2014
J Darby	2007	17.10.2013
I J Hinkley	2010	17.10.2013
D C Lindsell	2008	16.01.2014
M Romieu	2008	16.01.2014

Notes:

1. Ms A M Cannon will be subject to election at the AGM to be held in 2014.

The company announced in January 2014 the intended appointment of Mr D Bamford as a non-executive director with effect from 1 May 2014. Mr Bamford will be subject to election at the AGM to be held in 2014.

Non-executive director Remuneration Policy (continued)

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 reviewed at least every two years • Fees are set with reference to three relevant comparator groups, comprising: (i) international oil & gas sector companies, (ii) the constituents of the LTIP TSR comparator group, and (iii) UK-listed companies of a similar market cap and revenue to Premier. The fees also take into account the time commitments of the non-executive directors • 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
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 2013

As at 31 December 2013, the Committee comprised three non-executive directors and the Committee met six times during the year. The members of the Committee and their attendance are summarised below:

Committee member	Member throughout 2013	Number of meetings attended[1]
I J Hinkley	✓	6
J Darby	✓	6
D C Lindsell	✓	5
D G Roberts[2]	See note	2

Notes:

1. There were 5 scheduled meetings of the Committee during the year. One meeting was additionally called (attended only by Ms I J Hinkley and Mr J Darby).
2. Professor David Roberts died on 4 July 2013.

During 2013, the Committee's main responsibilities included:

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

During the year, Stephen Huddle, Company Secretary, acted as Secretary to the Committee. Nigel Wilson, Corporate Services Director, attended Committee meetings as appropriate; Lee Johnson, former Group Head of HR, attended meetings as appropriate prior to his departure in June 2013; and, Kay Penney, who was appointed Group Head of HR in July 2013, also attended meetings as appropriate.

The Board considers that the membership of the Committee is compliant with the UK Corporate Governance Code recommendations. No individual is involved in determining their own remuneration. The Committee acts within its agreed written terms of reference, which are published on the company's website (www.premier-oil.com).

Advisers

Kepler Associates ("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 their independence. Kepler is a founding member and signatory to the Code of Conduct for Remuneration Consultants, details of which can be found at www.remunerationconsultantsgroup.com. In 2013, Kepler provided advice on remuneration for executives, market and best practice guidance, assisted with drafting the Directors' Remuneration Report and attended Committee meetings. Kepler reports directly to the Committee and provides no other services to the company. Their total fees for the provision of remuneration services in 2013 were £138,475 on the basis of time and materials.

During the year the Committee also took advice from Capita in relation to pension policy and from PwC to provide performance updates on outstanding LTIP awards, including vesting of 2010 Equity Pool, Performance Share and Matching Share Awards. Total fees for Capita for the provision of remuneration services in 2013 were £4,000, on the basis of time cost fees. Total fees for PwC for the provision of remuneration services in 2013 were £35,000, on a fixed fee basis.

The Committee evaluates the support provided by its advisers annually and is satisfied that the advice it received in 2013 was objective and independent.

Statement of shareholder voting at the 2013 AGM

The following table shows the results of the advisory vote on the Directors' Remuneration Report for the year ending 31 December 2012 at the 2013 AGM and for the year ended 31 December 2011 at the 2012 AGM. The level of support for the 2012 Directors' Remuneration Report was broadly unchanged from the previous year:

	2013 AGM		2012 AGM	
	Total number of votes	% of votes cast	Total number of votes	% of votes cast
For	321,947,699	90.6%	329,048,105	90.7%
Against	33,332,549	9.4%	33,720,372	9.3%
Total votes cast (excluding withheld votes)	355,280,248	100.0%	362,768,477	100.0%
Votes withheld	234,212		2,308,778	
Total votes cast (including withheld votes)	355,514,460		365,077,255	

Single total figure of remuneration for executive and non-executive directors (audited)

Single total figure of remuneration for executive directors

The table below reports a single figure for total remuneration for each executive director, calculated in accordance with the Large and Medium-sized Companies and Groups Regulations 2013.

	Salary[1] £000s		Taxable benefits[2] £000s		Annual bonus[3] £000s		Long-term incentives[4] £000s		Pension[5] £000s		Other Payments[6] £000s		Total £000s	
	2013	2012	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012
S C Lockett	**555.0**	530.0	**24.7**	22.0	**133.2**	238.5	**–**	1,754.7	**286.0**	181.5	**3.8**	1.5	**1,002.7**	2,728.2
R A Allan	**345.0**	330.0	**20.8**	258.7	**82.8**	148.5	**–**	1,084.6	**134.6**	83.5	**1.5**	5.2	**584.7**	1,910.5
A R C Durrant	**377.0**	360.0	**22.5**	23.6	**98.0**	162.0	**–**	1,116.0	**150.7**	101.7	**1.5**	5.2	**649.7**	1,768.5
N Hawkings	**345.0**	330.0	**21.1**	21.4	**82.8**	148.5	**–**	1,084.6	**126.6**	89.5	**1.5**	3.7	**577.0**	1,677.7
A G Lodge	**345.0**	330.0	**21.6**	24.1	**86.3**	148.5	**–**	607.5	**116.6**	105.5	**3.8**	1.5	**573.3**	1,217.1

Notes to 2013 figures (unless stated):

1. Salary is shown on a gross basis.
2. Taxable benefits include medical and dental insurance, car allowance, life assurance and critical illness cover, health insurance and a subsidised gym membership. In particular, in 2013, all executive directors received a car allowance of £15,000.
3. Annual bonus awarded for performance in 2013. See page 92 of the Annual Report on Remuneration for further details on performance criteria, achievement and resulting awards to each executive director.
4. LTIP consists of 2011 Equity Pool Awards, 2011 Performance Share Awards, and 2011 Matching Share Awards (matched over deferred awards under the AEP in 2008) for which the performance period completed on 31 December 2013 and no awards vested. See page 93 of the Annual Report on Remuneration for further details on performance criteria. LTIP figures for 2012 have been restated to reflect the number of vested shares multiplied by the share price on the date of vesting (2012 Annual Report and Financial Statements quoted vested shares multiplied by the average three month share price to 31 December 2012).
5. Pension figures are accrued pension entitlements and exclude director contributions. See page 94 of the Annual Report on Remuneration for further details on total pension entitlements for each executive director.
6. Includes SIP awards and SAYE options granted in line with the Policy on page 81. Each executive director was awarded £1,500 SIP matching awards during the year; SIP awards are valued as the number of matching awards granted multiplied by the share price at date of award. Messrs S C Lockett and A G Lodge were each awarded 2,865 SAYE options on 10 May 2013. The value of SAYE options is the embedded value at grant (20 per cent discount multiplied by the number of options granted). Full details of executive director SAYE options and SIP share awards are available on page 104 to 105 of the Annual Report on Remuneration.

Single total figure of remuneration for non-executive directors

	Base fee £000s		Additional fees[1] £000s		Total £000s	
	2013	2012	**2013**	2012	**2013**	2012
M W Welton (Chairman)	**169.6**	160.0	**–**	–	**169.6**	160.0
D G Roberts[2]	**30.9**	50.0	**–**	–	**30.9**	50.0
J Darby	**53.0**	50.0	**10.6**	10.0	**63.6**	60.0
I J Hinkley	**53.0**	50.0	**10.6**	10.0	**63.6**	60.0
D C Lindsell	**53.0**	50.0	**10.6**	10.0	**63.6**	60.0
M Romieu	**53.0**	50.0	**–**	–	**53.0**	50.0

Notes:

1. During the year, J Darby acted as Senior Independent Director, D C Lindsell was Chairman of the Audit and Risk Committee, and I J Hinkley was Chairman of the Remuneration Committee. M W Welton was the Company Chairman and was also Chairman of the Nomination Committee.
2. Professor D G Roberts died on 4 July 2013.

Single total figure of remuneration for executive and non-executive directors (audited) (continued)

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 (2012: £10,000) for acting as Senior Independent Director, as Chairman of the Audit and Risk Committee, as Chairman of the Remuneration Committee or as Chairman of the Nomination Committee. The company Chairman, who is also the Chairman of the Nomination Committee, currently waives this fee. Non-executive director fees were last reviewed with changes effective from 1 January 2013, and the next review is due to be effective 1 January 2015.

Annual bonus in respect of 2013 performance

In line with the Policy, during 2013 executive directors participated in non-pensionable annual bonus arrangements. The 2013 annual bonus provided for awards of between 0 per cent and 100 per cent of salary for executive directors. Annual performance was assessed against a performance scorecard encompassing production, exploration, HSES, finance and business development, as well as personal performance.

In assessing the 2013 bonus payout, the Committee reviewed performance against each measure and applied judgement to determine the overall bonus level, taking into account other aspects of performance.

During 2013, performance was assessed 80 per cent on financial and operational targets and 20 per cent on personal objectives. The table below summarises the financial and operational performance categories, their relative weightings and achievement against specific targets. The actual target range has not been disclosed as this is considered to be commercially sensitive information. Retrospective disclosure of the targets will be provided when they are deemed no longer sensitive. Each executive director's achievement against the personal targets is also summarised below.

Targets					
			Performance achievement		
Category	**Weighting**	**Measure**	**Below threshold**	**Between threshold and stretch**	**At or above stretch**
Production	24%	Daily average (kboepd)	✓		
		Exit rate (kboepd)		✓	
		Final Investment Decisions (FIDs) approved by year-end	✓		
HSES	8%	Group TRIR	✓		
Exploration	24%	Risked prospective resources added (mmboe)			✓
		Finding costs for 2C + 2P resource adds ($/boe)		✓	
		Reserves replacement (%)	✓		
Finance	4%	Net operating cash flow ($ million)	✓		
Delivering strategy	20%	Growth in NAV per share	✓		
		Business development		✓	
Personal	20%			✓	

Bonus award in respect of 2013 performance (audited)

Based on its assessment on the company's and the individual performance of the executive directors, the Committee awarded bonuses of 24 to 26 per cent of salary to the executive directors. Annual bonuses were paid as cash and are summarised in the table below:

	Bonus as % of salary	Cash £
S C Lockett	24%	133,200
R A Allan	24%	82,800
A R C Durrant	26%	98,020
N Hawkings	24%	82,800
A G Lodge	25%	86,250

LTIP vesting outcomes in 2013 (audited)

LTIP awards were granted in 2011 as Equity Pool Awards, Performance Share Awards and Matching Share Awards (matched over deferred awards under the AEP 2008 award; see page 103 for further detail on the AEP). The 2011 LTIP award cycles completed their three-year performance periods on 31 December 2013. The vesting conditions of these awards are the same as that described in the Policy Table on pages 82 to 83.

The constituents of the comparator group for the 2011 Performance Share Award and 2011 Matching Share Award cycles are detailed on page 102 of the Annual Report on Remuneration.

The outcomes of the 2011 LTIP awards are as follows:

- Equity Pool Awards: over the performance period, the threshold of 10 per cent per annum growth was not met, and, as a result, awards under the 2011 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 2011 Performance Share Awards will not vest as the threshold was not met.
- Matching Share Awards: over the performance period the company's TSR was below the median of the comparator group. As a result, 2011 Matching Share Awards will not vest as the threshold was not met.

As performance thresholds were not met and therefore awards did not vest, the performance underpins were not assessed.

LTIP awards granted in 2013 (audited)

The table below summarises the LTIP awards granted to executive directors in 2013, in line with the Policy on pages 82 to 83. Performance for these awards is measured between 1 January 2013 and 31 December 2015, and is based on equity value per share and relative TSR as detailed in the Policy Table.

	Equity Pool Award		Performance Share Award[1]		Matching Share Award[1]	
	% of Pool	Face value[2] £000s	Shares awarded	Face value[3] £000s	Shares awarded[4]	Face value[4] £000s
S C Lockett	6.00%	1,990.4	211,832	833.1	260,475	877.3
R A Allan	4.25%	1,409.8	109,732	431.6	149,695	504.2
A R C Durrant	4.25%	1,409.8	119,910	471.6	159,675	537.8
N Hawkings	4.25%	1,409.8	109,732	431.6	149,695	504.2
A G Lodge	4.25%	1,409.8	109,732	431.6	149,695	504.2

Notes:

1. Dividends accrue on Performance Share and Matching Share awards and will be paid on vesting as cash or shares, in proportion to performance achieved.
2. For Equity Pool Awards, the face value represents the full vesting value (at growth in equity value per share of 20 per cent per annum) assuming the Committee exercises its discretion to allow vesting at higher than 100 per cent of salary.
3. For Performance Share Awards, face value is calculated as the maximum number of shares that would vest if targets were met in full, multiplied by the closing mid-market price of £3.933 on 14 May 2013, the date of award.
4. The Committee granted a Matching Share Award of 2.5 times the deferred portions of the 2010 Performance Share Awards (see page 101). Face value is calculated as the maximum number of shares that would vest if targets were met in full, multiplied by the closing mid-market price of £3.368 on 24 June 2013, the date of award.

The constituents of the comparator group for the 2013 Performance Share Award and Matching Share Award cycles are detailed on page 102 of the Annual Report on Remuneration.

REMUNERATION REPORT (continued)

Total pension entitlements (audited)

In line with the Policy, as directors who joined the company prior to 20 August 2013, Messrs S C Lockett, R A Allan, A R C Durrant, N Hawkings and A G Lodge receive a pension substantially as if they were contributing members of the Scheme and, in regard to service completed subsequent to their appointment as directors, not subject to the Scheme's cap on pensionable earnings (£141,000 for 2014).

The accrued pension entitlements of the directors who were members (or deemed members) of the Scheme during 2013 are as follows:

	(a) Accrued pension as at 31 December 2012 £000s pa	(b) Accrued pension in (a) after allowing for inflation £000s pa	(c) Accrued pension as at 31 December 2013 £000s pa	(d) Value of growth in accrued pension above inflation £000s	(e) Deduction for deemed contributions by director £000s	(f) Value of growth in accrued pension above inflation less deemed contributions by director £000s
S C Lockett	107.6	110.0	125.9	318.0	32.0	286.0
R A Allan	53.2	54.4	62.1	154.0	19.4	134.6
A R C Durrant	48.3	49.4	58.0	172.0	21.3	150.7
N Hawkings	39.9	40.8	48.1	146.0	19.4	126.6
A G Lodge	21.7	22.2	29.0	136.0	19.4	116.6

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 using a capitalisation factor of 20 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. In addition to the current provision noted above, Mr R A Allan is entitled to a deferred pension under the Scheme in respect of service with the company between September 1986 and November 1999.
5. Members of the Scheme have the option to pay additional voluntary contributions; none of the directors have elected to do so.

In respect of 2013, Messrs A R C Durrant and N Hawkings elected to receive a salary supplement, whilst Messrs S C Lockett, R A Allan and A G Lodge elected to receive a combination of pension contributions and a salary supplement. During the year a review was 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; as a result, the company provided an additional, non-pensionable target funding payment.

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

	Salary supplements £000s	Pension contributions £000s	Target funding payments £000s	Total pension benefits paid by company £000s
S C Lockett	69.1	39.3	131.9	240.3
R A Allan	16.7	50.0	31.0	97.7
A R C Durrant	66.3	–	80.2	146.5
N Hawkings	60.6	–	63.9	124.5
A G Lodge	16.7	50.0	54.8	121.5

Payments for loss of office and payments to past directors (audited)

No payments were made for loss of office or to past directors during the year.

Percentage change in Chief Executive remuneration

The table below shows the percentage change in Chief Executive 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.

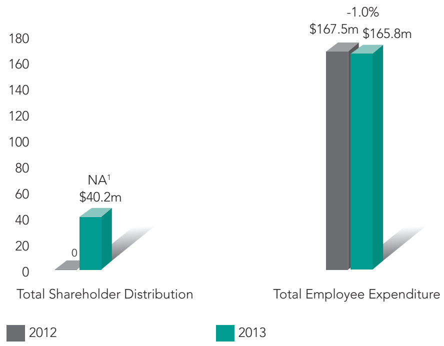
	Chief Executive			UK-based employees[1] (average per capita)
	2013 £000s	2012 £000s	**% change**	% change
Salary	**555.0**	530.0	**4.7%**	3.8%
Taxable benefits	**24.7**	22.0	**12.3%**	(2.9%)
Annual bonus	**133.2**	238.5	**(44.2%)**	(24.1%)
Total	**712.9**	790.5	**(9.8%)**	(2.1%)

Notes:

1. UK-based employees who were employed for the full year in both 2012 and 2013.

Relative importance of spend on pay

The table below shows the company's actual expenditure on shareholder distributions (including dividends and share buybacks) and total employee pay expenditure for the financial years ending 31 December 2012 and ending 31 December 2013.



1. Unable to give percentage increase for total shareholder distribution since figure for 2012 was $0m

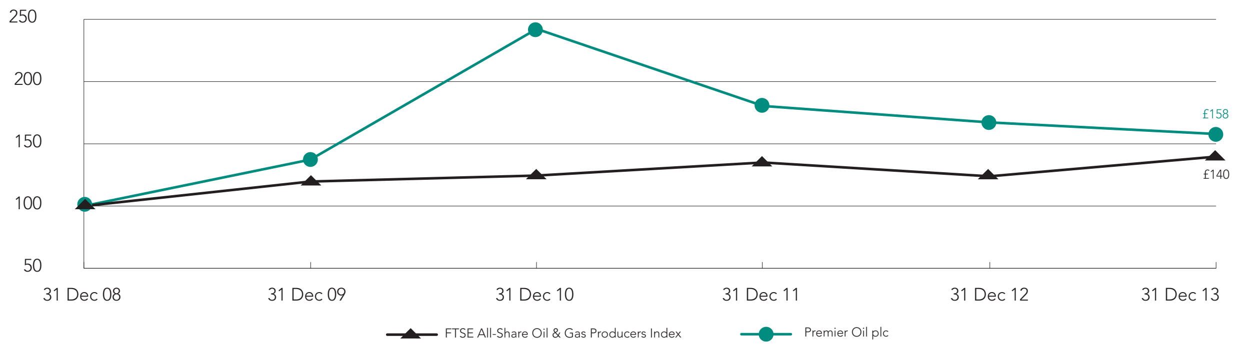
Total shareholder distribution expenditure includes dividends and share buybacks. The company paid a dividend on 14 June 2013 of 5 pence per share. No share buybacks took place during 2013. No shareholder distributions were made during 2012, and therefore a comparative percentage increase/decrease cannot be calculated.

Comparison of company performance

The chart below compares the value of £100 invested in Premier shares, including reinvested dividends, on 31 December 2008 compared to the equivalent investment in the FTSE All-Share Oil & Gas Producers Index, over the last five financial years. The FTSE All-Share Oil & Gas Producers Index has been chosen as it comprises companies who are exposed to broadly similar risks and opportunities as Premier.

5-year TSR performance

Value of £100 invested on 31 December 2008



Comparison of company performance (continued)

The table below shows the Chief Executive single figure of remuneration for the past five years and corresponding performance under the annual and long-term incentives, as a percentage of maximum.

