PremierOil

Annual Report & Accounts 2003

Financial performance

- Profit after tax and exceptional charges up 80 per cent at £40.8 million (2002: £22.6 million)
- Net cash inflow of £255.2 million* (2002: £93.2 million)
- Nil gearing at year-end
- Strong forward cash flow with most of our booked reserves sold under long-term gas contracts
- Production of 36,000 boepd in first two months of 2004

Operational achievements

- Deal with Fusion built Premier's West African position, generated significant value and exploration success with Chinguetti and Tiof discoveries in Mauritania
- Successful exploration in Pakistan
- Non-core asset disposals realised cash of £18.2 million (2002: £23.4 million)
- Total reserves, including discoveries awaiting commercialisation, in excess of 200 mmboe
- Replenished exploration portfolio during the year with 18 well 2004 drilling programme in place

* Includes restructuring and joint ventures.

2003 was a year of transformation for Premier. Record levels of production and profit, and a strong balance sheet, were complemented by exploration and commercial success and the completion of the corporate restructuring, announced in September 2002.

'New' Premier has emerged as a strong operational and financial business generating healthy cash flows to pursue exploration and commercial opportunities.

Financial and operating performance

Comparison of the group's performance in 2003 to that of 2002 is made complex by the corporate restructuring completed on 12 September 2003, due to the inclusion of profits until that date from the assets disposed.

Production for the year averaged 53,600 barrels of oil equivalent per day (boepd), in line with 2002 levels. However this annual average masks the impact of the restructuring completion – in the first half of 2003 production averaged a record 62,000 boepd, reducing to 33,900 boepd after the restructuring completion, with the growth coming from gas projects in South and South East Asia more than offsetting the decline in our mature UK production.

Net profit after exceptional charges relating to the restructuring amounted to £40.8 million, up from £22.6 million in 2002. Excluding exceptional charges, net profits were £63.6 million (2002: £35.7 million), an increase of 78 per cent. The increased profitability mainly reflects higher operating profits in Asia and lower interest charges on lower debt – offset by the exceptional financing charge resultant from the early repayment of debt due to the restructuring. In addition, there was an exceptional provision for oil and gas assets in 2002. Basic earnings per share increased by 111 per cent to 30.0 pence (2002: 14.2 pence).

Reported profits include those attributable to the assets in Myanmar and Indonesia which we transferred in September 2003 as part of the restructuring; excluding these, and the associated exceptional charge, net profits from ongoing operations amounted to £17.1 million.

Net cash flow, including joint ventures in Myanmar and Pakistan, was strong at £255.2 million (2002: £93.2 million). This includes £150.6 million received as part of the restructuring, and is after capital expenditure of £43.0 million which was partly offset by proceeds of disposal of non-core assets as part of our portfolio management programme, amounting to £18.2 million (2002: £23.4 million).

The restructuring has transformed the balance sheet, which started the year with net debt of £249.5 million – a gearing level of 80 per cent. At the end of 2003, we had net cash of £7.1 million and an ungeared balance sheet.

Following the restructuring, Premier's booked reserve base amounts to 175 million barrels of oil equivalent (mmboe), with a majority of these reserves relating to fields already in production and therefore with limited associated future capital expenditure. Total reserves – including as yet unbooked discoveries in Indonesia and Mauritania – are expected to be in excess of 200 mmboe when these unbooked discoveries are commercialised.

Operationally, increases in gas sales were recorded in Pakistan, Indonesia and Myanmar. The successful completion of development of the Bhit and Zamzama fields in Pakistan, on time and within budget, have been a significant contributor. In Singapore, demand from buyers has been above expectations and has been successfully met by our operated West Natuna Gas Project. In Albania, we have decided to withdraw from the Patos Marinze project following disappointing pilot production.

The group's health, safety and environment record continues to show strong performance. In 2003 the group incurred only four lost time injuries in over 5 million man-hours worked. This represents a 39 per cent improvement from 2002. This continued improvement over the last three years is made more remarkable by the challenging environments in which Premier operate. In June, we achieved two years of continuous operations at West Natuna without a lost time incident.

On the exploration front, whilst drilling early in the year had been disappointing, our efforts to replenish the exploration portfolio were rewarded with excellent drilling results on our new acreage in Mauritania secured by a deal with Fusion Oil and Gas, where three wells out of four were successful. Successes at Kadanwari and Zamzama also contributed to an excellent last quarter. In 2003 Premier drilled eleven exploration and appraisal wells, with a 50 per cent commercial success rate recorded.

The Fusion deal has given us critical mass in West Africa, where new interests in Mauritania, Gabon and the SADR complement our existing positions in Guinea Bissau – where we are currently operating a well to test the Sinapa prospect – and Gabon. The significant Tiof discovery in Mauritania will be appraised in 2004.

We are continuing to seek future exploration opportunities in our focus areas of the UK, South and South East Asia and Africa.

Commercial

In addition to the Fusion deal, commercial activity in 2003 has continued on securing a second sale of gas from the West Natuna Gas Project to buyers in Singapore, where negotiations are currently ongoing. Additionally, non-core assets in the UK and Australia were sold in the year raising £18.2 million cash.

New Premier
The restructuring has had a number of consequences. Our two major shareholders – Amerada Hess and Petronas – have departed, and Premier is smaller, about half the size in terms of oil and gas reserves and production (30–35,000 boepd). As mentioned, the company has no net debt and generates strong cash flows, given reasonable oil prices and the high proportion of booked reserves which are under long-term gas contracts. This base business generates sufficient cash flows to fund a strong exploration programme. Our strategy is to add significant value for shareholders through high impact exploration and commercial deal-making, concentrating primarily on the front end – pre development – phase of the exploration and production cycle, whilst maintaining a strong base business, and a strong balance sheet which can be deployed if and when opportunities arise.

Communication with shareholders
New accounting standards and governance rules over the last few years have substantially increased the length and complexity of annual reports, making them less user friendly.

To keep shareholders better informed we are sending you two documents. The formal all-inclusive annual report and accounts is the detailed stand-alone record of corporate performance. The other is a short summary, which allows a quick but informative review of 2003, financial and operational facts and the plan for 2004. I hope you will find this an improvement.

The Board and staff
On 9 December Robin Allan and Simon Lockett joined the Board as Directors of Business Development and Operations respectively. Robin trained as a geologist and has been with Premier for 18 years, most recently as Country Manager in Indonesia. Simon Lockett, in his 10 years with Premier, has been involved in corporate planning and investor relations in London, and was Commercial Manager in South East Asia, based in Indonesia, and Country Manager for Albania.

A time of major restructuring and new directions inevitably brings uncertainty. The results being achieved in these circumstances and the feeling of enthusiasm for the future throughout Premier is a tribute to the quality and character of Premier people.

I would also like to pay tribute to your non-executive Board members for their steadfast and tireless support for the executive during a complex and uncertain two years of restructuring. This effort has reflected a Board that is independent minded but has worked well together.

Outlook
Despite the current uncertain political and economic environment, 2004 will be a busy year for Premier, particularly on the drilling front, where the current plan is to drill up to 18 exploration and appraisal wells. The results are of course uncertain, but the programme represents a reasonably balanced portfolio of high and medium risk and reward. We are also pushing ahead with a number of additional commercial opportunities with the objective of adding significantly to net asset value during the year.

Our strong cash generative base business is more than sufficient to fund our exciting exploration programme if the high first quarter 2004 oil prices can be maintained. Our strong balance sheet provides scope to pursue attractive new projects.

Premier is in good shape and we intend to keep it that way.

Sir David John KCMG
Chairman

Economic environment
As in the previous year the oil price was both volatile and high by historic standards. The strike in Venezuela, civil unrest in Nigeria and the war in Iraq all contributed to volatility. The Brent oil price peaked at $32.7 per barrel in February and fell to $24.9 per barrel in April when the relative lack of damage to Iraq's oil infra-structure became apparent, and ended the year at $29.9 per barrel (2002: $28.7 per barrel).

Following US dollar weakness against the pound in 2002, the US dollar/pound rate remained broadly stable into the third quarter of the year, following which the dollar weakened markedly against the pound and all other major currencies to end the year at $1.79 (2002: $1.61). The last two years have therefore seen a substantial reduction in the value of our dollar revenues when converted into sterling.

2003 results
Profit after tax and exceptional charges amounted to £40.8 million, an increase of 80 per cent compared to the prior year. Exceptional items, including 'make-whole' charges relating to the early repayment of debt triggered by the restructuring, amounted to £22.8 million, making pre-exceptional net profits of £63.6 million (2002: £35.7 million).

As explained in the 2003 interim statement, the profit and loss account has been analysed to show the 2003 profit relating to our 'ongoing operations', i.e. those assets retained after the restructuring, so that future performance can be assessed against this reference.

Production levels, on an annual working interest basis, were the same year on year, and realised oil prices averaged $27.2 per barrel of oil (bbl) compared with $24.3/bbl the previous year. Gas prices averaged $3.74 per thousand standard cubic feet (mscf) (2002: $3.44/mscf).

Turnover, including the group's share of joint ventures in Pakistan and Myanmar, was only slightly down at £257.7 million (2002: £263.1 million), as a result of the similar levels of production and sterling equivalent oil/gas prices year on year.

Cost of sales was down by £20.0 million at £87.0 million. Including the joint ventures, total cost of sales was £112.2 million (2002: £133.4 million). Based on total cost of sales, underlying unit operating costs amounted to £3.00 per barrel of oil equivalent (boe), the same level as in 2002. Underlying unit amortisation fell to £2.60/boe compared with £3.14/boe in the previous year, due to the greater proportion of low cost production outside the UK in the production mix.

Following the practice adopted in the 2002 results for the first time, exploration costs were written-off for the year which amounted to £12.2 million (2002: £4.6 million), representing unsuccessful expenditures in various areas, including the write-off of costs associated with Albania.

Net interest expenses and foreign exchange losses totalled £18.9 million, down from £31.5 million in 2002, due to lower levels of net debt. In addition, a small pre tax gain of £1.4 million arose on the disposal of our investment in shares in a listed company in Australia.

Pre-tax profits were 12 per cent higher at £81.1 million (2002: £72.6 million). The taxation charge totalled £40.3 million (2002: £50.0 million), with the fall mainly attributable to the reversal of deferred tax timing differences relating to mature UK producing fields, and overseas deferred taxes where a change to a more commonly used method of calculation has been adopted. This change has resulted in a re-statement of the 2002 results.

Cash flow
Cash flow from operating activities, as reported in the cash flow statement which excludes joint ventures, amounted to £138.0 million, up from £123.5 million in 2002 due to higher realised prices and lower field operating costs. After deducting interest and taxes, operating cash flow was £93.7 million, an increase of £8.3 million. Including the cash flow from joint ventures, operating cash flows after interest and taxes were £135.7 million (2002: £136.1 million).

Capital expenditure in the period was £32.3 million (2002: £42.2 million), with total capital expenditure at £43.0 million including joint ventures (2002: £73.1 million). The fall reflects the continuing trend of reducing expenditure on developments as our fields come on-stream. Total capital expenditure comprised £11.6 million (2002: £34.6 million) on field developments, £30.9 million (2002: £35.0 million) on exploration and appraisal activities, with other expenditure of £0.5 million (2002: £3.5 million). In addition, expenditure of £6.4 million was incurred in the purchase of interests in West Africa from Fusion. Capital expenditure was offset by £18.2 million of cash disposal proceeds received in the year.

Cash flows relating to the restructuring, including joint ventures, amounted to a net receipt of £150.6 million after deducting costs and the make-whole payment. Net cash flow, including joint ventures and the impact of the restructuring, amounted to £255.2 million (2002: £93.2 million). This excludes cash movements relating to short-term deposits and financing.

Net debt
At the start of the year net debt, including joint venture net debt of £69.0 million, was £249.5 million. At the end of 2003 the benefit of net cash flows from operations, disposal proceeds and the restructuring, resulted in a net cash balance of £7.1 million (including balances in the Pakistan joint venture) and an ungeared balance sheet. During the year, all of Premier's debt, including the convertible capital bonds, was repaid and a new bank revolving credit facility for $150 million was agreed with a consortium of banks. After drawdown of $101.3 million (£56.5 million), the group retains a liquid position, with year-end cash balances and short-term investments of £63.6 million, including balances in the Pakistan joint venture.

Hedging and risk management
It is group policy that all transactions involving derivatives must be directly related to the underlying business of the group. No speculative transactions are undertaken. Premier undertakes oil and gas price hedging periodically within Board approved limits, to protect operating cash flow against weak prices. Hedging is normally undertaken with zero cost collar options and to a considerably lesser

extent with swaps. In respect of 2003, the group purchased oil price options with floors at a Brent price of $20/bbl and a ceiling price averaging $28.3/bbl, and a small volume of swaps at $23.2/bbl. Approximately one third of the Indonesian gas production was also covered using zero cost collar options at an equivalent floor price of $20.2/bbl and a ceiling price of $29.5/bbl. These oil and gas hedges produced a combined loss of £4.0 million in the year (2002: loss £1.4 million). Hedges for 2004 have been undertaken, almost exclusively with zero cost collars, covering 56 per cent of anticipated liquids production at a floor price of $20/bbl and ceiling price of $29.5/bbl. In addition, 32 per cent of Indonesian gas production has been covered at an equivalent floor price of $20.4 and a ceiling price of $30.3/bbl.

Exchange rate exposures relating to non-sterling receipts and expenditures were not hedged during the year. However, as Premier's activities are largely conducted in US dollars, all borrowings at the end of 2003 were denominated in US dollars to reduce currency exposures arising from the US dollar/sterling exchange rate. As the fixed rate US dollar loan notes and the sterling convertible capital bond were repaid during 2003, all debt at the end of 2003 bears interest at floating rates.

Cash balances are invested in a range of floating rate bank deposits, managed liquidity funds and commercial paper, subject to Board approved limits. The group undertakes an insurance programme to reduce the potential impact of the physical risks associated with exploration and production activities. In addition we purchase business interruption cover for a proportion of cash flow from the major producing fields.

Adoption of International Financial Reporting Standards

The Council of the European Union requires all EU listed companies to report consolidated results using endorsed International Financial Reporting Standards (IFRS) with effect from 1 January 2005 (including comparatives for 2004).

Premier has set up a project team to manage the implementation; it is looking at all aspects of the requirement including the wider business issues that may arise from such a major change. Our preliminary view is that differences between our current accounting practices and IFRS will be in respect of deferred tax, accounting for joint ventures, accounting for employee costs, and any other items resulting from ED6 – 'Exploration for and Evaluation of Mineral Resources', when endorsed. We expect the group to be fully prepared for this transition in 2005.

Production and reserves

The group's production, on a working interest basis, averaged 53,600 boepd, which was the same as the 2002 level. In the first half of 2003 production reached a record average level of 62,000 boepd, following which the September completion of the restructuring saw the rate fall to an average of 33,900 boepd over the balance of the year, resulting in the lower annualised rate compared to the first six months. Production comprised 67 per cent gas and 33 per cent oil.

Production for the year from the ongoing assets, retained after the restructuring, amounted to 35,100 boepd, compared to 34,200 boepd in 2002, as increasing Asian gas more than offset a decline in the UK.

