PremierOil

ANNUAL REPORT AND FINANCIAL STATEMENTS

Year to 31 December 2014

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 BY LEVERAGING OUR DEVELOPMENT CAPABILITIES AND BALANCE SHEET TO DELIVER HIGH QUALITY PROJECTS WHILE MAINTAINING EXPOSURE TO UPSIDE FROM SUCCESSFUL EXPLORATION.

DELIVERING OPERATING EFFICIENCY

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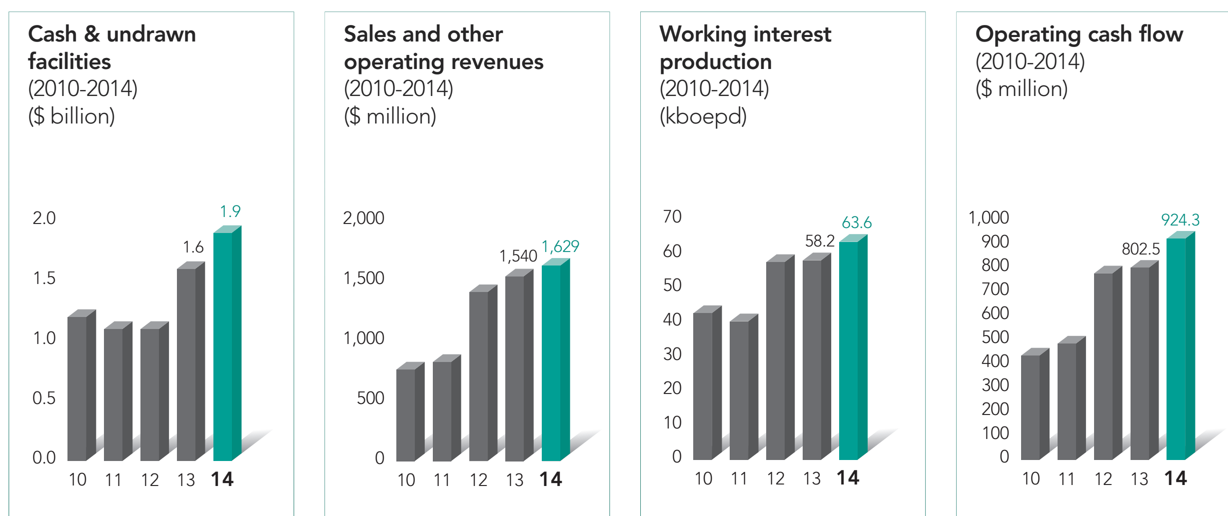
OUR VISION IS TO BE A WORLD-CLASS UPSTREAM INDEPENDENT.

2014 HIGHLIGHTS

OPTIMISING OUR STABLE PRODUCTION BASE

THE GROUP DELIVERED RECORD PRODUCTION AND OPERATING CASH FLOW IN 2014, DRIVEN BY SIGNIFICANTLY IMPROVED OPERATING EFFICIENCY.



- Strong operating cash flow of US$924.3 million (2013: US$802.5 million), up 15.2 per cent
- Revenue of US$1.6 billion (2013: US$1.5 billion); loss after tax of US$210.3 million (2013: profit after tax of US$234.0 million), reflecting non-cash post-tax impairments of US$327.8 million due to lower near-term oil price assumptions
- Record production of 63.6 kboepd (2013: 58.2 kboepd), up 9.3 per cent and above upper end of market guidance
- Key milestones reached on development projects: government approval of the Catcher project received, installation of the Solan facilities achieved, FEED completed on the Vette field and a lower capex solution for the Sea Lion project selected
- Exploration successes included a circa 100 mmboe oil and liquids-rich gas discovery at Kuda/Singa Laut in Indonesia
- Continued portfolio rationalisation with approximately US$190 million of non-core asset sales announced of which Scott area assets and Luno II disposals completed during the year
- Dividend suspended for full-year 2014

FINANCIAL POSITION AND OUTLOOK

WELL-FINANCED LOW COST PRODUCER

- Significant liquidity with cash and undrawn facilities of US$1.9 billion
- Sustainable operating cost of less than US$20/boe
- Favourable, low cost debt structure; renewal of main bank facility completed on improved terms and increased to US$2.5 billion
- Significant cost reductions budgeted for 2015 via sustainable savings in operating costs, reduced G&A spend, and re-phasing of capex

STRONG BUSINESS UNITS

PREMIER HAS 11 OFFICES WORLD-WIDE WITH OVER 900 EMPLOYEES AND IS ORGANISED INTO SIX KEY BUSINESS UNITS – UK, NORWAY, PAKISTAN, INDONESIA, VIETNAM AND FALKLAND ISLANDS – WITH FUNCTIONAL SUPPORT PROVIDED BY THE CORPORATE OFFICE IN LONDON. PREMIER IS ACTIVE BOTH OFFSHORE AND ONSHORE, BUT ALL OF THE COMPANY'S OPERATED INTERESTS ARE OFFSHORE.

In 2014, the group delivered record production of 63.6 kboepd from its assets in the UK, Indonesia, Vietnam, Pakistan and Mauritania. The group has development and exploration assets in Norway and the Falkland Islands with exploration assets in Brazil, Iraq and Kenya. In total, the group manages a reserve and contingent resource base of 794 mmboe at year-end.

RECORD PRODUCTION OF 63.6 KBOEPD IN 2014, ABOVE UPPER END OF MARKET GUIDANCE

Mike Welton
Chairman

CHAIRMAN'S STATEMENT

The industry context

From a macro perspective, 2014 was a year of two halves: oil prices remained steady above US$100 per barrel (bbl) in the first half, as they have done broadly for the last four years, before falling significantly, to close the year at less than US$60/bbl. The fall was driven by strong global supply, particularly the growth in unconventional resources in North America.

One direct consequence of lower oil prices is a fall in the cost of services to the industry and this is already evident across the supply chain. The fall in prices should also lead to a supply correction as more marginal projects are cancelled and free cash flow for near-term investment across the industry is reduced. However, it will take time for oil prices to reach a mid-cycle equilibrium and, as a company, we must and we are taking steps to ensure we are well positioned to withstand a prolonged period of weak commodity prices.

The sector has seen these price cycles before and few believe that the oil price will not eventually recover from current levels. This view is supported by the forward curve which shows rising oil prices. We are highly leveraged to such a recovery with a low cost, stable production base and an improving portfolio mix. Beyond this year, we have little committed expenditure. Our unsanctioned projects, however, offer future growth at a lower cost base.

Premier's performance

Premier delivered a strong operational performance in 2014. We achieved a record annual average production rate of 63.6 thousand barrels of oil equivalent per day (kboepd), exceeding our expectations due to significantly improved uptime across the majority of our assets. This performance was delivered despite the continuing supply disruptions at Huntington (due to circumstances outside the joint venture's control) and is testament to the hard work and successful efforts of our operated production teams.

WE CONTINUE TO PROGRESS OUR PIPELINE OF DEVELOPMENT PROJECTS AND WERE DELIGHTED TO ACHIEVE NEW PRODUCTION FROM TWO OPERATED FIELDS IN ASIA OVER THE COURSE OF THE YEAR.

In the UK North Sea, installation of the facilities at our Solan development West of Shetland was completed in September and while it is disappointing that commissioning has progressed slowly during the winter and costs have increased on the project, the Solan field will be a material contributor to Premier's cash flows once on-stream.

Significant progress was also made on our other operated North Sea projects, namely Catcher which received development sanction and Vette in Norway where front end engineering and design (FEED) work was completed, while the scope and size of the initial phase of the Sea Lion development in the Falkland Islands has been scaled-back. This project is now much more manageable for a company of Premier's size in the current environment and the focus in 2015 will be on progressing the project to the point of investment decision.

Our exploration team continued to bring new, material projects into the portfolio with notable success at Kuda/Singa Laut on the Tuna Block in the Natuna Sea, Indonesia. This oil and liquids-rich gas discovery is strategically located in a core area for Premier and appraisal activity is planned for 2016.

A key tenet of our strategy is to realise value from our non-core assets and to reallocate our financial and human resources to our key projects. This continued in 2014 with the announced sale of undeveloped resources in Indonesia and Norway and the disposal of our non-operated stake in the Scott area assets in the UK North Sea. In total, these asset sales will raise around US$190 million in disposal proceeds.

DELIVERING OUR VISION

DURING THE YEAR, WE ENHANCED THE GROUP'S FINANCIAL LIQUIDITY POSITION WITH THE SUCCESSFUL REFINANCING OF OUR PRINCIPAL DEBT FACILITY ON IMPROVED TERMS.

Our long-term, unsecured debt structure and supportive banking relationships leave us well placed, although we will need to continue to manage our covenant headroom if current oil prices persist.

Health, safety and environmental matters continue to be of paramount importance to us and, while cost cutting is clearly a focus in the current climate, we will not compromise on the integrity and safety of our operations. Our safety performance in 2014 saw a substantial reduction in our TRIR (Total Recordable Injury Rate) which reached a five-year low of 1.5 per million man-hours. 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 are particularly proud of our track record on our operated Anoa platform in Indonesia which, by year-end 2014, had reached 1.6 million man-hours without a lost time injury.

Despite our much improved occupational health and safety performance in 2014, I regret to report two fatalities in South East Asia: one contractor fatality as a result of an offshore vessel collision and a third party fatality as a result of a road traffic accident on a public highway. No blame was attached to Premier in either case but we have taken steps to reduce the risk of these incidents recurring. We are all saddened by the tragic outcomes for the families involved.

Our annual reporting on corporate responsibility performance is aligned with IPIECA Guidance and the Global Reporting Initiative's Sustainability Reporting. We are also a long-standing member of the FTSE4Good Index and the UN Global Compact and in 2014 were accepted as a member of the Corporate Pillar of the Voluntary Principles on Security and Human Rights. We remain committed to protecting our people, our assets, our environment and our reputation by maintaining the highest possible standards.

Future plans

In 2015 a key priority is to progress our sanctioned projects – Solan and Catcher – through the execution phases and to deliver safely the major four well exploration campaign on our Falkland Islands acreage.

FINANCIALLY, WE WILL MINIMISE OUR COST BASE AND TAILOR OUR CAPITAL ALLOCATION TO ENSURE THAT WE ARE WELL POSITIONED THROUGH THE CURRENT COMMODITY PRICE CYCLE.

Our substantial 2015 hedging programme has ensured that our near-term cash flows are well protected and our debt position of US$2.1 billion at year-end is manageable at this point in our investment cycle. We are also taking further steps to dispose of, or monetise, assets to reduce our debt position. We have significant liquidity if the weak macro environment offers new opportunities, as it has done in the past, although management remain focused on ensuring that debt levels are kept under control.

Board changes

I was pleased to announce that Tony Durrant, our former Finance Director, accepted the role of Chief Executive during the year replacing Simon Lockett. During Tony's tenure as Finance Director, the company has maintained excellent relationships with our capital providers and the Board believes he has all the right qualities to take the company forward in the next stage of its evolution. We also welcomed Richard Rose onto the Board as the new Finance Director, bringing with him a broad range of experience from accounting, industry and capital markets. I would like to pay tribute to Simon Lockett who guided the company through a substantial growth period and who ensured a smooth transition to the new management team.

Andrew Lodge, our Exploration Director, has indicated that he will retire effective 30 June this year and will therefore not seek re-election as a board director at our forthcoming Annual General Meeting (AGM). A new head of exploration will be appointed in due course. Stephen Huddle, who has been General Counsel and Company Secretary for 14 years, will also retire on 31 May. Rachel Benjamin, currently Deputy Company Secretary, will become Company Secretary on Stephen's retirement.

We wish all our leavers well in their future endeavours. These changes, together with other senior management changes, refresh the leadership of the company and, in addition, will contribute to a reduced cost base as we adapt to a new oil price environment.

Shareholder returns and share price performance

As we have stated in the past, our goal remains to deliver consistent, measurable capital growth to our shareholders. Implied within this strategy is a commitment to return cash to our shareholders via distributions, after balancing the capital needs of the business, when the performance of the company has not been materially reflected in the share price.

Over the course of 2014, our share price fell by 47 per cent, although this was not out of line with the rest of the sector which also suffered with the fall in commodity prices. During the year, we paid a dividend of 5 pence per share and returned a further US$93 million of capital to shareholders through a share buyback programme. This was in acknowledgment of the significant gap between our share price and underlying net asset value (NAV). It also reflected surplus cash flow generated by our production base in the first half of the year, above the level expected using our long-term oil price planning assumption.

As we enter 2015 with a significantly lower oil price than in recent years, the Board believes it is not prudent to propose a dividend payment for the full year or, as previously announced, to continue with the share buyback programme. Our focus in the near-term is on preserving cash, maintaining access to liquidity and reducing gearing levels while continuing to invest in our sanctioned development projects. We would expect to revisit our decisions around shareholder distributions should the oil price recover above our long-term planning assumption.

On behalf of the Board as well as myself, I would like once again to express my appreciation for the hard work and effort put into the business by Premier's staff. Their continued dedication and enthusiasm in what are trying times for the industry should see us well placed amongst our peers to prosper in the future.

Mike Welton
Chairman

Tony Durrant
Chief Executive

CHIEF EXECUTIVE'S REVIEW

We are all only too aware of the sharp fall in the oil price that occurred in the second half of 2014 after several years of oil price stability at historically high levels. While it is not clear at this stage when the oil price will find a floor, or how long it may take to recover, it offers the industry the chance to re-set its cost base and will present new opportunities for the better funded companies in the sector.

For our part, we have been quick to respond to the falling oil price and, by the end of 2014, we had already taken steps to reduce significantly the costs of running our business without compromising the safety or performance of our operations. We will continue to look to cut or defer our expenditure to ensure that we are able to manage the business successfully through a potentially prolonged period of low oil prices.

Despite the backdrop of falling oil prices in the second half of the year, Premier remained focused on operational delivery and achieving the near-term priorities that we set ourselves. In this respect, 2014 was a strong year for us.

WITH A LOW COST, STABLE PRODUCTION BASE, PREMIER IS HIGHLY LEVERAGED TO A FUTURE RECOVERY IN THE OIL PRICE.

FOCUSED ON OPERATIONAL DELIVERY

Beating our production guidance

2014 saw Premier deliver record production of 63.6 kboepd, above the upper end of market guidance, assisted by improved operating efficiency across the majority of the group's assets.

	Working interest		Entitlement	
Production (kboepd)	**2014**	2013	**2014**	2013
Indonesia	**14.4**	13.7	**10.3**	8.8
Pakistan/Mauritania	**12.9**	15.5	**12.9**	15.3
UK	**19.4**	14.9	**19.4**	14.9
Vietnam	**16.9**	14.1	**15.2**	13.4
Total	**63.6**	58.2	**57.8**	52.4

Significantly higher production in the UK was driven by improved uptime from the operated Balmoral area, flush production from the redevelopment of the Kyle field and increased contributions from the Huntington and Rochelle fields. Frustratingly, Huntington continued to disappoint in 2014 as it suffered from poor uptime, primarily due to restrictions on gas export from the field imposed by the CATS pipeline operator BP.

In Asia, our operated Chim Sáo asset in Vietnam performed well, benefitting from a series of projects we had undertaken aimed at maximising operating efficiency. As a result, record production rates were achieved. Singapore demand for our Indonesian gas remained strong and our operated Natuna Sea Block A again captured a market share well in excess of its contractual share. Deliverability from the block was increased with first gas from Naga in November, while Pelikan is planned to be on-stream in the first quarter of 2015.

AS WELL AS BACKFILLING OUR GAS CONTRACTS INTO SINGAPORE WHICH GENERATE LONG-TERM, STABLE CASH FLOWS FOR THE GROUP, THE ADDITIONAL DELIVERABILITY FROM PELIKAN AND NAGA WILL ENABLE US TO EXPLOIT ANY CONTRACTUAL SUPPLY SHORTFALL OR SHORT-TERM STRENGTHENING OF SINGAPORE DEMAND FOR OUR GAS.

As at 31 December 2014 proven and probable (2P) reserves, on a working interest basis, were 243 million barrels of oil equivalent (mmboe) (2013: 259 mmboe) with the impact of production and disposals on our reserve base partially offset by the booking of the Vette field as 2P reserves. This, together with the discovery at Kuda/Singa Laut in Indonesia, means that we have ended the year with 2P reserves and 2C contingent resources of 794 mmboe, in line with the previous year.

	Proven and probable 2P reserves (mmboe)	2P reserves and 2C contingent resources (mmboe)
1 January 2014	259	794
Production	(23)	(23)
Net additions, revisions	22	50
Disposals	(15)	(27)
31 December 2014	**243**	**794**

Progressing our developments – deliver Solan, sanction Catcher and right-size Sea Lion

Installation of the facilities on the Premier-operated Solan field West of Shetland at the end of the summer was a significant milestone on the project, only two and a half years after receiving government approval. However, the subsequent commissioning programme has taken longer than anticipated due to poor weather conditions and low productivity over the winter period. As a result, costs have increased and first oil is now expected to be later than the previous guidance of the second quarter although we continue to target plateau rates of production from the field of 20-25 thousand barrels of oil per day (kbopd) (gross) by year-end.

Our operated Catcher project received government approval in June and is now into the execution phase. Construction of the floating production, storage and offtake (FPSO) hull started in January 2015 and the project continues to progress on schedule and to budget. Once on-stream, both the Solan and Catcher projects will contribute materially to our cash flows, given our tax advantaged position in the UK.

Turning to our operated pre-sanction projects, FEED work on the Vette FPSO development in Norway was successfully completed during 2014 and we were in a position to submit development approval documentation to the government early in 2015. However, following the sharp reduction in the oil price, we have chosen to defer the final investment decision until the end of 2015, enabling us to re-engage with the supply chain with the aim of negotiating lower costs for the project. Given the falling oil price and our desire to maintain a strong funding position, we decided to opt for a lower capex solution for our Sea Lion development, which will now utilise a leased FPSO. We plan to progress the project to sanction over the course of 2015 which we anticipate will allow us to secure further cost reductions. It remains our intention to seek a partner ahead of final investment decision.

Exploration discoveries

In 2014, Premier delivered a notable exploration success, with the 100 mmboe oil and liquids-rich gas discovery at Kuda/Singa Laut on the Tuna Block in Indonesia. While we have deferred appraisal of this discovery to 2016, this project will likely play an important role in the long-term future of Premier's Indonesian business. We also enjoyed exploration success in Pakistan with the Kadanwari K-36 exploration well which discovered gas in a separate step-out compartment. The well was successfully tied-in to production in April 2014. During the year, unsuccessful wells were drilled on other acreage offshore Mauritania, Indonesia and onshore Pakistan and, subsequent to year-end, onshore Kenya.

A successful disposal programme

During 2014, we announced approximately US$190 million of non-core asset sales which have all subsequently completed. Of particular note was the sale of the high cost Scott area assets for US$130 million which, as well as reducing the group's operating costs, has significantly decreased our future abandonment liabilities.

Further disposals are planned. Notably, our partner in the Solan field is in discussions with banks about refinancing a portion of our loan to them, while discussions with third parties over selling a royalty interest over the Solan field's cash flows are on-going. In addition, we have received a number of enquiries about our Sea Lion development since rescaling the project in November and active discussions with potential partners continue.

Financial performance and liquidity

The group is reporting a loss after tax of US$210.3 million in 2014 (2013: US$234.0 million profit after tax) largely as a result of impairment charges of US$327.8 million (post-tax) on the carrying value of several of our oil and gas assets. These were due to the impact of the lower near-term oil price assumptions used in balance sheet tests at the year-end and should not detract from the record operating cash flows generated during 2014 of US$924.3 million (2013: US$802.5 million).

TO PROTECT OUR INVESTMENT PROGRAMME IN 2015 WE HAVE HEDGED APPROXIMATELY 50 PER CENT OF OUR LIQUIDS ENTITLEMENT PRODUCTION AT AN AVERAGE PRICE OF JUST UNDER US$98/BBL.

The collapse in the oil price has served to highlight the importance of maintaining a strong funding position and a conservative financing approach. In July, our finance team did an excellent job of taking advantage of a relatively strong bank market to refinance and increase our principal bank facility on improved terms with extended maturities. As a result, we do not have any significant debt maturities until late 2017. It is also reassuring that all of our facilities are on a corporate unsecured basis and are not subject to any reserve base redeterminations. Consequently, we have ample liquidity with US$1.9 billion of cash and undrawn facilities as at year-end, although we recognise the need to manage our covenant headroom in the near-term.

2015 is anticipated to be a significantly lower capex year. This coupled with our hedging programme, planned cost reductions and further potential disposals means that we are well placed to meet the challenges presented by the current oil price environment.

Tony Durrant
Chief Executive

VISION

OUR VISION IS TO BE A WORLD-CLASS UPSTREAM INDEPENDENT

OUR STRATEGY

PREMIER IS A FULL CYCLE EXPLORATION AND PRODUCTION COMPANY. OUR STRATEGY IS TO GROW SHAREHOLDER VALUE BY LEVERAGING OUR DEVELOPMENT CAPABILITIES AND BALANCE SHEET TO DELIVER HIGH QUALITY PROJECTS WHILE MAINTAINING EXPOSURE TO UPSIDE FROM SUCCESSFUL EXPLORATION.

The key elements of our strategy are:

High quality asset base with commercially advantaged positions

- Key player in Asian gas markets underpinning long-term cash flows
- Tax advantaged production and development operator in the UK North Sea
- The dominant player in the North Falklands basin with access to a potentially world-class resource base

Operating capabilities

Proven track record of operating across the cycle from exploration through development to production with particular focus on offshore projects

People

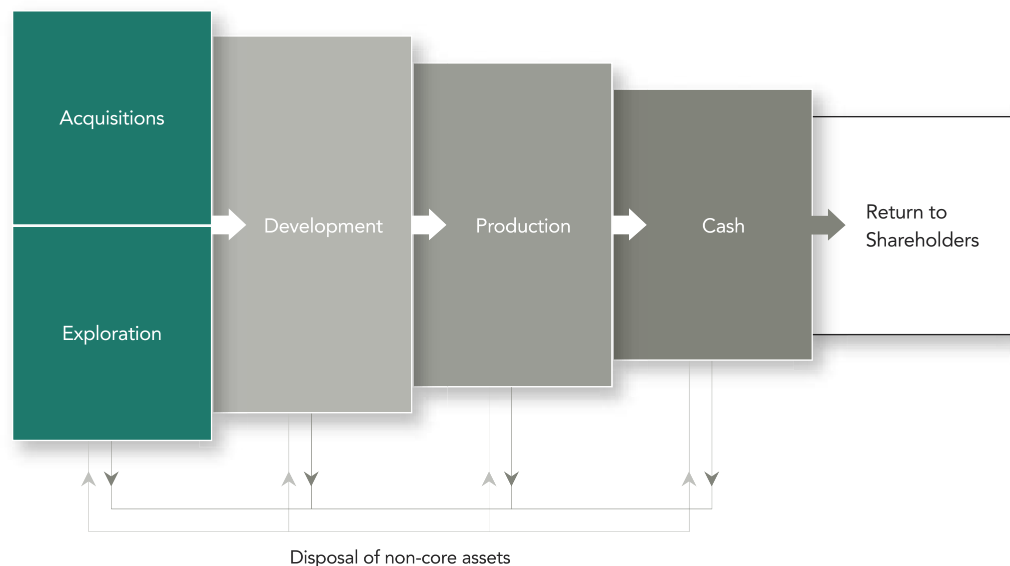
Strong in-house operating teams at an asset and country level supported by functional experts with a significant track record of project delivery

Access to financing and debt liquidity

Favourable, low cost debt structure with significant liquidity underpinning our capital investment programme and ability to access new opportunities

PREMIER AIMS TO DELIVER INCREASING NET ASSET VALUE BY INVESTING IN AND EXECUTING THE DEVELOPMENT OF HIGH QUALITY OIL AND GAS PROJECTS.

Premier aims to increase net asset value per share by investing in and executing the development of high quality oil and gas projects. Premier accesses the oil and gas reserves and resources to do this through successful exploration and by selectively acquiring assets. Premier also actively manages its portfolio through disposals and, by planning its business on a conservative basis, looks to maintain significant liquidity throughout the cycle. The cash flow generated from these activities continue to support investment in high quality projects, a high impact but capital disciplined exploration programme and, where appropriate, cash returns to shareholders.



PREMIER SEEKS TO REPLENISH ITS RESERVE AND RESOURCE BASE THROUGH SUCCESSFUL EXPLORATION WITHIN A STRICT CAPITAL DISCIPLINED FRAMEWORK.

Premier targets near-field, value accretive opportunities which can be tied-in to our existing infrastructure as well as emergent plays which have the potential to transform the resource base of the company. Premier also continually high-grades its exploration portfolio through divestment and relinquishment of licences that do not meet the group's internal metrics on a risk reward basis. Premier is primarily a production and development company and, whilst these activities are the focus of capital investment, the group typically allocates up to one third of its cash flow to exploration.

- 100 mmboe oil and liquids-rich gas discovery made in Indonesia in 2014
- 2014 near-field exploration success in Pakistan
- More than 20 exploration licenses relinquished over the course of 2014
- Four well high impact programme in North Falklands basin planned for 2015

PREMIER LOOKS TO ADD HIGH QUALITY ASSETS TO ITS PORTFOLIO THROUGH SELECTIVE ACQUISITIONS WHERE ITS POSITION IS COMMERCIALLY ADVANTAGED.

This includes increasing its equity in assets in which Premier already has an interest and acquiring key assets which fit within Premier's core areas of expertise. Premier also looks to leverage its operating capabilities and significant funding position to take advantage of opportunities arising as a result of oil price or capital market weakness. Historically, such periods of weakness have been when Premier has been most active in the acquisition market.

- Premier will continue to assess new opportunities in 2015, particularly those that arise as a result of current market dislocations; we will focus on areas where our position is commercially advantaged such as in the UK where we have circa US$2.7 billion of UK tax losses and allowances

WHILE PREMIER IS A FULL CYCLE EXPLORATION AND PRODUCTION COMPANY, WE HAVE AN ESTABLISHED AND SUCCESSFUL HISTORY OF ASSET DEVELOPMENT.

Premier focuses on projects where it can utilise its operating capabilities and, in particular, leverage the group's strong track record in developing medium-sized offshore oil fields utilising floating production systems. Premier has been involved in a number of FPSO projects across the cycle from FEED and the contracting processes through construction and development to production. Premier also aims to leverage its development capabilities to build on its dominant position in the Singaporean and Indonesian gas markets and to position itself to take advantage of future opportunities.

- The Premier-operated Dua field in Vietnam was successfully brought on-stream in July 2014
- The UK North Sea Kyle field was successfully reinstated in July 2014
- First gas achieved from the Premier-operated Naga field in Indonesia in November 2014
- Solan jacket and topsides successfully installed in September 2014
- Government approval of the Catcher project in the Central North Sea received in June 2014
- FEED work on the Vette project in Norway completed by year-end
- FPSO solution for the Sea Lion project in the Falkland Islands progressed

DEVELOPMENT

PREMIER SEEKS TO MAXIMISE VALUE FROM ITS LOW COST, STABLE PRODUCTION BASE TO GENERATE LONG-TERM CASH FLOWS.

PRODUCTION

Premier's production base is focused around operated floating production systems, such as the Chim Sáo field in Vietnam and the Balmoral area in the UK North Sea, and the group's dominant position in the South East Asia gas market. Premier's portfolio mix is changing as the weighting of our production assets shifts from taxed gas production in Pakistan to untaxed UK oil production. As a result, at flat oil prices, Premier's production base becomes increasingly cash flow generative.

- Achieved record production of 63.6 kboepd in 2014, above upper end of market guidance
- Significantly improved operating efficiency of 84 per cent realised in 2014 (2013: 75 per cent)
- 2014 and forecast 2015 operating cost of less than US$20/boe

PORTFOLIO MANAGEMENT / DISPOSALS OF NON-CORE ASSETS

Premier actively manages its portfolio across the cycle to ensure the group's capital and people are focused on its highest return assets and where the company is best placed to add value. Premier seeks to dispose of non-operated, non-core assets including mature producing assets where operating and future expected abandonment costs have been rising. In addition, Premier looks to divest non-operated discoveries which have been slow to progress forward and therefore erode the return on capital. In particular, this includes pre-development projects that do not meet our internal hurdle rates, fit our financial profile or sit within our core area of expertise.

- Premier announced the sale of approximately US$190 million of non-core asset sales in 2014, including the sale of the high cost Scott area assets in the UK North Sea, the Luno II discovery offshore Norway and the pre-development Aceh gas project onshore Indonesia
- Premier also continued to high-grade its exploration portfolio during 2014, divesting or relinquishing more than 20 exploration licences across its portfolio

RETURNS TO SHAREHOLDERS

Premier aims to deliver consistent, measurable capital growth to shareholders by investing in high quality projects, while offering investors the potential for higher returns through our exploration activities. However, the company recognises that its share price does not always reflect the value of the underlying assets of the business. In these instances, and after balancing the capital needs of the business, Premier will look to return surplus cash flows to shareholders.

- Dividend of 5 pence per share paid to shareholders in 2014
- US$93 million share buyback programme undertaken in 2014

PREMIER'S ACTIVITIES IN VIETNAM DEMONSTRATE THE SUCCESS OF THE COMPANY'S STRATEGY AND THE SIGNIFICANT VALUE IT CAN CREATE FOR ITS SHAREHOLDERS.

EXPLORATION //

In 2004, Premier undertook a regional geological evaluation that applied the knowledge from its activities in the West Natuna Sea in Indonesia to the Nam Con Son basin in Vietnam. This work culminated in the acquisition of two blocks in the Nam Con Son basin: Block 07/03 (where Premier made a small oil and gas discovery and subsequently sold its equity for US$45 million) and Block 12. Both were large, under-explored blocks in an area widely considered to be gas prone and with little oil potential.

Block 12 contained the dormant Dua discovery and some unsuccessful wells drilled by earlier operators, which had discovered non-commercial quantities of gas. Premier, however, recognised the potential for oil and, in June 2006, Premier drilled its first operated well in Vietnam, appraising the Dua discovery in partnership with Santos. This was followed by a step-out well that discovered a new oil accumulation, the southern extension to the Dua field. By applying its regional technical knowledge, Premier has been able to target oil in new reservoirs. Further, it also provided the impetus to drill the Chim Sáo prospect, a tilted fault block, 21 kilometres south west of the Dua field.

Premier discovered the Chim Sáo oil field in November 2006. The discovery well was tested and immediately side-tracked to identify the oil/water contact to provide robust reserves definition in the south of the field. The discovery was subsequently appraised in 2008 to confirm the extent of the field to the north. By late 2008 sufficient knowledge had been gained from the four well penetrations (discovery, side-track, appraisal plus a nearby dry well drilled by a previous operator) to enable Premier to proceed to a sanction decision.

While Premier was in a position to sanction the Chim Sáo project in late 2008, the global financial crisis at that time resulted in a significant fall in the oil price and weakening of capital markets. Premier selected to defer final approval for the development of the Chim Sáo field for nine months in order to re-engage with the supply chain to negotiate improved terms, taking advantage of the more favourable conditions. Premier also took the opportunity in the intervening period to re-engineer the basis of design for the field. In particular, a second well head platform was removed in response to high steel prices and instead a plan was adopted to drill long reach wells from one well head platform, capitalising on low rig day rates at the time. The combination of these activities meant gross savings of circa US$130 million were achieved when final approval for development of the Chim Sáo field was given in November 2009.

ACQUISITION //

In July 2009, Premier successfully acquired an additional 25 per cent interest in Block 12W from Delek Energy for US$72 million. At the same time, PetroVietnam (PVEP) confirmed that it would exercise its back in right to acquire a 15 per cent interest in the Production Sharing Contract (PSC). The resultant interests in the PSC were: Premier 53.125 per cent (operator), Santos 31.875 per cent and PVEP 15 per cent.

DEVELOPMENT //

The Chim Sáo jacket and topsides were constructed by PTSC M&C in Vietnam. Weighing 4,000 tonnes and 106.6 metres high, the jacket was the largest ever built in Vietnam. Construction of the jacket and topsides took 2.8 million man-hours and was completed on time, on budget and with no lost time injuries, with the facilities installed in mid-2010.

The Chim Sáo FPSO was constructed by Keppel in Singapore. PVKEEZ, one of four shortlisted contractors in the design competition, was selected to provide the FPSO. PVKEEZ was selected based on a competitive day rate and their ability to tailor the conversion of the Lewek EMAS, a 30-year old oil tanker, to Chim Sáo's requirements. Despite the challenging project funding environment, conversion commenced in September 2008 and was completed safely in June 2011 after 5.7 million man-hours. The completed FPSO, which is 290 metres long, is capable of storing 680,000 barrels of oil, equivalent to around two days of Vietnam's total oil production.

Premier brought on-stream safely the US$800 million Chim Sáo development on schedule and to budget in October 2011, less than six years after the initial discovery.

In 2012, Premier sanctioned the Dua development, a three well subsea tie-back to Chim Sáo. In 2013, the subsea equipment was installed at Dua and tied-back to the FPSO via flow lines and umbilicals. Drilling of the three Dua development wells commenced in February 2014 with first oil achieved from the field in July 2014. The field, which is capable of producing 8-10 kboepd gross, will extend plateau production from Block 12W.

PRODUCTION //

When sanctioned it was anticipated that Chim Sáo would reach plateau production rates of 25 kboepd. However, field performance has exceeded expectations and Chim Sáo has sustained production rates in excess of 35 kboepd (gross). During the first 18 months, production was constrained by unreliable power generation on the FPSO, preventing the Chim Sáo field from realising its full potential. Premier subsequently upgraded the FPSO to deliver reliable power generation which resulted in significantly improved uptime from the Chim Sáo facility and, in late 2014, the field achieved record production rates of around 40 kboepd (gross).

In January 2015 Block 12W surpassed the 30 million barrels (mmbbls) (gross) milestone and is currently producing over 35 kboepd (gross). The field is anticipated to come off plateau in 2015 although, to date, there has been no evidence of decline in the Chim Sáo wells. Nonetheless, plans are already well advanced to optimise production beyond the end of the decade through a programme of infill drilling, well workovers and effective contract management.

MONITORING PERFORMANCE

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 IN A SAFE AND RESPONSIBLE MANNER. DESPITE THE CHALLENGING CONDITIONS FACED BY THE SECTOR IN 2014 PREMIER CONTINUED TO DELIVER ON A NUMBER OF ITS KEY METRICS.

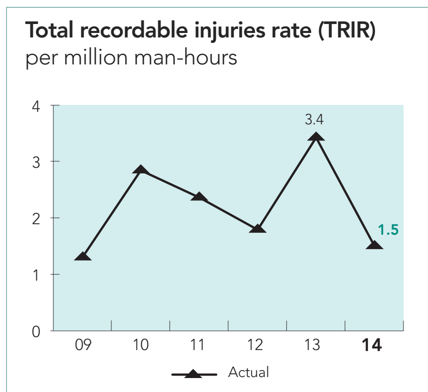
OPERATING SAFELY //

Premier believes that all accidents are preventable. Premier recognises that its operations by their very nature have the potential to cause major accidents and is committed to managing them in order to provide a high level of protection to its employees, contractors, visitors, neighbours and the environment.

In 2014 Premier completed its new health, safety and environment (HSE) management system, bringing it in line with the ten elements system under the revised International Association of Oil & Gas Producers (IOGP) framework. A new accident and incident reporting system was also introduced across the company which, once fully implemented, will provide an improved centralised reporting function.

Health and safety performance is measured using a number of metrics including total recordable injury rate (TRIR) per million man-hours. Safety performance data includes both Premier employees and contractors. In 2014, Premier achieved a TRIR performance of 1.5 per million man-hours (2013: 3.4), a 57 per cent decrease on 2013. Despite a period of intense construction activity, the UK Business Unit's TRIR fell to a historical low of 2.0 and both the global production operations and drilling functions achieved a TRIR in line with the 2013 IOGP average[1].

1 2013 IOGP Safety Performance Indicators Report.

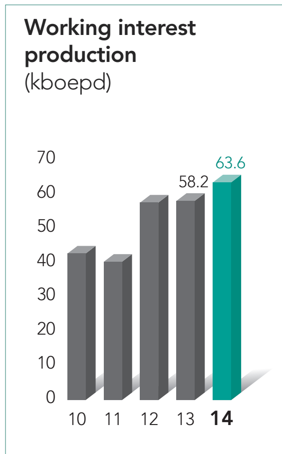


BUILDING A STRONG PRODUCTION BASE //

Premier aims to maximise production from its existing asset base and, over time, to deliver production growth. This is measured using daily average production and the number of development projects being brought through to sanction. Average daily production in 2014 was 63.6 kboepd, up 9.3 per cent on 2013 and a record for the group.

Premier's production growth is underpinned by a pipeline of development projects being progressed through the portfolio, and the ability to commercialise and bring on-stream these projects is key to the company's success. In 2014, Premier achieved first oil from the UK North Sea field Kyle, following the completion of the reinstatement project, from the Dua oil field in Vietnam and from the Naga gas field in Indonesia. We also sold gas for the first time into Indonesia under the new Domestic Swap Agreement. In addition, the Solan and Pelikan projects were progressed towards first oil and gas in 2015 while the Catcher project received government approval and is now in the execution phase. Decisions on the development of the next phase of growth projects, including the Vette and Sea Lion fields, are expected to be taken over the next 12 months.

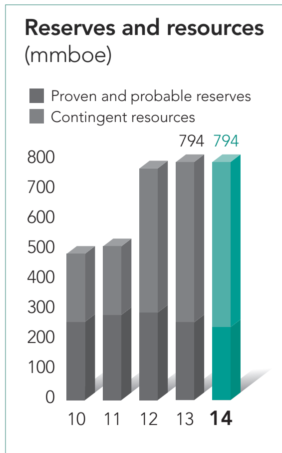
AVERAGE DAILY PRODUCTION IN 2014



SHAREHOLDER RETURNS //

A key metric by which Premier's growth performance is measured is the compound annual growth rate in NAV per share. Premier targets a 10 per cent growth in NAV per share per year. Average NAV per share growth since 2005 fell in 2014, the first recorded reduction since the target has been introduced. This was primarily driven by opting for a lower capex solution for the Sea Lion project. The new concept will aim to develop over half of the original reserves for less than half the cost. Despite improving the internal rate of return of the project the consequence of a smaller development (and indeed the effect of phasing a second stage of development) is a natural reduction in the NAV of the Sea Lion project.

Premier, however, recognises that its share price does not always reflect the value of the underlying assets of the business. In these instances, and after balancing the capital needs of the business, Premier will look to return surplus cash flows to shareholders via distributions. In 2014 Premier paid a dividend of 5 pence per share and completed a US$93 million share buyback programme.

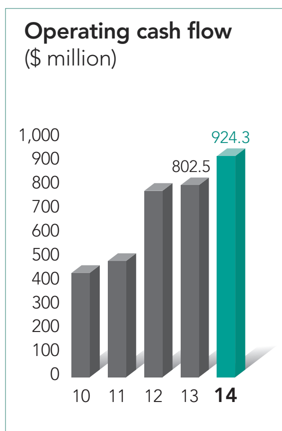


DELIVERING GROWTH //

Premier looks to access projects that will create future growth through successful exploration and selective acquisitions. This ambition is measured by reserve replacement, risked prospective resource added and finding costs.

Reserves and resources at the end of 2014 were 794 mmboe (2013: 794 mmboe). The impact of production and the 2014 disposal programme (the Scott area assets in the UK North Sea and the Luno II discovery offshore Norway) on Premier's reserve and resource base was offset by the booking of the Vette field as 2P reserves and the Kuda/Singa Laut discovery in Indonesia. The sale of Block A Aceh in Indonesia was completed in 2015 and the adjustment will therefore be made in the current year.

2014 was a successful year for Premier's exploration teams with two discoveries adding more than 100 mmboe of resource at a pre-tax finding cost of less than US$2/boe.

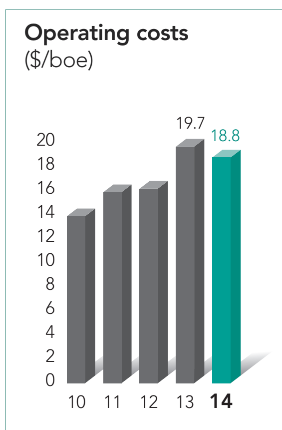


MAINTAINING FINANCIAL STRENGTH //

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 the difficult macro environment and declining oil price the company registered a strong operating cash flow in 2014 of US$924.3 million (2013: US$802.5 million).

Premier's portfolio of crudes was sold at an average of US$98.2/bbl (2013: US$109.0/bbl). Realised average gas prices, a significant portion of which tracks oil price movement, achieved US$8.4 per thousand standard cubic feet (mscf) in 2014 (2013: US$8.3/mscf). Operating costs per barrel of oil equivalent (boe) reduced to US$18.8 in 2014 (2013: US$19.7/boe). This reflects higher operating efficiency as well as one-off credits in Vietnam and Indonesia totalling US$20 million.

Premier's cash flows, which are protected by a rolling forward hedging programme, together with the refinancing of the company's principal credit facility in 2014, ensure that the group has significant liquidity to fund its capital investment programme going forward.



DIVIDEND PAID TO SHAREHOLDERS IN 2014

SHARE BUYBACK PROGRAMME UNDERTAKEN IN 2014

US$

million

OUR MARKETS

AS A FULL CYCLE EXPLORATION AND PRODUCTION COMPANY, PREMIER IS INVARIABLY IMPACTED BY VOLATILITY IN THE OIL PRICE. PREMIER LOOKS TO MANAGE THIS THROUGH A SUBSTANTIAL HEDGING PROGRAMME AND BY PLANNING ITS BUSINESS ON A CONSERVATIVE BASIS. WHILST A STRONG FUNDING POSITION REMAINS A PRIORITY, ANY OPPORTUNITIES WHICH HAVE THE POTENTIAL TO INCREASE INVESTOR RETURNS ARE GIVEN CAREFUL CONSIDERATION.

EQUITY MARKETS //

2014 was a mixed year for equity markets across both developed and emerging markets as investors grappled with strong US economic data offset by concerns over deflation in Europe and slower growth from China. Geopolitics – Russia's intervention in Ukraine, military action against Islamic insurgents in Iraq and Syria and unrest in Gaza to name but a few – also played a part in market volatility. Against this backdrop, the FTSE 350 Oil & Gas Producer sector underperformed the wider markets, driven by falling commodity prices, to close the year down 10 per cent. This masks a very mixed performance with the larger, integrated companies significantly outperforming the smaller exploration and production companies.

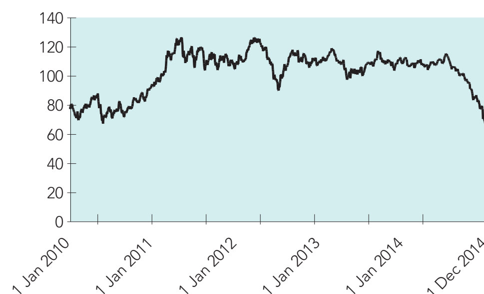
Premier's share price tracked commodity prices lower to close the year at 167 pence, reflecting both the group's leverage to commodity prices and the market's lack of appetite for mid-cap E&P investments.