	2009	2010	2011	2012	2013
Chief Executive single figure of remuneration (£000)	2,884.6	4,041.4	3,827.3	2,728.2	1,002.7
Annual bonus payout as % of maximum	85%	60%	55%	45%	24%
Equity Pool funding rate as % of maximum	0%	100%	100%	0%	0%
Asset Pool funding rate as % of maximum[1]	100%	55%	n/a	n/a	n/a
Performance Share Award vesting as % of maximum	n/a	n/a	100%	90%	0%
Matching Share Award vesting as % of maximum	63%	100%	100%	66%	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.

Implementation of executive director remuneration Policy for 2014

Remuneration in 2014 will be consistent with the Policy described on pages 79 to 83.

Salary

The salaries of the executive directors are reviewed annually to ensure they remain appropriate. The Committee is mindful of salary increases across the group; the salary increases awarded to executive directors for 2014 are lower than the average increases across the group's UK operations of 5.1 per cent.

Director	Position	Salary from 1 January 2013 £	Salary from 1 January 2014 £	Percentage increase %
S C Lockett	Chief Executive	555,000	569,000	2.5%
R A Allan	Director, Business Units	345,000	353,750	2.5%
A R C Durrant	Finance Director	377,000	386,500	2.5%
N Hawkings	Director, Falkland Islands	345,000	353,750	2.5%
A G Lodge	Exploration Director	345,000	353,750	2.5%

Pension, benefits and all-employee share plans

The company will offer executive directors pension, taxable benefits and HMRC approved all-employee share plans for 2014 in line with the Policy on pages 79 to 83.

Annual bonus

For 2014, the executive director annual bonus opportunity is up to 100 per cent of salary. Annual performance will be assessed against a performance scorecard of which 80 per cent will be based on financial and operational measures (see below table) and 20 per cent on personal objectives. The 2014 personal objectives will be disclosed, to the extent that they are not commercially sensitive, in the 2014 Remuneration Report. The table below summarises the criteria used to assess each measure and the relative weighting of each:

		Targets
Category	**Weighting**	**Measure**
Production	12%	Daily average (kboepd)
Developments	40%	Near-term project milestones
HSES	8%	Group TRIR
Exploration	8%	Finding costs per boe ($/boe)
Financial	8%	Balance sheet ratios
Business development	4%	Subject to Committee discretion
Personal targets	20%	

Implementation of executive director remuneration Policy for 2014 (continued)

Long-term incentive plan

The Committee intends to grant LTIP awards in 2014 in line with the Policy on pages 82 to 83. The company will provide details of the LTIP awards granted to executive directors and the TSR comparator group against which TSR will be assessed for the 2014 Performance and Matching Share Awards in the Remuneration Report for the year ending 31 December 2014.

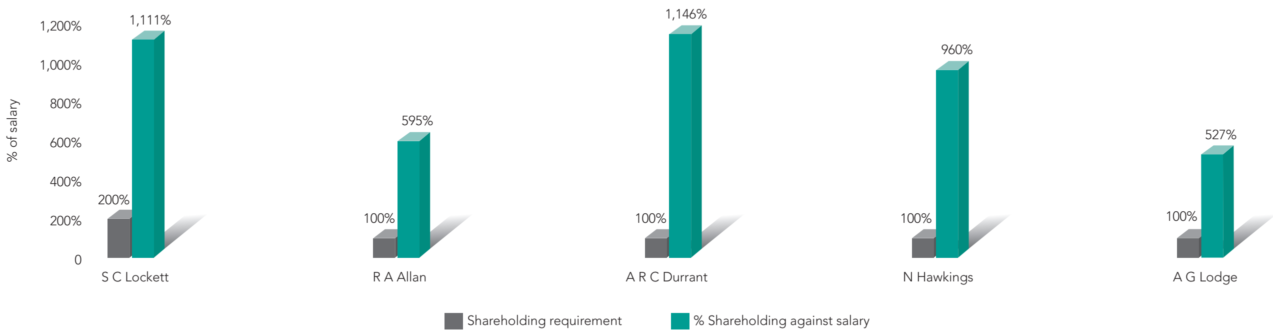
Implementation of non-executive director remuneration Policy for 2014

Non-executive director fees were last reviewed effective 1 January 2013, with the next review due to be effective 1 January 2015. Non-executive director fees for 2014 are as follows:

Role	Fee type	From 1 January 2013 £	From 1 January 2014 £	Percentage increase %
Chairman	Total fee	169,600	169,600	–
Other non-executive directors	Basic fee	53,000	53,000	–
	Committee Chairmanship	10,600	10,600	–
	Senior Independent Director	10,600	10,600	–

Statement of directors' shareholding and scheme interests (audited)

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



Notes:

1. Shareholding includes deferred awards under the annual bonus, Asset and Equity Plan and LTIP (where performance conditions have been achieved and awards are subject to a holding period).
2. The valuation of shareholdings has been calculated using the mid-market closing price on 31 December 2013 (£3.136).

REMUNERATION REPORT (continued)

Statement of directors' shareholding and scheme interests (audited) (continued)

The table below summarises the directors' interests in shares, including those held under outstanding LTIP, SAYE and SIP awards, as at 31 December 2013. Further details of all outstanding awards are disclosed on pages 99 to 105.

Director	Owned outright at 31 December 2013[1]	Deferred shares subject to continued employment at 31 December 2013[2]	Deferred shares at 31 December 2013[2]	Unvested shares subject to performance at 31 December 2013[3]	Unvested SAYE options at 31 December 2013	Total share interests at 31 December 2013
R A Allan	339,208	22,930	292,205	1,027,103	4,785	1,686,231
J Darby	23,108	–	–	–	–	23,108
A R C Durrant	1,048,505	24,487	305,011	1,086,812	4,785	2,469,600
N Hawkings	741,362	22,931	292,205	1,027,103	2,871	2,086,472
I J Hinkley	13,234	–	–	–	–	13,234
D C Lindsell	17,332	–	–	–	–	17,332
S C Lockett	1,494,834	33,311	438,115	1,667,988	2,865	3,637,113
A G Lodge	296,145	22,931	260,475	947,778	2,865	1,530,194
M Romieu	20,000	–	–	–	–	20,000
M W Welton	22,531	–	–	–	–	22,531

Notes:

1. Owned outright includes any shares owned by a spouse, and any SIP Partnership Shares, SIP Matching Shares held for more than three years, SIP Dividend Shares and SIP Frees Shares.
2. All deferred shares, with the exception of SIP Matching Shares held for less than three years, are subject to 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 2011 Performance Share Awards and 2011 Matching Share Awards, for which the performance period completed on 31 December 2013 and no awards vested. See page 93 of the Annual Report on Remuneration for further details on performance criteria and achievement.

Sourcing of shares and dilution limits

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

As of 31 December 2013, 2,964,541 shares were held by the Employee Benefit Trust (2012: 6,581,027) and the commitments to issue new shares are summarised below:

Number of shares issued or committed to be issued in the 10-year period to 31 December 2013		Percentage of issued share capital	Dilution limit	Percentage of dilution limit used
New issue shares under AEP, LTIP and historical Executive Share Option Schemes within 5 per cent limit	9,200,000	1.74%	26,461,048	34.77%
As above plus SAYE within 10 per cent limit	10,407,875	1.97%	52,922,096	19.67%

Share price movements during 2013

The mid-market closing price of the company's shares at 31 December 2013 was £3.136 (31 December 2012: £3.365). The intra-day trading price of the company's shares during 2013 was between £2.913 and £4.05.

Executive director external appointments

Executive directors are entitled to accept non-executive appointments outside the company providing that the Board's approval is sought. During the year, Mr Durrant was a non-executive director of Greenergy Fuels Holdings Limited (appointed on 1 October 2012) and has retained associated fees for 2013 of £40,000. As a result of the acquisition of EnCore, the company has a 27.07 per cent interest in Egdon Resources plc. (Egdon) and is entitled to board representation. Mr Lodge was appointed to the board of Egdon as a non-executive director on 9 March 2012 and has elected to donate his fees to several charities (2013: £15,000, 2012: £12,346). External directorship fees have not been included in the single total figure of remuneration for executive directors, on page 91.

Outstanding share awards under the annual bonus, LTIP and previous long-term incentive awards, and share option schemes

Annual bonus scheme

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

	Date of grant	Number of shares held at 1 January 2013	Number of shares made subject to award during 2013	Event and number of shares	Market price of shares on date of award	Number of shares held at 31 December 2013	Earliest vesting date
S C Lockett	07.01.10	34,764*	–	34,764[1]	313.75p	–	07.01.13
	25.03.11	26,256	–	–	499.75p	26,256	25.03.14
	19.01.12	5,876	–	–	425.40p	5,876	19.01.15
		66,896		**34,764**		**32,132**	
R A Allan	07.01.10	23,972*	–	23,972[1]	313.75p	–	07.01.13
	25.03.11	18,108	–	–	499.75p	18,108	25.03.14
	19.01.12	3,643	–	–	425.40p	3,643	19.01.15
		45,723		**23,972**		**21,751**	
A R C Durrant	07.01.10	25,572*	–	25,572[1]	313.75p	–	07.01.13
	25.03.11	19,312	–	–	499.75p	19,312	25.03.14
	19.01.12	3,996	–	–	425.40p	3,996	19.01.15
		48,880		**25,572**		**23,308**	
N Hawkings	07.01.10	40,636	–	40,636[2]	313.75p	–	07.01.13
	25.03.11	18,108	–	–	499.75p	18,108	25.03.14
	19.01.12	3,643	–	–	425.40p	3,643	19.01.15
		62,387		**40,636**		**21,751**	
A G Lodge	07.01.10	15,408*	–	15,408[1]	313.75p	–	07.01.13
	25.03.11	18,108	–	–	499.75p	18,108	25.03.14
	19.01.12	3,643	–	–	425.40p	3,643	19.01.15
		37,159		**15,408**		**21,751**	

Notes:

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

1. Shares released from nominee account on 14 May 2013.
2. Shares vested on 14 May 2013. The mid-market closing price on 14 May 2013 was 393.3p.

LTIP Equity Pool Awards

As at 31 December 2013, three Equity Pools were outstanding, as follows:

			Outstanding Equity Pool allocation (% of Pool)				
Cycle	Performance period	Starting market capitalisation	S C Lockett	R A Allan	A R C Durrant	N Hawkings	A G Lodge
2011[1]	01.01.11 – 31.12.13	£2,101m	6.00%	4.25%	4.25%	4.25%	4.25%
2012	01.01.12 – 31.12.14	£1,703m	6.00%	4.25%	4.25%	4.25%	4.25%
2013	01.01.13 – 31.12.15	£1,823m	6.00%	4.25%	4.25%	4.25%	4.25%

Notes:

1. The Committee determined in January 2014 that the 2011 Equity Pool Awards will not vest. For further details see page 93.

Outstanding share awards under the annual bonus, LTIP and previous long-term incentive awards, and share option schemes (continued)

LTIP Performance Shares

In each of 2011, 2012 and 2013, the executive directors were granted LTIP Performance Share Awards over shares with a value of 150 per cent of salary for the Chief Executive and 125 per cent of salary for the other executive directors. As at 31 December 2013, the executive directors had the following allocations under the outstanding Performance Share Awards:

	Date of grant	Awards held at 1 January 2013	Granted	Lapsed	Vested	Awards held at 31 December 2013	Market price of shares on date of award	Performance period	Earliest vesting date
S C Lockett	27.05.10	231,792	–	23,411	208,381[1]	–	281.50p	01.01.10 – 31.12.12	01.01.13
	28.06.11	174,337	–	–	–	174,337[2]	428.60p	01.01.11 – 31.12.13	01.01.14
	22.03.12	186,532	–	–	–	186,532	426.20p	01.01.12 – 31.12.14	01.01.15
	14.05.13	–	211,832[3]	–	–	211,832	393.30p	01.01.13 – 31.12.15	01.01.16
		592,661	**211,832**	**23,411**	**208,381**	**572,701**			
R A Allan	27.05.10	133,212	–	13,455	119,757[1]	–	281.50p	01.01.10 – 31.12.12	01.01.13
	28.06.11	90,074	–	–	–	90,074[2]	428.60p	01.01.11 – 31.12.13	01.01.14
	22.03.12	96,785	–	–	–	96,785	426.20p	01.01.12 – 31.12.14	01.01.15
	14.05.13	–	109,732[3]	–	–	109,732	393.30p	01.01.13 – 31.12.15	01.01.16
		320,071	**109,732**	**13,455**	**119,757**	**296,591**			
A R C Durrant	27.05.10	142,092	–	14,352	127,740[1]	–	281.50p	01.01.10 – 31.12.12	01.01.13
	28.06.11	98,791	–	–	–	98,791[2]	428.60p	01.01.11 – 31.12.13	01.01.14
	22.03.12	105,584	–	–	–	105,584	426.20p	01.01.12 – 31.12.14	01.01.15
	14.05.13	–	119,910[3]	–	–	119,910	393.30p	01.01.13 – 31.12.15	01.01.16
		346,467	**119,910**	**14,352**	**127,740**	**324,285**			
N Hawkings	27.05.10	133,212	–	13,455	119,757[1]	–	281.50p	01.01.10 – 31.12.12	01.01.13
	28.06.11	90,074	–	–	–	90,074[2]	428.60p	01.01.11 – 31.12.13	01.01.14
	22.03.12	96,785	–	–	–	96,785	426.20p	01.01.12 – 31.12.14	01.01.15
	14.05.13	–	109,732[3]	–	–	109,732	393.30p	01.01.13 – 31.12.15	01.01.16
		320,071	**109,732**	**13,455**	**119,757**	**296,591**			
A G Lodge	27.05.10	133,212	–	13,455	119,757[1]	–	281.50p	01.01.10 – 31.12.12	01.01.13
	28.06.11	90,074	–	–	–	90,074[2]	428.60p	01.01.11 – 31.12.13	01.01.14
	22.03.12	96,785	–	–	–	96,785	426.20p	01.01.12 – 31.12.14	01.01.15
	14.05.13	–	109,732[3]	–	–	109,732	393.30p	01.01.13 – 31.12.15	01.01.16
		320,071	**109,732**	**13,455**	**119,757**	**296,591**			

Notes:

1. Shares vested on 14 May 2013. The mid-market closing price on the date of vesting was 393.3p. The performance outcome for the 2010 Performance Share Award cycle was disclosed in the Remuneration Report of the 2012 Annual Report and Financial Statements.
2. The Committee determined in January 2014 that the 2011 Performance Share Awards will not vest. For further details see page 93.
3. Performance Share Awards were granted on 14 May 2013 using the closing mid-market price of 13 May 2013 (393.0p) to calculate the number of shares under award.

Outstanding share awards under the annual bonus, LTIP and previous long-term incentive awards, and share option schemes (continued)

LTIP Deferred Shares and Matching Shares

At 31 December 2013, the executive directors held outstanding awards of Deferred Shares and Matching Awards granted under the LTIP as set out below:

	Date of grant	Type of award	Awards held at 1 January 2013	Number of shares made subject to award during 2013[1]	Number of Matching Awards granted during 2013[2]	Event and number of shares	Number of shares held at 31 December 2013	Market price of shares on date of award	Performance period	Earliest vesting date
S C Lockett	20.01.12	Deferred Share	227,581	–	–	–	227,581	430.10p	–	01.01.15
	22.03.12	Matching Award	568,952	–	–	–	568,952	426.20p	01.01.12 – 31.12.14	01.01.15
	14.05.13	Deferred Share	–	104,190	–	–	104,190	393.30p	–	01.01.16
	24.06.13	Matching Award	–	–	260,475	–	260,475	336.80p	01.01.13 – 31.12.15	01.01.16
			796,533	**104,190**	**260,475**	**–**	**1,161,198**			
R A Allan	20.01.12	Deferred Share	158,987	–	–	–	158,987	430.10p	–	01.01.15
	22.03.12	Matching Award	397,467	–	–	–	397,467	426.20p	01.01.12 – 31.12.14	01.01.15
	14.05.13	Deferred Share	–	59,878	–	–	59,878	393.30p	–	01.01.16
	24.06.13	Matching Award	–	–	149,695	–	149,695	336.80p	01.01.13 – 31.12.15	01.01.16
			556,454	**59,878**	**149,695**	**–**	**766,027**			
A R C Durrant	20.01.12	Deferred Share	162,913	–	–	–	162,913	430.10p	–	01.01.15
	22.03.12	Matching Award	407,282	–	–	–	407,282	426.20p	01.01.12 – 31.12.14	01.01.15
	14.05.13	Deferred Share	–	63,870	–	–	63,870	393.30p	–	01.01.16
	24.06.13	Matching Award	–	–	159,675	–	159,675	336.80p	01.01.13 – 31.12.15	01.01.16
			570,195	**63,870**	**159,675**	**–**	**793,740**			
N Hawkings	20.01.12	Deferred Share	158,987	–	–	–	158,987	430.10p	–	01.01.15
	22.03.12	Matching Award	397,467	–	–	–	397,467	426.20p	01.01.12 – 31.12.14	01.01.15
	14.05.13	Deferred Share	–	59,878	–	–	59,878	393.30p	–	01.01.16
	24.06.13	Matching Award	–	–	149,695	–	149,695	336.80p	01.01.13 – 31.12.15	01.01.16
			556,454	**59,878**	**149,695**	**–**	**766,027**			
A G Lodge	20.01.12	Deferred Share	154,081	–	–	–	154,081	430.10p	–	01.01.15
	22.03.12	Matching Award	385,202	–	–	–	385,202	426.20p	01.01.12 – 31.12.14	01.01.15
	14.05.13	Deferred Share	–	59,878	–	–	59,878	393.30p	–	01.01.16
	24.06.13	Matching Award	–	–	149,695	–	149,695	336.80p	01.01.13 – 31.12.15	01.01.16
			539,283	**59,878**	**149,695**	**–**	**748,856**			

Notes:

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

REMUNERATION REPORT (continued)

Outstanding share awards under the annual bonus, LTIP and previous long-term incentive awards, and share option schemes (continued)

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

Company	2011	2012	2013	Company	2011	2012	2013
Afren	✓	✓	✓	Indus Gas			✓
Africa Oil			✓	JKX Oil & Gas	✓	✓	
Anadarko Petroleum		✓	✓	Lundin Petroleum	✓	✓	✓
Apache		✓	✓	Medco Energi International	✓	✓	
AWE	✓			Melrose Resources[1]	✓		
Bankers Petroleum		✓	✓	Nautical Petroleum[2]		✓	
Beach Energy	✓	✓	✓	Newfield Exploration		✓	✓
Cairn Energy	✓	✓	✓	Nexen[3]	✓	✓	
Cairn India	✓	✓	✓	Niko Resources	✓		
Calvalley Petroleum	✓			Noble Energy	✓	✓	✓
Carrizo Oil & Gas	✓	✓	✓	Noreco	✓		
Coastal Energy		✓	✓	Oil Search	✓	✓	✓
Dana Gas	✓			Ophir Energy		✓	✓
Det Norske Oljeselskap	✓	✓	✓	Origin Energy		✓	✓
Devon Energy		✓	✓	PA Resources	✓		
DNO International	✓	✓	✓	PTT EP		✓	✓
Dragon Oil		✓	✓	Rockhopper Exploration		✓	✓
Endeavour International	✓			Roc Oil	✓		
Energen		✓	✓	Salamander Energy	✓	✓	✓
EnQuest		✓	✓	Santos	✓	✓	✓
Etab. Maurel et Prom	✓	✓	✓	Serica Energy	✓		
Faroe Petroleum		✓		SOCO International	✓	✓	✓
Genel Energy			✓	Talisman Energy	✓	✓	✓
Gulf Keystone		✓	✓	TransGlobe Energy			✓
Gulfport Energy			✓	Tullow Oil	✓	✓	✓
Hardy Oil & Gas	✓			Vaalco Energy	✓		
Heritage Oil	✓	✓	✓	Woodside Petroleum		✓	✓

Notes:

1. Melrose Resources delisted in October 2012 and was therefore removed from the 2011 comparator group.
2. Nautical Petroleum was acquired by Cairn Energy in July 2012 and was therefore removed from the 2012 comparator group.
3. Nexen was acquired by CNOOC Limited in February 2013 and was therefore removed from the 2011 and 2012 comparator group.