Proven and probable reserves, on a working interest basis, fell to 175 mmboe at the end of 2003, down from 450 mmboe a year earlier, primarily reflecting the assets sold in the restructuring.

The movement in booked reserves over the year was:

	mmboe
Start of 2003	450
Production	(20)
Discoveries	3
Revisions	(1)
Acquisitions	2
Impact of restructuring	(259)
End of 2003	175

The amount shown for discoveries relates to the Kadanwari and Badhra fields in Pakistan. Minor revisions (both up and down) were made to a number of fields in the UK, Pakistan and Indonesia, while the acquisition relates to the Chinguetti field in Mauritania. The Chinguetti acquisition reflects only the 29.9 per cent equity share of the company which was acquired from Fusion before the end of 2003. The amount attributable to the restructuring disposals represents 170 mmboe in respect of the Yetagun field in Myanmar, and 89 mmboe in respect of the West Natuna Gas Project in Indonesia. At year-end booked reserves comprised 17 per cent oil and 83 per cent gas.

Total reserves are expected to be in excess of 200 mmboe, including as yet unbooked reserves remaining to be commercialised in respect of the unsold gas in Indonesia, together with the Chinguetti field and Tiof discoveries in Mauritania (following completion of the Fusion deal and subsequent pre-emption).

Europe

Production in the UK for 2003 was 15,300 boepd, down 17 per cent on the previous year – a reflection of natural decline in mature fields – and accounted for 29 per cent of group production. This percentage is less than the previous year (35 per cent) as UK production has continued to decline while gas volumes from South and South East Asia have increased.

The Wytch Farm oil field remains as Premier's main oil producing field in the UK, contributing 5,600 boepd net (2002: 6,900 boepd). Production decline in this mature asset has been mitigated by infill drilling. However, production was reduced by shutdowns in the first half and infill drilling was interrupted in the second half by the planned upgrade of the drilling rig to enable multi-lateral sidetracks of long reach wells under Poole Bay. This work is now complete and three long reach sidetracks are planned for 2004.

Production from the Kyle field continued at 5,500 boepd net (2002: 5,600 boepd), with uninterrupted oil and gas production via the Maersk Curlew FPSO throughout 2003. The joint venture is currently reviewing options to modify facilities and significantly reduce operating costs, thereby extending field life. This includes an option to tie-back all or part of current production to the Banff field, which lies 12km to the north of Kyle, via an existing pipeline. A decision is expected during 2004.

Most of the remainder of UK production came from the Fife area, which contributed 2,900 boepd net (2002: 3,700 boepd) and from Scott/Telford (800 boepd). Further infill drilling on Fife is under review as well as near field exploration opportunities.

In July 2003, Premier announced the sale of a package of non-core assets for £8.2 million in cash, £3.0 million of which is made up of deferred payments linked to first oil from discoveries. The transaction was completed before year-end.

In Albania, Anglo-Albanian Petroleum has brought into production 20 newly drilled wells, with eight re-activations continuing to produce, giving average net production for the year of 200 boepd. Whilst production has continued to increase in the year, the performance of the field has not been sufficiently encouraging to enable the consortium to proceed with further development, and accordingly preparations are in hand for Premier to withdraw from the project in 2004.

Pakistan

2003 was a successful year for Premier in Pakistan with record net production levels as developments were completed on three gas fields – Qadirpur, Bhit and Zamzama – which virtually doubled our gas production by the end of the year, to approximately 10,000 boepd, in line with our plan. Production, net to Premier, averaged 8,052 boepd in 2003, some 43 per cent above the preceding year (2002: 5,600 boepd).

The Qadirpur gas field was the largest contributor to production, amounting to 2,536 boepd. Expansion of the Qadirpur processing facilities to 400 million standard cubic feet of gas per day (mmscfd) was completed in late 2003, with further expansion to 500 mmscfd due for completion in 2004.

Zamzama field production averaged 2,335 boepd net to Premier following full field development completion and commissioning in June 2003 with contractual sales commencing in July. Field drilling was successful, defining additional reserves – in particular the Zamzama East-1 exploration well.

Commissioning of the new Bhit gas field plant was completed in the first quarter of 2003 and at year-end average annual production to Premier totalled 1,991 boepd.

Production from the Kadanwari gas field declined to 1,190 boepd (2002: 1,500 boepd). The Kadanwari West-1 exploration well, drilled on a newly defined western extension of the field, was successful, flowing over 15 mmscfd. This field extension is targeted to be tied into the Kadanwari plant and onstream by end 2004.

Two low cost appraisal wells were drilled in the year to appraise the Badhra field, in the Kirthar licence south-east of Bhit. Badhra reserves are expected to be developed in due course through the Bhit field.

Indonesia
2003 saw record levels of production in Indonesia for the second successive year. Even after the restructuring, which resulted in a reduction in Premier's operated interest in the West Natuna Gas Project block A – from 66.7 per cent to 28.7 per cent – net production was 18,900 boepd, compared with 18,300 boepd in 2002. The high level of gas produced resulted from strong demand by the Singapore based end users, and was achieved notwithstanding brief periods of shut-down later in the year. In June a milestone of two years continuous operations without a lost time incident was achieved.

Commercial and technical activity directed towards a second sale of gas from block A to Singapore has continued throughout the year and into 2004. Premier has been nominated as the supplier by the Indonesian government on behalf of partners Amerada Hess, Kufpec and Petronas. It is hoped that agreement can be reached in 2004, enabling new sales to commence and reach plateau in 2007. In addition, preparations are advanced for the award of engineering and design contracts for the West Lobe tower development, part of the ongoing field development plan needed to support the first gas sales contract, once Indonesian government approvals are received.

Myanmar
The restructuring has resulted in the disposal of all of Premier's interests in Myanmar to former shareholder Petronas, after a period of 13 years of involvement in that country.

During the eight and a half months of 2003 until disposal, gross average gas production from the Premier operated Yetagun gas field was 74.7 mmscfd and gross average condensate production 8,017 barrels per day. This gave Premier a combined annualised net production for the year of 11,200 boepd, the same as in 2002.

Up to September 2003, nominations had been consistently received from the gas buyer PTT for up to 300 mmscfd, which represents the full daily contractual quantity (DCQ) of 260 mmscfd plus an additional 15 per cent contract entitlement as specified in the gas sales contract. A further four condensate offtakes were successfully made in the period from the floating storage and offtake vessel, giving a gross total of nearly 5 million barrels lifted since commencement of production from Yetagun.

Following the successful phase II capacity upgrade implemented in 2002, detailed engineering on the phase III capacity upgrade was largely completed during the period prior to sale. At that time, offshore pre-works and module fabrication work had commenced on the upgrade to 400 mmscfd of DCQ sales of gas, and the corresponding increase in condensate production to approximately 11,500 barrels per day, with effect from April 2004.

Preparatory work was also commenced for a programme of infill production drilling to obtain the additional gas required to meet the step up in gas sales quantities in April 2004.

Exploration and appraisal
Premier participated in eleven exploration and appraisal wells during 2003 – five in Pakistan of which two were operated, four non-operated wells in Mauritania and two operated wells in Indonesia. There were significant commercial successes in Mauritania with the Tiof and Tiof West discoveries and the Chinguetti-4-5 appraisal well. The Zamzama East-1 and Kadanwari West-1 wells, together with the Badhra-2 long-term production test, in Pakistan, also contributed to an excellent 50 per cent commercial success rate overall for the year.

In addition, the portfolio has been quickly replenished to create an exciting drilling programme for 2004 and beyond. A programme of some 15-18 wells in 2004 is planned, comprising three targets in Gabon, a return to the Sinapa prospect offshore Guinea Bissau, where a well is currently operating, up to nine wells in Mauritania, one well in each of the UK, India and Pakistan, with one or two wells in Indonesia. This programme provides an attractive mix of high risk/high reward and medium risk/medium reward wells.

UK
Premier concluded a farm-in agreement with Reach Exploration Ltd in July 2003 and acquired a 50 per cent equity as operator in the Moray Firth licence P1048 covering blocks 20/10b, 21/6a, 20/15a and 21/11b. Following reprocessing of 3D seismic last year, the joint venture will spud a high risk/high reward well in March 2004. In the 21st licence round announced in July 2003, Premier acquired a 30 per cent equity in blocks 39/2b and 39/7 adjacent to our Fife area acreage, and reprocessing of seismic is planned in the short-term. Premier continues to pursue high quality exploration opportunities offshore UK, through farm-in opportunities and licence round awards.

Pakistan
In the Dumbar exploration concession the exploration well Zirkani-1 encountered gas in two zones and appraisal studies are underway. Preparations to drill the Chung-1 exploration well close to the Bhit field are currently under-way, and the well will spud in the second quarter of 2004. A 47.5 per cent working interest share of the northern part of Dumbar (Dumbar B) was farmed out in the year to Eni. This portion of the block includes Chung and a satellite prospect.

During the year Premier disposed of its interest in the Dadhar exploration concession, located in Balochistan. Premier also farmed out its share in the Zarghun South gas field to Mari Gas Company Ltd, retaining a 3.75 per cent interest which is fully carried through development and production of the field. A gas sales agreement with Sui Southern Gas Company is under negotiation and expected to be concluded in 2004.

In July 2003, agreement was reached with operator Shell to farm-in to acquire a 23.75 per cent interest in the deepwater exploration licence covering block 2365-1 offshore Indus E. A 3D seismic survey has been undertaken to provide additional sub-surface information of this tertiary delta area. The seismic data is currently being processed and interpreted, and initial indications are encouraging. In 2004, the joint venture will complete this work with the intention of defining a drilling programme.

Indonesia

Two low cost exploration wells were drilled early in the year on the eastern Area IV part of block A. Kuda Nil-1 and Binturong-1 both encountered hydrocarbons, but in sub-commercial quantities with poor quality reservoirs. Elsewhere on the block, two structures have been identified for drilling in 2004, targeting the younger, high quality reservoirs that provide the existing production on the block. Subject to partner approval, the wells will be drilled in the Anoa field and Gajah Baru areas.

West Africa

In West Africa, Premier has continued to build its offshore exploration and development portfolio. The acquisition of the interests offshore Mauritania, Gabon and SADR from Fusion, announced in May 2003, represents a significant advance towards our objective of building a material business in West Africa. In Mauritania, Premier has bought Fusion's interests in two deep-water production sharing contracts which include the Chinguetti and Banda discoveries.

Mauritania

The Chinguetti field, estimated to contain approximately 120 million barrels of oil reserves, was successfully appraised by the Chinguetti-4-5 well completed in November 2003. The joint venture, operated by Woodside, declared the field commercial in January 2004 and is working towards a final investment decision and development go-ahead in 2004. Our interest in Chinguetti and the associated production sharing contract will increase to 9.23 per cent following the recent approval of the field development plan by the joint venture.

The Chinguetti-4-5 well was followed by three exploration wells, two of which were successful oil discoveries at Tiof-1 and Tiof West-1, the latter encountering a 4m gas column overlying a 122m gross oil column. Further appraisal of this exciting discovery is planned as part of a 2004 drilling programme of up to nine wells. This programme is currently being determined by the joint venture, with drilling anticipated to commence in the second half 2004.

Guinea Bissau

Our Guinea Bissau acreage has been extensively re-evaluated and a second well on the Sinapa prospect commenced in February 2004, exploring the deep flank of a salt diapir. The acreage held by Premier includes ten similar salt diapir structures giving significant follow-on potential for exploration if the first well proves the play. Such playmaker opportunities are an important requirement for Premier's new venture acquisitions. In December 2003 we agreed a farm-out of 40 per cent equity in this acreage to Occidental Petroleum.

Two new licences covering blocks 7B and 7C have also been awarded to Premier as operator and Occidental, targeting analogue plays to recent discoveries in Cote D'Ivoire. Acquisition of new seismic commenced in February 2004 on this acreage, which could be ready for drilling in mid 2005.

Gabon

In Gabon, the Phenix concession was converted into the Sasol operated Dussafu production sharing contract and a well is planned by the operator for mid 2004. Several prospects have been identified on the acreage and are being evaluated for follow-on drilling.

As part of our acquisition from Fusion, Premier will earn an 18 per cent interest in the Iris Marin and Themis Marin shallow water production sharing contracts offshore Gabon, which have multiple pre-salt targets on trend with our existing Dussafu acreage. A well is planned on each of these production sharing contracts in 2004, with follow-on exploration planned for 2005.

SADR

In the Saharawi Arab Democratic Republic (SADR), we have acquired the option to take a 35 per cent interest under a technical study agreement. The acreage, which has considerable potential, is virtually unexplored as it is currently under a dispute over sovereignty. Recent developments toward the resolution of this dispute look encouraging.

India

During 2003, formal approval was received from the government of India for Premier to farm-in and take over operatorship of two blocks in North East India. As a result we now have a 38 per cent working interest in block AAP-ON-94/1 (Jaipur) and an 84 per cent working interest in block CR-ON-90/1 (Cachar).

In the Jaipur block in Upper Assam, 118km of new 2D seismic was acquired in dense jungle terrain. The workforce engaged in this numbered 620 people at its peak, and the work was successfully concluded without any lost time incidents. The interpretation of the seismic, when combined with geological data from nearby producing fields, suggests that the prolific Assam shelf trend continues into our block. As a result two good prospects and a number of interesting leads have been identified in the block. A decision has been taken to spud our first exploration well in late 2004 and preparations are being made to construct the site and road.

The Cachar block in Southern Assam lies on trend with the proven gas province that exists adjacent in onshore Bangladesh. Geological studies conducted during the year have confirmed the potential for large structural traps to exist below the surface anticlines. Acquisition of 118km of new 2D seismic is currently underway and the results will be used as key input data to our structural modelling of the block. Integration of this information with other geological studies could lead to drilling of an exploration well in early 2005.

SOCIAL PERFORMANCE SUMMARY

Premier's fundamental purpose is to add significant value for shareholders through high impact exploration and commercial deal making. This demands that we not only deliver superior operational and financial performance, but we also maintain careful consideration of the needs and aspirations of those with whom we do business. In 2003 Premier continued to develop its corporate social responsibility (CSR) activities as described below.

We published our first Sustainability Performance Report in July 2003. This report, which followed the Global Reporting Initiative's reporting model, was short listed for the annual Association of Chartered Certified Accountants' 2003 awards in the Sustainability Reporting category.

In the first half of the year, Premier's executive directors agreed an ambitious new CSR strategy to complement the restructuring of the company. This strategy recognises that responsible business is a key part of our business and will help Premier to:

- be the business and community partner of choice;
- remain an industry leader in the sustainable development arena;
- continue to plan, and deliver, net positive social and environmental impacts; and
- work in partnerships to multiply these positive impacts.

As part of our commitment to remaining a leader in the area of CSR, Premier became a signatory to the United Nation's Global Compact in 2003. The United Nations' Secretary-General, Kofi Annan, challenged world business leaders in January 1999 to 'embrace and enact' the Global Compact, for further information see www.globalcompact.org.

The Global Compact describes nine principles encompassing human rights, labour standards and the environment. The corporate signatories to the Global Compact promise that they will adhere to it in every country where they have operations. Premier has actively participated and we continuously demonstrate how we are embracing and enacting these principles, wherever we work.