COMMODITY PRICES //

Crude oil benchmarks Brent and West Texas Intermediate (WTI) peaked at US$112/bbl and US$105/bbl respectively in June 2014, before falling to close the year at US$62/bbl and US$59/bbl. The downward trend continued into early 2015 with both Brent and WTI falling below US$50/bbl in January. This sharp fall resulted from an over supplied market, driven primarily by the growth in unconventional output in North America, together with weakening industrial activity in emerging markets and a strong US dollar. Energy Information Administration analysis states that supply exceeded consumption in each of the four quarters in 2014.

Consensus around the outlook for the oil price remains relatively bearish in the short-term, although the long-term view is more positive with the majority of the financial institutions researching the sector continuing to forecast a recovery to US$85/bbl or above. The correlation between the price of Brent and the high sulphur fuel oil (HSFO) benchmark Sing180 (which drives our Singapore gas pricing) persisted in 2014, with Sing180 also peaking in June at US$634.1 per metric tonne (mt) before falling sharply in the second half of the year to close 2014 at US$301.11/mt.

5 year Brent oil price
$/bbl



Source: Bloomberg

With a significant amount of the group's production either directly or indirectly linked to Brent, a fall in the commodity price affects Premier's revenues, cash flows and the value of its underlying assets. To manage this and to protect our capital investment programme, Premier looks to sell forward up to 50 per cent of its entitlement production, on a rolling forward 12-18 months time frame.

INVESTMENT AND COSTS //

Global upstream capital investment in 2014 was broadly flat year-on-year. Significantly increased capital spending by the exploration and production companies was offset by lower expenditure from the majors who placed a renewed focus on capital discipline after a strong spending increase in 2013 saw capital returns eroded.

The sharp fall in the oil price in the second half of the year accelerated the cost reduction programmes already being implemented across the sector, a trend that has continued into 2015: independent oil companies and national oil companies have already announced capex budget cuts of over 20 per cent for 2015.

Significantly reduced capital expenditure by the upstream sector invariably impacts the service sector and the consequences of this are already being felt across the supply chain. This is accentuated where, during recent periods of high oil prices, capacity has been expanded and is particularly true of the drilling rig market, where rig rates have already fallen dramatically. However, costs take longer to respond in certain segments of the supply chain, especially where there are only a small number of key players, such as the heavy lift vessel market.

Premier has implemented measures generating 10 per cent cost savings on its operating costs for 2015. Further cost reductions are targeted. This has been achieved primarily by renegotiating rates with existing service providers, including in-house contractors.

On the yet unsanctioned projects, the market weakness has provided an opportunity to review cost estimates and to re-bid into a weak supply market. Both the Sea Lion and Vette projects are likely to benefit from the weaker FPSO and drilling markets while a lack of backlog for construction yards beyond 2016 should provide a competitive bidding landscape for these new projects.

EXPLORATION //

2014 was a poor year for exploration for the industry. While spending on conventional exploration and appraisal continued to rise, the global volume of barrels added from new field discoveries was one of the lowest since the early 1990s. As a result, 2014 discovery cost per barrel for the industry was estimated to be at a 10-year high of over US$4/boe. Despite the poor industry record generally, 2014 was a successful year for Premier's exploration teams with two discoveries and a finding cost of less than US$2/boe. Of particular note was the 100 mmboe oil and liquids-rich gas discovery at Kuda/Singa Laut on the Tuna Block, one of only 36 discoveries of more than 100 mmboe worldwide in 2014.

The lack of exploration success in 2014 for the industry and an increased focus on capital preservation as a result of the recent sharp fall in the oil price have caused many upstream companies to cut their 2015 exploration budgets significantly. The knock-on effect has been weakness in the rig market, with both rig utilisation and day rates falling. As drilling rates align with the new low oil price environment, the number of exploration wells is expected to pick up with companies looking to take advantage of substantially reduced costs.

UK semi-submersible rig rates (6 month average)
US$'000/day

Source: Industry data

Although seismic vessel day rates have fallen, they have fared better due to some capacity reductions in 2014. With new vessels expected onto the market in 2015 and uncertainties over some of the high profile bidding rounds, rates for the seismic industry are also likely to come under pressure.

Premier took advantage of the weakness in the seismic vessel market in 2014 to award multi-client seismic contracts over our three licences in Brazil at competitive rates. Premier remains committed to drilling the best quality prospects within its exploration portfolio. The group's 2015 exploration programme includes a four well campaign in the Falkland Islands, which has the potential to transform the resource base of the company.

ACQUISITIONS AND DISPOSAL ACTIVITY //

Despite significant volatility in the oil markets, 2014 was another busy year for upstream acquisitions and divestments. Private Chinese financial and industrial conglomerates emerged as active buyers along with Chinese and Middle Eastern national oil companies. Meanwhile integrated oil companies continued to progress their disposal programmes and were once again the most active sellers in the market.

Buyers continued to favour North American shale plays over the more mature, high cost regions such as the UK North Sea. However, Premier was successful in completing the sale of the Scott area assets for a cash consideration of US$130 million, the ninth largest UK North Sea deal in 2014.

The number of corporate transactions in the sector increased in 2014. However, the commodity price volatility that ensued in the second half of the year caused a shift in activity and, in November and December, deal flow in the sector fell to the lowest consecutive two month total since the recession in early 2009. The result was a well-supplied market at year-end with a global pipeline of assets for sale of around US$300 billion.

In addition to the sale of the Scott area assets, Premier announced the sale of two further non-core assets in 2014: Luno II, a discovery offshore Norway, and Block A Aceh, a pre-development asset onshore Indonesia. The combined value of the three transactions was approximately US$190 million.

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 Executive Committee and Board level.

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 health, safety, environment and security (HSES) risks are managed to levels that are as low as reasonably practicable, whilst managing exploration and development risks on a portfolio basis.

SIGNIFICANT RISK FACTORS DURING 2014 //

- Oil price weakness at year-end (weak share price and North Sea impairments);
- Project delivery challenges (schedule and cost);
- Negative market sentiment.

SIGNIFICANT RISK FACTORS FOR 2015 //

- Continued oil price weakness
- Cash flow and ability to fund existing and planned projects, thereby deliver business strategy
- Ability to maintain core competencies
- Political and security instability in countries of current and planned activity
- 'Alignment' with JV partners (in particular their ability to fulfil commitments)
- Negative market sentiment
- Potentially accelerated decommissioning liabilities
- Reputational impact if we defer projects

Key risk factor	Risk detail	How is it managed?	Key steps to mitigate in 2014/15
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.	• Improved reporting and response through implementation across the group of new electronic incident–recording and action-tracking system. • Improved asset integrity maintenance through implementation of new scorecard methodology (covering people, plant and process lead indicators) at all operated production assets.
Production and development delivery ***(Of particular significance during 2014 – Solan, Huntington – and into 2015)***	• Uncertain geology and reservoir performance leading to lower production and reserves recovery. • Availability of services including FPSOs and rigs, availability of technology and engineering capacity, availability of skilled resources, maintaining project schedules and costs as well as fiscal, regulatory, political and other conditions leading to operational problems and production loss or development delay. • Consequences may include, lower production, lower recovery of reserves, production delays, cost overruns and/or failure to fulfil contractual commitments.	• 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.	• Improved production forecasting, enhanced reporting and monitoring through in-house development and introduction of near-real-time production analytics platform. • Improved project planning and delivery through better co-ordination and execution of cross-functional review prior to decision gates. • Independent 'lessons learned' review of Solan project planned for early 2015. • Increased ExCo engagement on contractor selection/ management.
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. • 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.	• Re-organised Exploration team to improve delivery from existing portfolio and new ventures. • Corporate Exploration team strengthened to ensure greater focus on prospective resource and risk assessment (with associated enhancement of Exploration management system content). • Near-field exploration moved to business unit management but with Exploration function endorsement retained. • Majority of low-impact, high-risk North Sea opportunities removed from portfolio.

Key risk factor	Risk detail	How is it managed?	Key steps to mitigate in 2014/15
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.	• Improved provision of politico-economic/ security/ societal risk assessment informing investment decisions. • Strengthened Corporate Responsibility management system and improved Corporate Responsibility reporting. • Assessing cost/ benefit of political risk insurance.
Commodity price volatility ***(Of particular significance in late 2014 and into 2015)***	• 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 price hedging programmes to underpin our financial strength and to protect our capacity to fund our future developments and operations. • Premier investment guidelines ensure that our development programmes are robust to downside sensitivity price scenarios.	• Hedging programme (continued into 2015). • Economics of development programmes re-worked to reflect low oil price environment. • Discretionary spend curtailed. • Contingency planning for accelerated decommissioning of identified production assets.
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.	• Continuous improvement of human resources management systems and controls. • Review of long-term incentive package. • Phased function roll-out of competency management system commenced.

Key risk factor	Risk detail	How is it managed?	Key steps to mitigate in 2014/15
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. Several of our major projects are operated by our joint venture partners and our ability to influence our partners is sometimes limited due to our small interest in such ventures.	• 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.	• Heightened engagement with joint venture partners with regard to their ability to fulfil commitments. • Implementation of new non-operated ventures management system.
Financial discipline and Governance ***(Of particular significance in late 2014 into 2015)***	• 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.	• Economics of investment decisions and development projects re-worked to reflect low oil price environment. • Deferred discretionary exploration spend. • Contingency planning if development projects deferred (Vette, Sea Lion). • Reduction of contractor spend. • Contingency planning for right-sizing and re-structuring of group to deliver business goals. • Careful management of covenant headroom on the group's debt facilities.

IN NOVEMBER, PREMIER OPTED TO PROGRESS A SMALLER, SCALED-BACK SEA LION DEVELOPMENT SCHEME IN ORDER TO REDUCE THE CAPEX REQUIRED PRIOR TO FIRST CASH FLOWS FROM THE FIELD. THE INITIAL PHASE OF DEVELOPMENT AIMS TO RECOVER 160 MMBBLS OF OIL FROM THE NORTH EAST PART OF THE FIELD FOR LESS THAN US$2 BILLION OF PRE-FIRST OIL CAPEX.

FINAL PREPARATIONS FOR THE FOUR WELL EXPLORATION CAMPAIGN ARE UNDER WAY WITH THE FIRST WELL, ZEBEDEE, EXPECTED TO SPUD IN EARLY MARCH. THE OUTCOME OF THIS CAMPAIGN, WHICH HAS THE POTENTIAL TO MORE THAN DOUBLE THE DISCOVERED RESOURCE IN THE NORTH FALKLANDS BASIN, WILL DETERMINE THE SHAPE OF SUBSEQUENT DEVELOPMENT PHASES IN THE AREA.

Highlights and achievements /

- Sea Lion development re-sized with an estimated capex of less than US$2 billion to first oil
- Carry arrangement renegotiated with Rockhopper
- Rig contract and rig sharing agreement for exploration campaign signed

THE FALKLAND ISLANDS

DEVELOPMENT //

Good progress was made in planning the Sea Lion development scheme utilising a Tension Leg Platform (TLP) during 2014. However, the oil price environment and Premier's commitment to maintaining a strong financial position caused the group to re-examine the scheme with a view to reducing capex. As a result, in November, Premier opted to progress a smaller initial development of just the north east part of the Sea Lion field with a single subsea drill centre, utilising a leased FPSO.

It is anticipated that this smaller scheme will recover around 160 mmbbls of oil over 15 years from 14 wells. Total capital expenditure prior to first oil was expected to be less than US$2 billion in November when first estimated. Premier plans to take advantage of weaker market conditions in the second half of 2015 to capture lower costs for the project.

Work has commenced on assessing the FPSO design options for the first phase of the development. The existing TLP topsides design and equipment lists are being modified for use with a smaller capacity FPSO and the conclusions of various metocean studies are being fed into the FPSO design process. A project sanction for the first phase of development is targeted for the first half of 2016, although the exact timing of this will ultimately depend upon the contracting strategy employed for the FPSO. Sanction of the project will depend on the cost reductions that are achieved and the oil price outlook at that time.

Rockhopper will fund their share of the pre-sanction costs and a letter of agreement has been concluded such that the remaining development carry will be split equally between the initial development and the next phase (US$337 million to each). A guarantee fee mechanism which applies to capex guarantees given by Premier in respect of the development has been extended to include the FPSO lease.

While it is likely that Premier would be able to fund a project of this size from existing facilities and cash flows, the company will continue to seek a partner for the Sea Lion development. Plans for subsequent phases of development, which could involve either further FPSOs or a TLP, will target a further 235 mmbbls of existing discovered resources plus any new discoveries arising from the 2015 exploration programme.

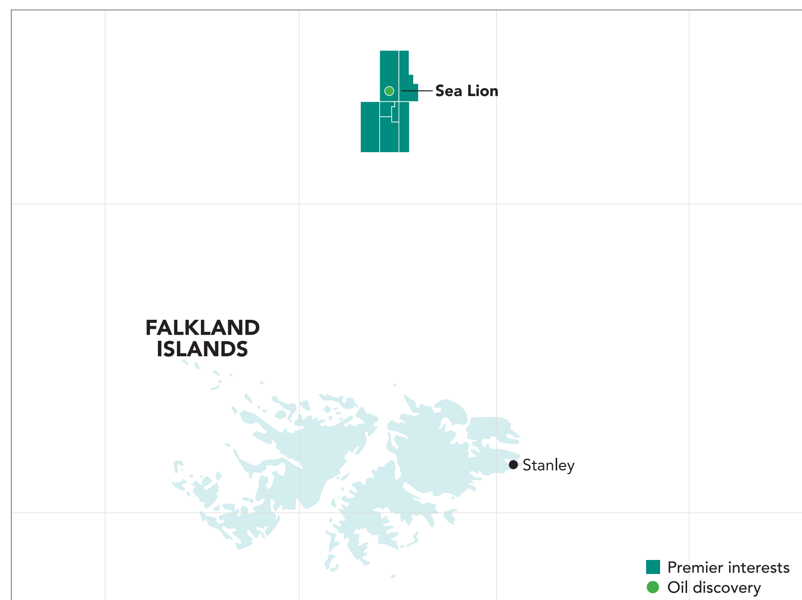
EXPLORATION //

Preparations for the multi-operator exploration drilling campaign, due to commence in the first quarter of 2015, are well under way. In June a rig contract and a rig sharing agreement were signed and all major service contracts have now been awarded. A temporary dock facility located in Stanley Harbour has been built and has received the first two coasters of supplies for the upcoming programme. The rig departed West Africa at the end of January and is expected to arrive in the Falkland Islands by the end of February.

The exploration drilling programme will consist of at least four wells targeting multiple stacked fans in Licences PL004 and PL032. The sequence of the wells is expected to be Zebedee, Isobel Deep, Jayne East and Chatham/West Sea Lion. The rig will drill for another operator between the Isobel Deep and Jayne East wells.

Outlook /

- Engage with supply chain to reduce further Sea Lion project costs
- Targeting option to sanction the Sea Lion project in first half 2016
- Material four well exploration campaign to commence in March 2015 with the spudding of the Zebedee well



INDONESIA

2014 SAW STRONG PRODUCTION AND CASH FLOWS FROM PREMIER'S OPERATED NATUNA SEA BLOCK A, WHICH INCREASED ITS MARKET SHARE OF THE GSA1 CONTRACT AND ACHIEVED RECORD PRODUCTION RATES. DELIVERABILITY FROM NATUNA SEA BLOCK A WAS FURTHER ENHANCED WITH FIRST GAS FROM THE NAGA FIELD IN NOVEMBER. PREMIER ALSO ENJOYED EXPLORATION SUCCESS IN INDONESIA WITH A SIGNIFICANT OIL AND LIQUIDS-RICH GAS DISCOVERY ON THE OPERATED TUNA BLOCK FURTHER STRENGTHENING THE PORTFOLIO AND PROVIDING THE GROUP WITH FUTURE GROWTH OPPORTUNITIES.

Highlights and achievements /

- Natuna Sea Block A captured 45 per cent of Gas Sales Agreement (GSA) 1, significantly above contractual share
- Naga on-stream in November
- Gas sales from Natuna Sea Block A to the domestic market commenced
- Significant discovery of 100 mmboe on the Tuna Block
- Record cash flow

PRODUCTION AND DEVELOPMENT //

Net production from Indonesia in 2014 on a working interest basis was 14.4 kboepd (2013: 13.7 kboepd), up 5 per cent on the prior year. This was driven by a strong operational performance from the Anoa field on the Premier-operated Natuna Sea Block A, our key asset in Indonesia. The Anoa field delivered 141 billion British thermal units per day (BBtud) during 2014, capturing 44.6 per cent (2013: 39.9 per cent) of GSA1 deliveries into Singapore, against a contractual share of 39.4 per cent. Natuna Sea Block A's contractual share for 2015 has been increased to 39.9 per cent. Gross liquids production from the Anoa field averaged 1.5 kbopd (2013: 1.7 kbopd).

Sales from the Gajah Baru field to Singapore under GSA2 averaged 79 BBtud (2013: 82 BBtud). In addition, gas sales of up to 40 BBtud from the Gajah Baru field to the Indonesian market commenced under a Domestic Swap Agreement (DSA) in July. Gas delivered under the DSA replaces gas previously contracted to Batam Island, Indonesia, from the Natuna Sea Block A under GSA3 and GSA4. DSA deliveries are expected to continue until the domestic pipelines are constructed and the GSA3 and GSA4 contracts commence.

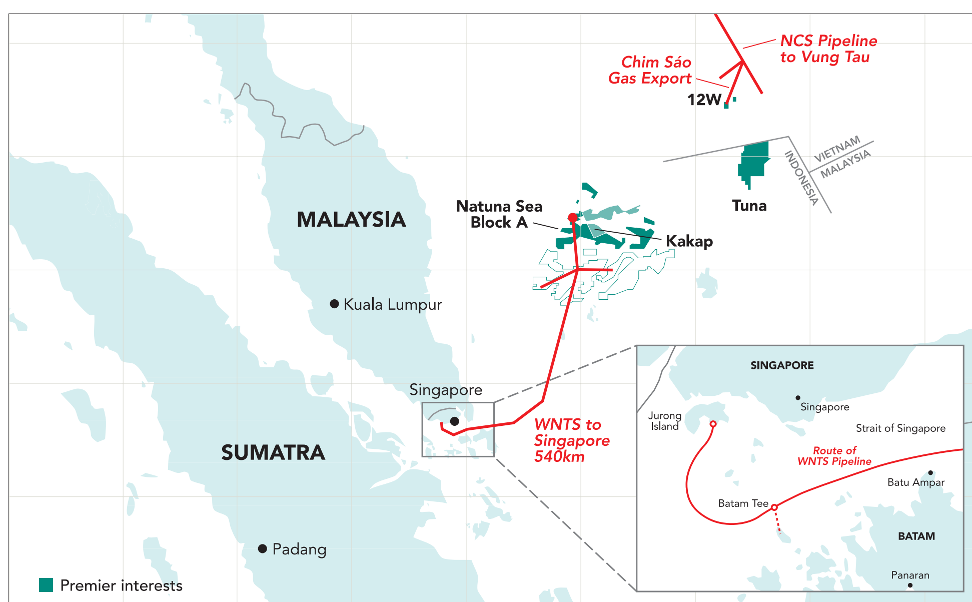
In total, 242 BBtud (gross) (2013: 208 BBtud) was sold from Natuna Sea Block A during 2014 with record peak production rates of 391 BBtud achieved. High deliverability from Premier's Anoa and Gajah Baru fields gives Premier the flexibility to meet peak customer demand and to capitalise upon other suppliers' maintenance and unplanned downtime. Looking to 2015, Premier plans to continue to optimise its production from Natuna Sea Block A and to renegotiate supplier contracts to take advantage of the expected price reductions in oil field services in order to maintain its competitive low operating cost base.

Good progress was made during 2014 on our new Natuna Sea Block A developments, Naga and Pelikan. Following the successful completion of the offshore installation in 2013, hook up and commissioning of the Pelikan and Naga well head platforms was completed in April 2014. The Hakuryu rig commenced development drilling at the Naga field in July with first gas achieved on budget in November. The three development wells at the Pelikan field were completed in early 2015 and the field is expected on-stream at the end of the first quarter.

Natuna Sea Block A's deliverability continues to exceed its contractual commitments. As a result, Premier is well placed to increase its market share should its partners not meet their contractual commitments under GSA1 as well as to increase its supply of gas into Singapore should demand strengthen.

Elsewhere on Natuna Sea Block A, it is anticipated that the 2012 Anoa Deep gas discovery well will be tied-in to the Anoa production facilities in 2015 to support GSA1 deliveries. Premier is also progressing FEED for the Bison and Iguana projects as single well subsea tie-backs to Pelikan while concept select for the Gajah Puteri field is under way.

Premier successfully divested its 41.67 per cent non-operated interest in Block A Aceh onshore Indonesia for US$40 million in 2014. Government approvals for the sale were received at the end of 2014 with completion achieved in January 2015.



EXPLORATION AND APPRAISAL //

Premier drilled three exploration wells in Indonesia during 2014: the Kuda Laut-1 and Singa Laut-1 wells on the Premier-operated Tuna Block and the Ratu Gajah-1 well on the Premier-operated Natuna Sea Block A.

The Kuda Laut-1 well, which targeted Miocene sands within a four-way dip closed structure, and the Singa Laut-1 side-track, which targeted the Oligocene sequence in the adjoining three-way dip closure, discovered 100 mmboe. Gas gradients have been measured and liquids-rich gas samples were recovered suggesting that the discovery has a high natural liquid content. Planning for a 2016 appraisal campaign is now under way. Premier has 65 per cent equity in the block and will assess the appropriate working interest level to hold as appraisal advances.

Premier also drilled the Ratu Gajah-1 well on Natuna Sea Block A during 2014. While the well flowed gas to surface during testing, less sandstone reservoir than expected was encountered and the discovery is sub-commercial. The results of this well, however, have been integrated into the group's broader understanding of the Lama play and thicker sands have been identified at the basin margin. The next well in our portfolio to test the Lama play will be the appraisal of the Anoa Deep discovery, which is scheduled for the second quarter of 2015.

Outlook /

- Premier's contractual share of GSA1 increased to 39.9 per cent, underpinning long-term cash flows
- Pelikan due on-stream in 2015; portfolio of growth options
- Anoa Deep appraisal well to be drilled in 2015

FOLLOWING CONCEPT SELECT IN FEBRUARY, PREMIER SUCCESSFULLY COMPLETED FEED ON THE VETTE DEVELOPMENT AND PROGRESSED THE PROJECT TO THE POINT OF SANCTION. HOWEVER, PREMIER HAS AGREED WITH THE NORWEGIAN PETROLEUM DIRECTORATE TO DEFER THE SUBMISSION OF THE PLAN FOR DEVELOPMENT AND OPERATION (PDO) TO ENABLE PREMIER TO RE-ENGAGE WITH THE SUPPLY CHAIN TO CAPTURE LOWER COSTS. PREMIER SUCCESSFULLY CONCLUDED THE SALE OF ITS INTEREST IN LUNO II IN 2014 WHILE PREPARATIONS FOR OUR FIRST TEST OF THE EMERGING MANDAL HIGH PLAY ARE WELL ADVANCED WITH THE MYRHAUK WELL EXPECTED TO SPUD MID-2015.

Highlights and achievements /

- FEED on the Vette project completed
- Sale of Luno II discovery successfully concluded
- Successful licence application in the APA 2014 Licensing Round

NORWAY

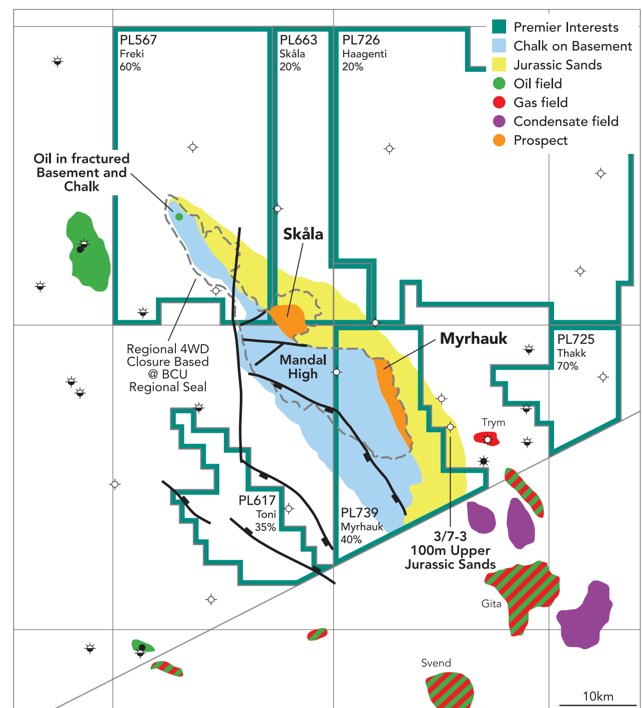
DEVELOPMENT //

Premier acquired operatorship of the Vette development in 2013. Since then, significant progress has been made in commercialising the field and, at the end of 2014, Premier booked the reserves for the development.

The development will focus on recovering 45 mmbbls of reserves from the field using four producers and two injectors tied-back to a FPSO. The Mackerel discovery in the adjacent PL406 licence will be incorporated into a possible second phase of development.

FEED engineering work and supply chain engagement on the development concept for Vette was completed and the project was brought to sanction decision by the end of 2014. As part of that process, Premier also continued with the development of its organisation in Norway in preparation for development operator status and successfully completed a number of audits undertaken by the Petroleum Safety Authority.

In light of the sharp fall in the oil price in the second half of 2014, Premier agreed with the Norwegian Petroleum Directorate to defer the submission of the PDO by a year. Premier will use the intervening period to re-engage with the supply chain to negotiate better rates which are more reflective of the current climate.



MANDAL HIGH

Assuming that appropriate cost savings are achieved, Premier will consider making a final investment decision at the end of 2015 targeting first oil in 2019.

Work continued during 2014 on the non-operated Frøy field to identify a viable development concept. Following acquisition and interpretation of new seismic data, a reassessment of subsurface resources was completed in 2014 and screening of development concepts is under way, including both standalone options as well as a tie-back solution to nearby infrastructure.

EXPLORATION //

Premier continued to high grade its Norwegian exploration portfolio during 2014. This included the profitable sale of the group's non-operated interest in PL359, which included the Luno II discovery, to Lundin Petroleum for a consideration of US$17.5 million. In addition, following technical evaluations, Premier relinquished a number of its exploration licences in Norway.

Premier's immediate exploration focus in Norway is on the Myrhauk well which is expected to spud mid-2015 and will be the company's first test of the emerging Mandal High play. Premier has built an extensive acreage position over the Mandal High, both organically and through acquisition, and has identified significant follow-on potential to the Myrhauk well in the success case.

Premier was successful in the APA 2014 Licensing Round with the award of a 20 per cent non-operated interest in PL782s which is located in the Norwegian North Sea and will be operated by ConocoPhillips. There are no firm well commitments with the award.

Outlook /

- Re-engage with the supply chain during 2015 to capture lower costs for the Vette project
- Final investment decision of Vette targeted for end 2015, depending on cost savings achieved
- The potentially play opening Myrhauk exploration well to be drilled in 2015

PAKISTAN

2014 SAW ANOTHER STRONG PERFORMANCE FROM PREMIER'S PAKISTAN BUSINESS UNIT. PRODUCTION FROM OUR SIX NON-OPERATED ONSHORE PAKISTAN GAS FIELDS EXCEEDED EXPECTATIONS AND EXPLORATION SUCCESS WAS ACHIEVED WITH THE KADANWARI K-36 WELL.

Highlights and achievements /

- Average production of 12.4 kboepd with 96 per cent uptime achieved
- New development wells tied-in to production
- Exploration success with the K-36 exploration well

PRODUCTION AND DEVELOPMENT //

Average production in Pakistan during 2014 was 12.4 kboepd (net to Premier), around 16 per cent lower than in 2013 (14.9 kboepd). This reflects natural decline in the Bhit, Qadirpur and Zamzama gas fields only partially offset by higher production from the Kadanwari and Badhra fields.

The Kadanwari gas field, in which Premier has a 15.8 per cent non-operated interest, performed strongly in 2014 and delivered production of 3.2 kboepd (net to Premier) (2013: 2.9 kboepd), a new record for the field. This was driven by new production from the K-33 and K-35 wells which came on-stream in December 2013 and February 2014 respectively, and the successful exploration well K-36, which was tied-in to production in April 2014.

Average production from the Bhit and Badhra gas fields in 2014 was 3.0 kboepd (net to Premier) (2013: 3.3 kboepd). Higher production was achieved from the Badhra gas field which benefitted from two new wells being brought on-stream in the first quarter of 2014. An additional two development wells were tied-in at Badhra at the end of the year partially offsetting natural decline from existing wells. Good progress has also been made on the compressor reconfiguration project at Bhit, which was initiated in the first half of 2014, to improve ultimate recovery by around 54 billion cubic feet (bcf) (gross). Five of the 10 compressors have been commissioned and the project is on track to complete in April 2015.

Production from the Qadirpur gas field averaged 3.2 kboepd (2013: 3.6 kboepd). Production fell over the year, in part due to natural decline in the field, but also due to an unplanned shutdown at the power plants into which gas is delivered.

Production from the Zamzama field was lower in 2014 averaging 3.1 kboepd (2013: 5.1 kboepd). This marked decrease in production was due to faster declining reservoir pressures than initially anticipated and Premier has updated its remaining reserves estimate for the field accordingly. However, this decline was partially mitigated by intervention work carried out at the Zam-4 production well in May and the re-start of gas production from the Zam-8 well in October. The joint venture is also considering further infill drilling and additional wellhead compression to mitigate the natural decline seen in the existing wells.

First gas was achieved from the Zarghun South gas field in August and the field is currently producing at around 13 million standard cubic feet per day (mmscfd) (gross). All costs pertaining to Premier's 3.75 per cent working interest in the field continue to be carried by the operator.

EXPLORATION AND APPRAISAL //

Premier drilled the successful K-36 exploration well on Kadanwari in Pakistan in the first half of 2014. The well discovered gas in a separate step-out compartment and was tied-in to the Kadanwari facilities during April 2014.

Outlook /

- Bhit compressor reconfiguration project to be completed in 2015
- Further infill development drilling and compression projects under consideration

MAURITANIA

PRODUCTION AND DEVELOPMENT //

Production from the Chinguetti field averaged 447 barrels of oil per day (bopd) (2013: 507 bopd) net to Premier during the year. The fall in production was driven by natural decline from the existing wells as well as a shutdown of the facilities in January for a mooring chain replacement. The FPSO contract has now been extended to December 2017.

Elsewhere in Mauritania, Premier relinquished its non-operated interest in PSC-A, which contains the Banda gas development and PSC-B, which contains the Tiof and Tevet discoveries.

EXPLORATION AND APPRAISAL //

The Tapendar-1 exploration well was drilled on PSC C-10 in the first half of 2014 and was plugged and abandoned as a dry hole. Subsequently, the joint venture partners agreed to exit the licence on 30 November 2014.

HIGHER UK PRODUCTION, DRIVEN BY IMPROVED OPERATING EFFICIENCY AT THE BALMORAL AREA, INCREASED CONTRIBUTIONS FROM HUNTINGTON AND ROCHELLE AND FLUSH PRODUCTION FROM KYLE, RESULTED IN A STRONG RISE IN UK CASH FLOWS IN 2014, DESPITE THE SHARP FALL IN THE OIL PRICE IN THE SECOND HALF OF THE YEAR. KEY MILESTONES WERE REACHED ON PREMIER'S OPERATED SOLAN AND CATCHER PROJECTS. IN ADDITION, THE SALE OF THE HIGH COST SCOTT AREA ASSETS FOR US$130 MILLION WAS SUCCESSFULLY COMPLETED IN DECEMBER.

Highlights and achievements /

- Average production of 19.4 kboepd, up 30.3 per cent on 2014
- Government approval and partner sanction of the Catcher development
- Solan facilities installed West of Shetland
- Sale of the high cost Scott area assets completed

UNITED KINGDOM

PRODUCTION //

In 2014, UK production averaged 19.4 kboepd, an increase of 30.3 per cent on the corresponding period (2013: 14.9 kboepd).

Production from the Premier-operated Balmoral area exceeded expectations, averaging 3.2 kboepd during 2014 (2013: 2.5 kboepd), as the asset benefitted from improved operating efficiency and the reinstatement of five wells, four at the end of 2013 and one in 2014. Production from the non-operated Wytch Farm asset was also strong, averaging 5.6 kboepd (2013: 5.5 kboepd) again driven by high operating efficiency as well as a successful programme of infill drilling which saw four new wells brought on-stream in the first half of 2014.

Production from Scott, Telford and Rochelle averaged 3.8 kboepd, broadly in line with expectations. While production from the fields was impacted by several unplanned shutdowns, reservoir productivity was strong when unconstrained by facilities, with Rochelle, for example, achieving rates of up to 100 mmscfd (gross). In December Premier successfully completed the sale of the Scott area assets for a consideration of US$130 million. As part of the transaction, all associated decommissioning costs liabilities were transferred to the buyer.

Average production from the non-operated Huntington field was 5.7 kboepd (2013: 3.5 kboepd). Although the group benefitted from a full year of production from the asset, production performance from the field was significantly below expectations due to lower operating efficiency as a result of downtime on the production facilities and restrictions on exporting the gas through the CATS pipeline system. Most recently, production from the field has been restricted while repairs are undertaken to a topsides valve on the CATS riser platform which failed to re-start in early December following a planned outage. The field is now expected to re-start full production in mid-March.

Since December 2011, the non-operated Kyle field underwent redevelopment following storm damage to the Banff FPSO to which the field ties-back. That work was successfully completed in 2014 and Kyle was brought back on-stream in July. The field benefited from early flush production with peak rates in excess of 7 kbopd (gross). While flush production has continued into 2015 with the field currently averaging around 5 kbopd, this is expected to decline during the year.

DEVELOPMENTS //

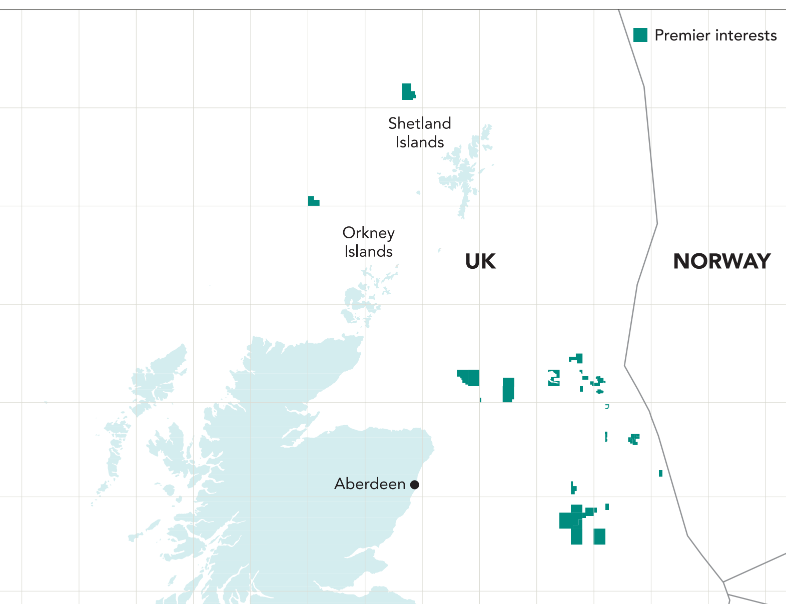
Further progress was made on the Premier-operated Solan project West of Shetland during 2014. The onshore construction of the subsea oil storage tank, jacket and topsides were completed and the facilities were successfully installed at the end of the summer using the Heerema Thialf heavy lift vessel. The first producer and injector wells also successfully completed in September with good flow rates achieved.

Commissioning commenced in November with the arrival of the Safe Scandinavia flotel which is able to accommodate up to 400 people. This programme, however, has taken longer than anticipated due to poor weather conditions and low productivity over the winter period. Whilst productivity has improved in recent weeks, additional accommodation modules will be required to achieve habitation on the platform. Further flotel slots have been identified whilst conversion of the drilling rig contracted to arrive in April is also being considered. As a result, first oil will be later than the previous guidance of the second quarter of 2015 and Premier will provide further updates to the market as the work progresses. Premier continues to target plateau production rates from the field of 20-25 kbopd (gross) by year-end.

Cash spend to 31 December 2014 stood at US$1.4 billion. Premier agreed to extend its loan to Chrysaor to ensure the project remains fully funded to first oil. In return, Premier will take 100 per cent of the project's cash flow (after certain deductions) until the loan and interest has been repaid. As at 31 December, the loan and interest outstanding stood at US$547 million. However, Premier continues to work with Chrysaor and potential providers of debt finance on a partial sale or refinancing of the Chrysaor loan.

The Premier-operated Catcher area project is progressing on budget and on schedule. The development achieved partner approval and government sanction in 2014 and the project is now well into the execution phase. Engineering procurement and construction of key subsea equipment, including the drilling templates, gas export line, pipeline manifolds and subsea trees and control systems are under way. Fabrication of the FPSO hull has also commenced, with first steel cut in Japan in early January 2015.

Offshore construction activity is planned to commence in mid-2015 with the installation of the subsea facilities, including the gas export line and drilling templates. Preparations for development drilling with the Ensco-100 jack up rig are well advanced and the campaign is on track to commence mid-year.



EXPLORATION //

Premier's UK North Sea exploration efforts are focused on near-field exploration opportunities close to its existing developments and producing assets. In particular, preparation is under way to drill an exploration well at the Laverda prospect to the north of the Catcher area hub in 2016.

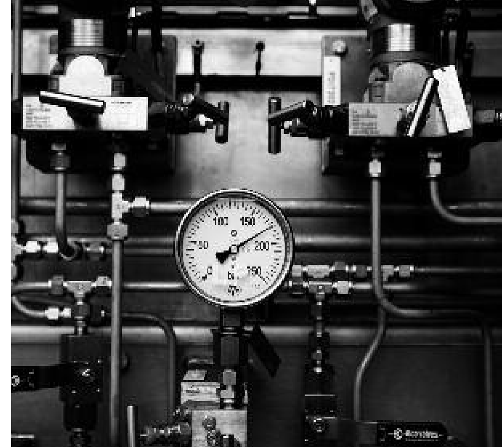
Work also continues on the Bagpuss and Blofeld heavy oil prospects, located on the Halibut Horst, a well-defined basement high within the Moray Firth. The joint venture partners are targeting the first half of 2016 for the drilling of the Bagpuss well.

2014 saw Premier continue to high grade and rationalise its UK North Sea exploration portfolio with a number of licences either relinquished or sold over the course of the year.

Outlook /

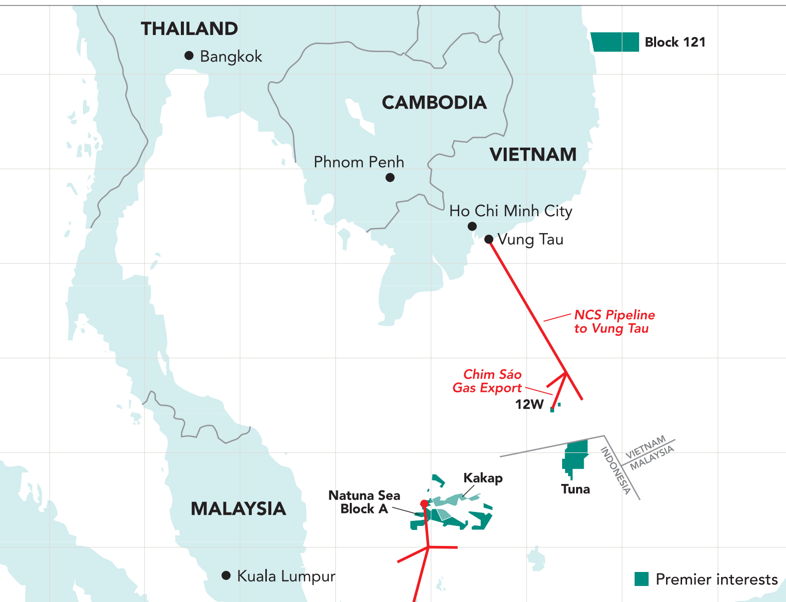
- Solan field targeted to be at plateau production rates of 20-25 kbopd by year-end
- Development drilling scheduled to commence at Catcher mid-2015
- Exploration focus on near-field exploration opportunities
- US$2.7 billion of UK corporate tax losses and allowances

THE PREMIER-OPERATED CHIM SÁO FIELD OUT-PERFORMED EXPECTATIONS IN 2014 AS WE CONTINUED TO MAXIMISE PRODUCTION DELIVERY AND TO IMPROVE THE RELIABILITY OF THE FACILITIES. THE SUBSEA TIE-BACK OF THE DUA FIELD WAS COMPLETED SUCCESSFULLY IN JULY, EXTENDING PLATEAU PRODUCTION AND THE FIELD LIFE OF CHIM SÁO.



Highlights and achievements /

- Record production and cash flow achieved from Chim Sáo
- Oil sold at a premium to Brent
- Operating efficiency from the Chim Sáo facility of 84 per cent, up 20 per cent on 2013
- Dua on-stream



VIETNAM

PRODUCTION AND DEVELOPMENT //

In 2014, production from Block 12W, which contains the Chim Sáo and Dua fields, exceeded expectations averaging 16.9 kboepd (13.7 kbopd of oil and 15.4 mmscfd of gas) net to Premier, up 19.9 per cent on 2013.

During 2014, Premier completed significant upgrades to the Chim Sáo FPSO aimed at maximising production deliverability and operating efficiency. This included upgrades to the boilers and gas compressors as well as the installation of an additional diesel generator to improve the reliability of power generation. As a result, operating efficiency from the Chim Sáo facility increased to 84 per cent during 2014, up 20 per cent on 2013. Record production rates of 19.2 kboepd (net) were achieved in November and December and the field is currently producing over 20 kboepd (net).

The three well subsea tie-back of the Dua oil field to the Chim Sáo facilities was completed, with first oil from the field achieved in July 2014. Following the completion of the Dua drilling programme, the West Telesto rig drilled two further water injector wells at Chim Sáo to provide pressure support to the field's oil production. This, together with new production from Dua, will extend plateau production and the field life of Chim Sáo.

In January 2015, Premier surpassed the milestone of 30 mmbbls (gross) of production from Chim Sáo. This strong performance from Block 12W has generated significant cash flows for the group and the costs incurred to bring both Chim Sáo and Dua on-stream have now been fully recovered.