Outstanding share awards under the annual bonus, LTIP and previous long-term incentive awards, and share option schemes (continued)

Asset and Equity Plan

At 31 December 2013, the executive directors held outstanding awards of Deferred Shares and Matching Awards granted under the Asset and Equity Plan as set out below:

	Date of grant	Type of award[1]	Awards held at 1 January 2013	Granted	Lapsed	Vested	Number of shares held at 31 December 2013	Market price of shares on date of award	Performance period	Earliest vesting date
S C Lockett	26.03.10	Deferred Share	85,528*	–	–	85,528[2]	–	302.75p	–	01.01.13
	17.06.10	Matching Award	362,428	–	124,674	237,754[3]	–	303.50p	01.01.10 – 31.12.12	01.01.13
	25.03.11	Deferred Share	106,344	–	–	–	106,344	499.75p	–	01.01.14
	28.06.11	Matching Award	265,860	–	–	–	265,860[4]	428.60p	01.01.11 – 31.12.13	01.01.14
			820,160	**–**	**124,674**	**323,282**	**372,204**			
R A Allan	26.03.10	Deferred Share	56,128*	–	–	56,128[2]	–	302.75p	–	01.01.13
	17.06.10	Matching Award	237,840	–	81,817	156,023[3]	–	303.50p	01.01.10 – 31.12.12	01.01.13
	25.03.11	Deferred Share	73,340	–	–	–	73,340	499.75p	–	01.01.14
	28.06.11	Matching Award	183,350	–	–	–	183,350[4]	428.60p	01.01.11 – 31.12.13	01.01.14
			550,658	**–**	**81,817**	**212,151**	**256,690**			
A R C Durrant	26.03.10	Deferred Share	56,128*	–	–	56,128[2]	–	302.75p	–	01.01.13
	17.06.10	Matching Award	237,840	–	81,817	156,023[3]	–	303.50p	01.01.10 – 31.12.12	01.01.13
	25.03.11	Deferred Share	78,228	–	–	–	78,228	499.75p	–	01.01.14
	28.06.11	Matching Award	195,570	–	–	–	195,570[4]	428.60p	01.01.11 – 31.12.13	01.01.14
			567,766	**–**	**81,817**	**212,151**	**273,798**			
N Hawkings	26.03.10	Deferred Share	56,128*	–	–	56,128[2]	–	302.75p	–	01.01.13
	17.06.10	Matching Award	237,840	–	81,817	156,023[3]	–	303.50p	01.01.10 – 31.12.12	01.01.13
	25.03.11	Deferred Share	73,340	–	–	–	73,340	499.75p	–	01.01.14
	28.06.11	Matching Award	183,350	–	–	–	183,350[4]	428.60p	01.01.11 – 31.12.13	01.01.14
			550,658	**–**	**81,817**	**212,151**	**256,690**			
A G Lodge	26.03.10	Deferred Share	12,480*	–	–	12,480[2]	–	302.75p	–	01.01.13
	17.06.10	Matching Award	52,888	–	18,193	34,695[3]	–	303.50p	01.01.10 – 31.12.12	01.01.13
	25.03.11	Deferred Share	46,516	–	–	–	46,516	499.75p	–	01.01.14
	28.06.11	Matching Award	116,290	–	–	–	116,290[4]	428.60p	01.01.11 – 31.12.13	01.01.14
			228,174	**–**	**18,193**	**47,175**	**162,806**			

REMUNERATION REPORT (continued)

Outstanding share awards under the annual bonus, LTIP and previous long-term incentive awards, and share option schemes (continued)

Notes:

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

1. There are no performance criteria for the Deferred Shares. Matching Awards granted are the maximum award possible under the Matching Award scheme, subject to performance criteria based on TSR against a comparator group of approximately 35 listed companies in the oil and gas sector. Full vesting requires upper decile performance.
2. Shares released from nominee account on 14 May 2013.
3. Shares vested 14 May 2013. The mid-market closing price on 14 May 2013 was 393.3p. See the 2012 Directors' Remuneration Report for further details of these awards, including Premier performance against the performance targets.
4. The Committee determined in January 2014 that the 2011 Matching Awards will not vest. For further details see page 93.

Share Options and Share Incentive Plan

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

SAYE 2009

Directors' interests under this scheme are shown below:

	Date of grant	Exercisable dates	Acquisition price per share (£)	Options held at 1 January 2013	Granted	Exercised[1]	Lapsed	Options held at 31 December 2013
S C Lockett	05.05.10	01.06.13 – 30.11.13	2.6050	3,480	–	3,480	–	–
	10.05.13	01.06.16 – 30.11.16	3.1408	–	2,865	–	–	2,865
R A Allan	03.05.12	01.06.17 – 30.11.17	3.1344	4,785	–	–	–	4,785
A R C Durrant	03.05.12	01.06.17 – 30.11.17	3.1344	4,785	–	–	–	4,785
N Hawkings	03.05.12	01.06.15 – 30.11.15	3.1344	2,871	–	–	–	2,871
A G Lodge	05.05.10	01.06.13 – 30.11.13	2.6050	3,480	–	3,480	–	–
	10.05.13	01.06.16 – 30.11.16	3.1408	–	2,865	–	–	2,865

Notes:

1. The mid-market closing price was 330.4p on the day of exercise (7 October 2013).

Outstanding share awards under the annual bonus, LTIP and previous long-term incentive awards, and share option schemes (continued)

Share Incentive Plan

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

	Shares held on 1 January 2013	Total Partnership Shares purchased in 2013 at prices between £3.0610 and £3.8991	Total Matching Shares awarded in 2013 at prices between £3.0610 and £3.8991, vesting from 2016	Total Dividend Shares purchased in 2013 at a price of £3.4781	Shares held on 31 December 2013	Partnership and Matching Shares acquired between 1 January and 27 February 2014
S C Lockett	17,820	423	423	261	18,927	170
R A Allan	17,786	422	422	260	18,890	174
A R C Durrant	7,632	423	423	114	8,592	170
N Hawkings	7,632	423	423	114	8,592	170
A G Lodge	3,002	423	423	47	3,895	170

By order of the Board

I J Hinkley
Chairman of the Remuneration Committee

26 February 2014

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Group financial statements

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors are required to prepare the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and Article 4 of the IAS Regulation and have elected to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing the parent company financial statements, the directors are required to:

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

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

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Directors' responsibility statement

We confirm to the best of our knowledge:

- 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;
- 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
- 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 performance, business model and strategy.

By order of the Board

S C Lockett	**A R C Durrant**
Chief Executive	Finance Director
26 February 2014	26 February 2014

ACCOUNTING POLICIES

General information

Premier Oil plc is a limited company incorporated in Scotland and listed on the London Stock Exchange. The address of the registered office is Premier Oil plc, 4th Floor, Saltire Court, 20 Castle Terrace, Edinburgh, EH1 2EN. The principal activities of the company and its subsidiaries (the group) are oil and gas exploration and production in The Falkland Islands, Indonesia, Norway, 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, neither of which has a material impact on the group's annual results.

- IFRS 7 (amended) – 'Disclosures – Offsetting Financial Assets and Financial Liabilities'
- IFRS 13 – 'Fair Value Measurement' – IFRS 13 defines fair value 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. The new standard also requires new disclosures (see note 17) to assist users to understand the valuation techniques and inputs used to develop fair value measurements and the effect of these on profit or loss.

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 1 (amended) – 'Government Loans'
- IFRS 9 – 'Financial Instruments'
- IFRS 10 – 'Consolidated Financial Statements'
- IFRS 10, IFRS 12 and IAS 27 – 'Investment Entities (amended)'
- IFRS 11 – 'Joint Arrangements'
- IFRS 12 – 'Disclosure of Interests in Other Entities'
- IAS 27 (revised) – 'Separate Financial Statements'
- IAS 28 (revised) – 'Investments in Associates and Joint Ventures'
- IAS 32 (amended) – 'Offsetting Financial Assets and Financial Liabilities'
- IAS 36 (amended) – 'Recoverable Amounts Disclosure for non Financial Assets'

The directors do not expect that the adoption of the standards and interpretations listed above will have a material impact on the financial statements of the group in future periods except IFRS 9 Financial Instruments which may impact both the measurement and disclosures of financial instruments but for which the full impact of adoption has not yet been assessed.

Basis of preparation

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

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

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

The principal accounting policies adopted are set out below.

Basis of consolidation

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

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

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

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

ACCOUNTING POLICIES (continued)

Business combinations

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

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

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

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

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

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

Goodwill

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

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

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

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

Interest in joint ventures

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

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

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

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

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

Sales revenue and other income

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

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

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

Oil and gas assets

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

(a) Exploration and evaluation assets

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

Pre-licence costs

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

Exploration and evaluation costs

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

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

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

Treatment of E&E assets at conclusion of appraisal activities

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

Oil and gas assets (continued)

(b) Development and production assets

Development and production assets are accumulated generally on a field-by-field basis and represent the cost of developing the commercial reserves discovered and bringing them into production, together with the E&E expenditures incurred in finding commercial reserves transferred from intangible E&E assets, as outlined in accounting policy (a) above.

The cost of development and production assets also includes the cost of acquisitions and purchases of such assets, directly attributable overheads, finance costs capitalised, and the cost of recognising provisions for future restoration and decommissioning.

Depreciation of producing assets

The net book values of producing assets are depreciated generally on a field-by-field basis using the unit-of-production method by reference to the ratio of production in the year and the related commercial (proved and probable) reserves of the field, taking into account future development expenditures necessary to bring those reserves into production.

Producing assets are generally grouped with other assets that are dedicated to serving the same reserves for depreciation purposes, but are depreciated separately from producing assets that serve other reserves.

Pipelines are depreciated on a unit-of-throughput basis.

(c) Impairment of development and production assets

An impairment test is performed whenever events and circumstances arising during the development or production phase indicate that the carrying value of a development or production asset may exceed its recoverable amount.

The carrying value is compared against the expected recoverable amount of the asset, generally by reference to the present value of the future net cash flows expected to be derived from production of commercial reserves. The cash-generating unit applied for impairment test purposes is generally the field, except that a number of field interests may be grouped as a single cash-generating unit where the cash flows of each field are interdependent.

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

(d) Acquisitions, asset purchases and disposals

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

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

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

(e) Decommissioning

Provision for decommissioning is recognised in full when the related facilities are installed. The amount recognised is the present value of the estimated future expenditure. A corresponding amount equivalent to the provision is also recognised as part of the cost of the related oil and gas property. This is subsequently depreciated as part of the capital costs of the production facilities. Any change in the present value of the estimated expenditure is dealt with prospectively as an adjustment to the provision and the oil and gas property. The unwinding of the discount is included as a finance cost.

Inventories

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

Tax

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

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

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill/excess of fair value over cost or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. The group reassesses its unrecognised deferred tax asset each year taking into account changes in oil and gas prices, the group's proven and probable reserve profile and forecast capital and operating expenditures.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantially enacted at the balance sheet date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

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

Translation of foreign currencies

In the accounts of individual companies, transactions denominated in foreign currencies, being currencies other than the functional currency, are recorded in the local currency at actual exchange rates as of the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at the balance sheet date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Any gain or loss arising from a change in exchange rate subsequent to the dates of the transactions is included as an exchange gain or loss in the income statement. Non-monetary assets held at historic cost are translated at the date of purchase and are not retranslated.

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

Group retirement benefits

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

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

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

ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

Trade payables
Trade payables are stated at their nominal value.

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

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

For the purposes of hedge accounting, hedging relationships may be of three types: fair value hedges are hedges of particular risks that may change the fair value of a recognised asset or liability; cash flow hedges are hedges of particular risks that may change the amount or timing of future cash flows; and hedges of net investment in a foreign entity are hedges of particular risks that may change the carrying value of the net assets of a foreign entity. Currently the group only has cash flow hedge relationships.

To qualify for hedge accounting the hedging relationship must meet several strict conditions on documentation, probability of occurrence, hedge effectiveness and reliability of measurement. If these conditions are not met, then the relationship does not qualify for hedge accounting. In this case the hedging instrument and the hedged item are reported independently as if there were no hedging relationship. In particular any derivatives are reported at fair value, with changes in fair value included in financial income or expense.

For qualifying cash flow hedges, the hedging instrument is recorded at fair value. The portion of any change in fair value that is an effective hedge is included in equity, and any remaining ineffective portion is reported in financial income. If the hedging relationship is the hedge of a firm commitment or highly probable forecasted transaction, the cumulative changes of fair value of the hedging instrument that have been recorded in equity are included in the initial carrying value of the asset or liability at the time it is recognised. For all other qualifying cash flow hedges, the cumulative changes of fair value of the hedging instrument that have been recorded in equity are included in financial income at the time when the forecasted transaction affects net income.

Derivatives embedded in other financial instruments or non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not carried at fair value with unrealised gains or losses reported in the income statement. Embedded derivatives which are closely related to host contracts, including in particular price caps and floors within the group's oil sales contracts, are not separated and are not carried at fair value.

Derivative financial instruments (continued)
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 short-term deposits, less overdrafts.

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

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

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

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

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

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

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

- carrying value of intangible exploration and evaluation assets (note 8);
- carrying value of property, plant and equipment (note 9);
- proved and probable reserves estimates (note9);
- decommissioning costs (note 16); and
- tax and recognition of deferred tax assets (note 18).

INDEPENDENT AUDITOR'S REPORT – GROUP AND COMPANY

Opinion on financial statements of Premier Oil plc.

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2013 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

The financial statements comprise the consolidated income statement, consolidated statement of comprehensive income, the consolidated and parent company balance sheets, the consolidated cash flow statement, the consolidated statement of changes in equity, the parent company statement of total recognised gains and losses and the related notes 1 to 25 in respect of the group financial statements and 1 to 13 in respect of the parent company financial statements. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Going Concern

As required by the Listing Rules we have reviewed the directors' statement contained within the going concern section of the Financial review that the group is a going concern. We confirm that:

- we have not identified any material uncertainties that may cast significant doubt on the group's ability to continue as a going concern; and
- we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's ability to continue as a going concern.

Our assessment of risks of material misstatement

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

Risk	How the scope of our audit responded to the risk
Recoverability of intangible exploration and evaluation (E&E) assets In accordance with the relevant accounting standards, E&E costs are written off unless commercial reserves have been established or the appraisal process is not completed. This was considered a key risk due to the significant judgements and estimates that are required to be assessed and the highly material nature of the related balances in the financial statements.	Management have performed a review of their E&E assets to assess if there were any indicators of impairments for any of the group's material field interests. We assessed the outcome of this review by participating in meetings with key operational and finance staff to understand the current status and future intention for each asset, confirming that all assets which remain capitalised are included in future budgets and are considered to contain potentially commercial volumes of hydrocarbons and identifying any fields where the group's right to explore is either at, or close to, expiry. Where an asset has been impaired we have obtained supporting evidence for the events that led to the impairment.

Our Assessment of Risks of Material Misstatement (continued)

Risk	How the scope of our audit responded to the risk
Capitalisation and impairment of oil and gas properties within property, plant and equipment These are considered key risks due to the significant judgements and estimates that need to be made in assessing both whether costs initially qualify for capitalisation and whether any impairments have arisen at year-end. The risk of impairment is greater where there are potential impairment triggers such as reserves downgrades or upward revisions to future cost estimates, or where assets have been recently impaired.	Management have performed a review of the producing and development asset portfolio for indicators of impairment. Where indicators of impairment have been identified, management have undertaken full impairment reviews, based on key assumptions which include: • Commodity price; • Reserves/production; • Discount rate; • Operating costs; and • Capital costs. We have assessed these assumptions by reference to publicly available information, third party information, our knowledge of the group and industry and also budgeted and forecast performance. Where an impairment was identified, as in the case of the Balmoral area, we confirmed that an appropriate provision has been recorded. Further details of this impairment are provided in note 9 to the financial statements. We have also tested capitalised expenditure during the year on a sample basis to assess whether the related costs qualify for capitalisation under the relevant accounting standards.
Decommissioning provision Provisions for decommissioning are a judgemental area as they include assumptions around estimated decommissioning costs, discount rates and the economic life of a field, which in turn will depend on factors such as oil price and operating costs.	We have assessed for appropriateness the key assumptions underlying the decommissioning calculation through: • agreeing gross cost estimates to third party support or internal engineer estimates; • obtaining supporting evidence for any material revisions in cost estimates during the year; • confirming the decommissioning dates are consistent with the group's latest internal economic models; • comparing the discount rate to available market information; and • testing the mechanical accuracy of management's decommissioning provision calculation.
Accounting for income taxes This is considered a key risk due to the diverse geographical nature of the group, the different tax legislation in place in the jurisdictions in which the group operates and the judgements applied in the recognition of deferred tax assets and provisions for potential tax exposures.	We worked with tax specialists in the relevant locations to understand the tax legislation governing the group's operations in each of the jurisdictions in which the group operated during the year; we obtained the group's taxation computations in respect of current and deferred tax and assessed the computations for compliance with local tax legislation and IAS 12 Income Taxes; and we evaluated judgmental tax exposures and provisions, assessing the position taken by management in respect of the probability and amount of potential exposures. This included an assessment of the recoverability of the group's deferred tax assets, considering whether the supporting calculations are in accordance with enacted tax legislation and are consistent with the models used for the group's IAS 36 impairment tests.

INDEPENDENT AUDITOR'S REPORT – GROUP AND COMPANY (continued)

Our Assessment of risks of material misstatement (continued)
The Audit Committee's consideration of these risks is set out on page 69.

Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the financial statements is not modified with respect to any of the risks described above, and we do not express an opinion on these individual matters.

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

We determined planning materiality for the group to be US$30 million, being 7.5 per cent of forecast pre-tax profit. Pre-tax profit was normalised for the materiality calculation to exclude one off items that are audited separately and would, if included, significantly distort the materiality calculation year on year. In order to ensure that we gain sufficient assurance and oversight of misstatements throughout the group, materiality for each of the reporting components has been set at between US$15 million and US$20 million, depending upon the relative size of the component.