Premier was listed on the FTSE4Good Index and named by Business in the Community's Corporate Responsibility Index (the authoritative benchmark of responsible business practice) as one of the top 100 responsible companies in the UK.

The FTSE4Good indices, social and environmental, were specifically designed to measure the performance of companies that meet globally recognised corporate responsibility standards, and to facilitate investment in those companies. The inclusion criteria are regularly reviewed so that they reflect a broad market consensus on what constitutes good corporate responsibility practice as it evolves.

2003 was also a year in which we were able to strengthen our existing partnerships:

– Save the Children USA: we agreed to a global collaboration where possible. Under this agreement we are designing an innovative new programme in Jakarta - Indonesia, working with street children.
– Monash University's Castan Centre for Human Rights: Premier is partnering in a three year project (started in 2002) to look at the role that corporations can, and do, play with specific reference to human rights, where they operate. The outcome of this project will be a book and a series of management tools to help corporations identify and deal with human rights and related issues.

The highlight of the year, in terms of our partnership building initiatives, was the collaboration with the United Nations Environmental Programme – World Conservation Monitoring Centre (UNEP-WCMC) in the Proteus initiative. Proteus, a five year partnership, was officially launched on 2 October 2003 and Premier is one of the founding partners.

The primary goal of Proteus is to deliver a decentralised biodiversity knowledge management system versatile enough to provide wide-ranging information and analytical services on the living world to governments, business and NGOs. It will deliver services through a global biodiversity network – a federated system of databases on the world's living resources, based on the existing databases, systems and networks of the centre. This is going to be the world's most comprehensive and authoritative knowledge bank on biodiversity. The sustainability of the programme will be dependent on a worldwide network of partners to help with the collating of biodiversity data. In Pakistan, Premier, UNEP-WCMC and LEAD in Pakistan signed an agreement in 2003 to identify the main sources of data and the principal requirements for a Proteus system in the country.

At Premier we have always believed that building positive relationships with communities, and other stakeholders, will help to enable us to go about and sustain our business. During 2003, we identified and delivered new community development initiatives in Indonesia, Pakistan, Guinea Bissau and India's Assam province. Further details of these initiatives, our developing partnerships and the progress of our ongoing reporting on sustainability performance, can be viewed on our website (www.premier-oil.com).

Premier is committed to continuous improvement in the management of operational risks. In 2002, an integrated approach to the management of all Health, Safety, Environment and Security (HSES) risks was adopted and resulted in development of an integrated HSES management system. The cornerstone of this management system is the Corporate HSES policy. This integrated policy describes Premier's holistic approach to managing HSES risks and is applied and communicated throughout our operations. The management system comprises a hierarchical structure of policies, standards, guidelines and procedures to ensure that the corporate policy is cascaded throughout the company's worldwide activities, that sufficient resources are made available within the organisation to achieve effective implementation, and that performance is monitored and regularly reviewed.

Premier's policy is to ensure that the impact of our activities on the health and safety of employees are reduced to a level that is as low as reasonably practicable, to maintain the security of its personnel and assets and to strive to achieve excellence in environmental standards. The company ensures that its operations meet statutory requirements and that they are carried out with minimal environmental impact. Over and above its legal responsibilities, the company commits to protect the health, safety and welfare of all its employees and of all personnel affected by and involved in its activities.

We strive for world-class standards in our management of HSES risks, and benchmark our performance against the industry in pursuit of continuous improvement. 2003 was another year of exceptional HSES performance. One of our key performance measures, also used by others in industry, is the lost time injury frequency (LTIF). In 2003 there were four lost time injuries in over 5 million man-hours worked throughout our global operations, resulting in a LTIF of 0.79 lost time injuries per million man-hours worked. This represents a 39 per cent improvement from 2002 and continues the significant improvements achieved over the last three years. This outstanding performance is made more remarkable when taking account of the challenging environment in which Premier operates. Notable achievements in 2003 include continued production operations offshore Indonesia without a lost time injury since June 2001, and our first exploration project in India was completed in the Assam jungle without lost time injury.

In 2003, safety cases with formal safety assessments defining the risk profiles and risk reduction measures were issued and implemented for our operating facilities in Indonesia and Myanmar. Project safety reviews and audits were also carried out in compliance with our policies and our commitment to continuous risk reduction for the Yetagun field development in Myanmar and operating facilities globally.

Considerable progress was also made in demonstrating Premier's commitment to environmental management. Management of the environmental impact of our operations is achieved through the use of environmental impact assessments (EIAs) for current operations, and new business ventures, resulting in robust environmental management plans for all activities. EIAs were carried out in preparation for exploration activities in Jaipur and Cachar in India, and drilling operations in Pakistan in 2003.

In 2003, Premier collated environmental performance data for public reporting in our Sustainability Performance Report. The report was compiled in accordance with the Global Reporting Initiative, and we are committed to open reporting of our HSES performance. In 2004, we will be continuing this strategy by seeking to certify key Premier functions to international occupational health, safety and environmental standards (ISO 14001 and OHSAS 18001).

Increased terrorist activity and military action in Iraq resulted in continued close attention to the management of the security risks associated with our global operations. Security plans were reviewed in preparation for the consequences of a war in Iraq and a comprehensive review of security was undertaken in Indonesia following the Marriott Hotel bombing in Jakarta. Security threat assessments are reviewed regularly to maintain the security of our global assets and personnel.

Throughout Premier's involvement in production operations, project development and pursuance of new business ventures, our commitment to the protection of the health, safety and security of our employees, the security of our assets and excellence in environmental management remains paramount.

BOARD OF DIRECTORS

Sir David John (65), became non-executive Chairman on 1 March 1998. He was non-executive Chairman of the BOC Group plc until 18 January 2002 and is currently Chairman of the British Standards Institution and Chairman of Balfour Beatty plc. Sir David is a Member of the CBI's International Advisory Board. Sir David is the Chairman of Premier's Nomination Committee.

Azam Alizai (72), joined Premier's Board as a non-executive director in March 1997. His career has included appointments as Director of the Oil, Gas and Mining Department of the International Finance Corporation and Chairman of West Pakistan Industrial Development Corporation and Sui Northern Gas Pipeline Ltd in Pakistan. Mr Alizai is currently Chairman of Pakistan Petroleum Ltd, one of the major producers of natural gas in Pakistan.

Robin Allan (44), joined Premier from Burmah Oil in 1986 working initially as a geologist. After a number of technical and new venture roles he spent six years in South East Asia initially managing regional business and more recently as Country Manager in Indonesia. He became a member of the Board on 9 December 2003 as Director of Business Development.

Scott Dobbie (64), joined Premier's Board as a non-executive director in December 2000. He has a career background in stockbroking, as Managing Director of Wood Mackenzie and subsequently Chairman of NatWest Securities. He is currently Chairman of the Securities Institute, of The Edinburgh Investment Trust plc and of Standard Life European Private Equity Trust. He is also a Commissioner of the Jersey Financial Services Commission. Mr Dobbie is a member of Premier's Audit and Risk, Remuneration and Nomination Committees.

Ronald Emerson (57), joined Premier's Board as a non-executive director in March 2001. He has held a number of senior positions in the banking sector, including senior roles at Bank of America, Nomura Bank and most recently with Standard Chartered Bank where he was Chief Executive of their Malaysia operations before becoming the Group Head of Corporate Banking. Between 1997 and 1998 he was a Senior Advisor to the Bank of England, and between 1998 and 2000 he was a Senior Advisor to the Financial Services Authority. Mr Emerson is Chairman of Premier's Audit and Risk Committee, and a member of the Remuneration and Nomination Committees.

Ian Gray (65), joined Premier's Board as a non-executive director in January 1996. He held a number of international management positions during his 25 years with Conoco, culminating in the position of President of Dubai Petroleum. He joined Amerada Hess in 1995 where he was Vice President of International Exploration and Production until May 2000. Mr Gray is a member of Premier's Audit and Risk, Remuneration and Nomination Committees.

Charles Jamieson (59), Chief Executive Director is a Chartered Accountant and MBA. He became Premier's Finance Director in January 1981, after a career with Ernst & Young and Gulf Oil Corporation, and became Chief Executive in 1992. Mr Jamieson is a member of Premier's Nomination Committee.

Simon Lockett (39), joined Premier in 1995 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 a Country Manager in Albania. He became a member of the Board on 9 December 2003 as Director of Operations.

John Orange (61), joined Premier's Board as a non-executive director in February 1997. He held a variety of senior international management and legal posts during his 30 years with the BP Group. Mr Orange is Premier's senior independent non-executive director, Chairman of the Remuneration Committee and a member of the Audit and Risk and Nomination Committees.

John van der Welle (48), Finance Director qualified as a Chartered Accountant with Arthur Andersen. He is a member of the Association of Corporate Treasurers and the Oil Industry Accounting Committee, and is a Chartered Tax Advisor. He joined Premier in March 1999, having previously been Finance Director at Hardy Oil & Gas plc and before that spent nearly 12 years at Enterprise Oil plc in senior business development and finance roles.

Compliance
The company has established procedures and policies to ensure compliance with the code provisions set out in Section 1 of the Combined Code, issued in June 1998, on Corporate Governance laid out in the Financial Services Authority Listing Rules. The company has complied with these provisions for the entire reporting period except to the extent specified.

Reports by Sir Robert Smith and Sir Derek Higgs have led to changes to the UK Combined Code, which apply to accounting periods beginning on or after 1 November 2003. Premier is already largely compliant with the provisions of the new edition of the Combined Code. In 2004, the company will seek to identify those areas where current practice differs from the requirements of the new code. Premier will either make appropriate changes to ensure compliance or will explain to shareholders why it considers it is in the company's best interest not to have done so.

The Board
The Board of Directors held seven full board meetings and two meetings of the independent directors in 2003. The Board retains full and effective control over the group and monitors executive management. It is responsible for overall group strategy, acquisition and divestment policy, approval of major capital expenditure projects, corporate overhead costs and consideration of significant financing matters. No one individual has unfettered powers of decision. The Chairman's role is non-executive and during 2003 the Chief Executive was supported by one experienced executive director responsible for finance, corporate performance and investor relations. Two further executive directors were appointed in December 2003 with responsibility for operations, development, production, exploration and business development. There are formal and transparent procedures for the appointment of new directors. The Board has a further five non-executive directors with wide experience in commerce, as can be seen from their career histories in this report. In compliance with the Combined Code, Mr J R W Orange, who is Chairman of the Remuneration Committee, is identified as the company's senior independent non-executive director. Matters reserved for Board decision are clearly laid down, including the appointment of the Company Secretary who is responsible for ensuring that Board procedures and rules are applied. Formal procedures are in place to enable individual Board members to take independent advice where appropriate. Details of the executive directors' service contracts are laid out on page 17.

Re-election of directors
In accordance with the company's Memorandum and Articles of Association one third of directors retire each year, with their re-appointment being subject to the approval of shareholders. This requires directors to submit themselves for re-election at least every three years, in addition any director of the age of 70 or over who would not otherwise be required to retire, must retire by rotation. All new directors are subject to election by shareholders at the first opportunity after their appointment. Names submitted to shareholders for re-election are accompanied by biographical details.

The non-executive directors bring independent judgment to bear on issues of strategy, performance and resources including key appointments and standards of conduct. Non-executive directors comprise over one half of the Board. Of these, Sir David John, Messrs S J Dobbie, R V Emerson, I Gray and J R W Orange are considered to be wholly independent. Whilst Mr Alizai, as a result of receiving a consultancy fee from the company, might be considered not strictly to fall within this definition, the Board considers that this is outweighed by the range of experience and contribution he makes to the company. Selection of suitable non-executive directors is a matter for Board approval following recommendations made by the Nomination Committee.

Board committees
The Board has established an Audit and Risk Committee, a Remuneration Committee and a Nomination Committee, each of which has formal terms of reference approved by the Board.

The Audit and Risk Committee comprises only non-executive directors. Its members are Messrs R V Emerson (Chairman), S J Dobbie, I Gray and J R W Orange. The Audit and Risk Committee meets not less than three times a year. The Committee provides a forum for reporting by the group's external auditors and management. Meetings are also attended, by invitation, by the Chief Executive and Finance Director.

The Audit and Risk Committee is responsible for reviewing a wide range of matters including the half year and annual financial statements before their submission to the Board and monitoring the controls which are in force to ensure the integrity of the information reported to the shareholders. The Audit and Risk Committee advises the Board on the appointment of external auditors and discusses the nature, scope and results of the audit. The Audit and Risk Committee keeps under review the cost effectiveness and the independence and objectivity of the external auditors.

The Remuneration Committee normally meets at least three times a year and determines the remuneration of the executive directors and senior employees. The level of remuneration is sufficient to attract and retain directors and an element of the directors' remuneration package is linked to corporate performance. No director is involved in setting his own remuneration. Its members are Messrs J R W Orange (Chairman), S J Dobbie, R V Emerson and I Gray. Full details of the directors' remuneration are shown in the Remuneration Report on pages 16 to 24.

The Nomination Committee has been established to consider the composition of the Board in relation to the appointment of new directors. Its members are Sir David John (Chairman), Messrs S J Dobbie, R V Emerson, I Gray, C J A Jamieson and J R W Orange. The Committee met once in 2003.

The make up of members of the Audit and Risk Committee, Nomination Committee and Remuneration Committee is in compliance with the Combined Code.

Internal control
The directors are responsible for establishing and maintaining the group's system of internal control. The internal control system is regularly reviewed by the Board. Internal control systems in any group are designed to meet the particular needs of that group and the risks to which it is exposed, and by their nature can only provide reasonable but not absolute assurance against material misstatement or loss. The key procedures which the directors have established with a view to providing effective internal control required by the Combined Code provision D.2.1 are as follows (these procedures have been in place for the year under review and up to the date of approval of the Annual Report & Accounts 2003):

Management of Business Risks – An ongoing process, in accordance with the Turnbull guidance, has been established for identifying, evaluating and managing risks faced by the group. This is based on each business unit and corporate function producing a risk matrix which identifies the key business risks, the probability of those risks occurring, their impact if they do occur and the actions being taken to manage those risks to the desired level.

The executive directors receive assurance from the business units and functional management through the completion of annual declarations confirming compliance with the group's policies and procedures and risk management processes. These processes are designed to manage rather than eliminate risk of failure to achieve business objectives. It is accepted that the systems can only provide reasonable and not absolute assurance against material misstatement or loss.

Premier has adopted a consistent framework model for application across the group and an annual report is produced on compliance with that model and with the group risk management process. The report is presented to the Audit and Risk Committee.

Monitoring – A comprehensive control manual is in force which regulates a wide range of day to day activities both in the UK and overseas offices including environmental controls, health and safety regulations and political risks. The application of internal control procedures is reviewed during visits to the overseas offices by head office staff. Audits are carried out by partners in joint ventures from time to time.

A process of business control reviews has been developed and implemented across the group. This process is designed to provide assurance to the Board that the company is embedding effective risk management into its operations. The report of each review is presented to the Audit and Risk Committee.

During 2003, the key business risks identified were formally discussed by the Executive Committee on a semi-annual basis. This process will continue during 2004.

The Board will receive regular reports on any major problems that have occurred and how the risks have changed over the period under review.

