Annual Report and Financial Statements

Year to 31 December 2011

DELIVERING CONSISTENT GROWTH

Premier is a leading FTSE 250 independent exploration and production company with oil and gas interests in the North Sea, South East Asia and in the Middle East, Africa and Pakistan regions.

Our strategy is to add significant value for shareholders through exploration and appraisal success, astute commercial deals and optimal asset management.

Section 1: **Directors' Report: PERFORMANCE**
01 Introduction
02 Financial Highlights
03 Operational Highlights
04 Where We Operate
05 How We Operate
06 Chairman's Statement
08 Chief Executive's Review
20 Operations Review
27 Exploration Review
31 Financial Review
36 Key Performance Indicators
38 Social Performance Review

Section 2: **Directors' Report: GOVERNANCE**
44 Board of Directors
46 Corporate Governance Report
52 Audit and Risk Committee Report
55 Company Risk Factors
58 Nomination Committee Report
59 Report of the Directors
62 Remuneration Report
83 Statement of Directors' Responsibilities
84 Accounting Policies

Section 3: **FINANCIAL STATEMENTS**
90 Independent Auditor's Report – Group
91 Consolidated Income Statement
92 Consolidated Statement of Comprehensive Income
93 Consolidated Balance Sheet
94 Consolidated Statement of Changes in Equity
95 Consolidated Cash Flow Statement
96 Notes to the Consolidated Financial Statements
122 Independent Auditor's Report – Company
123 Company Financial Statements

Section 4: **ADDITIONAL INFORMATION**
134 Five Year Summary
135 Shareholder Information
136 Oil and Gas Reserves
137 Worldwide Licence Interests
140 Glossary
141 Contacts

PremierOil

Exploration,
Development,
Production…

A GROWTH BUSINESS WITH WORLD-CLASS CAPABILITY, SOUND FINANCIAL DISCIPLINE AND FOCUS ON CREATING **SHAREHOLDER VALUE**…

Premier today is in the strongest position in its history…

PremierOil

INTRODUCTION

Five reviews / which are testament to our desire to excel and to add value to whatever we undertake.

/1 Chim Sáo p 10 - 11

An organic growth asset

First oil from Chim Sáo, discovered by Premier in 2006, achieved in October 2011.

/2 Gajah Baru p 12 - 13

Meeting increasing Singapore demand

First gas achieved in October 2011 with deliverability exceeding expectations.

/3 Catcher p 14 - 15

One of the largest North Sea discoveries in recent years

Increased stake and assumed operatorship in this important project in early 2012. Progressing to first oil in 2015.

/4 Wytch Farm p 16 - 17

Increased stake in one of our long-term assets

Initiated an active drilling programme to increase deliverability.

/5 Commitment and responsibility p 18 - 19

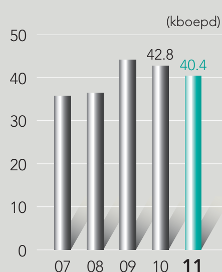
We support social investment that contributes to sustainable development

We are committed to applying the highest ethical standards.

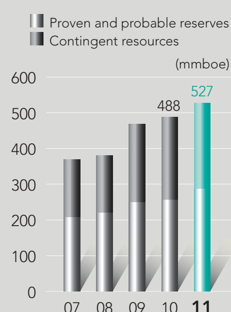
FINANCIAL HIGHLIGHTS

Total sales reached a new record level of US$826.8 million, and profit after tax is a record US$171.2 million.

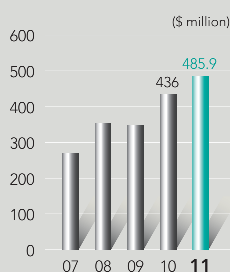
Production
2007-2011



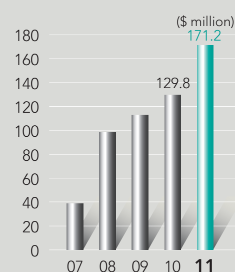
Reserves and resources
2007-2011



Operating cash flow
2007-2011



Profit after tax
2007-2011



Financial

- Record profit after tax of US$171.2 million (2010: US$129.8 million)
- Operating cash flow of US$485.9 million (2010: US$436.0 million), an increase of 11.4 per cent
- Year-end net debt of US$744.0 million (2010: US$405.7 million), giving rise to gearing of 30 per cent (2010: 26 per cent), proforma the completed EnCore transaction (36 per cent at year-end)
- Cash and undrawn bank facilities (including letters of credit) of US$1,116 million at year-end (2010: US$1,202 million) increased to approximately US$1,400 million following successful bank and bond market transactions in early 2012

OPERATIONAL HIGHLIGHTS

Successful completion of two operated development projects – commercialising over 100 million barrels of oil and gas, investing US$1.6 billion (gross), was a world-class achievement.

Operational

- 2011 exit rate of 60 kboepd achieved, in line with guidance. Average production for the year was 40.4 kboepd (2010: 42.8 kboepd)
- Successful completion of operated Chim Sáo and Gajah Baru fields in the fourth quarter of 2011, with deliverability ahead of expectations
- EnCore acquisition and assumption of Catcher operatorship achieved January 2012; Solan project receives internal sanction March 2012
- 12 out of 21 exploration and appraisal wells drilled in 2011 were successful, with notable discoveries at Burgman in the UK and at Cá Rồng Đỏ and Chim Sáo North West in Vietnam
- Proforma proven and probable reserves increased to 296 mmboe (2010: 261 mmboe), a reserve replacement ratio of 333 per cent. Reserves and resources increased to 527 mmboe (2010: 488 mmboe)

Outlook

- Production guidance of 60-65 kboepd average and 75 kboepd by year-end is unchanged and dependent on first oil/gas timing from the Huntington and Rochelle projects
- Final development sanction for several projects notably Solan expected shortly. On target to reach group's goal of 100 kboepd in the medium-term from existing fully funded projects
- Up to 20 well exploration programme planned for 2012 targeting 200 mmboe of unrisked potential; encouraging start with successes in Indonesia and Pakistan
- Accelerated build up of prospect inventory for future drilling with new licences acquired in the UK, Norway and Kenya in 2011 and an active new venture programme going forward

WHERE WE OPERATE

Focus on three core areas

EACH BUSINESS UNIT HAS PRODUCTION, DEVELOPMENT AND EXPLORATION OPERATIONS. IN TOTAL WE MANAGE A GROWING RESERVE AND RESOURCE BASE OF 527 MMBOE

HOW WE OPERATE

Utilising our strong development and project management skills in…

South East Asia // Middle East, Africa and Pakistan // North Sea

South East Asia

- Chim Sáo and Gajah Baru development projects delivered safely and on budget
- Accelerating development of Pelikan and Naga projects
- Exploration success at Anoa Deep and appraisal at Cá Rồng Đỏ

Strategy

We seek to develop the full potential of our operated position in the Natuna Sea and Nam Con Son Basin bringing relationships, knowledge and technical skills to bear and developing new business opportunities in related technical or geographical areas.

Outlook

- Dua development sanction and appraisal at north west Chim Sáo – first half 2012
- Active exploration programme in Indonesia
- Growing presence in the region through new venture activity

Middle East, Africa and Pakistan

- Enhanced value of Pakistan assets through ongoing field development and compression upgrade
- Exploration success at Kadanwari
- Entered Kenya with signing of two PSCs

Strategy

We seek to maximise the value of our Pakistan producing gas fields. We continue to build our exploration portfolio elsewhere in the region using our technical understanding of rift valleys and frontal foldbelts.

Outlook

- Focus on acquisition opportunities
- Continue the infield development programme
- Three well pilot project planned to evaluate tight gas potential at Kadanwari

North Sea

- Exploration success at Burgman (Catcher area)
- Completed five acquisitions adding 60 million barrels at a cost of around US$8/bbl
- Assumed operatorship of the Catcher and Solan development projects

Strategy

We seek to maximise output from our current production base and commercialise undeveloped discoveries already held in the portfolio. We will build on our existing position in the North Sea through an active exploration programme in Norway and the UK.

Outlook

- Huntington and Rochelle expected on-stream in 2012
- Solan and Catcher projects sanction during 2012
- Busy exploration programme under way. Upcoming Carnaby, Coaster, Luno and Lacewing wells

CHAIRMAN'S STATEMENT

A letter from Mike Welton

Delivering our Vision…

The world around us

Many Western economies are in recession and the stability of the Eurozone, in particular, is under threat. As a result, 2011 was a year of depressed financial markets and challenging access to capital. Politically, dramatic changes are taking place, notably in North Africa. The magnitude of these changes, in difficult economic circumstances, presents significant challenges. Against this background, the energy sector continues to prosper with strength in commodity prices driven by Asian growth and resilient demand elsewhere. Finding and extracting large hydrocarbon accumulations, particularly oil, in mature areas is by definition becoming more challenging. However, with technological change and through accessing unconventional resources, exemplified by the shale revolution in North America, the industry is continuing to respond to consistently strong demand for energy on a global basis.

Premier's performance

Premier's achievements in 2011 demonstrate that there is a role for companies of our size. The successful completion of our two operated development projects in Asia – commercialising over 100 million barrels of oil and gas, investing some US$1.6 billion on behalf of ourselves and our partners and employing at peak over 3,500 staff and contractors – was a world-class achievement. We will look to maintain and build on those skills within Premier as we move forward with new operated development projects.

The new projects in Asia contributed to meeting successfully our 2011 year-end production target of 60 thousand barrels of oil equivalent per day (kboepd). Average production for 2011 was 40.4 kboepd (2010: 42.8 kboepd). In common with many other operators in the North Sea, this was adversely affected by unplanned downtime in a number of our UK North Sea fields in the early part of the year. I am pleased to report that UK production recovered well in the second half of the year, continuing into the early months of 2012. It remains a top priority for our operations team in Aberdeen not just to maintain production levels, but to ensure the integrity of our production infrastructure as many fields in the North Sea move towards the end of their natural life.

Alongside proven operating and development skills, it has never been more important to maintain the balance sheet strength and liquidity to finance such projects. Our strong financial position enabled us to deliver on five acquisitions during the year, adding some 60 million barrels of reserves and resources and building on our existing presence, particularly in the North Sea. Our financial performance continues to improve and the outlook for strong growth in cash flows is robust, even at much lower oil prices than today. We continue to have good access to capital, from both the bank and bond markets, to fund future growth.

In exploration, we are consistently adding reserves and resources on an annual basis at an average after-tax cost of around US$5 per barrel (bbl). We are more than replacing our production. In the Natuna Sea in South East Asia and in the Central North Sea in the UK we have leading positions which, given our data and knowledge bases, we believe will translate into further successes. We are constantly reviewing new licence opportunities in existing areas and in analogous geological plays in new countries. These will be the source of future growth and potential upside for our investors.

Governance and the Board

As the group expands, the need for good corporate governance processes and keen attention to risk management becomes ever more critical. Consistent with external recommendations, the Board and its committees pay close attention not just to the future strategy of the company but also to Board composition and the risk identification and mitigation process, as well as performance and remuneration policies. I am grateful for the excellent advice and support received from my fellow directors during the year on all these matters.

As in previous years, particular attention at Board level has been given to health, safety and environmental management. The company's management systems have been successfully re-certified to OHSAS 18001 and ISO 14001 standards and key performance indicators for recordable injury frequency and high potential incidents were improved against the prior year. Nevertheless, we are constantly reminded of the need for strong processes, continuous vigilance and determination to learn lessons for the future.

Shareholder returns

Premier's share price dropped by 26 per cent during 2011 in a poor year for all equity markets. Following completion of the EnCore acquisition in January 2012, we have seen a significant recovery. Over the three year period to 31 December 2011, the shares have seen a growth of 80 per cent, significantly outperforming the FTSE All Share Oil and Gas Producers Index.

This outperformance is due to the hard work and skills of our employees, partners and suppliers. I would like to pay tribute to all of them as we look forward together to continued growth and success.

Mike Welton
Chairman

"This outperformance is due to the hard work and skills of our employees, partners and suppliers.
I would like to pay tribute to all of them as we look forward together to continued growth and success."

CHIEF EXECUTIVE'S REVIEW

An interview with Simon Lockett

Simon Lockett answers questions posed about Premier Oil, its performance during 2011 and the strategy for future success.

Continued Growth…

Q // What is Premier's business model and growth strategy?

A // Premier seeks to offer both our investors and our employees above average growth opportunities within business units that are themselves good quality businesses. This will be reflected in a rising production profile from our operations and development activities. We will continue to set ourselves targets – 75,000 boepd by the end of 2012 and 100,000 boepd in the medium-term – which are challenging but achievable. We expect to source further growth from a combination of acquisitions and organic exploration success. We expect to play a growing role in the places in which we choose to do business, which in itself will generate a stream of future opportunities. Over time, we have greatly widened our access to different sources of capital so that our financial strength has become a real asset to the business.

Q // What were the highlights of 2011?

A // In 2011, Premier continued to grow through acquisition, development and our own exploration activities. We have taken our skills as a development operator in South East Asia, proved them on new projects and are building up a comparable skill set in the North Sea. Our exploration programme is focused on areas where we have a spread of acreage and a deep understanding of the geology. We are better placed than ever to achieve material resource additions from our planned programmes.

Key milestones in achieving our growth in 2011 came from our project teams in Indonesia and Vietnam who achieved excellent results in bringing two major operated projects on-stream on a timely basis and in line with original cost projections. This was a big step forward for our Asian business. Less visibly, but just as valuable for the future, I believe we have made great strides in a number of other areas. Our geologists and geophysicists enhanced their understanding of the petroleum systems in both the Natuna Sea and the UK Central North Sea, adjacent to existing Premier discoveries, and this will be reflected in the drilling programmes established for 2012 and beyond. Our commercial teams in London and Aberdeen have made great progress on the shape, structure and schedules for new projects, especially in the North Sea. Our operations staff have worked tirelessly to ensure that asset integrity, safety and the environment are at the top of our priority list. All such efforts are critical to the overall success of the company.

Q // How and where will you expand geographically?

A // The group is well established in the North Sea and in South East Asia. We expect that the majority of our resources, both personnel and financial, will continue to be directed at these core businesses. We have the ambition over time to develop a third geographic area of expertise, though only when the right opportunities emerge and when the skills we already have in subsurface and engineering can be successfully applied. Leading the way are our new venture teams who are already taking us into new geographies, albeit in ways which seek to address the challenges of new country entry. In 2011, for example, we obtained two new exploration licences in offshore Kenya and significantly expanded our acreage portfolio in the Norwegian sector of the North Sea. Other geographies are under review for 2012.

Q // In 2011, you made a number of acquisitions. Are you looking for future acquisitions?

A // We continually look at potential acquisitions as a way of building up our knowledge of assets in our core areas, though we are in the fortunate position that our internal growth profile is already strong. Completed acquisition transactions have typically happened in times of market dislocation, which creates new opportunities. In 2009, at a low point in the oil price cycle, we completed major acquisitions in the UK and in Vietnam. In 2011, the commodity markets held up well but the capital markets, especially for smaller companies, were weak and development finance scarce. Our recent five completed acquisitions, all in the North Sea, reflected for the most part this opportunity and we are pleased to have added around 60 million barrels of oil equivalent (mmboe) of reserves and resources to the portfolio at a cost of less than US$8/bbl. We expect 2012 to be another active year in the acquisition markets as the challenging conditions, especially in the bank sector, seem destined to continue.

Q // What are the biggest challenges facing Premier going forward?

A // We operate in a highly competitive world where both good quality human and natural resources are scarce. We have been successful in retaining our people and in building up teams to execute new projects. Our headcount has doubled from 300 to over 600 in the last four years. Our share-based incentive package offers good upside to employees if the company performs well but also ties in our employees for up to six years before this upside is realised. In my experience people enjoy the challenges offered by a growth programme.

On the asset side, continuing access to good quality acreage is critical to the long-term growth of the company. We constantly review new opportunities around the world which come to us via licensing rounds, knowledge of our partners' and competitors' strategies and through strong government relationships in the areas in which we operate.

Q // Can Premier continue to build on its successes in the future?

A // I believe that our combination of technical skills and financial strength positions us well for the future. Our operations in the Natuna Sea and in the UK Central North Sea are very well established and continue to offer opportunities for further growth. We can see a path to production of 100,000 barrels of oil equivalent per day (boepd) from existing projects in the medium-term. Our portfolio is already positioned for success beyond that with ongoing developments and an active exploration programme.

Review

1

Q // *Can Premier continue to build on its successes?*

A // Our portfolio is already positioned for growth beyond 2015.

PremierOil

Focus

Chim Sáo

An organic growth asset

Location / Vietnam

PREMIER BROUGHT CHIM SÁO ON-STREAM SAFELY AND ON BUDGET IN OCTOBER 2011. THE FIELD, WHICH IS THE FIRST OIL FIELD IN THE NAM CON SON BASIN TO BE DELIVERED, IS PERFORMING AHEAD OF EXPECTATIONS WITH ADDITIONAL UPSIDE OPPORTUNITIES.

Profile / Premier discovered the Chim Sáo oil field in November 2006. The subsequent drilling programme prompted Premier to proceed rapidly to development, final approval for which was achieved in November 2008. Rising steel prices caused Premier to opt for a single central platform with long reach drilling. This resulted in a gross cost saving of US$112 million against alternative development concepts. The platform jacket and topsides were installed during 2010 and the conversion of the FPSO was completed in June 2011. The field was brought on-stream in October 2011, only six years after the initial discovery, and gas exports commenced in December 2011. Deliverability of Chim Sáo is ahead of expectations and its cargoes are being sold at a premium to average Dated Brent. To date 12 wells (nine producers and three water injectors) have been drilled and total drilling cost is expected to come in below budget.

Outlook /

- Additional upside remains and reserves increasing
  - Optimise development of Chim Sáo
  - Better reservoir qualities than prognosed
  - Successful appraisal of the Oligocene (Cau) at deeper levels
- Chim Sáo North West
  - Additional gross resource estimate 13-20 million barrels with further potential upside to be appraised
  - Chim Sáo North West to be tied in to existing facilities
- Tie in of the nearby Dua field to the Chim Sáo facilities by 2014

Phil MacLaurin
Country Manager

"The successful and safe delivery of Chim Sáo demonstrates our ability to operate to the highest standards throughout the cycle. We now look to recreate this achievement with Dua, a tie-back to Chim Sáo, which achieved project sanction in December 2011. We will also appraise the new accumulation at Chim Sáo North West as a near field tie-back opportunity in 2012."

PremierOil

Review

2

Q // *What is the key factor in your success?*

A // We have been successful in retaining our talent pool and building our capabilities to execute new projects.

Focus

Gajah Baru

Meeting increasing Singapore demand

Location / Indonesia

FIRST GAS PRODUCTION FROM GAJAH BARU WAS ACHIEVED WITHIN BUDGET IN OCTOBER 2011. VOLUMES FROM THE FIELD CONTINUE TO INCREASE WITH CURRENT PRODUCTION RATES AVERAGING ~60-90 BBTUD. THIS MARKS THE SECOND PHASE OF GAS INTO SINGAPORE FROM THE PREMIER-OPERATED NATUNA SEA BLOCK A.

Profile / Premier discovered and successfully appraised the Gajah Baru gas field in 2000 and 2004, respectively. In 2008, we negotiated three further GSAs enabling Gajah Baru gas to be sold into the Singaporean and Indonesian domestic markets. The development plan was approved in 2008 and a second tender for the EPCI contract was completed in March 2009 (gross cost saving of US$100 million). 2011 saw the CPP connected to the WHP on schedule and on budget and the gas export equipment tied into the WNTS pipeline. The five development well programme was completed in February 2011 and provided in excess of 200 BBtud of gas deliverability. Gas exports from Gajah Baru commenced in October 2011. Volumes continue to ramp up towards 90 BBtud. On completion of a Gas Swap, an additional 40 BBtud will be delivered from Gajah Baru at Indonesian domestic prices.

Outlook /

- Next phase of development projects being worked on:
  - Anoa Phase 4 sanctioned and EPCI contract awarded
  - Project sanction for Pelikan and Naga expected imminently
- Returned to exploration on block:
  - Anoa Deep, which spudded in February 2012, was successful, testing gas with a flow rate of 17 mmscfd
  - Biawak Besar is currently drilling with results expected in April 2012
- Total sales capacity from Block A will increase to 400 BBtud over time

Roberto Lorato
President Premier Indonesia

> “Gajah Baru has the plant capacity to produce in excess of 200 BBtud, significantly more than contracted quantities. This, along with our pipeline of future projects on Natuna Sea Block A, will put us in a strong position to benefit from rising demand from Singapore and Indonesia.”

PremierOil
GAJAH BARU WP

Review

3

Q // *Will you expand geographically?*

A // Only when the right opportunities emerge.

Focus

Catcher

One of the largest North Sea discoveries in recent years

Location / North Sea

PREMIER HAS INCREASED ITS STAKE IN THE IMPORTANT CATCHER PROJECT TO 50 PER CENT AND HAS TAKEN OVER OPERATORSHIP. DEVELOPMENT STUDIES ARE WELL ADVANCED AND A DECISION ON THE CONCEPTUAL DESIGN IS EXPECTED DURING THE FIRST HALF OF 2012.

Profile / Premier acquired an interest in the Catcher area as a result of its 2009 Oilexco acquisition. The Catcher discovery in 2010 pointed to the presence of much lighter oil than anticipated and proved that hydrocarbons could migrate to the outer margins of the Central North Sea. Follow up wells, 28/9-2, 3 and 4, were drilled between January 2011 and March 2011 discovering the Varadero and Burgman fields and appraising Catcher North. The six penetrations drilled to date have estimated discovered reserves in the order of 80 million barrels. In October 2011, Premier made a recommended acquisition of EnCore for cash with a share alternative. The acquisition completed in January 2012 with shareholders representing 93.5 per cent of EnCore shares electing to take Premier shares. Operatorship of Catcher was transferred to Premier and Premier's working interest increased from 35 per cent to 50 per cent.

Outlook /

- Formal concept selection, which is expected in the first half of 2012, will be followed by further engineering studies on the chosen concept ahead of development approval by year-end
- Additional upside remains on the block with further exploration planned:
  - Carnaby will be drilled in April 2012 with results expected in May 2012
  - The Coaster prospect on the adjoining block to Catcher
  - Additional prospects on the Catcher Block include Bonneville, Cougar, Rapide and Rocket
- Premier plans to pursue the knowledge it has acquired from its activities in the Catcher area to other margin plays in the UK Central North Sea

Neil Hawkings
Operations Director

“We have made significant progress on the engineering and screening studies and concept selection is expected imminently. As operator, we are now in a much stronger position to advance the development of the Catcher area’s discovered resources.”

100 150
50 200
0 250
LP
Alco Valves

LN-OHM

Review

4

Q // *Are you looking for further acquisitions?*

A // We are always looking at opportunities, which have the potential to add shareholder value.

PremierOil

Focus

Wytch Farm

Increased stake in one of our long-term assets

Location / UK

IN DECEMBER 2011, PREMIER ACQUIRED AN ADDITIONAL 17.7 PER CENT STAKE IN THE PRODUCING WYTCH FARM FIELD AND ITS UNDEVELOPED BEACON SATELLITE. THE TRANSACTION HAS ADDED APPROXIMATELY 2,500 BOEPD NET PRODUCTION WITH RESERVES UPSIDE IN BOTH WYTCH FARM AND BEACON.

Profile / In 1984, Premier purchased a 12.38 per cent interest in the onshore oilfield at Wytch Farm in Dorset. This acquisition had a significant impact on Premier's reserve base and cash flow. In December 2011, Premier completed its acquisition of an additional 17.7 per cent interest in the Wytch Farm and Beacon fields, taking its interest in these assets to 30.1 per cent. Perenco also acquired operatorship of Wytch Farm in December 2011. Drilling activity was suspended by the previous operator BP in 2009 but has recently restarted under Perenco's operatorship. Premier believes that sufficient reserves-adding opportunities exist to sustain an active rig programme to 2017 and beyond. Drilling activity will target infill locations in the producing areas as well as undeveloped satellite accumulations.

Outlook /

- Acquisition adds approximately 12 mmboe of net reserves and 2,500 boepd of net production in 2012
- Active drilling programme
  - Infill drilling in producing reservoirs to accelerate production and optimise recovery
  - Bringing into production of satellite discoveries onshore
  - Development planning for the significant Beacon satellite field offshore
- Long-term production and reserves upside through optimised waterflood management in producing fields

Nigel Wilson
North Sea Regional Manager

"We are pleased to have increased our equity stake in one of our quality core producing assets to over 30 per cent. We look forward to an active drilling programme and to working with Perenco to deliver maximum value from Wytch Farm."

Review

5

Q // *What does Corporate Social Responsibility mean to Premier?*

A // It is about doing the right thing as well as managing risk and protecting our reputation. It's about investing in the community and people.

IT IS OUR POLICY TO SUPPORT SOCIAL INVESTMENT THAT CONTRIBUTES TO THE SUSTAINABLE DEVELOPMENT GOALS OF THE COMMUNITIES AND COUNTRIES WHERE WE OPERATE. This means working in partnership with professional social development organisations, government agencies and local NGOs to ensure our investment addresses relevant and material issues in a rigorous manner with positive impacts on society. Our investment is increasingly focused on the development of local capacity and educational initiatives that deliver social and economic returns for both local communities and host governments. We also contribute to local infrastructures and disaster relief initiatives.

Recent examples include:

- Indonesia: Premier has now built a total of six kindergartens that enrol around 400 children in six remote villages in the Anambas regency. Premier has also developed several infrastructure projects at the request of the Anambas local government, including construction of public health centres, libraries and school classrooms. Two of the multi-functional buildings we supported in 2010 were completed and handed over to local government in 2011.
- UK: In 2011, Premier partnered with the Cyrenians, a charity providing a range of services for homeless people, to refurbish its training suite and kitchen facilities in Aberdeen. The centre is used for residential courses to help reintegrate homeless individuals into society. The centre offers computer training and access for those looking to develop their resumes, use e-mail facilities and apply for jobs.
- Vietnam: Our community investment programme continues to be guided by the national socio-economic plan, with goals and programmes related to economic growth, poverty reduction, job creation, education and vocational skills development. In 2011, for the second year in a row, Premier Oil Vietnam received the Saigon Times Top 40s Award for environmental excellence and CSR programmes. We also formalised our commitment to provide adolescents with enhanced vocational/employment opportunities by researching and publishing a directory of vocational training institutions in Ho Chi Minh City that offer free or subsidised training and guidance on career choices to disadvantaged young people.

  Premier Oil Vietnam has a long-term partnership with Friends for Street Children (FFSC) in Ho Chi Minh City. In 2011, in celebration of first oil from the Chim Sáo field, we announced our intention to fund the FFSC Binh Tho Development Centre for the life of the Chim Sáo field. The centre provides education, vocational training and healthcare to 145 disadvantaged children from poor families, and focuses mainly on equipping younger children to integrate into junior public high schools. FFSC also supports older children to find meaningful and respectful employment in roles such as accounting, photography, sales and skilled factory and office work.

Paul Dennis
HSE and Security Manager

"It is our policy to support social investment that contributes to the sustainable development goals of the communities and countries where we operate."

OPERATIONS REVIEW

By Neil Hawkings Operations Director

Production, development and reserves

Average working interest production for the full-year was 40.4 kboepd (2010: 42.8 kboepd). Our North Sea business faced challenging conditions due to extended unplanned downtime on key producing assets at the Balmoral, Scott and Wytch Farm fields. However, the year-end target of 60 kboepd was achieved following the return to full production at the UK fields and the start-up of new Asian projects during the fourth quarter. Production in other areas remained steady, with strong gas demand and good production performance in both Pakistan and our existing fields in Indonesia.

	Working interest		Entitlement	
Production (boepd)	**2011**	2010	**2011**	2010
Indonesia and Vietnam	**14,350**	11,650	**11,700**	7,300
UK	**10,300**	15,500	**10,300**	15,500
Pakistan	**15,100**	14,900	**15,100**	14,900
Mauritania	**650**	700	**550**	600
Total	**40,400**	42,750	**37,650**	38,300

Major milestones were achieved on our operated development projects. The Chim Sáo development in Vietnam was completed and first oil production was achieved safely and on budget through the Lewek EMAS floating production, storage and offtake vessel (FPSO), with reservoir and well performance exceeding expectations. In Indonesia, the Gajah Baru development was completed with successful installation of a new central processing platform on schedule and budget. The gas export equipment was tied into the existing subsea West Natuna Transportation System pipeline to deliver gas to Singapore. On the same block the Anoa Phase 4 project, to upgrade compression facilities and increase production capacity, has been sanctioned. The project will be completed in 2013 accessing a further 200 billion cubic feet (bcf) of reserves for export.

Development activities continued on the Huntington field in the UK with the completion of Phase 1 of the subsea installation and drilling of one injection and three production wells. The upgrade of the Voyageur FPSO is now being progressed and the operator is expecting first oil in the fourth quarter of 2012. The East and West Rochelle subsea fields in the UK North Sea were unitised (Premier equity 15 per cent) in order to facilitate a fast track development programme via the Scott platform host production facility. The field achieved final project sanction with the Department of Energy and Climate Change (DECC) approving the field development plan in the second half of 2011. Subsea facilities fabrication and offshore construction on the host Scott platform is progressing to schedule with first gas and condensate anticipated in the fourth quarter of 2012.

As at 31 December 2011 proven and probable (2P) reserves, on a working interest basis, were 284 mmboe (2010: 261 mmboe). On a proforma basis the EnCore acquisition, completed in early January 2012, increased reserves to 296 mmboe, giving a reserve replacement ratio of 333 per cent.

	Proven and probable (2P) reserves (mmboe)	2P reserves and 2C contingent resources (mmboe)
Start of 2011	261	488
Production	(15)	(15)
Net additions and revisions	38	40
End of 2011	**284**	**513**
EnCore acquisition*	12	14
Proforma total	296	527

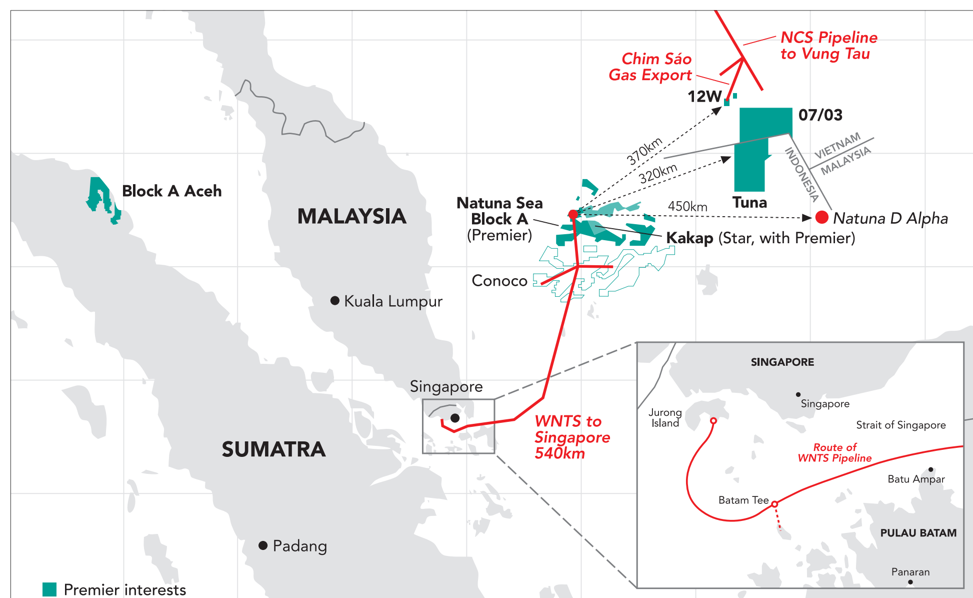
* The EnCore acquisition completed in January 2012. Reserve additions exclude EnCore's interest in the Cladhan field which was sold in March 2012.

Upon completion of the EnCore acquisition, the percentage of liquids in total reserves increased from 35 per cent at the end of 2010 to 51 per cent. The equivalent volume of 2P reserves on an entitlement basis amounted to 263.8 mmboe (2010: 222.0 mmboe) based on a price assumption equal to the Dated Brent forward curve in 2012 and 2013 and US$75/bbl in 'real' terms thereafter (2010: fixed price of US$75/bbl).

Booked reserve additions were mainly due to the acquisition of EnCore (additional 15 per cent equity in Catcher area), progress with the Solan field and the additional equity acquired in Wytch Farm. Other reserves additions included exploration successes at Burgman in the UK and at Kadanwari in Pakistan. Proforma contingent resources at year-end were increased to 231 mmboe (2010: 227 mmboe).

Asia

Premier successfully completed the Chim Sáo and Gajah Baru projects achieving first oil and gas in the fourth quarter, driving the company's year-end production run-rate to 60 kboepd. In Indonesia, we continue to develop our gas positions and are accelerating development of the Pelikan and Naga projects set to achieve sanction in the first half of 2012. In Vietnam, significant progress has been achieved in plans to develop the Dua field which is also expected to be sanctioned in the first half of 2012.



Indonesia

During 2011, the Premier-operated Natuna Sea Block A sold an overall gross average of 161 billion British thermal units per day (BBtud) (2010: 160 BBtud), including rates in excess of 200 BBtud as Gajah Baru came on-stream. The Anoa facility delivered 5 per cent over its contractual market share at nearly 42 per cent. The non-operated Kakap field contributed a further 42 BBtud (gross) (2010: 54 BBtud). Gross liquids production from the Block A Anoa field increased by over a third to an average 2,400 barrels of oil per day (bopd) (2010: 1,758 bopd) with a further 3,400 bopd (2010: 2,993 bopd) from Kakap. Overall, net production from Indonesia amounted to 11,450 boepd (2010: 11,650 boepd).

The Gajah Baru development involved the successful installation in 2011 of a new central processing platform connected to a new wellhead platform on schedule and budget. The gas export equipment was tied into the existing subsea West Natuna Transportation System pipeline to deliver additional gas to Singapore. During the year, five development wells were successfully completed, providing in excess of 200 BBtud of gas deliverability from this new facility.

Volumes from the Gajah Baru field are being supplied in accordance with the second Gas Sales Agreement (GSA2). Good progress has also been made on a swap agreement (GSA5) under which additional volumes of Gajah Baru gas supplied to Singapore will be swapped with existing supplies from Sumatra to Singapore. These Sumatra volumes will be re-directed to the Indonesian domestic gas market. The relevant agreements are expected to be completed shortly and physical supplies of up to 40 BBtud (gross) should commence in the second quarter of this year. GSA5 will replace gas previously contracted to be supplied to Batam Island, Indonesia, under GSA3 and GSA4 until at least December 2013, when GSA3 and GSA4 contracts are expected to commence.

On the Anoa field, workovers were performed on the A7 and A11 wells. These workovers added a further 30 million standard cubic feet per day (mmscfd) of gas deliverability. A new oil well (A22) was successfully completed which added around 1,500 bopd of incremental oil production. A three-well drilling campaign on the Anoa field's West Lobe platform has progressed well and included the discovery of new reserves in the deeper Lama reservoir below Anoa.

In order to upgrade the compression facilities and to increase production capacity on the producing Anoa field, a major 'brown-field' development project has been sanctioned, extending the assumed field plateau and developing some 200 bcf of gross field reserves. This project, known as Anoa Phase 4, will be completed in 2013.

Elsewhere on the block, tendering commenced for the engineering, procurement, construction and installation (EPCI) contract for two wellhead platforms and connecting pipelines for the development of the Pelikan and Naga fields. Final project sanction and contract award is expected in mid-2012, to provide future supply to existing Singapore and Indonesia sales contracts.

On the non-operated Block A in Aceh a fully termed production sharing contract (PSC), extending the licence term for 20 years, became effective from 1 September 2011. Work continued on the gas development project in support of two firm GSAs. However, the EPCI contract for the facilities will be re-tendered and first gas is now scheduled for 2015.

Vietnam

First oil production from the Chim Sáo oil field was achieved safely and on budget in October, followed by the commencement of gas export in early December. By year-end, close to 2 million barrels had already been produced from six production wells. A further three production wells will be available to come on-stream in early 2012 when the four well water injection system will also commence. Further valuable opportunities have been identified in the Chim Sáo area. A well deepened into the Oligocene directly beneath the main field proved an estimated 17 metres of net hydrocarbon-bearing pay, and an additional well to be drilled in early 2012 will accelerate production from a shallow reservoir which has larger reserves than initially evaluated.