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

An overview of the scope of our audit
Our group audit scope focused primarily on the audit work at five key locations, being London, Aberdeen, Vietnam, Indonesia and Pakistan. These locations were subject to a full scope audit, whilst a further two were subject to an audit of specified account balances, where the extent of our testing was based on our assessment of the risks of material misstatement and of the materiality of the group's operations at those locations. These seven locations account for materially all of the group's net assets, group's revenue and group's profit before tax.

The group audit team is involved in the work of the component auditors that have been engaged in Vietnam, Indonesia and Pakistan at all stages of the audit process. This includes a programme of planned visits that has been designed so that the Senior Statutory Auditor or senior members of the group audit team visit key locations and review the work performed on significant risks by the component auditors. In the year visits were made to two of the three locations.

Opinion on other matters prescribed by the Companies Act 2006
In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception
Adequacy of explanations received and accounting records
Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Matters on which we are required to report by exception (continued)

Directors' remuneration

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

Corporate Governance Statement

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

Our duty to read other information in the annual report

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

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

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

Respective responsibilities of directors and auditor

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

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

Scope of the audit of the financial statements

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

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

26 February 2014

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2013

	Note	2013 $ million	2012 $ million
Sales revenues	1	**1,501.0**	1,408.7
Other operating income		**38.7**	–
Cost of sales	2	**(1,034.8)**	(742.4)
Exploration expense	8	**(106.2)**	(157.7)
Pre-licence exploration costs		**(30.1)**	(29.2)
Profit on disposal of exploration and evaluation assets	8	**3.6**	–
General and administration costs		**(20.2)**	(24.2)
Operating profit		**352.0**	455.2
Share of loss in associate	10	**–**	(1.9)
Interest revenue, finance and other gains	5	**33.0**	3.2
Finance costs, other finance expenses and losses	5	**(98.4)**	(110.8)
(Loss)/gain on commodity derivative financial instruments	17	**(1.2)**	14.2
Profit before tax		**285.4**	359.9
Tax	6	**(51.4)**	(107.9)
Profit after tax		**234.0**	252.0
Earnings per share (cents):			
Basic	7	**44.2**	47.9
Diluted	7	**43.2**	46.9

The results relate entirely to continuing operations.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2013

	Note	**2013 $ million**	2012 $ million
Profit for the year		**234.0**	252.0
Cash flow hedges on commodity swaps:			
Losses arising during the year		**(25.0)**	(19.1)
Less: reclassification adjustments for losses in the year		**0.8**	39.6
		(24.2)	20.5
Tax relating to components of other comprehensive income		**13.9**	–
Cash flow hedges on interest rate and foreign exchange swaps		**(0.8)**	4.7
Exchange differences on translation of foreign operations		**(17.5)**	15.3
Actuarial (losses)/gains on long-term employee benefit plans*	23	**(6.5)**	1.2
Other comprehensive (expense)/income		**(35.1)**	41.7
Total comprehensive income for the year		**198.9**	293.7

* 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 2013

	Note	2013 $ million	2012 $ million
Non-current assets:			
Intangible exploration and evaluation assets	8	**701.0**	658.0
Property, plant and equipment	9	**2,885.9**	2,692.9
Goodwill		**240.8**	240.8
Investment in associate	10	**6.2**	6.1
Long-term employee benefit plan surplus	23	**1.0**	4.2
Long-term receivables	11	**198.1**	2.5
Deferred tax assets	18	**762.4**	568.9
		4,795.4	4,173.4
Current assets:			
Inventories		**49.5**	34.6
Trade and other receivables	11	**421.8**	351.3
Tax recoverable		**82.4**	87.1
Derivative financial instruments	17	**15.9**	9.8
Cash and cash equivalents	12	**448.9**	187.4
		1,018.5	670.2
Total assets		**5,813.9**	4,843.6
Current liabilities:			
Trade and other payables	13	**(512.4)**	(450.0)
Current tax payable		**(92.0)**	(114.9)
Provisions	16	**(13.1)**	(68.8)
Derivative financial instruments	17	**(38.3)**	(43.8)
		(655.8)	(677.5)
Net current assets/(liabilities)		**362.7**	(7.3)
Non-current liabilities:			
Convertible bonds	14	**(223.8)**	(219.6)
Other long-term debt	14	**(1,665.4)**	(1,064.4)
Deferred tax liabilities	18	**(306.8)**	(297.1)
Long-term provisions – decommissioning	16	**(824.6)**	(613.3)
Long-term employee benefit plan deficit	23	**(13.1)**	(18.2)
		(3,033.7)	(2,212.6)
Total liabilities		**(3,689.5)**	(2,890.1)
Net assets		**2,124.4**	1,953.5
Equity and reserves:			
Share capital	19	**110.5**	110.5
Share premium account*		**275.3**	274.9
Merger Reserve*		**374.3**	374.3
Retained earnings		**1,342.1**	1,150.1
Other reserves		**22.2**	43.7
		2,124.4	1,953.5

* 2012 comparatives have been restated, see Consolidated Statement of Changes in Equity.

The financial statements were approved by the Board of Directors and authorised for issue on 26 February 2014.

They were signed on its behalf by:

S C Lockett
Chief Executive

A R C Durrant
Finance Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2013

		Attributable to the equity holders of the parent							
						Other reserves			
	Note	Share capital $ million	Share premium account $ million	Retained earnings $ million	Merger Reserve $ million	Capital redemption reserve $ million	Translation reserves $ million	Equity reserve $ million	Total $ million
At 1 January 2012		98.8	274.5	922.9	–	4.3	1.8	21.3	1,323.6
Issue of Ordinary Shares		11.7	374.7	–	–	–	–	–	386.4
Purchase of ESOP Trust shares		–	–	(89.3)	–	–	–	–	(89.3)
Provision for share-based payments	19	–	–	30.5	–	–	–	–	30.5
Incremental equity component of new convertible bonds		–	–	–	–	–	–	8.6	8.6
Transfer between reserves*		–	–	7.6	–	–	–	(7.6)	–
Total comprehensive income		–	–	278.4	–	–	15.3	–	293.7
At 1 January 2013 as previously reported		110.5	649.2	1,150.1	–	4.3	17.1	22.3	1,953.5
Restatement of reserves**		–	(374.3)	–	374.3	–	–	–	–
At 1 January 2013 (restated)		110.5	274.9	1,150.1	374.3	4.3	17.1	22.3	1,953.5
Issue of Ordinary Shares		–	0.4	–	–	–	–	–	0.4
Purchase of ESOP Trust shares		–	–	(12.8)	–	–	–	–	(12.8)
Provision for share-based payments	19	–	–	24.6	–	–	–	–	24.6
Transfer between reserves*		–	–	4.0	–	–	–	(4.0)	–
Dividends paid	25	–	–	(40.2)	–	–	–	–	(40.2)
Total comprehensive income		–	–	216.4	–	–	(17.5)	–	198.9
At 31 December 2013		**110.5**	**275.3**	**1,342.1**	**374.3**	**4.3**	**(0.4)**	**18.3**	**2,124.4**

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

** In 2012 the company issued its own shares in order to acquire 100 per cent of the share capital of EnCore. The share capital and reserves showed the difference between the value of these shares and their nominal value as share premium. The 2012 disclosure has been restated to reclassify this difference within a merger reserve, as merger relief was applicable. The change has no effect on net assets, income or cash flows.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2013

	Note	2013 $ million	2012 $ million
Net cash from operating activities*	21	**802.5**	779.0
Investing activities:			
Capital expenditure		**(878.0)**	(771.6)
Net cash inflow from acquisition of subsidiaries		**–**	4.6
Disposal of oil and gas properties		**61.0**	52.4
Acquisition of oil and gas properties		**–**	(267.5)
Loan to joint venture partner		**(185.9)**	–
Net cash used in investing activities*		**(1,002.9)**	(982.1)
Financing activities:			
Proceeds from issuance of Ordinary Shares		**0.4**	0.4
Purchase of ESOP Trust shares		**(12.8)**	(89.3)
Proceeds from drawdown of long-term bank loans		**384.1**	217.6
Proceeds from issuance of senior loan notes		**156.7**	235.2
Proceeds from issuance of retail bonds		**245.8**	–
Debt arrangement fees		**(7.1)**	(5.0)
Repayment of long-term bank loans		**(200.0)**	(202.0)
Convertible bonds partial repayment/arrangement fee for new bonds		**–**	(7.9)
Dividends paid		**(40.2)**	–
Interest paid		**(71.1)**	(65.6)
Net cash from financing activities		**455.8**	83.4
Currency translation differences relating to cash and cash equivalents		**6.1**	(2.0)
Net increase/(decrease) in cash and cash equivalents		**261.5**	(121.7)
Cash and cash equivalents at the beginning of the year		**187.4**	309.1
Cash and cash equivalents at the end of the year	21	**448.9**	187.4

* 2012 comparatives have been restated to classify pre-licence exploration costs of US$29.2 million within net cash from operating activities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

1. Operating segments

The group's operations are located and managed in seven business units; namely the Falkland Islands, Indonesia, Norway, Pakistan (including Mauritania), the United Kingdom, Vietnam and the Rest of the World. 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, therefore all information is being presented for geographical segments.

	2013 $ million	2012 $ million
Revenue:		
Indonesia	**295.9**	305.1
Pakistan (including Mauritania)	**165.4**	175.2
Vietnam	**468.2**	509.4
United Kingdom	**571.5**	419.0
Total group sales revenue	**1,501.0**	1,408.7
Other operating income (United Kingdom)	**38.7**	–
Interest and other finance revenue	**10.9**	1.7
Total group revenue	**1,550.6**	1,410.4
Group operating profit/(loss):		
Indonesia	**187.0**	134.6
Norway	**(26.5)**	(7.7)
Pakistan (including Mauritania)	**84.0**	103.0
Vietnam	**195.9**	261.7
United Kingdom	**(31.5)**	6.7
Rest of the World	**(8.7)**	(1.9)
Unallocated*	**(48.2)**	(41.2)
Group operating profit	**352.0**	455.2
Share of loss in associate	**–**	(1.9)
Interest revenue, finance and other gains	**33.0**	3.2
Finance costs and other finance expenses	**(98.4)**	(110.8)
(Loss)/gain on derivative financial instruments	**(1.2)**	14.2
Profit before tax	**285.4**	359.9
Tax	**(51.4)**	(107.9)
Profit after tax	**234.0**	252.0
Balance sheet		
Segment assets:		
Falkland Islands	**297.2**	242.6
Indonesia	**731.5**	692.2
Norway	**231.3**	253.5
Pakistan (including Mauritania)	**117.4**	140.7
Vietnam	**648.5**	705.2
United Kingdom	**3,260.4**	2,594.3
Rest of the World	**62.8**	18.0
Unallocated*	**464.8**	197.1
Total assets	**5,813.9**	4,843.6

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2013

1. Operating segments (continued)

	2013 $ million	2012 $ million
Liabilities:		
Falkland Islands	**(14.6)**	(3.3)
Indonesia	**(296.3)**	(326.0)
Norway	**(83.9)**	(111.9)
Pakistan (including Mauritania)	**(88.4)**	(103.3)
Vietnam	**(316.9)**	(196.9)
United Kingdom	**(948.1)**	(801.4)
Rest of the World	**(14.0)**	(19.4)
Unallocated*	**(1,927.3)**	(1,327.9)
Total liabilities	**(3,689.5)**	(2,890.1)
Other information		
Capital additions and acquisitions:		
Falkland Islands	**54.0**	242.4
Indonesia	**101.0**	94.0
Norway	**49.9**	65.2
Pakistan (including Mauritania)	**33.8**	28.3
Vietnam	**121.9**	133.1
United Kingdom	**615.4**	720.3
Rest of the World	**47.5**	13.7
Total capital additions and acquisitions	**1,023.5**	1,297.0
Depreciation, depletion, amortisation and impairment:		
Indonesia	**57.1**	72.2
Pakistan (including Mauritania)	**42.5**	27.3
Vietnam	**117.1**	149.7
United Kingdom	**344.8**	122.9
Rest of the World	**1.0**	0.7
Total depreciation, depletion, amortisation and impairment	**562.5**	372.8

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

Out of the total group worldwide sales revenues of US$1,501.0 million (2012: US$1,408.7 million), revenues of US$571.5 million (2012: US$419.0 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$2,282.2 million (2012: US$1,855.7 million) located in the UK.

Revenue from four customers (2012: five customers) each exceeded 10 per cent of the group's consolidated revenue and amounted respectively to US$468.9 million, US$199.1 million and US$234.4 million arising from sales of crude oil (2012: US$169.5 million, US$157.6 million, US$157.5 million and US$279.4 million) and US$302.8 million arising from sales of gas (2012: US$303.7 million), across all operating segments.

2. Cost of sales

	Note	**2013 $ million**	2012 $ million
Operating costs		**418.9**	342.4
Stock overlift/underlift movement		**9.8**	(17.1)
Royalties		**43.6**	44.3
Amortisation and depreciation of property, plant and equipment:			
Oil and gas properties	9	**375.0**	345.4
Other fixed assets	9	**8.8**	6.7
Impairment charge on oil and gas properties	9	**178.7**	20.7
		1,034.8	742.4

3. Auditor's remuneration

	2013 $ million	2012 $ million
Audit fees:		
Fees payable to the company's auditor for the company's annual report	**0.8**	0.7
Audit of the company's subsidiaries pursuant to legislation	**0.1**	0.1
	0.9	0.8
Non-audit fees:		
Other services pursuant to legislation – interim review	**0.1**	0.1
Corporate finance services*	**0.1**	0.1
Tax services	**0.2**	0.2
Information technology subscription fees for upstream data	**0.1**	0.1
Other services**	**0.1**	0.1
	0.6	0.6

* In 2013 work was performed on the issuance of senior loan notes and other long-term debt. Corporate finance services in the prior year comprised of work performed on the exchange offer related to the new convertible bond.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2013

4. Staff costs

	2013 $ million	2012 $ million
Staff costs, including executive directors:		
Wages and salaries	**144.6**	144.8
Social security costs	**9.7**	10.6
Pension costs:		
Defined contribution	**4.1**	4.2
Defined benefit	**7.4**	7.9
	165.8	167.5

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

	2013	2012
Average number of employees during the year*:		
Technical and operations	**612**	502
Management and administration	**270**	230
	882	732

* Staff numbers include executive directors.

5. Interest revenue and finance costs

	Note	2013 $ million	2012 $ million
Interest revenue, finance and other gains:			
Short-term deposits		**1.5**	0.5
Gain on forward contracts		**12.3**	–
Loan to joint venture partner	11	**6.3**	–
Exchange differences and others		**12.9**	2.7
		33.0	3.2
Finance costs and other finance expenses:			
Bank loans and overdrafts		**(37.8)**	(35.0)
Payable in respect of convertible bonds	14	**(10.3)**	(15.2)
Payable in respect of senior loan notes		**(31.4)**	(28.5)
Unwinding of discount on decommissioning provision	16	**(36.4)**	(33.2)
Long-term debt arrangement fees		**(8.0)**	(6.6)
Exchange differences and others		**(0.1)**	(5.8)
Gross finance costs and other finance expenses		**(124.0)**	(124.3)
Finance costs capitalised during the year	9	**25.6**	13.5
		(98.4)	(110.8)

The amount of finance costs capitalised was determined by applying the weighted average rate of finance costs applicable to the borrowings of the group of 4.70 per cent (2012: 5.21 per cent) to the expenditures on the qualifying assets.

During the year a currency exchange gain of US$8.5 million was credited to income (2012: currency exchange losses of US$3.6 million charged to income). This excluded exchange gains and losses arising on financial instruments measured at fair value through profit or loss.

6. Tax

	Note	2013 $ million	2012 $ million
Current tax:			
UK corporation tax on profits*		**(12.1)**	–
UK petroleum revenue tax		**100.9**	83.1
Overseas tax		**122.7**	137.0
Adjustments in respect of prior years**		**(22.3)**	(11.9)
Total current tax		**189.2**	208.2
Deferred tax:			
UK corporation tax		**(180.5)**	(162.2)
UK petroleum revenue tax		**(6.4)**	(6.2)
Overseas tax		**49.1**	68.1
Total deferred tax	18	**(137.8)**	(100.3)
Tax on profit on ordinary activities		**51.4**	107.9

* The UK corporation current tax credit of US$12.1 million consists of a UK tax refund relating to decommissioning costs incurred in 2013 and carried back to prior periods, in the 2012 comparatives an equivalent credit US$9.8 million is contained within the adjustments in respect of prior years US$11.9 million.

** For 2013, the adjustments in respect of prior years consist principally of the release of overseas tax provisions no longer required.

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

	2013 $ million	2012 $ million
Group profit on ordinary activities before tax	**285.4**	359.9
Group profit on ordinary activities before tax at 30.5% weighted average rate (2012: 41.1%)	**87.2**	148.1
Tax effects of:		
Income/expenses that are not taxable/deductible in determining taxable profit	**31.8**	7.5
Tax and tax credits not related to profit before tax	**(70.2)**	(103.6)
Unrecognised tax losses	**17.8**	27.3
Utilisation and recognition of tax losses not previously recognised	**(0.2)**	(1.4)
Adjustments in respect of prior years	**(22.3)**	(11.9)
Effect of change in tax rates	**–**	41.9
Write down of deferred tax asset previously recognised	**7.3**	–
Tax charge for the year	**51.4**	107.9
Effective tax rate for the year	**18.0%**	30.0%

The weighted average rate is calculated based on the tax rates weighted according to the profit or loss before tax earned by the group in each jurisdiction. The change in the weighted average rate year-on-year relates to the mix of profit and loss in each jurisdiction. The standard tax rate on UK ring fence profits is 62 per cent (2012: 62 per cent).

Tax not related to profit before tax includes the impact of the ring fence expenditure supplement (US$113.1 million), partially offset by the impact of the UK PRT charge.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2013

7. Earnings per share

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

Basic and diluted earnings per share are calculated as follows:

	Profit after tax		Weighted average number of shares		Earnings per share	
	2013 $ million	2012 $ million	**2013 million**	2012 million	**2013 cents**	2012 cents
Basic	**234.0**	252.0	**529.2**	526.4	**44.2**	47.9
Contingently issuable shares	**10.3**	11.2	**36.0**	35.3	*	*
Diluted	**244.3**	263.2	**565.2**	561.7	**43.2**	46.9

* The inclusion of the contingently issuable shares in the 2013 and 2012 calculations produces diluted earnings per share. At 31 December 2013 35,526,646 (2012: 35,035,495) potential Ordinary Shares in the company that are underlying the company's convertible bonds and that may dilute earnings per share in the future have been included in the calculation of diluted earnings per shares.

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

	Oil and gas properties
	Total $ million
Cost:	
At 1 January 2012	315.5
Exchange movements	11.0
Acquisitions*	322.3
Additions during the year	213.5
Transfer to property, plant and equipment	(46.6)
Exploration expense	(157.7)
At 31 December 2012	658.0
Exchange movements	(17.3)
Additions during the year	266.9
Disposals	(101.3)
Transfer from property, plant and equipment	0.9
Exploration expense	(106.2)
At 31 December 2013	**701.0**

* Acquisitions in the prior year mainly comprises of US$74.6 million relating to the acquisition of EnCore and US$231.0 million relating to the purchase of a 60 per cent equity interest in the Falkland Islands Sea Lion development project.