Management Structure – The Board has overall responsibility for the group and there is a formal schedule of matters specifically reserved for decision by the Board. Each executive director has been given responsibility for specific aspects of the group's affairs. The executive directors together constitute the Executive Committee which normally meets fortnightly.

Corporate Accounting – Responsibility levels are communicated throughout the group as part of the group Delegation of Authority manual which sets out, inter alia, authorisation levels, segregation of duties and other control procedures.

Quality and Integrity of Personnel – The integrity and competence of personnel is ensured through high recruitment standards and subsequent training courses.

Budgetary Process – There is a comprehensive budgeting system with an annual budget approved by the Board covering expenditure, cash flow, the profit and loss account and balance sheet. Monthly operational and financial results are reported against budget, and revised forecasts for the year are prepared regularly.

Investment Appraisal – The group has clearly defined procedures for capital expenditure. These include authority levels, commitment records and reporting, annual budget and detailed appraisal and review procedures. The authority of the directors is required for key treasury matters including changes to equity and loan financing, interest rate and foreign currency policy including hedging, cheque signatories and opening of bank accounts. Comprehensive due diligence work is carried out if a business or an asset is to be acquired.

During 2003, the Board reviewed the group's system of internal control and is satisfied that all the controls in place are adequate to provide reasonable assurance against any material misstatement or loss. The review is conducted on a regular basis and changes are made to internal control systems to capture any new risks or exposures arising as a result of changes to the business or the business environment.

Going concern
After making enquiries and in the light of the group's loan facilities, the group budget for 2004 and the medium-term plans, the directors have reasonable expectation that the group has adequate resources to continue operations for the foreseeable future. The going concern basis for the accounts has therefore continued to be adopted.

Communication with shareholders
Communication with shareholders is given significant attention. Extensive information about the group's activities is provided in the Annual Report & Accounts and the Interim Report which are sent to shareholders. The company has also produced a separate corporate brochure in 2003 and 2004 highlighting Premier's capabilities and business aspirations, and both documents are available to all shareholders. There is regular dialogue with institutional investors, and 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 Annual General Meeting to discuss the progress of the group. The company also maintains a website (www.premier-oil.com) which provides detailed information on the group's activities.

The directors submit their report and the audited group accounts for the year ended 31 December 2003.

Results and dividends
The group's net profit for the year amounted to £40.8 million (2002: £22.6 million). A dividend is not proposed.

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 on page 40. A review of major activities, developments during the year and prospects for the future are included in the Chairman's Statement, the Financial Review and the Operational Review.

On 9 July 2003, the Court of Session in Edinburgh sanctioned the Scheme of Arrangement and as a result, the Premier group of companies has a new holding company which acquired the previous holding company for a one to one share swap as detailed in the Accounting Policies on page 27.

Annual General Meeting
The company's 2nd Annual General Meeting will be held on Friday 7 May 2004 at 11.00am. The Notice of the Meeting accompanies this report.

Share capital
The company's authorised share capital consists of £157,612,281 divided into 311,904,002 Ordinary Shares of 50 pence each and 9,487,317 Non-Voting Convertible Shares of 17.5 pence each.

There were 4,772,693 Ordinary Shares (post consolidation figure) issued under the group's share option schemes during the year. At the end of the year 73.8 per cent of the authorised Ordinary Share capital of the company remained unissued.

The authority given to the directors to allot shares at the 2003 Annual General Meeting was granted for a period of five years. The 2003 authority may be used, when applicable, for shareholders who wish to take their dividend in shares rather than in cash and for employees who exercise share options. It may also be used for the acquisition of assets by the company should appropriate commercial opportunities arise, although at the present time the directors do not have any plans for such issue it is important for your Board to have this flexibility. The number of shares remaining under this authority, as at 16 March 2004 is 22,772,545 (£11,386,273 in nominal value) being 27.63 per cent of the issued share capital of the company at the date of approval of the accounts.

At the 2003 Annual General Meeting authority was given to the directors for one year to issue the unissued shares for cash either up to the full amount for a rights issue or up to five per cent of the issued share capital, currently 1,180,510 shares (£590,255 in nominal value) for other opportunities. It is important for your Board to have this flexibility which is available for most companies. A resolution will be put to the Annual General Meeting to renew this authority.

Directors
Directors of Premier holding office during the financial year were:

- Mr Azam Alizai
- Mr Robin Allan
- Mr Scott Dobbie
- Mr Ronald Emerson
- Mr Ian Gray
- Mr Charles Jamieson
- Mr Simon Lockett
- Sir David John (Chairman)
- Mr Richard Liddell (resigned as executive director on 31 January 2003)
- Mr John Orange
- Mr John van der Welle

Directors who ceased to hold office after the Scheme of Arrangement (9 July 2003) were:

- Encik Mohammad Medan Abdullah
- Mr Jennings Barclay Collins II
- Dato' Mohamad Idris Mansor

Mr Richard Mew ceased to hold office on 17 June 2003.

Director election/rotation:

- Messrs R A Allan and S C Lockett, being eligible, will offer themselves for election at the Annual General Meeting.
- Messrs I Gray and J R W Orange are the directors retiring by rotation and, being eligible, will offer themselves for re-election at the Annual General Meeting.
- Mr Azam Alizai, being aged 72, will retire under the requirements of the company's Articles of Association and, being eligible, will offer himself for re-election at the Annual General Meeting.

Contracts of employment:

- Messrs Jamieson and van der Welle have contracts of employment with a notice period for termination of 24 months.
- Messrs Allan and Lockett have contracts of employment with a notice period for termination of 12 months.
- Non-executive directors do not have contracts with a fixed duration.

Directors' interests

Beneficial interests of directors holding office at the year-end, and of their families, in Ordinary Shares of the company are set out below:

Name	1 January 2003	31 December 2003	**At 16 March 2004**
M A K Alizai	–	–	**–**
R A Allan	–	1,734	**31,008**
S J Dobbie	10,000	10,000	**10,000**
R V Emerson	10,000	10,000	**10,000**
I Gray	4,000	4,000	**4,000**
C J A Jamieson	172,459	249,458	**279,288**
S C Lockett	–	3,201	**19,024**
D G John*	15,000	15,000	**15,000**
J R W Orange	5,000	5,000	**5,000**
J A van der Welle	73,213	122,814	**141,903**

Note: All shares are shown as post consolidation figures.

* Sir David John's wife has a holding of 1,700 Ordinary Shares.

Directors' interests in share options are shown in the Remuneration Report on pages 16 to 24 together with details of the remuneration of all directors who served during the year.

Substantial shareholders

At 16 March 2004 the company had received notification from the following institutions of interests in excess of three per cent of the issued Ordinary Share capital of the company:

	Number of shares	**Percentage holding**
Fidelity International Ltd	2,867,415	3.47
Barclays plc	3,084,917	3.74
Lansdowne Partners Ltd Partnership	3,611,869	4.38
Artemis Investment Management Ltd	9,863,659	12.21

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 company acts as a holding company for the group and does not have any trade creditors.

Charitable contributions

During the year the company made charitable contributions amounting to £8,665 (2002: £19,465).

Auditors

A resolution to reappoint Ernst & Young LLP as auditors will be put to the Annual General Meeting.

By order of the Board
Stephen Huddle
Company Secretary
16 March 2004

Compliance
This report has been prepared in accordance with the Directors' Remuneration Report Regulations 2002. As required, this Remuneration Report is being put to shareholders at the forthcoming Annual General Meeting for an advisory vote.

Throughout 2003, the company complied with Schedule A of the Combined Code regarding best practice on the design of performance related remuneration. The company has given full consideration to the provisions regarding matters to be included in the Remuneration Report set out in Schedule B to the Combined Code.

The remuneration, including pensions and compensation payments, of all executive directors is determined by the Remuneration Committee and ratified by the Board. The Committee is composed entirely of non-executive directors, Mr J R W Orange, who chairs the Committee and is the company's senior independent director, Messrs R V Emerson, S J Dobbie and I Gray. None of the executive directors of the company are involved in determining their own remuneration.

The Committee consults with the Chief Executive and takes independent advice from Inbucon Consulting, a leading firm of remuneration consultants, which is appointed as an advisor to the Committee in respect of executive remuneration and share schemes. Inbucon Administration, a sister company of Inbucon Consulting, administers the company's Executive Equity and Asset Incentive Scheme and the Share Incentive Plan. The Inbucon group does not provide any other services to the company. No other person or company materially assisted the Committee during the year.

Remuneration approach
The company's remuneration policy is to provide remuneration packages which ensure that directors and senior management are fairly and responsibly rewarded for their contributions.

The main components of executive directors' remuneration are basic salary, an annual performance related bonus scheme with a deferred element, benefits, longer-term incentives and pension provision. Remuneration therefore contains a suitable balance of direct performance related remuneration, which links both the short-term financial performance of the group and the long-term shareholder return with the executive's total remuneration. The remuneration package is weighted so that the majority of reward may potentially come from the performance related elements of the package.

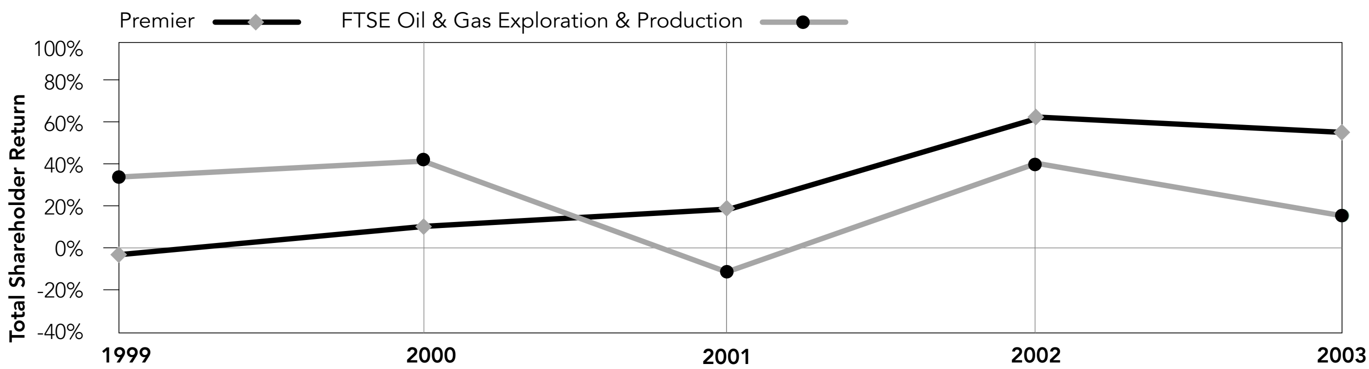
The Committee endorses the principle of mitigation of damages on early termination of a service contract.

It is the Committee's current intention to continue with the above remuneration approach for 2004 and subsequent years, although it will keep the matter under review. The Committee's current intention with regard to share options is that they will be awarded only in special circumstances. The Executive Equity and Asset Incentive Scheme, which was introduced with shareholders' approval in May 2001, expired at the end of 2003. The Committee has considered what type of arrangement is appropriate to replace this scheme and is seeking shareholders' approval of a similar new arrangement at the forthcoming Annual General Meeting.

The company's Articles of Association provides that the remuneration paid to non-executive directors is to be determined by the Board within the limits set by the shareholders.

Performance chart
The chart below shows the company's total shareholder return over the last five financial years compared with the equivalent information in respect of the Oil & Gas Exploration and Production sector, which the Committee considers to be the most relevant equity market index. Although the company underperformed the index in the first two years, it has been ahead of this peer group over the last three years.

Total Shareholder Return Monitoring: Premier vs FTSE Oil & Gas Exploration & Production



Contracts of service

Details of the contracts of employment for the executive directors are as follows:

Director	Effective date of contract	Unexpired term	Notice period	Provision for payment upon early termination
C J A Jamieson	15.09.83	–	24 months	None specified
J A van der Welle	01.04.99	–	24 months	None specified
R A Allan†	09.12.03	–	12 months	None specified
S C Lockett†	09.12.03	–	12 months	None specified
R T Liddell*	04.06.00		12 months	None specified

† Appointed to the Board on 9 December 2003.
* Contract terminated on 31 January 2003.

The Committee has previously agreed that the 24 month notice period for Messrs C J A Jamieson and J A van der Welle will not be renegotiated. However, the contracts for the newly appointed directors, Messrs R A Allan and S C Lockett, are subject to 12 months notice periods and any executive director appointed in the future will be subject to a notice period not exceeding 12 months.

The Committee has considered what compensation commitments, including pension contributions, the executive directors' contracts would entail in the event of early termination other than for non-performance. In certain circumstances, the executive directors may receive compensation upon early termination of a contract. This could amount to two years' remuneration for Messrs C J A Jamieson and J A van der Welle, based on basic salary, bonus, benefits in kind and pension rights during the notice period. For Messrs R A Allan and S C Lockett, this could amount to one year's remuneration based on basic salary, bonus, benefits in kind and pension rights during the notice period.

Mr R T Liddell had a contract of employment with a notice period of termination of 12 months. Mr Liddell's contract was terminated on 31 January 2003 as a result of the restructuring of the company which was announced in September 2002. As described in last year's report, the company agreed a total termination payment with Mr Liddell of £496,320.80**. Of this amount £141,746** related to his pension entitlement, £285,775** related to his twelve month notice period entitlement plus a redundancy payment equal to one month's salary for each year of completed service and £50,000** related to his entitlement to a performance related bonus.

Non-executive directors do not have contracts with a fixed duration.

Remuneration structure
The remuneration package for the executive directors comprises base salary, benefits, bonus, pension, entitlement to participate in the company's all employee share schemes and long-term executive share schemes.

Base salary
Base salary is reviewed each year against other comparable companies in the oil sector and general market data on the basis of companies in similar industries and those of a similar size. The object is to ensure that the base salary, when taken together with the rest of the package, provides a competitive but performance driven remuneration package. The base salaries of the executive directors are currently positioned between the median and the upper quartile.

While salary is reviewed by reference to market conditions, the performance of the company and the performance of the individual, the Committee would not regard this element of remuneration as directly performance related.

** Audited numbers.

Annual bonus scheme

The annual bonus, which is non pensionable, consists of a payment of up to 50 per cent of salary immediately providing certain performance conditions are met, and a deferred payment of up to 50 per cent of salary for the same performance conditions. Payment of the deferred part of the bonus is made in shares and deferred for three years. The deferred element of the bonus is contingent upon the relevant beneficiary remaining in employment for the three years from the date of the award, but is not dependent on any further performance related measures.

The performance measures for 2003 were a combination of operational and financial. They were based as to 60 per cent on the achievement of key targets in exploration and portfolio management, 30 per cent on the achievement of cash flow targets and 10 per cent on the achievement of health, safety and environmental targets.

The annual bonus scheme for the 2004 financial year has the same structure and maximum award level. The performance measures for the 2004 bonus scheme are based as to 25 per cent on cash flow, 65 per cent on the achievement of key targets in exploration, portfolio management and strategic development, and 10 per cent on the achievement of health, safety and environmental targets.

Benefits

Messrs C J A Jamieson and J A van der Welle receive the benefit of a car fully expensed by the company together with petrol cost, and medical insurance.