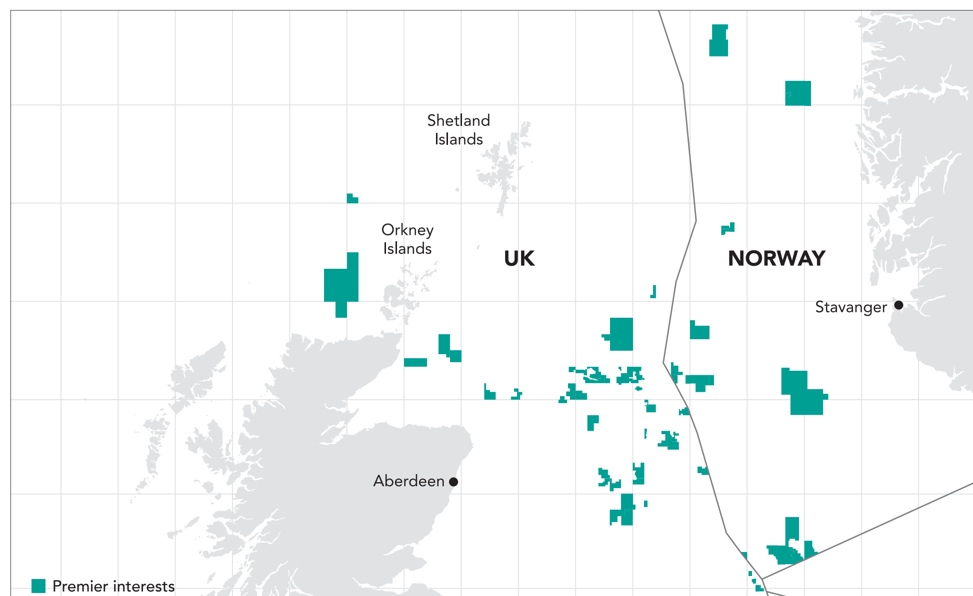
The CS-N2P well, a development production well for the Chim Sáo project, intersected the shallow part of a previously undrilled fault terrace to the north west of the Chim Sáo field. The well encountered a 20 metre oil column in an independent closure within good quality Upper Dua sandstones. The plan is to further appraise this new accumulation in 2012 as a near-field tie-back opportunity.

In December the Government of Vietnam approved the outline development plan for the Dua field and orders were placed for the equipment required to develop Dua as a tie-back to Chim Sáo. We are targeting full production from Dua in early 2014.

North Sea

Our North Sea business unit continued to grow with the acquisition of EnCore Oil plc (which held an additional 15 per cent in the Catcher area) and the purchase of an additional 17.7 per cent equity in Wytch Farm. The development portfolio has moved forward significantly with the Huntington field targeting first oil and the Rochelle area achieving project sanction for first gas during 2012. Significant concept engineering work was completed on newly acquired projects, with the Solan project achieving Premier Board sanction in March 2012.

Production performance in the first half of 2011 was hampered by downtime on key producing assets. These maintenance issues have been resolved and Premier is now seeing a stronger production performance from existing fields in 2012.



UK

2011 production net to Premier was 10,300 boepd (2010: 15,500 boepd). Production was negatively affected by extended unplanned downtime on key producing assets. The Balmoral area fields were shut-in in the first quarter due to topside integrity issues and in mid-year due to a subsea leak. The non-operated Wytch Farm field was shut-in during January due to a flow line leak which occurred late in 2010 giving rise to a full pipeline integrity study. Production from the non-operated Scott field was restricted in the first quarter due to a fracture in the gas export line which required restricted production from high gas/oil ratio wells to comply with the gas flare consent. Production from the Balmoral area improved in the second half of 2011 as the immediate issues that affected our production performance in the first half of the year were resolved. The December 2011 B-Block production rate was significantly better at around 7,500 boepd (net to Premier) compared to the 2011 full-year average of 3,750 boepd.

The non-operated Kyle field contributed strong production until gale force winds in December damaged the mooring system of the host Banff FPSO production facility, forcing it 270 metres off location and causing damage to the Banff field subsea risers, umbilicals and possibly the FPSO turret. The damage is currently being assessed by the operator of Banff but it is likely that the Kyle field will be shut-in until mid-2013. Premier is currently processing insurance claims under its business interruption and property damage policies.

Several significant acquisitions were negotiated in 2011, the most significant of which being the purchase of EnCore Oil plc which included 15 per cent equity and operatorship of the Catcher area. Premier now owns 50 per cent of the Catcher area and is therefore in a strong position to progress the development of the area's discovered resources towards first oil in 2015. Development studies are well under way and a decision on the conceptual design is targeted for the first half of 2012. In addition to Catcher, Premier acquired additional licences via the EnCore acquisition, including the Cladhan discovery and the Coaster prospect. Premier agreed to sell its newly acquired 16.6 per cent equity interest in Cladhan for US$54 million and farm down 50 per cent of the acquired 100 per cent equity in the Coaster prospect on a promoted basis. The sale of Cladhan was completed in March 2012.

Acquisition of an additional 17.7 per cent equity in the Wytch Farm producing asset was completed in late December at a final cost of US$90 million, increasing Premier's equity to 30.1 per cent of remaining reserves and adding approximately 2,500 boepd of net production in 2012.

A new pre-development asset was acquired by the purchase of a 60 per cent equity in the Solan field (P164, Block 205/26a) which is located west of Shetland. Premier was appointed as development operator in January 2012. The upfront acquisition cost was US$10 million, with Premier providing a carry and financing package to the prior owner during the development phase. The Solan project received internal Premier approval in March 2012 and is expected to receive DECC development sanction approvals shortly. The field is expected to produce around 42 million barrels following first oil in 2014 with capital expenditure of around US$850 million.

Premier also exercised an option to become the operator of the Fyne field with a 39.9 per cent equity stake, in return for providing a carry through ongoing exploration and appraisal work. The results of the nearby Erne discovery well, drilled in the fourth quarter of 2011, and the East Fyne appraisal well, completed in 2012, are currently being evaluated by the joint venture partners. However, at this stage, potential developments in the Greater Fyne area do not meet the company's economic thresholds.

Significant progress was achieved on other development assets. The Phase 1 subsea installation for the Huntington field has been successfully completed and one injection and three production wells have been drilled with production rates testing at over 10,000 bopd per well. Earlier schedule slippage on the Voyageur FPSO was addressed by a change in ownership of the vessel. The FPSO upgrade is now progressing in Norway and the operator is expecting first oil during the fourth quarter.

The East and West Rochelle subsea fields were unitised (Premier equity 15 per cent) to facilitate the fast track Rochelle development programme via the Scott platform host production facility. A processing tariff was agreed with the Scott owners and initial Rochelle modifications were made to the Scott topside facility during the year. The development programme has made good progress towards first gas from Rochelle in November 2012. The subsea fabrication work is on schedule and drilling rigs have been contracted to drill the Rochelle development wells this summer.

The Caledonia field redevelopment project, close to the Balmoral area, made progress during 2011 and is now part of a project to bring fuel gas to Balmoral. Project sanction is expected later in 2012 for first oil and gas in 2014.

Norway

Progress has been made on the Bream development during 2011. After engineering evaluation of a number of different alternatives, the selected development concept is an FPSO and subsea wells with artificial lift. A specific FPSO has been identified and front end engineering studies are being conducted for both this vessel and the associated subsea systems and wells. A project sanction decision will be taken after the engineering studies and FPSO contract negotiations are completed in the second quarter of 2012. A licence extension until February 2013 has been granted. The first oil date for the field would be late 2015.

The Frøy project made a technical concept selection in the first quarter of 2011. However, the operator decided not to continue the project in its current form for strategic reasons. Further work has been completed during the year on a potential area development, which would take resources from a number of fields within a 10-20km distance to a central processing hub.

Middle East, Africa and Pakistan

Natural decline in gas production in Pakistan was more than offset by ongoing infield development, exploration successes and compression upgrades. Oil production in Mauritania also remained stable. While the focus has been on enhancing the value of our Pakistan producing assets, we continue to build our exploration portfolio elsewhere in the region.

Pakistan

Average net to Premier production in Pakistan during 2011 was 15,100 boepd, marginally higher than in 2010 (14,900 boepd).

Net to Premier, the Qadirpur field averaged 3,750 boepd (2010: 3,550 boepd). The increased production was the result of the wellhead compression project coming on-stream at the end of 2010. Work is in progress for the installation of two front end compressors by September 2012 in order to maintain production levels. The development extended reach wells (ERW) QP-42 and QP-43 have been successfully drilled, completed and tied in to production during 2011, while drilling of QP-44 (also ERW) is in progress. Two centrifugal compressors for the compression and re-cycling of permeate gas (a side stream) were commissioned in July and October 2011. This has minimised the flaring of permeate gas and resulted in a corresponding increase of sales gas (25-30 mmscfd, gross).

Average production net to Premier from the Kadanwari field was 2,050 boepd (2010: 1,750 boepd) and included increased contributions from successful exploration and development wells.

The Zamzama field averaged 5,800 boepd net to Premier (2010: 6,050 boepd). The decrease in production was primarily due to natural decline. Front end compression was commissioned in July. Subsurface studies were conducted during the year, following which two infill wells (Zam-8 and Zam-9) are now planned to be drilled in the second half of 2012, while an additional infill well (Zam-10) is under consideration for drilling in the first quarter of 2013.

The Bhit/Badhra fields produced 3,500 boepd net to Premier (2010: 3,550 boepd). The slight decrease in production was because the field's annual maintenance programme, originally scheduled to be carried out in the second half of 2010, was deferred to April 2011. The Bhit-13 development well was successfully drilled and completed in the second half of 2011 and was tied in to facilities in January 2012. The installation and commissioning of a wellhead compressor at the Badhra gas field was successfully completed at the end of 2011.

Mauritania

In Mauritania, 2011 working interest production from the Chinguetti field averaged 650 bopd (2010: 700 bopd) with the decline rate continuing to be lower than expected.

Negotiations between the government and the joint venture partners have been completed for extensions to PSC A and PSC B. Their respective exploration areas have been merged into a new PSC, C-10, in which Premier holds a 6.23 per cent working interest. The undeveloped discoveries (Banda, Tiof and Tevet) in PSC A and PSC B will continue to be held by joint venture partners for up to 18 months while development studies are undertaken. Potential gas sales arrangements for Banda are currently under discussion.

EXPLORATION REVIEW

By Andrew Lodge Exploration Director

The near-term goal for exploration within Premier is to add 200 mmboe of net 2P reserves by 2015. This is being achieved by focusing on geographies and geological themes in which Premier has demonstrable knowledge, skills and expertise namely in rift basins of South East Asia, the North Sea and Africa, together with frontal fold belt provinces as exemplified by our asset base in Pakistan. Since the goal was set in 2009, 70 mmboe of reserves and resources have been added which, with further evaluation and appraisal, could rise to over 100 mmboe. The programme is therefore on track to meet its target.

In 2011, Premier participated in 21 exploration and appraisal wells, of which 12 were successful, an overall success rate of 57 per cent. The most notable successes were in the UK Central North Sea and the Nam Con Son Basin in Vietnam. In Vietnam, the 2009 Cá Rồng Đỏ discovery in Block 07/03 was successfully appraised with oil, gas and condensate being encountered. The gas and condensate was found in a deeper reservoir sequence than the oil and this opens up a new play fairway within Premier's acreage in the Nam Con Son Basin. In the UK Central North Sea the discovery at Burgman continued the successful exploration drilling on the Catcher licence, UK Block 28/9.

Premier also explores for near-field resources capable of being tied back to its existing infrastructure. In Pakistan, three near-field exploration wells encountered gas in untested fault block compartments within the Kadanwari field area and, in Vietnam, oil was discovered in a previously untested trap immediately north west of the Chim Sáo field on Block 12W.

Premier continues to apply the most advanced seismic interpretation techniques in maturing its lead and prospect inventory to drillable status and, in 2011, acquired new 3D seismic data in the Catcher licence and surrounding acreage. On non-operated acreage, a new 3D survey was acquired in Norway in the Blåbaer licence, and 2D and 3D seismic data was acquired in Kenya.

2011 was a significant year for new acreage capture with a total of 25 licences being secured by year-end, amounting to a net acreage gain of 3,885km^2. A total of 12 licences were acquired in the UK Central North Sea and two in Ireland, in the Celtic Sea, via the EnCore acquisition. In addition, four new blocks were offered for award through EnCore as part of the deferred 26th Round awards in early January 2012 – three of these are in the Central North Sea and one is in the Solent.

In Norway, Premier acquired two new blocks in February 2011 as a result of the 2010 APA awards. In the latter half of 2011, three licences in the Norwegian portion of the Central North Sea were acquired from Nexen for a cost of US$5.5 million. Early in 2012, Premier was also awarded equity in four new licences via the 2011 APA Licence Round, three licences in the North Sea and one offshore mid-Norway. All acreage awards in Norway were acquired on a drill or drop option basis and the target is to deliver prospects from this new portfolio for drilling in the 2013/2014 time frame.

In Mauritania, the exploration PSC extension was signed and ratified in 2011, resulting in a new PSC. The new PSC, in which Premier holds a 6.23 per cent equity interest, has a gross area of 10,725km^2. The plan is to drill the first of two exploration wells on this new PSC in the latter half of 2012.

Additional acreage was secured in East Africa via Premier's entry into two new PSCs, offshore Kenya. Offshore East Africa was an industry focus in 2011 with the discovery of significant resources offshore Mozambique and Tanzania. Premier's acreage offers the potential to extend these successful plays northwards into offshore Kenya.

Premier plans to drill between 15 and 20 exploration and appraisal wells in 2012, including a further exploration well on the UK Catcher Block and two wells, Coaster and Spaniards, on acreage acquired through the EnCore acquisition. In Norway, the Luno II well is planned for the fourth quarter and, in Asia, the appraisal of the north west Chim Sáo discovery will take place, as well as four exploration wells in Indonesia.

Asia

Indonesia

On the Premier-operated Tuna PSC, exploration wells Gajah Laut Utara and Belut Laut were drilled to test the Miocene and Oligocene potential of two prospects on the block. Gajah Laut Utara spudded in May 2011 and was followed by Belut Laut which spudded in July. Both wells encountered good oil and gas shows in the Oligocene section, proving the existence of a working petroleum system in both of these previously undrilled sub-basins. Post-well studies will continue into 2012 with further drilling in the Nam Con Son Basin planned after integration of the 2011 results.

On Natuna Sea Block A, a block-wide prospect inventory review was carried out to characterise the remaining exploration potential on the block. Two exploration wells, Anoa Deep (WL-5X) and Biawak Besar, were scheduled for drilling in early 2012. In February 2012, it was announced that the Anoa Deep well had successfully encountered some 300 feet of fractured Lama Formation sandstone, which tested gas at a rate of 17 mmscfd from a 112 feet interval.

In North Sumatra, preparations are at an advanced stage for the drilling of the Matang-1 exploration well during 2012 on Block A Aceh.

Planning and preparation has continued on the non-operated Buton Block, for the drilling of the Benteng-1 exploration well, which is now scheduled to drill in the first half of 2012.

Vietnam

Following the exploration discovery at Cá Rồng Đỏ (CRD) in Block 07/03, Premier drilled and tested the CRD-2X appraisal well into the Oligocene sands that had not been tested by the discovery well. Drill stem tests of the hydrocarbon bearing sands in the Oligocene section flowed gas and condensate at potentially commercial rates, and the well was then side-tracked to provide further data on the distribution of hydrocarbons in the Miocene sands. Evaluation of the CRD discovery and the surrounding exploration acreage continued throughout the year.

The high risk Qua Mit Vang well, drilled in Block 104-109/05, was plugged and abandoned after flowing gas with 99 per cent carbon dioxide from fractured basement rock, with well costs substantially carried via a farminee.

In Block 12W, two development wells drilled into a fault terrace to the north west of the Chim Sáo field proved the presence of oil in this previously undrilled area, encountering columns of 15 and 89 metres of oil bearing sands within good quality Upper Dua sandstones. A dedicated appraisal well will be drilled into this discovery in 2012.

North Sea

UK

Premier continued its success in the Catcher area licence P1430, Block 28/9 with discoveries at Burgman and Catcher North in 2011, both of which will contribute to a Catcher area development plan. The joint venture also acquired 455km^2 3D seismic data across Block 28/9 and 190km^2 3D data on the surrounding open acreage.

Premier became operator of Central Fyne in May 2011 with a 39.9 per cent equity interest by exercising a farm-in option to drill the East Fyne well in licence P077, Block 21/28a. Premier also agreed to participate in the Erne exploration well in nearby licence P1875, Block 21/29d. The Erne well was drilled in December and was suspended as a potential tie-back to any future developments in the Greater Fyne area. Subsequent to year-end, the East Fyne appraisal well was also drilled. Despite encountering oil and gas-bearing sands, the well was plugged and abandoned. The results of the wells are currently being incorporated into the plans for the Greater Fyne area by the partnership group.

The Bluebell prospect on P1466, Block 15/24c, was farmed down from a Premier 100 per cent equity position to a farminee who funded 67.67 per cent of the well cost in return for a 40 per cent interest. Post year-end, it was announced that the Palaeocene target encountered excellent sand quality but was water wet.

Norway

During the year, two wells were drilled on the PL378 licence which contains the 2009 Grosbeak discovery. The first well, an exploration well on the Gnatcatcher prospect, was dry. The second well, an appraisal on the Grosbeak discovery, delivered mixed results. The primary bore was on prognosis and confirmed the oil water contact seen in the discovery well. The subsequent side-track came in deep with the target sands penetrated below the contact. The partnership is now focusing on commercialising Grosbeak, together with other discoveries in the nearby area.

Premier drilled an operated exploration well on the southern segment of the Gardrofa prospect in licence PL406 in the third quarter of 2011. The well was plugged and abandoned as a dry hole.

Premier made good progress in building its portfolio in 2011, with significant new acreage awards and acquisitions. Premier was awarded two licences early in the year from the 2010 APA Licence Round: one, operated in the Central North Sea (PL567), on which the work programme comprises seismic reprocessing; and the second, PL378B, as protection acreage to the PL378 Grosbeak licence. Further additions were captured in the third quarter when a transaction to acquire three operated exploration blocks in the North Sea was agreed with Nexen. Two of these blocks, PL539 and PL566S are close to PL567.

An application was submitted for four blocks in the 2011 APA Licence Round and, in January 2012, the Ministry notified that this had been successful, with four new licences being offered for award. Three of these licences are in the Central North Sea and one is in mid-Norway.

Middle East, Africa and Pakistan

Pakistan

Three exploration wells (K-25 Dir-A, K-27, and K-28) were drilled in 2011 in the Kadanwari Lease. The Kadanwari K-25 Dir-A well tested 4 mmscfd but, due to tight reservoir conditions, the decision on whether to tie-in this well for production is still pending. However, both K-27 and K-28 exploration wells tested at high flow rates (up to 50 mmscfd in K-27 and approximately 30 mmscfd in K-28). The K-27 well was tied in to the system in early March 2012 and is expected to add around 8 bcf of reserves, net to Premier. The K-28 well, together with the K-30 well, which was successfully drilled in early 2012, will be tied in by mid-year 2012 to produce at maximum available plant capacity.

Egypt

The award of the South Darag Block in the Gulf of Suez is awaiting formal government ratification having been delayed by the Egyptian parliamentary election process.

Premier farmed into the non-operated North Red Sea Block 1 in December 2010, taking a 20 per cent interest. The NRS-2 (Cherry) exploration well was drilled to a target depth of 5,200 metres. The well encountered hydrocarbon shows whilst drilling, but failed to intersect reservoir quality sandstones. Geological studies are continuing to assess further prospectivity on the block.

Kenya

In May 2011, Premier made an entry into Kenya with the signing of two PSCs for offshore exploration blocks L10A and L10B. A 3D seismic data acquisition programme was completed ahead of schedule at year-end and a 2D programme was completed on 15 January 2012. Processing and interpretation will take place in 2012 with exploration drilling provisionally scheduled for 2013.

SADR

Premier's exploration rights in the Daora, Haouza, Mahbes and Mijek blocks in the Saharawi Arab Democratic Republic (SADR) remain under force majeure while awaiting resolution of sovereignty under a United Nations mandated process. Premier extended its acreage position in the SADR by gaining the Laguara Block as part of the EnCore acquisition.

FINANCIAL REVIEW

By Tony Durrant Finance Director

Economic and business background

Oil prices further strengthened during 2011 due to supply concerns and the volatile political situation in the Middle East. Brent crude prices averaged US$111.3/bbl for the year, against US$79.5/bbl in 2010. Premier's portfolio of crudes sells at an average of US$1.5/bbl premium to Brent. Given the timing of our crude oil liftings, average actual realisations (pre-hedge) for the year were US$111.9/bbl (2010: US$79.7/bbl). After taking into account the effect of long-term hedging contracts, the average oil price realised for 2011 was US$89.6/bbl (2010: US$78.3/bbl).

In Indonesia, 2011 has seen continuing good production performance from Natuna Sea Block A coupled with strong demand for gas from Singapore. Under the first Gas Sales Agreement (GSA1), out of a total Singapore demand of 364 BBtud (2010: 355 BBtud), gross sales from the Anoa field for the year averaged 152 BBtud, a share of approximately 42 per cent of deliveries against a contractual share of 36.9 per cent. In October, gas production commenced from the Gajah Baru field. Under the second Gas Sales Agreement (GSA2), volumes at Gajah Baru are continuing to increase with current production rates of around 60-90 BBtud (gross).

In Vietnam, first oil from the Chim Sáo field was achieved in October 2011 with gas exports commencing in December. Reservoir and well performance has exceeded expectations, though some topside and marine system facility issues remain to be resolved. Excellent pricing has been achieved for oil cargoes sold in 2011, averaging in excess of US$5.50/bbl over Brent prices.

In the UK, production from the Balmoral area improved in the second half of 2011, as the immediate issues that affected our production performance in the first half of the year were resolved. A good production result was achieved from the Scott area and Kyle fields.

In Pakistan, natural gas is a critical component of the country's energy needs, meeting around 47 per cent of total energy requirements. Total domestic gas production has remained at around 4 bcf per day, with demand continuing to grow at around 10 per cent per annum due to population growth and usage of natural gas as vehicle fuel. This has created an increased shortfall of gas resulting in supply shortages in the country. With significant gas reserves remaining, we are well placed to maintain or increase production through front end compression projects and new development drilling.

Income statement

Production in 2011, on a working interest basis, averaged 40.4 kboepd (2010: 42.8 kboepd). On an entitlement basis, which under the terms of our PSCs allows for additional government take at higher oil prices, production was 37.7 kboepd (2010: 38.3 kboepd). Working interest gas production averaged 153 mmscfd (2010: 156 mmscfd) during the year, or approximately 65 per cent of total production. Average gas prices for the group were US$8.51 per thousand standard cubic feet (mscf)

(2010: US$6.26/mscf). Gas prices in Singapore, which are linked to High Sulphur Fuel Oil (HSFO) pricing, in turn closely linked to crude oil pricing, averaged US$19.5/mscf (2010: US$13.9/mscf) for the year. Average gas prices for Pakistan were US$3.8/mscf (2010: US$3.5/mscf).

Total sales revenue from all operations reached a new record level of US$826.8 million (2010: US$763.6 million) driven by higher commodity prices. Cost of sales was lower by US$115.6 million at US$414.9 million (2010: US$530.5 million) mainly reflecting a US$25.9 million impairment reversal against a US$65.3 million charge in 2010, due principally to the sustained high oil price environment, which necessitated an increase in the base price assumption used for the valuation of future cash flows. Unit operating costs were US$15.9 per barrel of oil equivalent (boe) (2010: US$13.9/boe) reflecting higher unit costs in the UK, as production levels declined, and the inclusion of Vietnam operating costs in the last quarter.

Underlying unit amortisation (excluding impairment) rose to US$13.8/boe (2010: US$12.6/boe) largely as a result of the addition of Chim Sáo field production in Vietnam.

Exploration expense and pre-licence exploration costs amounted to US$187.5 million (2010: US$68.2 million) and US$23.0 million (2010: US$18.9 million) respectively. This includes the write-off of the following exploration wells: Gardrofa and Gnatcatcher in Norway; Cherry in Egypt; Qua Mit Vang in Vietnam; and Gajah Laut Utara and Belut Laut in Indonesia. The decision was also taken to write-off US$31.7 million of costs in relation to the Fyne area, since at this stage potential developments in the Greater Fyne area do not meet the company's project development metrics.

Net administrative costs were US$25.8 million (2010: US$18.3 million), with the increase mainly due to transaction costs incurred to acquire EnCore Oil plc.

Operating profits were US$175.6 million (2010: US$127.7 million). Finance costs and other charges, net of interest revenue and other gains, were US$68.1 million (2010: US$65.5 million), reflecting lower levels of interest income and increased gross debt levels offset by higher capitalisation of borrowing costs for our development projects in Asia and the UK. The charge arising due to the unwinding of the discounted decommissioning provision increased to US$28.3 million (2010: US$16.2 million) reflecting increased provisions and a higher discount rate.

Pre-tax profits of US$141.5 million (2010: US$100.8 million) also reflect a positive adjustment of US$34.0 million in respect of the group's commodity hedge portfolio (2010: US$38.6 million). This was driven by the unwinding of prior year provisions in respect of our oil and gas hedges.

The current tax charge for 2011 is US$77.3 million, an effective tax rate of 44 per cent of operating profits. Additionally, US$72.1 million has been provided for potential additional tax charges in Indonesia and Pakistan over fiscal disputes relating to prior years. These disputes are subject to clarification between the host governments and the oil and gas industry. These charges are offset by a deferred tax credit of US$177.0 million, resulting in a net tax credit of US$29.7 million (2010: US$29.0 million). The deferred tax credit arises mainly in the UK and includes the impact of a 12 per cent increase in supplementary corporation tax for the industry and the availability of Ring Fence Expenditure Supplement (RFES) allowances. In addition, a deferred tax asset of US$87.0 million was recognised. This relates to US$140.0 million of previously unbooked UK corporation tax allowances which, following the group's acquisition of additional fields in the UK, are now expected to be fully utilised. At year-end the group had an estimated US$1.36 billion of carried forward UK corporation tax allowances which will be utilised against UK ring fence profits over time.

Profit after tax is a record US$171.2 million (2010: US$129.8 million) resulting in basic earnings per share of 36.6 cents (2010 restated: 28.0 cents).

kboepd
40
PRODUCTION

Cash flow

Cash flow from operating activities was US$485.9 million (2010: US$436.0 million) after accounting for tax payments of US$44.0 million (2010: US$67.9 million).

Capital expenditure in 2011 totalled US$660.5 million (2010: US$514.1 million).

Capital expenditure ($ million)	2011	2010
Fields/development projects	**428.1**	347.1
Exploration and evaluation	**228.2**	164.7
Other	**4.2**	2.3
Total	**660.5**	514.1

mmboe
296
RESERVES

The principal fields and development projects were Chim Sáo, Gajah Baru, Huntington and Rochelle, together with drilling and compression projects in Pakistan.

Exploration and evaluation spend includes costs relating to the Solan, Fyne and Nexen Norway assets which were categorised as pre-development assets at the time of acquisition.

Acquisitions

In December, Premier completed the acquisition of an additional 17.715 per cent interest in Wytch Farm for an adjusted consideration of US$89.9 million, taking its total interest to 30.1 per cent.

The acquisition of EnCore Oil plc was approved by its shareholders in December and subsequently sanctioned by the court in January 2012. Shareholders representing 93.5 per cent of EnCore's shares elected to take new Premier shares, which began trading in January 2012. Total consideration of US$407.6 million was therefore satisfied by the issuance of 60.9 million new Premier shares and the payment of £14.1 million (US$21.6 million) in cash. As a result of the acquisition, Premier has increased its stake in the Catcher project from 35 per cent to 50 per cent and has assumed operatorship. This acquisition will be accounted for in the group's 2012 financial statements.

mmboe
231
RESOURCES

Balance sheet position

Net debt at 31 December 2011 amounted to US$744.0 million (2010: US$405.7 million), with cash resources of US$309.1 million (2010: US$299.7 million).

Net debt ($ million)	2011	2010
Cash and cash equivalents	**309.1**	299.7
Convertible bonds*	**(228.2)**	(220.4)
Other debt*	**(824.9)**	(485.0)
Total net debt	**(744.0)**	(405.7)

* Convertible bonds have a nominal value of US$250.0 million, an equity conversion price of £3.39 and a final maturity date of 27 June 2014. Other debt includes €75.0 million of long-term senior notes, which are valued at year-end US$1.296:€ spot rate. However these will be redeemed at US$1.423:€ due to a cross currency swap arrangement.

million
US$ 171
PROFIT AFTER TAX

In June 2011, the company issued seven and 10 year senior notes of US$244.0 million and €75.0 million in the private placement market. Total debt facilities therefore increased to US$2,184.9 million (2010: US$1,572.0 million). As at year-end, drawn borrowings were US$1,053.1 million and issued letters of credit were US$324.7 million. Undrawn facilities were therefore US$807.1 million, which, together with cash in hand, provided available cash funding and letter of credit capacity of US$1,116.2 million.

Subsequent to year-end, additional bank facilities of US$350.0 million were negotiated and a second issue of senior notes was completed. This second issue, with maturities of seven, 10 and 12 years, amounted to US$202.0 million and €25.0 million. A US$175.0 million term loan has been repaid during March 2012, leaving cash and undrawn facilities of approximately US$1.4 billion.

million
US$ 486
OPERATING CASH FLOW

Financial risk management

Commodity prices

The Board's commodity pricing and hedging policy continues to be to lock in oil and gas price floors for a proportion of expected future production at a level which ensures that investment programmes for sanctioned projects are adequately funded. Floors are purchased for cash or via collars, funded by selling caps at a ceiling price. This policy has provided sensible downside protection for the company over the period since 2008 and going forward into 2012, during which time over US$1 billion will have been invested in new development projects. The requirement for future hedging for 2013 and beyond will be considered as new projects are sanctioned, taking into account expected future operating cash flows of the group and the size of the relevant investment programme.

At year-end, a total of 1.8 million barrels of Dated Brent oil were hedged via collars for the period to end 2012 with an average floor price of US$40.0/bbl and an average cap of US$100.0/bbl. In addition 2.1 million barrels of Dated Brent oil were hedged through forward sales for 2012 at an average price of US$105.3/bbl. This volume represents approximately 32 per cent of the group's expected liquids working interest production over the period. 162,000 metric tonnes (mt) of HSFO, which drives our gas contract pricing in Singapore, was subject to collars covering the period to mid-2013 with a cap of US$500.0/mt (equivalent to around US$85.0/bbl). An additional 132,000 mt have been sold under monthly forward sales contracts for 2012 at an average price of US$622.0/mt. These two hedges cover approximately 28 per cent of our expected Indonesian gas working interest production for 2012.

During 2011, embedded oil price collars for 3.2 million barrels and fuel oil collars for 120,000 mt expired at a cost of US$119.1 million (2010: US$8.1 million, including forward sales cost) which has been offset against sales revenue.

Oil hedge collars are incorporated within the pricing terms of physical offtake agreements, avoiding the requirement to revalue them. A credit of US$28.0 million (2010: US$18.2 million) arises in respect of past mark to market provisions for oil hedges which have now expired.

Gas price hedging is still required to be marked to market as the hedges are held by counterparties independent of physical product sales. A credit of US$6.0 million (2010: US$20.4 million) arises in respect of such mark to market movements, resulting in a total credit to the income statement of US$34.0 million in respect of commodity contracts (2010: US$38.6 million).

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. During the year, the group recorded a loss of US$0.4 million on such short-term hedging (2010: US$0.4 million). In 2011, the group also issued €75.0 million long-term senior loan notes which have been hedged under a cross currency swap in US dollars at a fixed rate of US$1.423:€.

US$ 661 million
CAPITAL INVESTMENT

US$ 1.1 billion
CASH AND UNDRAWN FACILITIES

Interest rates

Although the group's borrowing facilities are defined in floating rate terms, substantially all current drawings have effectively been converted to fixed interest rates using the interest rate swap markets. On average, therefore, the cost of drawn bank funds for the year was 5.2 per cent. Mark to market movements on these interest rate swaps amounted to US$6.4 million (2010: US$12.1 million), which was charged to 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 the physical risks associated with its exploration, development and production activities. In addition, business interruption cover is purchased for a proportion of the cash flow from producing fields for a maximum period of 18 months. Due to exceptionally bad weather in December, the Banff FPSO – which handles Kyle production – lost its anchors and the risers were damaged severely. As a result, the Banff FPSO has been removed from its location while repairs are assessed. It is currently unlikely that production from the Kyle field will recommence in 2012 and a claim for business interruption insurance is being processed.

Going concern

The group monitors its capital position and its liquidity risk regularly throughout the year to ensure that it has sufficient funds to meet forecast cash requirements. Sensitivities are run to reflect latest expectations of expenditures, forecast oil and gas prices and other negative economic scenarios in order to manage the risk of funds shortfalls or covenant breaches and to ensure the group's ability to continue as a going concern.

Despite economic volatility, the directors consider that the expected operating cash flows of the group and the headroom provided by the available borrowing facilities give them confidence that the group has adequate resources to continue as a going concern. As a result, they continue to adopt the going concern basis in preparing the 2011 Annual Report and Financial Statements.

KEY PERFORMANCE INDICATORS

Premier measures its performance in line with strategic objectives of continuous growth and creating significant value for shareholders. Key performance indicators (KPIs) are the primary measures used to track progress against set targets in the areas of safe, responsible and sustainable operations; growth through exploration, development, production and acquisitions; and maintaining financial strength. There are a series of detailed KPIs around all of these areas which link to senior management's remuneration.

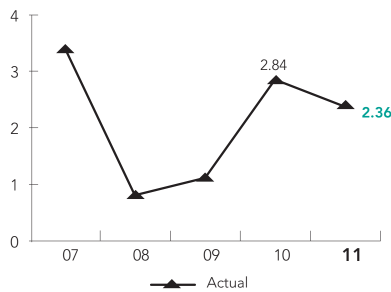
Operating safely, responsibly and sustainably

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

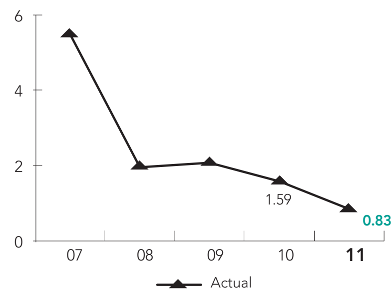
Health and Safety performance is measured using total recordable injury frequency (TRIF) per million man-hours and near miss high potential incidents (HIPOs). Safety performance data includes both Premier employees and contractors.

TRIF performance, whilst improved on 2010, was short of the 2.0 target. Premier is working to improve performance by reinforcing procedures and standards and through continued training and ongoing communication. Premier's TRIF target for 2012 remains at less than 2.0 injuries per million man-hours.

Total recordable injury frequency (TRIF)
per million man-hours



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



As part of its safety performance management process, Premier tracks HIPOs, which include any event that might lead to significant injury, environmental damage, property damage or security breaches. Premier ensures that key lessons are learned and disseminated for all HIPOs and company-wide safety alerts are issued, citing key causes and preventative actions required. In 2011, there was a continued improvement in performance with six HIPOs, a frequency rate of 0.83 per million man-hours and below the 2.0 target. The target for 2012 is a HIPO frequency of below 2.0 per million man-hours.

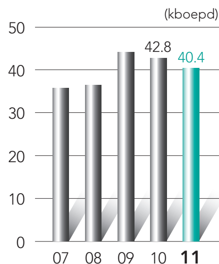
Building the strong production base

Part of Premier's strategy is to build on the existing production base in order to sustain and continue to deliver growth. This is measured using daily average production and the number of development projects being brought through to sanction.

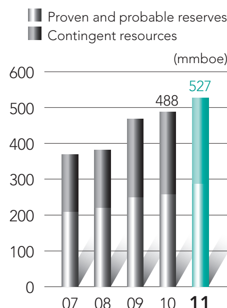
While average production was slightly lower in 2011 due to reported maintenance activity, the successful delivery of Chim Sáo and Gajah Baru increased the year-end run-rate to 60 kboepd. Premier is targeting a 2012 year-end exit rate of 75 kboepd and 100 kboepd in the medium-term.

Premier's production goal is underpinned by the pipeline of development projects being progressed across the portfolio, and the ability to commercialise these projects is key to the company's success.

Working interest production



Reserves and resources



Delivering growth

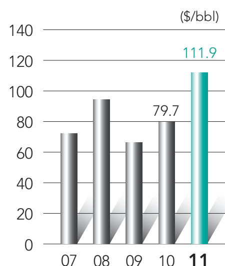
Premier looks to create future growth through exploration in focused geologies and value-led acquisitions in core areas. Progress towards this growth ambition is measured by reserves replacement, risked prospective resource added and finding costs.

Premier also undertakes acquisitions to access additional resources. The company delivered on five acquisitions in 2011, which were EnCore Oil plc, increased equity in Wytch Farm, Nexen Norway's exploration acreage and equities in the Solan and Fyne pre-development assets.

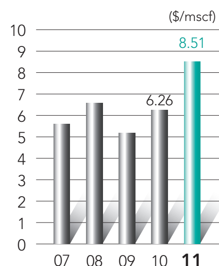
Proforma reserves and resources increased to 527 mmboe giving the company a reserve replacement ratio of 333 per cent, demonstrating Premier's ability to replace production and deliver future growth.