Outlook /

- Continued optimisation of Chim Sáo production
- Maintain strong operating efficiency performance
- Growth opportunities to sustain production under consideration

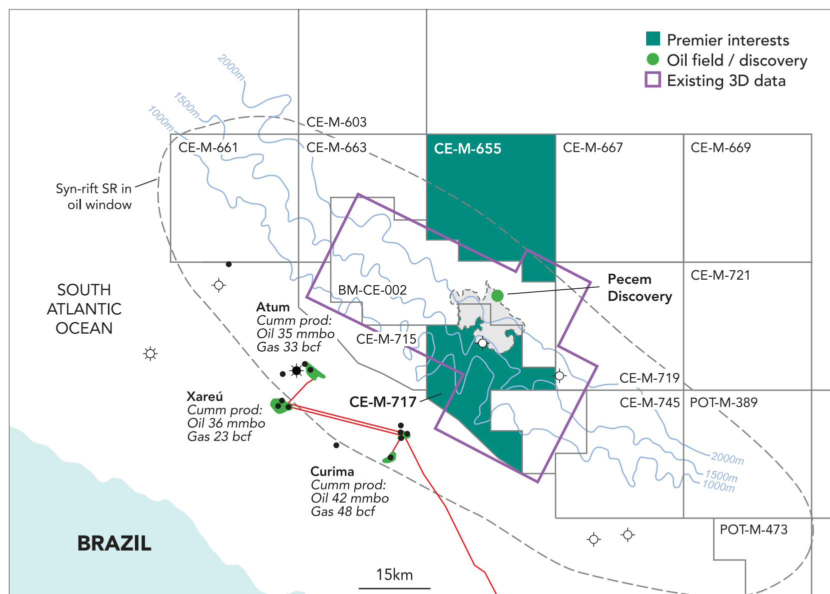
NEW COUNTRY ENTRY –

EXPLORATION

IN ADDITION TO EXPLORING IN OUR EXISTING CORE AREAS, PREMIER LOOKS TO BUILD BUSINESS UNITS IN NEW COUNTRIES VIA AN EXPLORATION-LED ENTRY STRATEGY. THE FOCUS IS ON EMERGENT PLAYS THAT, WITH EXPLORATION SUCCESS, HAVE THE ABILITY TO DEVELOP INTO NEW BUSINESS UNITS IN THE 2018 TO 2025 TIME FRAME. IN THESE NEW COUNTRIES PREMIER HAS A STRICT DISCIPLINED APPROACH TO INVESTMENT ENSURING THAT COST EXPOSURE IN THE EXPLORATION PHASE IS MINIMISED AND ONLY THE BEST OPPORTUNITIES ARE MATURED TO DRILL-READY STATUS. AT YEAR-END, PREMIER HAD ESTABLISHED SUCH EXPLORATION POSITIONS IN BRAZIL, IRAQ, KENYA AND THE WESTERN SAHARA (SADR).

Highlights and achievements /

- New 3D seismic acquired over Premier's Foz Do Amazonas basin acreage
- Local office opened in Rio de Janeiro, Brazil in 2014

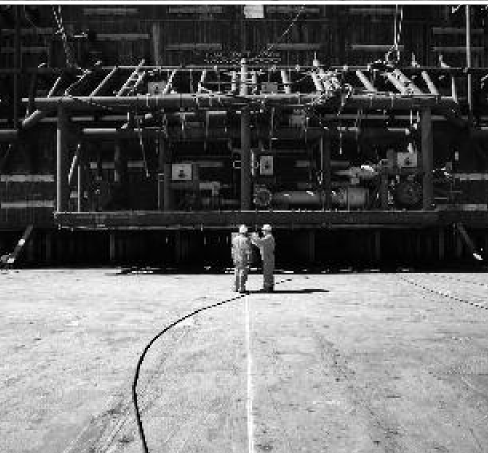


BRAZIL – NEW COUNTRY ENTRY

IRAQ

Premier entered Brazil in 2013 securing three licenses in the under-explored offshore regions of the proven Foz Do Amazonas and Ceará basins. In 2014, a small representative office was established and new 3D seismic data was acquired over Premier's Foz Do Amazonas basin acreage. The full processed products are expected to be available in the first half of 2015. Acquisition of new 3D data over the Ceará basin acreage is expected to commence in July 2015. The earliest exploration well on Premier's acreage in Brazil will not be until 2017.

Premier holds a 30 per cent non-operated interest in Block 12, onshore Iraq, in the under-explored western part of one of the world's most prolific oil basins. At year-end a 3D seismic survey acquisition programme was 75 per cent complete and it is anticipated that processed products will be available in the third quarter of 2015. There is one commitment well on this licence which is planned to be drilled in late 2016 or early 2017.



Premier entered Kenya in 2012 and, following the withdrawal from our offshore acreage in 2014, the company focussed on one onshore licence (Block 2B). This licence covers a Tertiary sub-basin within the Anza Graben and was assessed as a potential look-a-like to the successful plays drilled recently both in Uganda and further west in Kenya. The first well on the block (Badada-1), drilled in early 2015, did not find hydrocarbons. Premier has no further commitments in Kenya beyond the drilling of this well.

Offshore SADR, Premier holds 45,000 square kilometres (net) of acreage across five licences. At present, all SADR licences are in abeyance pending the country's admission to the United Nations.

Premier maintains two small new venture groups, one in London and one in Singapore, tasked with evaluating exploration-led entry options in new countries. Any new entry will be dependent on the quality of the opportunity and its ability to create value at our conservative oil price assumptions at the time.

Outlook /

- Acquisition of new 3D data over the Ceará basin acreage planned for 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

Richard Rose
Finance Director

FINANCIAL REVIEW

Economic background

After three and a half years in which the price of oil averaged above US$100/bbl, crude oil experienced a sharp fall in the second half of 2014. The average for 2014 was US$98.9/bbl against US$108.7/bbl for the prior year. In the first half of 2014 the Brent oil price ranged between US$104/bbl and US$115/bbl, before falling to US$55/bbl by the end of the year.

Premier's portfolio of crudes traded at a weighted average of US$2.0/bbl premium to Brent (2013: US$2.6/bbl), as we continued to realise favourable prices, particularly for our Chim Sáo crude. Premier's average realisations for the year were US$98.2/bbl (2013: US$109.0/bbl) after taking into account timings of actual liftings and export duties paid in Vietnam. Post hedging, realised prices increased to US$101.0/bbl (2013: US$109.1/bbl).

Average gas prices for the group were US$8.4/mscf (2013: US$8.3/mscf). Gas prices in Singapore, linked to HSFO pricing and in turn, therefore, linked to crude oil pricing, averaged US$16.8/mscf (2013: US$17.1/mscf). The average price for Pakistan gas (where only a portion of the contract formulae is linked to energy prices) was US$4.6/mscf (2013: US$4.4/mscf).

Effect of steep decline of the oil price

The fall in both spot and forward oil prices has inevitably had an impact on our reported financial results in respect of the carrying value of certain of our oil and gas assets. An impairment charge has been booked in the income statement relating to several of our fields in the UK North Sea, Indonesia, Vietnam and Mauritania. The total amount for the impairment (pre-tax) is US$784.4 million (US$327.8 million, post-tax). Impairment charges for the year, relating to UK fields, amounted to US$732.3 million (pre-tax) (2013: US$178.7 million), and were recognised for the Solan, Balmoral area and Huntington fields, while the remaining impairment charge of US$52.1 million was recognised in respect of the Chim Sáo field in Vietnam, the Chinguetti field in Mauritania and the Kakap field in Indonesia. The principal cause of the impairment charge is a reduction in the short to medium-term oil price assumption used in estimating the future discounted cash flows for each field. In addition to the impact of the reduced oil price assumptions, a review of the expected decommissioning costs for the Balmoral area in the first half of 2014 has also driven part of the impairment charge, whilst the Solan impairment has in part been caused by an increase in the costs incurred to date and expected costs to completion.

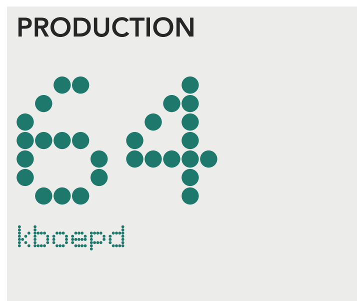
Income statement

Production in 2014 averaged 63.6 kboepd (2013: 58.2 kboepd) up 9.3 per cent on a working interest basis. On an entitlement basis, which under the terms of our Production Sharing Contracts (PSCs) allows for additional government take at higher oil prices, production was 57.8 kboepd (2013: 52.4 kboepd). Working interest gas production averaged 177 mmscfd (2013: 174 mmscfd) or approximately 49 per cent of total production. The increase in the group's production can be partially attributed to an increase in operating efficiency across a number of assets in the portfolio. The group's operating efficiency was 84 per cent in 2014 (2013: 75 per cent).

Total sales revenue from all operations reached a new record level of US$1.6 billion (2013: US$1.5 billion), due to higher production partially offset by lower average oil prices. Cost of sales, excluding impairment charges, were US$986.6 million (2013: US$856.1 million). Operating costs were stable at US$436.1 million (2013: US$418.9 million). Unit operating costs were US$18.8 per barrel of oil equivalent (boe) (2013: US$19.7/boe), lower than the prior year due to higher production, improved operating efficiency across several of the company's assets and one-off insurance claims received in the year. Underlying unit amortisation rose to US$19.2/boe (2013: US$17.7/boe) mainly reflecting higher production from fields in the UK and Vietnam, which carry a higher amortisation charge per boe compared to the group average.

Exploration expense and pre-licence expenditure costs amounted to US$58.5 million (2013: US$106.2 million) and US$25.3 million (2013: US$30.1 million) respectively. This includes the write-offs relating to Block L10B in Kenya and the Ratu Gajah well in Indonesia, exiting our exploration licences in Mauritania and the relinquishment of various exploration licences in the UK as part of Premier's portfolio management programme. Net administrative costs were US$25.4 million (2013: US$20.2 million).

RECORD SALES REVENUE AND OPERATING CASH FLOW



Operating loss was US$248.1 million (2013: operating profit of US$352.0 million), mainly attributable to the impairment charges described above. Finance costs and other charges, net of interest revenue and other gains, were US$137.8 million (2013: US$65.4 million). The interest revenue from the loan to our partner on the Solan field development has increased to US$36.8 million (2013: US$6.3 million), however, we have recognised a provision of US$61.2 million against this long-term receivable, reflecting a reduction in the total returns expected on the Solan field in a lower oil price environment. The charge for the unwinding of the discounted decommissioning provision increased to US$46.9 million (2013: US$36.4 million) reflecting increased provisions for future decommissioning as industry cost estimates rise.

Pre-tax losses were US$384.0 million (2013: pre-tax profits US$285.4 million). The group tax credit for 2014 was US$173.7 million (2013: tax charge of US$51.4 million), an effective tax rate of 45.2 per cent of the pre-tax loss. 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 2014 group tax credit arises as a result of a deferred tax credit in the UK, mainly arising from the tax effect of the impairment charges recognised in the year and recognition of the UK Small Fields allowance for the Catcher field. The group has an estimated US$2.7 billion of carried forward UK corporation tax allowances and losses, the majority of which are forecast to be utilised against UK ring fence profits over time, and are therefore reflected in the deferred tax asset position at the year-end. The group did not pay any corporation tax or supplementary charge in the UK in 2014 due to these brought forward losses.

Loss after tax was US$210.3 million (2013: profit after tax US$234.0 million) resulting in a basic earnings per share loss of 40.3 cents (2013: profit 44.2 cents).

Dividend and buyback

During 2014, Premier purchased 18.4 million shares at a volume weighted average price of 302 pence and paid a dividend of 5 pence per share. In December, a decision was taken by the Board to postpone the buyback programme pending a recovery in the oil price. The Board has also decided to suspend the dividend and therefore no dividend is proposed.

OPERATING CASH FLOW
US$
924
million

Cash flow

Cash flow from operating activities was US$924.3 million (2013: US$802.5 million) after accounting for tax payments of US$208.5 million (2013: US$228.3 million). Cash movements in working capital have improved to US$74.7 million (2013: US$1.3 million).

Capital expenditure in 2014 totalled US$1,195.5 million (2013: US$878.0 million).

Capital expenditure (US$ million)	2014	2013
Fields/development projects	**887.5**	603.7
Exploration and evaluation	**294.1**	260.5
Other	**13.9**	13.8
Total	**1,195.5**	878.0

CAPITAL INVESTMENT
US$
1,196
million

The principal development projects were the Solan and Catcher fields in the UK, and the Dua field in Vietnam. In addition, US$318.4 million (2013: US$185.9 million) funding support was provided to our partner in the Solan project.

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

Disposals and assets held for sale

During the first half of 2014, Premier announced the proposed sale of the non-operated Scott area assets in the UK North Sea for US$130 million, the sale of Block A Aceh onshore Indonesia for US$40 million, and the sale of PL359, which contains the Luno II discovery offshore Norway, for US$17.5 million prior to working capital adjustments. The Scott area assets and Luno II transactions were completed during the second half of 2014, whilst a US$76.9 million loss has been recognised as the anticipated loss on the sale of Block A Aceh, which was completed in January 2015. These disposals, combined with the write-off of deferred consideration of US$7.0 million held for the Block 07/03 disposal in 2013, resulted in a gain on disposal of non-current assets of US$2.7 million (2013: US$3.6 million).

Balance sheet position

Net debt at 31 December 2014 amounted to US$2,122.2 million (2013: US$1,452.9 million), with cash resources of US$291.8 million (2013: US$448.9 million).

Net debt (US$ million)	2014	2013
Cash and cash equivalents	**291.8**	448.9
Convertible bonds[2]	**(228.5)**	(224.2)
Other debt[1,2]	**(2,185.5)**	(1,677.6)
Total net debt	**(2,122.2)**	(1,452.9)

1 Other debt includes €120.0 million of long-term senior notes, which are valued at year-end US$1.13:€ spot rate. These will be redeemed at an average of US$1.39:€ due to cross currency swap arrangements. It also includes £250.0 million of UK retail bonds and long-term bank financing which are valued at year-end US$1.56:£ spot rate. These will be redeemed at an average of US$1.64:£ due to cross currency swap arrangements.

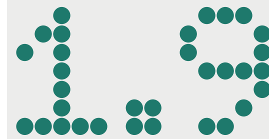
2 The carrying amounts of the convertible bonds and the other long-term debt on the balance sheet are stated net of the unamortised portion of the issue costs of US$0.4 million (2013: US$0.4 million) and debt arrangement fees of US$27.4 million (2013: US$12.2 million) respectively.

Long-term borrowings consist of convertible bonds, UK retail bonds, senior loan notes and bank debt. Premier took advantage of the strength of the banking markets in the first half of 2014 to refinance its principal US$1.2 billion facility with a new, increased facility of US$2.5 billion on improved terms with extended maturity to July 2019. The group repaid a US$300 million term loan in January 2015 which was due to mature in April 2015.

Premier does not have any significant debt maturities until late 2017 and all debt is unsecured. As at 31 December, cash and undrawn facilities stood at US$1.9 billion.

CASH AND UNDRAWN FACILITIES

US$



billion

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, 5.4 mmbbls of Dated Brent oil were hedged through forward sales for 2015 at an average price of US$98.3/bbl. This volume represents approximately 50 per cent of the group's expected liquids entitlement production in 2015. 84,000 mt of HSFO, which drives our gas contract pricing in Singapore, has been sold forward for 2015 at an average price of US$614.4/mt. These hedges cover approximately 13 per cent of our expected Indonesian gas entitlement production for 2015.

The year-end fair value on the commodity hedges was US$250.1 million (2013: loss US$24.2 million), which is expected to be released to the income statement during 2015, as the related barrels are lifted.

During 2014, forward oil sales of 5.6 mmbbls, and forward fuel oil sales of 222,000 mt expired resulting in a net credit of US$46.0 million (2013: US$0.8 million) which has been included within sales revenue for the year.

RESERVES

mmboe

RESOURCES

mmboe

Foreign exchange

Premier's functional and reporting currency is US dollars. Exchange rate exposures relate only to local currency receipts and expenditures within individual business units. Local currency needs are acquired on a short-term basis. At the year-end, the group recorded a mark-to-market loss of US$6.0 million on its outstanding foreign exchange contracts (2013: gain of US$13.1 million). The group currently has £150.0 million retail bonds, €120.0 million long-term senior loan notes and £100.0 million term loan in issuance which have been hedged under cross currency swaps in US dollars at average fixed rates of US$1.64:£ and US$1.34:€.

Interest rates

The group has various financing instruments including senior loan notes, convertible bonds, UK retail bonds, term loans and revolving credit facilities. As at year-end, 56 per cent of total borrowings is fixed using the interest rate swap markets. On average, the cost of drawn funds for the year was 4.4 per cent. Mark-to-market credits on interest rate swaps amounted to US$6.8 million (2013: credit of US$6.4 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. During 2014, claims amounting to US$20.5 million were agreed in relation to property damage and business interruption on the Chim Sáo gas export pipeline damage in 2013.

Going concern

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

Due to the current weakness in oil and gas prices, the directors have reduced planned development and exploration expenditure for 2015, are implementing a series of cost saving initiatives to reduce both operating costs and general and administration spend and have identified a range of portfolio management opportunities to monetise certain of the group's current development and exploration assets and to source additional sources of financing.

At year-end, the group had significant headroom on its borrowing facilities and related financial covenants. The group's forecasts and projections, which take into account the actions described in the preceding paragraph, also indicate that the company will be able to operate within the requirements of its existing borrowing facilities for 12 months from the date of approval of the Annual Report and Accounts. However, if there were further sustained falls in the oil price or if certain of the identified portfolio management opportunities are delayed or cancelled, whilst forecasts indicate that the group's liquidity will remain strong, it is possible that management will need to request a temporary amendment to the terms of one of its financial covenants. If the group's on-going forecasts were to suggest that this would be required, management would take appropriate action with the support of its long-term banking relationships well in advance of such requirement, and management have no reason to believe that such support would not be forthcoming. The directors therefore continue to adopt the going concern basis in preparing the 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.

Premier's risk management process and identified principal risks for the next 12 months are described on pages 22-25.

CORPORATE RESPONSIBILITY REVIEW

A. PRINCIPLES AND STANDARDS

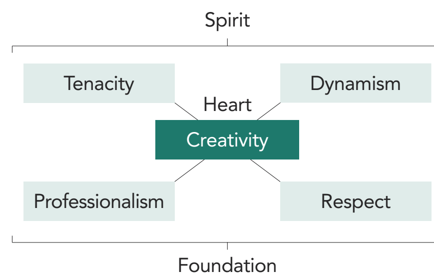
AS AN INTERNATIONAL UPSTREAM OIL AND GAS COMPANY, PREMIER RECOGNISES THAT OUR SOCIAL, LEGAL AND POLITICAL LICENCE TO OPERATE HAS TO BE EARNED THROUGH A CONSISTENT TRACK RECORD OF RESPONSIBLE AND EFFECTIVE PERFORMANCE. WE ARE GUIDED IN THIS RESPECT BY A RANGE OF INTERNAL AND EXTERNAL PRINCIPLES AND STANDARDS, WHICH ARE SET OUT BELOW:

INTERNAL //

Values

Our core values are the guiding principles that underly our behaviours and activities, and are reflected in our policies and procedures. They are:

Premier Oil Values



Vision and strategy

Our vision is to be a world-class upstream independent.

Our strategy is to grow shareholder value by leveraging our development capabilities and balance sheet to deliver high quality projects while maintaining exposure to upside from successful exploration. A responsible approach to our workforce, local communities, business partners, host governments and wider society underpins the achievement of our strategy in the medium and long-term.

Our approach to these stakeholders is summarised in our overarching Corporate Responsibility Policy, which is supported by the following policies on specific aspects:

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

In addition corporate responsibility-related risks are subject to our Risk Management Policy and associated risk management system. This includes our newly developed and integrated ARROW[1] risk management tool.

1 Analysis and Reporting – Risk Online Workbench.

EXTERNAL //

Premier is an active participant in the following initiatives:

- **United Nations Global Compact (UNGC)** – an initiative for business that aims to align their operations and strategies with 10 key principles relating to human rights, labour, the environment and anti-corruption: www.unglobalcompact.org
- **International Association of Oil & Gas Producers (IOGP)** – which promotes safe, responsible and sustainable operations in the oil and gas industry and supports the identification and sharing of best practice across a range of areas, including health, safety, the environment, security, social responsibility, engineering and operations: www.iogp.org
- **International Petroleum Industry Environmental Conservation Association (IPIECA)** – which supports the oil and gas industry to continuously improve its operations and products, to meet society's expectations for environmental and social performance: www.ipieca.org

Premier Oil also applies the following external standards:

- The **OHSAS 18001** occupational health and safety management system standard and **ISO 14001** environmental management system standard. These are applied to all Premier operated production assets (Balmoral, Anoa, Gajah Baru and Chim Sáo) and our global drilling operations. Chim Sáo is currently going through the assessment phase for these standards: www.bsigroup.com and www.iso.org
- **Voluntary Principles on Security and Human Rights** (Voluntary Principles), which Premier joined in May 2014: www.voluntaryprinciples.org
- **Global Reporting Initiative (GRI) G4 Sustainability Reporting Guidelines** (G4 Guidelines), which we are applying for the first time in 2014/2015: www.g4.globalreporting.org

In addition, we are in the process of implementing the UN Guiding Principles on Business and Human Rights, including relevant due diligence requirements.

B. MATERIALITY

IN LINE WITH THE G4 GUIDELINES, PREMIER HAS CARRIED OUT AN EXTENSIVE EXERCISE TO ASSESS AND PRIORITISE ITS MATERIAL CORPORATE RESPONSIBILITY ISSUES. THIS PROCESS AND ITS OUTCOMES HAVE DIRECTLY INFORMED THE DEVELOPMENT OF OUR 2014 CORPORATE RESPONSIBILITY REPORT.

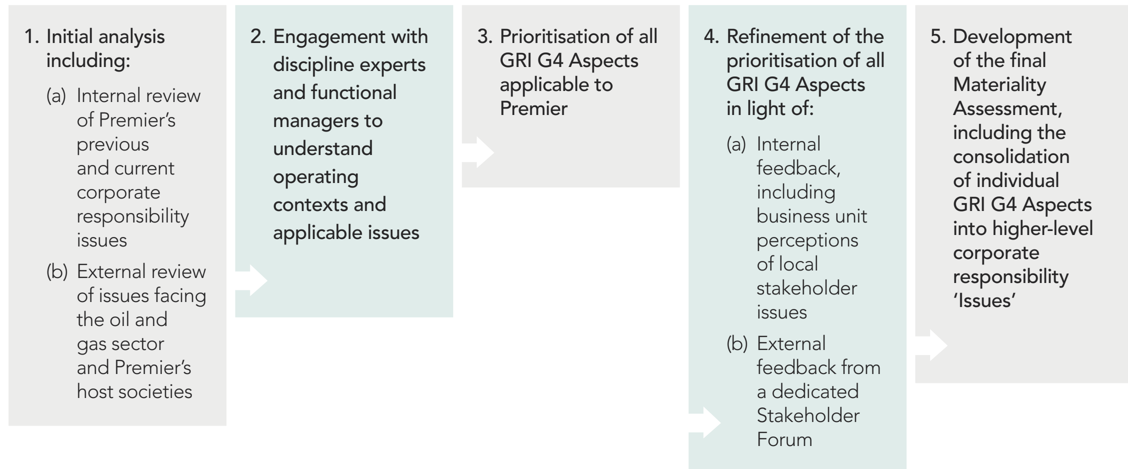
Materiality Process

Our formal, systematic Materiality Process is based on a series of iterative assessments using a common, quantitative scoring framework. It draws on a range of internal and external documentary sources as well as internal and external engagement with relevant discipline experts, managers and other stakeholders. The criteria applied in this process include:

- The actual or potential ability of Premier to impact on stakeholders; and
- The actual or potential ability of stakeholders to impact upon Premier's business.

Each step of this process is illustrated below:

Materiality Process



Materiality results

The overall results of the Materiality Process can be seen in the matrix below. We use materiality as a basis for our annual corporate responsibility reporting. Presentation of an issue as 'non-material' on this matrix does not mean it is irrelevant or that it is not managed by Premier.

Premier Oil corporate responsibility materiality matrix

Although this process demonstrated that many of Premier's most material issues have already been integrated into previous rounds of corporate responsibility reporting and assurance, it will result in increased emphasis being given to a range of issues, including (for example):

- Governance and ethics, including internal and external corruption risks
- Social impacts, including our overall economic impacts on the societies in which we operate
- Supply chain risks and impacts, including around human rights
- Strategic, long-term carbon emissions targets, including anticipated regulatory and economic pressures
- Public policy and government relations, including key policy issues such as resource nationalism and areas of disputed sovereignty

In addition, the process has highlighted the non-material nature of community impacts for Premier, given the offshore nature of its operated assets. Nonetheless, we are determined to have a positive impact in the societies in which we operate and supplementary details around some of our new and on-going community investment initiatives are set out below.

C. HIGH-LEVEL MATERIAL ISSUES

AN EXAMINATION OF OUR HIGH-LEVEL MATERIAL SUSTAINABILITY ISSUES, INCLUDING AN EXPLANATION OF WHY THEY ARE MATERIAL, HOW WE MANAGE THEM AND OUR KEY PERFORMANCE INDICATORS, ARE SET OUT BELOW (FURTHER DETAIL WILL BE FOUND IN OUR 2014 CORPORATE RESPONSIBILITY REPORT):

MATERIAL ISSUE: GOVERNANCE

- **Why this issue is material:** Good governance provides a framework that allows the right decisions to be taken by the right people at the right time. Good governance underpins the entire scope of our business and our ability to act in a way that is not only legally compliant but which is also responsible. We are committed to transparency, responsibility and compliance in all of our business activities.
- **How we manage this issue:** Our Corporate Responsibility Policy is owned and promulgated by our Board whilst its supporting policies are owned and implemented by our Executive Committee. These supporting policies include Premier's Business Ethics Policy and our activities in this respect are governed by our Global Code of Conduct (the Code), which applies to all Premier employees and those associated with Premier (such as consultants). 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
  - appointment of intermediaries

  Prospective key contractors are evaluated to ensure that they have similar policies and procedures. 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 adherence to the Code, which is supported by a comprehensive, company-wide training programme.

Training and monitoring

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. We aim to provide all employees with training on the Code within one month of their induction and thereafter on an annual basis. Training (which takes account of local nuances and cultural norms) is delivered through interactive workshops and online modules. In 2013, all employees received induction or refresher training on the Code. In 2014, all new employees went through the induction training, but a number of data processing and procedural issues resulted in reduced uptake of refresher training. We are implementing remedial measures to address these challenges. We are confident (following reviews at our major business units) that all employees directly exposed to significant business ethics risks are appropriately trained and compliant with the Code. In addition, we give embedded consultants access to the online training modules.

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. One report was made through this service in 2014. A full independent investigation resulted in no material adverse findings. No material incidents of corruption or non-compliance with the Code were identified in 2014.

MATERIAL ISSUE: OCCUPATIONAL HEALTH AND SAFETY

- **Why this issue is material:** As an offshore oil and gas operator, health and safety is paramount given the risks associated with and involvement in potentially hazardous activities and operating environments. This is not only due to the potential human impacts on employees and contractors, but also the importance we attach to operational continuity, environmental performance and reputation amongst our employees, business partners, government partners and investors.
- **How we manage this issue:** 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.
- Premier's HSES Policy sets out our commitment to operating responsibly and is supported by our HSES Management System which contains a comprehensive set of procedures and standards. These include our Golden Rules designed to help address the most common causes of serious incidents at oil and gas facilities. The overall HSES Management System is subjected to internal and external review, including external certification to OHSAS 18001 for production and drilling.
- We recognise that our business activities have the potential to cause major accidents and we are committed to managing our operations to prevent them. We seek to provide a high level of protection to our employees, contractors, visitors, neighbours and the environment and believe that all major accidents are preventable. We carry out regular reviews of our operations to identify major accident potential and to drive improvements to achieve this objective.
- HSES performance targets are monitored, measured and reported on an on-going basis to the Executive Committee and to the Board.

  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 it moves from concept to construction and then to operation. PSRs are aligned with our project approval gates, at which time strategic decisions are made either to 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 UK regulatory standards. Our operating assets are reviewed every 5 years to ensure continued compliance. Safety Cases are reviewed either by the local regulatory authority or by a competent independent third party.

Key indicators – Health and Safety

Material Safety Parameters and Indicators	2012	2013	**2014**
Fatalities	–	–	**2**
Lost Work Day Cases	5	18	**7**
Restricted Work Day Cases	2	5	**2**
Medical Treatment Cases	4	17	**5**
Total Recordable Injury Rate (per million man-hours)	1.8	3.4	**1.5**
High Potential Incidents (HiPo) Rate (per million man-hours)	1.3	0.7	**1.0**

	2012	2013	**2014**
Total man-hours (million)	6.1	11.7	**10.8**

- **Total Recordable Injury Rate (TRIR):** Our TRIR performance included one contractor fatality which occurred as a result of an offshore vessel collision and one third party fatality as a result of a road traffic accident on a public highway. Both incidents occurred in South East Asia. No blame was attached to Premier in either case but we have taken additional steps to reduce the risk of these incidents recurring. Despite these regrettable incidents, the overall improvement in TRIR performance reflect continued management focus on occupational health and safety, particularly in our core operated assets, and a reduction in typically higher-risk contracted construction work, as well as a transfer to less hazardous forms of construction work on key projects.
- High Potential Incidents (HiPos) are a leading indicator of potential major accidents and serious injuries. The recording and reporting of HiPos allow us to learn how to prevent or mitigate future significant incidents. This involves addressing the root causes of these incidents. The assessment of HiPos complements the proactive testing of asset integrity safety systems and management under our Safety Case regime (see above).
- There was a slight increase in the HiPo rate (per million man-hours) during the reporting cycle. A total of 11 HiPos were recorded in 2014 compared to the nine reported in 2013. This increase can at least partly be attributed to improvements in our reporting process and quality of investigations.
- All 11 HiPos identified in 2014 were investigated in depth. Corrective actions were identified and implemented. Any lessons learnt were communicated across the organisation through our safety alerts programme.
- **Process Safety performance:** One way of recording process safety events is through the measurement of loss of primary containment (LOPC). Premier has continued to work with IOGP to harmonise process safety performance measurement across the industry. There were no Tier 1 (gas over 500 kg, oil over 1000 kg per hour) or Tier 2 (gas over 50 kg, oil over 100 kg per hour) LOPC incidents recorded for 2014, reflecting the further development and group-wide implementation of the Process Safety Management System. We record all losses of primary containment irrespective of volumes released, however we report only losses over a severity threshold as defined in IOGP Guidance Report 456.

	2012	2013	**2014**
LOPC events > 1 kg	20	12	**11**

MATERIAL ISSUE: ENVIRONMENT

- **Why this issue is material:** As with health and safety, the environmental risks associated with offshore oil and gas operations are continuously assessed and managed. Furthermore, they pose a material risk for Premier itself due to both the potential impacts that environmental incidents may have on our corporate reputation and the risk of non-compliance with our contractual and regulatory environmental obligations.
- **How we manage this issue:** This issue is managed through Premier's HSES Management System which defines the systematic approach to environmental management throughout the lifecycle of our operations and projects. The ISO 14001 environmental management system standard is applied to and independently audited at all of Premier's operated production assets (Balmoral, Anoa, Gajah Baru and Chim Sáo) and our global drilling operations. Chim Sáo is currently going through the assessment phase for this standard.

- Under the HSES Management System, on-going environmental and social impact assessment, monitoring and reporting takes place at all our operations to ensure we reduce our impact to a level that is as low as reasonably practicable. 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 greenhouse gas (GHG) emissions performance is benchmarked against an industry database compiled and published by the IOGP. As an oil and gas company with production facilities in the North Sea, we comply with the European Union Emission 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 and comply with requirements of the recently introduced UK Energy Saving Opportunity Scheme (ESOS).

Key indicators – Environment

Material Environmental Indicator	2012	2013	**2014**
GHG intensity (tonnes/1000 tonnes of production)	242	288	**242**
Oil spills (tonnes)	0.8	0.1	**0.2**
Oil in produced water (ppm-wt)	10.0	11.3	**9.0**
Energy consumption (GJ/tonne of production)	2.0	1.9	**2.2**

Climate change and greenhouse gas emissions

- In 2014, total Scope 1 GHG emissions[1] associated with hydrocarbon combustion at Premier-operated facilities amounted to 947,724 tonnes (2013: 958,566 tonnes), a year-on-year decrease of 1.1 per cent. This reflected:
  - A substantive reduction in flaring at Chim Sáo (following significant investment in the upgrading of its boilers and other technological interventions to decrease the need for flaring), leading to a 30 per cent reduction in average emission intensity
  - A 224 per cent increase in emissions from drilling, largely due to increased project development
- Premier's operated production assets' emissions intensity decreased from 288 tonnes per thousand tonnes of production in 2013 to 242 tonnes in 2014. As noted above, this reduction reflects significant investment in reducing flaring at Chim Sáo.
- As well as monitoring GHG emissions from our operated assets, we calculate emissions on an equity basis for production across our global portfolio. GHG intensity from flaring and fuel gas combustion associated with our full equity portfolio amounted to 212 tonnes per thousand tonnes of production (2013: 214 tonnes).
- In 2014, energy consumption at our key offices was approximately 2,174,650 kilowatt hours (equivalent to 979 tonnes of CO_2 emissions).

Spills and discharges

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

General environmental management

(estimated expenditure on goods and services that support the protection of the environment):

In 2014 we spent US$170,385 on community investment programmes focused on environmental conservation. Whilst we track these costs we don't separately account for environmental expenditure, although as an operating E&P business, we do spend significant sums on environmental management. Spending on our operated assets includes emissions control equipment, maintenance, operating materials and services, and related personnel. Across the wider business we spend on areas including environmental education and training; exercises to test response procedures such as those in the event of an oil spill; and external costs including those for certification of environmental management systems. In 2015 we will consider the scope for expanding our cost reporting to more fully track our operational environmental expenditure.

1 i.e. combustion emissions; flaring and venting; significant stationary sources; and significant mobile sources.

MATERIAL ISSUE: EMPLOYEES

- **Why this issue is material:** Like any company, our ability to recruit, retain, develop and motivate high-quality, skilled employees and contractors is vital to the on-going success of our business. This is particularly the case in the highly mobile, international oil and gas employment market where competition for the right kinds of technical and management skills is strong. Premier seeks to treat those who work for the company fairly, to encourage professional development and to appropriately reward high calibre performance.
- **How we manage this issue:** Human Resources issues are addressed by a number of Premier's policies. As well as those contained in the Human Resources Management System, these include the overarching Corporate Responsibility Policy, the Human Rights Policy and the Global Code of Conduct.
- 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. This sentiment is embedded in our employment policies, which apply to all permanent, contractual and temporary staff, and job applicants. We also respect the right of individual employees to join a legitimate trade union. Through training (both internal and external) and appraisal, we encourage staff to develop their own professional skills to the advantage of both the individual and the company. During 2014, we continued to implement a suite of updated HR tools, policies and processes to facilitate employee recruitment, development and retention.
- There were no reported violations of our employment policies in 2014. There were also no reported incidents of discrimination. One formal grievance was received and actioned.

Company demography

	Gender		Age			
Country	Male	Female	18-30	31 – 50	>50	Total
Falkland Islands	39	17	9	29	18	56
Indonesia	407	67	48	357	69	474
Norway	22	10	4	19	9	32
Brazil	3	3		4	2	6
Pakistan	13	1	1	11	2	14
Singapore	6	9	1	9	5	15
United Kingdom	163	86	49	129	71	249
Vietnam	35	46	14	61	6	81
Total	**688**	**239**	**126 (13.6%)**	**619 (66.8%)**	**182 (19.6%)**	**927 (100%)**
Composition of senior management (defined as Gd5 and above)	94%	6%				

Key indicators – Employees

Material issue	Premier Oil metric	2012	2013	2014	Change in 2014	Comments
Workforce	Number of employees at end of year / turnover during the year	816 / 42	880[1] / 67	927 / 91	**+0.05% / +36%**	The slight increase in employee numbers reflects existing and new project activity, partly staffed by employees but significantly supported by specialist contractors on a term basis. Employee turnover trend is increasing but will have been impacted by negative job market conditions in late 2014.
Employee engagement	Diversity of communications channels on topics of employee interest	Increasing activity over growing variety of channels – weekly team meetings, corporate intranet, ExCo member VLogs, BU Town Hall meetings.			**Upward trend**	Growing and predominantly positive feedback from staff across the group.
Training and development	Average hours of training per employee	48	25	30	**+20%**	Induction of new employees, HSE and emergency response training, continuous professional development.
Workforce	Annual graduate entry programme intake	n/a	5	6	**+20%**	An important component of refreshing our workforce.

1 Restatement: Effective 3 December 2013, 73 contractors in our Indonesia BU were retrospectively re-classified as fixed-term employees.

MATERIAL ISSUE: COMMUNITY RELATIONS

- **Why this issue is material:** The offshore nature of our operations means that community relations are not as critical an issue for Premier as for onshore extractive companies. Nonetheless, it remains important due to:

  (a) The impact of our activities on local fishing communities as well as our reliance on certain onshore communities as transit and logistics points for our offshore operations;

  (b) The important role that our community investment activities play in terms of our wider reputation and social licence to operate with key stakeholders including local employees and host governments;

  (c) The impact of our onshore exploration and development activities in countries such as Iraq, Kenya and Pakistan and the potential for our future establishment of onshore operations in socially-sensitive areas.

- **How we manage this issue:** This issue is addressed by Premier's Community Investment Policy, which is applied through the broader Community Investment Management System. Amongst other things, the Community Investment Policy commits Premier to engaging transparently with all stakeholders, treating neighbours with respect and working to have a positive socio-economic impact on local communities. In this context, the Community Investment Management System supports the systematic identification, management, evaluation and budgeting of disbursements and interactions in host countries. In order to more accurately reflect the financial contribution Premier makes to local communities, we are analysing the proportion by value of key contracts with local suppliers and plan to make appropriate disclosures in future reports.

Key indicators – Community relations

Material issue	Premier Oil metric	2012	2013	**2014**	**Change in 2014**	Comments
Generating value for communities	Community investment spend (US$ million)	0.67	1.15	1.06	**(8%)**	Performance reflects general fluctuations in project spending with more material reductions expected in 2015. Please note, community investment spend is also included within the 'Economic value distributed' indicator in the 'Key indicators – Society' table below.

MATERIAL ISSUE: SOCIETY

- **Why this issue is material:** Premier's activities and relationships have the potential to impact a wide set of stakeholders. Likewise, these stakeholders have the potential to impact Premier's business. Such impacts including those relating to human rights, government policy and economic value creation can take place not only at a local level, but also at a national level. In this context, it is important for Premier to minimise any adverse impact it could otherwise have on the rights and wellbeing of its host societies, to work constructively with government and to demonstrate its value to the societies it operates in.
- **How we manage this issue:** Our interactions with society are managed through a number of policies (and associated management systems) including our overarching Corporate Responsibility Policy, Code of Conduct, Human Rights Policy and Risk Management Policy. They are also guided by broader societal norms and standards, including the Universal Declaration of Human Rights, the UN Guiding Principles on Business and Human Rights, international law and general societal expectations, all of which are taken into consideration in our planning and decision making.

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 work.

Our Human Rights Policy commits us 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
- use our legitimate influence to promote human rights outside our areas of operation

There were no reported violations of our Human Rights Policy in 2014.

Public policy and government relations

Managing our relations with government

Our host country governments represent some of our most important stakeholders, in terms of policy, legislation and the awarding of new licences. Public policy and government relations are key areas of focus for our stakeholder engagement activities.

Each of our Business Units is responsible at functional level for regular operational engagement with host governments and regulators. For more strategic issues, local engagement will take place through our corporate Business Unit Managers. All engagement is carried out in line with Premier's applicable policies, including its Corporate Responsibility Policy, Code of Conduct and Human Rights Policy. Licence bids are directly made to governments by our Exploration Business Unit, with appropriate support from our corporate office.

In 2014, Premier did not:

- Make any party political donations or contributions
- Receive any significant financial assistance from government[1]
- Have any direct government shareholders

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

- Association of British Independent Oil and Gas Exploration Companies
- Falkland Islands Petroleum Licencees Association
- Indonesian Petroleum Association
- IOGP
- Oil & Gas UK
- Pakistan Petroleum Exploration and Production Companies Association

Economic contributions

Our strategy and legal obligation is to generate value for our shareholders. We believe we can best achieve this is by operating in a way that delivers tangible mutual benefits both to Premier's shareholders and its broader stakeholders, including:

- Host governments who give us access to oil and gas licences and regulate our operational activities
- Host societies who give us our social licence to operate as we extract national hydrocarbon resources and responsibly undertake activities that have the potential to impact on the environment
- Employees who ultimately underpin our ability to operate and create value

Any failure to deliver value to these key actors would ultimately undermine our core business objectives.

Managing our economic contributions

We believe our host societies should benefit from the extraction of finite natural resources and we are proud of our role in generating shared value from national oil and gas reservoirs. Much of this value stays in our host societies, directly supporting long-term socio-economic development and helping ensure our long-term social licence to operate.

Our most important means of distributing economic value are through:

- Payments to other businesses, including locally-based service contractors and suppliers
- Payments to our workforce, including wages and benefits for employees from our host countries
- Payments to our providers of capital, including shareholder dividends and interest on debt
- Payments to government, including cash taxes, royalties and other payments to our host governments[2]
- Community investment spending

In 2014, our total economic value distribution amounted to US$1,035.1 million.

As part of its efforts to maximise the amount of value staying with host societies, and in line with relevant local content requirements, Premier seeks to:

- Employ nationals where they are suitably qualified and support the build-up of sustainable local skills-bases in all our operating locations
- Use host country service contractors and suppliers where they are able to meet our operational and economic requirements

1 This includes (notwithstanding the application of general national fiscal frameworks) any exceptional and significant tax relief/credits, subsidies, investment grants, awards, royalty holidays, financial support from export credit agencies and other financial benefits from any government.

2 Currently, only Norway is a member of the Extractive Industries Transparency Initiative (EITI) – whilst the United Kingdom is a candidate and Indonesia's membership has been suspended, Premier is not currently a member of the EITI.

D. KEY COMMUNITY PROJECTS IN 2014

IN 2014, PREMIER UNDERTOOK A RANGE OF COMMUNITY INVESTMENT PROJECTS, BOTH NEW AND ON-GOING. SOME EXAMPLES OF THESE PROJECTS ARE SET OUT BELOW.

PROJECT: OPERATION WALLACEA – UNITED KINGDOM/INDONESIA

Context

Operation Wallacea is an organisation which oversees biological and conservation management research programmes in a range of international locations. It brings together multi-disciplinary academic teams at target study sites giving them the opportunity to establish best practice management models and to establish biodiversity and socio-economic data sets to support effective conservation management programmes.

Actions in 2014

Premier received a number of new undergraduate enquiries following our 2013 sponsorship of two Operation Wallacea participants to undertake field research in the Wakatobi Marine Park in Indonesia. In response, Premier established an annual bursary to provide financial support to up to 10 United Kingdom based undergraduate students participating in Operation Wallacea's programme in Indonesia. The bursary is intended to support beneficiaries as they seek additional sources of funding rather than paying for their participation in its entirety. In 2014, Premier also responded to a request from the Fortismere School in London to provide financial support for its sixth-form students to participate in the Operation Wallacea field research programme in Indonesia.