Messrs R A Allan and S C Lockett receive the benefit of a car allowance and medical insurance.

Summary of actual remuneration (audited)

	Salary and fees 2003 £'000	Benefits in kind* 2003 £'000	Annual cash bonus 2003 £'000	**Total 2003 £'000**	Total 2002 £'000
Executive directors					
R A Allan[3]	14.6	1.4	3.0	**19.0**	–
C J A Jamieson	315.0	21.9	157.5	**494.4**	474.2
R T Liddell[1]	513.0	1.6		**514.6**	417.0
S C Lockett[3]	14.6	1.4	2.5	**18.5**	–
J A van der Welle[2]	203.6	20.8	100.0	**324.4**	320.0
Non-executive directors					
Sir David John (Chairman)	95.6			**95.6**	90.0
J R W Orange (Senior Independent Director)	37.7			**37.7**	35.0
M A K Alizai[4]	18.7			**18.7**	21.2
S J Dobbie	26.9			**26.9**	25.0
R V Emerson	28.0			**28.0**	25.0
I Gray	26.9			**26.9**	25.0
Total for all directors	1,294.6	47.1	263.0	**1,604.7**	1,432.4

Notes:
1. Mr Liddell ceased to be a director on 31 January 2003.
2. £3,600 of Mr van der Welle's remuneration relates to a salary supplement as part of his pension arrangements.
3. Messrs Allan and Lockett joined the Board on 9 December 2003.
4. Mr Alizai was paid US$116,600 (2002: US$116,600) for advisory services undertaken for the group outside the UK.

* Benefits in kind represent car and fuel benefits and medical insurance.

Shares held in trust in respect of the deferred element of the annual bonus for directors are as follows:

	Awarded on 14 March 2001 @ 170p† and released on 13 March 2004	Awarded on 12 March 2002 @ 197.5p† and which will be released on 11 March 2005	Awarded on 11 March 2003 @ 255p† and which will be released on 10 March 2006	**Awarded on 16 March 2004 at 528p and which will be released on 15 March 2007
C J A Jamieson	55,151	29,367	61,000	29,830
R T Liddell	19,091*	19,240*		
J A van der Welle	38,181	19,240	40,000	18,939

* Mr R T Liddell's awards relating to 2000 and 2001 were released on 1 February 2003 under the terms of his termination agreement. Mr Liddell's award relating to 2002 was paid entirely in cash under the terms of his termination agreement. The market price of total shares released as at 1 February 2003 was £107,328.

** Shares to the value of £157,500 to be purchased for Mr Jamieson; and shares to the value of £100,000 to be purchased for Mr van der Welle.

† Mid-market closing price on date of award.

The numbers and prices of shares awarded in 2001, 2002 and 2003 have been adjusted to reflect the 1 for 10 share consolidation on 12 September 2003.

Pension schemes (audited)

Messrs S C Lockett and C J A Jamieson are members of the Premier Oil plc Retirement and Death Benefits Plan (the Scheme). The Scheme is a funded, Inland Revenue approved final salary scheme which provides a pension 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 pensionable salary applicable to Mr S C Lockett under the Scheme is restricted to the Inland Revenue earnings cap.

The company has agreed to provide Mr J A van der Welle with a pension substantially as if he were a contributing member of the Scheme and not subject to the Inland Revenue earnings cap; for life insurance purposes Mr J A van der Welle is a member of the Scheme. The company extended the same provisions to Mr R T Liddell whose service terminated on 31 January 2003.

Mr R A Allan is a member of a money purchase pension arrangement to which the company contributed £1,215 during December 2003; contributions to this arrangement are made in respect of basic annual salary as restricted to the Inland Revenue earnings cap.

Consequent on the appointment of Messrs R A Allan and S C Lockett as directors, the company has agreed to provide them with a pension substantially as if they were contributing members of the Scheme and not subject to the Inland Revenue earnings cap.

The accrued pension entitlements of the directors who were members of the Scheme during 2003 are as follows:

	(a) Accrued pension as at 31 December 2003 £'000 pa	(b) Transfer value in respect of (a) as at 31 December 2003 £'000	(c) Accrued pension as at 31 December 2002 £'000 pa	(d) Transfer value in respect of (c) as at 31 December 2002 £'000	Increase from (d) to (b) less contributions by director during 2003 £'000	(e) Increase in value on basis of Listing Requirements £'000
C J A Jamieson	192.3	3,172.9	172.9	2,577.3	577.7	254.3
R T Liddell	9.2	122.8	8.6	98.9	23.0	5.3
S C Lockett	14.6	71.3	11.9	52.4	14.2	7.7
J A van der Welle	17.4	135.3	13.3	93.2	31.1	19.4

Notes:

1. The amounts of accrued pension under (a) and (c) represent the deferred pension entitlements of the director as at the stated dates.
2. The transfer values under (b), (d) and (e) have been calculated on the basis of actuarial advice in accordance with the guidance note 'GN11: Retirement Benefit Schemes – Transfer Values' issued by the Institute of Actuaries and the Faculty of Actuaries.
3. The amounts under (e) 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.
4. The values stated in respect of Messrs R T Liddell and J A van der Welle correspond with the target level of their final salary pension provision; in practice, the pension benefits for these directors are established through individual money purchase arrangements. Mr R T Liddell left service on 31 January 2003 and the accrued pension under (a) relates to service completed to that date.
5. Members of the Scheme have the option to pay additional voluntary contributions. Neither the contributions nor the resulting benefits are included in the above table.

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

	Amount of unfunded pension paid during 2003 £	Amount of unfunded pension paid during 2002 £
J A Heath	27,549	26,772
R J Lascelles	25,838	25,109
R C Shaw (deceased 19 December 2003)	84,777	82,388

Share option schemes (audited)

The company believes that share ownership by executive directors and senior executives strengthens the link between their personal interests and those of shareholders. The company currently operates three share option schemes. The Scheme of Arrangement (page 27) has affected two of these schemes. In addition, and because of the effect of the Scheme of Arrangement, the company has adopted two new share option schemes to replace the Executive Share Option Scheme 1995 and the Savings Related Share Option Scheme 1999.

All numbers of shares and option prices in the following text have been adjusted to reflect the 1 for 10 share consolidation which occurred on 12 September 2003.

Executive Share Option Scheme 1985

Share options awarded under this scheme can be exercised at the holder's discretion between three and ten years after being awarded. After ten years the options expire. No grant of options under this scheme has taken place since 1994. The Scheme of Arrangement has not affected this scheme because all outstanding options are already exercisable.

Options held under this scheme by Mr C J A Jamieson during the financial year are listed in the table below.

Director	Date of grant	Exercisable dates	Acquisition price per option (£)	Options held at 01.01.03	Event	Mid market price on date of exercise (£)	Options held at 31.12.03
C J A Jamieson	30.03.93	30.03.96–30.03.03	2.619	21,000	Lapsed 30.03.03		
	27.04.94	27.04.97–27.04.04	2.85	16,000	Exercised 13.11.03	4.09	
	18.10.94	18.10.97–18.10.04	2.55	15,000			15,000
				52,000			**15,000**

These options have become exercisable without the need to fulfil a performance requirement. This is because the scheme was introduced and approved by shareholders at a time when performance criteria were not required by shareholders.

Executive Share Option Scheme 1995

Options granted under the 1995 scheme are normally exercisable not less than three years after their date of grant and will lapse (unless previously exercised) on their tenth anniversary. Options cannot be exercised until pre-determined performance conditions have been achieved. For options granted prior to 2000, the performance requirement was that the share price plus the value of dividends paid must, as measured at the end of any consecutive three-year period, have grown at a rate equal to or greater than the Oil Exploration and Production Index over the same period*. Options granted during and after 2000 are dependent upon growth in the company's earnings per share of at least 3 per cent pa compound above the retail price index over a three-year period. The Committee believes that this is a challenging performance measure that in the long-term should reflect a good shareholder return.

The options could be exercised within six months of the court approving the Scheme of Arrangement or the options could be rolled over into options over shares of the new company. Where the option holder elected to rollover his options the performance criteria will continue to apply.

* The companies in the group consisted of Cairn Energy plc, Dana Petroleum plc, Paladin Resources plc, Premier Oil plc, Soco International plc, Tullow Oil plc and Venture Production plc.

Messrs C J A Jamieson, R T Liddell, S C Lockett and J A van der Welle held options under this scheme during the financial year which are listed in the table below.

Director	Date of grant	Exercisable dates	Acquisition price per option (£)	Options held at 01.01.03	Event	Mid market price on date of exercise (£)	Options held at 31.12.03
R A Allan	–	–	–	–	–		–
C J A Jamieson	26.04.96	26.04.01–26.04.06	3.175	57,600	–		57,600
	07.04.97	07.04.02–07.04.07	4.00	57,600	–		57,600
	16.04.98	16.04.03–16.04.08	3.725	57,600	–		57,600
	29.10.99	29.10.02–29.10.09	1.725	180,000	–		180,000
	20.04.00	20.04.03–19.04.10	1.25	24,000	–		24,000
	20.04.00	20.04.03–19.04.10	1.25	80,000	–		80,000
	18.09.00	18.09.03–17.09.10	1.40	371,429	–		371,429
				828,229			**828,229**
R T Liddell	18.09.00	18.09.03–17.09.10	1.40	21,428	–*		21,428
	18.09.00	18.09.03–17.09.10	1.40	107,143	–*		107,143
	15.03.01	15.03.04–14.03.11	1.65	109,091	–*		109,091
				237,662			**237,662**
S C Lockett	26.04.96	26.04.01–26.04.06	3.175	7,680			7,680
	07.04.97	07.04.02–07.04.07	4.00	7,680			7,680
	16.04.98	16.04.03–16.04.08	3.725	7,680			7,680
				23,040			**23,040**
J A van der Welle	06.04.99	06.04.02–06.04.09	1.35	7,407	3,361 exercised 13.11.03	4.09	4,046
	06.04.99	06.04.03–06.04.09	1.35	7,407			7,407
	06.04.99	06.04.04–06.04.09	1.35	7,407			7,407
	06.04.99	06.04.02–06.04.09	1.35	159,259			159,259
	06.04.99	06.04.03–06.04.09	1.35	159,259	60,106 exercised 13.11.03	4.09	99,153
	06.04.99	06.04.04–06.04.09	1.35	159,259	Exercised 13.11.03	4.09	
	15.03.01	15.03.04–14.03.11	1.65	54,545	Exercised 13.11.03	4.09	
				554,453			**277,272**

* Following Mr Liddell's redundancy his new exercisable dates are as follows:
128,571 options : 01.02.03 – 31.07.03 or 18.09.03 – 17.03.04: these options were exercised on 13.02.04.
109,091 options : 01.02.03 – 31.07.03 or 15.03.04 – 14.09.04.

There have been no changes in share options held by current directors since the year-end.

The market price of the company's shares at 31 December 2003 was 455 pence (31 December 2002: 290 pence) and the range during 2003 was 237.5 pence to 457.5 pence, as adjusted by the Scheme of Arrangement.

Executive Share Option Scheme 2003

This scheme replaced the 1995 scheme on completion of the Scheme of Arrangement. Options granted under the 2003 scheme are normally exercisable not less than three years after their date of grant and will lapse (unless previously exercised) on their tenth anniversary. Options cannot be exercised until pre-determined performance conditions have been achieved. No options were granted to directors in 2003 under this scheme.

Savings Related Share Option Scheme 1999

Under this scheme, approved by shareholders on 18 May 1999, employees (including executive directors) with six months or more continuous service are invited, within a period of 42 days of the announcement of the annual and interim results, to join the scheme. Employees may save between £5 and £250 per month, through payroll deduction for a period of three or five years, after which time they can acquire shares at a discount of up to 20 per cent of the market value set at the time of invitation.

Director	Date of grant	Options held at 01.01.03	Exercisable dates	Acquisition price per option (£)	Event	Options held at 31.12.03
R A Allan	23.04.02	9,093	01.06.07–01.12.07	1.82		9,093
R T Liddell	23.04.02	5,217	01.02.03–31.07.03	1.82	Lapsed	–
J A van der Welle	24.04.00	8,649	01.06.03–01.12.03	1.12	Exercised	–

Savings Related Share Option Scheme 2003

This scheme replaced the 1999 scheme on completion of the Scheme of Arrangement. Its terms are similar to those of the 1999 scheme. No options have been granted under the 2003 scheme to date.

Gains made on all directors' share options

Gains made by directors during the period are as follows:

Director	Date of exercise share	Number of shares exercised	Acquisition price per exercise (£)	Market value per share (£)	Gain per share (£)	Total gain (£)
J A van der Welle	30.06.03	8,649	1.12	3.125	2.005	17,341.24
	13.11.03	3,361	1.35	4.09	2.74	9,209.14
	13.11.03	60,106	1.35	4.09	2.74	164,690.44
	13.11.03	159,259	1.35	4.09	2.74	436,369.66
	13.11.03	54,545	1.65	4.09	2.44	133,089.80
						760,700.28
C J A Jamieson	13.11.03	16,000	2.85	4.09	1.24	19,840.00
						19,840.00

(Gain made during 2002 – Mr C J A Jamieson: £6,135.00)

Premier Oil plc Executive Equity and Asset Incentive Scheme (audited information)
The Executive Equity and Asset Incentive Scheme is a one-off scheme designed to reward an improvement in the net asset value and the market value of the company over a three-year period (the executive directors participate in the scheme as well as some 30 other executives). The scheme has two bonus pools, each pool being dependent upon one of the following two performance measures.

The equity bonus pool is created by comparing the market value calculated by reference to the average share price for the six months prior to the start of the period (16 May 2001) with the market value similarly calculated three years later. The asset bonus pool is based upon the increase in the appraised net asset value of the business over a three-year period, from the start of 2001 to the end of 2003.

In either case there is no bonus pool unless there has been an increase in the relevant performance measure of at least 12 per cent compound per annum over a three-year period. When a growth of 12 per cent compound per annum has been achieved then a bonus pool is created which is equal to 1 per cent of the increase in that measure. When the growth is 25 per cent or more compound per annum, then a bonus pool is created which is equal to 2.5 per cent of the increase in that measure. Between the above two points a proportionate calculation is undertaken. The Committee believes that the growth in net asset value and the market value of the company are good short and long-term indicators of corporate performance and should reflect rewards only when the shareholders have also received reward.

In addition, vesting under either pool is dependent upon the Committee being satisfied that there has been an improvement in the underlying performance of the company over the three-year period.

The bonus pools are then distributed, with up to 33 per cent to the executive directors, 40 per cent to other executives and the remainder on a discretionary basis. The individual participation is calculated according to a points system, the points being referred to as 'participation points'. Each participant has been awarded a number of participation points and these are compared to the aggregate number of participation points awarded for the purposes of calculating the individual's entitlement to part of any bonus pool. Mr C J A Jamieson was granted 290 participation points and Messrs J A van der Welle and R T Liddell were both awarded 190 participation points in the executive directors pool on 16 July 2001. Messrs R A Allan and S C Lockett were awarded 1.5 points and 1.1 points respectively, in both executive and discretionary pools. The benefits under the scheme are paid half in cash and half in shares (by dividing the cash value by the share price on the day prior to release of the award). The cash payment will be released in 2004. The shares have an additional holding period of six months before they are released.