Premier added reserves and resources through exploration at an average cost of around US$5.0/bbl and through acquisitions at an average cost of US$8.0/bbl.

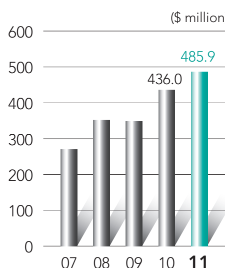
Realised oil price



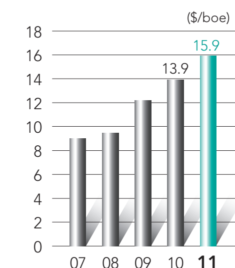
Realised gas price



Cash flow from operating activities



Operating costs



Maintaining financial strength

One of Premier's strategic objectives is to maintain financial strength in order to invest in the future of the business and deliver significant returns to shareholders. 2011 was another strong year with record profit after tax of US$171.2 million, an increase of 32 per cent, and operating cash flow of US$485.9 million, an increase of 11 per cent.

Premier's portfolio of crudes was sold at an average of US$1.5/bbl premium to Brent and realised oil prices (pre-hedge) were 40 per cent higher in 2011. Realised average gas prices, a significant portion of which tracks oil price movement, were 36 per cent higher in 2011.

Operating costs increased in 2011 to US$15.9/boe, reflecting higher unit costs in the UK as production levels declined and the inclusion of Vietnam operating costs in the last quarter.

Rising cash flows, along with successful bank and bond market transactions, provide Premier with the funding required for future growth. Ability to add new capital and sufficient covenant headroom are measured to ensure the company has the funds to meet forecast cash requirements and maintain liquidity throughout the cycle.

SOCIAL PERFORMANCE REVIEW

Premier is committed to applying the high ethical standards necessary to maintain our reputation as a world-class operator in oil and gas. Our reputation for doing the right thing enables us to access new licences, enter new countries, build lasting relationships with local communities and ultimately secure the licence to operate. We have policies and procedures in place to ensure that our investment and operational decisions take appropriate account of the impacts that might arise from our activities.

Premier carries out independent audits of its policies to ensure compliance with the requirements of the following bodies: the Global Reporting Initiative; the International Petroleum Industry Environmental Conservation Association (IPIECA) Oil and Gas Industry Guidance on Voluntary Sustainability Reporting 2010; the Carbon Disclosure Project; FTSE4Good; and the United Nations Global Compact (of which Premier is a signatory).

Our last report identified areas for improvement relating to the continued improvement of our social investment programmes, implementation of an employee engagement survey and the roll-out of our code of conduct training. It also highlighted the need for additional process safety procedures and disclosures as well as more structured reporting on greenhouse gas emissions. Steps were taken in 2011 to address each of these areas and to further strengthen our underlying management systems in line with emerging global standards. Disclosure of our performance in this area and for all of the commitments made in 2011 is presented in our Social Performance Report 2011.

We report below on how we have evolved, applied and delivered on our stated policies in 2011, and we explain any areas where we have not complied.

Further details on our policies and procedures are available on our website (www.premier-oil.com).

Social responsibility

Social responsibility is primarily about how we engage, assess and manage our community and societal issues and risks. Our corporate social responsibility and human rights policies are applicable to all Premier-operated entities and may be adapted to address local priorities. Our code of conduct and employment policy are managed through the legal and human resources functions respectively. All policies are compliant with relevant legislation and take due account of appropriate initiatives and standards, industry guidance and relevant best practice.

Corporate social responsibility policy

We recognise that we have responsibilities to a diverse group of stakeholders including shareholders, customers, employees, business partners, local communities and society at large, including special interest groups that represent public interest concerns. Our investment decisions take account of economic, environmental and social impacts and their management.

In all its operations, Premier will always comply with local laws and regulatory requirements as a minimum, and make representations to the relevant authorities if we believe that policies and practices of host governments undermine our policies. We complete environmental and social impact assessments prior to undertaking any new investment and evaluate these impacts regularly to ensure that they are responsibly managed on an ongoing basis. We expect our contractors, suppliers, joint venture and alliance partners to respect our policies. Their concurrence with the principles upheld by our policies is an important factor in our decision to form or remain in a relationship with them.

It is our policy to support social investment that contributes to the sustainable development goals of the communities and countries where we operate. This means working in partnership with professional social development organisations, government agencies and local non-governmental organisations, to ensure our investment addresses relevant and material issues in a rigorous manner with positive impacts on society.

There were no reported non-compliances with this policy in the review period.

Human rights policy

Our human rights policy is based on the fundamental rights pronounced in the Universal Declaration of Human Rights and is guided by those rights enshrined in the core labour conventions of the International Labour Organisation. These rights are to be protected and promoted throughout Premier's business operations and in our relations with both business and local community partners. The scope of our policy includes the rights of our employees – and their health and safety as well as their security arrangements and working conditions – and the development rights of our external stakeholders, in particular local communities. Where appropriate, we will also use our legitimate influence to promote the protection of human rights outside of our areas of operation.

There were no reported violations of this policy in the review period.

Employment policy and social justice in the work place

Premier is committed to the principle of equal opportunity in employment and to the establishment of a fair and non-discriminatory work environment. When recruiting, developing and dealing with employees and service providers people will be treated fairly, equally and without prejudice. Our equal employment opportunities policy applies to all permanent, contractual and temporary staff as well as all job applicants.

Equal employment opportunity means having a commitment to equality of opportunity in all employment practices, policies and procedures. No employee or potential employee is treated less favourably due to their race, creed, colour, nationality, ethnic origin, age, religion or belief, gender, sexual orientation, marital status, gender re-assignment status or disability.

Any employee who has a concern regarding the application of this policy is able to make use of the company's grievance policy.

All employees must:

- co-operate with any measures introduced to ensure equal opportunity;
- report any suspected discriminatory acts or practices;
- not induce or attempt to induce others to practice unlawful discrimination;
- not victimise anyone as a result of them having reported or provided evidence of discrimination;
- not harass, abuse or intimidate others on account of their race, creed, colour etc.; and
- not canvass job applicants in an attempt to discourage them from applying or taking up a post.

Where there has been a clear breach of the equal employment opportunities policy, disciplinary procedures will follow. Serious offences will be dealt with as gross misconduct.

There were no reported violations of our employment policy in 2011. There were also no reported incidents of discrimination or formal grievance procedures reported in 2011.

Our global code of conduct

Integrity, honesty and fairness are fundamental to the way we conduct our business. We are committed to transparency in all our dealings. As part of this commitment, we will not engage in any activities that undermine the legitimate business environment, including bribery or corruption in any form.

Premier has developed and implemented a global code of conduct. The new code of conduct is informed by and compliant with the Bribery Act 2010 and its evolving guidance in the United Kingdom. It applies to all employees at every level in the business and all those associated with Premier, all of whom are required to behave ethically and with personal integrity. This includes adhering to laws in the countries where we operate, performing our duties in accordance with the code of conduct and disclosing all potential and actual conflicts between personal interests and those of Premier.

The code of conduct covers the following key issue areas:

- anti-bribery;
- gifts and hospitality;
- charitable and political donations;
- intermediaries; and
- facilitation payments.

Premier prohibits bribery and corruption in any form by all employees and by those working for and/or connected with the business. This includes facilitation payments. Premier avoids accepting hospitality or gifts that might place it under an obligation. All business transactions must be properly recorded and accounted for. We expect the same ethical standards to be applied in all our business relationships in all areas of operation and we promote our code of conduct and associated anti-bribery policy with all our business associates. Employees are expected to report bribery or attempted bribery to their line managers, even if only suspected or attempted.

Premier encourages employees, contractors and agency workers to voice their concerns to line managers if they feel the company or anyone working on behalf of the company has not acted in accordance with our code of conduct and associated policies. Premier provides a confidential third party reporting hotline for employees that feel unable to raise concerns in the normal way. This hotline is available 24 hours a day, seven days a week. No reports were made through this service in 2011 or at any point over the last three years.

No incidents of corruption or non-compliance with these policies were identified in 2011.

Health, safety and environment policy

Premier is committed to operating responsibly and will never knowingly compromise our health, safety or environmental standards to meet our operational objectives.

Our goals are to ensure the safety of everyone involved with our operations and to protect the environment.

To achieve this we will:

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

In 2011, Premier implemented and communicated a set of Golden Rules on health and safety. The Golden Rules reinforce our existing health, safety and environment (HSE) policy, procedures and standards and have been established to help prevent the most common causes of serious incidents in our industry. Every employee is accountable and has a shared personal responsibility for HSE. Employees are also expected to ‘stop the job’ if they see or believe something is unsafe or can be better controlled.

Occupational health and safety performance

In 2011, we worked 7.2 million man-hours (2010: 8.8 million man-hours). This represents an 18.2 per cent decrease on the previous year mainly due to the completion of construction at our Gajah Baru and Chim Sáo facilities in Indonesia and Vietnam respectively. Most of these man-hours (5.9 million vs. 7.7 million in 2010) were worked by contractors on our operations. There was, however, a significant increase in development drilling. In 2011, we drilled more than 20 wells making it our busiest year ever.

Key safety parameters and indicators	2011	2010	2009	2008	2007
Fatalities	**1**	1	–	–	1
Lost time injuries (LTI)	**8**	5	2	1	2
Restricted workday cases (RWDC)	**3**	9	–	–	4
LTI/RWDC frequency*	**1.67**	1.70	0.55	0.40	1.86
Total recordable injury frequency (TRIF)*	**2.36**	2.84	1.10	0.80	3.40
High potential incident (HIPO) frequency*	**0.83**	1.59	2.10	2.00	5.50

* per million man-hours worked.

Note: All safety statistics include both Premier employees and contractors.

Total recordable injuries

Our overall TRIF performance improved significantly from 2.84 in 2010 to 2.36 in 2011, but did not meet our 2.0 target. TRIF performance at our drilling operations was exceptional at 0.00, excellent in construction at 1.80, but poor in our production operations at 6.10. The overall higher than anticipated TRIF score was attributed to mostly minor accidents including slips, falls and finger injuries in our production operations. Many of these occurred at our Balmoral operation in the North Sea (with a frequency of 9.42) where performance is subject to new site-specific safety initiatives. Facilities in Asia performed much better with a TRIF score of 1.48. The continued roll-out of our Golden Rules programme, that re-enforces personal responsibility and the ability to stop the job if employees feel unsafe or that work can be better controlled, is anticipated to help reduce similar future incidents.

This last year also saw one very unfortunate and unrelated diving fatality at Balmoral in the North Sea. At the date of signing this report, the incident was still under investigation by Premier/diving contractor, the police and the Health and Safety Executive.

Premier has been certified to OHSAS 18001 and ISO 14001 since 2004 for global drilling and since 2006 for our Indonesian production operations. In 2011, we completed a number of OHSAS 18001 and ISO 14001 surveillance audits on our production and drilling operations. Drilling, Anoa and Balmoral production retained their certifications. Our new production operations in Vietnam (Chim Sáo) and Indonesia (Gajah Baru) are working towards OHSAS 18001 and ISO 14001 certification. Gajah Baru has now completed its stage one audit and is on track to achieve certification in 2012.

Process safety performance

Process safety focuses on the design and engineering of facilities to prevent fires, explosions or accidental chemical releases, as well as maintenance and operation. This includes the prevention, detection, control and mitigation of hydrocarbon and other leaks, oil spills, equipment malfunction, over-pressures, over-temperatures, corrosion, metal fatigue and similar conditions. Managing these risks requires a robust planning process, effective safety cases and the ongoing monitoring and management of asset integrity.

Premier has integrated process safety protocols into the project safety reviews (PSRs) of all its projects. These reviews provide assurance that material HSE issues have been identified and are being effectively managed throughout the project lifecycle. A typical project lifecycle will require six strategic reviews as a project moves from concept to construction and then to operation. These PSRs align closely with our project approval gates, at which time strategic decisions are made to either progress a project further towards the operations stage or to delay or divest. In 2011, we implemented a structured PSR procedure to ensure consistent and clear application of these gates at all operations.

SOCIAL PERFORMANCE REVIEW (continued)

Safety cases are in place at all of our operated installations. This safety case regime is aligned with the regulated standards in the United Kingdom. We believe this represents best practice and are committed to implementing such cases at all of our operated production facilities worldwide, even when not required by the local regulatory regime. Safety cases are developed during the project and become more detailed as a project nears the operation stage. Safety cases must be in place before production commences. Premier is also developing an asset integrity and maintenance management process based on the asset integrity toolkit standard produced by Oil & Gas UK. The process will apply to all of our installations and is intended to ensure the requirements set out in our performance standard for safety critical elements are met and maintained.

High potential incidents

This last year saw a significant reduction in HIPOs per million man-hours from 1.59 in 2010 to 0.83 in 2011. This was largely due to exceptional performance at our drilling and construction operations with annual frequencies of 0.00 and 0.36 respectively. Our production operations achieved an annual frequency of 2.44. Together, this overall reduction in frequency allowed the achievement of our 2.0 target. Our HIPO frequency target for 2012 is also 2.0.

Loss of primary containment

During 2011, there were no reported loss of primary containment (LOPC) events of 'greater consequence' (as defined in IPIECA 2011). Such incidents are characterised as unintended process safety events with severe consequences. These can include multiple fatalities, widespread environmental impact and/or significant property damage. There was one Tier 1 event and 35 LOPC events of 'lesser consequence' reported (2010: 18 events). This includes a single crude oil spill in the pump room (classified as Tier 1), 15 gas leaks or contained spills that did not reach the environment (2010: five gas leaks) and 20 minor spills (2010: 13 minor spills) outlined below and in our Social Performance Review 2011.

Environmental performance

Environmental assessment, management and reporting forms a major part of Premier's HSE risk management process. We conduct baseline surveys and environmental and social impact assessments for each new operated activity. This involves an assessment of the physical, socio-economic and biological environments, including biodiversity. We measure and review each impact in turn and gauge both its significance and how it can be reduced to as low as reasonably practicable (ALARP) by adopting best available techniques, in line with our internal environmental ALARP process. Potential actions to improve environmental performance are screened based on cost, duration and impact to determine which are feasible for implementation. We periodically review these environmental impacts and actions for our existing facilities to ensure we comply with our policy of continuous improvement.

Environmental indicators and targets

We report our environmental performance in line with the IPIECA Oil and Gas Industry Guidance on Voluntary Sustainability Reporting 2010. We then benchmark our performance by contributing our data to an industry database compiled and published by the International Association of Oil and Gas Producers. As an oil company with production facilities in the North Sea, we also comply with the European Union Emissions Trading Scheme and submit an annual, externally verified report on our emissions profile to the Department of Energy and Climate Change. We also participate in the Carbon Disclosure Project where we achieved a carbon disclosure score of 66 in 2011 (2010: 74).

Key environmental parameters and indicators	2011	2010	2009	2008	2007
Greenhouse gases (tonnes per thousand tonnes of production)	**305**	185	171	167	171
Oil spills (tonnes)	**2.7**	1.3	1.5	–	13.7
Oil in produced water (parts per million)	**14**	11	19	23	20
Energy use (gigajoules per tonne of production)	**2.6**	2.1	1.7	2.0	1.8

Climate change and greenhouse gas emissions

Greenhouse gas emissions associated with hydrocarbon combustion at our operated assets amounted to 615,000 tonnes in 2011 (2010: 350,000 tonnes). This increase in absolute emissions from 2010 was largely due to a significant increase in development drilling activity and associated diesel consumption, as well as the start-up of our Gajah Baru and Chim Sáo operations in Asia. A number of technical challenges at Chim Sáo during an extended commissioning required us to implement a longer period of gas flaring that was beyond our initial expectations.

Our operated emissions intensity also increased from 185 tonnes per thousand tonnes of production to 305 tonnes per thousand tonnes of production in 2011. This is mainly due to the above additional development drilling activity as well as a series of unexpected events. The latter included flaring at Chim Sáo due to prolonged commissioning issues as well as three months of no production at our Balmoral facility in the North Sea. When excluding this development work and unexpected events, our underlying steady-state emissions intensity figure is 163 tonnes per thousand tonnes of production.

We calculate our greenhouse gas (CO_2 equivalent) emissions both for operated assets and on an equity basis for production across our global portfolio. Greenhouse gas emissions from flaring and fuel gas combustion associated with our full equity portfolio amounted to 172 tonnes per thousand tonnes of production (2010: 155 tonnes per thousand tonnes of production).

Spills and discharges

The total volume of produced water discharged from our operations in 2011 amounted to 2,055,878 tonnes (2010: 2,922,707 tonnes). This decrease was largely due to the shut-down of our North Sea operations for three months of the calendar year. The average oil in produced water increased slightly from 11 ppm-wt in 2010 to 14 ppm-wt in 2011. This increase in the oil concentration of produced water was mainly due to a slight increase at Balmoral that averaged 14 ppm-wt (2010: 10.4 ppm-wt). The average concentration of oil in produced water, discharged by our Anoa facility, reduced significantly to 13 ppm-wt (2010: 17.7 ppm-wt).

In 2011, there were 20 spills to the environment (2010: 13 spills). 16 of these were hydrocarbon spills (2010: seven spills). Four of these hydrocarbon spills were greater than one barrel with the remainder being minor in nature. The largest of these was 5.4 barrels. The total volume amounted to 2.7 tonnes (2010: 1.3 tonnes). About 90 per cent (2.4 tonnes) of this total was associated with the 13 spills at our production operations, and 0.3 tonnes with the three hydrocarbon spills at our drilling activities. We maintain oil spill contingency plans for each of our operations and have ongoing contracts with oil spill response specialists to provide support in the unlikely event of a major incident. Four other chemical spills occurred at our production operations in 2011 (2010: six chemical spills) totalling 1.3 tonnes (2010: 6.9 tonnes).

BOARD OF DIRECTORS

Robin Allan

Joe Darby

Tony Durrant

Neil Hawkings

Jane Hinkley

David Lindsell

Simon Lockett

Andrew Lodge

Professor David Roberts

Michel Romieu

Mike Welton

Robin Allan (52), joined Premier from Burmah Oil in July 1986, working initially as a geologist. After technical and new venture roles he spent six years in South East Asia, initially managing Premier's Asian existing and new venture business and later becoming Premier's Country Manager in Indonesia. He became a member of the Premier Board in December 2003 as Director of Business Development. Mr Allan returned to Asia in 2009 as Director – Asia, and manages the Asian portfolio from the Singapore office.

Joe Darby (63), joined Premier's Board as a non-executive director in September 2007. Mr Darby has over 40 years of experience in the energy sector, including eight years with Shell Petroleum before becoming Managing Director of Thomson North Sea Ltd. He has held a number of senior roles, including Chief Executive with LASMO plc. Mr Darby is a non-executive director of Alkane Energy plc, and has held non-executive roles at Nordaq Energy plc, British Nuclear Fuels plc, Mowlem plc and Centurion Energy Inc. He was Chairman of Mowlem plc (2005-2006) and Faroe Petroleum plc (2003-2007). Mr Darby is Premier's senior independent non-executive director and is a member of Premier's Audit and Risk, Remuneration and Nomination Committees.

Tony Durrant (53), joined Premier in June 2005. After qualifying as a chartered accountant with Arthur Andersen, he joined Lehman Brothers in London, initially as an oil sector analyst. He joined the investment banking division of Lehman in 1987 and from 1997 was a Managing Director and Head of the European Natural Resources Group. In this role, he managed both client relationships and numerous transactions for a variety of European and North American clients. He joined the Premier Board in July 2005 as Finance Director.

Neil Hawkings (50), joined Premier in May 2005 after more than 20 years with ConocoPhillips where he worked in a variety of engineering, commercial and management roles around the world, undertaking assignments in the UK, Dubai and Indonesia. He joined the Premier Board in March 2006 as Operations Director.

Jane Hinkley (61), joined Premier's Board in September 2010 as a non-executive director. Ms Hinkley is a qualified chartered accountant with executive experience primarily in international shipping. She has held managing directorships at Navion Shipping AS and Gotaas-Larsen Shipping Corporation. She has been an independent director on the board of Teekay GP LLC, an international provider of marine transportation services for LNG, LPG and crude oil, since 2005 and also previously held the position of non-executive director of Revus Energy ASA, a Norwegian exploration and production company. Ms Hinkley is the Chairman of Premier's Remuneration Committee and a member of the Nomination Committee.

David Lindsell (64), joined Premier's Board in January 2008 as a non-executive director. He was a partner at Ernst & Young LLP for nearly 30 years and has extensive experience across a range of industry sectors, with a strong knowledge of the oil and gas sector. Mr Lindsell is currently a non-executive director of Drax Group plc and is Deputy Chairman of the Financial Reporting Review Panel. Mr Lindsell is the Chairman of Premier's Audit and Risk Committee and a member of the Remuneration and Nomination Committees.

Simon Lockett (47), Chief Executive, joined Premier in January 1994 from Shell and has worked in a variety of roles for Premier, including the management of investor relations, as Commercial Manager in Indonesia and as Country Manager in Albania. He became a member of the Premier Board in December 2003 as Operations Director. He was appointed Chief Executive in March 2005. Mr Lockett is a member of Premier's Nomination Committee.

Andrew Lodge (55), has been Exploration Director of Premier since April 2009. Prior to joining Premier, Mr Lodge was Vice President – Exploration at Hess, where he was responsible for Europe, North Africa, Asia and Australia for nine years. Previously, he was Vice President – Exploration, Asset Manager and Group Exploration Advisor for BHP Petroleum, based in London and Australia. Prior to joining BHP Petroleum, he worked for BP as a geophysicist. Mr Lodge is a non-executive director of Egdon Resources plc.

Professor David Roberts (68), joined Premier in June 2006 as a non-executive director. Professor Roberts has over 30 years experience in all aspects of exploration worldwide and extensive knowledge of deep water areas, sedimentary basins, stratigraphy and prospect assessment. He spent 22 years with BP in a number of technical roles, including Global Exploration Adviser and Distinguished Exploration Adviser. Professor Roberts is a non-executive director of Medserv plc and has established his own geoscience consultancy. He is a visiting professor and fellow of Royal Holloway, University of London, the University of Southampton and IFP School in Paris. Professor Roberts is a member of Premier's Remuneration and Nomination Committees.

Michel Romieu (72), joined Premier's Board as a non-executive director in January 2008. Mr Romieu has over 30 years experience in the international energy sector, including 25 years with the Elf Group, where he held several senior positions including Chief Executive of Elf UK and the group's gas division. He was elected President of the UK Offshore Operator's Association for the year 1995, and held the position of Director for Gas of CRE, the French energy regulator, from 2000 to 2003. He has established his own consultancy specialising in providing advice to the gas industry, and is a lecturer at the French Petroleum Institute. Mr Romieu is also President of Uprigaz. He is a member of Premier's Audit and Risk and Nomination Committees.

Mike Welton (65), joined Premier's Board in June 2009 as a non-executive director and became Chairman in October 2009. Mr Welton is a director of Morrison Utility Services and High Speed Two, the government-owned LLC set up to examine high speed rail connections between London and the West Midlands. He sits on the advisory board of Montrose Associates. Mr Welton was previously Chairman of Southern Water Services Ltd (2008-2012), Hanson plc (2005-2007), the Turkish/British Business Council and the UK Government's Railway Sector Advisory Group. He was also Chief Executive of Balfour Beatty plc (1999-2004). Mr Welton is the Chairman of Premier's Nomination Committee.

The company is required to make certain statements relating to the way it is governed as laid down in the UK Corporate Governance Code (the Code). This report describes the manner in which the company has applied the main principles of governance set out in Section 1 of the Code and complied with the detailed Code provisions. It is the Board's view that the company has fully complied with the Code throughout 2011, except where reported below. While the Board supports the value of the Code, it does not believe that good governance can be defined merely in terms of compliance with a set of rules.

The Board is committed to high standards of governance at the board and aims to create a culture which demands the same commitment and performance in all our business activities. This is enshrined in our Code of Conduct which was updated and rolled out to our employees in 2011.

The Board

The role of the Board

One major purpose of the Board is to ensure that the company's strategic objectives are properly pursued and that the major business risks are actively monitored and managed. This goes beyond regulatory compliance and puts the interests of our shareholders as the Board's primary focus.

The Board is responsible for overall group strategy, acquisition and divestment policy, approval of major capital expenditures, the overall group debt and equity structure and consideration of significant financing matters. The Board has continued to focus its efforts in 2011 on strategic issues which will create shareholder value, monitoring performance against agreed objectives and planning future business opportunities.

Board composition

The Board of Directors comprises the Chairman, Chief Executive, four other executive directors and five independent non-executive directors. Biographical details of each, including membership of Board committees are set out in the Board of Directors section of the Annual Report and Financial Statements. Details of the executive directors' service contracts and the non-executive directors' letters of appointment are laid out in the Remuneration Report.

Chairman and Chief Executive

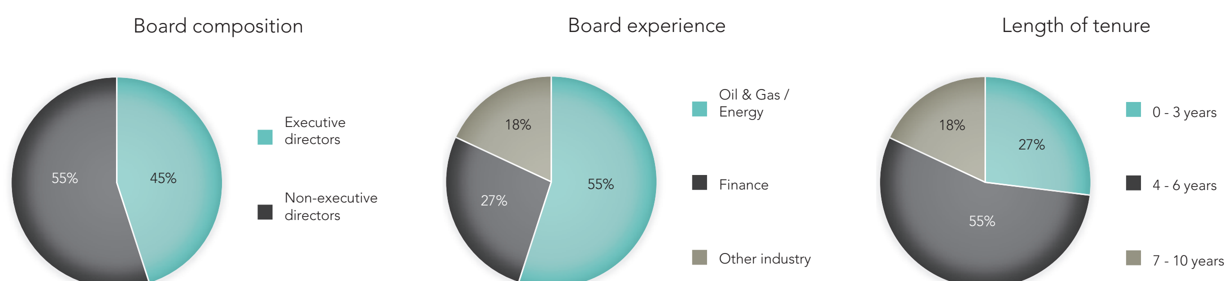
The Chairman's role is part-time and he is a non-executive director. His key responsibility is the leadership of the Board, ensuring its effectiveness on all aspects of its role and setting its agenda. Between Board meetings the Chairman is responsible for ensuring the integrity and effectiveness of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

Non-executive directors

The non-executive directors bring independent judgement to bear on issues of strategy and resources, including key appointments and standards of conduct. The non-executive directors have a particular responsibility to challenge independently and constructively the performance of the executive management and to monitor the performance of the management team in the delivery of the agreed objectives and targets. In meeting this responsibility, the Chairman and the non-executive directors meet periodically without the executive directors present, and the non-executive directors meet once a year without the Chairman.

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

Non-executive directors are appointed for a specified time 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 do not specifically set out expected time commitment as this may vary considerably. However, all non-executive directors undertake that they will have sufficient time to meet what is expected of them and any significant commitments are disclosed to the Board prior to appointment. Changes to such commitments are disclosed to the Board on an ongoing basis.



The Board (continued)

Senior independent director

Mr 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 or Chief Executive.

Appointments and development

Premier is an international business which has to manage a variety of political, technical and commercial risks. It is therefore important that the Board contains 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. In selecting new directors, the Nomination Committee prepares a description of the role and capabilities required for a particular appointment.

How the Board operates

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

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

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

Delegated authorities

Board committees

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

Delegated authorities (continued)

The number of meetings of the Board and its committees during 2011, and individual attendance by directors, is shown below:

	Board	Audit and Risk	Remuneration	Nomination
Number of meetings	9	4	6[1]	2
Attendance:				
R A Allan	9/9	–	–	–
J Darby	8/9	4/4	5/6	2/2
A R C Durrant	9/9	–	–	–
N Hawkings	9/9	–	–	–
I J Hinkley	8/9	–	6/6	2/2
D C Lindsell	9/9	4/4	5/6	2/2
S C Lockett	9/9	–	–	2/2
A G Lodge	9/9	–	–	–
J R W Orange[2]	3/3	2/2	4/4	1/1
Professor D G Roberts	9/9	–	5/6	2/2
M Romieu	9/9	4/4	–	2/2
M W Welton	9/9	–	–	2/2

Notes:

1 There were five scheduled meetings of the Remuneration Committee during the year. The remaining meeting (only attended by Ms I J Hinkley and Mr J R W Orange) was called to approve the detail of arrangements approved in principle by a prior scheduled meeting of the Remuneration Committee.

2 Mr J R W Orange resigned from the Board and the Audit and Risk, Nomination and Remuneration Committees on 20 May 2011.

Executive Committee and management structure

The Board has delegated the day-to-day running of the group to the Chief Executive who has established an Executive Committee to assist him in this role. The Executive Committee is made up of each of the executive directors and the Company Secretary. Each executive director has been given responsibility for specific aspects of the group's affairs. The Executive Committee is chaired by the Chief Executive and normally meets weekly.

The responsibilities of the Executive Committee include the development of group strategy for approval by the Board, portfolio management and the delivery of performance against the targets set by the Board. At its meetings it reviews health, safety, environmental and security performance and operational business performance reports.

Three regional business units – North Sea, Asia and Middle East, Africa and Pakistan – manage the geographical spread of business in the group. Each business unit is headed by a regional business unit manager who delivers against specific strategies and performance targets set by the Executive Committee.

Delegation of authority

Responsibility levels are communicated throughout the group as part of corporate accounting and through an authorisation manual which sets out, inter alia, delegated authority levels, segregation of duties and other control procedures.

Board performance evaluation

The Board believes that there is benefit in the periodic involvement of an independent external facilitator in the annual Board evaluation process, as this brings independent perspective to the process. It is the Board's current practice to engage such an external facilitator every two years. During 2010, the Board worked with an external facilitator to conduct the annual evaluation review.

During 2011, the Board and committee evaluations were facilitated by the Chairman. The evaluation comprised a written questionnaire and a series of one-to-one interviews by the Chairman with all directors. The questionnaire and interviews covered a number of key areas including strategy, succession planning, Board size and composition, the roles and responsibilities of the Board and its committees, risk management and the relationship between the Board and management. The results of the reviews were considered by the Chairman and the committee chairmen and were then discussed with the relevant committees and collectively by the Board as a whole.

The performance of individual non-executive directors was evaluated by the Chairman, with input from the committee chairmen and the other directors. The performance of the Chief Executive and other executive directors was evaluated by the Chairman and non-executive directors.

No major issues arose from the evaluation process and the directors have concluded that the Board and its committees operate effectively. Recommendations were made to further enhance the performance and effectiveness of the Board and a process of continuous improvement is now being led by the Chairman.

Induction, information and support

New directors receive a full induction to the company. This consists of information covering the operations of the Board as well as meetings with the Board, Chief Executive and other executive directors. All non-executives have direct contact with the company's senior management between Board meetings and also visit the company's operations in order to familiarise themselves with its activities and to meet and engage with staff. Shareholders are given the opportunity to meet with new directors upon request or at the next Annual General Meeting (AGM) following their appointment. The company has directors' and officers' liability insurance in place, and details of the policy are given to new directors on appointment. Formal procedures are in place to enable individual Board members to take independent advice where appropriate.

Conflicts of interest

A director has a duty to avoid a situation in which he or she has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the interests of the company. Formal procedures are in place to ensure the Board's powers of authorisation of conflicts or potential conflicts of interest of directors are operated effectively. The Board determined that during 2011 these procedures were enforced and adhered to appropriately.

Risk management and internal controls

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 that any risks taken are soundly managed and that the system of internal controls is effective. Any system of internal control can provide only reasonable, and not absolute, assurance that material financial irregularities will be detected or that the risk of failure to achieve business objectives is eliminated.

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 required to carry out Premier's business including risk, HSES, corporate social responsibility, operations, exploration, business development, finance and other business support services. Corporate group functional management systems are complemented by local management systems within the business units which are designed to supplement corporate policies, standards, procedures, processes and guidelines with those specifically required in order to operate and manage the business under local conditions and in compliance with local laws and regulations.

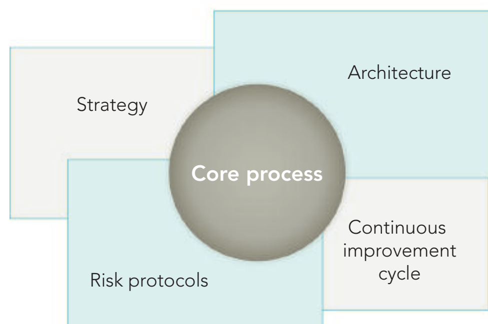
The BMS is designed to manage rather than eliminate the risk of failure to meet our business objectives. The effectiveness of the BMS is a function of both the adequacy of the system and compliance with the system. Premier's audit and review programme includes specific scope to review adequacy of and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

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

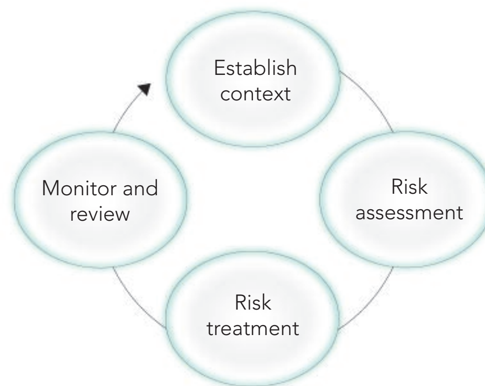
Since the appointment of a Group Audit and Risk Manager in 2010, Premier's risk management system has been further developed in accordance with the risk management principles and guidelines of ISO 31000 (Risk Management – Principles and Guidelines). The processes developed by the company cover all key elements of ISO 31000:



Risk management and internal controls (continued)

In early 2012, Det Norske Veritas (DNV) carried out an assessment of the extent to which Premier's risk management system is aligned with ISO 31000 and found that Premier had a well structured system of risk management that was strongly aligned.

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 face 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 key performance indicators (KPIs).

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

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

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

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

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

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

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

As already noted, Premier's risk management process has been developed significantly over the past two years in accordance with the risk management principles and guidelines of ISO 31000. Initiatives are in hand to further embed risk management in the group's culture and business processes.

Risk management and internal controls (continued)

Audit and review

The effective operation of internal control procedures is reviewed by planned audits. An annual programme of audit and review is agreed between functional and business unit management and approved by the Audit and Risk Committee. The programme adopts a risk based focus and includes audit of management system effectiveness and control as well as targeting key operational, financial and organisational delivery milestones.

A process of business control reviews has been developed and implemented across the group. This process is designed, inter alia, to provide assurance to the Board that Premier is embedding effective risk management into its operations. Significant findings from each review are presented to the Audit and Risk Committee. 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 participate in audits of these joint venture partners.

The business management system, risk management processes and programme of audits and reviews provide the Board with reasonable assurance that appropriate controls are in place to provide effective management of business risks and to safeguard the group's assets from inappropriate use or from loss and fraud.

Communication with shareholders

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

In accordance with current regulations, the company uses its website as its default method of publication for statutory documents to reduce printing costs and help benefit the environment. All shareholders are offered the choice of receiving shareholder documentation, including the Annual Report, electronically or in paper format, as well as the choice of submitting proxy votes either electronically or by post. All new shareholders receive hard copies of statutory documents until they elect, or are deemed to have elected, otherwise.

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 registrars. Shareholders also have the ability to vote online prior to the 2012 AGM. The share portal also encourages shareholders to register to receive communications by e-mail, rather than by post, thus further reducing the number of documents printed and distributed. Shareholders who have registered receive an e-mail notifying them when the company has added a statutory document to its website. For each new registration processed, the company will donate £1 to PURE the Clean Planet Trust, a UK charity dedicated to combating climate change.

The company has posted guidelines on its website, advising shareholders of how to deal with potential share scams, where shareholders may have received unsolicited phone calls offering to buy Premier shares at a higher price than their market value, or concerning alternative investment matters, where callers may have stated they work for a subsidiary of, or on behalf of, the company. The company does not retain the services of any such business for these purposes, and shareholders are advised to be extremely wary of any unsolicited advice or offers.

Enquiries from individuals on matters relating to their shareholding and the business of the group are welcomed and are dealt with in a timely manner. All shareholders are encouraged to attend the AGM to discuss the progress of the group.

By order of the Board

S C Huddle
Company Secretary

21 March 2012

AUDIT AND RISK COMMITTEE REPORT

David Lindsell
Chairman of the Audit and Risk Committee

The Committee is comprised solely of non-executive directors. Its members are David Lindsell (Chairman), Joe Darby and Michel Romieu. John Orange retired from the Board in May 2011 and was a member of the Committee until his retirement.

The Board has determined that David Lindsell, a chartered accountant with expertise in accounting and auditing, has recent and relevant financial experience as required by the UK Corporate Governance Code (the Code).

All members of the Committee are deemed to be independent and the Committee has concluded that its membership meets the requirements of the Code.

The meetings of the Committee are normally attended by the Finance Director, the Group Financial Controller, the Group Audit and Risk Manager and representatives of the external auditors. Stephen Huddle, the Company Secretary, acts as secretary to the Committee. 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.