Impacts

In 2014, 10 undergraduate participants from across the United Kingdom were given £1,000 bursaries to carry out both land based research in the Lambusango jungle reserve of Buton and marine research on the island of Hoga in the Wakatobi National Park in Sulawesi (which is particularly rich in coral life). This included participation in scuba diving training, a coral reef ecology course, coral reef monitoring, biodiversity measurement and bird research. Data gathered by the participants was made available to both the Indonesian Government and Wakatobi National Park officials. This will help the authorities focus their conservation efforts on the most vulnerable and/or worst affected areas both at land and sea. In addition to the undergraduate programme, a total of 32 sixth form students from the Fortismere School joined the programme for two weeks: www.opwall.com

PROJECT: EXPANSION OF THE SOC TRANG MANGROVE PROJECT, VIETNAM

Context

Soc Trang province in the Mekong Delta plays an important role in national agricultural and aquaculture production, both of which provide livelihoods for local communities. A narrow mangrove belt helps protect inshore lands from flooding and storm damage, whilst sequestering carbon emissions and enriching the natural ecology of the intertidal zone. The mangroves face a number of threats, including rising sea levels as a result of climate change, flooding and economically driven deforestation.

Actions in 2014

Premier built on its existing partnership with the Vietnam Red Cross to plant and cultivate new mangroves in the province by contributing US$75,000 and providing management support.

Impacts

Premier's 2014 contributions supported the planting of an additional 20 hectares of mangroves (equivalent to around 120,000 trees), adding to the 20 hectares of planting that Premier supported in 2013. These additional mangroves will help ensure the local coastline is protected from future erosion and will enhance aquaculture harvests for local communities. Furthermore, they are contributing to a wider multi-stakeholder programme involving local and national government agencies, including the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) development agency, to promote integrated coastal zone management. The programme is ultimately aimed at balancing the need for local economic development with the sustainable management of local natural resources: www.czm-soctrang.org.vn

PROJECT: PHASE 2 OF THE MARGALLA HILLS NATIONAL PARK DEVELOPMENT PROJECT, PAKISTAN

Context

Premier has been involved in a major conservation project in the Margalla Hills National Park to the north of Islamabad since 2010 (known as Phase 1). The park, which sits in the foothills of the Himalayas, covers 67 square miles and is run as a public-private partnership involving the Himalayan Wildlife Foundation and the Capital Development Authority (CDA). Since 2010, the project has enhanced the park's eco-tourism facilities (through the construction of hiking trails, a bike trail and a visitor centre), provided local vegetation management, supported research into (and the protection of) endangered species and provided water access for local people.

Actions in 2014

In 2014, Premier contributed US$80,000 to the partnership. This money was used to help initiate a major new phase in the development of the park. This phase focuses on five key projects, including: (1) the construction of an artificial wetland to naturally process local sewage; (2) the creation of a bird sanctuary on Rawal Dam to protect migratory and other water birds; (3) awareness-raising and education for schoolchildren; (4) capacity building at the CDA; and (5) the management and maintenance of existing trails.

Impacts

The Margalla Hills National Park development project achieves two major environmental benefits. The first is the conservation of the fauna and flora of this biodiversity rich area, which includes subtropical pine forest, tropical deciduous and thorn forest, as well as indigenous species that migrate from snowbound areas to the north to take shelter in the park's vegetated slopes and gorges during winter. The second is to open up the area – the only national park within access of Islamabad – to local people, ensuring they can enjoy the recreational and educational opportunities offered by the facility in a sustainable way. As such, the project will help preserve local biodiversity and ecosystems whilst also providing the whole of Islamabad with a much loved escape from the city for many years to come: www.cda.gov.pk

The Strategic Report was approved by the board of directors on 25 February 2015 and signed on its behalf by:

Tony Durrant
Chief Executive

Independent = I

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

Ages and board tenure are as at 25 February 2015

Robin Allan
Director, Business Units
Age: 55
Board tenure: 11 years 2 months

- Joined Premier in July 1986
- Joined the board in 2003 as Director of Business Development before being appointed Director – Asia in 2009
- Returned to London in 2012 to take up role as Director, Business Units
- Currently chairman of The Association of British Independent Oil Exploration Companies (BRINDEX)

David Bamford I, R, N
Non-executive director
Age: 68
Board tenure: 9 months

- Joined Premier's board as a non-executive director in May 2014
- Spent 23 years at BP in a variety of technical and exploration roles including chief geophysicist, general manager for West Africa, and acted as vice president, exploration, directing BP's global exploration programme from 2000 to 2003
- Joined Tullow Oil's board as a non-executive director in June 2004 and was senior independent director from 2012 to 2014, as well as chairman of the remuneration committee, retiring at the end of April 2014
- He is currently a director of PetroMall Ltd and Future Energy Publishing Ltd

Anne Marie Cannon I, A, N
Non-executive director
Age: 57
Board tenure: 1 year

- Joined Premier's board as a non-executive director in February 2014
- 30 years' experience in the energy and banking sectors, including roles at Thomson North Sea, Shell Exploration and Production and J Henry Schroder Wagg
- 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 and a non-executive director of STV plc
- Previously held executive director roles on the boards of Hardy Oil and Gas and British Borneo and served as a non-executive director on the board of Aker ASA

Jane Hinkley I, R, N
Non-executive director
Age: 64
Board tenure: 4 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 a non-executive director of Vesuvius plc, and an independent director on the board of Teekay GP LLC

David Lindsell I, A, R, N
Non-executive director
Age: 67
Board tenure: 7 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 to 2012
- Currently senior independent director of Drax Group plc and non-executive director of HellermannTyton Group plc
- Trustee and chairman of the audit committee of Cancer Research UK and deputy chair of governors of the University of the Arts London

Andrew Lodge
Exploration Director
Age: 58
Board tenure: 5 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

Joe Darby I, A, R, N
Senior independent non-executive director
Age: 66
Board tenure: 7 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

Tony Durrant N
Chief Executive Officer
Age: 56
Board tenure: 9 years 7 months

- Joined Premier in June 2005, becoming Finance Director in July 2005 and Chief Executive Officer in June 2014
- 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
- Member of the advisory committee of Flowstream Commodities

Neil Hawkings
Director, Falkland Islands
Age: 53
Board tenure: 8 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

Michel Romieu I, A, N
Non-executive director
Age: 75
Board tenure: 7 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 and is a lecturer at the French Petroleum Institute
- Currently president of Uprigaz

Richard Rose
Finance Director
Age: 42
Board tenure: 5 months

- Joined Premier in September 2014 as Finance Director
- Qualified as a chartered accountant with Ernst & Young and has spent over 20 years in the energy sector, including 13 years working with a range of international banks and brokers in equity capital markets and corporate finance
- Joined Premier from Ophir Energy where his role encompassed strategy and head of corporate communications

Mike Welton Independent on appointment, N
Chairman
Age: 68
Board tenure: 5 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
- Sits on the advisory board of Montrose Associates and Alexander Proudfoot
- Previously chief executive of Balfour Beatty plc, and chairman of Southern Water Services Limited, Hanson plc, the Turkish/British Business Council and the UK Government's Railway Sector Advisory Group

CORPORATE GOVERNANCE REPORT

Compliance statement

This report, together with the Nomination Committee Report, the Audit and Risk Committee Report and the Directors' Remuneration Report, describes the manner in which the company has applied the main principles of governance set out in the Financial Reporting Council's (FRC) UK Corporate Governance Code of September 2012 (the Code) and complied with the individual Code provisions. It is the Board's view that the company has fully complied with the Code throughout 2014 save for the following 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, the balance of non-executive directors did not comprise half of the Board. Compliance with B.1.2 recommenced with the appointment of Anne Marie Cannon to the Board on 1 February 2014 and was further strengthened with the appointment of David Bamford on 1 May 2014.

The UK Corporate Governance Code was updated by the FRC in September 2014 (the 2014 Code); it takes effect for accounting periods beginning on or after 1 October 2014. The Board conducted a review of the company's compliance with the 2014 Code in December 2014 and we will report our compliance against the 2014 Code in next year's annual report.

Introduction from the Chairman

Dear Shareholder

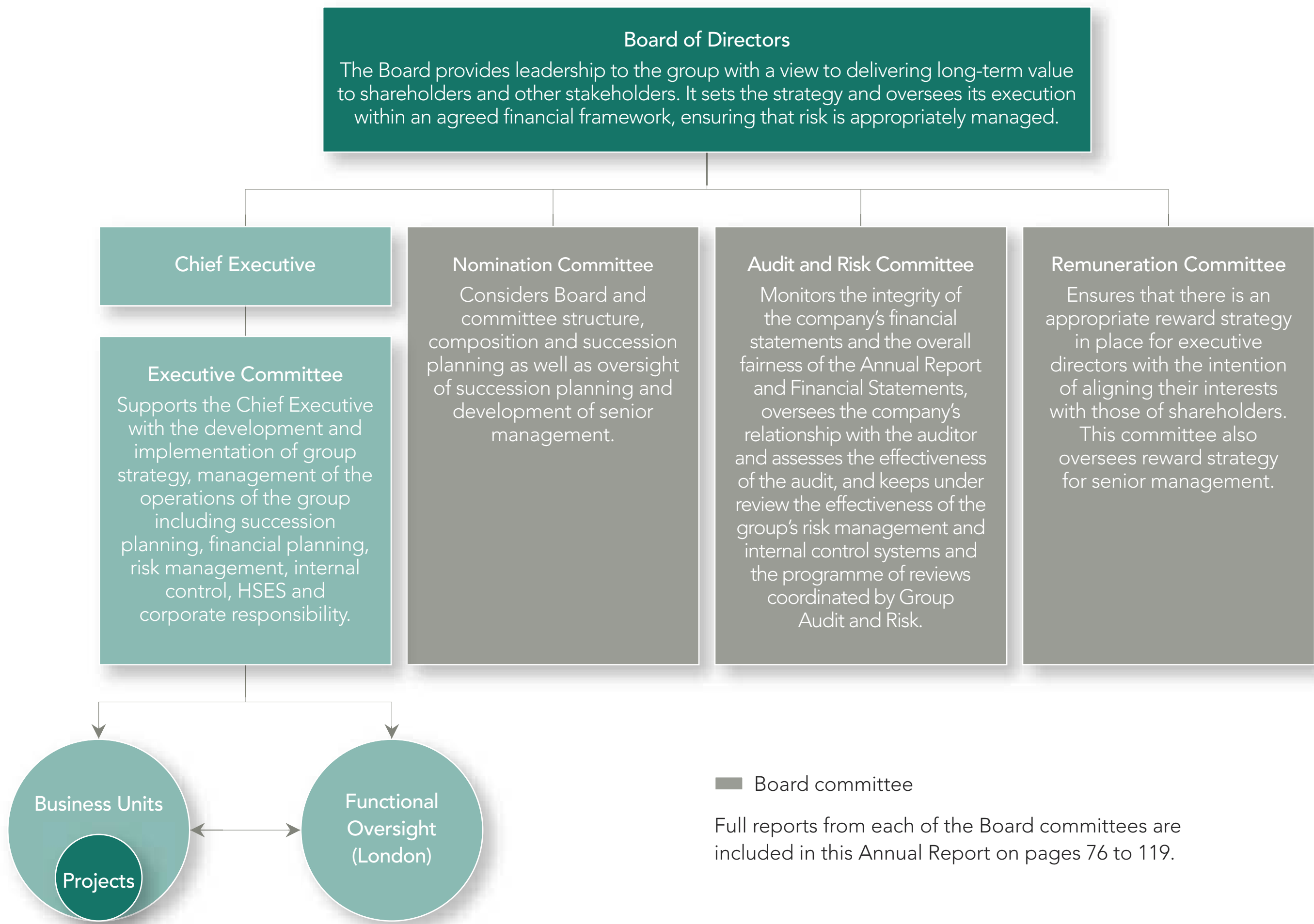
Your Board is committed to the highest standards of stewardship and governance and aims to create a culture which demands the same commitment and performance in all our business activities.

Good governance provides a framework that allows the right decisions to be taken by the right people at the right time. The information provided in this report, and in conjunction with the reports from each of the Board committees, will help you to understand how the company has been run, risks managed, controls monitored, and how key decisions have been taken over the past year. This report also includes information regarding the Board and committee effectiveness review undertaken during the year and I am pleased to report on the outcomes and actions arising from the review below.

Mike Welton, Chairman

Leadership

The Board, Board committees and management structure within the group is set out in the following diagram and explained in further detail below:



Full reports from each of the Board committees are included in this Annual Report on pages 76 to 119.

The Board

The role of the Board

The Board is collectively responsible and accountable to our shareholders for the long-term success of the group. The Board sets the company's strategic objectives and ensures that they are properly pursued within a sound financial framework with major risks actively monitored and managed and with health, safety, environment and security (HSES) borne in mind at all times. This goes beyond regulatory compliance and puts the interests of our shareholders at the heart of the Board's decision-making.

As at 31 December 2014 the Board of Directors comprised the Chairman, Chief Executive Officer, four other executive directors and six independent non-executive directors. On 1 February 2014 Anne Marie Cannon joined the Board as an independent non-executive director. David Bamford joined the Board as an independent non-executive director on 1 May 2014. Biographical details of each director in service as at 25 February 2015, including membership of Board committees, are set out on pages 66 and 67 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. 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.

Chairman and Chief Executive

There is a clear division of responsibilities between the roles of the Chairman and Chief Executive, which has been agreed by the Board and is set out in writing.

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 including maintaining effective communications with our shareholders. 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 day-to-day running of the group's operations, for applying group policies including HSES and for implementing the strategy agreed by the Board. He plays a pivotal role in developing and reviewing the strategy in consultation with the Board and in executing it with the support of the Executive Committee.

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. The non-executive directors must also be satisfied with the integrity of the group's financial information and with the robustness of internal control and risk management systems. The non-executive directors are also responsible for determining appropriate levels of remuneration for the executive directors and have a key role in succession planning, the appointment of and, where necessary, removal of executive directors.

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 on-going basis. Where necessary to discharge their responsibilities as directors, directors have access to independent professional advice at the company's expense.

CORPORATE GOVERNANCE REPORT (continued)

The Board (continued)

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. The senior independent director is responsible for leading the annual appraisal of the Chairman's performance and this is discussed further on page 72.

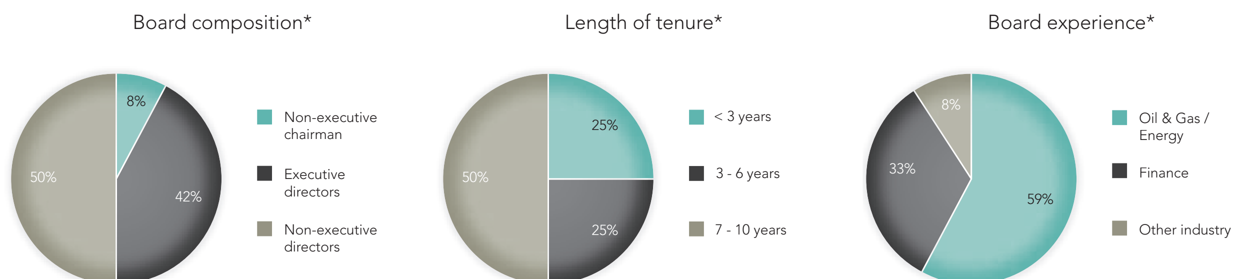
Company Secretary

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 on-going training and development needs of Board members as required. All directors have access to the advice and services of the Company Secretary, who is responsible for ensuring that Board procedures are complied with. The appointment and removal of the Company Secretary is a matter reserved for the Board as a whole.

How the Board operates

The Board has a structured programme of agendas for the year, ensuring all matters are considered during the year with sufficient time for discussion. The programme is structured to include: strategic issues, including setting the strategy and performance in executing the strategy; finance matters; investor relations and corporate reporting; Board committee related activity including matters requiring Board sanction; and corporate governance matters.

The Board meets at least six times each year and in addition an update conference call takes place in the months when no formal meeting is scheduled. The agenda for each Board meeting is set by the Chairman in consultation with the Chief Executive and the Company Secretary based on the annual programme with any additional matters included as and when they arise. 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 including HSES matters. During the year the Board held one of its meetings overseas to combine site visits with our operations in Singapore and Jakarta.



*as at 25 February 2015

How the Board operates (continued)

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 acquisitions
Risk management	• Recognising high impact business risks and risk mitigating strategies • Internal control systems in respect of finance, operations and 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

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 2014, and individual attendance by directors, is shown below:

	Board		Audit and Risk Committee	Remuneration Committee		Nomination Committee	
	Scheduled	Ad hoc	Scheduled	Scheduled	Ad hoc	Scheduled	Ad hoc
Number of meetings held	**6**	**4**	**4**	**4**	**1**	**1**	**1**
Current directors							
Robin Allan	6 (6)	2 (4)	–	–	–	–	–
David Bamford [2]	4 (4)	1 (1)	–	1 (1)	1 (1)	1 (1)	1 (1)
Anne Marie Cannon [3]	6 (6)	2 (2)	1 (1)	–	–	1 (1)	1 (1)
Joe Darby	5 (6)	3 (4)	4 (4)	4 (4)	0 (1)	1 (1)	0 (1)
Tony Durrant [4]	6 (6)	3 (4)	–	–	–	1 (1)	0 (0)
Neil Hawkings	6 (6)	4 (4)	–	–	–	–	–
Jane Hinkley	6 (6)	4 (4)	–	4 (4)	1 (1)	0 (1)	1 (1)
David Lindsell	5 (6)	3 (4)	4 (4)	4 (4)	1 (1)	0 (1)	1 (1)
Andrew Lodge	6 (6)	4 (4)	–	–	–	–	–
Michel Romieu	6 (6)	3 (4)	4 (4)	–	–	1 (1)	0 (1)
Richard Rose [5]	2 (2)	0 (0)	–	–	–	–	–
Mike Welton	6 (6)	4 (4)	–	–	–	1 (1)	1 (1)
Former director							
Simon Lockett [6]	3 (3)	4 (4)	–	–	–	0 (0)	0 (0)

Notes:

1 ( ) indicates the number of meetings the member was entitled to attend.

2 David Bamford was appointed to the Board and the Nomination Committee on 1 May 2014 and to the Remuneration Committee on 14 November 2014.

3 Anne Marie Cannon was appointed to the Board and the Nomination Committee on 1 February 2014 and to the Audit and Risk Committee on 14 November 2014.

4 Tony Durrant was appointed to the Nomination Committee on 25 June 2014 upon being appointed Chief Executive.

5 Richard Rose was appointed Finance Director on 8 September 2014.

6 Simon Lockett resigned as a director of the company on 15 August 2014.

Board committees (continued)

Executive Committee and management structure

The Board delegates the day-to-day running of the group to the Chief Executive who is supported by the Executive Committee to assist him in this role. The Executive Committee (ExCo) meets formally once a month and its membership comprises each of the executive directors, the Group Development and Operations Manager, Garry Stoker, the Group Strategy Manager (now BU Manager – Norway), Nic Braley and the Corporate Services Director, Nigel Wilson. In addition to formal monthly ExCo meetings, the ExCo holds fortnightly meetings with the Country Managers and in the alternate weeks, there is a fortnightly meeting with functional heads which includes, in addition to ExCo members, the Head of Business Development and additional members of the exploration team. Quarterly Performance Review meetings are also held between ExCo members and the senior management team from within each of the business units and include risk management and HSES reviews as part of the overall review of each quarter and look ahead.

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. The manual was updated in 2014 to reflect any changes to the organisational structure.

Board performance evaluation

The Board last undertook an externally facilitated performance evaluation exercise in 2013. 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.

In 2014 it was agreed that an internal exercise would be carried out. A timeline and process were agreed between the Chairman, committee chairmen and the Company Secretary, with the remit of the review agreed to include the Board, a project-based review, each of the Board committees, individual director performance reviews including a review of the Chairman's performance which was evaluated by the senior independent director, who conducted interviews with all the directors. One-to-one interviews were also held between each director and the Chairman to complete the process.

Detailed surveys were compiled for each review topic with input from all relevant internal stakeholders as to the key issues to be considered. The questionnaires and interviews covered a number of key areas including strategy, succession planning, Board size and composition, risk management, Board support and the relationship between Board and management. Although there was no explicit corporate responsibility component to the evaluation process, there were opportunities for directors to raise any concerns in this regard through the survey or interview process. The project-based review was used to focus on the Board's role throughout a specific project during the year as well as the quality and timeliness of information flows to and from the Board in relation to that project. The results of the evaluation were condensed into a report by the Chairman and discussed by the Board as a whole.

Key outcomes from the 2014 evaluation and actions taken are set out below:

Outcome	Action
Board members agreed that it would be beneficial to have further opportunities to meet, and have informal presentations on specific subjects from, middle management.	The Board and committee calendars for 2015 and 2016 have been revised to make additional space for a rolling programme of presentations by middle management alongside additional Board dinners, one of which will be held with only non-executive directors present.
Succession planning should be a matter of increased focus during 2015.	A review of the current state of succession planning and talent management was undertaken by the Nomination Committee in November 2014 with actions agreed for 2015. Further detail is provided in the Nomination Committee report. Internally, work is on-going to review short and longer-term succession arrangements for each senior role in the company, alongside a review of development needs for potential successors.
Board members agreed that the balance between strategic and operational issues at Board meetings should be reviewed.	The balance of agenda items will be kept under review throughout the year and non-executive directors are requested to provide on-going feedback on this matter.
Board members requested more detailed updates on shareholder meetings.	Additional reporting on shareholder meetings is now included in the monthly Board reports.

Following satisfactory performance effectiveness reviews, it was agreed that each of the directors be put forward for election or re-election at the 2015 AGM. For any directors serving beyond six years, the performance review was particularly rigorous. It was agreed that Joe Darby, David Lindsell and Michel Romieu, each having served over six years, continue to provide sound, independent judgement and make a significant contribution to the Board and its committees. Andrew Lodge, Exploration Director, will be retiring with effect from 30 June 2015 and will not therefore be standing for re-election at the 2015 AGM.

Board 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 with regard 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. Full detail regarding the Board appointment process including for appointments made during the year is contained within the Nomination Committee report and the Directors' Report.

Induction, information and support

New directors receive a full, formal and tailored induction to the company. The induction process and material used was fully refreshed in 2014 for the new directors who joined in the year. The induction programme consists of: a comprehensive briefing pack including our corporate governance manual which details the structure of the group, decision making processes and bodies and policies and procedures; an introduction to our resource centre for all directors (including all external communications such as investor presentations, reports and corporate responsibility reports); and, a schedule of one-to-one meetings with each of the executive directors, members of senior management and external advisers. Specific questions on induction and on-going Board training were included in the 2014 Board effectiveness evaluation survey. Responses from new Board members regarding the induction process were very encouraging, with the rating of the programme being classed "excellent" by all new directors and positive feedback on the process and opportunity to meet one-to-one with all of senior management.

All non-executives have access to the company's senior management between Board meetings and the Board aims to hold at least one meeting each year in one of the business units to allow non-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. Formal procedures are in place to enable individual Board members to take independent advice at the company's expense where appropriate. Shareholders are given the opportunity to meet with new directors upon request or at the next Annual General Meeting following their appointment.

Conflicts of interest

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 2014 these procedures were enforced and adhered to appropriately.

Powers of directors and process for amending articles of association

Detail regarding the company's articles of association and any amendment thereto, including powers of directors under the articles, is included within the Directors' Report.

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). This system is composed of the policies, standards, procedures, processes and guidelines for every function involved in carrying out Premier's business including Exploration, Development and Operations, Business Development, Finance, Health, Safety, Environment and Security (HSES), Corporate Responsibility, Risk and other business support services. Group corporate function management systems are complemented by local management systems within the business units which contain additional content specifically required in order to operate and manage the business under local conditions and in compliance with local laws and regulations. Following significant technical upgrade to the system during 2013, there was active focus on content review during 2014.

The effectiveness of the BMS is a function of both the adequacy of the system and compliance with the system. Premier's review programme includes reviews of the adequacy of and compliance with component business unit and functional management systems at appropriate regular intervals.

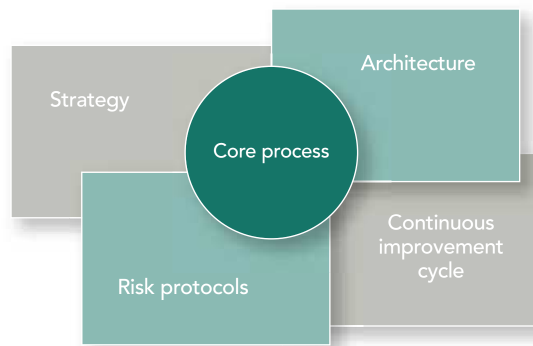
The annual cycle of monitoring in Premier culminates in the completion of the Corporate Governance Return which contains declarations by business unit and functional management confirming compliance with the group's BMS as well as identifying enhancements as part of a continuous process for improving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

Risk management

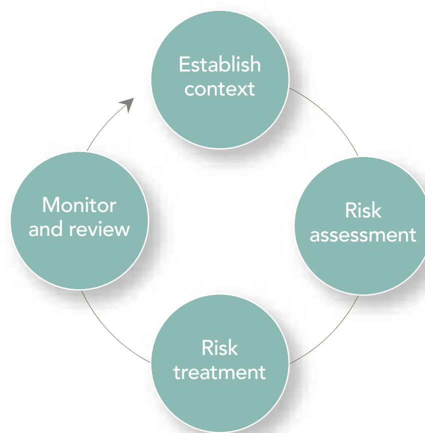
Premier believes that risk management is just part of good management which leads to quality decision making and achievement of targets for growth of the business. The risk management process is central to Premier's BMS and the group's management system has been developed in accordance with the risk 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:

CORPORATE GOVERNANCE REPORT (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 and 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. It links the Board and Audit and Risk Committee to the Executive Committee and functional and business unit management structure, and enables risks to be escalated and managed at the appropriate level. The Group Audit, 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. Since 2010 the Corporate Risk Register has been 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 applied and regularly reviewed with both the Executive Committee (via regional and functional performance reviews) and the Audit and Risk Committee.

Risk management (continued)

A new risk workbench (ARROW) based on ISO 31000 guidelines was developed in-house during 2014 to replace the Corporate Risk Register and will be implemented across the group in 2015. ARROW's integration with Premier's BMS will enable risks and their controls and mitigating processes to be described and managed in a more complete and consistent manner and will also enable the programme of financial and operational control reviews to be prioritised further against the principal group business risks as ranked in ARROW.

Review

The effective operation of internal control procedures is reviewed by planned management system and business control reviews. An annual programme of review is agreed between functional and business unit management and approved by the Audit and Risk Committee. The programme adopts a risk based focus and includes a review of management system effectiveness and control as well as targeting key operational, financial and organisational delivery milestones. This process is designed, inter alia, to provide assurance to the Board that Premier is embedding effective risk management into its operations. Significant findings from these reviews are presented to the Audit and Risk Committee which monitors the implementation of recommendations for control improvements. 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 BMS, risk management processes and programme of reviews form the on-going process for identifying, evaluating and managing the significant risks faced by the company. This process has been in place for the year under review and up to the date of approval of the Annual Report and Financial Statements. It is regularly reviewed by the Audit and Risk Committee and provides the Board with reasonable assurance that appropriate controls are in place to provide effective management of business risks and to safeguard the group's assets against inappropriate use or loss and fraud.

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 and other trading 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 meetings if requested by major shareholders. The company's website (www.premier-oil.com) also provides detailed information on the group's activities. Information regarding the company's share capital, including detail of significant shareholders, is included within the Directors' Report.

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. 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 2015 AGM. The share portal also encourages shareholders to register to receive communications by email, rather than by post, thus further reducing the number of documents printed and distributed. Shareholders who have actively registered receive an email notifying them when the company has added a statutory document to its website. For each new registration processed, the company will donate £1 to Pure Leapfrog's carbon offsetting programme which supports carbon reduction projects in Africa, India and other developing countries (further information can be found at www.pureleapfrog.org).

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

Stephen Huddle
Company Secretary

25 February 2015

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 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 auditors, the effectiveness and objectivity of the audit process and the application of the Committee's policy on the provision of non-audit services by the auditors; and
- the enforcement of the company's code of conduct and the adequacy and security of its whistleblowing 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 members of the Committee are myself, Anne Marie Cannon, Joe Darby and Michel Romieu, all of whom are independent non-executive directors. All have been members throughout 2014 except for Annie Marie Cannon who was appointed in November 2014. 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 auditors. Other executive directors or senior managers are required to attend when significant risk management or control issues relating to their area of responsibility are considered by the Committee. During the year, the Committee meets privately with the Group Audit, Risk and Public Affairs manager and with the company's auditors. The Company Secretary acts as secretary to the Committee.

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

Meetings

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

Activities during the year

The Committee met four times in 2014 and has met once in 2015 to date.

In February 2014 the Committee reviewed the 2013 full-year results and the Annual Report and Financial Statements, discussed with the auditors their audit findings, and completed its annual review of the effectiveness of internal controls so as to be able to approve the statements on internal control and the management of risk in the Corporate Governance Report. As part of this review, the Committee reviewed with management the hydrocarbon reserves reporting process. In completing its review of the effectiveness of risk management and internal controls the Committee discussed the specific operational issues that had arisen in 2013 and significant risks foreseen for 2014. The Committee also reviewed the effectiveness of the audit process and the independence of the auditors as a basis for considering their reappointment, and reviewed its own effectiveness.

At its June meeting the Committee discussed the implications of changes in the group's risk profile since its previous meeting, the status of the programme of risk management and business control reviews, and proposals to replace the Corporate Risk Register with a more powerful and fit-for-purpose risk management system. This new system, ARROW, (see below) integrates with technology architecture components that have been developed in-house and deployed at Premier over the past two years including the group human resources and Business Management Systems. The Committee also discussed significant health and safety incidents including a fatality on a contracted support vessel in Indonesia resulting from a collision with a tanker, and the outcome of the fatal accident enquiry relating to the death of a diver in 2011 in the course of a diving operation being carried out from the Balmoral platform. The status of information security in the group was reviewed and the Committee requested that it be kept updated on this subject.

In August the Committee reviewed the half-year results and discussed the auditors' report on their review of the half-year report. The Committee also discussed the Financial Review Council's findings from its inspection of the audit practice of Deloitte LLP, the company's auditors, and noted the actions taken by Deloitte in response to the findings. Staffing plans for the finance function during the 2014 financial reporting process, the appointment of the new Finance Director and the recruitment process for the new Group Financial Controller were discussed. The Committee also received an update on major business risks, risk management and business controls reviews, and the new risk analysis and reporting system.

Activities during the year (continued)

In December the Committee considered accounting and reporting issues relating to the full-year results and the auditors' work plan, reviewed and approved the proposed audit fee, reviewed the status of the 2014 risk management and internal control reviews, focusing on the significant findings and actions, and reviewed and approved the scope of the outline 2015 plan for such reviews (steered by the principal business risks faced by the group). The Committee took note of a number of geopolitical and external economic uncertainties, notably oil and gas prices, with the potential to impact group business objectives during 2015. In addition, the Committee reviewed the company's policies on provision of non-audit services by the auditors, employment of former employees of the auditors, and share dealing and inside information.

At its February 2015 meeting the Committee reviewed the 2014 full-year results and the Annual Report and Financial Statements, discussed with the auditors their audit findings, and completed its annual review of the effectiveness of the group's risk management and internal control systems so as to be able to approve the statements on risk management and internal control in the Corporate Governance Report and to report to the Board that, in the Committee's view, the Annual Report and Financial Statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's position and performance, business model and strategy.

In completing its annual review of the effectiveness of the risk management and internal control systems, the Committee reviewed the close-out of the 2014 risk management and internal control reviews and was briefed on the corporate governance returns for 2014. Non-compliance with certain budgetary control procedures in the North Sea business unit was reported in the returns. Remedial action, including increased monitoring of compliance, has been taken.

The Committee also reviewed the effectiveness of the audit process and the independence of the auditors as a basis for considering their reappointment, and reviewed its own effectiveness.

Risk management and internal control

The Committee continues to be responsible for reviewing the adequacy and effectiveness of the group's risk management process designed to identify and mitigate the principal risks facing the group. There is an on-going 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 73 to 75. Since 2010 the Corporate Risk Register has been the principal record of information about identified risks and the controls and mitigations in place to manage them, at departmental, asset/project, business unit and corporate function levels. During 2014 a new risk workbench, ARROW, was developed in-house for group roll-out, replacing the Corporate Risk Register, in 2015. ARROW's integration with Premier's other management systems will enable risks and their controls and mitigating processes to be described and managed in a more complete and consistent manner and the programme of financial and operational control reviews to be prioritised further against principal group business risks as ranked in ARROW. ARROW allows 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) of management, enabling more effective top-down monitoring of risk.

Group Audit and Risk

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

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

Level 2: group function review of business unit or asset/project e.g. drilling preparedness review, project safety review

Level 3: external third party certification e.g. oil and gas reserves certification, ISO/OHSAS certification.

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

48 reviews of aspects of risk management and internal controls in operations and corporate functions were carried out during the year. Of these, six reviews were carried out at Level 3 (external, independent assessors), 40 were at Level 2 (group functional managers or their proxies reviewing activity at business unit or asset/project level), and two were at Level 1. In reviewing the findings from these reviews, the Committee noted that the work carried out had been increasingly directed towards the group's principal risks, thereby providing assurance to the Committee on key issues and challenges facing the group. Recommendations to improve internal controls and/or to mitigate risks were agreed with the relevant business unit or corporate function after each review and progress in implementing the recommendations was monitored by Group Audit and Risk.

AUDIT AND RISK COMMITTEE REPORT (continued)

Financial reporting

The Committee reviewed the 2014 half-year and full-year financial results announcements and 2014 Annual Report and Financial Statements with the Finance Director and Group Financial Controller and considered the findings from the auditors' review of the interim results and their audit of the 2014 financial statements. The areas of focus for the Committee included consistency of application of accounting practices and policies; compliance with financial reporting standards and stock exchange and legal requirements; the appropriateness of assumptions and judgements in items subject to estimation; the going concern assumption; the clarity and completeness of disclosures in the financial statements; and, in relation to the Annual Report and Financial Statements, whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's position and performance, business model and strategy.

The Committee considered in particular the following major items that require significant judgement and estimation in preparing the 2014 financial statements:

Going concern

In view of the current weakness in oil and gas prices, the Committee reviewed in detail management's projections of the group's liquidity position and compliance with its financial covenants within its borrowing facilities for the next 12 months. Key assumptions in the projections include those related to oil and gas prices during the period, cost saving initiatives and portfolio management options. The key assumptions were assessed and challenged by the Committee.

At 31 December 2014 the group had significant headroom on all its financial covenants and the projections indicate that the group will be able to operate within the requirements of its existing borrowing facilities and will have sufficient financial headroom throughout the forecast period, although the Committee noted that in the event of further sustained falls in oil and gas prices and/or delays in realising certain of the portfolio management opportunities, a breach of covenants might occur towards the end of the 12 month period that would require appropriate action to be taken with the support of the company's long-term banking relationships. The Committee was satisfied that an appropriate degree of caution had been applied in exercising the judgements needed in making the assumptions and estimates, and concluded that the statement on-going concern in the Financial Review on page 52 was fair and balanced. The Committee was therefore satisfied that it is appropriate for the group to continue to adopt the going concern basis in preparing the 2014 financial statements.

Recoverability of Intangible Exploration and Evaluation (E&E) assets

The Committee satisfied itself by reference to the group's business plan and discussion with management that, in respect of all exploration and evaluation assets, either commercially viable resources have been discovered or substantive expenditure on further exploration and evaluation activities in the specific area is budgeted or planned. Details of the group's E&E assets are provided in note 8 on page 148.

Oil and gas reserves

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

The Committee considered reports from management on the process applied to calculate the reserves estimates, addressing in particular the extent to which the methodology and techniques applied by the company were generally accepted industry practice, whether the methodology and techniques applied were consistent with those applied in prior years, and the experience and expertise of the managers who prepared and reviewed the estimates. The Committee noted that estimates of the group's oil and gas reserves prepared by independent reservoir engineers were marginally higher than management's estimates. The Committee discussed with management the main reasons for the difference between the two estimates and was satisfied that it was appropriate to apply management's estimates for the purpose of preparing the financial statements.

Impairment of oil and gas properties

As explained in note 9 to the financial statements, an impairment charge of US$784.4 million has been made in respect of several producing fields in the UK North Sea, Indonesia, Vietnam and Mauritania. In order to determine whether an asset is impaired, management assess whether indicators for impairment exist for the group's producing and development oil and gas properties. Where such an indicator exists, the future discounted net cash flows the company expects to derive from the asset must be estimated. Such estimates are based on a number of assumptions including future oil and gas prices, the latest estimates of costs to be incurred in bringing fields under development into production, oil and gas reserves estimates, production rates and the associated cost profiles, and discount rates that reflect risks specific to individual assets.

In view of the current weakness in oil and gas prices, management prepared a detailed impairment report for the Committee setting out the key assumptions for each of the oil and gas properties. The Committee challenged these assumptions and judgements to ensure that:

- they were consistent with those that were used by management for budgeting and capital investment appraisal purposes;
- production volumes were derived from the oil and gas reserves estimates discussed above, applying the same assumptions regarding future costs; and,
- they were reasonable within the context of the observed field performance and the wider economic environment currently being observed.

Impairment of oil and gas properties (continued)

The Committee noted in particular that, consistent with the practice followed in prior years and also with the long-term planning assumptions used by the company, assumed future oil and gas prices were based on forward price curves for two years and an oil price of US$85/bbl in 'real' terms thereafter (as explained in more detail in note 9 to the financial statements). The Committee also noted that forecast field development costs and decommissioning costs were based on detailed and carefully reviewed current estimates.

The Committee discussed with management the review that was carried out of the longer-term plans for the life of those fields against which an impairment charge has been recognised and the factors giving rise to the impairment losses and was satisfied that the impairment charge recognised in the year was appropriate.

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.

Provisions for decommissioning costs

Estimates of the cost of future decommissioning and restoration of hydrocarbon facilities are based on current legal and constructive requirements, technology and price levels, while estimates of when decommissioning will occur depend on assumptions made regarding the economic life of fields which in turn depend on such factors as oil prices and operating costs. The Committee therefore discussed with management the estimation process and the basis for the principal assumptions underlying the cost estimates, noting in particular the reasons for any major changes in estimates as compared with the previous year. The Committee was satisfied that the approach applied was fair and reasonable. The Committee was also satisfied that the discount rate used to calculate the provision was appropriate. Further details on decommissioning provisions are provided in note 16 on page 154.

Taxation

The group currently produces oil and/or gas in five countries and is subject to complex hydrocarbon and corporate tax regimes in each of them. Judgements must be applied in order to make provision for the amounts of tax that are expected to be settled. Also, in order to continue to recognise the substantial deferred tax asset relating to tax losses 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. Based on this discussion the Committee concluded that management's judgements regarding uncertain tax positions were appropriate.

The Committee also discussed with management their projections of probable UK taxable profits and noted that these projections, which were based on the same assumptions as those used in the asset impairment review and to assess whether the going concern assumption is appropriate, support the recognition of a deferred tax asset of US$971.7 million. Further details of the deferred tax asset and the assumptions used to estimate the amount of tax recoverable in respect of tax losses and allowances are provided in notes 6 and 18.

External audit

Audit effectiveness

The Committee reviewed the auditors' work plan at the start of the audit cycle, considering in particular the auditors' assessment of the significant areas of risk in the group's financial statements, which for 2014 corresponded with the major areas of judgement identified by the Committee discussed above, and the scope of their work. At the conclusion of the audit, the Committee discussed with the auditors the findings of the audit, including key accounting and audit judgements, the level of errors identified during the audit, the recommendations made to management by the auditors and management's response. The Committee met privately with the auditors twice in 2014 and in February 2015 at the conclusion of the 2014 audit.

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

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

External audit (continued)

Auditor independence and objectivity

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

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

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

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 auditors to confirm that in providing non-audit services, they comply with the Ethical Standards for Auditors issued by the UK Auditing Practices Board. This confirmation was received for 2014.

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 three years.

Audit appointment

The Committee considers the reappointment of the auditors each year. Based on its review of the effectiveness of the 2014 audit and of the independence and objectivity of the auditors, the Committee concluded that the auditors' effectiveness and independence has not been impaired in any way. The Committee has reported accordingly to the Board and recommended that the reappointment of Deloitte LLP be proposed to shareholders for the year ending 31 December 2015.

Deloitte were initially appointed auditors of the company in 2004 and the audit has not been put out to tender since that date. 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, although with transitional provisions that allow the company to defer a tender for a number of years. The Competition and Markets Authority has subsequently made mandatory from 2016 onwards the requirement to put the external audit contract out to tender at least every ten years and the associated transitional provisions require us to have conducted an audit tender process no later than for the year ending 31 December 2017. The Audit and Risk Committee is currently planning to conduct an audit tender process in late-2016/early-2017.

Committee evaluation

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

On behalf of the Audit and Risk Committee

David Lindsell
Chairman of the Audit and Risk Committee

25 February 2015

NOMINATION COMMITTEE REPORT

Mike Welton
Chairman and Chairman
of the Nomination Committee

Dear Shareholder

The Nomination Committee considers the structure, size, composition and succession needs for the Board and its Committees. It also has oversight of succession planning and training and development programmes for senior management. The Committee comprises each of the non-executive directors, the Chief Executive and is chaired by me. David Bamford and Anne Marie Cannon, our newest non-executive directors, joined the Nomination Committee with effect from their respective start dates during 2014.

It has been a busy year for the Committee, with activity – particularly in the succession planning and development arena – expected to develop further during 2015. The Committee held two formal meetings in 2014 and I also kept Committee members updated between meetings throughout the process leading to the appointment of Tony Durrant as Chief Executive and Richard Rose as Finance Director. More detail regarding the work of the Committee during the year is set out below.

Executive Director Succession

Chief Executive

Simon Lockett confirmed his intention to step down as Chief Executive in February 2014 and agreed to continue in the role until a suitable successor had been appointed. The Committee agreed a specification for the role of Chief Executive, identifying the key skills and experience required to lead the organisation forward. The Committee considered whether there were any suitable internal candidates for the role; three internal candidates were agreed upon for interview alongside external candidates. Korn Ferry, an external search consultancy which is a signatory to the Voluntary Code of Conduct for Executive Search Firms, was appointed to conduct the external search element of the recruitment process. (Korn Ferry has no other connection with the company.) Korn Ferry conducted an extensive external search process and then compiled a list of external candidates matched against the specification and against which the internal candidates could be benchmarked. The shortlist was agreed, and each candidate interviewed, by the Committee. The Committee then held a formal meeting at which it was agreed that Tony Durrant, the then Finance Director, be proposed to the Board for election as Chief Executive, a proposal which was fully endorsed by the Board. This then left a vacancy for the role of Finance Director.