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

During the year, the group sold its interest in the Grosbeak field in Norway for a profit of US$9.4 million and its interest in Block 07/03 in Vietnam for a loss of US$5.8 million.

9. Property, plant and equipment

	Oil and gas properties $ million	Other fixed assets $ million	Total $ million
Cost:			
At 1 January 2012	3,390.9	22.4	3,413.3
Exchange movements	–	0.7	0.7
Acquisitions*	150.5	–	150.5
Additions during the year**	595.2	15.5	610.7
Disposals	–	(0.1)	(0.1)
Transfer from intangible E&E assets	46.6	–	46.6
At 31 December 2012	4,183.2	38.5	4,221.7
Additions during the year**	742.8	13.8	756.6
Transfer from/(to) intangible E&E assets	3.3	(4.3)	(1.0)
At 31 December 2013	**4,929.3**	**48.0**	**4,977.3**
Amortisation and depreciation:			
At 1 January 2012	1,142.9	12.6	1,155.5
Exchange movements	–	0.6	0.6
Charge for the year	345.4	6.7	352.1
Impairment charge	20.7	–	20.7
Disposals	–	(0.1)	(0.1)
At 31 December 2012	1,509.0	19.8	1,528.8
Exchange movements	–	0.1	0.1
Charge for the year	375.0	8.8	383.8
Impairment charge	178.7	–	178.7
At 31 December 2013	**2,062.7**	**28.7**	**2,091.4**
Net book value:			
At 31 December 2012	2,674.2	18.7	2,692.9
At 31 December 2013	**2,866.6**	**19.3**	**2,885.9**

* Acquisitions in the prior year mainly relate to the acquisition of EnCore.

** Finance costs that have been capitalised within oil and gas properties during the year total US$25.6 million (2012: US$13.5 million), at a weighted average interest rate of 4.70 per cent (2012: 5.21 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.

The impairment charge relates to the UK Balmoral area. The impairment charge of US$178.7 million was calculated by comparing the future discounted cash flows expected to be derived from production of commercial reserves (the value-in-use) against the carrying value of the asset. The future cash flows were estimated using an oil price assumption equal to the Dated Brent forward curve in 2014 and 2015, and US$85/bbl in 'real' terms thereafter and were discounted using a pre-tax discount rate of 10 per cent. Assumptions involved in impairment measurement include estimates of commercial reserves and production volumes, future oil and gas prices and the level and timing of expenditures, all of which are inherently uncertain. At 30 June, based on a review of the longer-term plans for the life of the fields in the area, it was determined that additional maintenance and operating cost expenditure is likely to be required in order to ensure that additional reserves will be extracted. At year-end, decommissioning costs were also revised and updated based on latest estimates of drilling costs and time estimates to abandon the fields.

9. Property, plant and equipment (continued)

Goodwill

In January 2012, the group completed the acquisition of the entire issued share capital of EnCore. This transaction has resulted in recognition of US$240.8 million goodwill which arose principally due to the difference between the fair value of assets and the consideration transferred and the requirement to recognise deferred UK corporation tax liabilities for the difference between the assigned fair values and the tax bases of assets acquired and liabilities assumed in a business combination. None of the goodwill recognised is expected to be deductible for tax purposes. Goodwill has been assigned to the UK business segment and more specifically to the Catcher field, which will be considered the cash-generating unit for the 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 for the impairment calculations above. The discount rate used is 10 per cent (2012: 10 per cent). The value-in use forecast, which is formally approved by management, takes into consideration cash flows which are expected to arise during the life of the Catcher field as a whole, currently expected to be to around 2027. This period exceeds five years but is believed to be appropriate as it is underpinned by estimates of commercial reserves provided by our in-house reservoir engineers using industry standard reservoir estimation techniques.

10. Investments

Principal subsidiary undertakings

At 31 December 2013, the company had investments in the following 100 per cent owned subsidiaries which principally affected the profits or net assets of the group. To avoid a statement of excessive length, details of investments which are not significant have been omitted.

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

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

Joint ventures

The group has a 49 per cent interest in Premco Energy Projects Company LLC, a company registered in the United Arab Emirates and a 50 per cent interest in Premco Energy Projects BV, a company registered in The Netherlands. The results of these two jointly controlled entities, which are indirectly held through subsidiary undertakings and which are involved in business development opportunities across the Middle East and North Africa region, are accounted for using proportionate consolidation and were immaterial to the group in 2013 and 2012.

Associate Company

The group has a 29.52 per cent interest in Egdon Resources plc, a company registered in the United Kingdom, acquired as part of the acquisition of EnCore. The results of Egdon Resources plc are accounted for using the equity method. Egdon Resources plc prepare financial statements to 31 July, in 2012 a loss of US$1.9 million was included in the group's income statement to represent to expected share of associate company results (2013: nil).

11. Receivables

Trade and other receivables

	2013 $ million	2012 $ million
Trade receivables	**309.1**	207.3
Other receivables	**101.0**	125.9
Prepayments	**11.7**	18.1
	421.8	351.3

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

Long-term receivables

	2013 $ million	2012 $ million
Other long-term receivables	**5.9**	2.5
Loan to joint venture partner	**192.2**	–
	198.1	2.5

The loan to joint venture partner comprises of a loan facility extended to a non operating partner for the purpose of financing development costs of the Solan project. The loan carries a fixed interest and is repayable through receipts from oil production of the field.

12. Cash and cash equivalents

	Note	2013 $ million	2012 $ million
Cash at bank and in hand		**93.1**	57.0
Short-term deposits		**355.8**	130.4
	21	**448.9**	187.4

13. Trade and other payables

	2013 $ million	2012 $ million
Trade payables	**83.1**	101.2
Accrued expenses	**396.0**	312.4
Other payables	**33.3**	36.4
	512.4	450.0

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

14. Borrowings

	Note	2013 $ million	2012 $ million
Convertible bonds*		**224.2**	220.2
Other long-term debt – bank loans*	17	**686.0**	500.0
Other long-term debt – senior loan notes*	17	**742.6**	577.6
Other long-term debt – retail bonds*	17	**249.0**	–
Total borrowings		**1,901.8**	1,297.8

* The carrying values of the convertible bonds and the other long-term debt on the balance sheet are stated net of the unamortised portion of the issue costs of US$0.4 million (2012: US$0.6 million) and debt arrangement fees of US$12.2 million (2012: US$13.2 million) respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2013

14. Borrowings (continued)

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

During the fourth quarter, the group took advantage of favourable debt market conditions and low interest rates, to raise new debt over US$700 million equivalent. This included long-term senior notes of US$130.0 million and €20.0 million (with five and seven year maturities), long-term bank loans of US$150.0 million and £100.0 million maturing in 2017 and £150.0 million retail bonds which mature in 2020.

At the year-end, the group's principal credit facilities comprised of US$300.0 million term loan, a US$695.0 million revolving credit facility and £316.4 million (US$525.2 million) letter of credit facilities, all maturing in 2015. Additionally, a US$350.0 million revolving credit facility, medium-term loan of US$150.0 million and £100.0 million will mature in 2017. Senior notes of US$576.0 million and €120.0 million will mature starting from 2018 to 2024 and £150.0 million retail bonds will mature in 2020.

The company have financing in US$, £ and €. The £ and € loans have been swapped into US$ at the transaction dates. In total, £150.0 million and €120 million have been swapped in US$ using cross currency swap markets at an average exchange rate of US$1.64:£ and US$1.34:€ respectively. However, all liabilities in currencies other than US$ have been translated at the exchange rate prevailing at the year-end.

Convertible bonds

In October 2012, the group invited holders of the outstanding US$250 million guaranteed convertible bond ('old bonds') to exchange their existing bonds (due 2014) for guaranteed convertible bonds due 2018 ('new bonds'). The new bonds were issued with an exchange price of £4.34 (US$7.00 at fixed exchange rate) per share and a coupon of 2.5 per cent. This compared with the old bonds which had an exchange price of £3.39 (US$6.69) per share and a coupon of 2.875 per cent. Bond holders representing 98.13 per cent of the total aggregate principal amount of the US$250.0 million (approximately US$245.3 million) elected to exchange their old bonds for the new bonds. The remainder of the old bonds were settled in cash (US$4.6 million) or company shares (US$0.1 million) at par.

The new bonds were issued on 1 November 2012, with a par value of US$245.3 million which are convertible into Ordinary Shares of the company at any time from 11 August 2016 until six days before their maturity date of 27 July 2018. Under the terms of the new bonds, the exchange price is to be adjusted on the occurrence of certain events, including any payments of dividends by the company.

During the year, the company declared a dividend of 5 pence per Ordinary Share and consequently the exchange price was adjusted to £4.28, (US$6.90) per share. The total number of Ordinary Shares to be issued, if all bonds are converted at this adjusted exchange price, is 35,526,646. If the bonds have not been previously purchased and cancelled, redeemed or converted, they will be redeemed at par value on 27 July 2018. Interest of 2.5 per cent per annum will be paid semi-annually in arrears up to that date.

In 2012, the group derecognised the book value of the old bonds as the new bonds have significantly different terms. The equity component and liability portion of the new bond has been calculated based on the last day market price of the old bonds and effective yield of a similar maturity corporate bond. The US$8.6 million difference between the equity component of the old bonds and the new bonds was assigned to the equity reserve and a US$1.9 million residual difference charged to income statement in 2012.

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

	$ million
Old bonds – net	
Liability component at 1 January 2012	**226.5**
Interest charged (10 months until time of exchange)	**13.4**
Interest paid (10 months until time of exchange)	**(6.0)**
Amount paid in cash or shares to bond holders for partial redemption	**(4.7)**
Liability derecognised at 1 November 2012	**229.2**
New bonds – net	
Liability recognised 1 November 2012	**218.9**
Interest charged	**1.7**
Interest paid	**(1.0)**
Total liability component at 1 January 2013	**219.6**
Interest charged	**10.3**
Interest paid	**(6.1)**
Total liability component at 31 December 2013	**223.8**

14. Borrowings (continued)

The total interest charged on the new bonds has been calculated by applying an effective annual interest rate of 4.58 per cent to the liability component for the period since the new bonds were issued. The effective annual interest rate on the old bonds was 6.73 per cent. The non-cash accrual of interest will increase the liability component (as the cash interest is only paid at 2.5 per cent) to US$245.3 million at maturity.

Retail bonds

In December, the company put in place a £500.0 million Retail eligible Euro Medium Term Notes (EMTN) program under which it has issued £150.0 million UK retail bonds ('the bonds'). The bonds have been listed on the Official List of the UK Listings Authority and admitted to trading on the London Stock Exchange's regulated market and the electronic Order Book of Retail Bonds ('ORB'). The bonds have a fixed coupon of 5.0 per cent and maturity of seven years.

Capital management

The primary objective of the group's capital management policy is to ensure that it maintains healthy capital ratios in order to support its business and increase shareholder value. The group manages its capital structure and makes adjustments to it in light of changes in economic conditions. No changes were made in the objectives, policies or processes during the years ended 31 December 2013 and 31 December 2012.

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	**2013**	2012
Net debt ($ million)	21	**(1,452.9)**	(1,110.4)
Net assets ($ million)		**2,124.4**	1,953.5
Net assets plus net debt ($ million)		**3,577.3**	3,063.9
Gearing ratio (%)		**40.6**	36.2

15. Obligations under leases

	2013 $ million	2012 $ million
Minimum lease payments under operating leases recognised as an expense in the year	**63.3**	51.7
Outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:		
Within one year	**79.5**	74.9
In two to five years	**231.3**	278.6
Over five years	**37.2**	50.6
	348.0	404.1

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2013

16. Long-term provisions

	Note	2013 $ million	2012 $ million
Decommissioning costs:			
Total provisions at 1 January		**682.1**	600.5
Revision arising from:			
New provisions and changes in estimates		**132.4**	39.1
Payments		**(31.8)**	(16.4)
Exchange differences		**18.6**	25.7
Unwinding of discount on decommissioning provision	5	**36.4**	33.2
Total provisions at 31 December		**837.7**	682.1
Reclassification of short-term provisions to current liabilities		**(13.1)**	(68.8)
Long-term provisions at 31 December		**824.6**	613.3

The decommissioning provision represents the present value of decommissioning costs relating to oil and gas interests in the UK, Indonesia, Vietnam, Pakistan and Mauritania which are expected to be incurred up to 2038. These provisions have been created based on Premier's internal estimates and, where available, operators estimates. Based on the current economic environment, assumptions have been made which are believed to be a reasonable basis upon which to estimate the future liability. These estimates are reviewed regularly to take into account any material changes to the assumptions. However, actual decommissioning costs will ultimately depend upon future market prices for the necessary decommissioning works required, which will reflect market conditions at the relevant time. Furthermore, the timing of decommissioning is likely to depend on when the fields cease to produce at economically viable rates. This in turn will depend upon future oil and gas prices, which are inherently uncertain.

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

17. Financial instruments

Financial risk management objectives and policies

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

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

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

Derivative financial instruments

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

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

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

The group has £ currency exposure as a result of the £ financial instruments. 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, significant exchange rate exposures currently relate only to certain local currency (such as Pound Sterling, Norwegian Kroner) receipts and expenditures within individual business units. Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts.

17. Financial instruments (continued)

Fair value hierarchy

In line with IAS 39 'Financial Instruments: Recognition and Measurement' the group uses the following hierarchy for determining the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded value that are not based on observable market data.

As at 31 December 2013, the group held the following financial instruments measured at fair value (excluding any primary financial instruments such as cash and bank loans):

Assets measured at fair value

Financial assets at fair value through profit and loss:

	At 31 December $ million	Level 1 $ million	Level 2 $ million	Level 3 $ million
2013:				
Gas forward sale contracts	0.4	–	0.4	–
Cross currency swap	2.6	–	2.6	–
Forward foreign exchange contracts	12.9	–	12.9	–
Total	**15.9**	**–**	**15.9**	**–**
2012:				
Oil reverse collars	6.1	–	6.1	–
Gas forward sale contracts	3.2	–	3.2	–
Forward foreign exchange contracts	0.5	–	0.5	–
Total	9.8	–	9.8	–

Liabilities measured at fair value

Financial liabilities at fair value through profit and loss:

	At 31 December $ million	Level 1 $ million	Level 2 $ million	Level 3 $ million
2013:				
Oil forward sale contracts	25.1	–	25.1	–
Interest rate swaps	10.4	–	10.4	–
Cross currency swap	2.8	–	2.8	–
Total	**38.3**	**–**	**38.3**	**–**
2012:				
Oil collars	8.8	–	8.8	–
Oil forward sale contracts	4.7	–	4.7	–
Gas collars	7.2	–	7.2	–
Interest rate swaps	16.7	–	16.7	–
Cross currency swap	6.4	–	6.4	–
Total	43.8	–	43.8	–

17. Financial instruments (continued)

Commodity price risk

Oil

At 31 December 2013, the group had 4.4 million barrels of Dated Brent oil hedged through forward sales for 2014 at an average floor price of US$103.9/bbl. The forward sales have been designated as cash flow hedges and were assessed to be effective, with a fair value movement of US$27.2 million charged directly in retained earnings. A residual fair value movement of US$1.4 million was charged to the income statement.

During the year, forward oil sales contracts for 3.2 million barrels matured generating an income of US$1.3 million (2012: US$34.4 million net cost including embedded oil price collars). This income is an addition to sales revenue.

Indonesian gas

At 31 December 2013, 192,000 mt of HSFO, which drives the group's gas pricing in Singapore, is subject to monthly forward sales contracts for 2014 at an average price of US$611.3/mt.

During the year, Singapore 180 HSFO contracts for 48,000 mt, with a floor of US$250.0/mt and a cap of US$500.0/mt, and 96,000 mt expired generating a cash cost of US$2.2 million (2012: US$26.3 million) which was offset against sales revenue. All contracts have been designated as cash flow hedges and were assessed to be effective. In the current year, US$0.2 million of the movement in the fair value of these contracts was credited to the income statement (2012: US$3.2 million), as this movement related to the time-value portion of hedges under IAS 39. The remaining movement, being a credit of US$3.0 million (2012: US$15.4 million), related to the intrinsic value of such instruments and was recognised directly in retained earnings.

Movement in commodity collar and swap contracts

Asset/(liability)	Oil $ million	Gas $ million	Total $ million
At 1 January 2012	(101.2)	(23.3)	(124.5)
Cash settlement for swaps and collars	71.8	27.1	98.9
Deduction against sales revenue	(34.4)	(26.3)	(60.7)
Credit to income statement for the year	51.2	3.2	54.4
Credit to retained earnings for the year	5.1	15.4	20.5
At 31 December 2012	(7.5)	(3.9)	(11.4)
Cash settlement for swaps and collars	9.6	3.4	13.0
Addition/(deduction) against sales revenue	1.3	(2.2)	(0.9)
(Charge)/credit to income statement for the year	(1.4)	0.2	(1.2)
(Charge/credit to retained earnings for the year	(27.2)	3.0	(24.2)
At 31 December 2013	**(25.2)**	**0.5**	**(24.7)**

Commodity contract sensitivity analysis

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

Increase/(decrease) in mark-to-market value	Oil $ million	Gas $ million	Total $ million
Ten per cent increase	41.2	11.7	52.9
Ten per cent decrease	(40.9)	(11.7)	(52.6)

17. Financial instruments (continued)

Interest rate risk

At 31 December 2013, US$300.0 million of the group's long-term bank borrowings have been swapped from floating rate to fixed rate. Under these interest rate swap contracts, the group has agreed to exchange the difference between fixed and floating interest amounts calculated on agreed notional principal amounts. Such contracts enable the group to mitigate the risk of changing interest rates and the cash flow exposure on the issued variable rate debt held.

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

Asset/(liability)	**Total $ million**
At 1 January 2012	(19.3)
Cash settlement for swaps	6.9
Charge to income statement for the year recorded within finance costs and other finance expenses	(6.9)
Credit to retained earnings for the year	2.5
At 31 December 2012	(16.8)
Cash settlement for swaps	7.1
Charge to income statement for the year recorded within finance costs and other finance expenses	(7.1)
Credit to retained earnings for the year	6.4
At 31 December 2013	**(10.4)**

Interest rate swaps sensitivity analysis

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

Increase/(decrease) in mark-to-market value	**Total $ million**
Increase of fifty basis points	**(2.0)**

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

Foreign currency exchange risk

During the year, the group issued £150.0 million retail bonds, €20.0 million long-term senior notes and £100.0 million term loan which have been hedged under cross currency swaps in US dollars at average fixed rates of US$1.64:£ and US$1.34:€.