Role of the Committee

Committee's main responsibilities

- monitoring the integrity of the financial statements of the company and formal announcements relating to the company's financial performance and reviewing any significant financial reporting judgements contained therein
- reviewing the company's internal financial and operational control and risk management systems, including the results of management system reviews
- overseeing the company's relationship with its external auditor, including making recommendations as to the appointment or reappointment of the external auditor, reviewing the terms of their engagement, monitoring their independence and developing and implementing policy governing any engagement of the external auditor to supply non-audit services
- reviewing the effectiveness of the company's code of conduct, with particular reference to systems and controls for the prevention of bribery and the prevention and detection of fraud, and receiving reports on any non-compliance

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 make recommendations on the steps to be taken.

The Committee may engage the services of external advisers as it deems necessary in the furtherance of its duties, at the company's expense. No external advisers materially assisted the Committee during the year. The Committee's terms of reference, which can be found on the company's website (www.premier-oil.com), include all matters indicated by the Disclosure and Transparency Rule 7.1 and the Code.

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 2011 and has met twice in 2012 to date.

Its January and March 2011 meetings focused primarily on the status of the 2010 risk management and internal control reviews, the 2011 plan for such reviews, and the 2010 full-year results and Annual Report and Financial Statements, together with the Committee's annual assessment of the effectiveness of internal controls. At its July meeting the Committee considered the results of the group internal control reviews carried out in the first half of the year, together with accounting and reporting issues relating to the half-year results and in August, it reviewed the half-year results. In January 2012, it considered accounting and reporting issues relating to the full-year results, reviewed the status of the 2011 risk management and internal control reviews, focusing on the significant findings and actions, and reviewed and approved the 2012 audit plan for such reviews. In March it reviewed the 2011 full-year results, the Annual Report and Financial Statements and its annual assessment of the effectiveness of internal controls to enable the Board to make its statement on internal control in the Corporate Governance Report.

Activities during the year (continued)

More specifically, the responsibilities of the Committee were discharged as follows:

- the Committee reviewed the risk management process designed to identify the key risks facing the group and how these risks were being managed. In this regard, following the creation of the role of Group Audit and Risk Manager in 2010, the risk management process has been further developed in accordance with the principles and guidelines on risk management set out in ISO 31000. The risk management process was reviewed during the year by Det Norske Veritas with satisfactory overall results and some suggestions for improvements, which are in hand;
- the risk register is the principal record of information about identified risks and the controls in place to mitigate them, at both business unit and corporate function level. The further development of the risk register in 2010 and 2011 has enabled the programme of financial and operating controls reviews to be prioritised based on the areas of greater risk as reflected in the risk register. The Committee reviewed the process for maintaining and updating the risk register, approved the programme of financial and operating controls reviews for the year, and reviewed the findings from the reviews together with progress in implementing any required improvements;
  - in reviewing the findings from financial and operating reviews during 2011, the Committee noted that the company continued to use both Premier staff with the necessary expertise and third-party specialists to carry out the programme of reviews and that in addition, the company obtains independent confirmation of the effectiveness of internal controls from a variety of external sources, including joint venture and governmental financial and operational audits. For example, in relation to the effectiveness of internal financial control, the Vietnam business became a producing operation in 2011 and was therefore an area of focus, with Deloitte's London audit team visiting Vietnam to oversee the extended external audit scope there and PetroVietnam carrying out reviews of the company's relevant systems and controls. In addition, external assurance regarding a number of operational controls was received and these included independent certification of our occupational health and safety management systems for our Indonesia and North Sea operations and our global drilling function and an independently inspected UK well examination scheme.
- the Committee reviewed the 2011 half-year and full-year financial results announcements and draft 2011 Annual Report and Financial Statements with the Finance Director and Group Financial Controller and considered the findings from the external auditor's review of the interim results and their audit of the 2011 financial statements. The Committee considered in particular the significant assumptions, estimates and forecasts used in measuring items in the financial statements, including future oil and gas price assumptions, estimates of oil and gas reserves and decommissioning cost estimates, together with the financial statement items directly or indirectly affected by them such as the recoverability of development and production and exploration and evaluation assets, amortisation and depreciation charges, and the recognition of deferred tax assets arising from tax losses. The Committee noted that no significant deficiencies in the financial reporting system were identified by the external auditor in the course of the audit;
- the fee proposals for the external audit and half-yearly review were considered and agreed, and the Committee reviewed the scope and fees for non-audit assignments awarded to the external auditor to satisfy itself that the assignments concerned did not give rise to threats to the auditor's independence and objectivity;
- the performance and effectiveness of the Committee was reviewed as part of the Board performance evaluation process. The Committee was considered to be operating effectively and in accordance with the Financial Reporting Council Guidance on Audit Committees. Recommendations to streamline attendance at Committee meetings and thus improve its effectiveness were adopted during the year; and
- the Committee met once in the absence of management with the external auditor in March and no matters of significance were drawn to the Committee's attention at this meeting.

Internal audit

It has been the company's policy for several years to carry out a programme of financial and operating controls reviews, using both internal and external resources. However, as there was no dedicated internal audit or risk management function, the Committee has in previous years reviewed the need for such a function, and concluded that in view of the scope and scale of the controls review activity and the extent of the independent confirmation obtained through this activity regarding the effectiveness of the company's system of internal control, there was no need for a dedicated internal audit resource.

The growth in the size and complexity of the company in recent years has led to a re-consideration and in 2010 it was decided to create the role of Group Audit and Risk Manager and to appoint a senior manager to fill that role. As a result of this and related developments such as the prioritisation of financial and operating controls reviews based on the risk register, the Committee believes that the company now has a function that is substantially equivalent to internal audit and that is expected to become fully equivalent as the function develops further.

External auditor

Deloitte LLP (Deloitte) was initially appointed external auditor of the company in 2004.

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

The Committee believes that in certain limited circumstances non-audit work may be carried out by the external auditor. The allocation of non-audit work is considered by reference to the company's policy on the provision of non-audit services by the auditor. This policy is aimed at ensuring continued independence. The use of the external auditor for services relating to accounting systems or financial statements is not permitted, nor 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. The Committee believes that there is non-audit work such as certain assurance and advisory services that may be best performed by the audit team as a result of their unique knowledge of the company. Any material non-audit work of this nature requires approval by the Committee. The policy and overall fees paid to our auditor are also reviewed on an annual basis by the Committee.

Deloitte are required to confirm to the Committee that they have both the appropriate independence and objectivity to allow them to continue to serve the members of the company. The Committee also requires the external 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 2011.

In accordance with the Ethical Standards for Auditors, the audit engagement partner rotates at least every five years. The current audit engagement partner is Matthew Donaldson who has been in the role since 2009.

The Committee reviews the expertise, performance and effectiveness of the auditor. On the basis of the reviews carried out, the Committee recommended to the Board that it should propose the reappointment of Deloitte as the external auditor of the company.

By order of the Board

D C Lindsell
Chairman of the Audit and Risk Committee

21 March 2012

COMPANY RISK FACTORS

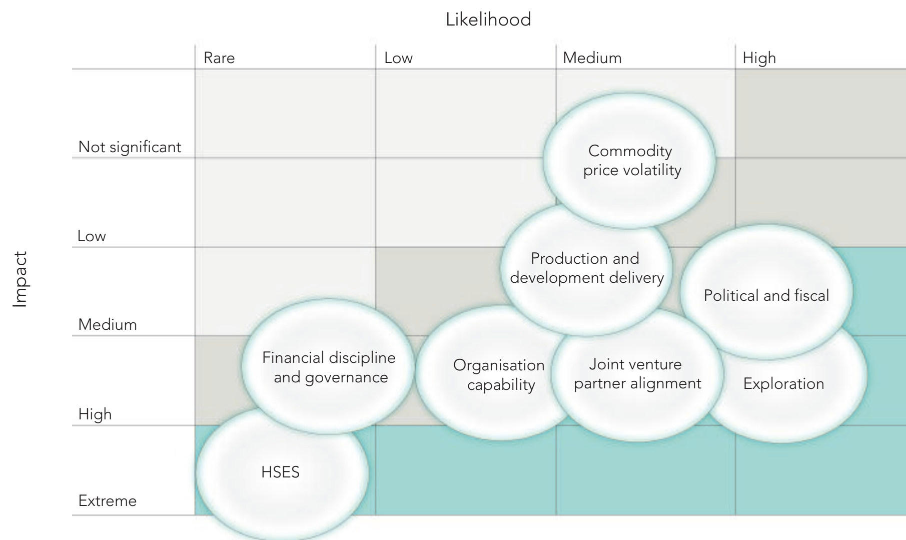
Premier's business may be impacted by various risks leading to failure to achieve strategic targets for growth, loss of financial standing, cash flow and earnings, and reputation. Not all of these risks are wholly within the company's control and the company may be affected by risks which are not yet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

Effective risk management is critical to achieving our strategic objectives and protecting our assets, personnel and reputation and therefore Premier 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 departments, project teams, corporate functions and business units 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 tolerate risk, treat risk with controls and mitigating actions, transfer risk to third parties or terminate risk by ceasing particular activities or operations. Premier has a zero tolerance to financial fraud or ethics non-compliance, and ensures that HSES risks are managed to levels that are as low as reasonably practicable, whilst managing exploration and development risks on a portfolio basis.

The key risk factors identified from this approach are represented in the matrix below and the accompanying table summarises their potential impacts and our approach to managing them. The assessment of the impact and likelihood takes into account the risk mitigation measures currently applied.



COMPANY RISK FACTORS (continued)

Key risk factor	Risk detail	How is it managed?
Health, safety, environment and security (HSES)	Major process safety incident or operational accident, natural disasters, pandemics, social unrest, civil war. Consequences may include accidents resulting in loss of life, injury and/or significant pollution of the local environment, destruction of facilities and disruption to business activities.	Comprehensive HSES and operations management systems including emergency response and oil spill response capability and asset integrity. Active security monitoring and management and regular testing of business continuity plans. Learning from company and third-party incidents.
Production and development delivery	Uncertain geology and reservoir performance leading to lower production and reserves recovery. Availability of services including FPSOs and rigs, availability of technology and engineering capacity, availability of skilled resources, maintaining project schedules and costs as well as fiscal, regulatory, political and other conditions leading to operational problems and production loss or development delay. Consequences may include lower production and/or recovery of reserves, production delays, cost overruns and/or failure to fulfil contractual commitments.	Geoscience and reservoir engineering management systems, including rigorous production forecasting and independent reserves auditing processes. Operations, development and project execution management systems and cost controls together with capable project teams. Long-term development planning to ensure timely access to FPSOs, rigs and other essential services.
Exploration success and reserves addition	Failure to identify and capture acreage and resource opportunities to provide a portfolio of drillable exploration prospects and sufficient development projects to achieve reserves addition targets. Consequences may be that specific exploration programmes may fail to add reserves and hence value. Failure to negotiate access rights or close transactions could slow growth of reserves and production and lead to loss of competitive advantage.	Strong portfolio management and alignment with strategic growth targets. Appropriate balance between growth by exploration and acquisition. Exploration management systems including comprehensive peer review with focus on geologies in core areas we know well and in which we can build a competitive advantage. Focused M&A effort focusing on geographical and technical areas aligned with our strategy. Diligence in acquisition process and post-acquisition integration to ensure targeted returns.
Host government – political and fiscal risks	Premier operates in some countries where political, economic and social transition is taking place. 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 CSR programmes. Rigorous adherence to Premier's business ethics policy and code of conduct. Continuous monitoring of the external environment for emerging risks to the business.

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

NOMINATION COMMITTEE REPORT

Mike Welton
Chairman

The Nomination Committee presents its report in relation to the financial year ended 31 December 2011.

Composition and role of the Nomination Committee

The Nomination Committee meets as and when required and comprises Mike Welton (Chairman), Joe Darby, Jane Hinkley, David Lindsell, Simon Lockett, Michel Romieu and Professor David Roberts. The Board considers the membership of the Nomination Committee to be in compliance with the UK Corporate Governance Code.

The Committee met twice in 2011. Formal meetings are held to consider standing items of business; there is also a significant level of ad hoc discussion between members of the Committee, particularly when a recruitment exercise is taking place.

The role of the Committee includes:

- reviewing the structure, size and composition of the Board and making recommendations to the Board with regard to any adjustments that are deemed necessary. This requires an ongoing assessment of the appropriate skills-mix required at Board level in light of the strategy of the company in the medium-term;
- responsibility for identifying and nominating candidates, subject to Board approval, to fill Board vacancies as and when they arise and to prepare a description of the role and capabilities required for a particular appointment; and
- reviewing the development and leadership potential of senior executives below Board level and ensuring that appropriate succession plans are in place for both Board and senior positions.

During 2011, the main focus of the Committee has been on management succession and development. The objectives of this process are to:

- ensure that the succession pipeline for senior executive and business critical roles in the organisation is adequate;
- ensure the succession is managed smoothly and effectively;
- ensure that talented individuals can maximise their potential;
- identify potential successors and manage succession activity;
- provide a structured approach to developing and preparing possible successors;
- identify ‘at risk’ posts; and
- support the delivery of our diversity agenda.

The meeting in May focused on the senior leadership roles and the meeting in December reported on the work that had been done to look at the whole population of middle-management positions in the group.

The Committee discussed the results of the succession work carried out and noted that senior and middle-management throughout the organisation is now being encouraged to discuss the issue of succession, and individual managers now have performance targets which include a requirement to develop their successors.

The focus of the Committee in this area will now be on ensuring that the group is introducing appropriate training and development for the next generation of senior management.

By order of the Board

M W Welton
Chairman

21 March 2012

The directors present their annual report on the affairs of the group, together with the audited group financial statements for the year ended 31 December 2011. The Corporate Governance Report forms part of this report.

Results and dividends

The group's net profit for the year amounted to US$171.2 million (2010: profit of US$129.8 million). A dividend is not proposed (2010: US$nil).

Principal activities

The principal activities of the group are oil and gas exploration, development and production. The group operates through subsidiary undertakings and joint ventures, details of which are shown in note 10 in the notes to the consolidated financial statements.

Business review

The company is required by the Companies Act 2006 to set out in this report a fair review of the business of the group during the financial year ended 31 December 2011 and of the position of the group at the end of the year (the business review). The information that fulfils the requirements of the business review can be found in the following sections of the Annual Report and Financial Statements:

- Chief Executive's Review
- Operations Review
- Exploration Review
- Financial Review
- Key Performance Indicators
- Environmental, employee, social and community matters, within the Social Performance Review
- Company Risk Factors

The Chairman's Statement, Chief Executive's Review, Operations Review, Exploration Review and the Financial Review also include details of expected future developments in the business of the group.

Annual General Meeting (AGM)

The company's 10th AGM will be held on Friday 18 May 2012 at 11.00am. The Notice of the AGM, together with details of all resolutions which will be placed before the meeting accompanies this report.

Directors

The directors who served throughout the year (except as noted) were as follows:

- Mr Mike Welton (Chairman)[3]
- Mr Robin Allan
- Mr Joe Darby (senior independent non-executive director)[4, 5, 6]
- Mr Tony Durrant
- Mr Neil Hawkings
- Ms Jane Hinkley[1, 6]
- Mr David Lindsell[2, 4, 6]
- Mr Simon Lockett (Chief Executive)[6]
- Mr Andrew Lodge
- Mr John Orange (resigned 20 May 2011)
- Professor David Roberts[4, 6]
- Mr Michel Romieu[5, 6]

Notes:
1 Chairman of the Remuneration Committee
2 Chairman of the Audit and Risk Committee
3 Chairman of the Nomination Committee
4 Member of the Remuneration Committee
5 Member of the Audit and Risk Committee
6 Member of the Nomination Committee

Biographical details of all directors can be found in the Board of Directors section on page 45.

Directors' election

In accordance with best practice for FTSE 350 companies as published in the Financial Reporting Council's UK Corporate Governance Code (the Code), all directors will stand for annual re-election by shareholders.

With regard to the appointment and replacement of directors, the company is governed by its Articles of Association, the Code, the Companies Act 2006 and related legislation. The powers of directors are described in the Corporate Governance Report and in the Matters Reserved for Board Decision, a copy of which can be found on the company's website (www.premier-oil.com). The company's Articles of Association may only be amended by special resolution at a General Meeting of the shareholders.

Directors' interests

The directors who held office at 31 December 2011 had the following interests in the Ordinary Shares of the company:

Name	At 1 January 2011	At 31 December 2011	At 21 March 2012
R A Allan[1]	427,416	185,310	375,621
J Darby[2]	23,108	23,108	23,108
A R C Durrant[1]	384,368	631,185	816,888
N Hawkings[1, 3]	122,676	340,485	524,303
I J Hinkley[2]	–	4,000	4,000
D C Lindsell[2]	17,332	17,332	17,332
S C Lockett[1]	748,440	937,573	1,195,058
A G Lodge[1]	55,316	139,078	213,130
Professor D G Roberts[2]	–	–	–
M Romieu[2]	–	–	–
M W Welton[2]	7,320	22,531	22,531

Notes:

1 The beneficial interests of the executive directors include personal shareholdings together with Share Incentive Plan Partnership Shares and any Matching Shares held for more than three years.

2 The beneficial interests of the non-executive directors comprise personal shareholdings.

3 This includes Ordinary Shares held by Mr N Hawkings' wife (59,964 Ordinary Shares held as at 1 January 2011, 138,416 Ordinary Shares held as at 31 December 2011 and 138,416 Ordinary Shares held as at 21 March 2012).

* Shareholdings noted in the above table have been adjusted to reflect the 4:1 share split in May 2011.

Directors' interests in share options, deferred bonus shares, Deferred and Matching Share Awards under the Asset and Equity Plan, Performance Share Awards under the Long Term Incentive Plan and Share Incentive Plan entitlements are shown in the Remuneration Report, together with details of the remuneration of all directors who served during the year.

Directors' indemnities

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

Share capital

Details of the issued share capital, together with details of the movements in the company's issued share capital during the year are shown in note 19 of the notes 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.

There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provisions of the Articles of Association and prevailing legislation. The directors are not aware of any agreements between holders of the company's shares that may result in restrictions on the transfer of securities or on voting rights. Details of employee share schemes are set out in note 19. The voting rights in relation to the shares held within the Employee Benefit Trust are exercisable by the trustees. Details of the number of shares held by the Employee Benefit Trust are set out in the Remuneration Report. No person has any special rights of control over the company's share capital and all issued shares are fully-paid.

Substantial shareholders

At 21 March 2012, the company had received notification from the following institutions, in accordance with Chapter 5 of the Disclosure and Transparency Rules, of interests in excess of 3 per cent of the company's issued Ordinary Shares with voting rights:

Name of shareholder	Notified number of voting rights	Notified percentage of voting rights	Nature of holding[1]
BlackRock Inc*	11,224,700	9.790%	Indirect
AXA SA & group companies	40,173,814	8.580%	Indirect
Schroders plc	27,072,247	5.118%	Indirect
Aviva plc*	3,859,897	4.870%	Direct
Ameriprise Financial Inc	24,666,346	4.663%	Indirect
Legal & General Group plc	18,861,914	3.560%	Direct
Bear, Stearns International Trading Ltd*	2,552,847	3.109%	Direct

Notes:
[1] Where the nature of the holding is both direct and indirect, the larger holding has been quoted.
* Where notifications were made prior to the 4:1 share split in May 2011, numbers have not been adjusted.

Supplier payment policy

The group's policy in respect of its suppliers is to establish terms of payment when agreeing the terms of business transactions and to abide by the terms of payment. The group's normal payment terms are four weeks.

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.

Subsequent events

Post balance sheet events are disclosed in note 25 of the notes to the consolidated financial statements.

Charitable and political donations

During the year the group made charitable contributions amounting to US$302,221 (2010: US$708,614). No political contributions were made during the year (2010: US$nil).

Significant agreements – change of control

There are a number of agreements that take effect, alter or terminate upon a change of control of the company such as commercial contracts, bank loan agreements, property lease arrangements and employee share plans. None of these are considered to be significant in terms of their likely impact on the business of the group as a whole.

Furthermore, the directors are not aware of any agreements between the company and its directors or employees that provide for compensation for loss of office or employment that occurs because of a takeover bid.

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 the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006. A resolution to reappoint Deloitte LLP as auditor will be put to shareholders at the forthcoming AGM.

By order of the Board

S C Huddle
Company Secretary

21 March 2012

Jane Hinkley
Chairman of the Remuneration Committee

Dear fellow shareholder

On behalf of the Board, I am pleased to present the 2011 Directors' Remuneration Report, for which we are seeking approval from shareholders at our Annual General Meeting.

2011 has been a strong year for Premier, as detailed in the reports of Mike Welton and Simon Lockett. The results are a consequence of high calibre executive leadership and the commitment of our employees despite an economic environment that continues to provide many challenges.

John Orange, the former Chairman of the Committee, stepped down during the year following his retirement from the Board and I would like to extend my thanks to him for his considerable contribution to the Committee. The Committee currently comprises Joe Darby, David Lindsell, Professor David Roberts and me. Whilst the background of our Committee members is varied, all have many years of Board experience and many also have strong knowledge of the oil and gas sector. None of the members of the Committee currently hold a position as an executive director.

Following my appointment as Chairman of the Committee in May 2011, I took the opportunity to meet with our largest shareholders in December to understand their views in relation to our current remuneration framework, particularly in light of the fact that the shareholder vote at the last AGM was lower than we had hoped for. Most of the shareholders that we spoke to welcomed our meeting to help build their trust in the governance of pay at Premier and we certainly found it useful to understand the reasons for any concerns more fully. In particular, many shareholders appreciated increased clarity in relation to the annual bonus determination and, in respect of the Long Term Incentive Plan (LTIP), the criteria used for assessing the underlying company performance that the Committee must be satisfied are fairly reflected in the outcome of the LTIP before awards are paid out under the scheme. We have addressed some of these concerns in this report and we are currently undertaking a complete review of our remuneration framework, which will continue into 2012, to ensure it remains effective and appropriate. The Committee's key challenge in relation to future policy is to balance the incentivisation of the management team to create further shareholder value against the need to ensure that this does not put at risk the value created to date and the overall stability and sustainability of the business.

The Remuneration Committee at Premier continues to strive to ensure that our remuneration policy serves shareholder interests and closely reflects the group's business strategy, whilst also being mindful of the external focus on executive remuneration.

While our principal role is to recommend to the Board the framework and policy for the remuneration of the company's Chairman and the executive directors, the Committee is sensitive to the levels of the remuneration packages of all our employees across the group. We have a diverse workforce operating in six countries so our employee remuneration packages must meet local needs, while respecting our culture and values and reflecting our overall remuneration philosophy. Premier thus operates a similar philosophy to pay throughout the organisation and all employees will receive awards under the same schemes as those used to make awards to executive directors. This ensures alignment throughout the organisation and a focus on common business goals.

Reward in the oil and gas sector remains intensely competitive and our pay must reflect the increase in the size and complexity of our business, particularly in light of recent acquisitions such as the successful purchase of EnCore Oil plc. Our remuneration policy is designed to provide remuneration packages that will retain and motivate our high performing team and attract new talent as required. The Committee's expectation is that the greater part of executive directors' remuneration will be variable. Given the long-term nature of our business, executive director remuneration packages are weighted towards long-term incentives with time horizons of three to six years, and which pay out only if share price performance is strong and the Committee is satisfied with the company's underlying performance.

The Committee ensures alignment between senior management and shareholders by encouraging share ownership through formal shareholding guidelines. The Committee believes that the focus on long-term incentives, long-term performance measures such as TSR and executive share ownership reinforces effective risk management, encourages focus on shareholder returns, thus aligning executive interests with the interests of long-term shareholders. This approach is underlined by the requirement that all members of the senior management team are required to defer half of their LTIP awards into a matching scheme for a further three years.

2011 marks the end of the first full cycle of the LTIP approved by shareholders at the AGM in 2009. £100 invested in Premier at the start of 2009 was worth £181 by the end of 2011, compared with only £135 if invested in the FTSE All Share Oil & Gas Producers Index over the same period. In addition, the company's performance has been in the top quarter of its comparator group in this period. Premier's 22 per cent annualised return since 2009 includes the performance for 2011 where the company's market value fell by 25 per cent against a background of economic uncertainty. All Premier's employees, led by the executive directors, contributed to this long-term performance and will receive share awards under the LTIP scheme. As is detailed later in the report, the Committee considered other factors in assessing whether the underlying performance of the company was reflective of these achievements and concluded that it was.

The following sections explain our remuneration policy for executive directors and senior management and sets out individual payments made to executive directors in relation to the year under review as well as the reasons for this Committee's decisions.

Yours sincerely

Jane Hinkley
Chairman of the Remuneration Committee

21 March 2012

Compliance

This report has been prepared in accordance with schedule 8 of the Companies Act 2006 and the Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008. The company complied with the provisions of the UK Corporate Governance Code (the Code) regarding best practice on the design of performance-related remuneration. The report has been divided into separate sections for unaudited and audited information. Part A of the report is not subject to audit. Part B contains information which has been audited.

In line with the Association of British Insurers' Guidelines on Responsible Investment Disclosure, the Committee ensures that the company's remuneration policy will not raise environmental, operational, social or governance risks by inadvertently motivating irresponsible behaviour (e.g. one of the important factors in determining annual bonus performance is the achievement of specific HSES targets).

Remuneration Committee

The former Committee Chairman, Mr J R W Orange, stepped down from the Committee during the year and Ms I J Hinkley was appointed Committee Chairman from May 2011. The Committee currently comprises four non-executive directors and met five times during the year. The members of the Committee and their attendance are summarised below:

Committee member	Member throughout 2011	Number of meetings attended
Mr J R W Orange (Chair to 19 May 2011)	To 20 May 2011	4
Ms I J Hinkley (Chair from 19 May 2011)	✓	6
Mr J Darby	✓	5
Mr D C Lindsell	✓	5
Professor D G Roberts	✓	5

Note:
There were five scheduled meetings of the Remuneration Committee during the year. The remaining meeting (only attended by Mr J R W Orange and Ms I J Hinkley) was called to approve the details of arrangements approved in principle by a prior scheduled meeting of the Remuneration Committee.

The Board considers that the membership of the Committee is compliant with the Code recommendations. Stephen Huddle, General Counsel and Company Secretary, acts as secretary to the Committee and Lee Johnson, Group HR Manager, attends all Committee meetings. No director of the company is involved in determining his own remuneration. The determination of the remuneration of the non-executive directors is a matter reserved for the Board, excluding the non-executive directors.

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

Committee's main responsibilities

- considering and determining the remuneration policy for executive directors and senior management
- considering and determining the total compensation package of each executive director, within this agreed policy
- considering and advising on the general principles under which remuneration is applied to employees
- considering the design of, and determining targets for, the annual bonus plan for senior management
- determining the quantum and performance conditions for the long-term incentive awards
- determining the policy for pension arrangements, service agreements and termination payments to executive directors and senior management
- determining the Chairman's fee

Kepler Associates was appointed by the Committee in September 2011 as its independent adviser. Kepler Associates does not provide any other services to the company. During the year, the Committee also took advice from Hewitt New Bridge Street, who were the independent advisers to the Committee until September 2011, and Capita Hartshead, in relation to pension policy.

Part A: The information in this section of the report is not audited

Remuneration policy

Executive directors are eligible to receive base salary, annual bonus, benefits, awards under the company's long-term incentive schemes (in which all employees participate) and pension provision. The package is structured such that the greater part of total remuneration is delivered through performance-related incentives and, in particular, long-term share-based incentives. These incentive schemes are designed to align the interests of senior management with those of shareholders and establish a clear link between pay and performance. The key elements of the remuneration packages for executive directors are set out below.

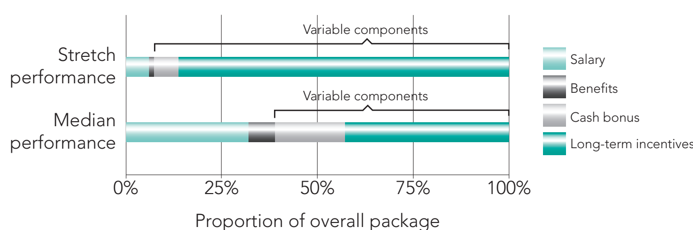
Summary of executive director remuneration policy and structure

Component	Objective(s)	Details
Salary	• Support recruitment and retention	• Adjustments are effective 1 January • Aim to position around the median of the relevant market
Pension and benefits	• Provide competitive benefit and pension provision	• Executive directors receive a final salary pension or equivalent contributions • Other benefits include medical cover and life assurance
Annual bonus	• Reinforces the delivery of key short-term financial and operational objectives	• Opportunity of up to 100 per cent of salary for executive directors • Based on KPI scorecard and Committee discretion
Deferred bonus	• Extends the time horizon of the bonus	• Any annual bonus earned in excess of 50 per cent of salary is paid in shares and deferred for three years
Long Term Incentive Plan	• Reinforces the delivery of absolute and relative returns to shareholders • Provides alignment with shareholders	• Three LTIP elements: Equity Pool allocation, Performance Shares and Matching Awards • Vesting is based on (i) the change in equity value per share, (ii) Premier's TSR performance relative to oil and gas sector peers, and (iii) the Committee's assessment of underlying performance • Performance is measured over a total of up to six years
Share ownership guidelines	• Provides alignment with shareholders	• Executive directors are required to acquire a shareholding worth at least 100 per cent of base salary (200 per cent for the CEO) through the retention of deferred bonus and LTIP shares

The company's remuneration policy for executive directors is to provide remuneration packages which reward employees fairly and responsibly for their contributions and which deliver superior remuneration for superior performance. 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 takes account of the level of remuneration paid in respect of comparable positions in similar companies and also pay and conditions throughout the remainder of the group.

Remuneration for senior management is significantly geared towards performance-oriented pay. For example, at 'median' performance (see chart for assumptions) approximately 61 per cent of the CEO's remuneration package is delivered through variable components, rising to approximately 93 per cent at 'stretch' performance.

Proportion of CEO pay package value delivered through each pay component



'Median' performance assumes bonus payout of 60 per cent of salary, LTIP Performance Shares vesting at 25 per cent, 62.5 per cent LTIP Matching Award, Equity Pool based on 1 per cent of the change in market value and share price appreciation of 10 per cent per annum compound.

'Stretch' performance assumes all bonus, Equity Pool, Performance Share and Matching Awards vest in full with share price growth of 20 per cent per annum compound.

The value of all long-term incentives is their net present value.

Base salary

Base salaries are reviewed annually from 1 January. Whilst aiming to position base salaries around the median of comparable companies, the Committee also considers whether the overall remuneration package (including incentives) is competitive for positions in similar companies within the oil and gas industry as well as other broadly similar sized companies across other industries, taking into account performance.

Whilst the Committee does not slavishly follow the market mid-point for salaries, it does review market data as a point of reference and it has been aware for several years that base salaries for both the CEO and for other executive directors are well below industry average levels for comparable roles (between 13 per cent and 24 per cent), partly because of the company's policy to focus remuneration towards long-term incentives and partly because of the company's recent rapid growth.

Hence, last year, the Committee Chairman wrote to shareholders detailing the salary increases for 2011, which went some of the way towards correcting this positioning. Having taken into account salary increases both in the external market and within the group as well as the performance of the executive team at Premier, the Committee has decided to increase executive director salaries by approximately 6 per cent from January 2012. In making this decision, the Committee was particularly mindful of the climate and pressures surrounding executive remuneration but was keen to ensure that the salaries we offer do not put us at a greater competitive disadvantage in the future. The salary increases for 2012, which are in line with those made to our UK employees, will continue to bring salaries towards market median, but despite this, executive director salaries remain below this target when compared to both companies in the same sector and companies of a similar size across all sectors. The Committee will continue to review salaries annually to ensure they remain appropriate, particularly given the current highly competitive talent market in this sector and the fact that it is critical to our future success that we retain our key talent.

The salaries of the executive directors are as follows:

Director	Position	Salary from 1 January 2011 (£)	Salary from 1 January 2012 (£)	Percentage increase (%)
S C Lockett	Chief Executive	500,000	530,000	6.0
R A Allan	Director – Asia	310,000	330,000	6.5
A R C Durrant	Finance Director	340,000	360,000	5.9
N Hawkings	Operations Director	310,000	330,000	6.5
A G Lodge	Exploration Director	310,000	330,000	6.5

The company's policy for all other employees is to target salaries at the upper quartile of comparable positions within the industry. The Committee believes that this positioning is appropriate given the competitive market that exists within the industry in which Premier operates.

Annual bonus scheme

Executive directors are eligible to participate in non-pensionable discretionary bonus arrangements subject to the achievement of challenging corporate one-year targets and Committee discretion relating to overall company performance. The achievement of these targets and overall company performance is carefully assessed each year by the Committee. Bonuses for executive directors are subject to a maximum of 100 per cent of base salary. No major revisions to the annual bonus plan structure are proposed for 2012.

The Committee sets targets on the basis of a balanced scorecard comprising KPIs and other corporate objectives. The main elements of the scorecard for 2012 are HSES, production and development, exploration and exploration new ventures, finance and business development.

Payout is determined with reference to the balanced scorecard, subject to the Committee's discretion based on a broader assessment of overall company performance. In assessing 2011 performance, the Committee has reviewed performance in multiple aspects of the five categories below against specific targets. Targets were set at the beginning of 2011 and designed to be stretching but achievable. We do not disclose the exact targets themselves for reasons of commercial sensitivity, however performance in relation to threshold, base and stretch levels is detailed below:

Determination of 2011 annual bonus outcome

Performance category		Performance achievement			
		Below threshold	Between threshold and base	Between base and stretch	At or above stretch
HSES	• Total recordable injury frequency		✓		
	• High potential incidents				✓
Production and development	• Meet December 2011 run-rate		✓		
	• Average working interest production		✓		
	• Deliver products on time and on budget			✓	
Exploration and exploration new ventures	• Reserve replacement				✓
	• Deliver the risked resource target		✓		
	• Make a material exploration success and deliver new ventures to replenish the portfolio of reserves as measured by resource additions		✓		
Finance and business development	• Net operating cash flow	✓			
	• Profit/(loss) after tax				✓
	• Peak net debt (gearing)				✓
	• Acquire new assets and improve the quality of Premier's core business while maintaining a healthy balance sheet as measured by value creation of any acquisition			✓	
Organisation	• Gross G&A costs before LTIP and bonus				✓
	• Continue to develop Premier's people and the process/system within which they work			✓	

In addition to the achievement of specific targets, the Committee considered the wider overall company performance and awarded annual bonuses of 55 per cent of salary to the executive directors. Awards are therefore as follows:

2011 annual bonus outcome by executive director

Executive director	Cash (£)	Deferred shares (£)	Total (£)
S C Lockett	250,000	25,000	275,000
R A Allan	155,000	15,500	170,500
A R C Durrant	170,000	17,000	187,000
N Hawkings	155,000	15,500	170,500
A G Lodge	155,000	15,500	170,500

Significant bonuses are subject to partial deferral in shares. The Committee's policy for executive directors and other senior management is that any annual bonus earned above 50 per cent of salary is deferred in shares for three years. Deferred bonus shares remain subject to a 'bad leaver' provision such that shares would lapse in the event that an executive director was to leave to join a competitor. Annual bonus awards are subject to a clawback provision in the event of a material misstatement of the company's financial results, gross misconduct or error in the calculation of performance conditions.

Long Term Incentive Plan (LTIP)

Executive directors are eligible to participate in the LTIP, the company's primary long-term incentive plan in which all employees are eligible to participate, thereby encouraging throughout the company a focus on longer-term performance and alignment with shareholders. The executive directors are also eligible to participate in a Share Incentive Plan and a Save As You Earn Scheme.

The LTIP, approved by shareholders at the 2009 AGM, is structured to reinforce the delivery of strong share price growth and relative stock market out-performance over the long-term. Under this share-based plan, performance is assessed over a minimum of three years, and over six years once the matching scheme is included. Vesting is based on a combination of the absolute change in the company's equity value per share and the company's relative Total Shareholder Return (TSR = share price plus dividends) performance against peers and only starts for performance above median. The Committee considers that these two criteria are an appropriate performance measure for the LTIP because the first captures the absolute return delivered to shareholders and the second measures performance on a relative basis, thereby negating the impact of short-term volatility such as oil price movements.