Finance Director

The Committee considered the results of prior internal succession planning processes from which both an internal and external candidate had been identified as possible candidates for the role of Finance Director. Richard Rose, an external candidate who had been identified in earlier succession planning reviews, and was known by the Board, was invited to interview with Committee members. The Committee unanimously agreed that Richard Rose would be an excellent candidate for the role of Finance Director and proposed his appointment as Finance Director to the Board to which the Board agreed.

Executive succession planning and leadership development

During the year the Committee conducted a review of the current Executive Committee membership and structure and discussed future possible changes and successors. The Committee also reviewed the approach to development of employees identified both within succession plans for key roles and wider high potential employees. In view of the change in Chief Executive during the year and at his recommendation, the Committee agreed that a refreshed succession planning exercise would be undertaken in 2015, to include the Executive Committee and business unit and country managers. In conjunction with this succession planning work, an assessment of skills gaps will be completed and a programme for the development of selected individuals will be agreed and implemented.

Non-executive succession planning

The Committee reviewed a skills matrix for the Board, to assist in mapping the spread and strength of skills and experience of current members; the skills were then mapped against the desired balance in view of the strategic objectives of the company and anticipated skills required. Further work will continue on this in 2015 so that as and when a new appointment is made, the analysis can assist in drawing up role and capability descriptions for any vacancy that arises.

Board and Committee composition

The Committee reviewed the composition of the Board and its committees during the year, taking into account the need to balance continued membership alongside a desire to keep the membership of committees refreshed. In view of the experience of our most recently appointed non-executive directors, David Bamford and Anne Marie Cannon, the Committee unanimously proposed to the Board the appointment of David Bamford to the Remuneration Committee and of Anne Marie Cannon to the Audit and Risk Committee. The Board approved the appointments.

Diversity

The Board fully embraces a culture based upon equal opportunities in the workplace. Further detail regarding our commitment to providing staff with fair and competitive terms of employment and safe working conditions is included in the Corporate Responsibility section on page 60.

At the Board level, we are committed to ensuring that the process for all Board appointments is conducted, and appointments made, on merit, against objective criteria and with due regard for the benefits of diversity on the Board, including gender. When preparing for a new Board appointment, external search companies are requested to prepare a short list which takes into account the capabilities, skills and experience required for the role, as well as diversity of the Board in its widest sense, including gender diversity. The Board considers the proportion of women on the Board as part of its assessment when selecting a candidate for a Board position. We currently have two female non-executive directors, Jane Hinkley and Anne Marie Cannon, on a Board of 12 which equates to 17 per cent. The Committee reviewed its approach to gender diversity on the Board during the year and chose to maintain its practice of embracing diversity in all its forms without setting any measurable objectives relating to gender diversity.

The Board fully supports the development of female talent in the same way that we encourage all employees to embrace development opportunities. During the year, two female members of our senior management team attended an event hosted by the Department for Business, Innovation & Skills, intended to introduce female senior management to the chairmen and directors of other FTSE 350 boards to increase the number of females in the pipeline for non-executive positions.

Committee terms of reference review

The Committee reviewed its terms of reference in 2014 and minor amendments were proposed to the Board for adoption, largely reflecting a best practice approach for board appointments and reporting duties of the Committee. The terms of reference for the Nomination Committee are available at www.premier-oil.com

As we look forward to the year ahead, the Committee will continue to focus its efforts on succession planning and the development of our employees, making sure that our workforce is best positioned to take the company forward and deliver the company's strategic objectives.

On behalf of the Nomination Committee

Mike Welton

Chairman and Chairman of the Nomination Committee

25 February 2015

DIRECTORS' REMUNERATION REPORT

CHAIRMAN'S STATEMENT

Jane Hinkley
Chairman of the Remuneration Committee

Dear fellow shareholder

On behalf of the Remuneration Committee I am pleased to present the Directors' Remuneration Report (DRR) for 2014.

As part of the new reporting arrangements introduced in 2013, the 2013 DRR was subject to two votes at our 2014 AGM. Our Remuneration Policy, as approved at the 2014 AGM, is geared towards performance-related pay to support direct alignment with shareholders. The Policy remains unchanged for 2015 and therefore will not be put to a vote at the 2015 AGM. It is, however, included in this year's DRR in full for ease of reference and to provide context to the work of the Committee during the year. The Annual Report on Remuneration, which is subject to an advisory vote at our 2015 AGM, details how this Policy was applied in 2014 and how it will be applied in 2015.

As detailed elsewhere in the Annual Report, despite the challenging macroeconomic circumstances, the group delivered record production and operating cash flow in 2014. In the second half of the year, overall market conditions became increasingly challenging, requiring the Board to respond rapidly to the decline in oil price, implementing a broad programme of cost reductions and the postponement of discretionary spend. The fall in the short to medium-term oil price has impacted on our reported financial results in respect of the carrying value of certain oil and gas assets, with impairment charges booked in the income statement as set out in the Financial Review. The Committee fully recognises the impact the overall decline in market conditions has had on our shareholders, with the share buyback programme being postponed and the decision taken not to propose a final dividend for FY 2014; decisions relating to directors' remuneration were made in the context of the worsening oil sector environment and impact on our shareholders.

Our Long Term Incentive Plan (LTIP) is based on absolute and relative total shareholder returns (TSR) over a period of up to six years, with any vesting subject to the Committee's assessment of various performance underpins, including HSES. For the LTIP awards granted in 2012, the three-year TSR period ended in December 2014; with the fall in our share price and the company's performance relative to our peer group, none of the 2012 awards vested, demonstrating the link between directors' remuneration and share price performance.

The performance targets for the 2014 annual bonus and achievement against these targets are set out on page 102. Whilst three of the corporate targets were not met, the performance achieved on other corporate measures exceeded the stretch targets, indicating a bonus outcome for the corporate element of 40 per cent of salary. The Committee sought to strike a balance between the achievement of the 2014 targets set at the beginning of the year and the impact of the fall in oil price on your company. As a result the Committee decided to award only 24 per cent of salary for corporate targets in 2014, against the formulaic bonus outcome of 40 per cent. After taking into account achievement of personal performance objectives, total bonus awards range from 35 per cent to 40 per cent of salary.

The Committee considers that the incentive outcomes for 2014 outlined above are fair given the performance delivered by the Executive and the changed market conditions in which the oil industry now operates.

As indicated in last year's DRR, work began in 2014 to review the effectiveness of the LTIP both for the wider employee population as well as for the executive directors. Although the Committee reviewed the LTIP in detail during the year, with alternative approaches considered, the disruption in the oil markets has resulted in the Committee deciding to postpone any decision. Discussions will continue in 2015; should any changes be proposed which impact the LTIP structure for executive directors, shareholders will be consulted and approval sought, as appropriate.

Premier also continues to consider updates to corporate governance guidelines in its decision-making and is satisfied that the company's clawback and malus provisions – which extend to annual bonus and LTIP awards granted to all employees – are in alignment with the 2014 UK Corporate Governance Code.

During the course of the year the Committee considered remuneration arrangements, in line with the Policy, for Simon Lockett who stepped down as Chief Executive and for the appointments of Tony Durrant as Chief Executive and of Richard Rose as Finance Director. The company determined that Simon Lockett's 2014 annual bonus opportunity and outstanding LTIP awards would remain, subject to satisfaction of performance conditions, and be pro-rated to reflect the period worked. On appointment, Tony Durrant and Richard Rose were awarded Performance Shares and Equity Pool Award points under the on-going cycles of the LTIP. For Richard Rose, the buy-out of awards forfeited on resignation from his former employer reflects the expected value of those awards; the award granted will vest only if he remains employed by the company at 31 December 2016. The Committee also considered salary levels in appointing the Chief Executive and Finance Director. For the Chief Executive, a salary of £569,000 was determined appropriate to reflect the responsibilities of the role and his experience within the business; this salary is in line with the previous Chief Executive's salary. For the Finance Director, a salary of £300,000 was considered appropriate, which is approximately 20 per cent below his predecessor's salary and reflects the opportunity for development in the role.

In consideration of the challenges posed by the changed market conditions the Committee determined that there would be no salary increases for the executive directors for 2015. In addition, the bi-annual review of the Chairman's and non-executive directors' fees has been postponed for a year; hence there are also no increases in fees for the Chairman and non-executive directors.

In the current climate the Committee will consider carefully the oil market outlook, the company's position and the outcome for 2015 in deciding whether and at what level to award bonuses for that year. Any bonus paid will be based on the achievement of the 2015 performance targets set out in general terms on page 110. For reasons of commercial sensitivity detailed figures are not given. Our intention is to publish these, together with the outcome, in the Annual Report on Remuneration for 2015. As referred to above, we have disclosed the performance targets and achievement against these targets for the 2014 annual bonus on page 102 (and for the 2013 annual bonus on page 104).

The Committee encourages dialogue with its major shareholders and remains keen to hear shareholders' views on remuneration matters.

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

Jane Hinkley
Chairman of the Remuneration Committee

25 February 2015

Compliance Statement

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

POLICY REPORT

This section of the Remuneration Report sets out the Remuneration Policy which was approved by shareholders at the Annual General Meeting held on 14 May 2014 and has been effective since that date. The Policy remains unchanged and will therefore not be put to a shareholder vote at the 2015 AGM. Shareholder approval will next be sought no later than at the Annual General Meeting to be held in 2017. The Remuneration Policy has been included in this annual report in full (using updated data in the scenario charts) to provide the context within which the Committee has conducted its work during the year and has been updated for:

- the clarification statement issued by the company on 1 May 2014 following engagement with shareholder representatives[1];
- clarification regarding the company's approach to the operation of malus and/or clawback, which can be used in relation to the company's annual bonus plan and Long Term Incentive Plan;
- consideration of shareholder views; this section has been updated to reflect activity since the last report to shareholders.

The Annual Report on Remuneration on pages 98 to 119 sets out how the Policy has been applied during 2014 and how it will be applied throughout the remainder of 2015 and will be put to an advisory vote at the 2015 AGM.

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:

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

1 The clarification statement confirmed the boundaries within which any discretion exercised by the Committee would be contained in relation to LTIP awards.

DIRECTORS' REMUNERATION REPORT (continued)

Executive director policy

A summary of the Policy for executive directors is set out below:

Salary	
Purpose and link to strategy	• To provide an appropriate level of salary to support recruitment and retention, and with due regard to the role and the individual's responsibilities and experience
Operation	• Typically reviewed annually with reference to company and individual performance, each executive's responsibilities and experience, the external market for talent, and salary increases across the group • Salaries are benchmarked against 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

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

Executive director policy (continued)

Pension (continued)	
Opportunity	• Executive directors who join Premier on or after 20 August 2013 receive pension contributions and/or an equivalent cash supplement equal to 20 per cent of salary • For executive directors who joined prior to 20 August 2013 the Scheme provides a payment on broadly a fiftieths accrual basis up to two-thirds of salary at age 60, with benefits actuarially reduced on early retirement and pensions in payment increased in line with the lower of inflation, or 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

DIRECTORS' REMUNERATION REPORT (continued)

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 malus and 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 malus and clawback until the later of: (i) one year from the payment of the bonus or the vesting of the shares, or (ii) the completion of the next audit after payment/vesting
Opportunity	• The annual bonus provides for awards of between 0 per cent and 100 per cent of salary for executive directors

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, Health, Safety, Environment and Security, finance, business development, and personal and strategic objectives • Normally, the Committee would not expect the weighting for any performance category 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 102

Long Term Incentive Plan (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 malus and clawback in the event of a material misstatement of the company's financial results, gross misconduct, or material error in the calculation of performance conditions • The Committee may exercise malus and clawback until the later of: (i) one year from vesting, or (ii) the completion of the next audit after vesting

Executive director policy (continued)

Long Term Incentive Plan (LTIP) (continued)	
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 but not in relation to the retention of an existing executive director. In any other exceptional circumstances where the Committee decides to exercise its discretion to make an Equity Pool award, it shall not exceed 10 per cent of the Equity Pool • 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
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.

Long Term Incentive Plan

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:

2015	2016	2017	2018	2019	2020	2021
1. LTIP Equity Pool cycle						
2. LTIP Performance Share cycle						
← ***Performance period*** →			← ***Deferral period*** →			
Award			50% of vested award is released; 50% is deferred			Remaining 50% is released
			3. LTIP Matching Share cycle			
			← ***Performance period*** →			
			Award			Vested award is released

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 long-term incentive plans until such a time that 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 111.

Payments from existing awards

Any commitment made prior to, but due to be fulfilled after, 14 May 2014 (being the date on which the current Policy was approved by shareholders) will be honoured. Such commitments are as follows:

- The Asset and Equity Plan (AEP) preceded the LTIP as the company's main long-term incentive and expired in 2009. Messrs Allan, Durrant, Hawkings, Lockett and Lodge held awards under this plan, the last of which vested during 2014 as detailed in the Annual Report on Remuneration on page 118.
- Robin Allan was employed by the company between September 1986 and November 1999 and is entitled to a deferred pension under the Scheme in respect of this period of employment. The pension he had accrued as at November 1999 was £25,409. Further information on Robin Allan's pension arrangements is provided in the Annual Report on Remuneration on page 107.

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 59 per cent of the CEO's remuneration package is delivered through variable components, rising to approximately 90 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.

The performance scenario charts below show the estimated remuneration that could be received by the current executive directors for FY 2015, both in absolute terms and as a proportion of the total package under different performance scenarios. The assumptions underlying each performance scenario are detailed in the table below:

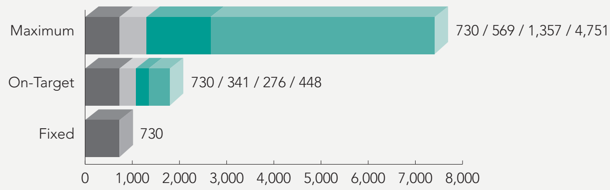
	Remuneration receivable for different performance scenarios		
	Minimum	**On-Target**	**Maximum**
Fixed pay	• 2015 salary, as disclosed in the Annual Report on Remuneration on page 109 • 2015 estimated taxable benefits • Pension contribution of 20 per cent of salary for the Finance Director and 2014 pension benefits for other EDs as provided in the single figure table in the Annual Report on Remuneration on page 99		
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

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

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

Tony Durrant, Chief Executive

(£000s)



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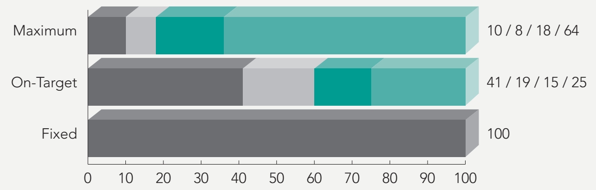
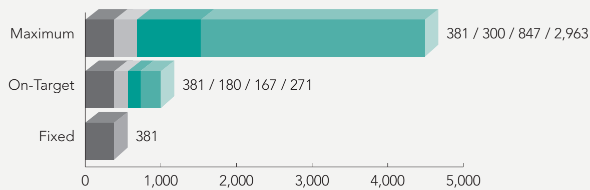


Richard Rose, Finance Director

(£000s)



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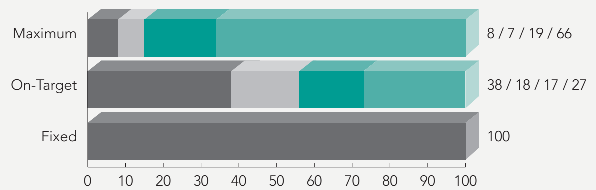
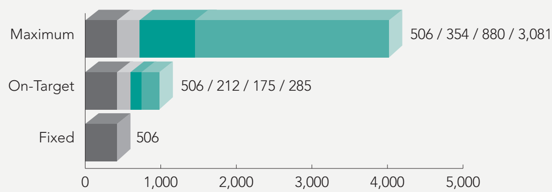


Charts for Richard Rose do not include the Conditional Share Award made to him to "buy-out" the share awards forfeited on resignation from his former employer.

Robin Allan, Director, Business Units

(£000s)



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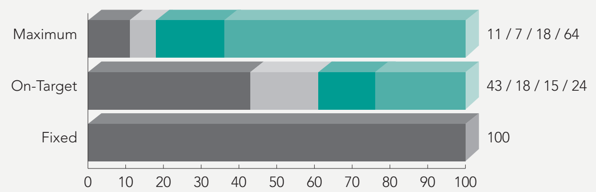


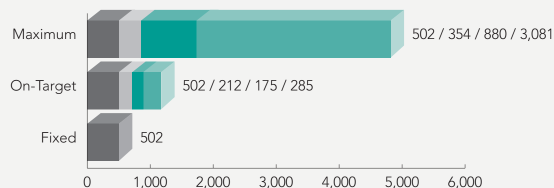
Fixed   Annual Bonus   LTIP earned after 3 years   LTIP earned after 6 years

DIRECTORS' REMUNERATION REPORT (continued)

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

Neil Hawkings, Director, Falkland Islands

(£000s)



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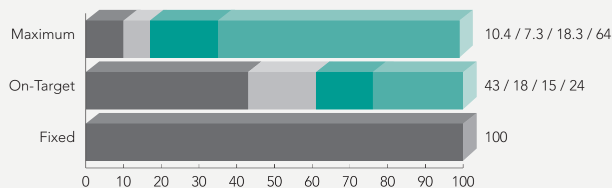
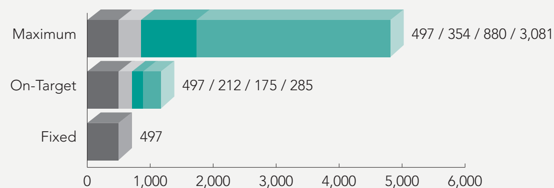


Andrew Lodge, Exploration Director

(£000s)



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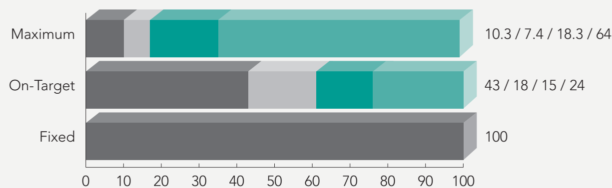


Fixed | Annual Bonus | LTIP earned after 3 years | LTIP earned after 6 years

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 per annum at on-target performance and equity value per share growth of 20 per cent per annum 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 remuneration of executive directors on recruitment

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

The salaries of new appointees will be determined by reference to the experience and skills of the individual, relevant market data, internal relativities and their current salary. New appointees will be eligible to receive a personal pension, benefits and to participate in the company's HMRC approved all-employee share schemes, in line with the Policy. The 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 (in which case awards shall not exceed 10 per cent of the Equity Pool) 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. However, the Committee will not use its discretion to award in excess of 6 per cent of the Equity Pool in relation to the retention of an existing executive director. Where an individual has contractual commitments that vary from our Policy for executive directors, but made prior to his or her promotion to executive director level, the company will continue to honour these arrangements.

Service contracts and exit payments and change of control provisions

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

Details of the service contracts of the current executive directors are as follows:

Director	Contract date	Unexpired term of contract
Robin Allan	09.12.03	Rolling contract
Tony Durrant	01.07.05	Rolling contract
Neil Hawkings	23.03.06	Rolling contract
Andrew Lodge	20.04.09	Rolling contract
Richard Rose	25.07.14	Rolling contract

The company will consider termination payments in light of the circumstances on a case-by-case basis, taking into account the relevant contractual terms, the circumstances of the termination and any applicable duty to mitigate. In such an event, the remuneration commitments in respect of the executive director contracts could amount to one year's remuneration based on salary 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.

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

If such circumstances were to arise, the executive director concerned would have no claim against the company for damages or any other remedy in respect of the termination. The Committee would apply general principles of mitigation to any payment made to a departing executive director and will honour previous commitments as appropriate, considering each case on an individual basis.

The table below summarises how 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

Note:

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 112.

Consideration of employment conditions elsewhere in the company

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

Consideration of shareholder views

The Committee aims to ensure that the Policy serves shareholder interests and is aligned with the group's business strategy, market practice and evolving best practice. The Committee Chairman consults major shareholders and proxy advisers 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. Earlier this year the Committee Chairman contacted Premier's major shareholders offering to discuss remuneration matters. Premier is mindful of the views it receives in its consultations.

Non-executive director Remuneration Policy

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

Director	Year appointed director	Date of current appointment letter
Mike Welton	2009	16.10.2012
David Bamford	2014	07.04.2014
Anne Marie Cannon	2014	24.01.2014
Joe Darby	2007	17.10.2013
Jane Hinkley	2010	17.10.2013
David Lindsell	2008	16.01.2014
Michel Romieu	2008	16.01.2014

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 2014

Jane Hinkley is Chairman of the Remuneration Committee and there are three other members who are also independent non-executive directors. Joe Darby and David Lindsell served as members throughout the year; David Bamford was appointed a member of the Committee on 14 November 2014. Members of the Committee meet without any executives present for part of each meeting. From time to time, the Chief Executive attended meetings of the Committee by invitation. During the year, Stephen Huddle, Company Secretary, acted as Secretary to the Committee and Nigel Wilson, Corporate Services Director, attended meetings as appropriate. Members of the Board and any other employees attending Committee meetings leave the meeting where their own remuneration is being discussed.

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

- Determining the Remuneration Policy for executive directors and senior management;
- Determining the individual remuneration packages for each executive director and any changes thereto;
- Considering the design of, and determining targets for, the annual bonus plan;
- Determining the quantum and performance conditions for long-term incentive awards;
- Reviewing the Policy for pension arrangements, service agreements and termination payments to executive directors;
- Approving the Directors' Remuneration Report, ensuring compliance with related governance provisions and legislation;
- Reviewing bonus outcomes; and
- Considering the remuneration policies and practices across the organisation.

During 2014, the Committee met five times. Key activities of the Committee during the year included:

- Determining remuneration packages and termination arrangements for executive directors joining and leaving the Board;
- Determining the remuneration package for Tony Durrant on being promoted from Finance Director to Chief Executive;
- Review of the current Long Term Incentive Plan and discussion of alternative arrangements;
- Determining the 2013 bonus outcome;
- Making awards under the Long Term Incentive Plan; and
- Oversight of grading and salary review for all employees.

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 UK Remuneration Consultants' Code of Conduct which governs standards in the areas of transparency, integrity, objectivity, confidentiality, competence and due care, details of which can be found at www.remunerationconsultantsgroup.com. In 2014, 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 fee for the provision of remuneration services in 2014 was £129,682 on the basis of time and materials.

During the year the Committee also took advice from PwC to provide performance updates on outstanding LTIP awards, including the vesting of the 2012 Equity Pool, Performance Share and Matching Share Awards. Total fees for PwC for the provision of remuneration services in 2014 were £35,000 on a fixed fee basis. The Committee also sought advice from Berwin, Leighton & Paisner LLP in relation to service and settlement agreements as well as a review of executive director pension arrangements. Total fees for Berwin, Leighton & Paisner LLP were £221,373.

The Committee evaluates the support provided by its advisers annually and is satisfied that the advice it received in 2014 was objective and independent.

Voting on remuneration matters

At the AGM held in May 2014, two resolutions were put to shareholders relating to directors' remuneration. The first resolution related to the Remuneration Policy and was subject to a binding vote. The second resolution related to the Directors' Annual Report on Remuneration and was subject to an advisory vote. The votes received were as follows:

Resolution	Votes FOR and % of votes cast		Votes AGAINST and % of votes cast		Votes WITHHELD
Directors' Remuneration Policy	289,525,378	86.12%	46,648,769	13.88%	2,542,395
Directors' Annual Report on Remuneration	331,325,251	98.56%	4,850,298	1.44%	2,540,993

At the 2015 AGM, the Directors' Annual Report on Remuneration will be put to shareholders for approval by way of an advisory vote. No changes are proposed to the Remuneration Policy and this will not be put to shareholders at the 2015 AGM.

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	
Director	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013
Robin Allan	**353.8**	345.0	**20.6**	20.8	**123.8**	82.8	**0**	0	**132.1**	134.6	**5.3**	1.5	**635.6**	584.7
Tony Durrant	**480.6**	377.0	**21.4**	22.5	**192.3**	98.0	**0**	0	**140.1**	150.7	**3.7**	1.5	**838.1**	649.7
Neil Hawkings	**353.8**	345.0	**20.5**	21.1	**134.4**	82.8	**0**	0	**128.1**	126.6	**3.8**	1.5	**640.6**	577.0
Andrew Lodge	**353.8**	345.0	**23.0**	21.6	**127.4**	86.3	**0**	0	**120.1**	116.6	**3.9**	3.8	**628.2**	573.3
Richard Rose[7]	**94.3**	–	**6.2**	–	**34.0**	–	**0**	–	**19.6**	–	**89.6**	–	**243.7**	–
Former director														
Simon Lockett[8]	**356.8**	555.0	**14.5**	24.7	**139.1**	133.2	**0**	0	**376.9**	286.0	**1.0**	3.8	**888.3**	1,002.7

Notes to 2014 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 2014, all executive directors received a car allowance of £15,000.

3 Annual bonus awarded for performance in the relevant financial year. See page 102 of the Annual Report on Remuneration for further details of the 2014 annual bonus awards to each executive director, including performance criteria, achievement and resulting awards.

4 For 2014 the LTIP consists of 2012 Equity Pool Awards, 2012 Performance Share Awards, and 2012 Matching Share Awards (matched over deferred awards under the 2009 LTIP) for which the performance period completed on 31 December 2014 and no awards vested. See page 105 of the Annual Report on Remuneration for further details on performance criteria. For 2013, the LTIP consisted of 2011 Equity Pool Awards, 2011 Performance Share Awards, and 2011 Matching Share Awards (matched over deferred shares under the 2008 AEP) for which the performance period completed on 31 December 2013 and no awards vested.

5 Richard Rose's pension figure includes a combination of pension contributions to the defined contribution scheme and a salary supplement. For other executive directors, pension figures are accrued pension entitlements and exclude director contributions. See page 107 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 88. Each executive director was awarded SIP matching awards during the year as detailed on page 119; SIP awards are valued as the number of matching awards granted multiplied by the share price at date of award. Messrs Durrant, Hawkings and Lodge were each awarded a three-year SAYE option over 3,660 shares on 7 May 2014; Robin Allan was awarded a five-year SAYE option over 6,101 shares on the same date. 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 119 of the Annual Report on Remuneration.

7 Richard Rose joined the company on 8 September 2014. Details shown are for the period 8 September to 31 December 2014. The 'other payments' figure includes the value of Richard Rose's Conditional Share Award to "buy-out" the share awards he forfeited on resignation from his former employer.

8 Simon Lockett left the company on 15 August 2014. Details shown above are for the period 1 January to 15 August 2014. For further detail regarding Simon Lockett's leaving arrangements, including any payments made to him after his leaving date, please see page 101. The 2014 pension figure for Simon Lockett was calculated at 31 December 2014 using a statutory factor of 20 (£468.1k as at 15 August 2014).

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

Single total figure of remuneration for non-executive directors

Director	Base fee £000s		Additional fees[1] £000s		Total £000s	
	2014	2013	**2014**	2013	**2014**	2013
Mike Welton (Chairman)	**169.6**	169.6	**–**	–	**169.6**	169.6
David Bamford	**35.3[2]**	–	**–**	–	**35.3[2]**	–
Anne Marie Cannon	**48.6[3]**	–	**–**	–	**48.6[3]**	–
Joe Darby	**53.0**	53.0	**10.6**	10.6	**63.6**	63.6
Jane Hinkley	**53.0**	53.0	**10.6**	10.6	**63.6**	63.6
David Lindsell	**53.0**	53.0	**10.6**	10.6	**63.6**	63.6
Michel Romieu	**53.0**	53.0	**–**	–	**53.0**	53.0

Notes:

1 During the year, Joe Darby acted as senior independent director, David Lindsell was Chairman of the Audit and Risk Committee, and Jane Hinkley was Chairman of the Remuneration Committee; Mike Welton was the Company Chairman and was also Chairman of the Nomination Committee.

2 David Bamford joined the company on 1 May 2014. His annual fee is £53,000 per annum in line with the other non-executive directors. The total figure shown reflects the fee paid to him for service from 1 May to 31 December 2014.

3 Anne Marie Cannon joined the company on 1 February 2014. Her annual fee is £53,000 per annum in line with the other non-executive directors. The total figure shown reflects the fee paid to her for service from 1 February to 31 December 2014.

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 (2013: £10,600) for acting as senior independent director, as Chairman of the Audit and Risk Committee or as Chairman of the Remuneration Committee. The Company Chairman is also the Chairman of the Nomination Committee and currently waives any fee for this role. Fees for the Chairman and the non-executive directors were last increased effective from 1 January 2013 following review in 2012. Fees for the Chairman and non-executive directors were scheduled to be reviewed again in December 2014. However, the Chairman and non-executive directors agreed unanimously that in view of the current market environment it would be inappropriate to be in receipt of any increase in fee at this point in time. The next review of fees for non-executive directors will be conducted during 2015 with any change proposed to take effect from 1 January 2016.

Executive director changes (audited)

During the course of the year the Committee considered remuneration arrangements, in line with the Policy, for Simon Lockett who stepped down as Chief Executive and for the appointments of Tony Durrant as Chief Executive and of Richard Rose as Finance Director.

With effect from 25 June 2014 Tony Durrant, having been Finance Director prior to that date, succeeded Simon Lockett as Chief Executive. The Committee approved an increase of Tony Durrant's base salary to £569,000 per annum, a level which the Committee determined appropriate to reflect the responsibilities of the role and his experience within the business; this salary is in line with the previous Chief Executive's salary. Tony Durrant also received additional awards under the on-going cycles of the LTIP to reflect his new responsibilities as Chief Executive, pro-rated to reflect the period of the performance cycle for which he serves as Chief Executive (see pages 105 and 106 for full details of the awards made).

Richard Rose joined the company as Finance Director on 8 September 2014. On joining the company, Richard Rose received a Conditional Share Award to "buy-out" the share awards he forfeited on resignation from his former employer (full details are provided on page 111). The Conditional Share Award reflects the expected value of his forfeited awards and the award will vest only if he remains employed by the company at 31 December 2016. Richard Rose also received awards under the on-going cycles of the LTIP, pro-rated to reflect the period of each performance cycle for which he serves as a Board member (full details are provided on pages 105 and 106). The Committee determined that a salary of £300,000 was appropriate for Richard Rose as Finance Director, which is approximately 20 per cent below his predecessor's salary and reflects the opportunity for development in the role.

Neither Tony Durrant's nor Richard Rose's salary will be increased in 2015, and both individuals' bonus opportunities remain in line with the Policy, that is a maximum opportunity of up to 100 per cent of salary with any amount over and above 50 per cent of salary being awarded in deferred shares under the Deferred Bonus Share Plan. Pension arrangements and benefits for Tony Durrant remain unchanged save for being linked to his new salary. Richard Rose receives a combination of pension contributions (to the defined contribution scheme) and a salary supplement totalling 20 per cent of salary. Richard Rose's benefits package is in accordance with the Policy and in line with that received by other executive directors.

Executive director changes (audited) (continued)

Simon Lockett stepped down as Chief Executive on 25 June 2014 and as an Executive Director on 15 August 2014. The Committee determined Simon Lockett's exit arrangements in accordance with his service agreement and the Remuneration Policy. The Committee also determined Simon Lockett would receive good leaver status in relation to outstanding incentive awards. The following arrangements were agreed:

- A payment of 12 months' salary and benefits of £683,996 gross calculated as (a) base salary of £569,000 and (b) payment in lieu of benefits of £114,996 comprising car allowance and pension, subject to mitigation if Simon Lockett were to start a new executive or non-executive director role for another organisation during the 12 month period ending 15 August 2015.
- Simon Lockett is permitted to accept fees of up to £100,000 per annum gross without an obligation to mitigate in respect of non-executive director appointments (excluding chairman appointments).
- The company will continue to provide life assurance cover (plus up to £3,000 for tax payable by Simon Lockett on this cover) and private medical insurance for the period of Simon Lockett's notice on the same basis as currently provided.

2014 Annual Bonus Payment*

- Under the terms of his contract, Simon Lockett was entitled to receive his annual bonus payment for 2014 which has been reduced on a time worked basis to reflect his departure date of 15 August 2014. In addition, all unvested Deferred Bonus Share Plan awards held by Simon Lockett vested on 15 August 2014. Full details are set out on pages 103 and 113.

Long Term Incentive Plan Awards

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

Pension–related benefits*

- In relation to the company's contractual obligations to Simon Lockett to provide a pension substantially as if he was a member of the defined benefit pension scheme without the earnings cap, the company's obligations were settled by a lump sum payment of £468,100 gross.

Legal fees

- Simon Lockett received a contribution of £25,000 plus VAT towards legal fees incurred in connection with his departure.

Payment for loss of employment in settlement of potential claims

- Simon Lockett was paid £50,000 gross by way of payment for loss of employment in settlement of potential claims arising in connection with his employment and its termination.

*These items are included within the Single total figure of remuneration table on page 99.

Annual bonus in respect of 2014 performance (audited)

In line with the Policy, during 2014 executive directors participated in non-pensionable annual bonus arrangements. The 2014 annual bonus provided for awards of between 0 per cent and 100 per cent of salary for executive directors. Annual performance was assessed against a performance scorecard encompassing health, safety, environment and security (HSES), production, development, exploration and finance as well as personal performance.

In assessing the 2014 bonus payout, the Committee reviewed performance against each measure and applied judgement to determine the overall bonus level, taking into account other aspects of performance including overall company performance and the oil sector environment.

The 2014 annual bonus scorecard was based 80 per cent on financial and operational targets and 20 per cent on personal objectives. The table below details the financial and operational performance categories, their relative weightings and achievement against specific targets. Each executive director's achievement against the personal targets is also summarised below.

<table>
<tr><th colspan="8">2014 Targets</th></tr>
<tr><th rowspan="2">KPI category</th><th rowspan="2">Subcategory</th><th rowspan="2">Measure</th><th colspan="2">Performance target ranges</th><th rowspan="2">Actual Performance</th><th rowspan="2">Weighting</th><th rowspan="2">Formulaic outcome for the year (% of bonus opportunity)</th></tr>
<tr><th>Threshold</th><th>Stretch</th></tr>
<tr><td>Operating Safely</td><td>HSES</td><td>Group TRIR (frequency)</td><td>2.5</td><td>2.0</td><td>1.4</td><td>8%</td><td>8%</td></tr>
<tr><td rowspan="4">Building the strong production base</td><td>Production</td><td>Annual average rate of production (kboepd)</td><td>60.2</td><td>63.0</td><td>63.6</td><td>12%</td><td>12%</td></tr>
<tr><td rowspan="3">Development</td><td>Solan</td><td>Solan on-stream</td><td>Solan on-stream for less than Gross Budget</td><td>Below threshold</td><td>30%</td><td>0%</td></tr>
<tr><td>Sea Lion</td><td>Ready to submit a draft Field Development Plan (FDP) for Sea Lion by end 2014</td><td>Progress farm down of Sea Lion</td><td>Below threshold</td><td>6%</td><td>0%</td></tr>
<tr><td>Catcher & Vette</td><td>Catcher FDP approval by DECC</td><td>In addition, bring Vette to sanction point</td><td>Stretch fully delivered</td><td>4%</td><td>4%</td></tr>
<tr><td>Delivering growth</td><td>Exploration</td><td>Finding costs for 2C + 2P resource adds ($/boe)</td><td>11</td><td>5</td><td>2</td><td>8%</td><td>8%</td></tr>
<tr><td rowspan="2">Maintaining financial strength</td><td rowspan="2">Finance</td><td>Covenant headroom ($ million)</td><td>357</td><td>600</td><td>706</td><td>8%</td><td>8%</td></tr>
<tr><td>Asset disposal programme ($ million)</td><td>300</td><td>450</td><td>Below threshold</td><td>4%</td><td>0%</td></tr>
<tr><td colspan="6">Sub-total: Corporate KPIs</td><td>80%</td><td>40%</td></tr>
<tr><td colspan="6">Sub-total: Corporate KPIs (following exercise of Committee discretion)</td><td>80%</td><td>24%</td></tr>
<tr><td rowspan="5">Personal</td><td>Tony Durrant</td><td colspan="4">A selection of targets supporting the corporate KPIs including maintaining financial strength and HSES</td><td rowspan="5">20%</td><td>16%</td></tr>
<tr><td>Robin Allan</td><td colspan="4">A combination of production and development targets supporting the corporate KPIs as well as succession planning for key reporting roles</td><td>11%</td></tr>
<tr><td>Neil Hawkings</td><td colspan="4">A selection of targets supporting execution of Sea Lion including financing, HSES and systems</td><td>14%</td></tr>
<tr><td>Andrew Lodge</td><td colspan="4">A combination of exploration targets supporting the corporate KPIs and succession planning for key reporting roles</td><td>12%</td></tr>
<tr><td>Richard Rose</td><td colspan="4">A combination of targets inherited from the former Finance Director, supporting the corporate KPIs and including maintaining financial strength</td><td>12%</td></tr>
<tr><td colspan="6">Total</td><td>100%</td><td>Between 35% and 40%</td></tr>
</table>

Annual bonus in respect of 2014 performance (audited) (continued)

The formulaic outcome for corporate targets was 40 per cent of a possible 80 per cent, with targets being achieved at above stretch level save for Solan, Sea Lion and the asset disposal programme. However, in view of the change in the oil and gas market environment and the impact on shareholders both in terms of ceasing dividend payments and the share buyback programme, the Committee felt it appropriate to exercise its discretion in reducing the payment in respect of corporate targets by 40 per cent, from 40 per cent to 24 per cent.

Bonus award in respect of 2014 performance (audited)

Based on its assessment on the company's and the individual performance of the executive directors, the Committee awarded bonuses of 35 to 40 per cent of salary to the executive directors. Annual bonuses were paid as cash and are summarised in the table below:

Director	Bonus as % of salary	Cash £
Robin Allan	35%	123,813
Tony Durrant	40%	192,258[1]
Neil Hawkings	38%	134,425
Andrew Lodge	36%	127,350
Richard Rose[2]	36% (and pro-rated)	33,954
Former director		
Simon Lockett[3]	39% (and pro-rated)	139,134

Notes:

1 Determined by calculating 40 per cent of Tony Durrant's salary during 2014 which consisted of a pro-rata treatment of his annual base salary as Finance Director of £386,500 between 1 January and 24 June 2014, and a pro-rata treatment of his annual base salary as Chief Executive of £569,000 from 25 June to 31 December 2014.

2 Richard Rose joined the company on 8 September 2014. The cash payment shown above is the pro-rated value awarded to Richard Rose to reflect the period of 2014 for which he was employed by the company.

3 Simon Lockett left the company on 15 August 2014. As announced at that time the Committee agreed that Simon Lockett's annual bonus would include, in respect of the corporate target element of the bonus, the same percentage awarded to the other executive directors. In respect of the individual target element of the bonus, it was agreed that Simon Lockett would receive 15 per cent of annual salary as at 15 August 2014 based on a selection of targets supporting the corporate KPIs including maintaining financial strength and HSES. Both elements were pro-rated to reflect Simon Lockett's termination date.

Annual bonus in respect of 2013 performance

In last year's report, in relation to the 2013 annual bonus, target ranges were not disclosed as they were considered to be commercially sensitive. We confirmed in the 2013 report that retrospective disclosure of those targets would be given and this information has been set out below:

2013 Targets							
KPI category	**Subcategory**	**Measure**	**Performance target ranges**		**Actual Performance**	**Weighting**	**Formulaic outcome for the year (% of bonus opportunity)**
			Threshold	**Stretch**			
Operating Safely	**HSES**	Group TRIR (frequency)	2.5	1.3	Below threshold	8%	0%
Building the strong production base	**Production**	Daily average rate of production (kboepd)	65	70	Below threshold	24%	0%
		Exit rate (kboepd)	70	80	Below threshold[1]		0%
		Final Investment Decisions (FIDs) approved by year-end[1]	1	3	1		4%
Delivering growth	**Exploration**	Risked prospective resources added (mmboe)	30	60	207	24%	8%
		Finding costs for 2C + 2P resource adds (US$/boe)	11	3	4.5		4%
		Reserves Replacement (%)	60%	200%	Below threshold		0%
Maintaining financial strength	**Finance**	Net Operating Cash flow (US$ million)	773	885	Below threshold	4%	0%
Group strategy	**Delivery of strategy**	NAV growth per Share	10%	15%	Below threshold	20%	0%
		Business development	Subject to Committee judgement		Below threshold and stretch[2]		4%
Sub-total: Corporate KPIs						**80%**	**20%**
Personal	Simon Lockett (former CEO)	A selection of targets supporting the corporate KPIs				20%	4%
	Tony Durrant (former FD)	Targets including structuring and execution of non-core asset disposal programme, marketing objectives and finance related targets					6%
	Robin Allan	A combination of production and development targets supporting the corporate KPIs					4%
	Neil Hawkings	A combination of targets supporting execution of the corporate strategy, asset related objectives and systems development					4%
	Andrew Lodge	A selection of exploration targets supporting the corporate KPIs and succession planning for key reporting roles					5%
Total						**100%**	**24% to 26%**

Notes:

1 In the 2013 report, due to a typographical error, performance of 'between threshold and stretch' was selected for Production – Exit rate, rather than FIDs. This has been corrected in the table above.

2 Judged by the Committee, with the performance outcome based on successful disposals, on-going sales processes and strengthening of the portfolio.

LTIP vesting outcomes in 2014 (audited)

LTIP awards were granted in 2012 as Equity Pool Awards, Performance Share Awards and Matching Share Awards (matched over deferred awards under the LTIP 2009 award; see page 90 for further detail on the LTIP). The 2012 LTIP award cycles completed their three-year performance periods on 31 December 2014. The vesting conditions of these awards are the same as that described in the Policy Table on pages 90 to 91.

The constituents of the comparator group for the 2012 Performance Share Award and 2012 Matching Share Award cycles are detailed on page 117 of the Annual Report on Remuneration.

The outcomes of the 2012 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 2012 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 2012 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, 2012 Matching Share Awards will not vest as the threshold was not met.

LTIP awards granted in 2014 (audited)

The table below summarises the LTIP awards granted to executive directors in 2014 under the 2014-16 cycle, in line with the Policy on page 90. Performance for these awards is measured between 1 January 2014 and 31 December 2016, and is based on equity value per share and relative TSR as detailed in the Policy Table. As the 2011 LTIP awards did not vest in 2014, no corresponding Matching Share Awards were granted during 2014. Awards granted to Tony Durrant and Richard Rose on appointment were pro-rated to take into account tenure as Chief Executive and Finance Director, respectively, in each of the outstanding LTIP cycles. The awards made to Tony Durrant bring the total face value of any Performance Share Awards to no more than 150 per cent of salary during 2014 and no more than 6 per cent of the Equity Pool. The LTIP awards made to Richard Rose reflect a face value of no more than 125 per cent of current base salary for Performance Share Awards during 2014 and no more than 4.25 per cent of the Equity Pool.