This is in addition to existing swaps of €25.0 million at a fixed rate of US$1.328:€ and €75.0 million at a fixed rate of US$1.423:€. The fair value of these cross currency swaps at the reporting date is shown below:

Asset/(liability)	**Total $ million**
At 1 January 2012	(9.6)
Credit to income statement for the year	1.2
Credit to retained earnings for the year	2.0
At 31 December 2012	(6.4)
Credit to income statement for the year	13.4
Charge to retained earnings for the year	(7.2)
At 31 December 2013	**(0.2)**

To cover sterling exposures an amount of £619.2 million was purchased and matured with forward contracts during the year (2012: £497.0 million) to cater for its North Sea developments and operations. The group's activities are largely conducted in US dollars. The majority of borrowings at year-end were denominated in US dollars to match the currency of the assets.

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

17. Financial instruments (continued)

Other financial instruments

Credit risk

The group's credit risk is attributable to its trade receivables and its bank deposits. The amount of receivables presented in the balance sheet is net of allowances for doubtful receivables, which were immaterial in 2013 and 2012. The group does not require collateral or other security to support receivables from customers or related parties. The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with at least single A credit ratings assigned by international credit rating agencies.

An indication of the concentration of credit risk is shown in note 1, whereby the revenue from four customers each exceeded 10 per cent of the group's consolidated revenue in 2013 (2012: five).

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

	Less than 1 month $ million	2 to 3 months $ million	3 months to 1 year $ million	1 to 5 years $ million	Over 5 years $ million	Total $ million
2013:						
Long-term receivables	–	–	–	192.2	5.9	198.1
Trade and other receivables	363.1	27.0	20.0	–	–	410.1
Trade and other payables	(90.4)	(14.1)	(11.9)	–	–	(116.4)
Bank loans	(70.2)	(3.9)	(17.5)	(660.9)	–	(752.5)
Convertible bonds	–	–	(6.1)	(267.4)	–	(273.5)
Senior loan notes	(0.1)	(7.5)	(29.4)	(369.8)	(582.6)	(989.4)
Retail bonds	–	–	(12.6)	(50.6)	(271.3)	(334.5)
Total	**202.4**	**1.5**	**(57.5)**	**(1,156.5)**	**(848.0)**	**(1,858.1)**
2012:						
Long-term receivables	–	–	–	–	2.5	2.5
Trade and other receivables	278.4	46.8	8.0	–	–	333.2
Trade and other payables	(110.5)	(14.9)	(11.9)	(0.3)	–	(137.6)
Bank loans	–	(3.8)	(11.7)	(519.5)	–	(535.0)
Convertible bonds	(1.0)	–	(3.0)	(24.5)	(251.9)	(280.4)
Senior loan notes	–	(6.0)	(24.9)	(123.5)	(662.4)	(816.8)
Total	166.9	22.1	(43.5)	(667.8)	(911.8)	(1,434.1)

Liquidity risk

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the group's short, medium and long-term funding and liquidity management requirements. The group manages liquidity risk by maintaining adequate reserves, banking 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.

17. Financial instruments (continued)

Borrowing facilities

The group has committed borrowing facilities of US$1,661.0 million and letter of credit facilities of £316.4 million (US$525.2 million), in addition to the convertible bonds, retail bonds and senior loan notes. The undrawn cash balance from the committed borrowing facilities as at 31 December was:

	2013 $ million	2012 $ million
Expiring in more than one year, but not more than two years	**695.0**	–
Expiring in more than two years, but not more than five years	**280.0**	845.0

The undrawn balance on the letter of credit facilities as at 31 December 2013 was £118.6 million (US$196.9 million) (2012: £47.0 million (US$76.4 million)), which expires between one to two years.

Interest rate risk profile of financial liabilities

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

	Fixed rate $ million	**Floating rate $ million**	**Total $ million**	**Fixed rate weighted average interest rate %**
2013:				
Bank loans*	300.0	386.0	686.0	5.200
Convertible bonds	245.3	–	245.3	2.500
Senior loan notes	612.6	130.0	742.6	5.400
Retail bonds	249.0	–	249.0	5.140
Total	**1,406.9**	**516.0**	**1,922.9**	**–**
2012:				
Bank loans*	300.0	200.0	500.0	5.200
Convertible bonds	245.3	–	245.3	2.500
Senior loan notes	577.6	–	577.6	5.315
Total	1,122.9	200.0	1,322.9	–

* At 31 December 2013, US$300.0 million of the group's long-term bank borrowings and €20.0 million senior loan notes have been swapped from floating interest rate to fixed interest rate and are therefore included as a fixed rate liability in the table above (2012: US$300.0 million).

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

	2013 $ million	2012 $ million
Bank loans	**679.8**	489.6
Senior loan notes	**739.5**	574.8
Retail bonds	**246.1**	–
Convertible bonds:		
Liability component	**223.8**	219.6
Equity component	**21.0**	25.1

The floating rate financial liabilities at 31 December 2013 comprised bank borrowings and senior loan notes bearing interest at rates set by reference to US$ LIBOR, exposing the group to a cash flow interest rate risk.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2013

17. Financial instruments (continued)

Interest rate risk profile of financial assets

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

	Floating rate $ million	Interest free $ million	Total $ million
2013:			
Cash and short-term deposits:			
Sterling	8.4	21.7	30.1
US dollar	314.0	54.5	368.5
Other	48.4	1.9	50.3
Total	**370.8**	**78.1**	**448.9**
2012:			
Cash and short-term deposits:			
Sterling	1.0	0.6	1.6
US dollar	144.2	11.8	156.0
Other	27.1	2.7	29.8
Total	172.3	15.1	187.4

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

Fair value of financial assets and financial liabilities

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 are approximate to fair values due to their short-term nature) are:

	2013 Fair value amount $ million	2013 Carrying amount $ million	2012 Carrying amount $ million
Primary financial instruments held or issued to finance the group's operations:			
Joint venture partner loan	**192.2**	**192.2**	–
Bank loans	**686.0**	**686.0**	500.0
Senior loan notes	**742.6**	**742.6**	577.6
Retail bonds	**252.9**	**249.0**	–
Liability component of convertible bonds	**271.7**	**224.2**	220.2

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. Where available, market values have been used to determine fair values. The estimated fair values have been determined using market information and appropriate valuation methodologies. Values recorded are as at the balance sheet date, and will not necessarily be realised. Non-interest bearing financial instruments, which include amounts receivable from customers and accounts payable are also recorded materially at fair value reflecting their short-term maturity.

18. Deferred tax

	2013 $ million	2012 $ million
Deferred tax assets	**762.4**	568.9
Deferred tax liabilities	**(306.8)**	(297.1)
	455.6	271.8

18. Deferred tax (continued)

	At 1 January 2013 $ million	Exchange movements $ million	Disposal of asset $ million	(Charged)/ credited to income statement $ million	Credited to retained earnings $ million	At 31 December 2013 $ million
UK deferred corporation tax:						
Fixed assets and allowances	(601.6)	–	–	(226.6)	–	(828.2)
Decommissioning	252.8	–	–	68.9	–	321.7
Deferred petroleum revenue tax	(1.5)	–	–	(3.9)	–	(5.4)
Tax losses and allowances	861.7	–	–	342.1	–	1,203.8
Small field allowance	45.8	–	–	2.0	–	47.8
Deferred revenue	2.0	–	–	(2.0)	–	–
Derivative financial instruments	–	–	–	–	13.9	13.9
Total UK deferred corporation tax	559.2	–	–	180.5	13.9	753.6
UK deferred petroleum revenue tax[1]	2.3	–	–	6.4	–	8.7
Overseas deferred tax[2]	(289.7)	8.1	24.0	(49.1)	–	(306.7)
Total	**271.8**	**8.1**	**24.0**	**137.8**	**13.9**	**455.6**

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

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

The group's unutilised tax losses and allowances at 31 December 2013 are recognised to the extent that taxable profits are expected to arise in the future against which the tax losses and allowances can be utilised. In accordance with paragraph 37 of IAS 12 'Income Taxes' the group re-assessed its unrecognised deferred tax assets at 31 December 2013 with respect to ring fence tax losses and allowances. The corporate model used to determine the recognition of deferred tax assets was re-run, using an oil price assumption of Dated Brent forward curve in 2014 and 2015, and US$85/bbl in "real" terms, thereafter. The results of the corporate model concluded that it was appropriate to recognise the group's UK ring fence deferred tax assets in respect of tax losses and allowances in full.

In addition to the above, there are non-ring fence UK tax losses of approximately US$321.1 million (2012: US$327.6 million) and current year non-UK tax losses of approximately US$14.3 million (2012: US$26.9 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2013

19. Share capital

	2013 12.5p shares	2013 £	2012 12.5p shares	2012 £
Ordinary Shares:				
Called-up, issued and fully-paid	**529,220,964**	**66,152,621**	529,110,917	66,138,865

	2013 $ million	2012 $ million
At 1 January	**110.5**	98.8
Acquisition of subsidiary	**–**	11.7
At 31 December	**110.5**	110.5

Ordinary Shares

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

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

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

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

Share-based payments and share incentive plans

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

For the year ended 31 December 2013, the total cost recognised by the group for equity-settled share-based payment transactions is US$24.6 million. A credit of US$24.6 million has been recorded in retained earnings (2012: US$30.5 million) for all equity-settled payments of the group. Like other elements of remuneration, this charge is processed through the time-writing system which allocates cost, based on time spent by individuals, to various entities within the Premier Oil plc group. Part of this cost is therefore capitalised as directly attributable to capital projects and part is charged to the income statement as operating costs, pre-licence exploration costs or general and administration costs.

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

(i) Long Term Incentive Plan

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

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

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

Volatility:	31.0% to 42.0%
Risk free rate of interest:	1.0% to 2.9%
Correlation factor with comparator group:	0.32 to 0.35

(ii) Share Incentive Plan

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

19. Share capital (continued)

(iii) Savings Related Share Option Scheme

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

	2013		2012	
	Options	**Weighted average exercise price**	Options	Weighted average exercise price
Outstanding at the beginning of the year	**402,664**	**£2.89**	368,400	£2.55
Granted during the year	**233,176**	**£3.14**	152,188	£3.13
Lapsed during the year	**(41,861)**	**£3.20**	(13,288)	£4.08
Exercised during the year*	**(110,047)**	**£3.54**	(104,636)	£1.91
Outstanding at the end of the year (exercisable: nil)	**483,932**	**£3.06**	402,664	£2.89

* 110,047 Ordinary Shares with a nominal value of £13,756 (US$21,459) were issued under the group's share option schemes during the year (2012: 104,636 Ordinary Shares with a nominal value of £13,080 (US$20,814)).

The weighted average share price at the date of exercise for share options exercised during the year was £3.54. The options outstanding at 31 December 2013 had a weighted average exercise price of £3.06 and a weighted average remaining contractual life of 2.73 years.

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

20. Own shares

	Total $ million
At 1 January 2012	12.5
Purchase of ESOP Trust shares	89.3
Release of shares for long-term incentive arrangements	(57.2)
At 31 December 2012	44.6
Purchase of ESOP Trust shares	12.8
Release of shares for long-term incentive arrangements	(39.6)
At 31 December 2013	**17.8**

The own shares reserve represents the net cost of shares in Premier Oil plc purchased in the market or issued by the company into the Premier Oil plc Employee Benefit Trust. This ESOP Trust holds shares to satisfy awards under the group's share incentive plans. At 31 December 2013, the number of Ordinary Shares of 12.5 pence each held by the Trust was 3,046,621 (2012: 7,640,386 Ordinary Shares of 12.5 pence each).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2013

21. Notes to the cash flow statement

	2013 $ million	2012 $ million
Profit before tax for the year	**285.4**	359.9
Adjustments for:		
Depreciation, depletion, amortisation and impairment	**562.5**	372.8
Exploration expense	**106.2**	157.7
Provision for share-based payments	**7.9**	10.1
Share of loss in associate	**–**	1.9
Interest revenue and finance gains	**(33.0)**	(3.2)
Finance costs and other finance expenses	**98.4**	110.8
Other gains and losses	**(3.6)**	–
Loss/(gain) on derivative financial instruments	**1.2**	(14.2)
Operating cash flows before movements in working capital	**1,025.0**	995.8
Increase in inventories	**(14.9)**	(6.8)
Decrease in receivables	**45.1**	36.3
Decrease in payables	**(28.9)**	(15.1)
Cash generated by operations	**1,026.3**	1,010.2
Income taxes paid	**(228.3)**	(233.1)
Interest income received	**4.5**	1.9
Net cash from operating activities	**802.5**	779.0

Analysis of changes in net debt:

	Note	2013 $ million	2012 $ million
a) Reconciliation of net cash flow to movement in net debt:			
Movement in cash and cash equivalents		**261.5**	(121.7)
Proceeds from drawdown of long-term bank loans		**(384.1)**	(217.6)
Proceeds from issuance of senior loan notes		**(156.7)**	(235.2)
Proceeds from issuance of retail bonds		**(245.8)**	–
Repayment of long-term bank loans		**200.0**	202.0
Non-cash movements on debt and cash balances		**(17.4)**	6.1
Increase in net debt in the year		**(342.5)**	(366.4)
Opening net debt		**(1,110.4)**	(744.0)
Closing net debt		**(1,452.9)**	(1,110.4)
b) Analysis of net debt:			
Cash and cash equivalents	12	**448.9**	187.4
Borrowings*	14	**(1,901.8)**	(1,297.8)
Total net debt		**(1,452.9)**	(1,110.4)

* Borrowings consist of the short-term borrowings, the convertible bonds and the other long-term debt. The carrying values of the convertible bonds and the other long-term debt on the balance sheet are stated net of the unamortised portion of the issue costs of US$0.4 million (2012: US$0.6 million) and debt arrangement fees of US$12.2 million (2012: US$13.2 million) respectively.

22. Capital commitments and guarantees

At 31 December 2013, the group had capital commitments on exploration and development licences totalling US$417.0 million (2012: US$407.7 million) and performance guarantees of US$78.7 million (2012: US$4.1 million). In addition, the group had issued letters of credit for future decommissioning liabilities totalling £254.8 million (US$422.9 million) (2012: £214.0 million (US$348.8 million)).

23. Group pension schemes

Balance sheet

	2013 $ million	2012 $ million
UK funded pension scheme	**1.0**	4.2
Total surplus in balance sheet	**1.0**	4.2

	2013 $ million	2012 $ million
UK unfunded pension scheme	**0.9**	0.9
Indonesia unfunded termination benefit scheme	**12.2**	17.3
Total liability in balance sheet	**13.1**	18.2

Other comprehensive income

	At 31 December 2013 $ million	At 31 December 2012 $ million
Actuarial (losses)/gains	**(6.5)**	1.2
Cumulative amount of actuarial losses recognised in other comprehensive income	**(17.3)**	(10.8)

Funded pensions

The group operates a defined benefit pension scheme in the UK – The Premier Oil plc Retirement and Death Benefits Plan (the Scheme). The Scheme was closed to new members (aside from the provision of insured death in service benefits) in 1997 and a new scheme, providing benefits on a defined contribution basis, was started. Both schemes are funded by the payment of contributions to separately administered trust funds.

The disclosures set out below are based on calculations carried out as at 31 December 2013 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 2013. The results of the calculations and the assumptions adopted are shown below.

As at 31 December 2013, contributions are payable to the Scheme by the group at the rates set out in the schedule of contributions dated 24 July 2012. Under this schedule, the company contributes on a monthly basis at the rate of 30 per cent of the aggregate of members' pensionable salaries.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2013

23. Group pension schemes (continued)

Principal assumptions

The principal actuarial assumptions at the balance sheet date were:

	At 31 December 2013	At 31 December 2012
Discount rate	4.5% pa	4.4% pa
Expected return on Scheme assets	4.5% pa	4.4% pa
RPI inflation	3.5% pa	2.9% pa
CPI inflation	2.8% pa	2.2% pa
Rate of increase in salaries	5.5% pa	4.9% pa
Rate of increase in pensions in payment: LPI (max 5.0%)	3.5% pa	2.9% pa
Pre and post-retirement mortality	S1PA Light CMI_2013 1% Long Term	PCA00 YOB MC
Withdrawals	No allowance	No allowance
Cash commutation	2.0 x pre-commutation pension	2.0 x pre-commutation pension
Life expectancy of male aged 65 now	22.7	21.9
Life expectancy of male aged 65 in 20 years	24.0	23.0
Life expectancy of female aged 65 now	23.9	24.1
Life expectancy of female aged 65 in 20 years	25.4	25.0

Asset breakdown

The major categories of Scheme assets as a percentage of total Scheme assets are:

	At 31 December 2013	At 31 December 2012
Equities	50.8%	49.9%
Gilts	24.6%	22.7%
Corporate bonds	24.5%	23.4%
Cash	0.1%	4.0%
Total	100.0%	100.0%

Reconciliation of funded status and amount recognised in balance sheet:

	At 31 December 2013 $ million	At 31 December 2012 $ million
Fair value of Scheme assets	44.5	38.2
Present value of defined benefit obligation	(38.9)	(34.0)
Unrecognised amount due to effect of IFRC 14	(4.6)	–
Surplus	1.0	4.2

Components of pension expense for year:

	2013 $ million	2012 $ million
Current service cost	0.2	0.2
Interest cost	1.4	1.5
Expected return on Scheme assets	(1.7)	(1.5)
Net actuarial losses/(gain) recognised	2.0	(1.2)
Total	1.9	(1.0)

23. Group pension schemes (continued)

Changes in the present value of the defined benefit obligation:

	2013 $ million	2012 $ million
Present value of defined benefit obligation at 1 January	**34.0**	31.3
Service cost	**0.2**	0.2
Interest cost	**1.4**	1.5
Actuarial losses	**3.2**	0.2
Benefits paid	**(0.9)**	(0.9)
Currency translation effects	**1.0**	1.7
Present value of defined benefit obligation at 31 December	**38.9**	34.0

Changes in the fair value of Scheme assets:

	2013 $ million	2012 $ million
Fair value of Scheme assets at 1 January	**38.2**	28.4
Return on assets less interest income	**1.2**	1.5
Interest income	**1.7**	1.4
Contributions by employer	**3.2**	6.1
Benefits paid	**(0.9)**	(0.9)
Currency translation effects	**1.1**	1.7
Fair value of Scheme assets at 31 December	**44.5**	38.2
Actual return on Scheme assets	**2.9**	2.9

Reconciliation of balance sheet liability/(asset):

	2013 $ million	2012 $ million
At 1 January	**(4.2)**	2.9
Pension credit/(expense) for the year	**1.9**	(1.0)
Total contributions paid	**(3.2)**	(6.1)
Currency translation effects	**(0.1)**	–
Unrecognised amount due to effect of IFRC 14	**4.6**	–
At 31 December	**(1.0)**	(4.2)

History of experience adjustments:

	2013 $ million	2012 $ million	2011 $ million	2010 $ million	2009 $ million
Defined benefit obligation	**(38.9)**	(34.0)	(31.3)	(32.3)	(31.2)
Scheme assets	**44.5**	38.2	28.4	28.2	25.6
Surplus/(deficit)	**5.6**	4.2	(2.9)	(4.1)	(5.6)
Experience adjustments on Scheme liabilities:					
Amount of loss/(gain)	**0.1**	(0.1)	0.9	0.6	(0.6)
Percentage of Scheme liabilities	**–**	–	3%	2%	(2%)
Changes in the assumptions for value of Scheme liabilities:					
Amount of (gain)/loss	**3.1**	0.3	(2.9)	0.6	5.5
Percentage of Scheme liabilities	**8%**	1%	(9%)	2%	18%
Experience adjustments on Scheme assets:					
Amount of gain/(loss)	**1.2**	1.4	(0.7)	1.5	1.9
Percentage of Scheme assets	**3%**	4%	(2%)	5%	7%
Net actuarial (loss)/gain recognised	**(2.0)**	1.2	1.3	0.3	(3.0)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2013

23. Group pension schemes (continued)

Projected components of pension expense for year to 31 December 2014

The significant volatility in investment markets means that it is difficult to project forward the IAS 19 figures for the next year with confidence. The following projections should therefore be treated with caution. Assumptions implicit in the following projections are:

- the return on assets from 31 December 2013 is 4.5 per cent per annum;
- contributions to the Scheme will continue throughout 2014 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:

	2014 $ million
Current service cost	0.3
Interest cost	(0.4)
Expected return on Scheme assets	–
Total	(0.1)

Unfunded pensions

In Indonesia, the group operates a Service, Severance and Compensation pay scheme under a Collective Labour Agreement with the local workforce. This is an unfunded post-employment defined benefit scheme in nature.