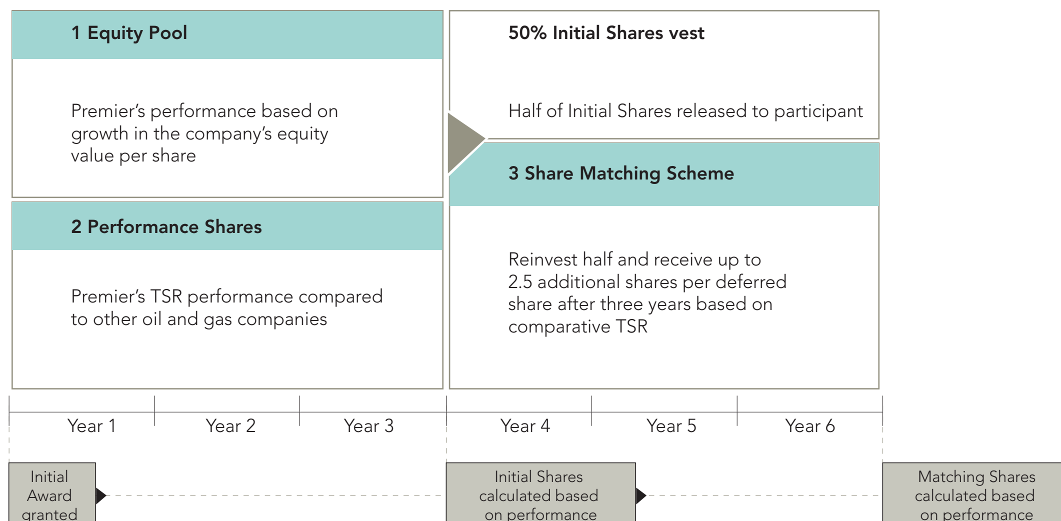
To optimise the link between reward and performance, the plan has certain safeguards: LTIP awards vest only if the Committee is satisfied that the recorded TSR is reflective of the underlying performance of the company, the amount that participants may receive is subject to a cap at the discretion of the Committee, and LTIP awards are subject to clawback in the event of a material misstatement of the company's financial results, gross misconduct or error in the calculation of the performance conditions. In assessing the underlying performance of the company the Committee takes into account, amongst other factors, the company's:

- return on invested capital;
- reserve replacement;
- cash flow;
- earnings per share growth; and
- health and safety record.

Awards under the LTIP comprise three elements: Equity Pool Awards and Performance Share Awards that each vest after a three-year performance period, and Matching Awards that vest after a further three-year performance period:

- Equity Pool Awards vest after three years and are based on a share of a pool which is subject to annualised growth in the company's equity value per share – 50 per cent of the vested award is deferred for a further three years;
- Performance Share Awards vest after three years based on the company's TSR relative to a comparator group of international oil and gas companies – 50 per cent of the vested award is deferred for a further three years; and
- Deferred Equity Pool Awards and Performance Share Awards are eligible for a Matching Award of up to 2.5x the number of shares deferred, vesting after a further three years based on the company's TSR relative to a comparator group of international oil and gas companies.

The illustration below helps to explain the operation of a single cycle under the LTIP:



Each component is described in more detail below. No revisions are planned to the LTIP structure in 2012. We will undertake a review of our long-term incentives in 2012 to ensure they remain appropriate. Any changes will relate to awards made in 2013 onwards.

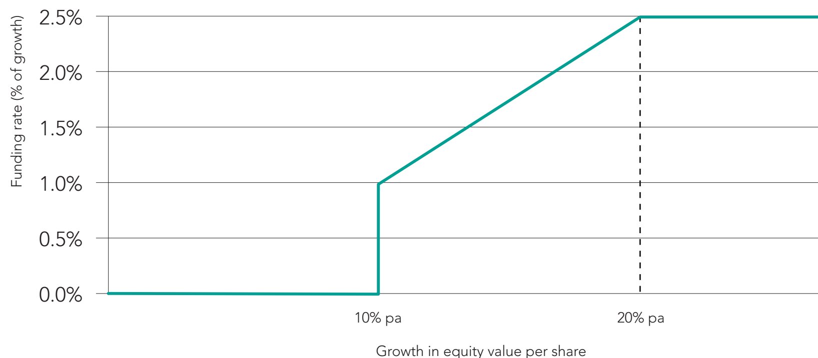
Long Term Incentive Plan (LTIP) (continued)

Equity Pool Awards

At the start of each three-year performance period executive directors are allocated an entitlement to an Equity Pool. In 2011 the Chief Executive was granted an entitlement to 6 per cent of the LTIP Equity Pool, with other executive directors each granted an entitlement to 4.25 per cent. The value of the entitlement is then calculated at the end of the performance period based on the final value of the LTIP Equity Pool and is delivered in shares. 50 per cent of the shares are released at the end of the performance period, with the balance deferred for a further three years and eligible for a match under the LTIP Matching Award. For participants below senior management, the deferral period is restricted to six months, unless the employee elects to extend the deferral period to three years in return for a grant of an LTIP Matching Award.

The value of the LTIP Equity Pool is based on the growth in the company's equity value per share over the performance period. If the company's compound annualised growth is equal to 10 per cent per annum, 1 per cent of the growth will be credited to the LTIP Equity Pool. For growth of 20 per cent per annum or more, 2.5 per cent of the gain will be credited. All employees are eligible to participate in the LTIP Equity Pool. As of 31 December 2011, only 48 per cent of the 2011 LTIP Equity Pool had been allocated.

Equity Pool funding schedule



At the end of the performance period, the Committee has the discretion to scale back the size of the LTIP Equity Pool if it is not satisfied that the growth in equity value per share is reflective of underlying financial and operational performance. Furthermore, an individual's entitlement is capped at 100 per cent of salary, subject to the Committee's discretion to exceed the cap, potentially up to the full value warranted by the formulaic funding schedule, provided the Committee is satisfied that there has been a long-term underlying improvement in the performance of the company, taking into account the five criteria detailed on page 67. In particular, the Committee may:

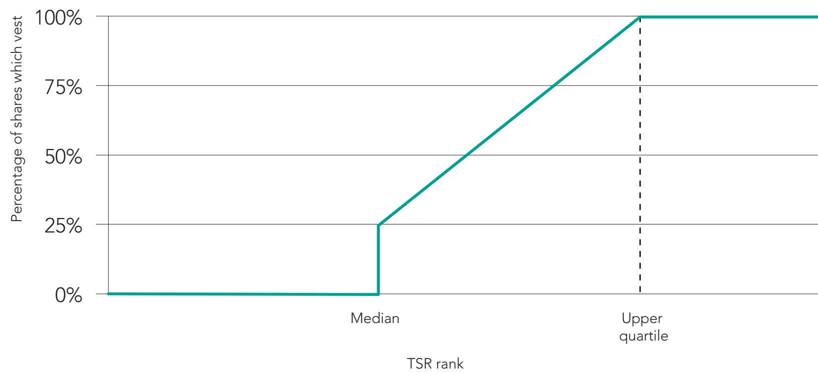
- increase the cap to 200 per cent of salary for growth in equity value per share of up to 15 per cent per annum, if the formulaic allocation warrants payment above the 100 per cent salary cap; and
- for growth in equity value per share of more than 15 per cent per annum, permit the full value of the individual entitlement (i.e. as if no cap applied) if the formulaic allocation warrants payment.

Performance Share Award

Each year, executive directors are granted conditional awards of LTIP Performance Shares of up to 125 per cent of salary (150 per cent for the CEO). Awards vest subject to the company's three-year TSR performance relative to a comparator group of oil and gas companies. No awards vest if the company's TSR is below median, 25 per cent vest at median and full vesting is at upper quartile. The oil sector comparators have been selected on the basis of their similarity to Premier with regard to several factors including business mix and geographic location. At the end of the performance period, the Committee has the discretion to scale back the vesting of LTIP Performance Shares if it is not satisfied that the company's TSR performance is reflective of underlying financial and operational performance, taking into account the five criteria detailed on page 67.

Long Term Incentive Plan (LTIP) (continued)

Performance Share Award vesting schedule



50 per cent of the vested shares are released at the end of the performance period, with the balance deferred for a further three years and eligible for a match under the LTIP Matching Award. For participants below senior management, the deferral period is restricted to six months, unless the employee elects to extend the deferral period to three years in return for a grant of an LTIP Matching Award.

TSR comparator group constituents, by Performance Share Award cycle

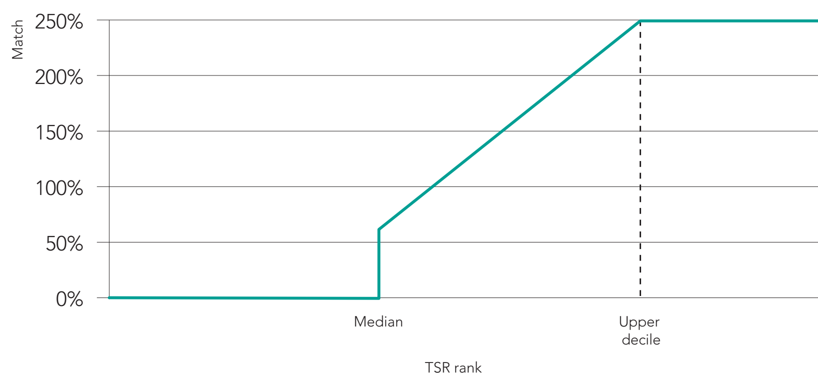
Company	2009	2010	2011	Company	2009	2010	2011
Afren	✓	✓	✓	Medco Energi International	✓	✓	✓
AWE	✓	✓	✓	Melrose Resources	✓	✓	✓
Beach Energy	✓	✓	✓	Nexen	✓	✓	✓
Cairn Energy	✓	✓	✓	Niko Resources	✓	✓	✓
Cairn India	✓	✓	✓	Noble Energy	✓	✓	✓
Calvalley Petroleum	–	✓	✓	Norwegian Energy Co.	✓	✓	✓
Carrizo Oil & Gas	✓	✓	✓	Oil Search	✓	✓	✓
Dana Gas	✓	✓	✓	PA Resources	✓	✓	✓
Det Norske Oljeselskap	✓	✓	✓	Roc Oil	✓	✓	✓
DNO International	✓	✓	✓	Salamander Energy	✓	✓	✓
Endeavour International	✓	✓	✓	Santos	✓	✓	✓
Maurel et Prom	✓	✓	✓	Serica Energy	✓	✓	✓
Hardy Oil & Gas	✓	✓	✓	SOCO International	✓	✓	✓
Heritage Oil	–	✓	✓	Talisman Energy	✓	✓	✓
JKX Oil & Gas	✓	✓	✓	Tullow Oil	✓	✓	✓
Lundin Petroleum	✓	✓	✓	Vaalco Energy	✓	✓	✓

Long Term Incentive Plan (LTIP) (continued)

Matching Award

For executive directors and senior management, 50 per cent of the shares vesting from the LTIP Equity Pool Award and LTIP Performance Share Award are subject to compulsory deferral over three years and are eligible for a potential match of up to 2.5:1 dependent on the TSR performance of the company against the same comparator group used for coterminous LTIP Performance Share Awards. However, full vesting will occur only if the company's TSR is at or above the upper decile with 25 per cent vesting (0.625:1) at median.

LTIP Matching Award vesting schedule



Remuneration in 2011

The table below summarises the component parts of the remuneration package in 2011 including bonuses earned for performance in 2011 and long-term incentive awards.

Remuneration element	Details	S C Lockett	R A Allan[1]	A R C Durrant	N Hawkings	A G Lodge
Base salary		£500,000	£310,000	£340,000	£310,000	£310,000
Annual bonus (% of salary)	• Maximum opportunity • Actual paid for 2011[2]	100% 55%	100% 55%	100% 55%	100% 55%	100% 55%
LTIP awards granted in 2011 (Performance period 1 January 2011-31 December 2013)	• Percentage of Equity Pool Awards, vesting subject to change in market capitalisation	6.00%	4.25%	4.25%	4.25%	4.25%
	• Performance Share Award, vesting subject to three-year relative TSR – Percentage of salary – Number of shares	 150% 174,337	 125% 90,074	 125% 98,791	 125% 90,074	 125% 90,074
	• Matching Award opportunity, vesting subject to three-year relative TSR. Up to 2.5 x 50% of actual vested awards from 2008 Asset and Equity Plan – Number of shares	265,860	183,350	195,570	183,350	116,290
Pension	• Company pension contribution	£142,000	£101,900	£117,700	£75,300	£96,900
Benefits	• Including medical insurance, car allowance and subsidised gym membership	£22,400	£300,200	£31,900	£21,300	£24,100

Notes:

[1] Mr R A Allan receives additional benefits relating to his expatriate position in Singapore. Full details of such benefits are disclosed in the Directors' emoluments table on page 73.

[2] Executive directors received a total annual bonus award for the year ended 31 December 2011 of 55 per cent of salary, 50 per cent of salary paid as cash with the remaining 5 per cent awarded in deferred shares.

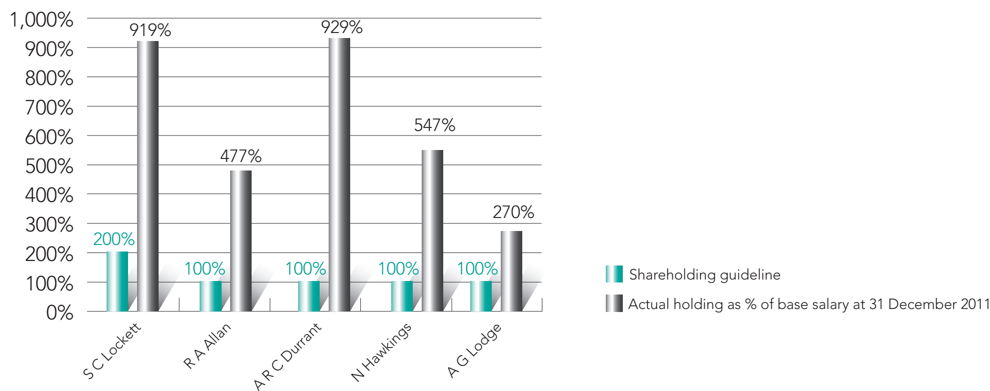
Remuneration in 2011 (continued)

The 2011 executive director remuneration package comprises several elements, some of which are paid during the year (salary and benefits), some of which are earned for the year but paid in the next year (annual bonus), some of which are granted during the year but not released until three years later (LTIP Performance Shares, LTIP Equity Pool awards and LTIP Matching Shares) and some of which are earned for the year but will not benefit the director until retirement (pension). Whilst there is no perfect approach to summarising the value of such a multi-faceted pay package, the summary above is considered by the Committee to be the simplest and most consistent approach for assessing the value of the Premier package.

Shareholding guidelines

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

Shareholdings at 31 December 2011 against share ownership guidelines



Note:
Includes value of Deferred Awards under the annual bonus and Asset and Equity Plan (where performance conditions have been achieved and such awards are subject to a holding period). The value of shareholdings is based on the closing price of a Premier share on 31 December 2011 (£3.63).

TSR performance

The chart below compares the value of £100 invested in Premier shares, including re-invested dividends, on 31 December 2006 compared to the equivalent investment in the FTSE All Share Oil & Gas Producers Index, over the last five financial years. The FTSE All Share Oil & Gas Producers Index has been chosen as it comprises companies who are exposed to broadly similar risks and opportunities as Premier.

Five-year TSR performance

This graph looks at the value, by 31 December 2011, of £100 invested in Premier Oil plc five years earlier on 31 December 2006 compared with £100 invested in the FTSE All Share Oil & Gas Producers Index (share price growth plus dividends reinvested on ex-div date).

Sourcing of shares and dilution limits

Awards under all the company's share schemes may be met using a combination of market purchases, financed by the company through the Premier Oil plc Employee Benefit Trust, and newly-issued shares. The company complies with the Association of British Insurers' recommended guidelines on shareholder dilution through employee share schemes: awards under the group's discretionary schemes which may be satisfied by new issue shares must not exceed 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 2011, 1,973,998 shares were held by the Employee Benefit Trust (2010: 6,887,880[1]) and the commitments to issue new shares are summarised below:

Number of shares issued or committed to be issued over 10 years	2011	Dilution limit	Percentage used %
New issue shares under AEP, LTIP and ESOS within 5 per cent limit	11,740,108	23,402,991	50.16
As above plus SAYE within 10 per cent limit	12,537,856	46,805,982	26.79

[1] Share numbers have been adjusted to reflect the 4:1 share split which took place in May 2011.

Executive directors' contracts of service

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

Director	Contract date	Notice period	Unexpired term of contract	Potential termination payment
S C Lockett	09.12.03	12 months	Rolling contract	12 months' salary and benefits
R A Allan	09.12.03	12 months	Rolling contract	12 months' salary and benefits
A R C Durrant	01.07.05	12 months	Rolling contract	12 months' salary and benefits
N Hawkings	23.03.06	12 months	Rolling contract	12 months' salary and benefits
A G Lodge	20.04.09	12 months	Rolling contract	12 months' salary and benefits

The service contract of each executive director may be terminated on 12 months' notice in writing by either party, in accordance with current market practice. In such an event, the compensation commitments in respect of their contracts could amount to one year's remuneration based on base salary and benefits in kind and pension rights during the notice period. In line with normal market practice, an individual may receive an annual bonus for the proportion of a financial year worked before cessation of employment but there will be no right to any bonus for any period of notice not worked. There are provisions for termination with less than 12 months' notice by the company in certain circumstances. If such circumstances were to arise, the executive director concerned would have no claim against the company for damages or any other remedy in respect of the termination. The Committee would apply general principles of mitigation to any payment made to a departing executive director and would consider each case on an individual basis.

External appointments

Executive directors are entitled to accept non-executive appointments outside the company providing that the Board's approval is sought. As a result of the acquisition of EnCore Oil plc, the company has a 30 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 will be donating all fees retained to charity.

Non-executive directors

Non-executive directors have letters of appointment, which are all effective for a period of three years (subject to annual reappointment by the members in General Meeting), all of which have a notice period of three months.

Director	Date of appointment letter	Notice period	Unexpired term
M W Welton	23.09.09	3 months	6 months
Professor D G Roberts	23.09.09	3 months	6 months
J Darby	01.09.10	3 months	17 months
I J Hinkley	01.09.10	3 months	17 months
D C Lindsell	17.01.11	3 months	21 months
M Romieu	17.01.11	3 months	21 months

Non-executive directors (continued)

The company's Articles of Association provide that the remuneration paid to non-executive directors is to be determined by the Board within the limits set by the shareholders. Fees for non-executives are reviewed at least every two years, having regard to the size of the company and the time commitments of the non-executives. Fees paid to non-executive directors for the year under review were as follows:

		Other non-executive directors		
	Chairman	**Basic fee**	**Committee chairmanship**	**Senior independent director**
2011	£160,000	£50,000	£10,000	£10,000

Part B: The information in this section of the report has been audited

Directors' emoluments

Total emoluments paid to directors (executive and non-executive) for the year ended 31 December 2011 was £3,838,900 (2010: £2,951,300).

The remuneration paid to the executive directors during the year under review is summarised in the table below:

	Salary 2011 £'000	**Benefits 2011* £'000**	**Cash bonus 2011‡ £'000**	**Pension benefits 2011♦ £'000**	**Other 2011 £'000**	**Total emolu-ments 2011 £'000**	**Total emolu-ments 2010 £'000**	**Pension contribu-tions 2011♦ £'000**	**Shares vested and realisable 2011** £'000**	**Total remuner-ation 2011† £'000**
S C Lockett[1] (Chief Executive)	500.0	22.4	250.0	103.6	–	**876.0**	583.1	38.4	3,240.9	**4,155.3**
R A Allan[2]	305.4	26.7	155.0	47.4	273.5	**808.0**	656.2	54.5	1,999.6	**2,862.1**
A R C Durrant[3]	340.0	31.9	170.0	117.7	–	**659.6**	498.0	–	2,024.2	**2,683.8**
N Hawkings[4]	306.1	21.3	155.0	58.3	–	**540.7**	394.6	17.0	1,863.9	**2,421.6**
A G Lodge[5]	279.8	24.1	155.0	36.2	–	**495.1**	438.1	60.7	522.3	**1,078.1**
Total	**1,731.3**	**126.4**	**885.0**	**363.2**	**273.5**	**3,379.4**	**2,570.0**	**170.6**	**9,650.9**	**13,200.9**

Notes:

* The main benefits provided are medical insurance, car allowance, life assurance, health insurance and a subsidised gym membership.

‡ Executive directors received a total annual bonus award for the year ended 31 December 2011 of 55 per cent of salary, 50 per cent of salary paid as cash (as disclosed in the table above) with the remaining 5 per cent awarded in deferred shares. Details of the deferred bonus shares awarded are given on page 66 of this report.

♦ Pension benefits include non-bonusable salary supplements and target funding payments which are paid direct to the executive. Pension contributions are paid into a pension scheme and therefore are excluded from the emoluments section of the table above. Full details of pension arrangements for each director are given on pages 74 to 75 of this report.

** Shares vested and realisable is the sum of the value of various share awards (as at the date of vesting) in relation to the deferred annual bonus, AEP and Matching Shares, based on performance periods stretching back as far as 2006 in some cases.

† Total remuneration receivable is the sum of the salary, annual bonus, cash-based benefits and shares vested which became realisable in the year (at the share price on the date of vesting of the award).

1 Mr S C Lockett was paid a non-bonusable salary supplement of £59,700, and a target funding payment of £43,900 as part of his pension arrangements.

2 Mr R A Allan sacrificed £4,650 of his salary into his pension scheme. He was paid a non-bonusable salary supplement of £7,900, and a target funding payment of £39,500 as part of his pension arrangements. Mr Allan received £196,000 of expatriate benefits during the year and was also paid a non-pensionable and non-bonusable overseas premium of £77,500, relating to his position in Singapore. The company deducts a hypothetical tax equivalent to UK tax rates on Mr Allan's salary, annual bonus and long-term incentive payments. This is offset against local Singapore tax due. As the maximum tax rate in Singapore is lower than in the UK, the difference is retained by the company.

3 Mr A R C Durrant was paid a non-bonusable salary supplement of £59,900 and a target funding payment of £57,800 as part of his pension arrangements.

4 Mr N Hawkings sacrificed £3,875 of his salary into his pension scheme. He also received a non-bonusable salary supplement of £40,900 and a target funding payment of £17,400 as part of his pension arrangements.

5 Mr A G Lodge sacrificed £30,247 of his salary into his pension scheme. He also received a target funding payment of £36,200 as part of his pension arrangements.

Directors' emoluments (continued)

Remuneration paid to the non-executive directors during the year under review is summarised in the table below:

	Total emoluments	
	2011 £'000	2010 £'000
M W Welton (Chairman)	**160.0**	150.0
J Darby	**56.1**	40.0
I J Hinkley	**56.1**	13.3
D C Lindsell	**60.0**	48.0
J R W Orange[1]	**27.3**	50.0
Professor D G Roberts	**50.0**	40.0
M Romieu	**50.0**	40.0
Total	**459.5**	381.3

Notes:

[1] Mr J R W Orange's total remuneration in 2011 is calculated to 20 May 2011, being the date of his resignation from the Board.

Pension schemes

The company operates a group personal pension plan in the UK together with a funded, registered, defined benefit pension scheme, the Premier Oil plc Retirement and Death Benefits Plan (the Scheme) which was closed to new members in 1997. The Scheme provides a pension on broadly a fiftieths accrual basis of up to two-thirds salary at the normal pension age of 60. Benefits are actuarially reduced on early retirement before age 60 and pensions in payment increase in line with the lower of inflation, or 5 per cent per annum.

The company has operated its own cap on pensionable earnings since April 2006, when the external cap was removed. In the Scheme, the cap is determined at 1 January each year and, for the year to 31 December 2011, this was set at £123,600, and will increase to £129,600 for the year to 31 December 2012.

The company has agreed to provide Messrs S C Lockett, R A Allan, A R C Durrant, N Hawkings and A G Lodge with a pension substantially as if they were contributing members of the Scheme and, in regard to service completed subsequent to their appointment as directors, not subject to the cap. The value of this target pension provision is made available at each director's option in the form of an enhanced level of pension contributions and/or a non-pensionable salary supplement. 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 provides an additional, non-pensionable target funding payment.

In respect of 2011, Mr A R C Durrant elected to receive a salary supplement, Mr A G Lodge elected to receive pension contributions whilst Messrs S C Lockett, R A Allan and N Hawkings elected for a combination of the two.

Messrs R A Allan, N Hawkings and A G Lodge are members of the company's group personal pension plan whilst Mr S C Lockett is a member of the Scheme and also has a personal pension policy.

Pension schemes (continued)

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

	Salary supplements £'000	Pension contributions £'000	Target funding payments £'000	Total £'000
S C Lockett[1]	59.7	38.4	43.9	142.0
R A Allan	7.9	54.5	39.5	101.9
A R C Durrant	59.9	–	57.8	117.7
N Hawkings	40.9	17.0	17.4	75.3
A G Lodge	–	60.7	36.2	96.9

Note:

1 The company's pension contribution for Mr S C Lockett comprises a payment of £7,497 made to his personal pension policy and £30,900 made to the Scheme in respect of his membership thereof.

The accrued pension entitlements of the directors who were members (or deemed members) of the Scheme during 2011 are as follows:

	(a) Accrued pension as at 31 December 2011 £'000 pa	(b) Transfer value in respect of (a) as at 31 December 2011 £'000	(c) Accrued pension as at 31 December 2010 £'000 pa	(d) Transfer value in respect of (c) as at 31 December 2010 £'000	(e) Increase from (d) to (b) less contributions by director during 2011 £'000	(f) Transfer value of increase in accrued benefit £'000	(g) Increase in accrued pension (excluding inflation) £'000
S C Lockett	92.4	1,342.9	78.1	1,041.1	273.1	144.2	11.9
R A Allan	45.8	802.5	38.9	626.2	159.0	82.6	5.7
A R C Durrant	40.2	731.7	32.2	534.7	177.9	108.3	7.0
N Hawkings	32.9	550.8	25.6	393.5	140.0	91.5	6.5
A G Lodge	14.8	292.9	9.0	162.4	113.2	91.5	5.5

Notes:

- The amounts of accrued pension under (a) and (c) represent the accrued pension entitlements of the director as at the stated dates.
- The transfer values under (b), (d) and (f) have been calculated in line with the Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 (SI 2008/1050).
- The increases under (e) are principally due to the additional pension accrued over the year.
- The amounts under (f) represent the increase in value of the directors' benefits in terms of the value, on the transfer value basis in force at the end of the year, of the excess of the end-year accrued benefits over the start-year accrued benefits (as revalued by price inflation) less contributions by the directors.
- 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.
- In addition to the current provision noted above, Mr R A Allan is entitled to a deferred pension under the Scheme in respect of a prior service period with the company between September 1986 and November 1999.
- Members of the Scheme have the option to pay additional voluntary contributions; none of the directors have elected to do so.

The following payments were made to a former director of the company in respect of unfunded pension liabilities:

	Amount of unfunded pension paid during 2011 (£)	Amount of unfunded pension paid during 2010 (£)
J A Heath	**35,354**	33,606

Annual bonus scheme

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

	Date of grant	Number of shares held at 1 January 2011[1]	Number of shares made subject to award during 2011	Event and number of shares	Market price of shares on date of award	Number of shares held at 31 December 2011	Earliest vesting date
S C Lockett	11.01.08	26,656*	–	26,656[a]	329.25p	–	11.01.11
	22.01.09	42,312*	–	–	185.38p	42,312	22.01.12
	07.01.10	34,764*	–	–	313.75p	34,764	07.01.13
	25.03.11	–	26,256	–	499.75p	26,256	25.03.14
		103,732	**26,256**	**26,656**		**103,332**	
R A Allan	11.01.08	19,172*	–	19,172[a]	329.25p	–	11.01.11
	22.01.09	30,528*	–	–	185.38p	30,528	22.01.12
	07.01.10	23,972*	–	–	313.75p	23,972	07.01.13
	25.03.11	–	18,108	–	499.75p	18,108	25.03.14
		73,672	**18,108**	**19,172**		**72,608**	
A R C Durrant	11.01.08	19,240*	–	19,240[a]	329.25p	–	11.01.11
	22.01.09	31,064*	–	–	185.38p	31,064	22.01.12
	07.01.10	25,572*	–	–	313.75p	25,572	07.01.13
	25.03.11	–	19,312	–	499.75p	19,312	25.03.14
		75,876	**19,312**	**19,240**		**75,948**	
N Hawkings	11.01.08	29,476	–	29,476[a]	329.25p	–	11.01.11
	22.01.09	47,204	–	–	185.38p	47,204	22.01.12
	07.01.10	40,636	–	–	313.75p	40,636	07.01.13
	25.03.11	–	18,108	–	499.75p	18,108	25.03.14
		117,316	**18,108**	**29,476**		**105,948**	
A G Lodge	07.01.10	15,408*	–	–	313.75p	15,408	07.01.13
	25.03.11	–	18,108	–	499.75p	18,108	25.03.14
		15,408	**18,108**	**–**		**33,516**	

Notes:

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

[1] The number of deferred bonus shares have been adjusted to reflect the 4:1 share split which took place in May 2011. The adjusted numbers are quoted in the table above.

[a] Shares released net on 13 January 2011. The mid-market closing price on 13 January 2011 was 500p.

Annual bonuses for the year ended 31 December 2011 were awarded on 19 January 2012. Details of the bonuses awarded to executive directors are given on page 66.

Details of outstanding LTIP awards

LTIP Equity Pool Awards

As at 31 December 2011, three Equity Pools were outstanding, as follows:

Cycle	Performance period	Starting market capitalisation £ million	Aggregate Equity Pool participation points Allocated	Aggregate Equity Pool participation points Unallocated	% of Equity Pool allocated
2009	01.06.09 – 31.12.11	871	9,904.3	521.0	95
2010	01.01.10 – 31.12.12	1,342	10,586.8	3,046.0	78
2011	01.01.11 – 31.12.13	2,101	7,150.09	7,849.9	48

As at 31 December 2011, the executive directors have the following allocations under the outstanding Equity Pools:

Director	2009 Points	2009 % of Equity Pool	2010 Points	2010 % of Equity Pool	2011 Points	2011 % of Equity Pool
S C Lockett	525.0	5.04	682.0	5.00	900.0	6.00
R A Allan	420.0	4.03	545.0	4.00	637.5	4.25
A R C Durrant	420.0	4.03	545.0	4.00	637.5	4.25
N Hawkings	420.0	4.03	545.0	4.00	637.5	4.25
A G Lodge	420.0	4.03	545.0	4.00	637.5	4.25

The first LTIP Equity Pool cycle (the 2009 cycle) completed its performance period on 31 December 2011. As stated within the rules of the LTIP, the base valuation for the 2009 cycle was averaged over the eight-month period from 1 October 2008 to 31 May 2009 (with adjustment for the rights issue in May 2009). The terminal valuation was averaged over the three-month period from 1 October 2011 to 31 December 2011. Over the performance period, the company's market value increased from £871 million to £1,703 million, equivalent to growth of 29.6 per cent per annum, generating an aggregate LTIP Equity Pool valued at £20.8 million. The Committee considered the long-term underlying improvement in the performance of the company and were satisfied that the LTIP performance was reflective of the performance of the company for the same period. As a result, the Equity Pool vested in January 2012, and £20.8 million will be distributed between all LTIP participants, with 50 per cent released in shares and 50 per cent in deferred shares.

LTIP Performance Share Awards

As at 31 December 2011, three Performance Share Award cycles were outstanding, as follows:

Cycle	Performance period	Total Performance Share Awards granted
2009	01.06.09 – 31.12.11	5,001,852
2010	01.01.10 – 31.12.12	5,583,740
2011	01.01.11 – 31.12.13	2,490,635
		13,076,227

Details of outstanding LTIP awards (continued)

In each of 2009, 2010 and 2011, 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. As at 31 December 2011, the executive directors have the following allocations under the outstanding Performance Share Awards:

	Date of grant	Awards held at 1 January 2011*	Granted	Lapsed	Vested	Awards held at 31 December 2011	Market price of shares on date of award	Performance period	Earliest vesting date
S C Lockett	28.08.09	204,864	–	–	–	204,864	318.50p	01.06.09 – 31.12.11	01.01.12[1]
	27.05.10	231,792	–	–	–	231,792	281.50p	01.01.10 – 31.12.12	01.01.13
	28.06.11	–	174,337	–	–	174,337	428.60p	01.01.11 – 31.12.13	01.01.14
		436,656	**174,337**	**–**	**–**	**610,993**			
R A Allan	28.08.09	117,736	–	–	–	117,736	318.50p	01.06.09 – 31.12.11	01.01.12[1]
	27.05.10	133,212	–	–	–	133,212	281.50p	01.01.10 – 31.12.12	01.01.13
	28.06.11	–	90,074	–	–	90,074	428.60p	01.01.11 – 31.12.13	01.01.14
		250,948	**90,074**	**–**	**–**	**341,022**			
A R C Durrant	28.08.09	125,588	–	–	–	125,588	318.50p	01.06.09 – 31.12.11	01.01.12[1]
	27.05.10	142,092	–	–	–	142,092	281.50p	01.01.10 – 31.12.12	01.01.13
	28.06.11	–	98,791	–	–	98,791	428.60p	01.01.11 – 31.12.13	01.01.14
		267,680	**98,791**	**–**	**–**	**366,471**			
N Hawkings	28.08.09	117,736	–	–	–	117,736	318.50p	01.06.09 – 31.12.11	01.01.12[1]
	27.05.10	133,212	–	–	–	133,212	281.50p	01.01.10 – 31.12.12	01.01.13
	28.06.11	–	90,074	–	–	90,074	428.60p	01.01.11 – 31.12.13	01.01.14
		250,948	**90,074**	**–**	**–**	**341,022**			
A G Lodge	28.08.09	107,924	–	–	–	107,924	318.50p	01.06.09 – 31.12.11	01.01.12[1]
	27.05.10	133,212	–	–	–	133,212	281.50p	01.01.10 – 31.12.12	01.01.13
	28.06.11	–	90,074	–	–	90,074	428.60p	01.01.11 – 31.12.13	01.01.14
		241,136	**90,074**	**–**	**–**	**331,210**			

Notes:

* The number of Performance Share Awards has been adjusted to reflect the 4:1 share split which took place in May 2011. The adjusted numbers are quoted in the table above.

[1] Shares vested on 19 January 2012. The mid-market closing price on the date of vesting was 425.4p.

The first LTIP Performance Share Award cycle (the 2009 cycle) completed its performance period on 31 December 2011. Over the period, the company's TSR relative to its peers was in the upper quartile. Having taken into consideration the underlying financial and operational performance of the company, including the company's return on invested capital, reserve replacement, cash flow, earnings per share growth and health and safety record, the Committee was satisfied that the results warranted a vesting of 100 per cent of the Performance Share Awards. 50 per cent of the vested shares were released in January 2012 with the remaining 50 per cent deferred.

Outstanding awards under previous long-term incentive arrangements

Asset and Equity Plan (AEP)

The AEP preceded the LTIP as the company's main long-term incentive and expired in 2009. The AEP has two elements: the Asset Pool and the Equity Pool. The value of the Asset Pool is based on the increase in the net asset value per share of the company over a three-year period and the value of the Equity Pool is based on the increase in equity value per share of the company over a three-year period. In both cases, no pool is created for growth (in asset value or share price) of less than 10 per cent per annum. At growth of 10 per cent per annum, the pools are funded by 1 per cent of the growth. The funding of the pools is capped at 2.5 per cent of the growth at growth of 20 per cent per annum. The funding rate of the pools increases on a straight-line basis between these two points. In addition, the vesting of awards is subject to the Committee being satisfied that there has been satisfactory improvement in the performance of the company.

The pools are allocated to eligible employees based on their pro rata entitlement. 50 per cent of vested AEP awards are released in shares at the end of the performance period. The remaining 50 per cent is deferred in shares over three years and are eligible for a Matching Award which vests subject to the company's three-year TSR relative to a comparator group of oil and gas companies (i.e. on the same basis as LTIP Matching Awards).

The last AEP award (the 2008 cycle) covered the three-year performance period 1 January 2008 to 31 December 2010. 50 per cent of the vested 2008 AEP awards were released in shares during 2011 and 50 per cent were deferred. Matching Awards were granted during the year equal to 2.5x the Deferred Awards. The details of the awards to the executive directors are as follows:

Director	Shares released 2011[1]*	Deferred Shares awarded[1]*	Matching Awards granted during the year[2]
S C Lockett	106,344	106,344	265,860
R A Allan	73,340	73,340	183,350
A R C Durrant	78,228	78,228	195,570
N Hawkings	73,340	73,340	183,350
A G Lodge	46,516	46,516	116,290

Notes:

[1] The mid-market closing price was 499.75p on the day the AEP award vested (25 March 2011). This number has been adjusted to reflect the 4:1 share split in May 2011.

[2] The Matching Awards granted during the year relate to the Deferred Shares and are the maximum award possible under the Matching Award scheme, subject to performance criteria. The mid-market closing price was 428.6p on the date of grant of Matching Awards (28 June 2011).

* The number of Deferred Shares awarded was adjusted to reflect the 4:1 share split which took place in May 2011. The adjusted numbers are quoted in the table above.