2014-2016 cycle						
			Equity Pool Award		Performance Share Award[1]	
Director	Award Date	% of Pool	Number of Equity Pool Award points	Face value[2] £000s	Shares awarded	Face value[3] £000s
Robin Allan	27.02.14	4.25%	637.50	1,318.4	145,888	442.2
Tony Durrant	27.02.14	4.25%	637.50	1,318.4	159,394	483.1
	21.08.14[4]	1.75% (pro-rated to 1.47%)	220.55	456.1	92,974	311.2
Neil Hawkings	27.02.14	4.25%	637.50	1,318.4	145,888	442.2
Andrew Lodge	27.02.14	4.25%	637.50	1,318.4	145,888	442.2
Richard Rose[5]	09.09.14	4.25% (pro-rated to 3.28%)	491.95	1,017.4	84,788	289.4
Former director						
Simon Lockett[6]	27.02.14	6.00%	900.00	1,861.3	281,590	853.5

Notes:

1 Any dividends paid accrue on Performance 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 on the dates of award: £3.031 on 27 February 2014; £3.347 on 21 August 2014; £3.413 on 8 September 2014.

4 On 21 August 2014 Tony Durrant received additional awards in each of the on-going cycles of the LTIP to reflect his promotion from Finance Director to Chief Executive, pro-rated to reflect the period of each cycle for which he serves as Chief Executive. The additional award is presented above for the 2014-16 cycle; awards for 2012-14 and 2013-15 are shown below.

5 Richard Rose joined on 8 September 2014 and received awards under each of the on-going cycles of the LTIP, pro-rated to reflect his Board tenure in each of the cycles. The award for the 2014-16 cycle is presented above; awards for 2012-14 and 2013-15 are shown below.

6 Simon Lockett left the company on 15 August 2014. His LTIP awards will be treated in accordance with the good leaver provisions in the LTIP rules such that the awards will be pro-rated on a time worked basis and any remaining awards will vest at their normal vesting date. The award shown above represents the total amount awarded on 27.02.14 prior to any pro-rata adjustment.

LTIP awards granted in 2014 (audited) (continued)

The following LTIP awards were made to Tony Durrant and Richard Rose during 2014, under the 2012-14 and 2013-15 LTIP cycles, in line with the Policy and in line with the company's remuneration policy for all employees. These awards were pro-rated to take into account tenure as Chief Executive and Finance Director, respectively, in each of the outstanding LTIP cycles. The awards made to Tony Durrant bring the total face value of any Performance Share Awards during 2014 to no more than 150 per cent of salary and no more than 6 per cent of the Equity Pool. The LTIP awards made to Richard Rose reflect a face value of no more than 125 per cent of current base salary for Performance Share Awards during 2014 and no more than 4.25 per cent of the Equity Pool.

2012-2014 cycle and 2013-2015 cycle							
				Equity Pool Award		Performance Share Award[1]	
Director	Award Date	LTIP cycle	% of Pool	Number of Equity Pool Award points	Face value[2] £000s	Shares awarded	Face value[3] £000s
Tony Durrant	21.08.14[4]	01.01.12 – 31.12.14	1.75% (pro-rated to 0.30%)	45.31	126.2	4,679	15.6
		01.01.13 – 31.12.15	1.75% (pro-rated to 0.89%)	132.93	294.0	13,005	43.5
Richard Rose	09.09.14[5]	01.01.12 – 31.12.14	4.25% (pro-rated to 0.44%)	66.37	184.9	4,818	16.4
		01.01.13 – 31.12.15	4.25% (pro-rated to 1.86%)	279.12	617.3	20,266	69.2

Notes:

1 Any dividends paid accrue on Performance 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 on the dates of award: £3.347 on 21 August 2014; £3.413 on 8 September 2014.

4 On 21 August 2014 Tony Durrant received additional awards in each of the on-going cycles of the LTIP to reflect his promotion from Finance Director to Chief Executive, pro-rated to reflect the period of each cycle for which he serves as Chief Executive. The above table includes awards under the 2012-14 and 2013-15 cycles.

5 Richard Rose joined on 8 September 2014 and received awards under each of the on-going cycles of the LTIP, pro-rated to reflect his Board tenure in each of the cycles. The above table includes awards under the 2012-14 and 2013-15 cycles.

The constituents of the comparator group for outstanding Performance Share Award and Matching Share Award cycles are detailed on page 117 of the Annual Report on Remuneration.

Total pension entitlements (audited)

In line with the Policy, as directors who joined the company prior to 20 August 2013, Robin Allan, Tony Durrant, Neil Hawkings and Andrew Lodge receive a pension substantially as if they were contributing members of the company's final salary Retirement and Death Benefits Plan (the Scheme) and, in regard to service completed subsequent to their appointment as directors, not subject to the Scheme's cap on pensionable earnings (£145,800 for 2015).

As a director who joined the company after 20 August 2013, Richard Rose is entitled to receive a pension contribution equal to 20 per cent of his salary.

Total pension entitlements (audited) (continued)

The accrued pension entitlements of the directors who were members (or deemed members) of the Scheme during 2014 are as follows:

Director	(a) Accrued pension as at 31 December 2013 £000s pa	(b) Accrued pension in (a) after allowing for inflation £000s pa	(c) Accrued pension as at 31 December 2014 £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
Robin Allan [4]	62.1	63.8	71.4	152.0	19.9	132.1
Tony Durrant	58.0	59.6	67.7	162.0	21.9	140.1
Neil Hawkings	48.1	49.4	56.8	148.0	19.9	128.1
Andrew Lodge	29.0	29.8	36.8	140.0	19.9	120.1
Former director						
Simon Lockett [6]	125.9	129.3	149.1	396.0	19.1	376.9

Notes:

1 The amounts of accrued pension under (a) and (c) represent the accrued pension entitlements of the director as at the stated dates.

2 The values under (d) have been calculated by applying a capitalisation factor of 20 to the difference between amounts shown in (c) and (b) and are principally due to the additional pension accrued over the year.

3 The values stated above correspond with the target level of final salary pension provision; in practice, the pension benefits for these directors are principally established through individual money purchase arrangements and salary supplements.

4 In addition to the current provision noted above, Robin Allan is entitled to a deferred pension under the Scheme in respect of service with the company between September 1986 and November 1999.

5 Members of the Scheme have the option to pay additional voluntary contributions; none of the directors have elected to do so.

6 Simon Lockett left service on 15 August 2014; the accrued pension under (c) relates to service completed up to that date together with the award of 12 months' additional service credit. The value of growth in accrued pension under (f) was calculated at 31 December 2014 using a statutory factor of 20 (£468.1k as at Simon Lockett's leaving date of 15 August 2014).

In respect of 2014, Tony Durrant and Neil Hawkings elected to receive a salary supplement, whilst Robin Allan, Simon Lockett and Andrew Lodge elected to receive a combination of pension contributions and a salary supplement. During the year a review was carried out for the directors who were members (or deemed members) of the Scheme to assess the extent to which the payments already made to each director are projected to be sufficient to provide the accrued component of their target pension; no additional non-pensionable target funding payments were made by the company in relation to FY2014.

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

Payments made by the company in respect of pension benefits in relation to 2014 are summarised below:

Director	Salary supplements £000s	Pension contributions £000s	Target funding payments £000s	Total pension benefits paid by company £000s
Robin Allan	24.8	42.5	–	67.3
Tony Durrant	84.0	–	–	84.0
Neil Hawkings	62.2	–	–	62.2
Andrew Lodge	24.8	42.5	–	67.3
Richard Rose	2.8	16.8	n/a	19.6
Former director				
Simon Lockett [1]	56.5	10.6	577.8	644.9

Notes:

1 The target funding payments for Simon Lockett include all pension related payments made in respect of his pension during FY2014 including the payment of £468.1k as at 15 August 2014 referenced on page 101, and an additional 12 months' pension accrual in accordance with his leaving arrangements.

DIRECTORS' REMUNERATION REPORT (continued)

Percentage change in CEO remuneration

The table below shows the percentage change in CEO remuneration, comprising salary, taxable benefits and annual bonus, and comparable data for the average of all UK-based employees within the company. The figures for 2014 reflect a combination of remuneration for Simon Lockett, Chief Executive from 1 January to 24 June 2014, and Tony Durrant who was appointed Chief Executive on 25 June 2014. The company has chosen UK-based employees as the comparator group for the company as a whole, due to countries outside the UK having significantly different inflation rates.

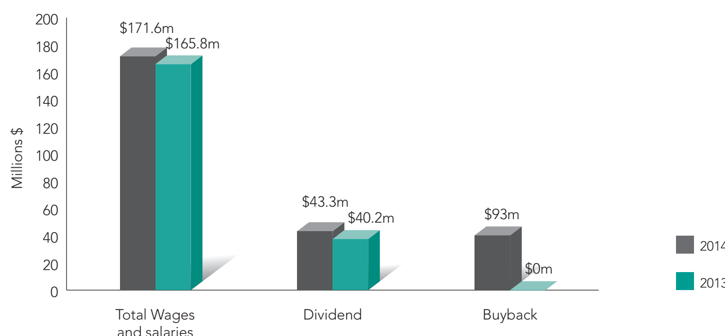
	CEO			UK-based employees[1] (average per capita)
	2014 £000s	2013 £000s	% change	% change
Salary	569.0	555.0	2.5%	5.3%
Taxable benefits	25.4	24.7	2.8%	10.2%
Annual bonus	163.1	133.2	22.4%	12.1%
Total	757.5	712.9	6.3%	6.4%

Notes:

1 UK-based employees who were employed for the full year in both 2013 and 2014.

Relative importance of spend on pay

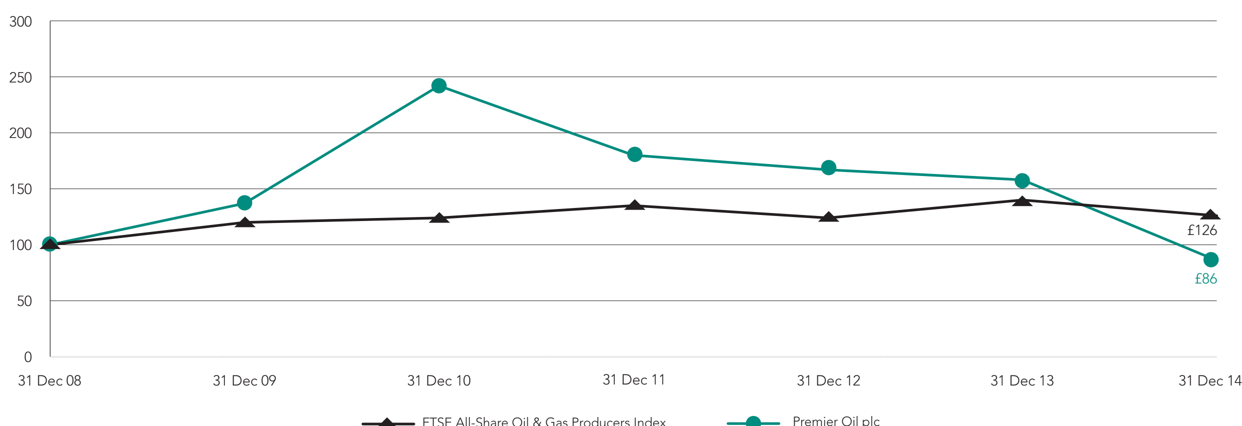
The table below shows the company's actual expenditure on shareholder distributions and total employee pay expenditure for the financial years ending 31 December 2013 and ending 31 December 2014. Total shareholder distribution expenditure is comprised of dividends and share buybacks. The company paid a dividend on 21 May 2014 of five pence per share. 18,455,248 shares were re-purchased during the year and cancelled at a total cost to the company of $93.0m (2013: nil).



Comparison of company performance

The chart below compares the value of £100 invested in Premier shares, including re-invested dividends, on 31 December 2008 compared to the equivalent investment in the FTSE All Share Oil & Gas Producers Index, over the last six 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.

6-year TSR performance
Value of £100 invested on 31 December 2008



Comparison of company performance (continued)

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

		CEO single figure of remuneration £000s	Annual bonus payout as % of maximum	Equity Pool funding rate as % of maximum	Asset Pool funding rate as % of maximum[1]	Performance Share Award vesting as % of maximum	Matching Share Award vesting as % of maximum
2009		2,884.6	85%	0%	100%	n/a	63%
2010		4,041.4	60%	100%	55%	n/a	100%
2011		3,827.3	55%	100%	n/a	100%	100%
2012		2,728.2	45%	0%	n/a	90%	66%
2013		1,002.7	24%	0%	n/a	0%	0%
2014[2]	Simon Lockett	680.3	39% (and pro-rated)	0%	n/a	0%	0%
	Tony Durrant	428.7	40%	0%	n/a	0%	0%

Notes:

1 Following the introduction of the LTIP in 2009, the Asset Pool was replaced by Performance Share Awards. The last award under the Asset Pool had a performance period of 1 January 2008 to 31 December 2010. The introduction of the LTIP was disclosed in the Remuneration Report of the 2009 Annual Report and Financial Statements.

2 Figures shown for Tony Durrant relate to the period during 2014 that he served as Chief Executive: 25 June to 31 December 2014. Figures shown for Simon Lockett relate to the period during 2014 that he served as Chief Executive: 1 January to 25 June 2014.

Implementation of executive director Remuneration Policy for 2015

Remuneration in 2015 will be consistent with the Policy described on pages 85 to 97.

Salary

The salaries of the executive directors are reviewed annually to ensure they remain appropriate. In consideration of the challenges posed by the changed market conditions, no salary increases have been awarded to executive directors for 2015. The average salary increase across the group's UK operations is 2.2 per cent.

Director	Position	Salary from 1 January 2014 or if later from appointment date £	Salary from 1 January 2015 £	Percentage increase
Robin Allan	Director, Business Units	353,750	**353,750**	0%
Tony Durrant[1]	Chief Executive	569,000	**569,000**	0%
Neil Hawkings	Director, Falkland Islands	353,750	**353,750**	0%
Andrew Lodge	Exploration Director	353,750	**353,750**	0%
Richard Rose[2]	Finance Director	300,000	**300,000**	0%

Notes:

1 Tony Durrant was appointed Chief Executive with effect from 25 June 2014. His salary was increased to £569,000 at that point in time (full details regarding the increase are provided on page 100).

2 Richard Rose was appointed Finance Director on 8 September 2014.

Pension, benefits and all-employee share plans

The company will offer executive directors pension, taxable benefits and tax-advantaged all-employee share plans for 2015 in line with the Policy on pages 86 to 88.

Implementation of executive director Remuneration Policy for 2015 (continued)

Annual bonus

For 2015, 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 table below) and 20 per cent on personal objectives. The 2015 corporate and personal objectives, along with threshold and stretch target values, will be disclosed, to the extent that they are not commercially sensitive, in the 2015 Remuneration Report. In the current climate the Committee will consider carefully the oil market outlook, the company's position and the outcome for 2015 in deciding whether and at what level to award bonuses for that year. Any bonus paid will be assessed against the achievement of the 2015 performance targets. The table below summarises the criteria used to assess each measure and the relative weighting of each:

KPI	Subcategory	Target		Weighting
Operating Safely	HSES	Group TRIR		5%
Building the strong production base	Production	Daily average kboepd		10%
	Development	Near-term project milestones	Catcher	5%
			Sea Lion	5%
			Solan	12.5%
Delivering growth	Exploration	Make at least one material discovery (measured via commercial volumes)		10%
Maintaining financial strength	Finance	Covenant headroom		10%
Group strategy	Delivery of strategy	Organisation – plan the business for a low oil price environment		12.5%
		Business development – subject to Committee discretion		10%
Sub-total Corporate KPIs				**80%**
Personal targets				20%
Total				**100%**

Long-term incentive plan

As referenced previously, the Committee began reviewing the effectiveness of the LTIP both for the wider employee population as well as for the executive directors during the year, with alternative approaches considered, the disruption in the oil markets has resulted in the Committee deciding to postpone any decision. Discussions will continue in 2015; should any changes be proposed which impact the LTIP structure for executive directors, shareholders will be consulted and approval sought, as appropriate. The Committee intends to grant LTIP awards in 2015 in line with the Policy on pages 89 to 90. 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 2015 Performance Share Awards in the Remuneration Report for the year ending 31 December 2015.

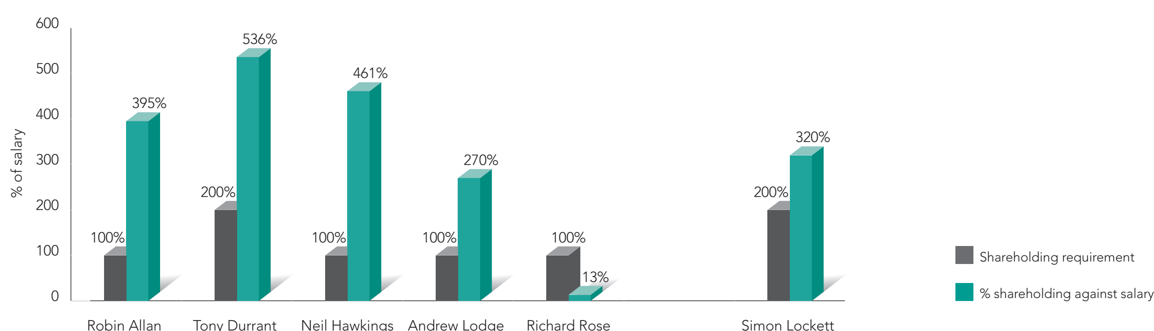
Implementation of non-executive director Remuneration Policy for 2015

Non-executive director fees were last increased with effect from 1 January 2013 with the next review due to be effective 1 January 2015. The next review of fees for non-executive directors will be conducted at the end of 2015 with any change proposed to take effect from 1 January 2016. Non-executive director fees for 2015 are as follows:

Role	Fee type	From 1 January 2014 £	From 1 January 2015 £	Percentage increase
Chairman	Total fee	169,600	169,600	0%
Other non-executive directors	Basic fee	53,000	53,000	0%
	Committee Chairmanship	10,600	10,600	0%
	Senior Independent Director	10,600	10,600	0%

Statement of directors' shareholding and scheme interests (audited)

Formal shareholding guidelines exist which require the executive directors to retain no less than 50 per cent of the net value of shares vesting under the company's long-term incentive arrangements until such time as they have achieved a holding worth 100 per cent of salary (200 per cent for the CEO). As the graph below shows, all the current executive directors who served throughout 2014 hold shares with a value substantially higher than these threshold shareholding requirements. Richard Rose joined the Board on 8 September 2014 and purchased shares shortly after that date. Richard Rose has not yet had the opportunity to retain any shares from the vesting of LTIP or joining awards but will also be required to adhere to the shareholding guidelines as and when any of his share awards vest. Simon Lockett's shareholding is shown as at his leaving date of 15 August 2014.



Notes:

1 Shareholding includes deferred awards under the LTIP (where performance conditions have been achieved and awards are subject to a holding period).

2 The valuation of shareholdings has been calculated using an average of the mid-market closing price between 1 October and 31 December 2014 (£2.2947).

The table below summarises the directors' interests in shares, including those held under outstanding LTIP, SAYE and SIP awards, as at 31 December 2014. Further details of all outstanding awards are disclosed on pages 113 to 119.

Director	Owned outright at 31 December 2014[1] (or date of leaving)	Deferred shares subject to continued employment at 31 December 2014[2] (or date of leaving)	Deferred shares at 31 December 2014[3] (or date of leaving)	Unvested shares subject to performance at 31 December 2014[4] (or date of leaving)	Unvested SAYE options at 31 December 2014 (or date of leaving)	Total share interests at 31 December 2014 (or date of leaving)
Robin Allan	390,270	3,749	218,865	899,567	10,886	**1,523,337**
David Bamford	1,514	–	–	–	–	**1,514**
Anne Marie Cannon	0	–	–	–	–	**0**
Joe Darby	23,108	–	–	–	–	**23,108**
Tony Durrant	1,102,650	4,113	226,783	1,062,503	8,445	**2,404,494**
Neil Hawkings	492,347	3,749	218,865	899,567	6,531	**1,621,059**
Jane Hinkley	13,234	–	–	–	–	**13,234**
David Lindsell	17,332	–	–	–	–	**17,332**
Andrew Lodge	202,891	3,749	213,959	887,302	6,525	**1,314,426**
Michel Romieu	20,000	–	–	–	–	**20,000**
Richard Rose	16,364	26,135	–	109,872	–	**152,371**
Mike Welton	22,531	–	–	–	–	**22,531**
Former director						
Simon Lockett[5]	462,377	6,048	331,771	1,509,381	2,865	**2,312,442**

Notes:

1 Owned outright includes shares held by the director and/or connected persons. This figure also includes shares held in the tax-advantaged Share Incentive Plan (SIP) which may be subject to forfeiture on leaving the company, dependent upon the time for which they have been held.

2 Deferred shares subject to continued employment for Richard Rose comprise of his Conditional Share Award (CSA) received on joining the company to "buy-out" the share awards he forfeited on resignation from his former employer. The CSA reflects the expected value of his forfeited awards and consists of 26,125 shares valued using the mid-market closing share price on 8 September 2014 of £3.413. The CSA will vest only if Richard Rose remains employed by the company on 31 December 2016. Deferred shares for the other executive directors are interests under the Deferred Bonus Share Plan and are subject to malus and clawback in the event of a material misstatement of the company's financial results, gross misconduct or material error in the calculation of performance conditions. The Committee may exercise clawback until the later of: (i) one year from vesting, or (ii) the completion of the next audit after vesting.

3 Deferred shares under the Long Term Incentive Plan subject to a three-year holding period but which would vest in full on cessation of employment in all circumstances save for summary dismissal.

4 Unvested shares subject to performance include 2012 Performance Share Awards and 2012 Matching Share Awards, for which the performance period completed on 31 December 2014 and no awards vested. See page 105 of the Annual Report on Remuneration for further details on performance criteria and achievement.

5 Interests reported as at 15 August 2014, the date on which Simon Lockett's directorship ceased.

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 Investment Management Association's 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 5 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 2014, 2,690,319 shares were held by the Employee Benefit Trust (2013: 2,964,541) 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 2014		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	11,956,616	2.34%	25,540,553	46.81%
As above plus SAYE within 10 per cent limit	14,325,653	2.80%	51,081,106	28.04%

Share price movements during 2014

The mid-market closing price of the company's shares at 31 December 2014 was £1.672 (31 December 2013: £3.136). The intra-day trading price of the company's shares during 2014 was between £1.518 and £3.554.

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, Tony Durrant was a non-executive director of Greenergy Fuels Holdings Limited for which he received a fee of £40,000 in 2014. Tony also served as an Advisory Committee Member of FlowStream Commodities Ltd (appointed with effect from 13 August 2013) for which he receives an annual fee of US$20,000. Robin Allan was appointed Chairman of the Association of British Independent Oil Exploration Companies (BRINDEX) on 1 January 2014 and receives no fee for this role.

As a result of the acquisition of EnCore, the company has a 17.71 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 (2014: £20,000; 2013: £15,000). External directorship fees have not been included in the single total figure of remuneration for executive directors, on page 99.

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

Annual bonus scheme

Details of outstanding share awards held in respect of the deferred element of previous annual bonus awards for directors are shown below. Shares awarded in 2013 and 2014 are dividend equivalent share awards made in accordance with the rules of the Deferred Bonus Share Plan.

Director	Date of grant	Number of shares held at 1 January 2014	Number of shares made subject to award during 2014	Event and number of shares	Market price of shares on date of award	Number of shares held at 31 December 2014 (or at date of leaving)	Earliest vesting date
Robin Allan	25.03.11	18,108	–	(18,108)	499.75p	0	25.03.14
	19.01.12	3,643	–	–	425.40p	3,643	19.01.15
	14.06.13	238	–	(238)	348.10p	0	25.03.14
	14.06.13	47	–	–	348.10p	47	19.01.15
	21.05.14	–	59	–	307.00p	59	19.01.15
		22,036	**59**	**(18,346)**		**3,749**	
Tony Durrant	25.03.11	19,312	–	(19,312)	499.75p	0	25.03.14
	19.01.12	3,996	–	–	425.40p	3,996	19.01.15
	14.06.13	254	–	(254)	348.10p	0	25.03.14
	14.06.13	52	–	–	348.10p	52	19.01.15
	21.05.14	–	65	–	307.00p	65	19.01.15
		23,614	**65**	**(19,566)**		**4,113**	
Neil Hawkings	25.03.11	18,108	–	(18,108)	499.75p	0	25.03.14
	19.01.12	3,643	–	–	425.40p	3,643	19.01.15
	14.06.13	238	–	(238)	348.10p	0	25.03.14
	14.06.13	47	–	–	348.10p	47	19.01.15
	21.05.14	–	59	–	307.00p	59	19.01.15
		22,036	**59**	**(18,346)**		**3,749**	
Andrew Lodge	25.03.11	18,108	–	(18,108)	499.75p	0	25.03.14
	19.01.12	3,643	–	–	425.40p	3,643	19.01.15
	14.06.13	238	–	(238)	348.10p	0	25.03.14
	14.06.13	47	–	–	348.10p	47	19.01.15
	21.05.14	–	59	–	307.00p	59	19.01.15
		22,036	**59**	**(18,346)**		**3,749**	
Former director							
Simon Lockett [2]	25.03.11	26,256	–	(26,256)	499.75p	0	25.03.14
	19.01.12	5,876	–	–	425.40p	5,876	19.01.15
	14.06.13	345	–	(345)	348.10p	0	25.03.14
	14.06.13	77	–	–	348.10p	77	19.01.15
	21.05.14	–	95	–	307.00p	95	19.01.15
		32,554	**95**	**(26,601)**		**6,048**	

Notes:

1 The 2011 awards and dividend equivalent share awards vested on 24 March 2014. The mid-market closing price on 24 March 2014 was £2.8795.

2 Simon Lockett's awards shown above were released in full following his departure, using the closing mid-market share price for 15 August 2014 of £3.368 per share.

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

LTIP Equity Pool Awards

As at 31 December 2014, three Equity Pools were outstanding, as follows:

			Outstanding Equity Pool allocation (% of Pool)				
Cycle	Performance period	Starting market capitalisation	Tony Durrant[2]	Robin Allan	Neil Hawkings	Andrew Lodge	Richard Rose[3]
2012[1]	01.01.12 – 31.12.14	£1,703m	6.00% (pro-rated)	4.25%	4.25%	4.25%	4.25% (pro-rated)
2013	01.01.13 – 31.12.15	£1,823m	6.00% (pro-rated)	4.25%	4.25%	4.25%	4.25% (pro-rated)
2014	01.01.14 – 31.12.16	£1,660m	6.00% (pro-rated)	4.25%	4.25%	4.25%	4.25% (pro-rated)

Notes:

1 The Committee determined in January 2015 that the 2012 Equity Pool Awards will not vest. For further details see page 105.

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

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

LTIP Performance Shares

In each of 2012, 2013 and 2014, the executive directors were granted LTIP Performance Share Awards over shares with a value of 150 per cent of salary for the CEO and 125 per cent of salary for the other executive directors, with adjustments made for Tony Durrant and new joiner Richard Rose during 2014 as detailed above. As at 31 December 2014, the executive directors had the following allocations under the outstanding Performance Share Awards:

Director	Date of grant	Awards held at 1 January 2014	Granted	Lapsed	Vested	Awards held at 31 December 2014 or at date of leaving if earlier	Market price of shares on date of award	Performance period	Earliest vesting date
Robin Allan	28.06.11	90,074	–	(90,074)	–	0	428.60p	01.01.11 – 31.12.13	01.01.14
	22.03.12	96,785	–	–	–	96,785[1]	426.20p	01.01.12 – 31.12.14	01.01.15
	14.05.13	109,732	–	–	–	109,732	393.30p	01.01.13 – 31.12.15	01.01.16
	28.02.14	–	145,888[2]	–	–	145,888	303.10p	01.01.14 – 31.12.16	01.01.17
		296,591	**145,888**	**(90,074)**	**–**	**352,405**			
Tony Durrant	28.06.11	98,791	–	(98,791)	–	0	428.60p	01.01.11 – 31.12.13	01.01.14
	22.08.14	–	4,679[3]	–	–	4,679	334.70p	01.01.12 – 31.12.14	01.01.15
	22.03.12	105,584	–	–	–	105,584[1]	426.20p	01.01.12 – 31.12.14	01.01.15
	22.08.14	–	13,005[3]	–	–	13,005	334.70p	01.01.13 – 31.12.15	01.01.16
	14.05.13	119,910	–	–	–	119,910	393.30p	01.01.13 – 31.12.15	01.01.16
	28.02.14	–	159,394[2]	–	–	159,394	303.10p	01.01.14 – 31.12.16	01.01.17
	22.08.14	–	92,974[3]	–	–	92,974	334.70p	01.01.14 – 31.12.16	01.01.17
		324,285	**270,052**	**(98,791)**	**–**	**495,546**			
Neil Hawkings	28.06.11	90,074	–	(90,074)	–	0	428.60p	01.01.11 – 31.12.13	01.01.14
	22.03.12	96,785	–	–	–	96,785[1]	426.20p	01.01.12 – 31.12.14	01.01.15
	14.05.13	109,732	–	–	–	109,732	393.30p	01.01.13 – 31.12.15	01.01.16
	28.02.14	–	145,888[2]	–	–	145,888	303.10p	01.01.14 – 31.12.16	01.01.17
		296,591	**145,888**	**(90,074)**	**–**	**352,405**			
Andrew Lodge	28.06.11	90,074	–	(90,074)	–	0	428.60p	01.01.11 – 31.12.13	01.01.14
	22.03.12	96,785	–	–	–	96,785[1]	426.20p	01.01.12 – 31.12.14	01.01.15
	14.05.13	109,732	–	–	–	109,732	393.30p	01.01.13 – 31.12.15	01.01.16
	28.02.14	–	145,888[2]	–	–	145,888	303.10p	01.01.14 – 31.12.16	01.01.17
		296,591	**145,888**	**(90,074)**	**–**	**352,405**			
Richard Rose	09.09.14	–	4,818[4]	–	–	4,818	341.30p	01.01.12 – 31.12.14	01.01.15
	09.09.14	–	20,266[4]	–	–	20,266	341.30p	01.01.13 – 31.12.15	01.01.16
	09.09.14	–	84,788[4]	–	–	84,788	341.30p	01.01.14 – 31.12.16	01.01.17
		–	**109,872**	**–**	**–**	**109,872**			

LTIP Performance Shares (continued)

Former Director	Date of grant	Awards held at 1 January 2014	Granted	Lapsed	Vested	Awards held at 31 December 2014 or at date of leaving if earlier	Market price of shares on date of award	Performance period	Earliest vesting date
Simon Lockett [5]	28.06.11	174,337	–	(174,337)	–	0	428.60p	01.01.11 – 31.12.13	01.01.14
	22.03.12	186,532	–	–	–	186,532[1]	426.20p	01.01.12 – 31.12.14	01.01.15
	14.05.13	211,832	–	–	–	211,832	393.30p	01.01.13 – 31.12.15	01.01.16
	28.02.14	–	281,590[2]	–	–	281,590	303.10p	01.01.14 – 31.12.16	01.01.17
		572,701	**281,590**	**(174,337)**	**–**	**679,954**			

Notes:

1 The Committee determined in January 2015 that the 2012 Performance Share Awards will not vest. For further details see page 105.

2 Performance Share Awards were granted on 28 February 2014 using the closing mid-market price of 27 February 2014 (303.10p) to calculate the number of shares under award.

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

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

5 Simon Lockett left the company on 15 August 2014; awards in the above table reflect activity between 1 January 2014 and 15 August 2014. Following his departure, outstanding awards were pro-rated to reflect his leaving date and will vest at the same time as other awards subject to performance conditions being met.

DIRECTORS' REMUNERATION REPORT (continued)

LTIP Performance Shares (continued)

LTIP Deferred Shares and Matching Shares

At 31 December 2014, the executive directors held outstanding awards of Deferred Shares and Matching Awards granted under the LTIP as set out below. No awards were made during FY2014.

Director	Date of grant	Type of award	Awards held at 1 January 2014	Number of shares made subject to award during 2014	Number of Matching Awards granted during 2014	Event and number of shares	Number of shares held at 31 December 2014	Market price of shares on date of award	Performance period	Earliest vesting date
Robin 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
			766,027	**–**	**–**	**–**	**766,027**			
Tony 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
			793,740	**–**	**–**	**–**	**793,740**			
Neil 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
			766,027	**–**	**–**	**–**	**766,027**			
Andrew 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
			748,856	**–**	**–**	**–**	**748,856**			
Former director										
Simon 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
			1,161,198	**–**	**–**	**–**	**1,161,198**			

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 listed companies in the oil and gas sector (see table below for constituents). Full vesting requires upper decile performance.

3 The Committee determined in January 2015 that the 2012 Matching Awards will not vest. For further details see page 105.

LTIP Performance Shares (continued)

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

Company	2012	2013	2014	Company	2012	2013	2014
Afren	✓	✓	✓	Indus Gas		✓	✓
Africa Oil		✓	✓	Ithaca Energy			✓
Anadarko Petroleum	✓	✓		JKX Oil & Gas	✓		
Apache	✓	✓		Lundin Petroleum	✓	✓	✓
Bankers Petroleum	✓	✓	✓	Medco Energi Internasional	✓		
Beach Energy	✓	✓	✓	Nautical Petroleum [1]	✓		
Cairn Energy	✓	✓	✓	Newfield Exploration	✓	✓	
Cairn India	✓	✓	✓	Nexen [2]	✓		
Carrizo Oil & Gas	✓	✓		Noble Energy	✓	✓	✓
Coastal Energy [3]	✓	✓		Oil Search	✓	✓	✓
Det Norske Oljeselskap	✓	✓	✓	Ophir Energy	✓	✓	✓
Devon Energy	✓	✓	✓	Origin Energy	✓	✓	✓
DNO International	✓	✓	✓	Oryx Petroleum			✓
Dragon Oil	✓	✓	✓	PTT EP	✓	✓	✓
Energen	✓	✓		Rockhopper Exploration	✓	✓	✓
EnQuest	✓	✓	✓	Salamander Energy	✓	✓	✓
Etab. Maurel et Prom	✓	✓	✓	Santos	✓	✓	✓
Faroe Petroleum	✓			Slavneft-Megionneftegaz			✓
Gas Malaysia			✓	SOCO International	✓	✓	✓
Genel Energy		✓	✓	Talisman Energy	✓	✓	✓
Gulf Keystone	✓	✓	✓	TransGlobe Energy		✓	✓
Gulfport Energy		✓		Tullow Oil	✓	✓	✓
Heritage Oil [4]	✓	✓		Woodside Petroleum	✓	✓	✓

Note:

1 Nautical Petroleum was acquired by Cairn Energy in July 2012 and was therefore removed from the 2012 comparator group.

2 Nexen was acquired by CNOOC Limited in February 2013 and was therefore removed from the 2012 comparator group.

3 Coastal Energy was acquired in January 2014 and was therefore removed from the 2012 and 2013 comparator groups.

4 Heritage Oil was acquired in July 2014 and was therefore removed from the 2012 and 2013 comparator groups.

DIRECTORS' REMUNERATION REPORT (continued)

Asset and Equity Plan (AEP)

Final outstanding awards under the AEP vested or lapsed during 2014. Transactions during the year for the executive directors under the AEP are set out below:

Director	Date of grant	Type of award[1]	Awards held at 1 January 2014	Granted	Lapsed	Vested[2]	Number of shares held at 31 December 2014	Market price of shares on date of award	Performance period	Earliest vesting date
Robin Allan	25.03.11	Deferred Share	73,340	–	–	(73,340)	0	499.75p	–	01.01.14
	28.06.11	Matching Award	183,350	–	(183,350)	–	0	428.60p	01.01.11 – 31.12.13	01.01.14
			256,690	**–**	**(183,350)**	**(73,340)**	**0**			
Tony Durrant	25.03.11	Deferred Share	78,228	–	–	(78,228)	0	499.75p	–	01.01.14
	28.06.11	Matching Award	195,570	–	(195,570)	–	0	428.60p	01.01.11 – 31.12.13	01.01.14
			273,798	**–**	**(195,570)**	**(78,228)**	**0**			
Neil Hawkings	25.03.11	Deferred Share	73,340	–	–	(73,340)	0	499.75p	–	01.01.14
	28.06.11	Matching Award	183,350	–	(183,350)	–	0	428.60p	01.01.11 – 31.12.13	01.01.14
			256,690	**–**	**(183,350)**	**(73,340)**	**0**			
Andrew Lodge	25.03.11	Deferred Share	46,516	–	–	(46,516)	0	499.75p	–	01.01.14
	28.06.11	Matching Award	116,290	–	(116,290)	–	0	428.60p	01.01.11 – 31.12.13	01.01.14
			162,806	**–**	**(116,290)**	**(46,516)**	**0**			
Former director										
Simon Lockett	25.03.11	Deferred Share	106,344	–	–	(106,344)	0	499.75p	–	01.01.14
	28.06.11	Matching Award	265,860	–	(265,860)	–	0	428.60p	01.01.11 – 31.12.13	01.01.14
			372,204	**–**	**(265,860)**	**(106,344)**	**0**			

Notes:

1 There are no performance criteria for the Deferred Shares. Matching Awards granted were 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 Deferred Shares vested on 27 February 2014. The mid-market closing price on 27 February 2014 was 303.10p. See the 2013 Directors' Remuneration Report for further details of these awards, including Premier's performance against the performance targets.

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:

Director	Date of grant	Exercisable dates	Acquisition price per share (£)	Options held at 1 January 2014	Granted	Exercised	Lapsed	Options held at 31 December 2014 (*or date of leaving)
Robin Allan	03.05.12	01.06.17 – 30.11.17	3.1344	4,785	–	–	–	4,785
	07.05.14	01.06.19 – 30.11.19	2.4584	–	6,101	–	–	6,101
								10,886
Tony Durrant	03.05.12	01.06.17 – 30.11.17	3.1344	4,785	–	–	–	4,785
	07.05.14	01.06.17 – 30.11.17	2.4584	–	3,660	–	–	3,660
								8,445
Neil Hawkings	03.05.12	01.06.15 – 30.11.15	3.1344	2,871	–	–	–	2,871
	07.05.14	01.06.17 – 30.11.17	2.4584	–	3,660	–	–	3,660
								6,531
Andrew Lodge	10.05.13	01.06.16 – 30.11.16	3.1408	2,865	–	–	–	2,865
	07.05.14	01.06.17 – 30.11.17	2.4584	–	3,660	–	–	3,660
								6,525
Former director								
Simon Lockett	10.05.13	01.06.16 – 30.11.16	3.1408	2,865	–	–	–	**2,865***

Share Incentive Plan

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

Director	Shares held on 1 January 2014	Total Partnership Shares purchased in 2014 at prices between £1.9010 and £3.5436[1]	Total Matching Shares awarded in 2014 at prices between £1.9010 and £3.5436, vesting from 2017	Total Dividend Shares purchased in 2014 at a price of £3.4570	Shares held on 31 December 2014	Partnership and Matching Shares acquired between 1 January and 25 February 2015
Robin Allan	18,890	506	506	278	20,180	312
Tony Durrant	8,592	504	504	129	9,729	314
Neil Hawkings	8,592	542	542	129	9,805	374
Andrew Lodge	3,895	564	564	62	5,085	374
Richard Rose	0	182	182	–	364	376
Former director						
Simon Lockett	18,927	316[1]	316	278	19,837	–

1 Simon Lockett participated in the plan until his leaving date of 15 August 2014. Partnership and Matching Share Award prices ranged between £2.7260 and £3.5436 per share during this period.

For and on behalf of the Remuneration Committee

Jane Hinkley
Chairman of the Remuneration Committee

25 February 2015

DIRECTORS' REPORT

The directors present their annual report on the affairs of the group, together with the audited group financial statements and auditor's report for the year ended 31 December 2014. There are certain disclosure requirements which form part of the Directors' Report and are included elsewhere in this annual report. Details regarding the location of information incorporated by reference into this Directors' Report is set out on page 122.

Dividend

No dividend is proposed in respect of the year ended 31 December 2014. (2013: 5 pence per share).

Annual General Meeting

The company's next AGM will be held on Wednesday 13 May 2015 at 11.00am. The Notice of the AGM, together with details of all resolutions which will be placed before the meeting, accompanies this report and is also available online at www.premier-oil.com

Directors

The directors of the company as at 25 February 2015 are shown on pages 66 and 67. Anne Marie Cannon and David Bamford were appointed as non-executive directors on 1 February 2014 and 1 May 2014 respectively and were both elected by shareholders at the 2014 AGM. Simon Lockett resigned as a director on 15 August 2014 and Richard Rose was appointed as Finance Director on 8 September 2014 and will stand for election by shareholders at the 2015 AGM. Tony Durrant, former Finance Director, was appointed Chief Executive on 25 June 2014.

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.

Subject to applicable law and the company's Articles of Association the directors may exercise all powers of the company. Details of the matters reserved for the board are set out on the company's website.

Indemnification of directors and insurance

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. The company also has directors' and officers' liability insurance in place, and details of the policy are given to new directors on appointment.

Share capital

Details of the company's issued share capital, together with details of 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. Detail regarding shares bought back in the year is provided below. The current authority, approved at the 2014 AGM, for the allotment of relevant securities is for a nominal amount of up to (i) £22,001,825 and (ii) equity securities up to a nominal amount of £44,003,651 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 2015 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 Trustee but it has no obligation to do so. Details of the number of shares held by the Employee Benefit Trust are set out in the Annual Report on Remuneration on page 112. No person has any special rights of control over the company's share capital and all issued shares are fully-paid.

American Depositary Receipt programme

Premier Oil plc has a sponsored Level 1 American Depositary Receipt (ADR) programme which BNY Mellon administers and for which it acts as Depositary. Each ADR represents one ordinary share of the company. The ADRs trade on the US over-the-counter market under the symbol PMOIY. When dividends are paid to shareholders, the Depositary converts such dividends into US dollars, net of fees and expenses, and distributes the net amount to ADR holders. Contact details for BNY Mellon are set out in the Shareholder Information section of this report.

Share buyback

Subject to applicable law and appropriate authority being granted by shareholders in a General Meeting, the directors have the power to authorise the market purchase of the company's shares.

At the 2014 AGM, shareholders authorised the directors to make market purchases up to a maximum of approximately 15 per cent of the company's issued share capital (being £9,900,821 in nominal value) excluding treasury shares. Any shares purchased under this authority may either be cancelled or may be held as treasury shares provided that the number of shares held does not exceed 10 per cent of issued share capital.

The minimum price, exclusive of expenses, which may be paid for an ordinary share is an amount equal to the nominal value of an ordinary share. The maximum price, exclusive of expenses, which may be paid for an ordinary share is the higher of (i) an amount equal to 5 per cent above the average of the closing mid-market price of an ordinary share for the five business days immediately preceding the date of the purchase, and (ii) that stipulated by Article 5(1) of the Buy-back and Stabilisation Regulation, Commission Regulation (EC) of 22 December 2003.

On 27 February 2014, the company announced its intention to initiate a share buyback programme of an amount up to £75.0m, to be reviewed by the Board on a quarterly basis. The rationale for the programme was that the excess capital available, over and above the long-run model assumption based at US$85/bbl, should be returned to shareholders by way of a buyback programme, and should be continued whilst shares in the company continued to trade at a discount to Net Asset Value. By the end of the third quarter of the buyback programme, the oil price had decreased significantly such that model assumptions were re-visited and scaled downwards. In light of the uncertainty of the oil price near-term direction and impact on expenditure, the Board agreed that the programme should be put on hold with the situation to be revisited later in 2015.