As part of the termination package agreed with Mr R T Liddell, it was agreed that awards made to him under the scheme vested in their entirety, and outstanding awards vested and will be released without deduction on a pro-rata basis. Mr Liddell has elected that his awards will vest on the normal vesting date and otherwise in accordance with the rules of this scheme.

Awards under this scheme (half in cash and half in shares) vested subject to performance up to the date of the Scheme of Arrangement. Some participants elected to receive their awards at that date. Mr R A Allan received £245,735 and Mr S C Lockett received £179,314 under the scheme. These awards vested prior to them becoming directors. As an alternative, participants were able effectively to roll over their awards under the scheme to reflect the restructuring of the company. In this case, awards will vest subject to performance at the maturity of the scheme. Messrs C J A Jamieson and J A van der Welle followed this course of action.

An independent external valuation of the asset pool was undertaken at the date of the Scheme of Arrangement to establish the difference between the base valuation and terminal valuation of the assets and the amount of such payments. At that date, the total value of the pools was as follows:

	Total pool size
Equity pool @ £2.6724*	£2,782,651
Asset pool	£3,862,076
Total pools	£6,644,727

* Six month share price average to 14 July 2003.

The remaining awards are due to vest at the end of the second quarter of 2004. The cash element of the award will be released immediately after vesting, the number of shares to be awarded will be calculated on the same date, but the shares will not be released until six months after the vesting date.

Premier Oil plc Share Incentive Plan (audited)
Under this plan, employees may make contributions to acquire shares in the company (Partnership Shares). In addition to the Partnership Shares, the Board has awarded a number of shares to each employee being an outright award of shares (Free Shares), and 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.

In the case of the award of Free Shares and Matching Shares the company has not required performance criteria to be fulfilled, as the purpose of the scheme was to allow all employees to become shareholders in the company.

The company made an award of Free Shares to all company employees in the UK and overseas on 8 February 2002 of 526 shares per employee. Following the 1 for 10 share consolidation, these have been adjusted to 52 or 53 shares in a manner approved by the Inland Revenue. These shares will be held in a trust for a period of three years after which each director may leave the shares in trust, hold the shares in his own name, or sell them provided the director is in employment at the end of the three-year period.

Should an employee leave the scheme before the end of the three-year period he will lose the right to the Matching Shares, unless he leaves due to injury, redundancy, transfer of business, retirement, death or sale of the company.

The company invites all UK employees to make contributions to acquire Partnership Shares on a monthly basis. Messrs R T Liddell and J A van der Welle contributed the maximum monthly amount of £125 to the plan. Messrs R A Allan and S C Lockett also contribute the maximum £125 per month to the plan, but did not receive an award of shares between their appointment as directors and 31 December 2003 due to purchases being made at the start of each month. The plan was amended following the Scheme of Arrangement to allow the use of shares in the new company.

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

	Shares held on 1 January 2003	Total Partnership Shares purchased in 2003 at prices between 270p and 423.5p	Total Matching Shares awarded in 2003 at prices between 270p and 423.5p vesting in 2006	Shares ceasing to be subject to the plan during the year	Shares held on 31 December 2003	Partnership and Matching Shares acquired between 1 January and 27 February 2004
R A Allan	784	475	475	–	1,734	104
C J A Jamieson	52	–	–	–	52	–
R T Liddell	792	87	87	966	–	N/A
J A van der Welle	793	475	475	–	1,743	102
S C Lockett	793	475	475	–	1,743	102

By order of the Board
Stephen Huddle
Company Secretary
16 March 2004

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the company and of the group as at the end of the financial year; and the profit and loss account shall give a true and fair view of the profit or loss of the company and of the group for the financial year. In preparing the accounts the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent; and
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the group and enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditors' report to the members of Premier Oil plc
We have audited the group's financial statements for the year ended 31 December 2003 which comprise the Consolidated Profit and Loss Account, Consolidated Balance Sheet, Company Balance Sheet, Consolidated Cash Flow Statement, Consolidated Statement of Total Recognised Gains and Losses, Reconciliation of Consolidated Shareholders' Funds and the related notes 1 to 25. These financial statements have been prepared on the basis of the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors
The directors are responsible for preparing the Annual Report, including the financial statements which are required to be prepared in accordance with applicable United Kingdom law and accounting standards as set out in the Statement of Directors' Responsibilities in relation to the financial statements.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions with the group is not disclosed.

We review whether the Corporate Governance Statement reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises the Directors' Report, unaudited part of the Directors' Remuneration Report, Chairman's Statement, Operating and Financial Reviews and Corporate Governance Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion
We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report to be audited.

Opinion
In our opinion:

- The financial statements give a true and fair view of the state of affairs of the company and of the group as at 31 December 2003 and of the profit of the group for the year then ended; and

- The financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP
Registered Auditor
London
16 March 2004

ACCOUNTING POLICIES

Accounting convention
The accounts are prepared under the historical cost convention and in accordance with the Oil Industry Accounting Committee Statement of Recommended Practice – 'Accounting for Oil and Gas Exploration, Development, Production and Decommissioning Activities' and applicable accounting standards.

During the year, the group has adopted a more commonly used method of calculation of Indonesian deferred tax. This change has resulted in Indonesian deferred tax now being calculated on a timing difference basis in line with other corporate taxes. This change in the method of calculation has given rise to an increase in the deferred tax liability in 2002 reflected as a prior year adjustment of £56.5 million, of which £33.1 million was released in 2003, related to the assets disposed of as part of the corporate restructuring. The profit for 2002 has been adjusted for an additional charge of £2.4 million and in 2003 the impact of the change has been to reduce the tax charge by £6.9 million.

Consolidation
Except as noted below, the group accounts consolidate the accounts of Premier Oil plc (the company) and all its subsidiary undertakings drawn up to 31 December each year. No profit and loss account is presented for the company as provided by Section 230 of the Companies Act 1985. Entities in which the group holds an interest on a long-term basis and are jointly controlled by the group and one or more other venturers under a contractual arrangement are treated as joint ventures. In the group accounts Premier's proportion of operating profit or loss, exceptional items, interest, taxation, gross assets and gross liabilities of the joint ventures are included (gross equity method).

The company was incorporated on 31 July 2002 having the name Dalglen (No. 836) Ltd. The name was changed on 13 September 2002 to Premier Oil Group Ltd. On 10 March 2003 the company re-registered as a public limited company. Up to 11 March 2003 the company's assets and paid up capital amounted to £2 (two shares of £1 each) and it did not trade, declare or pay any dividends or make any other distributions.

Effective from 15 July 2003, the company acquired 100 per cent of the issued share capital and Non-Voting Convertible Shares of Premier Oil Group Ltd (formerly Premier Oil plc) and also changed its name to Premier Oil plc following a Scheme of Arrangement under section 425 of the Companies Act 1985.

The Scheme of Arrangement (Court Scheme) involved the cancellation of the issued share capital of Premier Oil Group Ltd amounting to £78,885,490 (1,577,709,801 shares of 5 pence each) and Non-Voting Convertible Shares of £1,138,364 (22,767,288 shares of 5 pence each); the issuance of £63,211,672 (1,577,709,801 shares of 4 pence each) of share capital and £912,183 (22,767,288 shares of 4 pence each) of Non-Voting Convertible Shares of Premier Oil Group Ltd to the company. For each Ordinary Share cancelled, one 17.5 pence Ordinary Share was issued to the former shareholders of Premier Oil Group Ltd and for each Non-Voting Convertible Share cancelled, one 17.5 pence Non-Voting Convertible Share was issued to the former holders of similar shares in Premier Oil Group Ltd.

On 12 September 2003, the company pursuant to the same Court Scheme, reduced and consolidated its authorised, issued and paid up share capital as follows:
- Cancelling paid up capital on each Ordinary Share and each Non-Voting Convertible Share to the extent of 12.5 pence and reducing the nominal value of each of those shares from 17.5 pence to five pence;
- Cancelling the Ordinary Shares and Non-Voting Convertible Shares in the names of Amerada Hess Ltd and Petronas International Corporation Ltd;
- Every 10 Ordinary Shares of five pence each in issue were consolidated into one Ordinary Share of 50 pence.

The Court Scheme has been accounted for in accordance with the principles of merger accounting as it satisfies the criteria under 'group reconstruction' provisions of FRS 6 – 'Acquisitions and Mergers'. The combined results have been presented as if the Court Scheme has been in effect since 1 January 2002. The consolidated profit and loss account combines the results of the company with those of the Premier Oil group for the year ended 31 December 2003. The comparative figures combine the results of the company from incorporation to 31 December 2002 with those of the Premier Oil group for the year ended 31 December 2002. The comparative consolidated balance sheet as at 31 December 2002 combines the balance sheet of the company and that of Premier Oil group as at that date.

Turnover
Turnover represents the sales value of the group's share of petroleum production during the year. Revenue receivable under take-or-pay gas sales contracts in respect of undelivered volumes is accounted for as deferred income.

Fixed assets
a) Capitalisation of oil and gas expenditure The group follows the full cost method of accounting. All expenditure relating to the acquisition, exploration, appraisal and development of oil and gas interests are capitalised in the relevant cost pools. Proceeds on disposal of an interest are credited to the relevant cost pool.

Considering the impact of the restructuring, the group has revised categorisation of its costs from the previous six costs pools; UK, Southern Europe, Far East, Pakistan, Australia and International to the following five:

North West Europe: This pool will contain group's assets in the UK and any new production assets in the North Sea.

Far East: All investments in and around Far East Asia including Indonesia and Philippines.

West Africa: Exploration and production onshore and offshore Western Africa including group's acquisition of Mauritanian fields and exploration rights in Gabon, Guinea Bissau, and SADR.

South Asia: Exploration interests in Pakistan (excluding PKP joint venture), India and any other South Asian country in the future.

Other: For new development areas.

Intangible fixed assets consisting of expenditure on significant new exploration areas and licences are excluded from the capitalised tangible cost pools pending determination of commercial reserves. Capitalised exploration expenditure is carried forward until either it is declared part of a commercial development or the licence area is abandoned, at which point the relevant total is transferred to the relevant tangible cost pool. Where there are no development and producing assets within the cost pool, the transferred exploration costs are charged immediately to the profit and loss account. The financing cost of borrowings in respect of a field development and related foreign exchange gains and losses are capitalised until production commences from that field.

b) Depreciation Amortisation of expenditure held in each tangible cost pool is provided using the unit of production method based on entitlement to proved and probable reserves of oil and gas and estimated future development expenditure expected to be incurred to access these reserves. Changes in reserves are accounted for prospectively. Pipeline assets are depreciated on a unit of throughput basis. Depreciation on other fixed assets is provided on a straight line basis to write them off over their estimated useful lives but not exceeding five years.

c) Impairment of value An estimate of the discounted future net revenues is made where there are indicators of impairment and compared to the net capitalised expenditure held in each cost pool. Where, in the opinion of the directors, there is an impairment, tangible asset values are written down accordingly through the profit and loss account.

Decommissioning
Provision for decommissioning is recognised in full at the commencement of oil and gas production. The amount recognised is the present value of the estimated future expenditure. A corresponding tangible fixed asset is also created at an amount equal to the provision. 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 reflected as an adjustment to the provision and the fixed asset.

Stores, crude oil and products
These are valued at the lower of cost and net realisable value. Under and over lifts of crude oil and stocks relating to production are recorded at market value.

Deferred taxation
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, with the following exceptions:

- Provision is made for deferred tax that would arise on remittance of the retained earnings of overseas subsidiaries, associates and joint ventures only to the extent that, at the balance sheet date, dividends have been accrued as receivable.
- 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.

Petroleum taxes are provided on a unit of production basis over the estimated remaining life of each producing field. The total tax for each producing field is calculated after deducting all expenditure incurred on that field. Deferred petroleum taxes are provided for on the difference between the amount of tax calculated on the unit of production basis and current tax payable.

Translation of foreign currencies
In the accounts of individual companies, transactions denominated in foreign currencies are recorded in the local currency at actual exchange rates as of the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the period end are reported at the rates of exchange prevailing at the period end. Any gain or loss arising from a change in exchange rate, subsequent to the date of the transaction, is included as an exchange gain or loss in the profit and loss account.

For the purposes of consolidation the closing rate method is used under which translation gains and losses on the opening net assets of overseas undertakings are shown as a movement in reserves. Profit and loss accounts of overseas undertakings and foreign branches are translated at the average exchange rate for the period. Exchange differences on foreign currency loans, to the extent that they relate to investments in operations accounted for in foreign currencies, are taken to reserves.

Pension costs
The group operates a defined benefit pension scheme, which requires contributions to be made to a separately administered fund. Contribution to this fund is charged in the profit and loss account so as to spread the cost of pension over the employees' working lives within the group. The regular cost is attributed to individual years using the attained age method. Variations in pension cost, which are identified as a result of actuarial valuations, are amortised over the average expected remaining working lives of employees in proportion to their expected payroll costs. Differences between the amounts funded and the amounts charged in the profit and loss account are treated as either provisions or prepayments in the balance sheet.

Royalties
Royalties are charged as production costs to the profit and loss account in the period in which the related production is accounted for.

Leasing and hire purchase commitments
Rentals payable for assets under operating leases are charged to the profit and loss account on a straight line basis over the lease term.

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.

Foreign currency forward contracts are used to hedge future foreign currency commitments. Gains and losses on these contracts are recognised at maturity.

The group may enter into interest rate swap transactions in its management of interest rate exposure. Interest rate swap agreements involve the exchange of fixed and floating interest rate payment obligations without exchange of the underlying principal amounts. The results of these transactions are recognised in interest expense in the period hedged by the agreements.

Gains and losses arising on oil price derivatives are recognised in revenues from oil production when hedged volumes are sold.

The group only undertakes derivative transactions that directly relate to the underlying business of the group.

Cash and liquid resources
Cash, for the purposes of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand.

Liquid resources comprise funds held in term deposit accounts.