At 31 December 2011, the executive directors held several outstanding awards of Deferred Shares and Matching Awards granted under the Asset and Equity Plan as set out below:

	Date of grant	Type of award	Awards held at 1 January 2011[1]	Number of shares made subject to award during 2011[2]	Number of Matching Awards granted during 2011[3]	Event and number of shares	Awards held at 31 December 2011	Market price of shares on date of award	Performance period	Earliest vesting date
S C Lockett	11.01.08	Deferred Share	97,364*	–	–	97,364(a)	–	329.25p	–	01.01.11
	13.03.08	Matching Award	412,560	–	–	412,560(b)	–	335.75p	01.01.08 – 31.12.10	01.01.11
	20.04.09	Deferred Share	48,976*	–	–	–	48,976[4]	307.00p	–	01.01.12
	29.05.09	Matching Award	207,528	–	–	–	207,528[5]	284.00p	01.01.09 – 31.12.11	01.01.12
	26.03.10	Deferred Share	85,528*	–	–	–	85,528	302.75p	–	01.01.13
	17.06.10	Matching Award	362,428	–	–	–	362,428	303.50p	01.01.10 – 31.12.12	01.01.13
	25.03.11	Deferred Share	–	106,344	–	–	106,344	499.75p	–	01.01.14
	28.06.11	Matching Award	–	–	265,860	–	265,860	428.60p	01.01.11 – 31.12.13	01.01.14
			1,214,384	**106,344**	**265,860**	**509,924**	**1,076,664**			

Outstanding awards under previous long-term incentive arrangements (continued)

	Date of grant	Type of award	Awards held at 1 January 2011[1]	Number of shares made subject to award during 2011[2]	Number of Matching Awards granted during 2011[3]	Event and number of shares	Awards held at 31 December 2011	Market price of shares on date of award	Performance period	Earliest vesting date
R A Allan	11.01.08	Deferred Share	58,100*	–	–	58,100[(a)]	–	329.25p	–	01.01.11
	13.03.08	Matching Award	246,192	–	–	246,192[(b)]	–	335.75p	01.01.08 – 31.12.10	01.01.11
	20.04.09	Deferred Share	35,544*	–	–	–	35,544[4]	307.00p	–	01.01.12
	29.05.09	Matching Award	150,624	–	–	–	150,624[5]	284.00p	01.01.09 – 31.12.11	01.01.12
	26.03.10	Deferred Share	56,128*	–	–	–	56,128	302.75p	–	01.01.13
	17.06.10	Matching Award	237,840	–	–	–	237,840	303.50p	01.01.10 – 31.12.12	01.01.13
	25.03.11	Deferred Share	–	73,340	–	–	73,340	499.75p	–	01.01.14
	28.06.11	Matching Award	–	–	183,350	–	183,350	428.60p	01.01.11 – 31.12.13	01.01.14
			784,428	**73,340**	**183,350**	**304,292**	**736,826**			
A R C Durrant	11.01.08	Deferred Share	58,100*	–	–	58,100[(a)]	–	329.25p	–	01.01.11
	13.03.08	Matching Award	246,192	–	–	246,192[(b)]	–	335.75p	01.01.08 – 31.12.10	01.01.11
	20.04.09	Deferred Share	35,544*	–	–	–	35,544[4]	307.00p	–	01.01.12
	29.05.09	Matching Award	150,624	–	–	–	150,624[5]	284.00p	01.01.09 – 31.12.11	01.01.12
	26.03.10	Deferred Share	56,128*	–	–	–	56,128	302.75p	–	01.01.13
	17.06.10	Matching Award	237,840	–	–	–	237,840	303.50p	01.01.10 – 31.12.12	01.01.13
	25.03.11	Deferred Share	–	78,228	–	–	78,228	499.75p	–	01.01.14
	28.06.11	Matching Award	–	–	195,570	–	195,570	428.60p	01.01.11 – 31.12.13	01.01.14
			784,428	**78,228**	**195,570**	**304,292**	**753,934**			
N Hawkings	11.01.08	Deferred Share	51,004*	–	–	51,004[(a)]	–	329.25p	–	01.01.11
	13.03.08	Matching Award	216,132	–	–	216,132[(b)]	–	335.75p	01.01.08 – 31.12.10	01.01.11
	20.04.09	Deferred Share	35,544*	–	–	–	35,544[4]	307.00p	–	01.01.12
	29.05.09	Matching Award	150,624	–	–	–	150,624[5]	284.00p	01.01.09 – 31.12.11	01.01.12
	26.03.10	Deferred Share	56,128*	–	–	–	56,128	302.75p	–	01.01.13
	17.06.10	Matching Award	237,840	–	–	–	237,840	303.50p	01.01.10 – 31.12.12	01.01.13
	25.03.11	Deferred Share	–	73,340	–	–	73,340	499.75p	–	01.01.14
	28.06.11	Matching Award	–	–	183,350	–	183,350	428.60p	01.01.11 – 31.12.13	01.01.14
			747,272	**73,340**	**183,350**	**267,136**	**736,826**			

Outstanding awards under previous long-term incentive arrangements (continued)

	Date of grant	Type of award	Awards held at 1 January 2011[1]	Number of shares made subject to award during 2011[2]	Number of Matching Awards granted during 2011[3]	Event and number of shares	Awards held at 31 December 2011	Market price of shares on date of award	Performance period	Earliest vesting date
A G Lodge	26.03.10	Deferred Share	12,480*	–	–	–	12,480	302.75p	–	01.01.13
	17.06.10	Matching Award	52,888	–	–	–	52,888	303.50p	01.01.10 – 31.12.12	01.01.13
	25.03.11	Deferred Share	–	46,516	–	–	46,516	499.75p	–	01.01.14
	28.06.11	Matching Award	–	–	116,290	–	116,290	428.60p	01.01.11 – 31.12.13	01.01.14
			65,368	**46,516**	**116,290**	**–**	**228,174**			

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

(a) Shares released net from the Employee Benefit Trust on 13 January 2011.

(b) Awards vested 13 January 2011. The mid-market closing price on the date of vesting was 500p.

1 The number of Deferred Shares and Matching Award shares awarded under the Asset and Equity Plan were adjusted to reflect the 4:1 share split which took place in May 2011. The adjusted numbers are quoted in the table above.

2 There are no performance criteria for the Deferred Shares.

3 Matching Awards granted are the maximum award possible under the Matching Award scheme, subject to performance criteria based on TSR against a comparator group of approximately 33 listed companies in the oil and gas sector. Full vesting requires upper decile performance.

4 Awards vested 19 January 2012 and were released net from the Employee Benefit Trust.

5 Awards vested 19 January 2012. The mid-market closing price on the date of vesting was 425.4p.

Conditional Share Awards

Mr A G Lodge was awarded a Conditional Share Award equivalent in value to the shares he forfeited at his employer when he left to join the company. This award was considered essential to induce Mr Lodge to join the company. Vesting of the awards is contingent on Mr Lodge remaining in employment at the vesting date, but is not dependent on any further performance-related measures. Details of the Conditional Share Award are set out below:

Director	Date of grant	Awards held at 1 January 2011[1,2]	Event and number of shares	Awards held at 31 December 2011	Market price of shares on date of award	Earliest vesting date
A G Lodge	20.04.09	60,616	60,616[(a)]	–	298.75p	20.04.11

Notes:

(a) Shares released net from the Employee Benefit Trust on 10 May 2011.

1 The number of Conditional Share Awards were adjusted to reflect the 4:1 share split which took place in May 2011. The adjusted numbers are quoted in the table above.

2 On 29 March 2010, these awards were changed from conditional awards of shares to restricted shares. Some of the shares were sold to pay income tax and National Insurance contributions payable by Mr A G Lodge upon the accelerated vesting of the awards, but the amounts received from the sale remained subject to clawback in the event of Mr Lodge leaving Premier other than as a 'good leaver'. The remaining shares were transferred to a nominee account within the Employee Benefit Trust until the end of the deferral period. The mid-market closing price on 29 March 2010 was 310.5p. This number has been adjusted to reflect the 4:1 share split in May 2011.

Share option schemes

Savings Related Share Option Scheme 2003

Directors' interests under this scheme are shown below:

	Date of grant	Exercisable dates	Acquisition price per share (£)[1]	Options held at 1 January 2011[1]	Granted	Exercised	Lapsed	Options held at 31 December 2011
R A Allan	03.05.07	01.06.12 – 30.11.12	2.03433	8,048	–	–	–	8,048
A R C Durrant	04.05.06	01.06.11 – 30.11.11	1.66668	9,656	–	9,656[2]	–	–
N Hawkings	04.05.06	01.06.11 – 30.11.11	1.66668	9,656	–	9,656[3]	–	–

Notes:

1 The number of options and the option acquisition price have been adjusted to reflect the 4:1 share split which took place in May 2011. The adjusted numbers are quoted in the table above.

2 The mid-market closing price was 465.1p on the day of exercise (16 June 2011).

3 The mid-market closing price was 403.0p on the day of exercise (20 July 2011).

Savings Related Share Option Scheme 2009

Directors' interests under this scheme are shown below:

	Date of grant	Exercisable dates	Acquisition price per share (£)[1]	Options held at 1 January 2011[1]	Granted	Exercised	Lapsed	Options held at 31 December 2011
S C Lockett	05.05.10	01.06.13 – 30.11.13	2.605	3,480	–	–	–	3,480
A G Lodge	05.05.10	01.06.13 – 30.11.13	2.605	3,480	–	–	–	3,480

Notes:

1 The number of options and the option acquisition price has been adjusted to reflect the 4:1 share split which took place in May 2011. The adjusted numbers are quoted in the table above.

Share Incentive Plan (SIP)

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

	Shares held on 1 January 2011[1]	Total Partnership Shares purchased in 2011 at prices between 329p and 508.25p	Total Matching Shares awarded in 2011 at prices between 329p and 508.25p, vesting in 2014	Shares held on 31 December 2011	Partnership and Matching Shares acquired between 1 January and 21 March 2012
S C Lockett	16,308	353	353	17,014	186
R A Allan	16,272	354	354	16,980	186
A R C Durrant	6,120	353	353	6,826	186
N Hawkings	6,120	353	353	6,826	186
A G Lodge	1,488	354	354	2,196	186

Notes:

1 The number of SIP shares held has been adjusted to reflect the 4:1 share split which took place in May 2011. The adjusted numbers are quoted in the table above.

Share price movements during 2011

The mid-market closing price of the company's shares at 31 December 2011 was £3.63 (31 December 2010: £4.875, adjusted to reflect the 4:1 share split in May 2011). The intra-day trading price of the company's shares during 2011 was between £3.10 and £5.35.

By order of the Board

I J Hinkley
Chairman of the Remuneration Committee

21 March 2012

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

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 and Article 4 of the IAS Regulation and have elected to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

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

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

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

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

Responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, 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; and
- the management report, which is incorporated into the Directors' 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.

By order of the Board

S C Lockett
Chief Executive

21 March 2012

A R C Durrant
Finance Director

21 March 2012

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 North Sea, Asia and Middle East, Africa and Pakistan.

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
There are no new or amended standards or interpretations adopted with effect from 1 January 2011 that have a material impact on the group's annual results.

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

- IFRS 1 (amended) – 'Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters'
- IFRS 7 (amended) – 'Disclosures – Transfers of Financial Assets'
- IFRS 9 – 'Financial Instruments'
- IFRS 10 – 'Consolidated Financial Statements'
- IFRS 11 – 'Joint Arrangements'
- IFRS 12 – 'Disclosure of Interests in Other Entities'
- IFRS 13 – 'Fair Value Measurement'
- IAS 1 (amended) – 'Presentation of Items of Other Comprehensive Income'
- IAS 12 (amended) – 'Deferred Tax: Recovery of Underlying Assets'
- IAS 19 (revised) – 'Employee Benefits'
- IAS 27 (revised) – 'Separate Financial Statements'
- IAS 28 (revised) – 'Investments in Associates and Joint Ventures'
- IFRIC 20 – 'Stripping Costs in the Production Phase of a Surface Mine'

IFRS 9 – 'Financial Instruments' is effective for annual periods beginning on or after 1 January 2015, rather than 1 January 2013 as originally intended, with transitional arrangements depending upon the date of initial application. The group has not yet decided the date of its initial application and has not yet completed its evaluation of the effect of adoption. The new standard has not yet been adopted by the European Union.

Other than to expand certain disclosures within the financial statements, the directors do not expect that the adoption of the other standards and interpretations listed above will have a material impact on the financial statements of the group in future periods.

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.

During the year, management responsibility for the group's activities in Africa was transferred from the former North Sea and West Africa business unit to the Middle East-Pakistan business unit. The segmental information for the comparative year contained within these financial statements has been re-presented to reflect this change.

The principal accounting policies adopted are set out below.

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

On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess/deficiency of the cost of acquisition over/below the fair values of the identifiable net assets acquired is recognised as goodwill/excess of fair value over cost.

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.

Basis of consolidation (continued)

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.

Interest in joint ventures

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

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

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

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

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

Sales revenue and other income

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

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

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

Oil and gas assets

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

(a) Exploration and evaluation assets

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

Pre-licence costs

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

Exploration and evaluation costs

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

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

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

Treatment of E&E assets at conclusion of appraisal activities

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

Oil and gas assets (continued)

(b) Development and production assets

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

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

Depreciation of producing assets

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

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

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

(c) Impairment of development and production assets

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

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

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

(d) Acquisitions, asset purchases and disposals

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

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

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

(e) Decommissioning

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

Inventories

Inventories, except for petroleum products, are valued at the lower of cost and net realisable value. Petroleum products and under and overlifts 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 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.

Derivative financial instruments

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

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

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

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

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

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

Derivative financial instruments (continued)

Fair value is the amount for which a financial asset, liability or instrument could be exchanged between knowledgeable and willing parties in an arm's length transaction. It is determined by reference to quoted market prices adjusted for estimated transaction costs that would be incurred in an actual transaction, or by the use of established estimation techniques such as option pricing models and estimated discounted values of cash flows.

Cash and cash equivalents

Cash comprises cash in hand and short-term deposits, less overdrafts.

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

Share-based payments

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

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

Convertible bonds

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

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

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

Critical accounting judgements and key sources of estimation uncertainty

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

- carrying value of intangible exploration and evaluation assets (note 8);
- carrying value of property, plant and equipment (note 9);
- proved and probable reserves estimates (note 9);
- decommissioning costs (note 16);
- derivative financial instruments (note 17);
- tax and recognition of deferred tax assets (note 18);
- share-based payments (note 19); and
- pensions (note 23).

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

We have audited the group financial statements of Premier Oil plc for the year ended 31 December 2011 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Statement of Changes in Equity, the Consolidated Cash Flow Statement and the related notes 1 to 25. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the group 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 group 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.

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 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. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the group financial statements:

- give a true and fair view of the state of the group's affairs as at 31 December 2011 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the group financial statements are prepared is consistent with the group financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the directors' statement, contained within the Directors' Report, in relation to going concern; and
- the part of the Corporate Governance Report relating to the company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on directors' remuneration.

Other matter

We have reported separately on the parent company financial statements of Premier Oil plc for the year ended 31 December 2011 and on the information in the Remuneration Report that is described as having been audited.

Matthew Donaldson FCA (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom

21 March 2012

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2011

	Note	**2011 $ million**	2010 $ million
Sales revenues	1	**826.8**	763.6
Cost of sales	2	**(414.9)**	(530.5)
Exploration expense	8	**(187.5)**	(68.2)
Pre-licence exploration costs		**(23.0)**	(18.9)
General and administration costs		**(25.8)**	(18.3)
Operating profit		**175.6**	127.7
Interest revenue, finance and other gains	5	**5.5**	2.5
Finance costs and other finance expenses	5	**(73.6)**	(68.0)
Gain on derivative financial instruments	17	**34.0**	38.6
Profit before tax		**141.5**	100.8
Tax	6	**29.7**	29.0
Profit after tax		**171.2**	129.8
Earnings per share (cents):			
Basic	7	**36.6**	28.0
Diluted	7	**31.5**	25.8

The results relate entirely to continuing operations.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

	Note	**2011 $ million**	2010 $ million
Profit for the year		**171.2**	129.8
Cash flow hedges on commodity swaps*:			
Losses arising during the year		**(24.5)**	(2.2)
Less: reclassification adjustments for losses in the year		**17.8**	–
	17	**(6.7)**	(2.2)
Cash flow hedges on interest rate and foreign exchange swaps*	17	**(6.5)**	(12.1)
Exchange differences on translation of foreign operations		**(3.4)**	(1.9)
Actuarial gains on long-term employee benefit plans	23	**1.4**	0.6
Other comprehensive expense		**(15.2)**	(15.6)
Total comprehensive income for the year		**156.0**	114.2

* No deferred tax asset has been recognised on the losses arising on cash flow hedges in either the current or preceding years as insufficient non-ring fence taxable profits are expected to arise in the future against which the deferred tax asset could reverse.

All comprehensive income is attributable to the equity holders of the parent.

CONSOLIDATED BALANCE SHEET

As at 31 December 2011

	Note	2011 $ million	2010 $ million
Non-current assets:			
Intangible exploration and evaluation assets	8	**315.5**	310.8
Property, plant and equipment	9	**2,257.8**	1,732.8
Deferred tax assets	18	**500.8**	285.3
		3,074.1	2,328.9
Current assets:			
Inventories		**27.7**	18.6
Trade and other receivables	11	**389.9**	245.5
Tax recoverable		**39.5**	67.5
Derivative financial instruments	17	**49.1**	65.7
Cash and cash equivalents	12	**309.1**	299.7
		815.3	697.0
Total assets		**3,889.4**	3,025.9
Current liabilities:			
Trade and other payables	13	**(381.2)**	(314.0)
Current tax payable		**(146.5)**	(56.4)
Short-term borrowings	14	**(183.7)**	–
Provisions	16	**(35.1)**	(23.7)
Derivative financial instruments	17	**(154.8)**	(109.1)
Deferred revenue	17	**(8.4)**	–
		(909.7)	(503.2)
Net current (liabilities)/assets		**(94.4)**	193.8
Non-current liabilities:			
Convertible bonds	14	**(226.5)**	(218.1)
Other long-term debt	14	**(626.5)**	(466.4)
Deferred tax liabilities	18	**(219.1)**	(183.7)
Long-term provisions	16	**(565.4)**	(473.2)
Long-term employee benefit plan deficit	23	**(18.6)**	(15.2)
Deferred revenue	17	**–**	(35.9)
		(1,656.1)	(1,392.5)
Total liabilities		**(2,565.8)**	(1,895.7)
Net assets		**1,323.6**	1,130.2
Equity and reserves:			
Share capital	19	**98.8**	98.3
Share premium account		**274.5**	254.8
Retained earnings		**922.9**	738.7
Other reserves		**27.4**	38.4
		1,323.6	1,130.2

The financial statements were approved by the Board of Directors and authorised for issue on 21 March 2012.

They were signed on its behalf by:

S C Lockett
Chief Executive

A R C Durrant
Finance Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2011

		Attributable to the equity holders of the parent						
					Other reserves			
	Note	**Share capital $ million**	**Share premium account $ million**	**Retained earnings $ million**	**Capital redemption reserve $ million**	**Translation reserves $ million**	**Equity reserve $ million**	**Total $ million**
At 1 January 2010		97.0	223.7	603.2	4.3	7.1	36.0	971.3
Issue of Ordinary Shares		1.3	31.1	(32.1)	–	–	–	0.3
Net purchase of ESOP Trust shares		–	–	(8.3)	–	–	–	(8.3)
Provision for share-based payments	19	–	–	52.7	–	–	–	52.7
Transfer between reserves*		–	–	7.1	–	–	(7.1)	–
Total comprehensive income		–	–	116.1	–	(1.9)	–	114.2
At 31 December 2010		98.3	254.8	738.7	4.3	5.2	28.9	1,130.2
Issue of Ordinary Shares		0.5	19.7	(20.0)	–	–	–	0.2
Net sale of ESOP Trust shares		–	–	2.6	–	–	–	2.6
Provision for share-based payments	19	–	–	34.6	–	–	–	34.6
Transfer between reserves*		–	–	7.6	–	–	(7.6)	–
Total comprehensive income		–	–	159.4	–	(3.4)	–	156.0
At 31 December 2011		**98.8**	**274.5**	**922.9**	**4.3**	**1.8**	**21.3**	**1,323.6**

* 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 2011

	Note	2011 $ million	2010 $ million
Net cash from operating activities	21	**485.9**	436.0
Investing activities:			
Capital expenditure		**(660.5)**	(514.1)
Pre-licence exploration costs		**(23.0)**	(18.9)
Acquisition of oil and gas properties		**(89.9)**	(7.4)
Proceeds from disposal of oil and gas properties		**–**	20.4
Recovery of cash previously held in a decommissioning trust		**–**	69.2
Net cash used in investing activities		**(773.4)**	(450.8)
Financing activities:			
Proceeds from issuance of Ordinary Shares		**0.2**	0.3
Net sale/(purchase) of ESOP Trust shares		**2.6**	(8.3)
Proceeds from drawdown of long-term bank loans		**33.8**	310.0
Proceeds from issuance of senior loan notes		**350.7**	–
Debt arrangement fees		**(2.5)**	(17.9)
Repayment of long-term bank loans		**(35.1)**	(178.0)
Interest paid		**(54.6)**	(40.9)
Net cash from financing activities		**295.1**	65.2
Currency translation differences relating to cash and cash equivalents		**1.8**	(1.3)
Net increase in cash and cash equivalents		**9.4**	49.1
Cash and cash equivalents at the beginning of the year		**299.7**	250.6
Cash and cash equivalents at the end of the year	21	**309.1**	299.7

1. Operating segments

The group's operations are located and managed in three regional business units – North Sea, Asia and Middle East, Africa and Pakistan. These geographical segments are the basis on which the group reports its segmental information.

	2011 $ million	2010 $ million
Revenue:		
North Sea	**253.8**	425.4
Asia	**421.4**	195.7
Middle East, Africa and Pakistan	**151.6**	142.5
Total group sales revenue	**826.8**	763.6
Interest and other finance revenue	**2.0**	2.5
Total group revenue	**828.8**	766.1
Group operating profit/(loss):		
North Sea	**(47.9)**	(17.4)
Asia	**201.1**	107.9
Middle East, Africa and Pakistan	**62.5**	69.0
Unallocated*	**(40.1)**	(31.8)
Group operating profit	**175.6**	127.7
Interest revenue, finance and other gains	**5.5**	2.5
Finance costs and other finance expenses	**(73.6)**	(68.0)
Gain on derivative financial instruments	**34.0**	38.6
Profit before tax	**141.5**	100.8
Tax	**29.7**	29.0
Profit after tax	**171.2**	129.8
Balance sheet		
Segment assets:		
North Sea	**1,945.1**	1,345.1
Asia	**1,439.5**	1,142.1
Middle East, Africa and Pakistan	**146.6**	173.4
Unallocated*	**358.2**	365.3
Total assets	**3,889.4**	3,025.9
Liabilities:		
North Sea	**(775.5)**	(584.4)
Asia	**(482.4)**	(355.5)
Middle East, Africa and Pakistan	**(108.9)**	(126.7)
Unallocated*	**(1,199.0)**	(829.1)
Total liabilities	**(2,565.8)**	(1,895.7)
Other information		
Capital additions and acquisitions:		
North Sea	**516.1**	352.1
Asia	**339.9**	352.0
Middle East, Africa and Pakistan	**41.6**	55.0
Total capital additions and acquisitions	**897.6**	759.1
Depreciation, depletion, amortisation and impairment:		
North Sea	**93.3**	213.2
Asia	**70.6**	31.2
Middle East, Africa and Pakistan	**16.2**	19.2
Total depreciation, depletion, amortisation and impairment	**180.1**	263.6

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

Out of the total group worldwide sales revenues of US$826.8 million (2010: US$763.6 million), revenues of US$253.8 million (2010: US$425.4 million) arose from sales of oil and gas to customers located in the UK.

1. Operating segments (continued)

Included in assets arising from the North Sea segment are non-current assets (excluding deferred tax assets) of US$1,128.6 million (2010: US$817.6 million) located in the UK.

Revenue from four customers (2010: four customers) each exceeded 10 per cent of the group's consolidated revenue and amounted respectively to US$161.5 million and US$194.3 million arising from sales of crude oil (2010: US$134.1 million and US$225.8 million) and US$228.2 million and US$89.7 million arising from sales of gas (2010: US$173.1 million and US$79.5 million).

2. Cost of sales

	Note	**2011 $ million**	2010 $ million
Operating costs		**235.2**	217.1
Stock overlift/underlift movement		**(22.8)**	35.6
Royalties		**22.4**	14.2
Amortisation and depreciation of property, plant and equipment:			
Oil and gas properties	9	**203.2**	196.0
Other fixed assets	9	**2.8**	2.3
Impairment (reversal)/charge on oil and gas properties	9	**(25.9)**	65.3
		414.9	530.5

3. Auditor's remuneration

	2011 $ million	2010 $ million
Audit fees:		
Fees payable to the company's auditor for the company's annual report	**0.7**	0.5
Audit of the company's subsidiaries pursuant to legislation	**0.1**	0.1
	0.8	0.6
Non-audit fees:		
Other services pursuant to legislation – interim review	**0.1**	0.1
Corporate finance services*	**0.7**	–
Tax services	**0.2**	0.5
Information technology subscription fees for upstream data	**0.1**	0.1
Other services	**–**	0.2
	1.1	0.9

* The 2011 corporate finance services fee represents the reporting accountants' work performed in relation to the acquisition of the additional equity interest in the Wytch Farm field and to the acquisition of EnCore Oil plc.

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

4. Staff costs

	2011 $ million	2010 $ million
Staff costs, including executive directors:		
Wages and salaries	**144.3**	113.8
Social security costs	**12.3**	9.6
Pension costs:		
Defined contribution	**3.5**	2.6
Defined benefit	**1.1**	1.9
	161.2	127.9

A portion of the group's staff costs above are recharged to joint venture partners or capitalised where they are directly attributable to capital projects. The above costs include share-based payments to employees as disclosed in note 19.

	2011	2010
Average number of employees during the year*:		
Technical and operations	**441**	378
Management and administration	**197**	183
	638	561

* Staff numbers include executive directors.

5. Interest revenue and finance costs

	Note	2011 $ million	2010 $ million
Interest revenue, finance and other gains:			
Short-term deposits		**0.9**	1.4
Exchange differences and others		**4.6**	1.1
		5.5	2.5
Finance costs and other finance expenses:			
Bank loans and overdrafts		**(38.0)**	(35.0)
Payable in respect of convertible bonds	14	**(15.6)**	(15.2)
Payable in respect of senior loan notes		**(10.9)**	–
Unwinding of discount on decommissioning provision	16	**(28.3)**	(16.2)
Long-term debt arrangement fees		**(6.4)**	(15.6)
Exchange differences and others		**(0.7)**	(2.9)
Gross finance costs and other finance expenses		**(99.9)**	(84.9)
Finance costs capitalised during the year	9	**26.3**	16.9
		(73.6)	(68.0)

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 5.44 per cent (2010: 6.34 per cent) to the expenditures on the qualifying asset.

During the year a credit of US$3.5 million of currency exchange gains was made by the group to income (2010: charge of US$2.2 million of currency exchange losses). This excluded exchange gains and losses arising on financial instruments measured at fair value through profit or loss.

6. Tax

	Note	2011 $ million	2010 $ million
Current tax:			
UK corporation tax on profits		–	–
UK petroleum revenue tax		17.2	25.9
Overseas tax		60.1	56.9
Adjustments in respect of prior years*		70.0	(21.4)
Total current tax		**147.3**	61.4
Deferred tax:			
UK corporation tax		(222.6)	(73.9)
UK petroleum revenue tax		11.0	(20.8)
Overseas tax		34.6	4.3
Total deferred tax	18	**(177.0)**	(90.4)
Tax on profit on ordinary activities		**(29.7)**	(29.0)

* For 2011, the adjustments in respect of prior years consist principally of additional provisions in Indonesia and Pakistan for fiscal disputes.

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

	2011 $ million	2010 $ million
Group profit on ordinary activities before tax	**141.5**	100.8
Group profit on ordinary activities before tax at 32.6% weighted average rate (2010: 47.9%)	**46.1**	48.3
Tax effects of:		
Income/expenses that are not taxable/deductible in determining taxable profit	**22.9**	2.5
Tax and tax credits not related to profit before tax (including UK petroleum revenue tax)	**(42.5)**	4.9
Unrecognised tax losses	**31.8**	8.6
Utilisation and recognition of tax losses not previously recognised	**(96.4)**	(67.4)
Adjustments in respect of prior years	**70.0**	(25.9)
Effect of change in tax rates	**(61.6)**	–
Tax credit for the year	**(29.7)**	(29.0)
Effective tax rate for the year	**(21.0%)**	(28.8%)

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 (2010: 50 per cent).

7. Earnings per share

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

In May 2011, the company conducted a 4:1 share split. In accordance with IAS 33 – 'Earnings per Share' the comparatives have been restated accordingly.

Basic and diluted earnings per share are calculated as follows:

	Profit after tax		Weighted average number of shares		Earnings per share	
	2011 $ million	2010 $ million	**2011 million**	2010 (restated) million	**2011 cents**	2010 (restated) cents
Basic	**171.2**	129.8	**467.4**	464.0	**36.6**	28.0
Contingently issuable shares	**–**	–	**75.8**	39.6	*****	*
Diluted	**171.2**	129.8	**543.2**	503.6	**31.5**	25.8

* The inclusion of the contingently issuable shares in the 2011 and 2010 calculations produces diluted earnings per share. The contingently issuable shares include any expected additional share issues due to future share-based payments and for the acquisition of EnCore Oil plc, as detailed in note 25 to the consolidated financial statements. At 31 December 2011 37,349,360 (2010 restated: 37,349,360) potential Ordinary Shares in the company that are underlying the company's convertible bonds and that may dilute earnings per share in the future have not been included in the calculation of diluted earnings per share because they are anti-dilutive for the year (2010: anti-dilutive). If the contingently issuable shares for the acquisition of EnCore Oil plc were excluded, diluted earnings per share would increase to 35.5 cents.

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

	Oil and gas properties			
	North Sea $ million	Asia $ million	Middle East, Africa and Pakistan $ million	Total $ million
Cost:				
At 1 January 2010	111.1	107.7	12.8	231.6
Exchange movements	(1.1)	–	–	(1.1)
Additions during the year	123.7	18.9	30.6	173.2
Transfer to property, plant and equipment	(20.9)	(2.8)	(1.0)	(24.7)
Exploration expense	(50.6)	(0.9)	(16.7)	(68.2)
At 31 December 2010	162.2	122.9	25.7	310.8
Exchange movements	(0.3)	–	–	(0.3)
Additions during the year	175.9	71.6	25.5	273.0
Transfer to property, plant and equipment	(77.1)	–	(3.4)	(80.5)
Exploration expense	(80.7)	(67.1)	(39.7)	(187.5)
At 31 December 2011	**180.0**	**127.4**	**8.1**	**315.5**

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

9. Property, plant and equipment

	Oil and gas properties				
	North Sea $ million	Asia $ million	Middle East, Africa and Pakistan $ million	Other fixed assets $ million	Total $ million
Cost:					
At 1 January 2010	1,040.0	729.4	315.3	13.5	2,098.2
Exchange movements	–	–	–	(0.2)	(0.2)
Acquisitions	8.3	–	–	–	8.3
Additions during the year*	217.8	332.9	24.3	2.6	577.6
Disposals	–	–	–	(0.2)	(0.2)
Transfer from intangible E&E assets	20.9	2.8	1.0	–	24.7
At 31 December 2010	1,287.0	1,065.1	340.6	15.7	2,708.4
Exchange movements	–	–	–	(0.1)	(0.1)
Acquisitions**	124.0	–	–	–	124.0
Additions during the year*	209.4	268.3	16.0	6.9	500.6
Disposals	–	–	–	(0.1)	(0.1)
Transfer from intangible E&E assets	77.1	–	3.4	–	80.5
At 31 December 2011	**1,697.5**	**1,333.4**	**360.0**	**22.4**	**3,413.3**
Amortisation and depreciation:					
At 1 January 2010	308.6	160.8	234.9	7.9	712.2
Exchange movements	–	–	–	(0.1)	(0.1)
Charge for the year	145.8	31.1	19.1	2.3	198.3
Impairment charge	65.3	–	–	–	65.3
Disposals	–	–	–	(0.1)	(0.1)
At 31 December 2010	519.7	191.9	254.0	10.0	975.6
Exchange movements	–	–	–	(0.1)	(0.1)
Charge for the year	110.1	70.5	22.6	2.8	206.0
Impairment (reversal)/charge	(19.4)	–	(6.5)	–	(25.9)
Disposals	–	–	–	(0.1)	(0.1)
At 31 December 2011	**610.4**	**262.4**	**270.1**	**12.6**	**1,155.5**
Net book value:					
At 31 December 2010	767.3	873.2	86.6	5.7	1,732.8
At 31 December 2011	**1,087.1**	**1,071.0**	**89.9**	**9.8**	**2,257.8**

* Finance costs that have been capitalised within oil and gas properties during the year total US$26.3 million (2010: US$16.9 million), at a weighted average interest rate of 5.44 per cent (2010: 6.34 per cent).

** Acquisitions in the current year relate to the purchase of the additional equity interest in the Wytch Farm field. The group has assessed this transaction and concluded that it does not constitute a 'business' under IFRS 3 – 'Business Combinations'.

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.

During the year, a net reversal of previous impairments of producing oil and gas properties was recognised. The main elements were credits of US$33.5 million and US$6.5 million for reversal of previously recorded impairments in respect of the Scott and Chinguetti fields, offset by impairment charges of US$7.3 million and US$6.8 million in respect of the Balmoral and Brenda fields. The reversals resulted from an increased estimate of the quantities of hydrocarbons recoverable from the Scott field coupled with a positive change in the estimates used to determine the assets' recoverable amount since the impairment losses were recognised, most notably an increase in base price assumption for hydrocarbons due to the sustained high oil price environment. The impairment charges arose mainly as a result of reduced estimates of the quantities of hydrocarbons recoverable from the Balmoral and Brenda fields.

9. Property, plant and equipment (continued)

The impairment charges and reversals were calculated by comparing the future discounted cash flows expected to be derived from production of commercial reserves (the value-in-use) against the carrying value of the asset. The future cash flows were estimated using an oil price assumption equal to the Dated Brent forward curve in 2012 and 2013 and US$75/bbl in 'real' terms thereafter (2010: fixed price of US$75/bbl) and were discounted using a discount rate of 10 per cent (2010: 10 per cent). Assumptions involved in impairment measurement include estimates of commercial reserves and production volumes, future oil and gas prices and the level and timing of expenditures, all of which are inherently uncertain.

10. Investments

Principal subsidiary undertakings

At 31 December 2011, the company had investments in the following 100 per cent owned subsidiaries which principally affected the profits or net assets of the group. To avoid a statement of excessive length, details of investments which are not significant have been omitted.

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

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

Subsequent to year-end, the company completed the acquisition of EnCore Oil plc. Further details are given in note 25 to the consolidated financial statements.

Joint ventures

The group has a 49 per cent interest in Premco Energy Projects Company LLC, a company registered in the United Arab Emirates and a 50 per cent interest in Premco Energy Projects BV, a company registered in The Netherlands. The results of these two jointly controlled entities, which are indirectly held through subsidiary undertakings and which are involved in business development opportunities across the Middle East and North Africa region, are accounted for using proportionate consolidation and were immaterial to the group in 2011 and 2010.

11. Trade and other receivables

	2011 $ million	2010 $ million
Trade receivables	**205.2**	126.7
Other receivables	**166.1**	101.2
Prepayments	**18.6**	17.6
	389.9	245.5

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

12. Cash and cash equivalents

	Note	2011 $ million	2010 $ million
Cash at bank and in hand		**56.2**	21.5
Short-term deposits		**252.9**	278.2
	21	**309.1**	299.7

13. Trade and other payables

	2011 $ million	2010 $ million
Trade payables	**58.9**	43.5
Accrued expenses	**253.1**	210.2
Other payables	**69.2**	60.3
	381.2	314.0

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

14. Borrowings

	Note	2011 $ million	2010 $ million
Short-term borrowings – bank loans	17	**183.7**	–
Convertible bonds*		**228.2**	220.4
Other long-term debt – bank loans*	17	**300.0**	485.0
Other long-term debt – senior loan notes*	17	**341.2**	–
Total borrowings		**1,053.1**	705.4

* 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$1.7 million (2010: US$2.3 million) and debt arrangement fees of US$14.7 million (2010: US$18.6 million) respectively.

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

During the year, the group undertook a private placement of senior loan notes of US$244.0 million and €75.0 million. At the year-end date, the group's principal credit facilities comprised a US$175.0 million term loan and a NOK 150.0 million (US$25.1 million) exploration financing facility, both maturing in 2012, and a US$300.0 million term loan, a US$456.8 million revolving credit facility and a £394.7 million (US$611.8 million) letter of credit facility, all maturing in 2015.

Convertible bonds

In June 2007, the group issued bonds at a par value of US$250.0 million which are convertible into Ordinary Shares of the company at any time from 6 August 2007 until six days before their maturity date of 27 June 2014.