In addition, the group is paying an unfunded pension to a former director in the UK in regard to which annual increases and a reversionary spouse's pension apply on the same basis as to pensions paid under the Scheme. On the same actuarial basis as used to assess the Scheme's pension costs, the present value as at 31 December 2013 of the future payments projected to be made in respect of UK unfunded pensions is US$0.9 million (2012: US$0.9 million).

Defined contribution benefit scheme

The group operates a defined contribution retirement benefit scheme. The only obligation of the group with respect to the retirement benefit scheme is to make specified contributions. Payments to the defined contribution scheme are charged as an expense as they fall due. The total cost charged to income of US$4.1 million (2012: US$4.2 million) represents contributions payable to these schemes by the group at rates specified in the rules of the scheme.

24. Related party transactions

Transactions between the company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

Directors and executive remuneration

The remuneration of directors and other key members of management during the year is highlighted below.

Further information regarding the remuneration of individual directors is provided in the audited part of the Remuneration Report.

	2013 $ million	2012 $ million
Short-term employee benefits	**6.0**	6.6
Post-employment benefits	**0.9**	1.1
Other long-term benefits: share-based payments	**9.3**	13.1
	16.2	20.8

At 31 December 2013 the company had an outstanding loan receivable of US$1.7 million (£1.0 million) from Egdon Resources plc, an associate company.

25. Dividends

	2013 $ million	2012 $ million
Amounts recognised as distributions to shareholders in the year: final dividend for the year ended 31 December 2012 of 5p (2011: nil)	**40.2**	–
Proposed final dividend for the year ended 31 December 2013 of 5p (2012: 5p)	**43.9**	40.2

The proposed dividend is subject to shareholder approval at the Annual General Meeting and has not been included as a liability in these financial statements. The proposed dividend is payable to all shareholders on the register on 22 April 2014.

The payment of this dividend will not have any tax consequences for the group.

COMPANY FINANCIAL STATEMENTS: BALANCE SHEET

As at 31 December 2013

	Note	2013 $ million	2012 $ million
Investments in subsidiaries	3	563.5	563.5
Long-term employee benefit plan surplus	7	3.7	4.2
Total fixed assets		567.2	567.7
Current assets:			
Debtors: amounts falling due after more than one year	4	901.5	512.1
Total current assets		901.5	512.1
Creditors: amounts falling due within one year	5	(21.0)	(8.4)
Net current assets		880.5	503.7
Total assets less current liabilities		1,447.7	1,071.4
Retail bonds	6	(246.1)	–
Pension liability	7	(0.9)	(0.9)
Net assets		1,200.7	1,070.5
Capital and reserves:			
Called-up share capital	9	110.5	110.5
Share premium account*	10	275.3	274.9
Profit and loss account	10	374.2	244.4
Merger reserve account*	10	374.3	374.3
Capital redemption reserve	10	4.3	4.3
Equity reserve	10	62.1	62.1
Total equity shareholders' funds	11	1,200.7	1,070.5

* 2012 comparatives have been restated, see note 10 for details.

The financial statements of Premier Oil plc (registered number SC234781) were approved by the Board of Directors and authorised for issue on 26 February 2014.

They were signed on its behalf by:

S C Lockett
Chief Executive

A R C Durrant
Finance Director

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the year ended 31 December 2013

	Note	2013 $ million	2012 $ million
Profit for the financial year	2	162.0	98.5
Pension costs – actuarial (losses)/gains	7	(3.8)	1.2
Total recognised gains and losses relating to the year		158.2	99.7

NOTES TO THE COMPANY FINANCIAL STATEMENTS

For the year ended 31 December 2013

1. Significant accounting policies

Basis of accounting

The separate financial statements of the company are presented as required by the Companies Act 2006. They have been prepared under the historical cost convention and in accordance with applicable United Kingdom Accounting Standards and law. The results relate entirely to continuing operations.

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

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year.

Investments

Fixed asset investments in subsidiaries are shown at cost less provision for impairment.

Pension costs

The company operates a defined benefit pension scheme, which requires contributions to be made to a separately administered fund. The Scheme was closed to new members (aside from the provision of insured death in service benefits) in 1997. The company accounts for pension costs in line with Financial Reporting Standard (FRS) 17 'Retirement Benefits'.

The amounts charged to operating profit regarding the defined benefit scheme are the current service costs and gains and losses on settlements and curtailments. Past service costs are recognised immediately in the profit and loss account if the benefits have vested. If the benefits do not vest immediately, the costs are recognised over the period until vesting occurs. The interest costs and the expected return on the assets are shown as a net amount of other financial costs or credits adjacent to interest. Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses.

Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit credit method, and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities.

The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The resulting defined benefit asset or liability, net of related deferred tax, is presented separately after other net assets on the face of the balance sheet.

Foreign exchange

The local currency of the company is US dollars. All transactions denominated in foreign currencies, being currencies other than the local currency, are recorded in the local currency at actual exchange rates as of the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the year-end are reported at the rates of exchange prevailing at the year-end. Any gain or loss arising from a change in exchange rate subsequent to the dates of the transactions is included as an exchange gain or loss in the profit and loss account.

Cash flow statement

No cash flow statement is prepared for the company under FRS 1 'Cash Flow Statements' as the cash flows of the company have been included in the group cash flow statement of Premier Oil plc.

Related party transactions

The company has taken advantage of the exemption available under FRS 8 'Related Party Disclosures' with regard to the non-disclosure of transactions between group companies.

Share-based payments

The company issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the company's estimate of shares that will eventually vest.

Fair value is measured by use of a Monte Carlo simulation. The main assumptions are provided in note 9.

Tax

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more tax. The exception to this is that deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

NOTES TO THE COMPANY FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2013

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 2013 of US$162.0 million (2012: profit of US$98.5 million).

The auditor's remuneration for audit and other services is disclosed in note 3 to the consolidated financial statements.

3. Fixed asset investments

	2013 $ million	2012 $ million
Cost and net book value:		
Subsidiary undertakings	563.5	553.2
Additions	–	10.3
Acquisition of EnCore	–	414.6
Value of investment transferred	–	(414.6)
	563.5	563.5

A list of the significant investments in subsidiaries held at 31 December 2013, including the name and type of business, the country of operation and the country of incorporation or registration, is given in note 10 to the consolidated financial statements.

In January 2012, the company completed the acquisition of the entire issued share capital of EnCore.

Immediately post acquisition as part of combining all assets related to the UK in one subsidiary, EnCore and its subsidiaries licence interests were transferred to an existing Premier Oil subsidiary company for the market value of those assets.

4. Debtors: amounts falling due after more than one year

	2013 $ million	2012 $ million
Amounts owed by subsidiary undertakings	901.5	512.1
Total debtors	901.5	512.1

The amounts owed by subsidiary undertakings comprise a loan which bears interest based on LIBOR and which is not secured. This loan is denominated in US dollars and falls due for repayment in 2020.

The carrying values of the company's debtors approximate their fair value.

5. Creditors: amounts falling due within one year

	2013 $ million	2012 $ million
Accruals and other creditors	21.0	8.4

The carrying values of the company's creditors approximate their fair value.

6. Borrowings

	2013 $ million	2012 $ million
Retail bonds	249.0	–
	249.0	–

In December, the company put in place a £500.0 million Retail eligible Euro Medium Term Notes (EMTN) program under which it has issued £150.0 million UK retail bonds ('the bonds'). The bonds have been listed on the Official List of the UK Listings Authority and admitted to trading on the London Stock Exchange's regulated market and the electronic Order Book of Retail Bonds ('ORB'). The bonds have a fixed coupon of 5.0 per cent and maturity of seven years.

The carrying value of the retail bonds are stated net of the unamortised portion of the debt arrangement fees of US$2.9 million and the liability translated at the exchange rate prevailing at the year-end.

7. Pension schemes
Balance sheet

	2013 $ million	2012 $ million
UK funded pension scheme	3.7	4.2
Total surplus in balance sheet	3.7	4.2

	2013 $ million	2012 $ million
UK unfunded pension scheme	0.9	0.9
Total liability in balance sheet	0.9	0.9

Statement of total recognised gains and losses (STRGL)

	At 31 December 2013 $ million	At 31 December 2012 $ million
Actuarial (losses)/gains including currency translation effects	(3.8)	1.2
Cumulative amount of actuarial losses recognised in the STRGL including currency translation effects	(14.6)	(10.8)

NOTES TO THE COMPANY FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2013

7. Pension Schemes (continued)

Funded pensions

The company operates a defined benefit pension scheme in the UK – The Premier Oil plc Retirement and Death Benefits Plan (the Scheme). The Scheme was closed to new members (aside from the provision of insured death in service benefits) in 1997 and a new scheme, providing benefits on a defined contribution basis, was started. Both schemes are funded by the payment of contributions to separately administered trust funds.

The disclosures set out below are based on calculations carried out as at 31 December 2013 by a qualified independent actuary. The figures have been prepared in compliance with FRS 17 'Retirement Benefits' (incorporating the amendment announced in December 2006).

The Scheme's assets are held in a separate trustee-administered fund to meet long-term pension liabilities to past and present employees. The Trustee of the Scheme is required to act in the best interest of the Scheme's beneficiaries. The appointment of members of the Trustee Board is determined by the trust documentation.

The liabilities of the defined benefit Scheme are measured by discounting the best estimate of future cash flows to be paid out of the Scheme using the projected unit credit method. This amount is reflected in the surplus or the deficit in the balance sheet. The projected unit credit method is an accrued benefits valuation method in which the Scheme liabilities make allowance for the projected earnings.

The liabilities set out in this note have been calculated using membership data current as at 31 December 2013. The results of the calculations and the assumptions adopted are shown below.

As at 31 December 2013, contributions are payable to the Scheme by the company at the rates set out in the schedule of contributions dated 24 July 2012. Under this schedule, the company contributes on a monthly basis at the rate of 30 per cent of the aggregate of the members' pensionable salaries.

Principal assumptions

The principal actuarial assumptions at the balance sheet date were:

	At 31 December 2013	At 31 December 2012
Discount rate	4.5% pa	4.4% pa
Expected return on Scheme assets	5.5% pa	4.8% pa
RPI inflation	3.5% pa	2.9% pa
CPI inflation	2.8% pa	2.2% pa
Rate of increase in salaries	5.5% pa	4.9% pa
Rate of increase in pensions in payment LPI: (max 5.0%)	3.5% pa	2.9% pa
Pre and post-retirement mortality	S1PA Light CMI_2013 1% long term	PCA00 YOB MC
Withdrawals	No allowance	No allowance
Cash commutation	2.0 x pre-commutation pension	2.0 x pre-commutation pension
Life expectancy of male aged 65 now	22.7	21.9
Life expectancy of male aged 65 in 20 years	24.0	23.0
Life expectancy of female aged 65 now	23.9	24.1
Life expectancy of female aged 65 in 20 years	25.4	25.0

Asset breakdown

The major categories of Scheme assets as a percentage of total Scheme assets are:

	At 31 December 2013	At 31 December 2012
Equities	50.8%	49.9%
Gilts	24.6%	22.7%
Corporate bonds	24.5%	23.4%
Cash	0.1%	4.0%
Total	100.0%	100.0%

7. Pension Schemes (continued)

Employee benefit obligations

The amounts recognised in the balance sheet are as follows:

	At 31 December 2013 $ million	At 31 December 2012 $ million
Fair value of Scheme assets	44.5	38.2
Present value of funded obligations	(38.9)	(34.0)
Adjustment resulting from the limit on the amount that can be recognised as an asset in the balance sheet	(1.9)	–
Surplus	3.7	4.2

Total expense recognised in profit or loss:

	2013 $ million	2012 $ million
Current service cost	0.2	0.2
Interest on obligation	1.4	1.5
Expected return on Scheme assets	(1.8)	(1.5)
Total	(0.2)	0.2

Changes in the present value of the defined benefit obligation:

	2013 $ million	2012 $ million
Present value of defined benefit obligation at 1 January	34.0	31.3
Service cost	0.2	0.2
Interest cost	1.4	1.5
Actuarial (gains)/losses	3.2	0.2
Benefits paid	(0.9)	(0.9)
Currency translation effects	1.0	1.7
Present value of defined benefit obligation at 31 December	38.9	34.0

Changes in the fair value of Scheme assets:

	2013 $ million	2012 $ million
Fair value of Scheme assets at 1 January	38.2	28.4
Expected return	1.8	1.5
Actuarial (losses)/gains	1.1	1.4
Contributions by employer	3.2	6.1
Benefits paid	(0.9)	(0.9)
Currency translation effects	1.1	1.7
Fair value of Scheme assets at 31 December	44.5	38.2
Actual return on Scheme assets	2.9	2.9

NOTES TO THE COMPANY FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2013

7. Pension Schemes (continued)

Movements over previous five year period:

	2013 $ million	2012 $ million	2011 $ million	2010 $ million	2009 $ million
Defined benefit obligation	(38.9)	(34.0)	(31.3)	(32.3)	(31.2)
Scheme assets	44.5	38.2	28.4	28.2	25.6
Surplus/(deficit)	5.6	4.2	(2.9)	(4.1)	(5.6)
Experience loss/(gain) on Scheme liabilities	0.1	(0.1)	0.9	0.6	(0.6)
Loss/(gain) from changes in the assumptions for value of Scheme liabilities	3.1	0.3	(2.9)	0.6	5.5
Experience gain/(loss) on Scheme assets	1.1	1.4	(0.7)	1.5	1.9

Projected components of pension expense for year to 31 December 2014

The significant volatility in investment markets means that it is difficult to project forward the FRS 17 figures for the next year with confidence. The following projections should therefore be treated with caution. Assumptions implicit in the following projections are:

- the return on assets from 31 December 2013 is 5.5 per cent per annum;
- contributions to the Scheme will continue throughout the period 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:

	2014 $ million
Current service cost	0.3
Interest cost	1.7
Expected return on Scheme assets	(2.1)
Total	(0.1)

Sensitivity and risk

The results of the calculations are sensitive to the assumptions used. The balance sheet position revealed by FRS 17 calculations must be expected to be volatile, principally because the market value of assets (with a significant exposure to equities) is being compared with a liability assessment derived from corporate bond yields.

The table below illustrates the sensitivity of the FRS 17 balance sheet position to small changes in some of the assumptions. Where one assumption has been changed all the other assumptions are kept the same as disclosed.

	Revised Surplus/ (deficit) US$ million	Change from disclosed Surplus/ (deficit) US$ million
Discount rate less 0.1% pa	4.9	(0.7)
RPI inflation and linked assumptions plus 0.1% pa	4.9	(0.7)
Members living one year longer than expected	4.6	(1.0)

The key risks which could significantly impact the balance sheet, and to a lesser extent the profit and loss account, are as follows:

- a reduction in the discount rate, which will increase the value placed on the Scheme's liabilities;
- an increase in price inflation and/or salary inflation; and
- improving life expectancy (lower mortality rates) resulting in benefits being paid for longer.

Unfunded pensions

The company is paying an unfunded pension to a former director in regard to which annual increases and a reversionary spouse's pension apply on the same basis as to pensions paid under the Scheme. On the same actuarial basis as used to assess the Scheme's pension costs, the present value as at 31 December 2013 of the future payments projected to be made in respect of UK unfunded pensions is US$0.9 million (2012: US$0.9 million).

8. Commitments and guarantees
At the year-end date the company, together with certain subsidiary undertakings, had jointly guaranteed the group's borrowing facilities which consist of a US$300.0 million term loan, a US$695.0 million revolving credit facility and £316.4 million (US$525.2 million) letter of credit facilities, all maturing in 2015. Additionally, a US$350.0 million revolving credit facility, medium-term loan of US$150.0 million and £100.0 million will mature in 2017. Senior notes of US$576.0 million and €120.0 million will mature starting from 2018 to 2024, convertible bonds of US$245.3 million mature in 2018 and £150.0 million retail bonds will mature in 2020.

9. Share capital

	2013 12.5p shares	2013 £	2012 12.5p shares	2012 £
Ordinary Shares:				
Called-up, issued and fully-paid	529,220,964	66,152,621	529,110,917	66,138,865

	2013 $ million	2012 $ million
At 1 January	110.5	98.8
Acquisition of subsidiary	–	11.7
At 31 December	110.5	110.5

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

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

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

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

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

For the year ended 31 December 2013, the total cost recognised by the company for equity-settled share-based payment transactions is US$24.6 million. A credit of US$24.6 million has been recorded in retained earnings (2012: US$30.5 million) for all equity-settled payments of the company. Like other elements of remuneration, this charge is processed through the time-writing system which allocates cost, based on time spent by individuals, to various entities within the Premier Oil plc group. Part of this cost is therefore recharged to the relevant subsidiary undertaking, part is capitalised as directly attributable to capital projects and part is charged to the income statement as operating costs, pre-licence exploration costs or general and administration costs.

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

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

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

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

Volatility:	31.0% to 42.0%
Risk free rate of interest:	1.0% to 2.9%
Correlation factor with comparator group:	0.32 to 0.35

NOTES TO THE COMPANY FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2013

9. Share capital (continued)

(ii) *Share Incentive Plan*

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

(iii) *Savings Related Share Option Scheme*

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

	2013		2012	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Outstanding at the beginning of the year	402,664	£2.89	368,400	£2.55
Granted during the year	233,176	£3.14	152,188	£3.13
Lapsed during the year	(41,861)	£3.20	(13,288)	£4.08
Exercised during the year*	(110,047)	£3.54	(104,636)	£1.91
Outstanding at the end of the year (exercisable: nil)	483,932	£3.06	402,664	£2.89

* 110,047 Ordinary Shares with a nominal value of £13,756 (US$21,459) were issued under the group's share option schemes during the year (2012: 104,636 Ordinary Shares with a nominal value of £13,080 (US$20,814)).