Joint ventures and joint arrangements
The group accounts for joint arrangements which are not entities by recording its share of the arrangement's assets, liabilities and cash flows.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2003

		Continuing						
	Note	Ongoing operations £ million	Exceptional charges £ million	Operations disposed as part of the Restructuring† £ million	Total continuing £ million	Discontinued operations‡ £ million	Total 2003 £ million	2002 (restated) £ million
Turnover								
Group and share of joint ventures		**165.9**		**42.7**	**208.6**	**49.1**	**257.7**	263.1
Less: share of joint ventures' turnover		**(25.4)**			**(25.4)**	**(49.1)**	**(74.5)**	(64.4)
Group turnover	1	**140.5**	**–**	**42.7**	**183.2**	**–**	**183.2**	198.7
Cost of sales	2	**(74.3)**		**(12.7)**	**(87.0)**		**(87.0)**	(107.0)
Exceptional provision for oil and gas assets								(13.1)
Exploration expenditure written off		**(12.2)**			**(12.2)**		**(12.2)**	(4.6)
Gross profit		**54.0**	**–**	**30.0**	**84.0**	**–**	**84.0**	74.0
Administrative costs		**(11.7)**			**(11.7)**		**(11.7)**	(7.9)
Group operating profit		**42.3**	**–**	**30.0**	**72.3**	**–**	**72.3**	66.1
Share of joint ventures' operating profit		**15.7**			**15.7**	**33.6**	**49.3**	38.0
Total operating profit:								
Group and share of joint ventures		**58.0**	**–**	**30.0**	**88.0**	**33.6**	**121.6**	104.1
Profit on disposal of investment	10		**1.4**		**1.4**		**1.4**	
Exceptional make-whole payment**			**(23.0)**		**(23.0)**		**(23.0)**	
Net interest payable:								
Group	5	**(12.3)**			**(12.3)**		**(12.3)**	(17.8)
Joint ventures	5					**(5.8)**	**(5.8)**	(11.2)
Exchange losses*		**(0.8)**			**(0.8)**		**(0.8)**	(2.5)
Profit on ordinary activities before tax		**44.9**	**(21.6)**	**30.0**	**53.3**	**27.8**	**81.1**	72.6
Tax:								
Group	6	**(22.4)**	**(1.2)**	**(4.1)**	**(27.7)**		**(27.7)**	(38.6)
Joint ventures	6	**(5.4)**			**(5.4)**	**(7.2)**	**(12.6)**	(11.4)
Profit after tax		**17.1**	**(22.8)**	**25.9**	**20.2**	**20.6**	**40.8**	22.6
Earnings per share (pence):								
Basic	7						**30.0**	14.2
Diluted	7						**29.5**	14.2

* Exchange losses relate wholly to the group.

** The payment was made to the holders of the long-term loan notes of the group under the terms of agreement which stipulated a 'make-whole' to be paid if such loan notes were to become repayable before maturity. The earlier repayment was required due to the Restructuring of the group (note 25).

† Relates to Natuna Sea assets, held in Indonesia, which were disposed as part of the Restructuring (note 25). As Premier continues to hold an interest in these assets, this disposal does not satisfy the criteria for discontinued operations in FRS 3 – 'Reporting Financial Performance'.

‡ Relates to Myanmar assets which were disposed as part of the Restructuring and satisfy the FRS 3 criteria for discontinued operations.

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the year ended 31 December 2003

	2003 £ million	2002 (restated) £ million
Net profit for the year excluding share of profits of joint ventures	**9.9**	7.2
Share of joint ventures' profits for the year	**30.9**	15.4
Net profit for the year attributable to members of the parent company	**40.8**	22.6
Exchange difference on retranslation of net assets of subsidiary undertakings	**(15.8)**	(16.7)
Exchange difference on retranslation of net assets of joint ventures	**(3.9)**	(8.3)
Total recognised gains/(losses) relating to the year	**21.1**	(2.4)
Prior year adjustment – Deferred tax	**(56.5)**	
Total recognised losses	**(35.4)**	(2.4)

GROUP RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

For the year ended 31 December 2003

	2003 £ million	2002 (restated) £ million
Total recognised gains/(losses) relating to the year	**21.1**	(2.4)
Restructuring adjustment (note 25)	**(62.4)**	
New shares issued	**2.7**	0.7
Total movements during the year	**(38.6)**	(1.7)
Shareholders' funds at 1 January*	**255.8**	257.5
Shareholders' funds at 31 December	**217.2**	255.8

* Originally £312.3 million before deducting the prior year adjustment of £56.5 million.

Results relating to joint ventures are those of Premier-Kufpec Pakistan BV and Global Resources Ltd. Further details are provided in note 11 to these accounts.

BALANCE SHEETS

As at 31 December 2003

	Note	**Group 2003 £ million**	Group 2002 (restated) £ million	**Company 2003 £ million**	Company 2002 £ million
Fixed assets					
Intangible assets	8	**20.0**	24.3		
Tangible assets	9	**205.7**	400.1		
Investments	10	**6.4**	11.6	**280.1**	
Investments in joint ventures:	11				
Share of gross assets		**79.3**	257.4		
Share of gross liabilities		**(22.5)**	(155.8)		
Total fixed assets		**288.9**	537.6	**280.1**	–
Current assets					
Stocks		**6.1**	7.0		
Debtors, including amounts due after one year	12	**63.1**	81.5	**115.7**	
Cash and short-term deposits	15	**60.9**	145.7		
Total current assets		**130.1**	234.2	**115.7**	–
Creditors: amounts falling due within one year	13	**(79.2)**	(195.7)	**(309.8)**	
Net current assets/(liabilities)		**50.9**	38.5	**(194.1)**	–
Total assets less current liabilities		**339.8**	576.1	**86.0**	
Creditors: amounts falling due after one year including convertible debt	14	**(55.6)**	(201.3)		
Deferred income	14		(11.7)		
Provision for liabilities and charges	17	**(67.0)**	(107.3)		
Net assets		**217.2**	255.8	**86.0**	–
Capital and reserves					
Share capital	19	**40.8**	40.0	**40.8**	
Share premium account	20	**1.9**		**1.9**	
Profit and loss account	20	**174.5**	215.8	**43.3**	
Total equity shareholders' funds		**217.2**	255.8	**86.0**	–

Approved by the Board on 16 March 2004

C J A Jamieson

J A van der Welle

Directors

The accounting policies on pages 27 to 29 and notes on pages 34 to 56 form part of these accounts.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2003

	Note	2003 £ million	2002 £ million
Net cash inflow from operating activities	21a	**138.0**	123.5
Returns on investment and servicing of finance			
Interest received		**3.3**	4.3
Interest paid		**(21.0)**	(21.7)
Exceptional make-whole payment		**(23.0)**	
Loan issue costs		**(1.0)**	
		(41.7)	(17.4)
Taxation			
UK corporation tax paid		**(5.0)**	(4.1)
UK petroleum revenue tax paid		**(13.4)**	(12.6)
Overseas taxes paid		**(8.2)**	(4.0)
		(26.6)	(20.7)
Capital expenditure and financial investments			
Payments to acquire fixed assets		**(32.3)**	(42.2)
Receipts from sale of fixed assets		**5.0**	23.4
Sale of listed investment		**13.2**	
Inflow of funds from joint venture		**1.8**	
Investment of funds in joint ventures			(11.6)
		(12.3)	(30.4)
Acquisitions and disposals			
Restructuring proceeds	25	**154.3**	
Investment of funds in the disposed joint venture	25	**(6.7)**	
Transfer of cash with disposed entities	25	**(10.0)**	
Restructuring costs	25	**(13.3)**	
Investment in associated undertakings		**(6.4)**	
Receipt arising from establishment of new joint venture			6.8
		117.9	6.8
Management of liquid resources			
Net change in short-term deposits		**69.1**	(60.0)
		69.1	(60.0)
Financing			
Issue of Ordinary Share capital		**6.3**	0.7
Repayment of loans		**(417.9)**	
New loans		**154.1**	
Net cash from financing		**(257.5)**	0.7
(Decrease)/increase in cash		**(13.1)**	2.5

Cash flows relating to the joint ventures are excluded in accordance with FRS 9 – 'Associates and Joint Ventures'.

1a) Geographical analysis

Turnover represents amounts invoiced exclusive of sales related taxes for the group's share of oil and gas sales.

	2003 £ million	2002 (restated) £ million
Group turnover by origin and destination		
UK	**81.6**	103.0
Indonesia (destination Singapore)	**101.6**	95.7
Total group turnover	**183.2**	198.7
Joint venture turnover by origin and destination		
Pakistan	**25.4**	17.9
Myanmar (destination Thailand) – discontinued operations	**49.1**	46.5
	257.7	263.1
Group operating profit/(loss) before exceptional items		
UK	**21.1**	25.6
Far East	**63.2**	58.4
West Africa	**(4.5)**	
Other overseas	**(7.5)**	(4.8)
	72.3	79.2
Exceptional provision for oil and gas assets		
UK		(13.1)
	–	(13.1)
Group operating profit	**72.3**	66.1
Share of operating profit in joint ventures – Pakistan	**15.7**	10.8
– Myanmar – discontinued operations	**33.6**	27.2
Profit on disposal of investment	**1.4**	
Net interest	**(18.1)**	(29.0)
Exceptional make-whole payment	**(23.0)**	
Exchange losses	**(0.8)**	(2.5)
Profit on ordinary activities before tax	**81.1**	72.6
Net assets/(liabilities)		
UK	**42.6**	83.8
Far East	**87.3**	227.1
South Asia	**5.7**	
West Africa	**21.8**	9.9
Other overseas	**(1.4)**	13.9
	156.0	334.7
Share of net assets of joint ventures		
Pakistan	**56.8**	54.7
Myanmar – discontinued operations		46.9
	212.8	436.3
Net cash/(debt)	**4.4**	(180.5)
Total net assets	**217.2**	255.8

1b) Comparative information for disposed and discontinued operations

	31 December 2002			
	Continued			
	Ongoing operations £ million	Operations disposed as part of the Restructuring* £ million	Discontinued operations** £ million	Total £ million
Turnover				
Group and share of joint ventures	171.5	45.1	46.5	263.1
Less: share of joint ventures' turnover	(17.9)		(46.5)	(64.4)
Group turnover	153.6	45.1	–	198.7
Cost of sales	(91.2)	(15.8)		(107.0)
Exceptional provision for oil and gas assets	(13.1)			(13.1)
Exploration expenditure written off	(4.6)			(4.6)
Gross profit	44.7	29.3	–	74.0
Administrative costs	(7.9)			(7.9)
Group operating profit	36.8	29.3	–	66.1
Share of operating profit in joint ventures	10.9		27.1	38.0
Total operating profit (including joint ventures)	47.7	29.3	27.1	104.1

* Relates to Natuna Sea assets, held in Indonesia, which were disposed as part of the Restructuring (note 25). As Premier continues to hold an interest in these assets, this disposal does not satisfy the criteria for discontinued operations in FRS 3 – 'Reporting Financial Performance'.

** Relates to Myanmar assets which were disposed as part of the Restructuring and satisfy the FRS 3 criteria for discontinued operations.

2 Cost of sales

	2003 £ million	2002 £ million
Operating costs	**42.0**	48.1
Royalties	**0.2**	5.7
Amortisation and depreciation of tangible fixed assets:		
Oil and gas	**42.8**	51.8
Other	**1.4**	0.9
Amortisation of decommissioning assets	**0.6**	0.5
	87.0	107.0

3 Auditors' remuneration

	2003 £ million	2002 £ million
Audit services*	**0.3**	0.3
Non-audit services – UK	**0.2**	0.5
	0.5	0.8

* Of this, £10,000 (2002: £8,000) relates to the company.

The non-audit services include restructuring, VAT, remuneration, pension and share option scheme assurance services. Occasionally, services are provided in relation to commercial activities and corporate transactions.

4 Employee costs

	2003 £ million	2002 £ million
Staff costs, including executive directors:		
Wages and salaries	**21.1**	13.9
Social security costs	**0.9**	0.6
Pension costs*	**1.5**	1.4
	23.5	15.9
Average number of employees during the year:		
Technical and operations	**281**	311
Management and administration	**151**	167
	432	478

* Of this, the cost of the defined contribution scheme was £473,423 (2002: £487,764).

A proportion of the above, representing time spent on exploration and development activities, is capitalised. The costs in 2003 include the effect of the Executive Equity and Asset Incentive Scheme as detailed in the Remuneration Report on pages 16 to 24.

Details of directors' emoluments, in aggregate and by director, together with details of pension entitlements, share options held and bonus payments, are shown in the Remuneration Report.

5 Interest

a) Interest receivable/(payable) – Group

	2003 £ million	2002 £ million
Receivable:		
Short-term deposits	**3.0**	4.5
	3.0	4.5
Payable:		
Convertible capital bonds	**(1.8)**	(2.2)
Bank loans and overdrafts	**(2.1)**	(4.5)
Guaranteed senior notes	**(9.4)**	(13.9)
Unwinding of discount on decommissioning provision	**(1.0)**	(0.8)
Other	**(1.0)**	(0.9)
	(15.3)	(22.3)
Net interest payable – Group	**(12.3)**	(17.8)

b) Interest receivable/(payable) – Joint ventures

	2003 £ million	2002 £ million
Receivable:		
Short-term deposits	**0.1**	0.5
	0.1	0.5
Payable:		
Long-term bonds – Yetagun project loan	**(5.9)**	(11.6)
Unwinding of discount on decommissioning provision		(0.1)
	(5.9)	(11.7)
Net interest payable – Joint ventures	**(5.8)**	(11.2)

6 Tax on profit on ordinary activities
a) Analysis of tax charge

	2003 £ million	2002 (restated) £ million
Group		
Current tax:		
UK corporation tax on profits	**10.3**	6.2
Adjustments in respect of previous periods		(2.7)
	10.3	3.5
UK petroleum revenue tax	**14.6**	13.3
Overseas tax	**11.5**	10.3
Total current tax (note 6b)	**36.4**	27.1
Deferred tax:		
UK tax	**(10.7)**	7.1
UK petroleum revenue tax		
Overseas tax	**2.0**	4.4
Total deferred tax	**(8.7)**	11.5
Tax on profit on ordinary activities – Group	**27.7**	38.6

Joint ventures		
Overseas tax:		
Current tax	**3.0**	1.7
Deferred tax	**9.6**	9.7
Tax on profit on ordinary activities – Joint ventures	**12.6**	11.4

The effective tax rate of joint ventures is 29 per cent (2002: 42 per cent). The reason for the decrease in effective rate is mainly due to Myanmar joint venture deferred taxation which is calculated using the unit of production method. The Myanmar joint venture was disposed during the year as part of the restructuring (note 25).

6 Tax on profit on ordinary activities continued

b) Factors affecting tax charge

The tax charge is higher than the standard rate of corporation tax in the UK (30 per cent). The difference is explained below:

	2003 £ million	2002 £ million
Group profit on ordinary activities before tax	**37.6**	45.8
Group profit on ordinary activities before tax @ 30 per cent	**11.3**	13.7
Effects of:		
Expenses not deductible for tax purposes	**16.0**	1.6
Accounting depreciation in excess of tax depreciation	**1.5**	3.7
Taxable income not credited to profit and loss account		2.2
Allowable deduction not debited to profit and loss account (primarily UK petroleum revenue tax)	**(4.2)**	(4.1)
Additional charge on ring-fence profits	**2.9**	
Current tax not related to profit before tax (primarily UK petroleum revenue tax)	**14.6**	13.4
Overseas tax	**(5.7)**	(3.4)
Current tax charge	**36.4**	27.1

c) Factors that may affect future tax charges

No provision has been made for deferred tax where potentially taxable gains have been rolled over into replacement assets. Such gains would become taxable only if the assets were sold without it being possible to claim rollover relief. The total amount not provided is £3.3 million (2002: £3.6 million). At present, it is not envisaged that any tax will become payable in the forseeable future.

No deferred tax is recognised on the unremitted earnings of overseas subsidiaries and joint ventures. As the earnings are continually reinvested by the group, no tax is expected to be payable on them in the forseeable future.

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. The diluted earnings per share allows for the full exercise of outstanding share purchase options (note 19) and adjusted earnings. The share numbers quoted below have been adjusted for consolidation of ten Ordinary Shares of five pence each to one Ordinary Share of 50 pence on 12 September 2003, in accordance with the terms of Scheme of Arrangement as detailed in Accounting Policies on page 27.