At the initial conversion price of £15.82 per share there were 8,003,434 Ordinary Shares of the company underlying the bonds. In April 2009, the conversion price was adjusted from £15.82 per share to £13.56 per share, as a result of the company's four for nine rights issue of new Ordinary Shares. At the adjusted conversion price of £13.56 per share there were 9,337,340 Ordinary Shares of the company underlying the bonds. In May 2011, the conversion price was adjusted from £13.56 per share, as a result of the company's 4:1 share split. At the adjusted conversion price of £3.39 per share there are 37,349,360 Ordinary Shares of the company underlying the bonds.

If the bonds have not been previously purchased and cancelled, redeemed or converted, they will be redeemed at par value on 27 June 2014. Interest of 2.875 per cent per annum will be paid semi-annually in arrears up to that date.

14. Borrowings (continued)

The net proceeds received from the issue of the convertible bonds were split between a liability element and an equity component at the date of issue. The fair value of the liability component was 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, was included in equity reserves.

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.

	2011 $ million	2010 $ million
Liability component at 1 January	**218.1**	210.1
Interest charged	**15.6**	15.2
Interest paid	**(7.2)**	(7.2)
Total liability component at 31 December	**226.5**	218.1

The total interest charged for the year has been calculated by applying an effective annual interest rate of 6.73 per cent (2010: 6.73 per cent) to the liability component for the period since the bonds were issued. The non-cash accrual of interest will increase the liability component (as the cash interest is only paid at 2.875 per cent) to US$250.0 million at maturity.

There is no material difference between the carrying amount of the liability component of the convertible bonds and its fair value. This fair value is calculated by discounting the future cash flows at the market rate.

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 to the objectives, policies or processes during the years ended 31 December 2011 and 31 December 2010.

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 and convertible bonds, less cash and short-term deposits.

	Note	**2011**	2010
Net debt ($ million)	21	**(744.0)**	(405.7)
Net assets ($ million)		**1,323.6**	1,130.2
Net assets plus net debt ($ million)		**2,067.6**	1,535.9
Gearing ratio (%)		**36.0**	26.4

15 Obligations under leases

	2011 $ million	2010 $ million
Minimum lease payments under operating leases recognised as an expense in the year	**21.3**	7.2
Outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:		
Within one year	**83.2**	23.9
In two to five years	**272.4**	298.5
Over five years	**248.0**	97.0
	603.6	419.4

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

16. Long-term provisions

	Note	2011 $ million	2010 $ million
Decommissioning costs:			
Total provisions at 1 January		**496.9**	303.4
Acquisitions		**26.0**	0.9
Revision arising from:			
New provisions and changes in estimates		**52.2**	189.6
Exchange differences		**(2.9)**	(13.2)
Unwinding of discount on decommissioning provision	5	**28.3**	16.2
Total provisions at 31 December		**600.5**	496.9
Reclassification of short-term provisions to current liabilities		**(35.1)**	(23.7)
Long-term provisions at 31 December		**565.4**	473.2

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 the group's internal estimates and, where available, operator's estimates. Based on the current economic environment, assumptions have been made which the management believe are 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 non-operated fields in the UK and further provisions for fields in development in the UK, Indonesia and Vietnam, offset by an increase in the discount rate used to 5.20 per cent (2010: 3.25 per cent). The change in discount rate used in 2011 increased the unwinding of discount charge by US$10.6 million.

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 and senior loan notes. The main purpose of these financial instruments is to manage short-term cash flow and to raise finance for the group's capital expenditure programme. The group has various financial assets such as accounts receivable and cash and short-term deposits, which arise directly from its operations.

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

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

Derivative financial instruments

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

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

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

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 receipts and expenditures within individual business units. Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts.

17. Financial instruments (continued)

Fair value hierarchy

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

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

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

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

As at 31 December 2011, 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
2011:				
Oil reverse collars	48.8	–	48.8	–
Gas forward sale contracts	0.3	–	0.3	–
Total	**49.1**	**–**	**49.1**	**–**
2010:				
Oil reverse collars	65.7	–	65.7	–
Total	65.7	–	65.7	–

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
2011:				
Oil collars	100.8	–	100.8	–
Oil forward sale contracts	0.4	–	0.4	–
Gas collars	23.7	–	23.7	–
Interest rate swaps	19.3	–	19.3	–
Forward foreign exchange contracts	1.0	–	1.0	–
Cross currency swap	9.6	–	9.6	–
Total	**154.8**	**–**	**154.8**	**–**
2010:				
Oil collars	69.9	–	69.9	–
Oil forward sale contracts	4.2	–	4.2	–
Gas collars	21.5	–	21.5	–
Interest rate swaps	12.9	–	12.9	–
Forward foreign exchange contracts	0.6	–	0.6	–
Total	109.1	–	109.1	–

All of the above fair values are based on Level 2 techniques.

17. Financial instruments (continued)

Commodity price risk

Oil

At 31 December 2011, the group had 1.8 million barrels of Dated Brent oil hedged with collars at an average floor price of US$40.0/bbl and an average cap of US$100.0/bbl, all of which are embedded through offtake agreements to the end of 2012.

The group also has oil collars with banks which are marked to market through profit or loss. Additionally, the group has executed reverse collars with certain oil trading companies at strike prices identical to the bank collars. Similar to the bank collars, these reverse collars are derivatives that must be marked to market through profit or loss. They effectively offset each other, resulting in no net impact on the income statement or balance sheet. The hedges embedded in long-term crude offtake agreements are not fair valued as they qualify for 'own-use' exemption under IAS 39.

In addition, 2.1 million barrels of Dated Brent oil were hedged through forward sales for 2012 at an average price of US$105.3/bbl.

During the year, embedded oil price collars for 3.24 million barrels matured generating a net cost of US$101.3 million (2010: US$8.0 million). This cost has been offset against sales revenues.

Indonesian gas

At the year-end date, 162,000 metric tonnes (mt) of Singapore 180 HSFO, which underlies the pricing mechanism for Indonesian gas sold into the Singapore market, was subject to collars covering the period to mid-year 2013, with a floor of US$250.0/mt and a cap of US$500.0/mt. An additional 132,000 mt have been sold under monthly forward sales contracts for 2012 at an average price of US$622.0/mt.

During the year, Singapore 180 HSFO contracts for 120,000 mt matured generating a cash cost of US$17.8 million (2010: US$0.1 million) which have been offset against sales revenues. All of these contracts have been designated as cash flow hedges and were assessed to be effective. In the current year, US$6.0 million of the movement in the fair value of these contracts was credited to the income statement (2010: credit of US$20.4 million), as this movement related to the time-value portion of hedges under IAS 39. The remaining movement, being a charge of US$6.3 million (2010: charge of US$12.0 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 2010	(107.3)	(29.8)	(137.1)
Cash settlement for swaps	16.2	–	16.2
Deduction against sales revenues	(8.0)	(0.1)	(8.1)
Credit to income statement for the year	15.2	20.4	35.6
Credit/(charge) to retained earnings for the year	9.8	(12.0)	(2.2)
At 31 December 2010	(74.1)	(21.5)	(95.6)
Cash settlement for swaps and collars	57.2	16.3	73.5
Deduction against sales revenues	(101.3)	(17.8)	(119.1)
Credit to income statement for the year	17.4	6.0	23.4
Charge to retained earnings for the year	(0.4)	(6.3)	(6.7)
At 31 December 2011	**(101.2)**	**(23.3)**	**(124.5)**

Movement in commodity reverse collars

Asset/(liability)	Oil $ million	Gas $ million	Total $ million
At 1 January 2010	80.9	–	80.9
Charge to income statement for the year	(15.2)	–	(15.2)
At 31 December 2010	65.7	–	65.7
Charge to income statement for the year	(16.9)	–	(16.9)
At 31 December 2011	**48.8**	**–**	**48.8**

The fair values, which have been determined from counterparties with whom the trades have been concluded, have been recognised in the balance sheet in current assets and current liabilities.

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	22.1	8.6	30.7
Ten per cent decrease	(18.7)	(8.0)	(26.7)

Deferred revenue related to oil reverse collars

Deferred revenue has been created due to first-day gains arising from offtake agreements and related oil reverse collars. This deferred revenue is being released to the income statement over the life of each individual offtake agreement as shown below:

Asset/(liability)	Oil $ million	Gas $ million	Total $ million
At 1 January 2010	(54.1)	–	(54.1)
Credit to income statement for the year	18.2	–	18.2
At 31 December 2010	(35.9)	–	(35.9)
Credit to income statement for the year	27.5	–	27.5
At 31 December 2011	**(8.4)**	**–**	**(8.4)**

Interest rate risk

At 31 December 2011, US$450.0 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 were assessed to be 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 2010	(0.8)
Cash settlement for swaps	7.0
Charge to income statement for the year	(7.0)
Charge to retained earnings for the year	(12.1)
At 31 December 2010	(12.9)
Cash settlement for swaps	8.9
Charge to income statement for the year	(8.9)
Charge to retained earnings for the year	(6.4)
At 31 December 2011	**(19.3)**

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	(4.4)

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.

17. Financial instruments (continued)

Foreign currency exchange risk

During the year, the group issued €75.0 million long-term senior loan notes which have been hedged under a cross currency swap in US dollars at a fixed rate of US$1.423:€. The fair value of this cross currency swap at the reporting date is shown below:

Asset/(liability)	Total $ million
At 1 January 2011	–
Charge to income statement for the year	(9.5)
Charge to retained earnings for the year	(0.1)
At 31 December 2011	**(9.6)**

To cover sterling exposures an amount of £182.0 million was purchased with forward contracts during the year (2010: £198.0 million). Premier'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 variations 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. The amount of receivables presented in the balance sheet is net of allowances for doubtful receivables, which were immaterial in 2011 and 2010. 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 2011 and 2010.

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
2011:						
Trade and other receivables	299.0	18.1	54.2	–	–	371.3
Trade and other payables	(88.1)	(28.9)	(11.1)	–	–	(128.1)
Bank loans	–	–	(201.5)	(336.2)	–	(537.7)
Convertible bonds	–	–	(7.2)	(260.8)	–	(268.0)
Senior loan notes	–	–	(18.8)	(75.2)	(398.2)	(492.2)
Total	**210.9**	**(10.8)**	**(184.4)**	**(672.2)**	**(398.2)**	**(1,054.7)**
2010:						
Trade and other receivables	182.6	17.8	27.5	–	–	227.9
Trade and other payables	(97.2)	(6.4)	(0.2)	–	–	(103.8)
Bank loans	–	–	(23.3)	(539.0)	–	(562.3)
Convertible bonds	–	–	(7.2)	(268.0)	–	(275.2)
Total	85.4	11.4	(3.2)	(807.0)	–	(713.4)

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 facilities and borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities and future capital and operating commitments.

17. Financial instruments (continued)

Borrowing facilities

The group has committed borrowing facilities of US$1,298.1 million and letter of credit facilities of £424.9 million (US$658.6 million), in addition to the convertible bonds and senior loan notes. The undrawn cash balance from the committed borrowing facilities as at 31 December was:

	2011 $ million	2010 $ million
Expiring in more than one year, but not more than two years	**16.4**	17.2
Expiring in more than two years, but not more than five years	**456.8**	446.8

The undrawn balance on the letter of credit facilities as at 31 December 2011 was £215.4 million (US$333.9 million) (2010: £280.9 million (US$438.2 million)).

Interest rate risk profile of financial liabilities

The interest rate profile of the financial liabilities of the group as at 31 December was:

	Fixed rate $ million	**Floating rate $ million**	**Total $ million**	**Fixed rate weighted average interest rate %**
2011:				
Bank loans*	450.0	33.7	483.7	5.171
Convertible bonds	250.0	–	250.0	2.875
Senior loan notes	341.2	–	341.2	5.506
Total	**1,041.2**	**33.7**	**1,074.9**	**–**
2010:				
Bank loans*	450.0	35.0	485.0	5.171
Convertible bonds	250.0	–	250.0	2.875
Total	700.0	35.0	735.0	–

* At 31 December 2011, US$450.0 million of the group's long-term bank borrowings have been swapped from floating interest rate to fixed interest rate and are therefore included as a fixed rate liability in the table above (2010: US$450.0 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:

	2011 $ million	2010 $ million
Bank loans	**470.8**	466.4
Senior loan notes	**339.4**	–
Convertible bonds:		
Liability component	**226.5**	218.1
Equity component	**21.3**	28.9

The floating rate financial liabilities at 31 December 2011 comprised bank borrowings bearing interest at rates set by reference to NIBOR and US$ 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 was:

	Floating rate $ million	Interest free $ million	Total $ million
2011:			
Cash and short-term deposits:			
Sterling	5.4	0.6	6.0
US dollar	266.6	16.7	283.3
Other	8.4	11.4	19.8
Total	**280.4**	**28.7**	**309.1**
2010:			
Cash and short-term deposits:			
Sterling	11.1	–	11.1
US dollar	260.1	5.7	265.8
Other	5.3	17.5	22.8
Total	276.5	23.2	299.7

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 fair values of the financial assets and financial liabilities (excluding current assets, current liabilities and derivative financial instruments) are:

	2011 Carrying amount $ million	2011 Estimated fair value $ million	2010 Carrying amount $ million	2010 Estimated fair value $ million
Primary financial instruments held or issued to finance the group's operations:				
Cash and short-term deposits	**309.1**	**309.1**	299.7	299.7
Bank loans	**483.7**	**483.7**	(485.0)	(485.0)
Senior loan notes	**341.2**	**341.2**	–	–
Liability component of convertible bonds	**228.2**	**228.2**	(220.4)	(220.4)

Fair value is the amount at which a financial instrument could be exchanged in an arm's length transaction, other than in a forced or liquidated sale. 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 recorded materially at fair value reflecting their short-term maturity and are not shown in the above table.

18. Deferred tax

	2011 $ million	2010 $ million
Deferred tax assets	**500.8**	285.3
Deferred tax liabilities	**(219.1)**	(183.7)
	281.7	101.6

	At 1 January 2010 $ million	Exchange movements $ million	(Charged)/ credited to income statement $ million	At 31 December 2010 $ million
UK deferred corporation tax:				
Fixed assets and allowances	186.9	–	(172.1)	14.8
Decommissioning	116.3	–	72.3	188.6
Deferred petroleum revenue tax	6.9	–	(10.5)	(3.6)
Tax losses and allowances	17.7	–	121.0	138.7
Unrecognised tax losses and allowances	(137.6)	–	67.4	(70.2)
Deferred revenue	14.1	–	(4.2)	9.9
Total UK deferred corporation tax	204.3	–	73.9	278.2
UK deferred petroleum revenue tax[1]	(13.7)	–	20.8	7.1
Overseas deferred tax[2]	(179.8)	0.4	(4.3)	(183.7)
Total	10.8	0.4	90.4	101.6

	At 1 January 2011 $ million	Exchange movements $ million	(Charged)/ credited to income statement $ million	At 31 December 2011 $ million
UK deferred corporation tax:				
Fixed assets and allowances	14.8	–	(236.0)	(221.2)
Decommissioning	188.6	–	79.7	268.3
Deferred petroleum revenue tax	(3.6)	–	6.0	2.4
Tax losses and allowances	138.7	–	305.4	444.1
Unrecognised tax losses and allowances	(70.2)	–	70.2	–
Deferred revenue	9.9	–	(2.7)	7.2
Total UK deferred corporation tax	**278.2**	**–**	**222.6**	**500.8**
UK deferred petroleum revenue tax[1]	**7.1**	**–**	**(11.0)**	**(3.9)**
Overseas deferred tax[2]	**(183.7)**	**3.1**	**(34.6)**	**(215.2)**
Total	**101.6**	**3.1**	**177.0**	**281.7**

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 2011 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 2011 with respect to ring fence tax losses and allowances. The corporate model used to assess whether additional deferred tax assets should be recognised was re-run, taking into account additional equity acquired in the Wytch Farm and Catcher areas and the inclusion of other additional UK fields, using an oil price assumption equal to the Dated Brent forward curve in 2012 and 2013 and US$75/bbl in 'real' terms thereafter. As a result, the remaining unrecognised deferred tax assets of US$70.2 million have been recognised in 2011. At 31 December 2011, the group UK ring fence deferred tax assets in respect of tax losses and allowances have been recognised in full.

18. Deferred tax (continued)

In addition to the above, there are non-ring fence UK tax losses of approximately US$181.2 million (2010: US$171.3 million) and current year non-UK tax losses of approximately US$69.4 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.

19. Share capital

	2011 12.5p shares	2011 £	2010 50p shares	2010 £
Ordinary Shares:				
Called-up, issued and fully-paid	**468,059,828**	**58,507,479**	116,395,912	58,197,956

	2011 $ million	2010 $ million
At 1 January	**98.3**	97.0
Shares issued to the Premier Oil plc Employee Benefit Trust (nominal value)	**0.5**	1.3
At 31 December	**98.8**	98.3

Ordinary Shares

At the Annual General Meeting on 20 May 2011, shareholders authorised the company to sub-divide each of the company's Ordinary Shares of 50 pence each into four Ordinary Shares of 12.5 pence each, such shares having the rights and being subject to the restrictions set out in the Articles of Association of the company. The sub-division took effect at 08:00am on 23 May 2011.

In April 2011, prior to the 4:1 share split, the company issued 600,000 Ordinary Shares of 50 pence each with a nominal value of £300,000 (US$484,770) to the Premier Oil plc Employee Benefit Trust to be used to satisfy future awards under the company's share incentive plans (2010: 1,700,000 Ordinary Shares of 50 pence each with a nominal value of £850,000 (US$1,327,955)).

The rights and restrictions attached to the Ordinary Shares are as follows:

Dividend rights: the rights of the holders of Ordinary Shares shall rank pari passu in all respects with each other in relation to dividends.

Winding up or reduction of capital: on a return of capital on a winding up or otherwise (other than on conversion, redemption or purchase of shares) the rights of the holders of Ordinary Shares to participate in the distribution of the assets of the company available for distribution shall rank pari passu in all respects with each other.

Voting rights: the holders of Ordinary Shares shall be entitled to receive notice of, attend, vote and speak at any General Meeting of the company.

Share-based payments and share incentive plans

The group currently operates a Long Term Incentive Plan (LTIP) for all employees and a Share Incentive Plan and a Save As You Earn Scheme for UK-based and expatriate employees only.

For the year ended 31 December 2011, the total cost recognised by the group for equity-settled share-based payment transactions was US$34.6 million. A credit of US$34.6 million has been recorded in retained earnings (2010: US$52.7 million) for all equity-settled payments of the group. Like other elements of remuneration, this charge is processed through the time-writing system which allocates cost, based on time spent by individuals, to various entities within the Premier Oil plc group. Part of this cost is therefore capitalised as directly attributable to capital projects and part is charged to the income statement as operating costs, pre-licence exploration costs or general and administration costs.

19. 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:	40.0% to 41.0%
Risk free rate of interest:	2.9% to 3.7%
Correlation factor with comparator group:	0.29 to 0.32

(ii) Share Incentive Plan

Under the Share Incentive Plan employees are invited to make contributions to buy Partnership Shares. If an employee agrees to buy Partnership Shares the company currently matches the number of Partnership Shares bought with an award of shares (Matching Shares), on a one-for-one basis.

(iii) Savings Related Share Option Scheme

Under the Savings Related Share Option Scheme, eligible employees with six months or more continuous service can join the scheme. Employees can save to a maximum of £250 per month through payroll deductions for a period of three or five years, after which time they can acquire shares at up to a 20 per cent discount.

	2011		2010	
	Options	**Weighted average exercise price**	Options	Weighted average exercise price
Outstanding at the beginning of the year*	**418,684**	**£2.08**	174,473	£4.72
Granted during the year	**63,936**	**£4.17**	38,906	£10.42
Lapsed during the year	**(14,716)**	**£2.75**	(2,369)	£8.49
Exercised during the year**	**(99,504)**	**£1.59**	(106,339)	£3.11
Outstanding at the end of the year	**368,400**	**£2.55**	104,671	£8.33
Exercisable at the end of the year	**–**	**–**	5,831	£2.08

* The options outstanding at 1 January 2011 have been restated to reflect the 4:1 share split that occurred on 23 May 2011.

** 76,180 Ordinary Shares with a nominal value of £9,523 (US$15,436) were issued under the group's share option schemes during the year (2010: 22,846 Ordinary Shares with a nominal value of £11,423 (US$16,988)). The remaining 23,324 Ordinary Shares were issued from the Premier Oil plc Employee Benefit Trust (2010: 83,493).

The weighted average share price at the date of exercise for share options exercised during the year was £4.46. The options outstanding at 31 December 2011 had a weighted average exercise price of £2.55 and a weighted average remaining contractual life of 2.36 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

	Note	Total $ million
At 1 January 2010		16.5
Issuance of Ordinary Shares (market value)*	19	32.1
Net purchase of ESOP Trust shares		8.3
Release of shares for long-term incentive arrangements		(25.2)
At 31 December 2010		31.7
Issuance of Ordinary Shares (market value)*	19	20.0
Net sale of ESOP Trust shares		(2.6)
Release of shares for long-term incentive arrangements		(36.6)
At 31 December 2011		**12.5**

* In April 2011, prior to the 4:1 share split, the company issued 600,000 Ordinary Shares of 50 pence each (2010: 1,700,000 Ordinary Shares of 50 pence each) to the Premier Oil plc Employee Benefit Trust.

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 2011, the number of Ordinary Shares of 12.5 pence each held by the Trust was 1,973,998 (2010: 1,721,970 Ordinary Shares of 50 pence each).

21. Notes to the cash flow statement

	2011 $ million	2010 $ million
Profit before tax for the year	**141.5**	100.8
Adjustments for:		
Depreciation, depletion, amortisation and impairment	**180.1**	263.6
Exploration expense	**187.5**	68.2
Pre-licence exploration costs	**23.0**	18.9
Provision for share-based payments	**8.5**	13.8
Interest revenue and finance gains	**(5.5)**	(2.5)
Finance costs and other finance expenses	**73.6**	68.0
Gain on derivative financial instruments	**(34.0)**	(38.6)
Operating cash flows before movements in working capital	**574.7**	492.2
(Increase)/decrease in inventories	**(9.1)**	16.7
(Increase)/decrease in receivables	**(120.2)**	18.1
Increase/(decrease) in payables	**82.5**	(25.8)
Cash generated by operations	**527.9**	501.2
Income taxes paid	**(44.0)**	(67.9)
Interest income received	**2.0**	2.7
Net cash from operating activities	**485.9**	436.0

21. Notes to the cash flow statement (continued)

Analysis of changes in net debt:

	Note	2011 $ million	2010 $ million
a) Reconciliation of net cash flow to movement in net debt:			
Movement in cash and cash equivalents		**9.4**	49.1
Proceeds from drawdown of long-term bank loans		**(33.8)**	(310.0)
Proceeds from issuance of senior loan notes		**(350.7)**	–
Repayment of long-term bank loans		**35.1**	178.0
Non-cash movements on debt and cash balances		**1.7**	(7.2)
Increase in net debt in the year		**(338.3)**	(90.1)
Opening net debt		**(405.7)**	(315.6)
Closing net debt		**(744.0)**	(405.7)
b) Analysis of net debt:			
Cash and cash equivalents	12	**309.1**	299.7
Borrowings*	14	**(1,053.1)**	(705.4)
Total net debt		**(744.0)**	(405.7)

* 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$1.7 million (2010: US$2.3 million) and debt arrangement fees of US$14.7 million (2010: US$18.6 million) respectively.

22. Capital commitments and guarantees

At 31 December 2011, the group had capital commitments on exploration and development licences totalling US$164.5 million (2010: US$209.6 million) and performance guarantees of US$4.1 million (2010: US$2.0 million). In addition, the group had issued letters of credit for future decommissioning liabilities totalling £209.5 million (US$324.7 million) (2010: £117.3 million (US$183.0 million)).

23. Group pension schemes

Balance sheet

	2011 $ million	2010 $ million
UK funded pension scheme	**2.9**	4.1
UK unfunded pension scheme	**0.9**	0.9
Indonesia unfunded termination benefit scheme	**14.8**	10.2
Total liability in balance sheet	**18.6**	15.2

Other comprehensive income

	At 31 December 2011 $ million	At 31 December 2010 $ million
Actuarial gains	**1.4**	0.6
Cumulative amount of actuarial gains/(losses) recognised in other comprehensive income	**(12.0)**	(13.4)

23. Group pension schemes (continued)

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 2011 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 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 2011. The results of the calculations and the assumptions adopted are shown below.

As at 31 December 2011, contributions are payable to the Scheme by the group at the rates set out in the schedule of contributions dated 26 September 2008. Under this schedule, the company contributes on a monthly basis at the rate of 25 per cent of the aggregate of members' pensionable salaries.

Principal assumptions

The principal actuarial assumptions at the balance sheet date were:

	At 31 December 2011	At 31 December 2010
Discount rate	**4.6% pa**	5.4% pa
Expected return on Scheme assets	**5.0% pa**	5.7% pa
RPI inflation	**3.0% pa**	3.7% pa
CPI inflation	**2.3% pa**	3.2% pa
Rate of increase in salaries	**5.0% pa**	5.7% pa
Rate of increase in pensions in payment: LPI (max 5.0%)	**3.0% pa**	3.7% pa
Pre and post-retirement mortality	**PCA00 YOB MC**	PCA00 YOB LC (minimum 1.0% improvements)
Withdrawals	**No allowance**	No allowance
Cash commutation	**2.0 x pre-commutation pension**	1.0 x pre-commutation pension
Life expectancy of male aged 65 now	**21.8**	23.8
Life expectancy of male aged 65 in 20 years	**22.9**	25.9
Life expectancy of female aged 65 now	**24.1**	26.3
Life expectancy of female aged 65 in 20 years	**25.0**	28.2

Asset breakdown

The major categories of Scheme assets as a percentage of total Scheme assets are:

	At 31 December 2011	At 31 December 2010
Equities	**43.8%**	49.7%
Gilts	**30.0%**	24.8%
Corporate bonds	**26.2%**	23.6%
Cash	**–**	1.9%
Total	**100.0%**	100.0%

23. Group pension schemes (continued)

Reconciliation of funded status and amount recognised in balance sheet:

	At 31 December 2011 $ million	At 31 December 2010 $ million
Fair value of Scheme assets	**28.4**	28.2
Present value of defined benefit obligation	**(31.3)**	(32.3)
Deficit	**(2.9)**	(4.1)

Components of pension expense for year:

	2011 $ million	2010 $ million
Current service cost	**0.2**	0.2
Interest cost	**1.8**	1.7
Expected return on Scheme assets	**(1.6)**	(1.2)
Net actuarial gain recognised	**(1.3)**	(0.3)
Total	**(0.9)**	0.4

Changes in the present value of the defined benefit obligation:

	2011 $ million	2010 $ million
Present value of defined benefit obligation at 1 January	**32.3**	31.2
Service cost	**0.2**	0.2
Interest cost	**1.8**	1.7
Actuarial (gains)/losses	**(2.0)**	1.2
Benefits paid	**(0.8)**	(0.8)
Currency translation effects	**(0.2)**	(1.2)
Present value of defined benefit obligation at 31 December	**31.3**	32.3

Changes in the fair value of Scheme assets:

	2011 $ million	2010 $ million
Fair value of Scheme assets at 1 January	**28.2**	25.6
Expected return	**1.6**	1.2
Actuarial (losses)/gains	**(0.7)**	1.5
Contributions by employer	**0.2**	1.6
Benefits paid	**(0.8)**	(0.8)
Currency translation effects	**(0.1)**	(0.9)
Fair value of Scheme assets at 31 December	**28.4**	28.2
Actual return on Scheme assets	**0.9**	2.7

Reconciliation of balance sheet liability:

	2011 $ million	2010 $ million
At 1 January	**4.1**	5.6
Pension expense for year	**(0.9)**	0.4
Total contributions paid	**(0.2)**	(1.6)
Currency translation effects	**(0.1)**	(0.3)
At 31 December	**2.9**	4.1

23. Group pension schemes (continued)

History of experience adjustments:

	2011 $ million	2010 $ million	2009 $ million	2008 $ million	2007 $ million
Defined benefit obligation	**(31.3)**	(32.3)	(31.2)	(22.7)	(31.9)
Scheme assets	**28.4**	28.2	25.6	20.7	29.3
Deficit	**(2.9)**	(4.1)	(5.6)	(2.0)	(2.6)
Experience adjustments on Scheme liabilities:					
Amount of (gain)/loss	**0.9**	0.6	(0.6)	0.1	–
Percentage of Scheme liabilities	**3%**	2%	(2%)	–	–
Changes in the assumptions for value of Scheme liabilities:					
Amount of (gain)/loss	**(2.9)**	0.6	5.5	(2.2)	(0.6)
Percentage of Scheme liabilities	**(9%)**	2%	18%	(10%)	(2%)
Experience adjustments on Scheme assets:					
Amount of gain/(loss)	**(0.7)**	1.5	1.9	(5.1)	(0.4)
Percentage of Scheme assets	**(2%)**	5%	7%	(25%)	(1%)
Net actuarial gain/(loss) recognised	**1.3**	0.3	(3.0)	(3.0)	0.2

Projected components of pension expense for year to 31 December 2012:

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 2011 is 5.0 per cent per annum;
- contributions to the Scheme will continue throughout 2012 in accordance with the current schedule of contributions in place at the date of signing this report; and
- there will be no changes to the terms of the Scheme.

The amounts recognised in the components of pension expense are:

	2012 $ million
Current service cost	0.2
Interest cost	1.4
Expected return on Scheme assets	(1.4)
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. 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 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 2011 of the future payments projected to be made in respect of UK unfunded pensions is US$0.9 million (2010: 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$3.5 million (2010: US$2.6 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.

	2011 $ million	2010 $ million
Short-term employee benefits	**6.1**	5.2
Post-employment benefits	**0.6**	0.4
Other long-term benefits: share-based payments	**17.0**	8.4
	23.7	14.0

25. Events after the balance sheet date

Acquisition

Subsequent to year-end, the company completed the acquisition of the entire issued share capital of EnCore Oil plc (EnCore).

EnCore was an AIM listed oil and gas exploration and production company focused on the offshore UK Continental Shelf where its portfolio of assets included interests in the Catcher and Cladhan discoveries, exploration acreage and a 30 per cent holding in Egdon Resources plc, an AIM listed exploration and production company focused on onshore assets with interests in the UK and Europe.

Under the terms of the agreement announced on 5 October 2011, shareholders in EnCore were offered a consideration of 70 pence in cash for each EnCore share held. Alternatively, EnCore shareholders could elect to receive 0.2067 new shares in the company for each EnCore share held instead of part or all of the cash consideration.

On completion, shareholders representing 93.5 per cent of EnCore's shares elected to take new Premier shares, resulting in the company paying a total of £14.1 million (US$21.6 million) in cash to EnCore shareholders and issuing 60,931,514 new Ordinary Shares to those who chose the share alternative. The new shares began trading on 17 January 2012.

As a result of the acquisition, the group increased its stake in the Catcher project from 35 to 50 per cent and became operator of the development.

Prior to completion of the EnCore transaction, the company reached an agreement with TAQA Bratani Ltd (TAQA) to on-sell the 16.6 per cent interest in the Cladhan area which it indirectly acquired from the EnCore acquisition for a consideration of US$54.0 million. TAQA also agreed to farm in to a 50 per cent interest in EnCore's wholly-owned Block 28/10a on a promoted basis whereby it will pay 80 per cent of certain well costs and 50 per cent of back costs on the Coaster prospect, planned to be drilled as part of the company's 2012 drilling programme. The on-sale of these assets was completed in March 2012.

The transaction will be accounted for by the purchase method of accounting with an effective date of 16 January 2012, being the date on which the group gained control of EnCore. Information in respect of assets acquired is still being assessed and the fair value allocation to the EnCore assets is provisional in nature and will be reviewed in accordance with the provisions of IFRS 3 – 'Business Combinations'.

25. Events after the balance sheet date (continued)

	Provisional fair value $ million
Net assets acquired:	
Intangible exploration and evaluation assets	0.8
Property, plant and equipment	348.1
Investments	7.5
Trade and other receivables	3.4
Restricted cash	7.2
Cash and cash equivalents	19.0
Assets held for sale	54.0
Trade and other payables	(30.4)
Deferred tax liabilities	(189.3)
Long-term provisions	(0.5)
Total identifiable assets	219.8
Goodwill	187.8
Total consideration	**407.6**

	$ million
Satisfied by:	
Cash	21.6
Equity instruments (60,931,514 Ordinary Shares)	386.0
Total consideration transferred	**407.6**

	$ million
Net cash inflow arising on acquisition:	
Cash consideration	21.6
Less: cash and restricted cash balances acquired	(26.2)
Net cash inflow	**(4.6)**

Goodwill arises principally due to the requirement to recognise deferred UK corporation tax assets and liabilities for the difference between the assigned fair values and the tax bases of assets acquired and liabilities assumed in a business combination. None of the goodwill recognised is expected to be deductible for tax purposes.

By the year-end date, acquisition-related expenses of US$4.2 million had been incurred by the group and were included within general and administration costs.

Re-financing

The company, together with certain subsidiary undertakings, jointly guarantees the group's borrowing facilities.

Subsequent to year-end, the group successfully negotiated a new US$350.0 million revolving credit facility to replace the US$175.0 million term loan. This new facility matures in 2017. In addition, the group completed a private placement of senior notes of US$202.0 million and €25.0 million with maturities between 2019 and 2024.

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

We have audited the parent company financial statements of Premier Oil plc for the year ended 31 December 2011 which comprise the Company Balance Sheet, the Company Statement of Total Recognised Gains and Losses, and the related notes 1 to12. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the parent company 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 parent company 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.

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 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. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the parent company financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2011;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matter

We have reported separately on the group financial statements of Premier Oil plc for the year ended 31 December 2011.

Matthew Donaldson FCA (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom

21 March 2012

COMPANY FINANCIAL STATEMENTS: BALANCE SHEET

As at 31 December 2011

	Note	2011 $ million	2010 $ million
Fixed assets:			
Investments in subsidiaries	3	553.2	553.2
Total fixed assets		553.2	553.2
Current assets:			
Debtors			
Amounts falling due within one year	4	4.3	0.1
Amounts falling due after more than one year	4	81.2	38.8
Total current assets		85.5	38.9
Creditors: amounts falling due within one year	5	(2.0)	(1.0)
Net current assets		83.5	37.9
Total assets less current liabilities		636.7	591.1
Pension liability	6	(3.8)	(5.0)
Net assets including pension liability		632.9	586.1
Capital and reserves:			
Called-up share capital	8	98.8	98.3
Share premium account	9	274.5	254.8
Profit and loss account	9	203.5	176.9
Capital redemption reserve	9	4.3	4.3
Equity reserve	9	51.8	51.8
Total equity shareholders' funds	10	632.9	586.1

The financial statements of Premier Oil plc (registered number SC234781) were approved by the Board of Directors and authorised for issue on 21 March 2012.

They were signed on its behalf by:

S C Lockett
Chief Executive

A R C Durrant
Finance Director

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the year ended 31 December 2011

	Note	2011 $ million	2010 $ million
Profit for the financial year	2	8.0	7.4
Pension costs – actuarial gains	6	1.4	0.6
Total recognised gains and losses relating to the year		9.4	8.0

NOTES TO THE COMPANY FINANCIAL STATEMENTS

For the year ended 31 December 2011

1. Significant accounting policies

Basis of accounting

The separate financial statements of the company are presented as required by the Companies Act 2006. They have been prepared under the historical cost convention and in accordance with applicable United Kingdom Accounting Standards and law. The results relate entirely to continuing operations.

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

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year.

Investments

Fixed asset investments in subsidiaries are shown at cost less provision for impairment.

Pension costs

The company operates a defined benefit pension scheme, which requires contributions to be made to a separately administered fund. The scheme was closed to new members (aside from the provision of insured death in service benefits) in 1997. The company accounts for pension costs in line with Financial Reporting Standard (FRS) 17 – 'Retirement Benefits'.

The amounts charged to operating profit regarding the defined benefit scheme are the current service costs and gains and losses on settlements and curtailments. Past service costs are recognised immediately in the profit and loss account if the benefits have vested. If the benefits do not vest immediately, the costs are recognised over the period until vesting occurs. The interest costs and the expected return on the assets are shown as a net amount of other financial costs or credits adjacent to interest. Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses.

Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit credit method, and discounted at a rate equivalent to the current rate of return on a high-quality corporate bond of equivalent currency and term to the scheme liabilities.

The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The resulting defined benefit asset or liability, net of related deferred tax, is presented separately after other net assets on the face of the balance sheet.

Foreign exchange

The local currency of the company is US dollars. All transactions denominated in foreign currencies, being currencies other than the local currency, are recorded in the local currency at actual exchange rates as of the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the year-end are reported at the rates of exchange prevailing at the year-end. Any gain or loss arising from a change in exchange rate subsequent to the dates of the transactions is included as an exchange gain or loss in the profit and loss account.