The weighted average share price at the date of exercise for share options exercised during the year was £3.54. The options outstanding at 31 December 2013 had a weighted average exercise price of £3.06 and a weighted average remaining contractual life of 2.73 years.

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

10. Share capital and reserves

	Share capital $ million	Share premium account $ million	Profit and loss account $ million	Merger reserve account $ million	Capital redemption reserve $ million	Equity reserve $ million	Total $ million
At 1 January 2012	98.8	274.5	203.5	–	4.3	51.8	632.9
Issue of Ordinary Shares	11.7	374.7	–	–	–	–	386.4
Purchase of ESOP Trust shares	–	–	(89.3)	–	–	–	(89.3)
Profit for the year	–	–	98.5	–	–	–	98.5
Provision for share-based payments	–	–	30.5	–	–	–	30.5
Incremental equity component of convertible bonds*	–	–	–	–	–	10.3	10.3
Pension costs – actuarial gains	–	–	1.2	–	–	–	1.2
At 1 January 2013 as previously reported	110.5	649.2	244.4	–	4.3	62.1	1,070.5
Restatement of reserves**	–	(374.3)	–	374.3	–	–	–
At 1 January 2013 (restated)	110.5	274.9	244.4	374.3	4.3	62.1	1,070.5
Issue of Ordinary Shares	–	0.4	–	–	–	–	0.4
Purchase of ESOP Trust shares	–	–	(12.8)	–	–	–	(12.8)
Profit for the year	–	–	162.0	–	–	–	162.0
Provision for share-based payments	–	–	24.6	–	–	–	24.6
Dividends paid	–	–	(40.2)	–	–	–	(40.2)
Pension costs – actuarial losses	–	–	(3.8)	–	–	–	(3.8)
At 31 December 2013	110.5	275.3	374.2	374.3	4.3	62.1	1,200.7

* See 'convertible bonds' section of note 14 to the consolidated statements.

** In 2012 the company issued its own shares in order to acquire 100 per cent of the share capital of EnCore. The share capital and reserves showed the difference between the value of these shares and their nominal value as share premium. The 2012 disclosure has been restated to reclassify the difference within a merger reserve, as merger relief was applicable. This change has no effect on net assets, income or cash flows.

11. Reconciliation of movements in shareholders' funds

	2013 $ million	2012 $ million
Opening shareholders' funds	1,070.5	632.9
Issue of Ordinary Shares	0.4	386.4
Purchase of ESOP Trust shares	(12.8)	(89.3)
Profit for the year	162.0	98.5
Provision for share-based payments	24.6	30.5
Additional equity of new convertible bonds	–	10.3
Dividends paid	(40.2)	–
Pension costs – actuarial (losses)/gains	(3.8)	1.2
Net addition to shareholders' funds	130.2	437.6
Closing shareholders' funds	1,200.7	1,070.5

12. Own shares

	Total $ million
At 1 January 2012	12.5
Purchase of ESOP Trust shares	89.3
Release of shares for long-term incentive arrangements	(57.2)
At 31 December 2012	44.6
Purchase of ESOP Trust shares	12.8
Release of shares for long-term incentive arrangements	(39.6)
At 31 December 2013	17.8

The own shares reserve represents the net cost of shares in Premier Oil plc purchased in the market or issued by the company into the Premier Oil plc Employee Benefit Trust. This ESOP Trust holds shares to satisfy awards under the group's share incentive plans. At 31 December 2013, the number of Ordinary Shares of 12.5 pence each held by the Trust was 3,046,621 (2012: 7,640,386 Ordinary Shares of 12.5 pence each).

13. Dividends

	2013 $ million	2012 $ million
Amounts recognised as distributions to shareholders in the year:		
Final dividend for the year ended 31 December 2012 of 5p (2011: nil)	40.2	–
Proposed final dividend for the year ended 31 December 2013 of 5p (2012: 5p)	43.9	40.2

The proposed dividend is subject to shareholder approval at the Annual General Meeting and has not been included as a liability in these financial statements. The proposed dividend is payable to all shareholders on the register on 22 April 2014.

The payment of this dividend will not have any tax consequences for the company.

FIVE YEAR SUMMARY

Financials		2013	2012	2011	2010	2009
Sales revenues	($ million)	**1,501.0**	1,408.7	826.8	763.6	621.1
Profit before tax	($ million)	**285.4**	359.9	141.5	100.8	79.9
Net profit for the year after tax	($ million)	**234.0**	252.0	171.2	129.8	113.0
Net cash from operating activities	($ million)	**802.5**	779.0[3]	462.9[3]	417.1[3]	327.4[3]
Shareholders' funds	($ million)	**2,124.4**	1,953.5	1,323.6	1,130.2	971.3
Net (debt)/cash	($ million)	**(1,452.9)**	(1,110.4)	(744.0)	(405.7)	(315.6)
Per share statistics:						
Revenue per share	(cents/share)	**283.6**	267.6	176.9	164.6[2]	571.9
Earnings per share – basic	(cents/share)	**44.2**	47.9	36.6	28.0[2]	104.1
Earnings per share – diluted	(cents/share)	**43.2**	46.9	31.5	25.8[2]	103.9
Net cash from operating activities per share	(cents/share)	**151.6**	148.0[3]	99.0[3]	89.9[2, 3]	301.5[3]
Reserves per share – year-end	(boe/share)	**0.49**	0.55	0.63[1]	0.56[2]	2.35
Issued Ordinary Shares – average	(million)	**529.2**	526.4	467.4	464.0[2]	108.6
Operations:						
Production (working interest basis)	(kboepd)	**58.2**	57.7	40.4	42.8	44.2
Proved and probable reserves (working interest basis)	(mmboe)	**259.4**	291.9	296.3	260.8	255.2
Employees (average) – UK	(number)	**248**	181	136	119	110
– Overseas	(number)	**634**	551	502	442	398
Key indices:						
Realised average oil price	($/bbl)	**109.00**	111.40	111.90	79.70	66.30
Average exchange rates	($/£)	**1.56**	1.59	1.60	1.55	1.57
Closing exchange rates	($/£)	**1.66**	1.63	1.55	1.56	1.62

Notes:

1. The working interest reserves for 2011 are proforma reserves which include the reserves acquired from the acquisition of EnCore, excluding Cladhan. This acquisition was completed in January 2012.
2. The average issued Ordinary Shares for 2010 have been adjusted to reflect the 4:1 share split that occurred in 2011. The 2010 'per share statistics' have been restated accordingly. The 'per share statistics' for 2009 has not been adjusted for the 4:1 share split.
3. Prior years comparatives have been restated to classify pre-licence exploration costs within net cash from operating activities.

OIL AND GAS RESERVES

Working interest reserves at 31 December 2013

	Working interest basis												
	Indonesia		Mauritania		Pakistan		United Kingdom		Vietnam		**TOTAL**		
	Oil and NGLs mmbbls	Gas bcf	Oil and NGLs mmbbls	Gas bcf	Oil and NGLs mmbbls	Gas bcf	Oil and NGLs mmbbls	Gas bcf	Oil and NGLs mmbbls	Gas bcf	**Oil and NGLs mmbbls**	**Gas[4] bcf**	**Oil, NGLs and gas mmboe**
Group proved plus probable reserves:													
At 1 January 2013	5.0	496.8	0.6	0.7	0.7	211.0	112.8	60.3	28.7	37.6	**147.8**	**806.4**	**291.9**
Revisions[1]	1.1	(36.1)	–	(0.7)	(0.3)	(33.0)	1.1	1.1	1.1	4.8	**3.0**	**(63.9)**	**(12.8)**
Discoveries and extensions[2]	–	–	–	–	–	0.3	–	–	–	–	**–**	**0.3**	**0.1**
Acquisitions and divestments[3]	–	–	–	–	–	–	1.4	0.1	–	–	**1.4**	**0.1**	**1.4**
Production	(0.4)	(25.3)	(0.2)	–	(0.1)	(34.0)	(5.0)	(2.4)	(4.6)	(2.8)	**(10.3)**	**(64.5)**	**(21.2)**
At 31 December 2013	**5.7**	**435.4**	**0.4**	**–**	**0.3**	**144.3**	**110.3**	**59.1**	**25.2**	**39.6**	**141.9**	**678.4**	**259.4**
Total group developed and undeveloped reserves:													
Proved on production	1.1	115.5	0.2	–	0.2	89.1	21.7	18.0	15.8	11.6	**39.0**	**234.2**	**80.2**
Proved approved/justified for development	2.6	186.5	–	–	–	14.1	44.7	21.3	4.0	15.6	**51.3**	**237.5**	**89.8**
Probable on production	0.6	57.6	0.2	–	0.1	33.8	10.3	12.2	4.3	8.6	**15.5**	**112.2**	**35.7**
Probable approved/justified for development	1.4	75.8	–	–	–	7.3	33.6	7.6	1.1	3.8	**36.1**	**94.5**	**53.7**
At 31 December 2013	**5.7**	**435.4**	**0.4**	**–**	**0.3**	**144.3**	**110.3**	**59.1**	**25.2**	**39.6**	**141.9**	**678.4**	**259.4**

Notes:

1. Includes re-evaluation of reserves at Anoa, Gaja Baru, Gaja Puteri, Bison (West Natuna Block A, Indonesia), Alur Rambong and Alur Siwah (Block A Aceh, Indonesia), Zamzama (Pakistan), Chim Sáo (Vietnam) and Catcher area (UK). Reserves from Caledonia field have been re-classified as contingent resources.
2. Includes reserves discovered at Kadanwari and Badhra (Pakistan). Discoveries at Bonneville and Lacewing (UK), Luno II (Norway) and Matang (Indonesia) are currently classified as contingent resources and do not appear in this table.
3. Includes a minor change in net equity on Solan. Falkland Islands assets and changes to the working interests in the Bream area in Norway remain as contingent resources and do not appear in this table.
4. Proved plus probable gas reserves include 75 bcf fuel gas.

Premier Oil plc categorises petroleum resources in accordance with the 2007 SPE/WPC/AAPG/SPEE Petroleum Resource Management System (SPE PRMS).

Proved and probable reserves are based on operator, third party reports and internal estimates and are defined in accordance with the Statement of Recommended Practice (SORP) issued by the Oil Industry Accounting Committee (OIAC), dated July 2001.

The group provides for amortisation of costs relating to evaluated properties based on direct interests on an entitlement basis, which incorporates the terms of the PSCs in Indonesia, Vietnam and Mauritania. On an entitlement basis reserves were 230.9 mmboe as at 31 December 2013 (2012: 255.5 mmboe). This was calculated at year-end 2013 using an oil price assumption equal to US$108.8 in 2014, US$102.8 in 2015 and US$85/bbl in 'real' terms thereafter (2012: Dated Brent forward curve in 2013 and 2014 and US$85/bbl in 'real' terms thereafter).

SIGNIFICANT WORLDWIDE LICENCE INTERESTS

As at 26 February 2014

A full list of Premier's Licences is available at www.premier-oil.com

	Licence	Block	Operator	PO Equity %	Field/Discovery
Brazil		CE-M-665	**Premier**	50.00	
		CE-M-717	**Premier**	50.00	
		FZA-M-90	QGEP	35.00	
Falkland Islands	PL032	14/5, 14/10	**Premier**	60.00	Sea Lion
	PL004a	14/15 (part), 14/20, 15/11 (part)	**Premier**	36.00	
	PL004b	14/15 (part)	**Premier**	36.00	
	PL004c	14/15 (part)	**Premier**	36.00	
Indonesia		Kakap Block	Star Energy	18.75	Kakap
		Natuna Sea Block A	**Premier**	28.67	Anoa, Gajah Baru, Pelikan, Naga
		Tuna Block	**Premier**	65.00	
Iraq		Block 12	JSCO Bashneft	30.00	
Kenya		2B	Lion Petroleum	55.00	
Mauritania	PSC B	(Chinguetti EEA)	Petronas	8.12	Chinguetti
Norway	PL359	16/1 (part) & 16/4 (part)	Lundin	30.00	Luno II
	PL406	18/10 (part)	**Premier**	50.00	Mackerel
	PL407	17/9 (part) & 17/12	**Premier**	50.00	Bream
	PL539	3/7 (part)	**Premier**	40.00	
Pakistan		Tajjal	ENI	15.79	Kadanwari
		Qadirpur	OGDCL	4.75	Qadirpur
		Kirthar	ENI	6.00	Bhit
		Dadu	BHP	9.38	Zanzama
		Kirthar	ENI	6.00	Badhra
		Bolan	Mari Gas	3.75	Zarghun South
United Kingdom	P077	22/12a	Shell	50.00	Nelson[1]
	P087	22/7a	**Premier**	46.50	Nelson[2]
	PL089	SY87b, SY88b, SY89b, SY97b, SY98a, SY99a, SZ/7 & SZ/8a	Perenco	30.39	Wytch Farm[3]
	P110	22/14a (Rest of Block Shallow)	**Premier**	25.04	Huntington East
	P164	205/26a	**Premier**	60.00	Solan
	P201	16/21a	**Premier**	85.00	Balmoral, Stirling & Glamis[4]
	P201	16/21a (Brenda Field area, Above 7500 feet)	**Premier**	100.00	Brenda (above 7500 feet)
	P218	15/21a	Nexen	45.83	Scott[5]
	P218	15/21a	Nexen	7.30	Telford[6]
	P233	15/25a	**Premier**	70.00	Nicol
	P344	16/21b, 16/21c	**Premier**	44.20	Balmoral & Stirling[7]
	P534	98/6a & 98/7a	Perenco	30.39	Wytch Farm (offshore)[8]
	P748	29/2c	CNR	40.00	Kyle
	P1042	15/25b	**Premier**	100.00	Brenda
	P1114	22/14b	E.ON	40.00	Huntington
	P1298	15/26b	Nexen	50.00	Rochelle[9]
	P1430	28/9a & 28/10c	**Premier**	50.00	Catcher
	P1615	15/26c	Endeavour	25.00	Rochelle[10]
	P1943	13/24c & 13/25	**Premier**	37.50	Bagpuss/Blofeld
Vietnam		Block 12W	**Premier**	53.13	Chim Sao & Dua

Notes:

1. Unitised share of 1.31404%
2. Unitised share of 0.348750%
3. Unitised share of 30.09625%
4. Unitised share of 78.11542% (Balmoral), Unitised share of 68.68% (Stirling)
5. Unitised share of 21.83458%
6. Unitised share of 1.58677%
7. Unitised share of 78.11542% (Balmoral), Unitised share of 68.68% (Stirling)
8. Unitised share of 30.09625%
9. Unitised share of 9.289175%
10. Unitised share of 5.710825%

SHAREHOLDER INFORMATION

Registrar
All enquiries concerning your shareholding should be directed to the company's registrar (Capita).

Capita Asset Services
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

Telephone:
UK: 0871 664 0300 (calls cost 10 pence per minute including VAT plus network extras, lines are open 8.30am – 5.30pm Mon-Fri)
Overseas: +44 (0)208 639 3399

Email: Shareholder.Services@capitaregistrars.com

Share Portal
As a shareholder you have direct access to an online Share Portal operated by Capita 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;
- Apply to participate in the dividend reinvestment plan; and
- Buy and sell Premier Oil plc shares using the dealing service operated by Capita Deal.

Dividends
Dividend mandates
Shareholders who have a UK bank or building society account may complete a dividend bank mandate in order to receive dividends on the payment date. Tax vouchers will be sent directly to a shareholder's registered address. You can complete a dividend mandate form via the Share Portal at www.premier-oil-shares.com. If you have not used the Share Portal before you will be asked to register your account. Alternatively, you can telephone Capita Asset Services or apply in writing to their address above.

International dividend payment service
Overseas shareholders who wish to have their dividends paid in a local currency can use the International Payment Service offered by Capita. The International Payment Service is available to holders who receive individual dividend or interest payments of £10 or more (payments of less than £10 or more than £100,000 will be paid by sterling cheque, unless otherwise agreed). Further information, including the terms and conditions of the International Payment Service, is available on Capita's International Payment Service website: www.international.capitaregistrars.com. Please note this service may not be available to all overseas shareholders.

Dividend Reinvestment Plan
If you would like your dividends to be reinvested in shares purchased in the market instead of receiving cash, you can apply to participate in the dividend reinvestment plan which is offered by Capita. You can apply online via the Share Portal or by telephoning 0871 664 0381 from the UK or by telephoning +44 20 8639 3402 from overseas. Alternatively you can email shares@capita.co.uk. A copy of the terms and conditions of the dividend reinvestment plan, along with the mandate form, can be downloaded at www.premier-oil-shares.com.

E-communications
Shareholders have the option to receive communications including annual reports and notices of meetings electronically. Premier Oil plc has pledged to donate £1 to Pure Leapfrog (www.puretrust.org.uk) for every shareholder that actively registers their email address online. Pure Leapfrog is a UK based carbon offsetting charity dedicated to combating climate change.
To register for this service, please visit the Share Portal: www.premier-oil-shares.com. You will need your Investor Code (IVC) which can be found on your share certificate. Once registered, Premier 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 shares at inflated prices, or offers of free reports about Premier. More information can be found at http://www.fca.org.uk/consumers/scams and in the Shareholder Information section of the Investors area of the Premier website: www.premier-oil.com.

GLOSSARY

AEP	Asset and Equity Plan
APA	Awards in Pre-defined Areas (Norway)
API	American Petroleum Institute
bbl	barrel
BBtud	billion British thermal units per day
bcf	billion cubic feet
BMS	Business Management System
boe	barrels of oil equivalent
boepd	barrel(s) of oil equivalent per day
bopd	barrel(s) of oil per day
CRR	Corporate Risk Register
DECC	Department of Energy and Climate Change
EEA	exclusive exploration authorisation
EPCI	engineering, procurement, construction and installation
ERW	extended reach well
FDP	field development plan
FEED	front-end engineering and design
FOGL	Falkland Oil and Gas Ltd
FPSO	floating production, storage and offtake vessel
FPV	floating production vessel
GRI	Global Reporting Initiative
GSA	gas sales agreement
HIPO	high potential incidents
HIPOR	high potential incidents rate
HSE	health, safety and environment
HSES	health, safety, environment and security
HSFO	High Sulphur Fuel Oil
IAS	International Accounting Standard
ibc	inside back cover
ifc	inside front cover
IFRS	International Financial Reporting Standard
IPIECA	International Petroleum Industry Environmental Conservation Association
IRR	internal rate of return
kbopd	thousand barrels of oil per day
kboepd	thousand barrels of oil equivalent per day
KPI	key performance indicator
LOPC	loss of primary containment
LTIP	Long Term Incentive Plan
LWDC	lost work day cases
mmbbls	million barrels
mmboe	million barrels of oil equivalent
mmscfd	million standard cubic feet per day
mscf	thousand standard cubic feet
mt	metric tonne
MTC	medical treatment cases
NAV	net asset value
OGP	International Association of Oil and Gas Producers
POVS	Premier Oil Vietnam South BV
ppm-mt	parts per million weight
PSC	production sharing contract
PSR	Project Safety Reviews
RWDC	restricted work day case
TRIR	total recordable injury rate
TSR	total shareholder return

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