During 2014, 18,455,248 ordinary shares were repurchased by the company and cancelled, representing 3.61 per cent of the company's issued share capital as at 31 December 2014. The nominal value of the shares purchased as at 31 December 2014 was £2,306,906 and the aggregate amount of consideration paid by the company for those shares was £55,730,484. In December, a decision was taken by the Board to postpone the buyback programme pending a recovery in the oil price. As at 31 December 2014, the remaining authority outstanding for the company to make market purchases of its own shares, under the shareholders' resolution of 14 May 2014, stood at an aggregate nominal value of up to £7,593,915.

Significant shareholdings

As at 25 February 2015 the company had received notification from the institutions below, in accordance with Chapter 5 of the Disclosure and Transparency Rules, of their significant holdings of voting rights (3 per cent or more) in its ordinary shares:

Name of shareholder	Date of notification to the stock exchange	Notified number of voting rights	Notified percentage of voting rights[1]	Nature of holding
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
BlackRock, Inc.	12/02/2015	25,838,377	5.06%	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	22/01/2015	20,761,229	4.06%	Direct
Royal London Asset Management Limited	22/04/2014	16,106,042	3.06%	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 and its subsidiaries 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 (2013: US$nil).

Important events since 31 December 2014

Details of significant events since the balance sheet date are contained in note 26 to the financial statements.

Information set out in the Strategic Report

The Strategic Report set out on pages 2 to 65 provides a comprehensive review of the performance of the company's operations for the year ended 31 December 2014 and the potential future developments of those operations. The Strategic Report also includes details of the company's principal risks and uncertainties and research and development activities during the year. Information regarding the company's policy applied during the year relating to the recruitment, employment, training, career development and promotion of staff including employment of disabled persons is included within the Corporate Responsibility section of the Strategic Report on page 60. In addition, information regarding the company's greenhouse gas emissions is also included in the Corporate Responsibility section of the Strategic Report on page 59. In accordance with s414C(11) of the Companies Act 2006, the directors have chosen to set out the information outlined above, required to be included in the Directors' Report, in the Strategic Report.

The Strategic Report and the Directors' Report together include the 'management report' for the purposes of the FCA's Disclosure & Transparency Rules (DTR 4.1.8R).

Information set out elsewhere in this Annual Report

Information regarding the company's governance arrangements is included in the Corporate Governance Report and related Board committee reports on pages 68 to 119.

For the purposes of Listing Rule 9.8.4C R, the information required to be disclosed by Listing Rule 9.8.4 R can be found in the following locations:

Listing Rule sub-section	Item	Location
9.8.4 (1)	Interest capitalised	Financial statements, note 5, page 146
9.8.4 (4)	Details of long-term incentive schemes established to facilitate the recruitment of a director	Directors' Remuneration Report, page 111
9.8.4 (5)	Waiver of emoluments by a director	Directors' Remuneration Report, page 100

Auditor

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

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

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

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

Stephen Huddle
Company Secretary

25 February 2015

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 International Accounting Standards (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 financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether 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:

1. the group financial statements, prepared in accordance with International Financial Reporting Standards, as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole;
2. the Strategic Report includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
3. the Annual Report and Financial Statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the company's performance, business model and strategy.

Tony Durrant
Chief Executive Officer

25 February 2015

Richard Rose
Finance Director

25 February 2015

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

- New and revised Standards on consolidation, joint arrangements, associates and disclosure: In May 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued comprising IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosure of Interests in Other Entities, IAS 27 (as revised in 2011) Separate Financial Statements and IAS 28 (as revised in 2011) Investments in Associates and Joint Ventures. Subsequent to the issue of these standards, amendments to IFRS 10, IFRS 11 and IFRS 12 were issued to clarify certain transitional guidance on the first-time application of the standards. In the current year, the group has applied for the first time IFRS 10, IFRS 11, IFRS 12 and IAS 28 (as revised in 2011) together with the amendments to IFRS 10, IFRS 11 and IFRS 12 regarding the transitional guidance. IAS 27 (as revised in 2011) has also been applied and it deals only with separate financial statements.
- Amendments to IFRS 10, IFRS 12 and IAS 27 Investment Entities
- Amendments to IAS 36 Recoverable Amount Disclosures for Non-Financial Assets
- Amendments to IAS 39 Novation of Derivatives and Continuation of Hedge Accounting
- IFRIC 21 Levies
- Amendments to IAS 32 Offsetting financial assets and financial liabilities

At the date of approval of these financial statements, the following standards and interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the European Union):

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers
- IFRS 11 (amendments) Accounting for Acquisitions of Interests in Joint Operations
- IAS 16 and IAS 38 (amendments) Clarification of Acceptable Methods of Depreciation and Amortisation
- IAS 16 and IAS 41 (amendments) Agriculture: Bearer Plants
- IAS 19 (amendments) Defined Benefit Plans: Employee Contributions
- IAS 27 (amendments) Equity Method in Separate Financial Statements
- IFRS 10 and IAS 28 (amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- Annual Improvements to IFRSs: 2010-2012 Amendments to: IFRS 2 Share-based Payment, IFRS 3 Business Combinations, IFRS 8 Operating Segments, IFRS 13 Fair Value Measurement, IAS 16 Property, Plant and Equipment, IAS 24 Related Party Disclosures and IAS 38 Intangible Assets
- Annual Improvements to IFRSs: 2011-2013 Amendments to: IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 3 Business Combinations, IFRS 13 Fair Value Measurement and IAS 40 Investment Property
- Annual Improvements to IFRSs: 2012-2014 Cycle Amendments to: IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, IFRS 7 Financial Instruments: Disclosures, IAS 19 Employee Benefits and IAS 34 Interim Financial Reporting

The directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the group in future periods, except that IFRS 9 will impact both the measurement and disclosures of financial instruments and IFRS 15 may have an impact on revenue recognition and related disclosures. Beyond the information above, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 and IFRS 15 until a detailed review has been completed.

Basis of preparation

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

The financial statements are prepared under the historical cost convention except for 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 when a company is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

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

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

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

Business combinations

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

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

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 (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 arrangements

A joint arrangement is one in which two or more parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

Most of the group's activities are conducted through joint operations, whereby the parties that have joint control of the arrangement have the rights to the assets, and obligations for the liabilities, relating to the arrangement. The group reports its interests in joint operations using proportionate consolidation – the group's share of the assets, liabilities, income and expenses of the joint operation are combined with the equivalent items in the consolidated financial statements on a line-by-line basis.

A joint venture, which normally involves the establishment of a separate legal entity, is a contractual arrangement whereby the parties that have joint control of the arrangement have the rights to the arrangement's net assets. The results, assets and liabilities of a joint venture are incorporated in the consolidated financial statements using the equity method of accounting. During 2014, the group did not have any material interests in joint ventures.

Where the group transacts with its joint operations, unrealised profits and losses are eliminated to the extent of the group's interest in the joint operation.

Interests in associates

An associate is an entity over which the group has significant influence, through the power to participate in the financial and operating policy decisions of the investee, but which is not a subsidiary or a joint arrangement. The results, assets and liabilities of an associate are incorporated in these financial statements using the equity method of accounting.

Assets held for sale

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sales transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Sales revenue and other income

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

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

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

Oil and gas assets

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

(a) Exploration and evaluation assets

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

Pre-licence costs

Costs incurred prior to having obtained the legal rights to explore an area are expensed 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.

(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 inflows 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.

Oil and gas assets (continued)

(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.

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.

ACCOUNTING POLICIES (continued)

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.

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 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 (note 9);
- decommissioning costs (note 16);
- tax and recognition of deferred tax assets (note 18).

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PREMIER OIL PLC

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 2014 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

The financial statements comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated and parent company balance sheets, the consolidated cash flow statement, the consolidated statement of changes in equity, the parent company statement of total recognised gains and losses, the accounting policies and the related notes 1 to 26 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. Our audit work in response to going concern risk is summarised in the following section of this report.

We confirm that:

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

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. These risks are the same as those discussed in 2013 but with the addition of going concern on the grounds that there has been a significant drop in the oil price.

Going concern

Risk description	How the scope of our audit responded to the risk
Following the significant recent decline in the oil price, and on-going oil price volatility, there is a heightened degree of judgement as to the group's ability to comply with certain of the covenants within its loan agreements throughout the going concern assessment period. Accordingly, we considered the appropriateness of the going concern assumption, the question as to whether there is a material uncertainty and the adequacy of management's disclosure to be a key risk.	We have challenged the key assumptions in management's forecast cash flows for the next 12 months (base case and downside scenarios) by: • comparing the cash flow forecasts with the Board approved budget, and obtaining explanations for any significant differences; • ensuring consistency between the forecasts in the group going concern model and those used in the asset value-in-use calculations for impairment assessment purposes; • assessing the historical accuracy of forecasts prepared by management; • comparing the oil price assumptions used in these forecasts to third party forecasts and publicly available forward curves; • testing the mechanical accuracy of the model used; • agreeing the group's committed debt facilities and hedging arrangements to supporting documentation; • performing stress tests for a range of reasonably possible scenarios (including oil price) on management's cash flow and covenant compliance forecasts for the going concern period; • challenging management's plans for mitigating any identified exposures, including their ability to amend the terms of their existing financing arrangements, obtain additional sources of financing or undertake additional asset disposals; • assessing the quality of the group's relationships with the banks providing the debt facilities; and • considering whether the disclosures relating to going concern referred to in the basis of preparation section of the accounting policies are balanced, proportionate and clear. We have concluded above that we agree with management's adoption of the going concern basis of accounting and we agree with their conclusion that there are no material uncertainties that may cast significant doubt on the group's ability to continue as a going concern.

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

Risk description	How the scope of our audit responded to the risk
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.	We have considered the process by which management review their E&E assets to assess if there were any indicators of impairments for any of the group's material field interests. We challenged 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. Note 8 of the financial statements includes details of the group's exploration assets and the impairments of US$58.5 million which arose during the year.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PREMIER OIL PLC (continued)

Capitalisation and impairment of oil and gas properties within property, plant and equipment

Risk description	How the scope of our audit responded to the risk
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. This is a particular area of focus for 2014 given the fall in the oil price during the year. 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.	We have performed a review of the producing and development asset portfolio for indicators of impairment. Where indicators of impairment have been identified, we have ensured that appropriate impairment calculations have been prepared. These are 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 impairments were identified, we confirmed that an appropriate provision has been recorded. During the year, a total impairment charge was recorded of US$784.4 million, which primarily related to the Balmoral area, Solan, and Huntington in the UK and Chim Sáo in Vietnam. Further details 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 provisions

Risk description	How the scope of our audit responded to the risk
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. The total provision at the end of 2014 was US$871 million (2013: US$838 million) and further details are provided in note 16 to the financial statements.

Accounting for income taxes

Risk description	How the scope of our audit responded to the risk
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, which totalled US$972 million at the year-end, and 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.

The description of risks above should be read in conjunction with the significant issues considered by the Audit Committee discussed on pages 78 to 79.

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$23 million (2013: US$30 million), which is below 5 per cent (2013: 7.5 per cent) of normalised pre-tax profit. Pre-tax profit has been normalised through the exclusion of one-off items, including impairment charges, that are audited separately and would, if included, significantly distort the materiality calculation year-on-year. We have reduced the percentage applied to pre-tax profit in response to recent market and regulatory trends in this area.

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$12 million and US$15 million, depending on 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$0.5 million (2013: 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 was scoped by obtaining an understanding of the group and its environment, including group-wide controls, and assessing the risks of material misstatement at the group level.

Based on that assessment, we focused our group audit scope 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 represent the principal business units and account for materially all of the group's net assets, revenue and profit before tax.

They were also selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above.

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

The group audit team performs the audit work in London and Aberdeen and is also involved in the work of the component auditor 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 the significant risks by the component auditor. During the year, visits were made to all three overseas locations.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PREMIER OIL PLC (continued)

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.

Directors' remuneration

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

Corporate Governance Statement

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

Our duty to read other information in the Annual Report

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

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

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the Audit 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. We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

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

Scope of the audit of the financial statements

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

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

25 February 2015

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2014

	Note	2014 $ million	2013 $ million
Sales revenues	1	**1,629.4**	1,501.0
Other operating income		**–**	38.7
Cost of sales	2	**(986.6)**	(856.1)
Impairment charge on oil and gas properties*	9	**(784.4)**	(178.7)
Exploration expense	8	**(58.5)**	(106.2)
Pre-licence exploration costs		**(25.3)**	(30.1)
Profit on disposal of non-current assets	8, 9	**2.7**	3.6
General and administration costs		**(25.4)**	(20.2)
Operating (loss)/profit		**(248.1)**	352.0
Share of profit in associate	10	**1.9**	–
Interest revenue, finance and other gains	5	**58.5**	33.0
Finance costs, other finance expenses and losses	5	**(196.3)**	(98.4)
Loss on commodity derivative financial instruments	17	**–**	(1.2)
(Loss)/profit before tax		**(384.0)**	285.4
Tax	6	**173.7**	(51.4)
(Loss)/profit after tax		**(210.3)**	234.0
(Loss)/earnings per share (cents):			
Basic	7	**(40.3)**	44.2
Diluted	7	**(40.3)**	43.2

* The 2013 income statement has been restated to disclose separately the impairment charge on oil and gas properties.

The results relate entirely to continuing operations.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2014

	Note	**2014 $ million**	2013 $ million
(Loss)/profit for the year		**(210.3)**	234.0
Cash flow hedges on commodity swaps:			
Gains/(losses) arising during the year		**296.1**	(25.0)
Less: reclassification adjustments for (gains)/losses in the year		**(46.0)**	0.8
	17	**250.1**	(24.2)
Tax relating to components of other comprehensive income		**(139.0)**	13.9
Cash flow hedges on interest rate and foreign exchange swaps	17	**15.5**	(0.8)
Exchange differences on translation of foreign operations		**(48.3)**	(17.5)
Losses on long-term employee benefit plans*	23	**(0.2)**	(6.5)
Other comprehensive income/(expense)		**78.1**	(35.1)
Total comprehensive (expense)/income for the year		**(132.2)**	198.9

* 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 2014

	Note	2014 $ million	2013 $ million
Non-current assets:			
Intangible exploration and evaluation assets	8	**825.7**	701.0
Property, plant and equipment	9	**2,430.0**	2,885.9
Goodwill	9	**240.8**	240.8
Investment in associate	10	**7.6**	6.2
Long-term employee benefit plan surplus	23	**0.8**	1.0
Long-term receivables	11	**494.1**	198.1
Deferred tax assets	18	**971.7**	762.4
		4,970.7	4,795.4
Current assets:			
Inventories		**26.1**	49.5
Trade and other receivables	11	**411.0**	421.8
Tax recoverable		**57.9**	82.4
Derivative financial instruments	17	**273.4**	15.9
Cash and cash equivalents	12	**291.8**	448.9
Asset held for sale	9	**56.7**	–
		1,116.9	1,018.5
Total assets		**6,087.6**	5,813.9
Current liabilities:			
Trade and other payables	13	**(544.5)**	(512.4)
Current tax payable		**(84.2)**	(92.0)
Provisions	16	**(14.1)**	(13.1)
Derivative financial instruments	17	**(48.1)**	(38.3)
Short-term debt	14	**(300.0)**	–
Liabilities directly associated with asset held for sale	9	**(1.8)**	–
		(992.7)	(655.8)
Net current assets		**124.2**	362.7
Non-current liabilities:			
Convertible bonds	14	**(228.1)**	(223.8)
Other long-term debt	14	**(1,858.1)**	(1,665.4)
Deferred tax liabilities	18	**(254.2)**	(306.8)
Long-term provisions	16	**(864.0)**	(824.6)
Long-term employee benefit plan deficit	23	**(18.3)**	(13.1)
		(3,222.7)	(3,033.7)
Total liabilities		**(4,215.4)**	(3,689.5)
Net assets		**1,872.2**	2,124.4
Equity and reserves:			
Share capital	19	**106.7**	110.5
Share premium account		**275.4**	275.3
Merger Reserve		**374.3**	374.3
Retained earnings		**1,142.3**	1,342.1
Other reserves		**(26.5)**	22.2
		1,872.2	2,124.4

The financial statements were approved by the Board of Directors and authorised for issue on 25 February 2015.

They were signed on its behalf by:

Tony Durrant
Chief Executive

Richard Rose
Finance Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2014

		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 2013		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 1 January 2014		110.5	275.3	1,342.1	374.3	4.3	(0.4)	18.3	2,124.4
Issue of Ordinary Shares		–	0.1	–	–	–	–	–	0.1
Purchase and cancellation of own shares		(3.8)	–	(93.0)	–	3.8	–	–	(93.0)
Purchase of ESOP Trust shares		–	–	(6.4)	–	–	–	–	(6.4)
Provision for share-based payments	19	–	–	23.3	–	–	–	–	23.3
Transfer between reserves*		–	–	4.2	–	–	–	(4.2)	–
Dividends paid	25	–	–	(44.0)	–	–	–	–	(44.0)
Total comprehensive expense		–	–	(83.9)	–	–	(48.3)	–	(132.2)
At 31 December 2014		**106.7**	**275.4**	**1,142.3**	**374.3**	**8.1**	**(48.7)**	**14.1**	**1,872.2**

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

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2014

	Note	**2014 $ million**	2013 $ million
Net cash from operating activities	21	**924.3**	802.5
Investing activities:			
Capital expenditure		**(1,195.5)**	(878.0)
Disposal of oil and gas properties		**130.7**	61.0
Loan to joint venture partner		**(318.4)**	(185.9)
Net cash used in investing activities		**(1,383.2)**	(1,002.9)
Financing activities:			
Proceeds from issuance of Ordinary Shares		**0.1**	0.4
Purchase and cancellation of own shares		**(93.0)**	–
Purchase of ESOP Trust shares		**(6.4)**	(12.8)
Proceeds from drawdown of long-term bank loans		**655.0**	384.1
Proceeds from issuance of senior loan notes		**–**	156.7
Proceeds from issuance of retail bonds		**–**	245.8
Debt arrangement fees		**(22.1)**	(7.1)
Repayment of long-term bank loans		**(100.0)**	(200.0)
Dividends paid		**(44.0)**	(40.2)
Interest paid		**(98.1)**	(71.1)
Net cash from financing activities		**291.5**	455.8
Currency translation differences relating to cash and cash equivalents		**10.3**	6.1
Net (decrease)/increase in cash and cash equivalents		**(157.1)**	261.5
Cash and cash equivalents at the beginning of the year		**448.9**	187.4
Cash and cash equivalents at the end of the year	21	**291.8**	448.9

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

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.

	2014 $ million	2013 $ million
Revenue:		
Indonesia	**325.7**	295.9
Pakistan (including Mauritania)	**141.6**	165.4
Vietnam	**473.3**	468.2
United Kingdom	**688.8**	571.5
Total group sales revenue	**1,629.4**	1,501.0
Other operating income – United Kingdom	**–**	38.7
Interest and other finance revenue	**39.4**	10.9
Total group revenue	**1,668.8**	1,550.6
Group operating (loss)/profit:		
Indonesia	**104.5**	187.0
Norway	**(17.4)**	(26.5)
Pakistan (including Mauritania)	**32.4**	84.0
Vietnam	**153.5**	195.9
United Kingdom	**(446.6)**	(31.5)
Rest of the World	**(23.6)**	(8.7)
Unallocated*	**(50.9)**	(48.2)
Group operating (loss)/profit	**(248.1)**	352.0
Share of profit in associate	**1.9**	–
Interest revenue, finance and other gains	**58.5**	33.0
Finance costs and other finance expenses	**(196.3)**	(98.4)
Loss on derivative financial instruments	**–**	(1.2)
(Loss)/profit before tax	**(384.0)**	285.4
Tax	**173.7**	(51.4)
(Loss)/profit after tax	**(210.3)**	234.0
Balance sheet		
Segment assets:		
Falkland Islands	**430.6**	297.2
Indonesia	**702.0**	731.5
Norway	**197.9**	231.3
Pakistan (including Mauritania)	**101.7**	117.4
Vietnam	**569.9**	648.5
United Kingdom	**3,428.2**	3,260.4
Rest of the World	**92.1**	62.8
Unallocated*	**565.2**	464.8
Total assets	**6,087.6**	5,813.9

* 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 2014

1. Operating segments (continued)

	2014 $ million	2013 $ million
Liabilities:		
Falkland Islands	**(28.5)**	(14.6)
Indonesia	**(326.4)**	(296.3)
Norway	**(60.3)**	(83.9)
Pakistan (including Mauritania)	**(103.0)**	(88.4)
Vietnam	**(322.7)**	(316.9)
United Kingdom	**(913.9)**	(948.1)
Rest of the World	**(26.2)**	(14.0)
Unallocated*	**(2,434.4)**	(1,927.3)
Total liabilities	**(4,215.4)**	(3,689.5)
Other information		
Capital additions and acquisitions:		
Falkland Islands	**112.9**	54.0
Indonesia	**149.2**	101.0
Norway	**68.1**	49.9
Pakistan (including Mauritania)	**33.4**	33.8
Vietnam	**156.7**	121.9
United Kingdom	**654.3**	615.4
Rest of the World	**36.8**	47.5
Total capital additions and acquisitions	**1,211.4**	1,023.5
Depreciation, depletion, amortisation and impairment:		
Indonesia	**73.7**	57.1
Pakistan (including Mauritania)	**41.8**	42.5
Vietnam	**185.6**	117.1
United Kingdom	**938.2**	344.8
Rest of the World	**1.5**	1.0
Total depreciation, depletion, amortisation and impairment	**1,240.8**	562.5

* 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$1,629.4 million (2013: US$1,501.0 million), revenues of US$688.8 million (2013:US$571.5 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$2,246.7 million (2013: US$2,282.2 million) located in the UK. Included in depreciation, depletion, amortisation and impairment are impairment charges in relation to the UK (US$732.3 million), Vietnam (US$41.8 million), Pakistan (including Mauritania) (US$5.3 million) and Indonesia (US$5.0 million).

Revenue from four customers (2013: four customers) each exceeded 10 per cent of the group's consolidated revenue and amounted respectively to US$436.1 million, US$157.2 million and US$204.5 million arising from sales of crude oil (2013: US$468.9 million, US$199.1 million and US$234.4 million) and US$284.3 million arising from sales of gas (2013: US$302.8 million) across all operating segments.

2. Cost of sales

	Note	2014 $ million	2013 $ million
Operating costs		**436.1**	418.9
Stock overlift/underlift movement		**48.5**	9.8
Royalties		**45.6**	43.6
Amortisation and depreciation of property, plant and equipment:			
Oil and gas properties	9	**446.1**	375.0
Other fixed assets	9	**10.3**	8.8
		986.6	856.1

3. Auditor's remuneration

	2014 $ million	2013 $ million
Audit fees:		
Fees payable to the company's auditor for the company's annual report	**0.8**	0.8
Audit of the company's subsidiaries pursuant to legislation	**0.2**	0.1
	1.0	0.9
Non-audit fees:		
Other services pursuant to legislation – interim review	**0.1**	0.1
Corporate finance services*	**–**	0.1
Tax services	**0.3**	0.2
Information technology subscription fees for upstream data	**0.2**	0.1
Other services**	**0.1**	0.1
	0.7	0.6

* In 2013 work was performed on the issuance of senior loan notes and other long-term debt.

** Other services relate to fees payable to the company's auditors for the audit of company's joint operations and other assurance services.

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 auditors for services relating to accounting systems or financial statement preparations is not permitted, as are various other services that could give rise to conflicts of interest or other threats to the auditor's objectivity that cannot be reduced to an acceptable level by applying safeguards.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2014

4. Staff costs

	2014 $ million	2013 $ million
Staff costs, including executive directors:		
Wages and salaries	**148.9**	144.6
Social security costs	**10.8**	9.7
Pension costs:		
Defined contribution	**9.6**	4.1
Defined benefit	**2.3**	7.4
	171.6	165.8

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.

	2014	2013
Average number of employees during the year*:		
Technical and operations	**657**	612
Management and administration	**283**	270
	940	882

* Staff numbers include executive directors.

5. Interest revenue and finance costs

	Note	2014 $ million	2013 $ million
Interest revenue, finance and other gains:			
Short-term deposits		**2.1**	1.5
Gain on forward contracts		**–**	12.3
Loan to joint venture partner	11	**36.8**	6.3
Exchange differences and others		**19.6**	12.9
		58.5	33.0
Finance costs:			
Bank loans, overdrafts and bonds		**(62.1)**	(37.8)
Payable in respect of convertible bonds	14	**(10.5)**	(10.3)
Payable in respect of senior loan notes		**(31.3)**	(31.4)
Long-term debt arrangement fees		**(7.0)**	(8.0)
Loss on forward contracts		**(18.9)**	–
Exchange differences and others		**(0.6)**	(0.1)
		(130.4)	(87.6)
Other finance expenses:			
Unwinding of discount on decommissioning provision	16	**(46.9)**	(36.4)
Provision for doubtful loan to joint venture partner	11	**(61.2)**	–
		(108.1)	(36.4)
Gross finance costs and other finance expenses		**(238.5)**	(124.0)
Finance costs capitalised during the year	9	**42.2**	25.6
		(196.3)	(98.4)

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 4.4 per cent (2013: 4.7 per cent) to the expenditures on the qualifying assets.

During the year a currency exchange gain of US$19.1 million was credited to income (2013: US$8.5 million). This excluded exchange gains and losses arising on financial instruments measured at fair value through profit or loss.

6. Tax

	Note	**2014 $ million**	2013 $ million
Current tax:			
UK corporation tax on profits*		**(1.5)**	(12.1)
UK petroleum revenue tax		**65.4**	100.9
Overseas tax		**154.1**	122.7
Adjustments in respect of prior years		**1.9**	(22.3)
Total current tax		**219.9**	189.2
Deferred tax:			
UK corporation tax		**(382.2)**	(180.5)
UK petroleum revenue tax		**33.7**	(6.4)
Overseas tax		**(45.1)**	49.1
Total deferred tax	18	**(393.6)**	(137.8)
Tax (credit)/charge on (loss)/profit on ordinary activities		**(173.7)**	51.4

* The UK corporation current tax credit of US$1.5 million consists of a UK tax refund relating to decommissioning costs incurred in 2014 and carried back to prior periods.

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

	2014 $ million	2013 $ million
Group (loss)/profit on ordinary activities before tax	**(384.0)**	285.4
Group (loss)/profit on ordinary activities before tax at 64.0% weighted average rate (2013: 30.5%)	**(245.7)**	87.2
Tax effects of:		
Income/expenses that are not taxable/deductible in determining taxable profit	**21.1**	31.8
Tax and tax credits not related to profit before tax	**(50.4)**	(70.2)
Unrecognised tax losses	**23.8**	17.8
Utilisation and recognition of tax losses not previously recognised	**(11.2)**	(0.2)
Adjustments in respect of prior years	**1.9**	(22.3)
Write down of deferred tax asset previously recognised	**86.8**	7.3
Tax (credit)/charge for the year	**(173.7)**	51.4
Effective tax rate for the year	**45.2%**	18.0%

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 (2013: 62 per cent).

In the Autumn Statement, the UK Chancellor announced a two per cent reduction in the supplementary tax charge on profits from 32 to 30 per cent, however, as at 31 December 2014 this was not substantively enacted.

Tax not related to profit before tax includes the impact of ring fence expenditure supplement (US$141.9 million), partially offset by the impact of the UK PRT charge.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2014

7. (Loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the (loss)/profit after tax and on the weighted average number of Ordinary Shares in issue during the year. Basic and diluted (loss)/earnings per share are calculated as follows:

	2014 $ million	2013 $ million
(Loss)/earnings		
(Loss)/earnings for the purposes of basic earnings per share being net profit attributable to owners of the company	**(210.3)**	234.0
Effect of dilutive potential Ordinary Shares:		
Interest on convertible bonds – 2014 anti-dilutive	**–**	10.3
(Loss)/earnings for the purposes of diluted earnings per share	**(210.3)**	244.3
Number of shares		
Weighted average number of Ordinary Shares for the purposes of basic (loss)/earnings per share	**521.9**	529.2
Effects of dilutive potential Ordinary Shares:		
Contingently issuable shares – 2014 anti-dilutive	**–**	36.0
Weighted average number of Ordinary Shares for the purposes of diluted (loss)/earnings per share	**521.9**	565.2
(Loss)/earnings per share		
Basic	**(40.3)**	44.2
Diluted	**(40.3)**	43.2

There were 37.1 million anti-dilutive potential Ordinary Shares in 2014 mainly comprising of shares to be issued on conversion of convertible bonds.

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

	Note	**Oil and gas properties Total $ million**
Cost:		
At 1 January 2013		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
Exchange movements		(37.1)
Additions during the year		294.0
Disposals		(46.5)
Transfer to property, plant and equipment		(1.7)
Exploration expense		(58.5)
Transfer to asset held for sale	9	(25.5)
At 31 December 2014		**825.7**

* Disposals in the prior year were for the group's interests in the Grosbeak field in Norway and Block 07/03 in Vietnam.

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 on-going 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 PL359 licence in Norway, which contained the Luno II discovery, for US$38.2 million cash consideration, recognising a loss before tax of US$9.7 million.

9. Property, plant and equipment

	Oil and gas properties $ million	Other fixed assets $ million	Total $ million
Cost:			
At 1 January 2013	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
Exchange movements	–	(2.0)	(2.0)
Additions during the year	903.5	13.9	917.4
Disposals	(211.4)	–	(211.4)
Transfer to asset held for sale	(124.5)	–	(124.5)
Transfer from intangible E&E assets	1.7	–	1.7
At 31 December 2014	**5,498.6**	**59.9**	**5,558.5**
Amortisation and depreciation:			
At 1 January 2013	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
Exchange movements	–	(1.8)	(1.8)
Charge for the year	446.1	10.3	456.4
Impairment charge	784.4	–	784.4
Disposals	(179.9)	–	(179.9)
Transfer to asset held for sale	(22.0)	–	(22.0)
At 31 December 2014	**3,091.3**	**37.2**	**3,128.5**
Net book value:			
At 31 December 2013	2,866.6	19.3	2,885.9
At 31 December 2014	**2,407.3**	**22.7**	**2,430.0**

* Finance costs that have been capitalised within oil and gas properties during the year total US$42.2 million (2013: US$25.6 million), at a weighted average interest rate of 4.4 per cent (2013: 4.7 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.

Impairment

The impairment charge in the current year relates to the Balmoral area (US$159.0 million), Huntington (US$186.0 million) and Solan (US$387.3 million) fields in the UK, the Chim Sáo field in Vietnam (US$41.8 million), the Kakap field in Indonesia (US$5.0 million) and the Chinguetti field in Mauritania (US$5.3 million). The impairment charge of US$784.4 million was calculated by comparing the future discounted pre-tax cash flows expected to be derived from production of commercial reserves (the value-in-use) against the carrying value of the asset. The future cash flows were estimated using an oil price assumption equal to the Dated Brent forward curve in 2015 and 2016, and US$85/bbl in 'real' terms thereafter and were discounted using a pre-tax discount rate of 10 per cent for the UK assets (2013: 10 per cent) and 12.5 per cent for the non-UK assets (2013: 12.5 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. The principal cause of the impairment charge being recognised in the year is a reduction in the short to medium term oil price assumption being used when determining the future discounted cash flows for each field.
In addition to the impact of the reduced oil price assumption, a review of the expected decommissioning costs for the Balmoral area in the first half of 2014 has also driven part of the impairment charge, whilst the Solan impairment has in part been caused by an increase in the costs incurred to date and expected costs to complete the project.

9. Property, plant and equipment (continued)

Impairment (continued)

The recoverable amount of the assets that have been impaired in the year, based on the value-in-use assumptions set out above are: Balmoral area US$34.5 million, Solan US$759.0 million, Huntington US$91.4 million, Chim Sáo US$484.2 million and Kakap US$27.6 million. The Chinguetti field has no remaining net book value at 31 December 2014.

During the year, the group disposed of its interest in the Scott area assets in the UK North Sea for US$130 million, resulting in a pre-tax profit of US$96.3 million. In addition, the group announced its intention to sell its interests in Block A Aceh in Indonesia, resulting in the asset being reclassified as held for sale at 31 December 2014. An anticipated loss of US$76.9 million has been recognised for the sale of Block A Aceh, which was completed in early January 2015. At 31 December 2014, the assets separately held on the balance sheet for Block A Aceh are US$56.7 million (being principally US$25.5 million of intangible E&E assets and US$102.5 million of PP&E, prior to a loss of US$76.9 million) and associated liabilities of US$1.8 million. The overall gain on disposal of non-current assets of US$2.7 million also includes the loss recognised in relation to PL359 in Norway (see note 8) and the write-off of deferred consideration of US$7.0 million previously held for the disposal of Block 07/03 in Vietnam during 2013.

Goodwill

Goodwill of US$ 240.8 million has been specifically assigned to the Catcher field in the UK, which is considered the cash generating unit for the purposes of any impairment testing of this goodwill. The group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired. The recoverable amounts are determined from value-in-use calculations with the same key assumptions as noted for the impairment calculations above. The discount rate used is 10 per cent (2013: 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 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. The headroom between the recoverable amount and the carrying amount, including the goodwill, is US$23.9 million. If the long-term oil price assumption used to determine the value-in-use of the Catcher field reduced by US$1.1/bbl from 2017 onwards, the recoverable amount of the Catcher field would be equal to its carrying value, including the goodwill.

10. Investments

Principal subsidiary undertakings

At 31 December 2014, 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 Pakistan Holdings BV	Intermediate holding company, Netherlands	Netherlands
Premier Oil Pakistan Exploration Ltd	Exploration, production and development, Pakistan	England and Wales
Premier Oil Pakistan Kadanwari Ltd	Exploration, production and development, Pakistan	Cayman Islands
Premier Oil Pakistan Kirthar 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.

10. Investments (continued)

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 joint ventures, which are indirectly held through subsidiary undertakings and which are involved in business development opportunities across the Middle East and North Africa region, were immaterial to the group in 2014 and 2013.

Associate Company

The group has a 17.71 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 2014 a gain of US$1.9 million was included in the group's income statement to represent the expected share of associate company results (2013: US$ nil).

11. Receivables

Trade and other receivables

	2014 $ million	2013 $ million
Trade receivables	**274.9**	309.1
Other receivables	**121.0**	101.0
Prepayments	**15.1**	11.7
	411.0	421.8

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

Long-term receivables

	2014 $ million	2013 $ million
Other long-term receivables	**7.9**	5.9
Loan to joint venture partner	**486.2**	192.2
	494.1	198.1

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 fixed interest and is repayable through receipts from oil production of the field. The carrying value of the loan as at 31 December 2014 is net of a provision for doubtful debt of US$61.2 million (2013: US$ nil).

12. Cash and cash equivalents

	Note	2014 $ million	2013 $ million
Cash at bank and in hand		**85.0**	93.1
Short-term deposits		**206.8**	355.8
	21	**291.8**	448.9

13. Trade and other payables

	2014 $ million	2013 $ million
Trade payables	**93.7**	83.1
Accrued expenses	**426.7**	396.0
Other payables	**24.1**	33.3
	544.5	512.4

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2014

14. Borrowings

	Note	2014 $ million	2013 $ million
Convertible bonds*		**228.5**	224.2
Other long-term debt – bank loans*	17	**931.0**	686.0
Other short-term debt – bank loans*	17	**300.0**	–
Other long-term debt – senior loan notes*	17	**720.5**	742.6
Other long-term debt – retail bonds*	17	**234.0**	249.0
Total borrowings		**2,414.0**	1,901.8

* 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 (2013: US$0.4 million) and debt arrangement fees of US$27.4 million (2013: US$12.2 million) respectively. US$300.0 million is also classified as falling due within one year.

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

In the second quarter of the year, the group took advantage of favourable bank debt market conditions and low interest rates environment to refinance its US$695.0 million revolving credit and £316.4 million letters of credit facility. The refinancing completed on 7 July and the new facility of US$2.5 billion was put in place. The new facility has better economic terms, a lower coupon and flexibility to carve-out up to US$1 billion, for the issue of letters of credit. The group has the ability to borrow in all major currencies and the maturity of the facility can be extended at the bank's option for a further two years, after the initial five year maturity period.

At the year-end, the group's principal credit facilities comprised of:

- US$300.0 million term loan maturing in 2015, which was repaid in January 2015;
- US$150.0 million and £100.0 million term loans maturing in 2017;
- US$2.5 billion revolving and letters of credit facility maturing in 2019;
- US$576.0 million and €120.0 million senior loan notes maturing from 2018 to 2024; and
- £150.0 million of retail bonds maturing in 2020.

Financial Covenants

Financial covenants are the same across all the group's borrowings except for £150.0 million retail bonds and US$245.3 million convertible bonds which have no financial covenants. These financial covenants are tested on half-year (annualised) and full-year basis.

The financial covenants are as follows:

Net debt up to 3 X EBITDAX
Interest cover at least 4 X EBITDAX

The company has financing in US$, £ and €. The £ and € loans have been swapped into US$ at the transaction dates. In total, £250.0 million and €120.0 million have been swapped into 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

The bonds were issued on 1 November 2012, with a par value of US$245.3 million, exchange price of £4.34 (US$7.00 at fixed exchange rate) per share and a coupon of 2.5 per cent. These are convertible into Ordinary Shares of the company at any time from 11 August 2016 until six days before their maturity date of 27 July 2018. Under the terms, the exchange price is to be adjusted on the occurrence of certain events, including any payment of dividends by the company. During the year, the company declared a dividend of 5 pence per Ordinary Share and consequently the exchange price was adjusted to £4.21, (US$6.79) per share. The total number of Ordinary Shares to be issued, if all bonds are converted at this adjusted exchange price is 36,117,351. If the bonds have not been previously purchased and cancelled, redeemed or converted, they will be redeemed at par value on 27 July 2018. Interest of 2.50 per cent per annum will be paid semi-annually in arrears up to that date.

14. Borrowings (continued)

Convertible bonds (continued)

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
Bonds – net	
Total liability component at 1 January 2013	**219.6**
Interest charged	**10.3**
Interest paid	**(6.1)**
Total liability component at 1 January 2014	**223.8**
Interest charged	**10.5**
Interest paid	**(6.2)**
Total liability component at 31 December 2014	**228.1**

The total interest charged on the new bonds has been calculated by applying an effective annual interest rate of 4.55 per cent to the liability component for the period. The non-cash accrual of interest will increase the liability component (as the cash interest is only paid at 2.5 per cent, to US$245.3 million to maturity).

Retail bonds

In December 2013, the company put in place a £500.0 million Retail eligible Euro Medium Term Notes (EMTN) 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 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 2014 and 31 December 2013.

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	2014	2013
Net debt ($ million)	21	**(2,122.2)**	(1,452.9)
Net assets ($ million)		**1,872.2**	2,124.4
Net assets plus net debt ($ million)		**3,994.4**	3,577.3
Gearing ratio (%)		**53.1**	40.6

15. Obligations under leases

	2014 $ million	2013 $ million
Minimum lease payments under operating leases recognised as an expense in the year	**87.1**	63.3
Outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:		
Within one year	**50.3**	79.5
In two to five years	**233.8**	231.3
Over five years	**721.8**	37.2
	1,005.9	348.0

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 2014

16. Provisions

	2014 $ million	2013 $ million
Decommissioning	**871.3**	837.7
Onerous contract	**6.8**	–
	878.1	837.7

	Note	2014 $ million	2013 $ million
Decommissioning costs:			
Total provisions at 1 January		**837.7**	682.1
Revision arising from:			
New provisions and changes in estimates		**225.3**	132.4
Payments		**(4.3)**	(31.8)
Disposals		**(181.1)**	–
Exchange differences		**(53.2)**	18.6
Unwinding of discount on decommissioning provision	5	**46.9**	36.4
Total provisions at 31 December		**871.3**	837.7
Reclassification of short-term provisions to current liabilities		**(11.4)**	(13.1)
Long-term provisions at 31 December		**859.9**	824.6

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. The disposal relates predominantly to the sale of the group's interest in the Scott area assets in the UK North Sea.

	2014 $ million	2013 $ million
Onerous contract	**6.8**	–
Total provisions at 31 December	**6.8**	–
Reclassification of short-term provisions to current liabilities	**(2.7)**	–
Long-term provisions at 31 December	**4.1**	–

The onerous contract relates to the on-going FPSO lease commitments for the group's interest in the Chinguetti field in Mauritania, following the decision to fully impair the related field interest in the current year (see note 9).

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, loan to joint venture partner 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.

17. Financial instruments (continued)

Financial risk management objectives and policies (continued)

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 swaps, collar options, reverse collars 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 £ and € 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.

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 2014, 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
2014:				
Oil forward sale contracts	241.0	–	241.0	–
Gas forward sale contracts	32.4	–	32.4	–
Total	**273.4**	**–**	**273.4**	**–**
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	–

The above includes US$45.8 million in respect of oil and gas forward sale contracts which had expired by 31 December but had not yet cash settled.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2014

17. Financial instruments (continued)

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
2014:				
Cross currency swap	38.6	–	38.6	–
Interest rate swaps	3.6	–	3.6	–
Forward foreign exchange contracts	5.9	–	5.9	–
Total	**48.1**	**–**	**48.1**	**–**
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	–

Commodity price risk

Oil

At 31 December 2014, the group had 5.4 million barrels of Dated Brent oil hedged through forward sales for 2015 at an average floor price of US$98.3/bbl. The forward sales have been designated as cash flow hedges and were assessed to be effective, with a fair value movement of US$224.1 million credit (2013: US$27.2 million charge) in retained earnings.

During the year, forward oil sales contracts for 5.6 million barrels matured generating an income of US$30.8 million (2013: US$1.3 million). This income is an addition to sales revenues.

Indonesian gas

At the year-end date, 84,000 mt of HSFO, which drives the groups gas pricing in Singapore, is subject to monthly forward sales contracts for 2015 at an average price of US$614.4/mt.