Cash flow statement

No cash flow statement is prepared for the company under FRS 1 – 'Cash Flow Statements' as the cash flows of the company have been included in the group cash flow statement of Premier Oil plc.

Related party transactions

The company has taken advantage of the exemption available under FRS 8 – 'Related Party Disclosures' with regard to the non-disclosure of transactions between group companies.

Share-based payments

The company issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the company's estimate of shares that will eventually vest.

Fair value is measured by use of a Monte Carlo simulation. The main assumptions are provided in note 8.

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.

1. Significant accounting policies (continued)

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 2011 of US$8.0 million (2010: profit of US$7.4 million).

The auditor's remuneration for audit and other services is disclosed in note 3 to the consolidated financial statements.

3. Fixed asset investments

	2011 $ million	2010 $ million
Cost and net book value:		
Subsidiary undertakings	553.2	553.2

A list of the significant investments in subsidiaries held at 31 December 2011, 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.

Subsequent to year-end, the company completed the acquisition of EnCore Oil plc. Further details are given in note 12.

4. Debtors

	2011 $ million	2010 $ million
Other debtors	4.2	–
Prepayments and accrued income	0.1	0.1
Total debtors due within one year	4.3	0.1
Amounts owed by subsidiary undertakings due after more than one year	81.2	38.8
Total debtors	85.5	38.9

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

	2011 $ million	2010 $ million
Accruals and deferred income	2.0	1.0

The carrying values of the company's creditors approximate their fair value.

6. Pension liability

Balance sheet

	2011 $ million	2010 $ million
UK funded pension scheme	2.9	4.1
UK unfunded pension scheme	0.9	0.9
Total liability in balance sheet	3.8	5.0

Statement of total recognised gains and losses (STRGL)

	At 31 December 2011 $ million	At 31 December 2010 $ million
Actuarial gains including currency translation effects	1.4	0.6
Cumulative amount of actuarial gains/(losses) recognised in the STRGL including currency translation effects	(12.0)	(13.4)

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 2011 by a qualified independent actuary. The figures have been prepared in compliance with FRS 17 – 'Retirement Benefits' (incorporating the amendment announced in December 2006).

The Scheme's assets are held in a separate trustee-administered fund to meet long-term pension liabilities to past and present employees. The Trustee of the Scheme is required to act in the best interest of the Scheme's beneficiaries. The appointment of members of the Trustee Board is determined by the trust documentation.

The liabilities of the defined benefit Scheme are measured by discounting the best estimate of future cash flows to be paid out of the Scheme using the projected unit credit method. This amount is reflected in the 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 2011. The results of the calculations and the assumptions adopted are shown below.

As at 31 December 2011, contributions are payable to the Scheme by the company at the rates set out in the schedule of contributions dated 26 September 2008. Under this schedule, the company contributes on a monthly basis at the rate of 25 per cent of the aggregate of the members' pensionable salaries.

6. Pension liability (continued)

Principal assumptions

The principal actuarial assumptions at the balance sheet date were:

	At 31 December 2011	At 31 December 2010
Discount rate	4.6% pa	5.4% pa
Expected return on Scheme assets	5.0% pa	5.7% pa
RPI inflation	3.0% pa	3.7% pa
CPI inflation	2.3% pa	3.2% pa
Rate of increase in salaries	5.0% pa	5.7% pa
Rate of increase in pensions in payment LPI: (max 5.0%)	3.0% pa	3.7% pa
Pre and post-retirement mortality	PCA00 YOB MC	PCA00 YOB LC (minimum 1.0% improvements)
Withdrawals	No allowance	No allowance
Cash commutation	2.0 x pre-commutation pension	1.0 x pre-commutation pension
Life expectancy of male aged 65 now	21.8	23.8
Life expectancy of male aged 65 in 20 years	22.9	25.9
Life expectancy of female aged 65 now	24.1	26.3
Life expectancy of female aged 65 in 20 years	25.0	28.2

Asset breakdown

The major categories of Scheme assets as a percentage of total Scheme assets are:

	At 31 December 2011	At 31 December 2010
Equities	43.8%	49.7%
Gilts	30.0%	24.8%
Corporate bonds	26.2%	23.6%
Cash	–	1.9%
Total	100.0%	100.0%

Employee benefit obligations

The amounts recognised in the balance sheet are as follows:

	At 31 December 2011 $ million	At 31 December 2010 $ million
Fair value of Scheme assets	28.4	28.2
Present value of funded obligations	(31.3)	(32.3)
Deficit	(2.9)	(4.1)

Total expense recognised in profit or loss:

	2011 $ million	2010 $ million
Current service cost	0.2	0.2
Interest on obligation	1.8	1.7
Expected return on Scheme assets	(1.6)	(1.2)
Total	0.4	0.7

6. **Pension liability** (continued)

Changes in the present value of the defined benefit obligation:

	2011 $ million	2010 $ million
Present value of defined benefit obligation at 1 January	32.3	31.2
Service cost	0.2	0.2
Interest cost	1.8	1.7
Actuarial (gains)/losses	(2.0)	1.2
Benefits paid	(0.8)	(0.8)
Currency translation effects	(0.2)	(1.2)
Present value of defined benefit obligation at 31 December	31.3	32.3

Changes in the fair value of Scheme assets:

	2011 $ million	2010 $ million
Fair value of Scheme assets at 1 January	28.2	25.6
Expected return	1.6	1.2
Actuarial (losses)/gains	(0.7)	1.5
Contributions by employer	0.2	1.6
Benefits paid	(0.8)	(0.8)
Currency translation effects	(0.1)	(0.9)
Fair value of Scheme assets at 31 December	28.4	28.2
Actual return on Scheme assets	0.9	2.7

Movements over previous five year period:

	2011 $ million	2010 $ million	2009 $ million	2008 $ million	2007 $ million
Defined benefit obligation	(31.3)	(32.3)	(31.2)	(22.7)	(31.9)
Scheme assets	28.4	28.2	25.6	20.7	29.3
Deficit	(2.9)	(4.1)	(5.6)	(2.0)	(2.6)
Experience (gain)/loss on Scheme liabilities	0.9	0.6	(0.6)	0.1	–
(Gain)/loss from changes in the assumptions for value of Scheme liabilities	(2.9)	0.6	5.5	(2.2)	(0.6)
Experience gain/(loss) on Scheme assets	(0.7)	1.5	1.9	(5.1)	(0.4)

Projected profit/loss recognition to 31 December 2012:

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 2011 is 5.0 per cent per annum;
- contributions to the Scheme will continue throughout 2012 in accordance with the current schedule of contributions in place at the date of signing this report; and
- there will be no changes to the terms of the Scheme.

The amounts recognised in the profit and loss account are:

	2012 $ million
Current service cost	0.2
Interest on obligation	1.4
Expected return on Scheme assets	(1.4)
Total	0.2

6. Pension liability (continued)

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.

At 31 December 2011, a one percentage point change in this assumption would have had the following effects on the closing defined benefit obligation:

	Discount rate: 4.6% pa (as used for report) $ million	Discount rate: 3.6% pa $ million	Discount rate: 5.6% pa $ million
Defined benefit obligation	31.3	37.6	26.1

The key risks which could significantly impact the balance sheet, and to a lesser extent the profit and loss account, are as follows:

- falls in asset values which are not offset by a rise in the discount rate used to value liabilities;
- 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 2011 of the future payments projected to be made in respect of UK unfunded pensions is US$0.9 million (2010: US$0.9 million).

7. Commitments and guarantees

At the year-end date the company, together with certain subsidiary undertakings, had jointly guaranteed the group's borrowing facilities which consist of a US$175.0 million term loan and a NOK 150.0 million (US$25.1 million) exploration financing facility, both maturing in 2012, a US$300.0 million term loan, a US$456.8 million revolving credit facility and a £394.7 million (US$611.8 million) letter of credit facility, all maturing in 2015, and the private placement of senior notes of US$244.0 million and €75.0 million which mature between 2018 and 2021.

8. Share capital

	2011 12.5p shares	2011 £	2010 50p shares	2010 £
Ordinary Shares:				
Called-up, issued and fully-paid	468,059,828	58,507,479	116,395,912	58,197,956

	2011 $ million	2010 $ million
At 1 January	98.3	97.0
Shares issued to the Premier Oil plc Employee Benefit Trust (nominal value)	0.5	1.3
At 31 December	98.8	98.3

Ordinary Shares

At the Annual General Meeting on 20 May 2011, shareholders authorised the company to sub-divide each of the company's Ordinary Shares of 50 pence each into four Ordinary Shares of 12.5 pence each, such shares having the rights and being subject to the restrictions set out in the Articles of Association of the company. The sub-division took effect at 08:00am on 23 May 2011.

In April 2011, prior to the 4:1 share split, the company issued 600,000 Ordinary Shares of 50 pence each with a nominal value of £300,000 (US$484,770) to the Premier Oil plc Employee Benefit Trust to be used to satisfy future awards under the company's share incentive plans (2010: 1,700,000 Ordinary Shares of 50 pence each with a nominal value of £850,000 (US$1,327,955)).

8. Share capital (continued)

The rights and restrictions attached to the Ordinary Shares are as follows:

Dividend rights: the rights of the holders of Ordinary Shares shall rank pari passu in all respects with each other in relation to dividends.

Winding up or reduction of capital: on a return of capital on a winding up or otherwise (other than on conversion, redemption or purchase of shares) the rights of the holders of Ordinary Shares to participate in the distribution of the assets of the company available for distribution shall rank pari passu in all respects with each other.

Voting rights: the holders of Ordinary Shares shall be entitled to receive notice of, attend, vote and speak at any General Meeting of the company.

Share-based payments and share incentive plans

The group currently operates a Long Term Incentive Plan (LTIP) for all employees and a Share Incentive Plan and a Save As You Earn Scheme for UK-based and expatriate employees only.

For the year ended 31 December 2011, the total cost recognised by the company for equity-settled share-based payment transactions was US$15.5 million (2010: US$18.0 million). A credit of US$34.6 million has been recorded in the profit and loss reserve (2010: US$52.7 million) for all equity-settled payments of the group. Like other elements of remuneration, this charge is processed through the time-writing system which allocates cost, based on time spent by individuals, to various entities within the Premier Oil plc group. Part of this cost is therefore capitalised as directly attributable to capital projects and part is charged to the profit and loss account 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:	40.0% to 41.0%
Risk free rate of interest:	2.9% to 3.7%
Correlation factor with comparator group:	0.29 to 0.32

(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.

8. Share capital (continued)

(iii) Savings Related Share Option Scheme

Under the Savings Related Share Option Scheme, eligible employees with six months or more continuous service can join the scheme. Employees can save to a maximum of £250 per month through payroll deductions for a period of three or five years, after which time they can acquire shares at up to a 20 per cent discount.

	2011		2010	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Outstanding at the beginning of the year*	418,684	£2.08	174,473	£4.72
Granted during the year	63,936	£4.17	38,906	£10.42
Lapsed during the year	(14,716)	£2.75	(2,369)	£8.49
Exercised during the year**	(99,504)	£1.59	(106,339)	£3.11
Outstanding at the end of the year	368,400	£2.55	104,671	£8.33
Exercisable at the end of the year	–	–	5,831	£2.08

* The options outstanding at 1 January 2011 have been restated to reflect the 4:1 share split that occurred on 23 May 2011.

** 76,180 Ordinary Shares with a nominal value of £9,523 (US$15,436) were issued under the group's share option schemes during the year (2010: 22,846 Ordinary Shares with a nominal value of £11,423 (US$16,988)). The remaining 23,324 Ordinary Shares were issued from the Premier Oil plc Employee Benefit Trust (2010: 83,493).

The weighted average share price at the date of exercise for share options exercised during the year was £4.46. The options outstanding at 31 December 2011 had a weighted average exercise price of £2.55 and a weighted average remaining contractual life of 2.36 years.

The fair value of the options granted during the year was determined using the Black-Scholes valuation model and is not material.

9. Share capital and reserves

	Share capital $ million	Share premium account $ million	Profit and loss account $ million	Capital redemption reserve $ million	Equity reserve $ million	Total $ million
At 1 January 2010	97.0	223.7	156.6	4.3	51.8	533.4
Issue of Ordinary Shares	1.3	31.1	(32.1)	–	–	0.3
Net purchase of ESOP Trust shares	–	–	(8.3)	–	–	(8.3)
Profit for the year	–	–	7.4	–	–	7.4
Provision for share-based payments	–	–	52.7	–	–	52.7
Pension costs – actuarial gains	–	–	0.6	–	–	0.6
At 31 December 2010	98.3	254.8	176.9	4.3	51.8	586.1
Issue of Ordinary Shares	0.5	19.7	(20.0)	–	–	0.2
Net sale of ESOP Trust shares	–	–	2.6	–	–	2.6
Profit for the year	–	–	8.0	–	–	8.0
Provision for share-based payments	–	–	34.6	–	–	34.6
Pension costs – actuarial gains	–	–	1.4	–	–	1.4
At 31 December 2011	98.8	274.5	203.5	4.3	51.8	632.9

9. Share capital and reserves (continued)

In June 2007, Premier Oil Finance (Jersey) Ltd, a 100 per cent subsidiary of the company, issued convertible bonds at a par value of US$250.0 million. These bonds are convertible into Ordinary Shares of the company at any time from 6 August 2007 until six days before their maturity date of 27 June 2014.

At the initial conversion price of £15.82 per share there were 8,003,434 Ordinary Shares of the company underlying the bonds. In April 2009, the conversion price was adjusted from £15.82 per share to £13.56 per share, as a result of the company's four for nine rights issue of new Ordinary Shares. At the adjusted conversion price of £13.56 per share there were 9,337,340 Ordinary Shares of the company underlying the bonds. In May 2011, the conversion price was adjusted from £13.56 per share, as a result of the company's 4:1 share split. At the adjusted conversion price of £3.39 per share there are 37,349,360 Ordinary Shares of the company underlying the bonds.

If the bonds have not been previously purchased and cancelled, redeemed or converted, they will be redeemed at par value on 27 June 2014. Interest of 2.875 per cent per annum will be paid semi-annually in arrears up to that date.

10. Reconciliation of movements in shareholders' funds

	2011 $ million	2010 $ million
Opening shareholders' funds	586.1	533.4
Issue of Ordinary Shares	0.2	0.3
Net sale/(purchase) of ESOP Trust shares	2.6	(8.3)
Profit for the year	8.0	7.4
Provision for share-based payments	34.6	52.7
Pension costs – actuarial gains	1.4	0.6
Net addition to shareholders' funds	46.8	52.7
Closing shareholders' funds	632.9	586.1

11. Own shares

	Note	Total $ million
At 1 January 2010		16.5
Issuance of Ordinary Shares (market value)*	8	32.1
Net purchase of ESOP Trust shares		8.3
Release of shares for long-term incentive arrangements		(25.2)
At 31 December 2010		31.7
Issuance of Ordinary Shares (market value)*	8	20.0
Net sale of ESOP Trust shares		(2.6)
Release of shares for long-term incentive arrangements		(36.6)
At 31 December 2011		12.5

* In April 2011, prior to the 4:1 share split, the company issued 600,000 Ordinary Shares of 50 pence each (2010: 1,700,000 Ordinary Shares of 50 pence each) to the Premier Oil plc Employee Benefit Trust.

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 2011, the number of Ordinary Shares of 12.5 pence each held by the Trust was 1,973,998 (2010: 1,721,970 Ordinary Shares of 50 pence each).

12. Subsequent events

Acquisition

Subsequent to year-end, the company completed the acquisition of the entire issued share capital of EnCore Oil plc (EnCore).

EnCore was an AIM listed oil and gas exploration and production company focused on the offshore UK Continental Shelf where its portfolio of assets included interests in the Catcher and Cladhan discoveries, exploration acreage and a 30 per cent holding in Egdon Resources plc, an AIM listed exploration and production company focused on onshore assets with interests in the UK and Europe.

Under the terms of the agreement announced on 5 October 2011, shareholders in EnCore were offered a consideration of 70 pence in cash for each EnCore share held. Alternatively, EnCore shareholders could elect to receive 0.2067 new shares in the company for each EnCore share held instead of part or all of the cash consideration.

On completion, shareholders representing 93.5 per cent of EnCore's shares elected to take new Premier shares, resulting in the company paying a total of £14.1 million (US$21.6 million) in cash to EnCore shareholders and issuing 60,931,514 new Ordinary Shares to those who chose the share alternative. The new shares began trading on 17 January 2012.

As a result of the acquisition, the group increased its stake in the Catcher project from 35 to 50 per cent and became operator of the development.

Prior to completion of the EnCore transaction, the company reached an agreement with TAQA Bratani Ltd (TAQA) to on-sell the 16.6 per cent interest in the Cladhan area which it indirectly acquired from the EnCore acquisition for a consideration of US$54.0 million. TAQA also agreed to farm in to a 50 per cent interest in EnCore's wholly-owned Block 28/10a on a promoted basis whereby it will pay 80 per cent of certain well costs and 50 per cent of back costs on the Coaster prospect, planned to be drilled as part of the company's 2012 drilling programme. The on-sale of these assets was completed in March 2012.

Further details are provided in note 25 to the consolidated financial statements.

Re-financing

The company, together with certain subsidiary undertakings, jointly guarantees the group's borrowing facilities.

Subsequent to year-end, the group successfully negotiated a new US$350.0 million revolving credit facility to replace the US$175.0 million term loan. This new facility matures in 2017. In addition, the group completed a private placement of senior notes of US$202.0 million and €25.0 million, with maturities between 2019 and 2024.

FIVE YEAR SUMMARY

Financials		2011	2010	2009	2008	2007
Sales revenues	($ million)	**826.8**	763.6	621.1	655.2	578.2
Profit before tax	($ million)	**141.5**	100.8	79.9	277.6	147.0
Net profit for the year after tax	($ million)	**171.2**	129.8	113.0	98.3	39.0
Cash flow from operating activities	($ million)	**485.9**	436.0	347.7	352.3	269.5
Shareholders' funds	($ million)	**1,323.6**	1,130.2	971.3	598.9	552.9
Net (debt)/cash	($ million)	**(744.0)**	(405.7)	(315.6)	117.3	79.0
Per share statistics:						
Revenue per share	(cents/share)	**176.9**	164.6[2]	571.9	659.8[3]	705.1
Earnings per share – basic	(cents/share)	**36.6**	28.0[2]	104.1	99.0[3]	47.6
Earnings per share – diluted	(cents/share)	**31.5**	25.8[2]	103.9	98.2[3]	46.9
Cash flow from operating activities per share	(cents/share)	**104.0**	94.0[2]	320.2	354.8[3]	328.7
Reserves per share – year-end	(boe/share)	**0.63[1]**	0.56[2]	2.35	2.29[3]	2.58
Issued Ordinary Shares – average	(million)	**467.4[1]**	464.0[2]	108.6	99.3[3]	82.0
Operations:						
Production (working interest basis)	(kboepd)	**40.4**	42.8	44.2	36.5	35.8
Proved and probable reserves (working interest basis)	(mmboe)	**296.3**	260.8	255.2	227.5	211.5
Employees – UK	(number)	**136**	119	110	62	60
– Overseas	(number)	**502**	442	398	406[4]	300
Key indices:						
Realised average oil price	($/bbl)	**111.90**	79.70	66.30	94.50	72.30
Average exchange rates	($/£)	**1.60**	1.55	1.57	1.85	2.00
Closing exchange rates	($/£)	**1.55**	1.56	1.62	1.46	1.98

Notes:

1 The working interest reserves for 2011 are proforma reserves which include the reserves acquired from the acquisition of EnCore Oil plc, 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 May 2011. The 2010 'per share statistics' have been restated accordingly. The 'per share statistics' for 2009, 2008 and 2007 have not been adjusted for the 4:1 share split.

3 The average issued Ordinary Shares for 2008 have been adjusted to reflect the bonus element related to the rights issue in 2009. The 2008 'per share statistics' have been restated accordingly. The 'per share statistics' for 2007 are as reported.

4 The 2008 overseas employee numbers have been restated to reflect a reclassification of employee categories during 2009 and the inclusion of offshore staff. The numbers for 2007 are as reported.

SHAREHOLDER INFORMATION

Analysis of shareholding as at 21 March 2012

Size of shareholding	Number of holders	%	Number of shares	%
1 – 5,000	10,567	83.49	12,726,894	2.41
5,001 – 10,000	885	6.99	6,170,660	1.17
10,001 – 50,000	705	5.57	14,577,860	2.75
50,001 – 100,000	134	1.06	9,352,289	1.77
100,001 – 500,000	217	1.72	53,701,318	10.15
500,001 and over	148	1.17	432,462,321	81.75
Total	**12,656**	**100.00**	**528,991,342**	**100.00**

OIL AND GAS RESERVES

Proforma working interest reserves at 31 December 2011[1]

	Working interest basis								
	North Sea		Middle East, Africa and Pakistan		Asia		**TOTAL**		
	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 2011	57.1	31	1.3	269	33.6	660	**92.0**	**960**	**260.8**
Revisions	22.6	3	0.5	(8)	1.3	(110)	**24.4**	**(115)**	**5.6**
Discoveries and extensions[2]	8.2	20	–	10	–	–	**8.2**	**30**	**13.4**
Acquisitions and divestments[3]	30.3	5	–	–	–	–	**30.3**	**5**	**31.2**
Production	(3.3)	(2)	(0.3)	(35)	(1.5)	(19)	**(5.1)**	**(56)**	**(14.7)**
At 31 December 2011	**114.9**	**57**	**1.5**	**236**	**33.4**	**531**	**149.8**	**824**	**296.3**
Total group developed and undeveloped reserves:									
Proved on production	21.8	10	0.7	142	21.3	190	**43.8**	**342**	**103.6**
Proved approved/justified for development	50.1	24	–	17	1.9	203	**52.0**	**244**	**96.5**
Probable on production	12.0	7	0.7	57	9.1	46	**21.8**	**110**	**40.5**
Probable approved/justified for development	31.0	16	0.1	20	1.1	92	**32.2**	**128**	**55.7**
At 31 December 2011	**114.9**	**57**	**1.5**	**236**	**33.4**	**531**	**149.8**	**824**	**296.3**

Notes:

1 The working interest reserves for 2011 are proforma reserves which include the reserves acquired from the acquisition of EnCore Oil plc, excluding Cladhan. This acquisition was completed in January 2012.

2 Includes reserves discovered at Burgman (UK) and Kadanwari (Pakistan) and unitisation at Rochelle (UK).

3 Acquisitions include increased working interests in Wytch Farm, the Catcher area and Solan.

4 Proved plus probable gas reserves include 97 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 263.8 mmboe as at 31 December 2011 (2010: 222.0 mmboe). This was calculated in 2011 using an oil price assumption equal to the Dated Brent forward curve in 2012 and 2013 and US$75/bbl in 'real' terms thereafter (2010: fixed price of US$75/bbl).

WORLDWIDE LICENCE INTERESTS

As at 21 March 2012

	Licence	Block	Operator	PO Equity %	Field/discovery
Congo	Marine IX[1]	Marine IX	Ophir	31.50	
Egypt	North Red Sea	Block 1	Hess	20.00	
	South Darag[2]		**Premier**	100.00	
Ireland	PEL 4/05[3]	49/17 (part), 49/22 (part) & 49/23 (part)	San Leon	15.00	Old Head of Kinsale
	PEL 5/05[3]	48/26 (part), 48/27 (part), 57/1 (part) & 57/2	San Leon	12.50	Schull
Indonesia	Buton		Japex	30.00	
	Kakap		Star Energy PT	18.75	Kakap
	Natuna Sea Block A		**Premier**	28.67	Anoa
	Block A Aceh		PT Medco E&P Malaka	41.67	Alur Siwah
	Tuna		**Premier**	65.00	
Kenya		L10A	BG	20.00	
		L10B	BG	25.00	
Mauritania	PSC A	Block 3, 4 & 5 (shallow water)	Tullow	4.615	
	PSC B	Block 4 & 5 (deep water)	Tullow	9.23	
	PSC B	Chinguetti EEA	Petronas	8.12	Chinguetti
	PSC C10		Tullow	6.23	
Norway	PL359	16/1 (part) & 16/4 (part)	Lundin	30.00	
	PL364	25/2 (part) & 25/5 (part)	Det norske	50.00	Frøy
	PL374S	34/2 (part) & 34/5 (part)	BG	15.00	Blåbaer
	PL378	35/12 (part) & 36/10 (part)	Wintershall	20.00	Grosbeak
	PL378B	35/12 (part)	Wintershall	20.00	
	PL406	8/3 (part), 9/1 (part), 17/12 (part), 18/10 (part) & 18/11 (part)	**Premier**	40.00	
	PL407	17/8 (part), 17/9 (part), 17/11 (part), 17/12 (part), 18/7 (part) & 18/10 (part)	BG	20.00	Bream
	PL539	3/7 (part)	**Premier**	40.00	
	PL565	1/9 (part)	**Premier**	60.00	
	PL566S	2/8 (part), 2/9 (part) & 2/11 (part)	**Premier**	50.00	
	PL567	2/6 (part)	**Premier**	60.00	
	PL617	2/9 (part)	Valiant	35.00	
	PL622	15/12 (part), 16/10 (part) & 16/11 (part)	**Premier**	60.00	
	PL623	15/8 (part), 15/9 (part), 15/11 (part) & 15/12 (part)	Talisman	20.00	
	PL647	6507/4 (part) & 6507/5 (part)	Maersk	30.00	
Pakistan	Production Leases	Bolan	Mari Gas	3.75	Zarghun South
		Dadu	BHP	9.375	Zamzama
		Kirthar	ENI	6.00	Badhra
		Kirthar	ENI	6.00	Bhit
		Qadirpur	OGDCL	4.75	Qadirpur
		Tajjal	ENI	15.79	Kadanwari
SADR		Daora, Haouza, Mahbes, Mijek[4]	Ophir	50.00	
		Offshore Laguera[4]	**Premier**	100.00	

Notes:

1 Notice has been served to withdraw from this licence.

2 This government concession has been signed and is awaiting ratification.

3 A two year lease undertaking is being sought for this licence, which expired in October 2011.

4 These PSCs were signed in 2006 and will be ratified by the SADR Government once the SADR has been internationally recognised as an independent state.

WORLDWIDE LICENCE INTERESTS (continued)

As at 21 March 2012

	Licence	Block	Operator	PO Equity %	Field/Discovery
United Kingdom	P077	21/28a	**Premier**	39.90	
	P077	22/12a	Shell	50.00	Nelson[1]
	P087	22/7-F1	**Premier**	46.50	Nelson[2]
	P101	23/21 (North & South Moth – below bottom chalk)	BG	50.00[3]	Moth
	P110	22/14a (non-Everest deep)	BG	27.24	Mallory
	P110	22/14a (non-Everest shallow)	**Premier**	25.04	Huntington East
	P119	15/29a (area P)	**Premier**	60.00[4]	Ptarmigan
	P164	205/26a	Chrysaor[5]	60.00	Solan
	P185	15/22 (rest of block, non-Palaeocene formation)	Nexen	50.00	Blackhorse
	P201	16/21a	**Premier**	85.00	Balmoral[6], Stirling[7] & Glamis
	P201	16/21a (Brenda field area)	**Premier**	100.00	Brenda (above 7,500ft)
	P213	16/26 (area P)	**Premier**	100.00	Caledonia
	P218	15/21a (Scott field)	Nexen	45.83	Scott[8]
	P218	15/21a (Telford field area)	Nexen	7.29	Telford[9]
	P218	15/21a	**Premier**	28.00	
	P233	15/25a	**Premier**	70.00	Nicol
	P257	14/25a	Talisman	1.518	
	P288[10]	31/21a, 31/26a, 31/26f, 31/26g & 31/27a	Hess	15.00	Angus, Fife, Flora
	P300	14/26a (Oddjob area)	Nexen	25.00	
	P344	16/21b (Northern area)	**Premier**	55.00	
	P344	16/21b & 16/21c	**Premier**	44.20	Balmoral[6] & Stirling[7]
	P354	22/2a (non-Chestnut field area)	**Premier**	30.00	
	P489	15/23b	Nexen	50.00	Blackhorse
	P534	98/6a & 98/7a	Perenco	30.385	Wytch Farm (offshore)[11]
	P640	15/24b (area B)	ConocoPhillips	50.00	
	P748	29/2c	CNR	40.00	Kyle
	P758[10]	31/26c	Hess	35.00	Fife
	P1042	15/25b	**Premier**	100.00	Brenda
	P1114	22/14b & 22/19b	EON Ruhrgas	40.00	Huntington
	P1157	15/25e	**Premier**	100.00	Brenda
	P1181	23/22b	**Premier**	57.50[12]	
	P1212	15/13b	Nexen	50.00	
	P1220	21/23a	Sterling	65.00	Sheryl
	P1243	48/1b & 48/2c	**Premier**	25.00	Cobra
	P1260	22/2b	**Premier**	100.00	Shelley

Notes:

1. Unitised share of 1.31404 per cent.
2. Unitised share of 0.348750 per cent.
3. Premier has entered into a farm-out agreement with ConocoPhillips. Subject to government and co-venturer consents, Premier will transfer a 25 per cent interest to ConocoPhillips, on completion of which Premier's interest will be 25 per cent.
4. Subject to government consents Chevron will transfer their entire 28 per cent interest to Premier, on completion of which Premier's interest will be 88 per cent.
5. Premier will become operator of this licence once formal notice has been received.
6. Unitised share of 78.115421 per cent.
7. Unitised share of 68.68 per cent.
8. Unitised share of 21.83 per cent.
9. Unitised share of 1.58677 per cent.
10. This licence will be relinquished once government approval has been given.
11. Unitised share of 30.09625 per cent.
12. Premier has entered into a farm-out agreement with ConocoPhillips. Subject to government and co-venturer consents, Premier will transfer a 37.3 per cent interest to ConocoPhillips, on completion of which Premier's interest will be 20.2 per cent.

	Licence	Block	Operator	PO Equity %	Field/discovery
United Kingdom (continued)	P1298	15/26b	Nexen	50.00	Kildare/West Rochelle[1]
	P1335	43/13a	**Premier**	100.00	Esmond
	P1420	22/13b	**Premier**	72.73	
	P1430	28/9 & 28/10c	**Premier**	50.00	Catcher/Varadero
	P1463	14/30a	**Premier**	40.00	Tudor Rose
	P1466	15/24c & 15/25f	**Premier**	100.00[2]	
	P1475	113/29c &113/30	Nautical	50.00	
	P1559	15/23e	**Premier**	100.00	
	P1577	201/5, 202/24, 202/25, 202/29, 202/30, 203/16, 203/21 & 203/26	**Premier**	100.00	
	P1615	15/26c	Endeavour	25.00	West Rochelle[3]
	P1620	22/19c	**Premier**	50.00	
	P1655	15/21g	**Premier**	28.00	
	P1769	14/29e, 20/4c (part) & 20/5f (part)	**Premier**	50.00	Hoylake
	P1770	14/30b	Nexen	50.00	
	P1771	15/9, 15/10, 15/14 & 15/15	Nexen	50.00	
	P1772	15/23g	**Premier**	50.00	
	P1784	21/7b	**Premier**	70.00	
	P1804	22/21c & 22/26d	Maersk	30.00	
	P1812	28/5, 28/10a & 29/1d	**Premier**	100.00[4]	
	P1866	13/28b	Echo	50.00	
	P1870	15/21d	Echo	50.00	
	P1875	21/29d	Antrim	50.00	
	P1876	22/5c	Echo	50.00	
	P1886	12/14, 12/19a (split) & 12/20a	**Premier**	50.00[5]	
	P1887	12/16b & 12/17b	First Oil	25.00	
	PL089	SY87b, SY88b, SY89b, SY97b, SY98a, SY99a, SZ/7 & SZ/8a	Perenco	30.38[5]	Wytch Farm (onshore)[6]
	26th Round (2)	98/13 (split) & 98/14 (part)	NP Solent	7.50[7]	
	26th Round (2)	12/30	Echo	0.00[8]	
Vietnam		12W	**Premier**	53.125	Chim Sáo
		07/03	**Premier**	30.00	Cá Rồng Đó
		104-109/05[9]	**Premier**	50.00	

Notes:

1 Unitised share of 9.289175 per cent.

2 Premier has entered into an earn-in agreement with Canadian Overseas Petroleum (UK) Ltd. Subject to completion of drilling and government consents, Premier will transfer a 40 per cent interest to Canadian Overseas Petroleum (UK) Ltd, on completion of which Premier's interest will be 60 per cent.

3 Unitised share of 5.710825 per cent.

4 Premier has entered into a farm-out agreement with TAQA Britani Ltd. Subject to government consent, Premier will transfer a 50 per cent interest to TAQA Britani Ltd, on completion of which Premier's interest will be 50 per cent.

5 This licence was awarded in the UK 26th Round (2nd tranche) jointly with AWE Offshore UK Ltd. AWE Offshore UK Ltd has withdrawn from the UKCS. Subject to DECC granting the licence, Premier will accept the licence as sole licensee.

6 Unitised share of 30.09625 per cent.

7 These blocks were awarded in the 26th Round (2nd tranche). Subject to licence grant and the Secretary's consent to a further assignment which will be sought after any such grant, EnCore Oil has agreed to assign its entire 7.5 per cent interest to Egdon Resources.

8 This block was awarded in the 26th Round (2nd tranche) to Echo Petroleum. Subject to licence grant and government consent, Premier will exercise an option to acquire a 50 per cent interest in this licence from Echo once granted.

9 Notice has been served to withdraw from this licence.

GLOSSARY

AEP	Asset and Equity Plan
bbl	barrel
BBtud	billion British thermal units per day
bcf	billion cubic feet
boe	barrels of oil equivalent
boepd	barrel(s) of oil equivalent per day
bopd	barrel(s) of oil per day
CPP	central processing platform
DECC	Department of Energy and Climate Change
EPCI	engineering, procurement, construction and installation
ERW	extended reach well
FDP	field development plan
FEED	front end engineering and design
FPSO	floating production, storage and offtake vessel
FPV	floating production vessel
GSA	gas sales agreement
HIPO	high potential incident
HSES	health, safety, environment and security
HSFO	High Sulphur Fuel Oil
IAS	International Accounting Standard
IFRS	International Financial Reporting Standard
kboepd	thousand barrels of oil equivalent per day
KPI	key performance indicator
LOPC	loss of primary containment
LTI	lost time injury
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
PSC	production sharing contract
RWDC	restricted workday case
TRIF	total recordable injury frequency
TSR	total shareholder return
WHP	wellhead platform

CONTACTS

Registered Office
Premier Oil plc
4th Floor
Saltire Court
20 Castle Terrace
Edinburgh
EH1 2EN
Registered No. 234781 Scotland

Head Office
Premier Oil plc
23 Lower Belgrave Street
London
SW1W 0NR
Tel: 00 44 (0)20 7730 1111
Fax: 00 44 (0)20 7730 4696
www.premier-oil.com

Auditor
Deloitte LLP
2 New Street Square
London
EC4A 3BZ

Solicitors
Slaughter and May
One Bunhill Row
London
EC1Y 8YY

Stockbrokers
Deutsche Bank AG
Winchester House
1 Great Winchester Street
London
EC2N 2DB

and

Oriel Securities Ltd
150 Cheapside
London
EC2V 6ET

Registrars
Capita Registrars Ltd
4th Floor
Erskine House
68-73 Queen Street
Edinburgh
EH2 4NR

Shareholder Enquiries
Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

Tel: 0871 664 0300* (UK)
00 44 (0)20 8639 3399
Fax: 00 44 (0)20 8639 2220
E-mail: shareholder.services@capitaregistrars.com

* Calls cost 10p per minute plus network charges. Lines are open between 8.30am to 5:30pm Monday – Friday.

Designed and produced by **MAGEE**
www.magee.co.uk

Printed by Fulmar Colour

Fulmar Colour is FSC® certified, PEFC certified and ISO 14001 certified showing that it is committed to all round excellence and improving environmental performance is an important part of this strategy. We aim to reduce at source the effect our operations have on the environment, and are committed to continual improvement, prevention of pollution and compliance with any legislation or industry standards.

Fulmar Colour is a CarbonNeutral® Printing Company.

The paper used for pages 1-44 of this report contains material sourced from responsibly managed forests, certified in accordance with the FSC (Forest Stewardship Council) and is manufactured to ISO 14001 and EMAS (Eco-Management and Audit Scheme) international standards, minimising negative impacts on the environment.

The paper used for the small pages and pages 45-140 of this report is produced using FSC mix pulp which is fully recyclable, biodegradable, pH Neutral, heavy metal absence and acid-free. It is manufactured within a mill which complies with the international environmental ISO 14001 standard.

www.premier-oil.com

Premier Oil plc
23 Lower Belgrave Street
London SW1W 0NR

Telephone: 00 44 (0)20 7730 1111
Facsimile: 00 44 (0)20 7730 4696

RING
SISTENT
DELIVE
CON