During the year, Singapore 180 HSFO contracts for 222,000 mt expired, generating an income of US$15.2 million (2013: cash cost of US$2.2 million) which has been included in the sales revenue. All contracts have been designated as cash flow hedges and were assessed to be effective. In the current year there was no movement in the fair value of these contracts which was credited to the income statement (2013: US$0.2 million), relating to the time-value portion of hedges under IAS 39. The remaining movement, being a credit of US$26.0 million (2013: US$3.0 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 2013	(7.5)	(3.9)	(11.4)
Cash settlement for swaps	9.6	3.4	13.0
Addition/(deduction) to sales revenues	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)
Cash settlement for swaps	11.2	(9.2)	2.0
Addition to sales revenues	30.8	15.2	46.0
Credit to retained earnings for the year	224.1	26.0	250.1
At 31 December 2014	**240.9**	**32.5**	**273.4**

17. Financial instruments (continued)

Commodity contract sensitivity analysis

The key variable which affects the fair value of the group's hedging instruments is market expectations about future commodity prices. 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	(31.4)	(1.9)	(33.3)
Ten per cent decrease	31.4	1.9	33.3

Interest rate risk

At 31 December 2014, US$300.0 million and €20.0 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 2013	(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)
Cash settlement for swaps	7.3
Charge to income statement for the year recorded within finance costs and other finance expenses	(7.3)
Credit to retained earnings for the year	6.8
At 31 December 2014	**(3.6)**

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	**(0.9)**

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2014

17. Financial instruments (continued)

Foreign currency exchange risk

The group has issued £150.0 million retail bonds and £100.0 million term loan at a fixed exchange rate of US$1.64:£, €25.0 million at fixed rate of US$1.328:€, €75.0 million at a fixed rate of US$1.423:€ and €20.0 million at a fixed rate of US$1.34:€. All the above have been hedged under cross currency swaps into US dollars.

The fair value of these cross currency swaps at the reporting date is shown below:

Asset/(liability)	Total $ million
At 1 January 2013	(6.4)
Credit to retained earnings for the year	6.2
At 31 December 2013	(0.2)
Charge to retained earnings for the year	(38.4)
At 31 December 2014	**(38.6)**

To cover sterling exposures an amount of £777.2 million was purchased and matured with spot and forward contracts during the year (2013: £619.2 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.

Other financial instruments

Credit risk

The group's credit risk is attributable to its trade receivables and its bank deposits together with its long-term loan to the joint venture partner (note 11). The amount of receivables presented in the balance sheet is net of allowances for doubtful receivables, which were immaterial in 2014 and 2013, with the exception of a US$61.2 million joint venture loan allowance in 2014 (note 11). 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 2014 (2013: four).

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
2014:						
Long-term receivables	–	–	–	486.2	7.9	494.1
Trade and other receivables	298.6	48.9	48.4	–	–	395.9
Trade and other payables	(50.4)	(42.6)	(24.8)	–	–	(117.8)
Bank loans	(1.1)	(1.9)	(319.7)	(993.6)	–	(1,316.3)
Convertible bonds	–	–	(6.1)	(261.3)	–	(267.4)
Senior loan notes	(0.1)	(7.5)	(28.5)	(577.9)	(323.3)	(937.3)
Retail bonds	–	–	(12.6)	(309.2)	–	(321.8)
Total	**247.0**	**(3.1)**	**(343.3)**	**(1,655.8)**	**(315.4)**	**(2,070.6)**
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)

17. Financial instruments (continued)

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.

Borrowing facilities

The group has committed borrowing facilities of US$2,655.8 million (2013: US$1,661.0) and letter of credit facilities of US$450.0 million (2013: £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:

	2014 $ million	2013 $ 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	**1,425.0**	280.0

The undrawn balance on the letter of credit facilities as at 31 December 2014 was US$242.0 million (2013: £118.6 million (US$196.9 million)) which expires between one to five 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 %**
2014:				
Bank loans*	300.0	931.0	1,231.0	5.200
Convertible bonds	245.3	–	245.3	2.500
Senior loan notes	590.5	130.0	720.5	5.400
Retail bond	234.0	–	234.0	5.140
Total	**1,369.8**	**1,061.0**	**2,430.8**	**–**
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	–

* At 31 December 2014, US$300.0 million of the group's short-term bank borrowings and €20.0 million senior loan notes have been swapped from floating interest rates to fixed interest rates and are therefore included as a fixed rate liability in the table above (2013: US$300.0 million and €20.0 million).

The carrying values on the balance sheet of the bank loans and the convertible bonds, which are stated net of debt arrangement fees and issue costs, are as follows:

	2014 $ million	2013 $ million
Bank loans	**1,209.0**	679.8
Senior loan notes	**717.7**	739.5
Retail bonds	**231.4**	246.1
Convertible bonds:		
Liability component	**228.1**	223.8
Equity component	**16.9**	21.0

The floating rate financial liabilities at 31 December 2014 comprised bank borrowings bearing interest at rates set by reference to US$ and £ LIBOR, exposing the group to a cash flow interest rate risk.

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
2014:			
Cash and short-term deposits:			
Sterling	0.1	3.9	4.0
US dollar	186.7	64.5	251.2
Other	19.9	16.7	36.6
Total	**206.7**	**85.1**	**291.8**
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

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 approximate to fair values due to their short-term nature).

	2014 Fair value amount $ million	2014 Carrying amount $ million	2013 Fair value amount $ million	2013 Carrying amount $ million
Primary financial instruments held or issued to finance the group's operations:				
Joint venture partner loan	**486.2**	**486.2**	192.2	192.2
Bank loans	**1,231.0**	**1,231.0**	686.0	686.0
Senior loan notes	**720.5**	**720.5**	742.6	742.6
Retail bonds	**204.7**	**234.0**	252.9	249.0
Convertible bonds	**224.4**	**228.5**	271.7	224.2

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

	2014 $ million	2013 $ million
Deferred tax assets	**971.7**	762.4
Deferred tax liabilities	**(254.2)**	(306.8)
	717.5	455.6

18. Deferred tax (continued)

	At 1 January 2014 $ million	Exchange movements $ million	Disposal of asset $ million	(Charged)/ credited to income statement $ million	Charged to retained earnings $ million	At 31 December 2014 $ million
UK deferred corporation tax:						
Fixed assets and allowances	(828.2)	–	–	72.2	–	(756.0)
Decommissioning	321.7	–	–	8.1	–	329.8
Deferred petroleum revenue tax	(5.4)	–	–	20.9	–	15.5
Tax losses and allowances	1,203.8	–	–	171.6	–	1,375.4
Small field allowance	47.8	–	–	109.4	–	157.2
Derivative financial instruments	13.9	–	–	–	(139.0)	(125.1)
Total UK deferred corporation tax	753.6	–	–	382.2	(139.0)	996.8
UK deferred petroleum revenue tax[1]	8.7	–	–	(33.7)	–	(25.0)
Overseas deferred tax[2]	(306.7)	7.4	22.2	22.9	–	(254.2)
Total	**455.6**	**7.4**	**22.2**	**371.4**	**(139.0)**	**717.5**

	At 1 January 2013 $ million	Exchange movements $ million	Disposal of assets $ 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
Unrecognised tax losses and allowances	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

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 2014 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 2014 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 2015 and 2016, and US$85/bbl in 'real' terms thereafter. The results of the corporate model demonstrated that it was no longer appropriate to recognise an amount of US$86.8 million in respect of the group's UK ring fence deferred tax assets relating to tax losses and allowances, principally due to fall in near term oil price assumptions.

In addition to the above, there are non-ring fence UK tax losses of approximately US$263.1 million (2013: US$321.1 million) and current year non-UK tax losses of US$40.8 million (2013: US$14.3 million) for which a deferred tax asset has not been recognised.

None of the UK tax losses (ring fence and non-ring fence) have a fixed expiry date for tax purposes.

No deferred tax has been provided on unremitted earnings of overseas subsidiaries, following a change in UK tax legislation in 2009 which exempted foreign dividends from the scope of UK corporation tax where certain conditions are satisfied.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2014

19. Share capital

	2014 12.5p shares	2014 £	2013 12.5p shares	2013 £
Ordinary Shares:				
Called-up, issued and fully-paid	**510,811,061**	**63,851,383**	529,220,964	66,152,621

	2014 $ million	2013 $ million
At 1 January	**110.5**	110.5
Purchase and cancellation of own shares	**(3.8)**	–
At 31 December	**106.7**	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.

Purchase and cancellation of own shares

During 2014, 18,455,248 Ordinary Shares have been repurchased and cancelled, representing 3.61 per cent of the company's issued share capital as at 31 December 2014. The nominal value of the shares purchased and cancelled during the year is £2.3 million (US$3.8 million) and the aggregate amount of consideration paid by the company for those shares is £55.7 million (US$93.0 million).

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 2014, the total cost recognised by the company for equity-settled share-based payment transactions is US$23.3 million (2013: US$24.6 million). A credit of US$23.3 million has been recorded in retained earnings (2013: US$24.6 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 recharged to the relevant subsidiary undertaking where it is capitalised as directly attributable to capital projects, or is charged to the income statement as operating costs, pre-licence exploration costs or general and administration costs.

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

19. 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 £500 per month through payroll deductions for a period of three or five years, after which time they can acquire shares at up to a 20 per cent discount.

	2014		2013	
	Options	**Weighted average exercise price**	Options	Weighted average exercise price
Outstanding at the beginning of the year	**483,932**	**£3.06**	402,664	£2.89
Granted during the year	**748,465**	**£2.46**	233,176	£3.14
Lapsed during the year	**(221,963)**	**£3.18**	(41,861)	£3.20
Exercised during the year*	**(45,345)**	**£3.55**	(110,047)	£3.54
Outstanding at the end of the year (exercisable nil)	**965,089**	**£2.62**	483,932	£3.06

*45,345 Ordinary Shares with a nominal value of £5,668 (US$9,545) were issued under the group's share option schemes during the year (2013: 110,047 Ordinary Shares with a nominal value of £13,756 (US$21,459)).

The weighted average share price at the date of exercise for share options exercised during the year was £3.55. The options outstanding at 31 December 2014 had a weighted average exercise price of £2.62 and a weighted average remaining contractual life of 3.33 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 2013	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
Purchase of ESOP Trust shares	6.4
Release of shares for long-term incentive arrangements	(8.5)
At 31 December 2014	**15.7**

The own shares reserve represents the net cost of shares in Premier Oil plc purchased in the market or issued by the company into the Premier Oil plc Employee Benefit Trust. This ESOP Trust holds shares to satisfy awards under the group's share incentive plans. At 31 December 2014, the number of Ordinary Shares of 12.5 pence each held by the Trust was 2,690,319 (2013: 3,046,621 Ordinary Shares of 12.5 pence each).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2014

21. Notes to the cash flow statement

	2014 $ million	2013 $ million
(Loss) /profit before tax for the year	**(384.0)**	285.4
Adjustments for:		
Depreciation, depletion, amortisation and impairment	**1,240.8**	562.5
Exploration expense	**58.5**	106.2
Provision for share-based payments	**6.9**	7.9
Share of gain in associate	**(1.9)**	–
Interest revenue and finance gains	**(58.5)**	(33.0)
Finance costs and other finance expenses	**196.3**	98.4
Other gains and losses	**(2.7)**	(3.6)
Loss on derivative financial instruments	**–**	1.2
Operating cash flows before movements in working capital	**1,055.4**	1,025.0
Decrease/ (increase) in inventories	**23.0**	(14.9)
Decrease in receivables	**105.3**	45.1
Decrease in payables	**(53.6)**	(28.9)
Cash generated by operations	**1,130.1**	1,026.3
Income taxes paid	**(208.5)**	(228.3)
Interest income received	**2.7**	4.5
Net cash from operating activities	**924.3**	802.5

Analysis of changes in net debt:

	Note	2014 $ million	2013 $ million
a) Reconciliation of net cash flow to movement in net debt:			
Movement in cash and cash equivalents		**(157.1)**	261.5
Proceeds from drawdown of long-term bank loans		**(655.0)**	(384.1)
Proceeds from issuance of senior loan notes		**–**	(156.7)
Proceeds from issuance of retail bonds		**–**	(245.8)
Repayment of long-term bank loans		**100.0**	200.0
Non-cash movements on debt and cash balances		**42.8**	(17.4)
Increase in net debt in the year		**(669.3)**	(342.5)
Opening net debt		**(1,452.9)**	(1,110.4)
Closing net debt		**(2,122.2)**	(1,452.9)
b) Analysis of net debt:			
Cash and cash equivalents	12	**291.8**	448.9
Borrowings*	14	**(2,414.0)**	(1,901.8)
Total net debt		**(2,122.2)**	(1,452.9)

* 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 (2013: US$0.4 million) and debt arrangement fees of US$27.4 million (2013: US$12.2 million) respectively.

22. Capital commitments and guarantees

At 31 December 2014, the group had capital commitments on exploration and development licences totalling US$608.9 million (2013: US$417.0 million) and financial performance guarantees of US$2.9 million (2013: US$78.7 million). In addition, the group had issued letters of credit for future decommissioning liabilities totalling £169.8 million (US$264.4 million) (2013: £254.8 million (US$422.9 million)).

23. Group pension schemes

Balance sheet

	2014 $ million	2013 $ million
UK funded pension scheme	**0.8**	1.0
Total surplus in balance sheet	**0.8**	1.0

	2014 $ million	2013 $ million
UK unfunded pension scheme	**0.9**	0.9
Indonesia unfunded termination benefit scheme	**17.4**	12.2
Total liability in balance sheet	**18.3**	13.1

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 2014 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 2014. The results of the calculations and the assumptions adopted are shown below.

As at 31 December 2014, 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 2014

23. Group pension schemes (continued)

Principal assumptions

The principal actuarial assumptions at the balance sheet date were:

	At 31 December 2014	At 31 December 2013
Discount rate	**3.5% pa**	4.5% pa
RPI inflation	**3.1% pa**	3.5% pa
CPI inflation	**2.3% pa**	2.8% pa
Rate of increase in salaries	**5.1% pa**	5.5% pa
Rate of increase in pensions in payment: LPI (max 5.0%)	**3.0% pa**	3.5% pa
Pre and post-retirement mortality	**S2PA Light CMI_2014 1% Long Term**	S1PA Light CMI_2013 1% Long Term
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	**22.3**	22.7
Life expectancy of male aged 65 in 20 years	**23.5**	24.0
Life expectancy of female aged 65 now	**23.4**	23.9
Life expectancy of female aged 65 in 20 years	**24.8**	25.4

Asset breakdown

The major categories of Scheme assets as a percentage of total Scheme assets are:

	At 31 December 2014	At 31 December 2013
Equities	**50.2%**	50.8%
Gilts	**24.2%**	24.6%
Corporate bonds	**25.6%**	24.5%
Cash	**–**	0.1%
Total	**100.0%**	100.0%

Reconciliation of funded status and amount recognised in balance sheet:

	At 31 December 2014 $ million	At 31 December 2013 $ million
Fair value of Scheme assets	**46.6**	44.5
Present value of defined benefit obligation	**(39.1)**	(38.9)
Unrecognised amount due to effect of IFRC14	**(6.7)**	(4.6)
Surplus	**0.8**	1.0

Statement of amount recognised in profit and loss

	2014 $ million	2013 $ million
Current service cost	**0.2**	0.2
Net Interest on the net defined benefit liability (asset)	**(0.2)**	(0.3)
Total	**–**	(0.1)

23. Group pension schemes (continued)

Changes in the present value of the defined benefit obligation:

	2014 $ million	2013 $ million
Present value of defined benefit obligation at 1 January	**38.9**	34.0
Service cost	**0.2**	0.2
Interest cost	**1.7**	1.4
Actuarial losses	**1.7**	3.2
Benefits paid	**(1.0)**	(0.9)
Currency translation effects	**(2.4)**	1.0
Present value of defined benefit obligation at 31 December	**39.1**	38.9

Changes in the fair value of Scheme assets:

	2014 $ million	2013 $ million
Fair value of Scheme assets at 1 January	**44.5**	38.2
Return on assets less interest income	**3.9**	1.2
Interest income	**1.9**	1.7
Contributions by employer	**0.2**	3.2
Benefits paid	**(1.0)**	(0.9)
Currency translation effects	**(2.9)**	1.1
Fair value of Scheme assets at 31 December	**46.6**	44.5
Actual return on Scheme assets	**5.8**	2.9

Statement of amount recognised in other comprehensive income

	2014 $ million	2013 $ million
(Gains)/loss from changes in the financial assumptions for value of Scheme liabilities	**3.4**	2.8
(Gains)/loss from changes in the demographic assumptions for value of scheme liabilities	**(0.8)**	0.3
Changes due to experience adjustments	**(0.9)**	0.1
Return on assets less interest income	**(3.9)**	(1.2)
Change in the effect of the asset ceiling excluding amounts included in net interest on the net defined liability	**1.9**	(2.7)
Prior year adjustment	**–**	(5.7)
Currency Translation effect	**0.5**	(0.1)
At 31 December	**0.2**	(6.5)

Projected components of pension expense for year to 31 December 2015

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 2014 is 3.5 per cent per annum;
- contributions to the Scheme will continue throughout 2015 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2014

23. Group pension schemes (continued)

The amounts recognised in the components of pension expense are:

	2015 $ million
Current service cost	**0.2**
Interest cost	**–**
Expected return on Scheme assets	**–**
Total	**0.2**

Unfunded pensions

In Indonesia, the group operates a Service, Severance and Compensation pay scheme under a Collective Labour Agreement with the local workforce for which the charge in the year was US$1.9 million. 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 2014 of the future payments projected to be made in respect of UK unfunded pensions is US$0.9 million (2013: 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$9.6 million (2013: US$4.1 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.

	2014 $ million	2013 $ million
Short-term employee benefits	**9.1**	6.0
Post-employment benefits	**0.3**	0.9
Other long-term benefits: share-based payments	**2.2**	9.3
	11.6	16.2

During early 2014, Egdon Resources plc, an associate company repaid it outstanding loan of £1.0 million payable to the company.

25. Dividends

	2014 $ million	2013 $ million
Amounts recognised as distributions to shareholders in the year:		
Final dividend for the year ended 31 December 2013 of 5p (2012: 5p)	**44.0**	40.2
Proposed final dividend for the year ended 31 December 2014 of nil (2013: 5p)	**–**	43.9

26. Events after the balance sheet date

On 23 February, Premier announced that the Badada-1 exploration well (Premier 55 per cent) drilled on Block 2B, onshore Kenya, had reached a total depth of 3,500 metres and was plugged and abandoned as a dry hole.

COMPANY FINANCIAL STATEMENTS: BALANCE SHEET

As at 31 December 2014

	Note	2014 $ million	2013 $ million
Investments in subsidiaries	3	563.4	563.5
Long-term employee benefit plan surplus	7	2.1	3.7
Total fixed assets		565.5	567.2
Current assets:			
Debtors: amounts falling due after more than one year	4	779.9	901.5
Total current assets		779.9	901.5
Creditors: amounts falling due within one year	5	(13.2)	(21.0)
Net current assets		766.7	880.5
Total assets less current liabilities		1,332.2	1,447.7
Retail bonds	6	(231.4)	(246.1)
Pension liability	7	(0.9)	(0.9)
Net assets		1,099.9	1,200.7
Capital and reserves:			
Called-up share capital	9	106.7	110.5
Share premium account	10	275.4	275.3
Profit and loss account	10	273.3	374.2
Merger reserve account	10	374.3	374.3
Capital redemption reserve	10	8.1	4.3
Equity reserve	10	62.1	62.1
Total equity shareholders' funds	11	1,099.9	1,200.7

The financial statements of Premier Oil plc (registered number SC234781) were approved by the Board of Directors and authorised for issue on 25 February 2015.

They were signed on its behalf by:

Tony Durrant
Chief Executive

Richard Rose
Finance Director

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the year ended 31 December 2014

	Note	2014 $ million	2013 $ million
Profit for the financial year	2	14.6	162.0
Movement in cash flow hedges		6.4	–
Pension costs – losses	7	(1.8)	(3.8)
Total recognised gains relating to the year		19.2	158.2

NOTES TO THE COMPANY FINANCIAL STATEMENTS

As at 31 December 2014

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.

New accounting standards, amendments and interpretations not yet adopted

Premier Oil plc intends to apply FRS 101 in its separate financial statements for the financial year ended 31 December 2015. Any objections should be notified to the Company Secretary by the AGM date of 13 May 2015.

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.

1. Significant accounting policies (continued)

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.

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 2014 of US$14.6 million (2013: US$162.0 million).

The auditor's remuneration for audit and other services is disclosed in note 3 to the consolidated financial statements.

3. Fixed asset investments

	2014 $ million	2013 $ million
Cost and net book value:		
Subsidiary undertakings	563.5	563.5
Cancellation of preference shares	(0.1)	–
	563.4	563.5

A list of the significant investments in subsidiaries held at 31 December 2014, 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.

4. Debtors: amounts falling due after more than one year

	2014 $ million	2013 $ million
Amounts owed by subsidiary undertakings	779.9	901.5

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

	2014 $ million	2013 $ million
Accruals and other creditors	13.2	21.0

The carrying values of the company's creditors approximate their fair value.

NOTES TO THE COMPANY FINANCIAL STATEMENTS (continued)

As at 31 December 2014

6. Borrowings

	2014 Fair value amount $ million	2014 Carrying amount $ million	2013 Fair value amount $ million	2013 Carrying amount $ million
Retail bonds	204.7	234.0	252.9	249.0

In December 2013, 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 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$2.6 million (2013: US$2.9 million) and the liability translated at the exchange rate prevailing at the year-end.

7. Pension schemes

Balance sheet

	2014 $ million	2013 $ million
UK funded pension scheme	2.1	3.7
Total surplus in balance sheet	2.1	3.7

	2014 $ million	2013 $ 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 2014 $ million	At 31 December 2013 $ million
Actuarial gains/(losses) including currency translation effects	1.7	(3.8)
Adjustment resulting from the limit on the amount that can be recognised as an asset	(3.5)	–
Cumulative amount of actuarial losses recognised in the STRGL including currency translation effects	(16.4)	(14.6)

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 2014 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 method. This amount is reflected in the surplus or the deficit in the balance sheet. The projected unit 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 2014. The results of the calculations and the assumptions adopted are shown below.

As at 31 December 2014, 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 2014	At 31 December 2013
Discount rate	3.5% pa	4.5% pa
Expected return on Scheme assets	4.4% pa	5.5% pa
RPI inflation	3.1% pa	3.5% pa
CPI inflation	2.3% pa	2.8% pa
Rate of increase in salaries	5.1% pa	5.5% pa
Rate of increase in pensions in payment LPI: (max 5.0%)	3.0% pa	3.5% pa
Pre and post-retirement mortality	S2PA Light CMI_2014 1% long-term	S1PA Light CMI_2013 1% long-term
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	22.3	22.7
Life expectancy of male aged 65 in 20 years	23.5	24.0
Life expectancy of female aged 65 now	23.4	23.9
Life expectancy of female aged 65 in 20 years	24.8	25.4

Asset breakdown

The major categories of Scheme assets as a percentage of total Scheme assets are:

	At 31 December 2014	At 31 December 2013
Equities	50.2%	50.8%
Gilts	24.2%	24.6%
Corporate bonds	25.6%	24.5%
Cash	–	0.1%
Total	100.0%	100.0%

NOTES TO THE COMPANY FINANCIAL STATEMENTS (continued)

As at 31 December 2014

7. Pension Schemes (continued)

Employee benefit obligations

The amounts recognised in the balance sheet are as follows:

	At 31 December 2014 $ million	At 31 December 2013 $ million
Fair value of Scheme assets	46.6	44.5
Present value of funded obligations	(39.1)	(38.9)
Adjustment resulting from the limit on the amount that can be recognised as an asset in the balance sheet	(5.4)	(1.9)
Surplus	2.1	3.7

Total expense recognised in profit or loss:

	2014 $ million	2013 $ million
Current service cost	0.2	0.2
Interest on obligation	1.7	1.4
Expected return on Scheme assets	(1.9)	(1.8)
Total	–	(0.2)

Changes in the present value of the defined benefit obligation:

	2014 $ million	2013 $ million
Present value of defined benefit obligation at 1 January	38.9	34.0
Service cost	0.2	0.2
Interest cost	1.7	1.4
Actuarial losses	1.7	3.2
Benefits paid	(1.0)	(0.9)
Currency translation effects	(2.4)	1.0
Present value of defined benefit obligation at 31 December	39.1	38.9

Changes in the fair value of Scheme assets:

	2014 $ million	2013 $ million
Fair value of Scheme assets at 1 January	44.5	38.2
Expected return	1.9	1.8
Actuarial (losses)/gains	3.9	1.1
Contributions by employer	0.2	3.2
Benefits paid	(1.0)	(0.9)
Currency translation effects	(2.9)	1.1
Fair value of Scheme assets at 31 December	46.6	44.5
Actual return on Scheme assets	5.8	2.9

7. Pension Schemes (continued)

Movements over previous five year period:

	2014 $ million	2013 $ million	2012 $ million	2011 $ million	2010 $ million
Defined benefit obligation	(39.1)	(38.9)	(34.0)	(31.3)	(32.3)
Scheme assets	46.6	44.5	38.2	28.4	28.2
Surplus/(deficit)	7.5	5.6	4.2	(2.9)	(4.1)
Experience (gain)/loss on Scheme liabilities	(0.9)	0.1	(0.1)	0.9	0.6
(Gain)/loss from changes in the assumptions for value of Scheme liabilities	2.6	3.1	0.3	(2.9)	0.6
Experience gain/(loss) on Scheme assets	3.9	1.1	1.4	(0.7)	1.5

Projected components of pension expense for year to 31 December 2015

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 2014 is 4.4 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 forecast to be recognised in the components of pension expense are:

	2015 $ million
Current service cost	0.2
Interest cost	1.4
Expected return on Scheme assets	(1.6)
Total	–

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	6.7	(0.8)
RPI inflation and linked assumptions plus 0.1% pa	6.8	(0.7)
Members living one year longer than expected	6.5	(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 2014 of the future payments projected to be made in respect of UK unfunded pensions is US$0.9 million (2013: US$0.9 million).

NOTES TO THE COMPANY FINANCIAL STATEMENTS (continued)

As at 31 December 2014

8. Commitments and guarantees

At the year-end date the company, together with certain subsidiary undertakings, had jointly guaranteed the group's borrowing facilities. These consist of the following:

- Term loan of US$300.0 million, which matures in 2015*
- Medium-term loans of US$150.0 million and £100.0 million, maturing in 2017;
- Principal credit facility of US$2,050.0 million and US$450.0 million of letters of credit facility, maturing in 2019;
- Senior notes of US$576.0 million and €120.0 million, maturing from 2018 to 2024;
- Convertible bonds of US$245.3 million, which matures in 2018; and
- Retail bonds of £150.0 million, maturing in 2020.

* Subsequent to year-end, the US$300.0 million term loan has been repaid and the guarantees withdrawn.

9. Share capital

	2014 12.5p shares	2014 £	2013 12.5p shares	2013 £
Ordinary Shares:				
Called-up, issued and fully-paid	510,811,061	63,851,383	529,220,964	66,152,621

	2014 $ million	2013 $ million
At 1 January	110.5	110.5
Purchase and cancellation of own shares	(3.8)	–
At 31 December	106.7	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.

Purchase and cancellation of own shares

During 2014, 18,455,248 Ordinary Shares have been repurchased and cancelled, representing 3.61 per cent of the company's issued share capital as at 31 December 2014. The nominal value of the shares purchased and cancelled during the year is £2.3 million and the aggregate amount of consideration paid by the company for those shares is £55.7 million (US$93.0 million).

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 2014, the total cost recognised by the company for equity-settled share-based payment transactions is US$23.3 million (2013: US$24.6 million). A credit of US$23.3 million has been recorded in retained earnings (2013: US$24.6 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 where it is capitalised as directly attributable to capital projects, or it is charged to the income statement as operating costs, pre-licence exploration costs or general and administration costs.

9. Share capital (continued)

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.

(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 £500 per month through payroll deductions for a period of three or five years, after which time they can acquire shares at up to a 20 per cent discount.

	2014		2013	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Outstanding at the beginning of the year	483,932	£3.06	402,664	£2.89
Granted during the year	748,465	£2.46	233,176	£3.14
Lapsed during the year	(221,963)	£3.18	(41,861)	£3.20
Exercised during the year*	(45,345)	£3.55	(110,047)	£3.54
Outstanding at the end of the year (exercisable nil)	965,089	£2.62	483,932	£3.06

* 45,345 Ordinary Shares with a nominal value of £5,668 (US$9,545) were issued under the group's share option schemes during the year (2013: 110,047 Ordinary Shares with a nominal value of £13,756 (US$21,459)).

The weighted average share price at the date of exercise for share options exercised during the year was £3.55. The options outstanding at 31 December 2014 had a weighted average exercise price of £2.62 and a weighted average remaining contractual life of 3.33 years.

The fair value of the options granted during the year was determined using the Black-Scholes valuation model and is not material.

NOTES TO THE COMPANY FINANCIAL STATEMENTS (continued)

As at 31 December 2014

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 2013	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 1 January 2014	110.5	275.3	374.2	374.3	4.3	62.1	1,200.7
Issue of Ordinary Shares	–	0.1	–	–	–	–	0.1
Purchase and cancellation of own shares	(3.8)	–	(93.0)	–	3.8	–	(93.0)
Purchase of ESOP Trust shares	–	–	(6.4)	–	–	–	(6.4)
Profit for the year	–	–	14.6	–	–	–	14.6
Provision for share-based payments	–	–	23.3	–	–	–	23.3
Dividends paid	–	–	(44.0)	–	–	–	(44.0)
Movement in cash flow hedges			6.4				6.4
Pension costs – actuarial losses	–	–	(1.8)	–	–	–	(1.8)
At 31 December 2014	106.7	275.4	273.3	374.3	8.1	62.1	1,099.9

11. Reconciliation of movements in shareholders' funds

	2014 $ million	2013 $ million
Opening shareholders' funds	1,200.7	1,070.5
Issue of Ordinary Shares	0.1	0.4
Purchase of ESOP Trust shares	(6.4)	(12.8)
Profit for the year	14.6	162.0
Provision for share-based payments	23.3	24.6
Purchase and cancellation of own shares	(93.0)	–
Dividends paid	(44.0)	(40.2)
Movement in cash flow hedges	6.4	–
Net pension movement	(1.8)	(3.8)
Net (deduction from)/addition to shareholders' funds	(100.8)	130.2
Closing shareholders' funds	1,099.9	1,200.7

12. Own shares

	Total $ million
At 1 January 2013	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
Purchase of ESOP Trust shares	6.4
Release of shares for long-term incentive arrangements	(8.5)
At 31 December 2014	15.7

The own shares reserve represents the net cost of shares in Premier Oil plc purchased in the market or issued by the company into the Premier Oil plc Employee Benefit Trust. This ESOP Trust holds shares to satisfy awards under the group's share incentive plans. At 31 December 2014, the number of Ordinary Shares of 12.5 pence each held by the Trust was 2,690,319 (2013: 3,046,621 Ordinary Shares of 12.5 pence each).

13. Dividends

	2014 $ million	2013 $ million
Amounts recognised as distributions to shareholders in the year:		
Final dividend for the year ended 31 December 2013 of 5p (2012: 5p)	44.0	40.2
Proposed final dividend for the year ended 31 December 2014 of nil (2013: 5p)	–	43.9

FIVE YEAR SUMMARY

Financials		**2014**	2013	2012	2011	2010
Sales revenues	($ million)	**1,629.4**	1,501.0	1,408.7	826.8	763.6
(Loss)/Profit before tax	($ million)	**(384.0)**	285.4	359.9	141.5	100.8
Net (Loss)/Profit for the year after tax	($ million)	**(210.3)**	234.0	252.0	171.2	129.8
Cash flow from operating activities	($ million)	**924.3**	802.5	779.0[3]	462.9[3]	417.1[3]
Shareholders' funds	($ million)	**1,872.2**	2,124.4	1,953.5	1,323.6	1,130.2
Net (debt)/cash	($ million)	**(2,122.2)**	(1,452.9)	(1,110.4)	(744.0)	(405.7)
Per share statistics:						
Revenue per share	(cents/share)	**312.2**	283.6	267.6	176.9	164.6[2]
(Loss)/Earnings per share – basic	(cents/share)	**(40.3)**	44.2	47.9	36.6	28.0[2]
(Loss)/Earnings per share – diluted	(cents/share)	**(40.3)**	43.2	46.9	31.5	25.8[2]
Cash flow from operating activities per share	(cents/share)	**177.1**	151.6	148.0[3]	99.0[3]	89.9[2,3]
Reserves per share – year-end	(boe/share)	**0.47**	0.49	0.55	0.63[1]	0.56[2]
Issued Ordinary Shares – average	(million)	**521.9**	529.2	526.4	467.4	464.0[2]
Operations:						
Production (working interest basis)	(kboepd)	**63.6**	58.2	57.7	40.4	42.8
Proved and probable reserves (working interest basis)	(mmboe)	**243.3**	259.4	291.9	296.3	260.8
Employees (average) – UK	(number)	**242**	248	181	136	119
– Overseas	(number)	**698**	634	551	502	442
Key indices:						
Realised average oil price	($/bbl)	**98.20**	109.00	111.40	111.90	79.70
Average exchange rates	($/£)	**1.65**	1.56	1.59	1.60	1.55
Closing exchange rates	($/£)	**1.56**	1.66	1.63	1.55	1.56

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 2014

	Working interest basis														
	Indonesia		Mauritania		Norway		Pakistan		UK		Vietnam		**TOTAL**		
	Oil and NGLs mmbbls	Gas bcf	Oil and NGLs mmbbls	Gas bcf	Oil and NGLs mmbbls	Gas bcf	Oil and NGLs mmbbls	Gas bcf	Oil and NGLs mmbbls	Gas bcf	Oil and NGLs mmbbls	Gas bcf	**Oil and NGLs mmbbls**	**Gas[4] bcf**	**Oil, NGLs and gas mmboe**
Group proved plus probable reserves:															
At 1 January 2014	5.7	435.4	0.4	–	–	–	0.3	144.3	110.3	59.1	25.2	39.6	141.9	678.4	259.4
Revisions[1]	(0.5)	(12.9)	0.2	–	22.6	3.3	–	(17.2)	(2.0)	0.6	0.1	0.4	20.3	(25.9)	15.8
Discoveries and extensions[2]	–	–	–	–	–	–	–	3.3	–	–	–	–	–	3.3	0.6
Acquisitions and divestments[3]	–	–	–	–	–	–	–	–	(5.8)	(20.0)	–	–	(5.8)	(20.0)	(9.4)
Production	(0.3)	(25.0)	(0.2)	–	–	–	(0.1)	(28.2)	(6.0)	(5.1)	(5.0)	(5.8)	(11.5)	(64.0)	(23.1)
At 31 December 2014	**4.9**	**397.6**	**0.4**	**–**	**22.6**	**3.3**	**0.2**	**102.2**	**96.5**	**34.6**	**20.3**	**34.2**	**144.9**	**571.8**	**243.3**
Total group developed and undeveloped reserves:															
Proved on production	0.9	107.7	0.2	–	–	–	0.2	86.3	14.8	4.8	13.6	25.6	29.6	224.4	69.6
Proved approved/justified for development	2.3	175.2	–	–	15.4	2.7	–	–	40.2	18.8	1.4	–	59.3	196.6	90.2
Probable on production	0.9	61.7	0.2	–	–	–	–	15.9	9.9	4.9	5.3	8.6	16.4	91.0	33.3
Probable approved/justified for development	0.8	53.0	–	–	7.2	0.6	–	–	31.6	6.1	–	–	39.6	59.8	50.2
At 31 December 2014	**4.9**	**397.6**	**0.4**	**–**	**22.6**	**3.3**	**0.2**	**102.2**	**96.5**	**34.6**	**20.3**	**34.2**	**144.9**	**571.8**	**243.3**

Notes:

1 Includes re-evaluation of reserves at Anoa, Gajah Puteri, Iguana, Bison, Kakap (Indonesia); Kadanwari, Bhit, Badhra, Zamzama (Pakistan); Balmoral, Wytch Farm and Catcher area (UK). Reserves from Beacon Field have been re-classified as contingent resources. Contingent resource in Vette (formerly Bream) has been reclassified as reserves – 'Justified for Development'.

2 Includes reserves added at Kadanwari (Pakistan) through new K-36 well. Discoveries at Kuda Laut & Singa Laut (Indonesia) are classified as contingent resources and do not appear in this table.

3 Divestment of Scott, Telford and Rochelle (UK) was completed on 19 December 2014.

4 Proved plus probable gas reserves include 66 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 218.1 mmboe as at 31 December 2014 (2013: 230.9 mmboe). This was calculated at year-end 2014 using an oil price assumption equal to US$61.5/bbl in 2015, US$69/bbl in 2016 and US$85/bbl in 'real' terms thereafter (2013: Dated Brent forward curve in 2014 and 2015 and US$85/bbl in 'real' terms thereafter).

SIGNIFICANT WORLDWIDE LICENCE INTERESTS

As at 25 February 2015

	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)		36.00	
	PL004b	14/15 (part)		36.00	
	PL004c	14/15 (part)		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	Kuda Laut/Singa Laut
Iraq		Block 12	JSOC Bashneft	30.00	
Mauritania	PSC B	(Chinguetti EEA)	Petronas	8.12	Chinguetti
Norway	PL407	17/9 (part) & 17/12	**Premier**	50.00	Vette (formerly 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	Zamzama
		Kirthar	ENI	6.00	Badhra
		Bolan	Mari Gas	3.75	Zarghun South
United Kingdom	P164	205/26a	**Premier**	60.00	Solan
	P201	16/21a	**Premier**	85.00	Balmoral, Stirling & Glamis[1]
	P344	16/21b, 16/21c	**Premier**	44.20	Balmoral & Stirling[2]
	P1042	15/25b	**Premier**	100.00	Brenda
	P201	16/21a (Brenda Field area, Above 7500 feet)	**Premier**	100.00	Brenda (above 7500 feet)
	P233	15/25a	**Premier**	70.00	Nicol
	P1114	22/14b	E.ON	40.00	Huntington
	PL089	SY87b, SY88b, SY89b, SY97b, SY98a, SY99a, SZ/7 & SZ/8a	Perenco	30.39	Wytch Farm[3]
	P534	98/6a & 98/7a	Perenco	30.39	Wytch Farm (offshore)[4]
	P748	29/2c	CNR	40.00	Kyle
	P077	22/12a	Shell	50.00	Nelson[5]
	P087	22/7a	**Premier**	46.50	Nelson[6]
	P1430	28/9a & 28/10c	**Premier**	50.00	Catcher
	P1943	13/24c & 13/25	**Premier**	37.50	Bagpuss/Blofeld
Vietnam		Block 12W	**Premier**	53.13	Chim Sáo & Dua

A full list of Premier's global licence interests is available on the website at www.premier-oil.com (Operations section)

Notes:

1 Unitised share of 78.11542% (Balmoral), Unitised share of 68.68% (Stirling).

2 Unitised share of 78.11542% (Balmoral), Unitised share of 68.68% (Stirling).

3 Unitised share of 30.09625%.

4 Unitised share of 30.09625%.

5 Unitised share of 1.31404%.

6 Unitised share of 0.348750%.

SHAREHOLDER INFORMATION

Registrar
All enquiries concerning your shareholding should be directed to Capita Asset Services:

Capita Asset Services
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

Telephone:
UK: 0871 664 0300 (calls cost 10p per minute including VAT plus network extras, lines are open 8.30am – 5.30pm Monday to Friday)
Overseas: +44 (0)20 8639 3399

Email: shareholderenquiries@capita.co.uk

Share portal
As a shareholder you have direct access to an online share portal operated by Capita Asset Services at www.premier-oil-shares.com. You can access the share portal with your Investor Code (IVC) which can be found on your share certificate. The portal provides a range of services, free of charge, to help you to administer your shareholding quickly and efficiently by allowing you to:

- Check your share balance;
- Change your address details;
- Choose to receive electronic shareholder communications;
- Set up or amend a dividend mandate so dividends can be paid directly to your bank account; and
- Buy and sell Premier Oil plc shares using the dealing service operated by Capita Deal.

Dividends

Dividend history
Details of dividend payments made are included within the shareholder information section of the Investors area of the Premier website: www.premier-oil.com

Dividend mandates
Shareholders who have a UK bank or building society account may complete a dividend bank mandate in order to receive any future dividends on the payment date. When a dividend is paid, 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 any future 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: http://international.capitaregistrars.com. Please note this service may not be available to all overseas shareholders.

E-communications
Shareholders have the option to receive communications including annual reports and notices of meetings electronically. For every shareholder that actively registers their email address online Premier Oil plc has pledged to donate £1 to Pure Leapfrog's carbon offsetting programme which supports carbon reduction projects in Africa, India and other developing countries (www.pureleapfrog.org). To register for this service, please visit the share portal: www.premier-oil-shares.com. You will need your Investor Code (IVC) which can be found on your share certificate. Once registered, Premier Oil plc will communicate with you via email rather than post.

Shareholder security
Shareholders are advised to be cautious about any unsolicited financial advice, including offers to buy Premier shares at inflated prices, or offers of free reports about Premier. More information can be found at www.fca.org.uk/consumers/scams and in the Shareholder Information section of the Investors area of the Premier website: www.premier-oil.com

American Depositary Receipt programme
Premier Oil plc has a sponsored Level 1 American Depositary Receipt (ADR) programme which BNY Mellon administers and for which it acts as Depositary. Each ADR represents one ordinary share of the company. The ADRs trade on the US over-the-counter market under the symbol PMOIY. When dividends are paid to shareholders, the Depositary converts such dividends into US dollars, net of fees and expenses, and distributes the net amount to ADR holders.

Registered Depositary Receipt holders can trade, access account balances and transaction history, find answers to frequently asked questions and download commonly needed forms online at www.adrbnymellon.com. To speak directly to a BNY Mellon representative, please call 1-888-BNY-ADRS (1-888-269-2377) if you are calling from within the United States. If you are calling from outside the United States, please call 201-680-6825. You may also send an email inquiry to shrrelations@cpushareownerservices.com or visit the website at www.computershare-na.com/bnym_adr

GLOSSARY

AEP	Asset and Equity Plan
AGM	Annual General Meeting
APA	Awards in Predefined areas (Norway)
bbl	barrel
BBtud	billion British thermal units per day
bcf	billion cubic feet
BMS	Business Management System
boe	barrels of oil equivalent
bopd	barrel(s) of oil per day
DECC	Department of Energy and Climate Change
DSA	Domestic Swap Agreement
EBITDAX	Earnings before interest, taxes, depreciation, amortisation and exploration expenses
ExCo	Executive Committee
FDP	field development plan
FEED	front end engineering and design
FPSO	floating production, storage and offtake vessel
GHG	Greenhouse gases
GRI	Global Reporting Initiative
HiPos	high potential incidents
HSE	health, safety and environment
HSES	health, safety, environment and security
HSFO	High Sulphur Fuel Oil
IAS	International Accounting Standard
IFRS	International Financial Reporting Standard
IPIECA	International Petroleum Industry Environmental Conservation Association
kbopd	thousand barrels of oil per day
kboepd	thousand barrels of oil equivalent per day
KPI	key performance indicator
LOPC	loss of primary containment
LTIP	Long Term Incentive Plan
mmbbls	million barrels
mmboe	million barrels of oil equivalent
mmscfd	million standard cubic feet per day
mscf	thousand standard cubic feet
mt	metric tonne
NAV	net asset value
PDO	Plan for Development and Operation
PSA	Performance Share Awards
PSC	production sharing contract
PSR	Project Safety Reviews
TLP	Tension Leg Platform
TRIR	total recordable injury rate
TSR	total shareholder return

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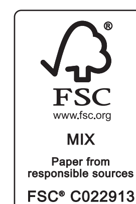

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