The share repurchase, under the terms of the Scheme of Arrangement, was at fair value and hence no adjustment to the prior year shares has been made.

Basic and diluted earnings per share are calculated as follows:

	Profit after tax		Weighted average number of shares		Earnings per share	
	2003 £ million	2002 (restated) £ million	2003 million	2002 (restated) million	2003 pence	2002 (restated) pence
Basic	**40.8**	22.6	**136.0**	158.6	**30.0**	14.2
Convertible capital bonds		2.2		2.7		*
Outstanding share options	**0.2**	0.5	**3.2**	7.1	*	*
Diluted	**41.0**	25.3	**139.2**	168.4	**29.5**	14.2

* The inclusion of the outstanding share options in the 2003 calculation produces a diluted earnings per share. In 2002, the inclusion of convertible capital bonds and outstanding share options had no dilutive effect.

8 Intangible fixed assets

	Oil and gas properties						
	North West Europe £ million	Southern Europe £ million	Far East £ million	South Asia £ million	West Africa £ million	Other £ million	Total £ million
Group							
Cost							
At 1 January 2003	5.3		7.8	0.3	10.9		24.3
Exchange movements	(0.5)		(0.7)	(0.1)	(1.0)		(2.3)
Additions during the year	2.8	5.9	3.9	4.2	9.0	1.1	26.9
Transfer to tangible fixed assets	(6.6)	0.7	(10.8)				(16.7)
Exploration expenditure written off		(6.6)			(4.5)	(1.1)	(12.2)
At 31 December 2003	**1.0**	**–**	**0.2**	**4.4**	**14.4**	**–**	**20.0**

9 Tangible fixed assets

	Oil and gas properties						
	North West Europe £ million	Southern Europe £ million	Far East £ million	Other £ million	Pipeline assets £ million	Other fixed assets £ million	Total £ million
Group							
Cost							
At 1 January 2003	518.9	31.2	262.8	32.1	72.5	9.2	926.7
Exchange movements	(47.2)	(2.9)	(5.8)	(1.9)	(3.5)	(0.1)	(61.4)
Additions during the year	4.3		2.1			0.5	6.9
Transfer from intangible fixed assets	6.6	(0.7)	10.8				16.7
Disposals	(6.7)				(0.1)		(6.8)
Restructuring adjustment (note 25)			(113.9)		(35.8)		(149.7)
Elimination of fully written down assets		(27.6)		(30.2)			(57.8)
At 31 December 2003	**475.9**	**–**	**156.0**	**–**	**33.1**	**9.6**	**674.6**
Amortisation and depreciation							
At 1 January 2003	401.4	30.5	51.3	32.1	3.6	7.7	526.6
Exchange movements	(32.9)	(2.9)	(6.9)	(1.9)		(0.1)	(44.7)
Charge for the year	23.3		17.7		2.4	1.4	44.8
Disposals							
Elimination of fully written down assets		(27.6)		(30.2)			(57.8)
At 31 December 2003	**391.8**	**–**	**62.1**	**–**	**6.0**	**9.0**	**468.9**
Net book value							
At 31 December 2003	**84.1**	**–**	**93.9**	**–**	**27.1**	**0.6**	**205.7**
At 31 December 2002	117.5	0.7	211.5	–	68.9	1.5	400.1
Company							
Cost and net book value							
At 1 January and 31 December 2003	**–**	**–**	**–**	**–**	**–**	**–**	**–**
At 1 January and 31 December 2002	–	–	–	–	–	–	–

The impairment test has been carried out using a 10 per cent nominal discount rate, $/£ exchange rate of 1.79 and an oil price forecast of $25.0 (2004), $21.5 (2005), $20.0 (2006), escalated at 2 per cent thereafter.

Cost to the group at 31 December 2003 includes capitalised interest of £13.4 million (2002: £17.3 million). The movement relates to exchange differences on capitalised interest balances.

10 Investments

	Listed £ million	Associated undertakings £ million	Subsidiary undertakings £ million	Total £ million
Group				
Cost				
At 1 January 2003	20.1			20.1
Acquisitions and disposals*	(20.1)	6.4		(13.7)
At 31 December 2003	**–**	**6.4**	**–**	**6.4**
Amounts provided				
At 1 January 2003	8.5			8.5
Acquisitions and disposals*	(8.5)			(8.5)
At 31 December 2003	**–**	**–**	**–**	**–**
Net book value				
At 31 December 2003	**–**	**6.4**	**–**	**6.4**
At 31 December 2002	11.6	–	–	11.6
Company				
Cost				
At 1 January 2003				
Acquisition**			280.1	280.1
Net book value				
At 31 December 2003	**–**	**–**	**280.1**	**280.1**
At 31 December 2002	–	–	–	–

* On 11 June 2003 the group sold its entire shareholding in the Sydney-based quoted company Australian Worldwide Exploration Ltd (AWE) for a net cash amount of AUD$33 million (£13.2 million).

On 28 May 2003 the group acquired, from Fusion Oil & Gas plc (Fusion), a 29.9 per cent interest in both Fusion Mauritania A Ltd (Mauritania A) and Fusion Mauritania B Ltd (Mauritania B) for a consideration of US$10.0 million (£6.4 million). Mauritania B contains PSC B with the newly discovered fields of Chinguetti and Tiof and Mauritania A contains PSC A (Banda discovery). These companies will become fully owned subsidiaries on completion of the agreement with Fusion. The completion of the transaction will occur separately for each company once the Mauritanian Government approves a field development plan for a field in each company or earlier with partners' approval.

** On 9 July 2003 the Court of Session in Edinburgh sanctioned the Scheme of Arrangement and as a result the Premier group of companies has a new holding company which acquired the previous holding company for a one to one share swap as detailed in the Accounting Policies on page 27.

Principal subsidiary undertakings of the company, all of which are 100 per cent owned, are as follows:

Name of company	Business and area of operation	Country of incorporation or registration
Premier Oil Group Ltd	Intermediate holding company, UK	Scotland
Premier Oil Exploration Ltd*	Exploration, production and development, UK	Scotland
Premier Pict Petroleum Ltd*	Exploration, production and development, UK	Scotland
PCO Trading Ltd*	Oil trading, UK	England & Wales
Premier Oil Kakap BV*	Exploration, production and development, Indonesia	Netherlands
Premier Oil Natuna Sea BV*	Exploration, production and development, Indonesia	Netherlands
Premier Oil Holdings Ltd*	Intermediate holding company, UK	England & Wales

Investments in other entities are as follows:

Name of company	Business and area of operation	Classification	Ordinary Shares held %	Country of incorporation or registration
Premier - Kufpec Pakistan BV*	Exploration and production, Pakistan	Joint venture	50.0	Netherlands
Anglo Albanian Petroleum Ltd*	Production and development, Albania	Joint arrangement	50.0	Jersey

* Held through subsidiary undertakings.

11 Investments in joint ventures

	2003 £ million	2002 £ million
Cost		
At 1 January	**101.6**	81.1
Exchange movement	**(3.9)**	(8.3)
Share of profits retained by joint ventures	**30.9**	15.4
Reduction of investment arising from sale of Global Resources Ltd*	**(70.0)**	
Inflow of funds from the joint venture	**(1.8)**	
Investment of funds in joint ventures		13.4
At 31 December	**56.8**	101.6

* On 12 September 2003, the group sold its 50 per cent share in Global Resources Ltd (GRL) to Petronas International Corporation Ltd as part of the Restructuring as detailed in note 25.

Under FRS 9 – 'Associates and Joint Ventures' the group accounts for its 50 per cent share in Premier – Kufpec Pakistan BV (PKP) as interests in joint ventures. The remaining 50 per cent interest in PKP is owned by Kuwait Foreign Petroleum Company KSC (Kufpec).

Premier's share of the net assets of PKP at 31 December 2003 (2002: PKP and GRL) was:

	2003 £ million	2002 £ million
Fixed assets	**68.2**	220.0
Current assets		
Stocks	**1.0**	3.0
Debtors	**7.4**	13.6
Cash and short-term deposits	**2.7**	20.8
Total current assets	**11.1**	37.4
Total assets	**79.3**	257.4
Creditors: amounts falling due within one year	**(4.6)**	(36.8)
Total assets less current liabilities	**74.7**	220.6
Creditors: amounts falling due after one year		(70.5)
Deferred income		(24.6)
Provision for liabilities and charges	**(17.9)**	(23.9)
Net assets	**56.8**	101.6

Included in the joint ventures' results are figures for GRL, with turnover £49.1 million (2002: £46.5 million), profit before tax £27.8 million (2002: £15.9 million), taxation charge £7.2 million (2002: £8.5 million) and profit after tax £20.6 million (2002: £7.4 million). These are shown separately as discontinued operations.

12 Debtors

	Group 2003 £ million	Group 2002 £ million	Company 2003 £ million	Company 2002 £ million
Trade debtors	**23.3**	47.0		
Amounts owed by subsidiary undertakings			**110.7**	
Other debtors	**24.9**	23.2	**5.0**	
Prepayments	**3.2**	5.4		
Taxation recoverable	**11.7**	5.9		
	63.1	81.5	**115.7**	–

13 Creditors: amounts falling due within one year

	Group 2003 £ million	Group 2002 £ million	Company 2003 £ million	Company 2002 £ million
Bank loans due within one year		124.2		
Issue costs		(0.3)		
Trade creditors	**14.6**	15.6		
Amounts owed to subsidiary undertakings			**306.3**	
Corporation tax	**23.5**	11.7		
Other taxes and social security costs	**2.5**	1.2	**0.5**	
Other creditors	**2.4**	4.7		
Accruals	**36.2**	38.6	**3.0**	
	79.2	195.7	**309.8**	–

Included in trade creditors are amounts which relate to the group's exploration and development activities, and those of operated joint ventures.

14a) Creditors: amounts falling after one year including convertible debt

	Group 2003 £ million	Group 2002 £ million	Company 2003 £ million	Company 2002 £ million
Loans due after more than one year (note 15)	**56.5**	202.0		
Issue costs	**(0.9)**	(0.7)		
Amounts owed to subsidiary undertakings				
	55.6	201.3	**–**	–
b) Deferred income				
Indonesia – West Natuna Gas		11.7		
	–	11.7	**–**	–

15 Borrowings

	Group 2003 £ million	Group 2002 £ million	Company 2003 £ million	Company 2002 £ million
Amounts falling due within one year:				
Bank loans		124.2		
Amounts falling due after one year:				
Bank loans	**56.5**			
US$55 million 7.44 per cent series A guaranteed senior notes due 2005*		34.2		
US$20 million 7.56 per cent series B guaranteed senior notes due 2008*		12.4		
US$55 million 7.56 per cent series C guaranteed senior notes due 2008*		34.2		
US$150 million 7.44 per cent guaranteed senior notes due 2008*		93.2		
8 per cent convertible capital bonds due 2005		28.0		
Total borrowings	**56.5**	326.2	**–**	–
Cash:				
Cash at bank and in hand	**3.3**	16.4		
Short-term deposits	**57.6**	129.3		
Total cash	**60.9**	145.7	**–**	–
Net (cash)/debt	**(4.4)**	180.5	**–**	–

* Jointly issued with another group company and guaranteed by certain subsidiary undertakings.

During the year all loans outstanding at 31 December 2002 including convertible capital bonds were repaid as part of the Restructuring.

	Group 2003 £ million	Group 2002 £ million	Company 2003 £ million	Company 2002 £ million
Bank loans analysed by maturity				
Amounts falling due:				
Within one year		124.2		
In more than two years, but not more than five years	**56.5**			
	56.5	124.2	**–**	–
Other loans analysed by maturity				
Amounts falling due:				
In more than one year, but not more than two years		18.6		
In more than two years, but not more than five years		131.8		
In five years or more by instalments		51.6		
Total long-term borrowings	**–**	202.0	**–**	–
Total borrowings	**56.5**	326.2	**–**	–

As at 31 December 2003 US$101.3 million has been drawn under the US$150 million bank revolving credit facility.

16 Obligations under leases

	Group 2003 £ million	Group 2002 £ million
Amounts paid under operating leases:		
Operating lease rentals paid – other operating leases	**18.9**	17.4
	18.9	17.4
Annual commitment under non-cancellable operating leases which expire:		
Within one year	**1.5**	
In two to five years	**14.3**	5.3
Over five years		3.2
	15.8	8.5

The above analysis include group's share of obligations under leases in the incorporated joint ventures and unincorporated joint arrangements.

17 Provision for liabilities and charges

	Group 2003 £ million	Group 2002 (restated) £ million
Decommissioning costs	**9.6**	8.6
Warranties	**1.4**	1.6
Deferred UK petroleum revenue tax	**8.7**	8.6
Deferred corporation tax	**15.2**	24.9
Deferred overseas tax	**32.1**	63.6
	67.0	107.3

Decommissioning costs	Group 2003 £ million	Group 2002 £ million
At 1 January	**8.6**	7.6
Revision arising from change in estimate of future decommissioning costs	**0.2**	0.2
Unwinding of discount on decommissioning provision	**0.8**	0.8
	9.6	8.6

All decommissioning costs in the group relate to UK oil and gas interests, which are provisionally expected to be incurred between 2004 and 2027.

17 Provision for liabilities and charges continued

	Group 2003 £ million	Group 2002 (restated) £ million	Company 2003 £ million	Company 2002 £ million
Deferred UK petroleum revenue tax				
At 1 January	**8.6**	8.6		
Exchange difference	**0.1**			
	8.7	8.6	**–**	–
Deferred corporate taxes				
At 1 January	**24.9**	18.3		
Exchange difference	**1.0**			
Charge for the year		6.6		
Provision release	**(10.7)**			
	15.2	24.9	**–**	–
Deferred overseas tax				
At 1 January	**63.6**	59.2		
Restructuring adjustment (note 25)	**(33.1)**			
Exchange difference	**(0.4)**			
Charge for the year	**2.0**	4.4		
	32.1	63.6	**–**	–

The majority of deferred tax balances arose as a result of timing differences in relation to capital allowance deductions.

The overseas deferred tax balances for 2002 have been restated to take into account a change in the method of calculating Indonesian deferred tax as detailed in the Accounting Policies on page 27.

18 Financial instruments

An outline of the objectives, policies and strategies pursued by the group in relation to financial instruments is set out in the Financial Review on pages 4 and 5 of this report.

Short-term debtors and creditors have been excluded from the following disclosure, except currency risk disclosure, as permitted by FRS 13 – 'Derivatives and Other Financial Instruments: Disclosures'.

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	
Currency	Fixed rate £ million	Floating rate £ million	Total £ million	Weighted average interest rate %	Weighted average period for which rate is fixed years
2003					
US$		56.5	56.5		
	–	**56.5**	**56.5**	**–**	**–**
2002					
Sterling	28.0		28.0	8.0	2.3
US$	174.0	124.2	298.2	7.5	3.3
	202.0	**124.2**	**326.2**	**7.5**	**3.2**

The floating rate financial liabilities comprise bank borrowings bearing interest at rates set by reference to US$ LIBOR.

18 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 2003 was:

Currency	Floating rate £ million	Interest-free £ million	Total £ million
Cash and short-term deposits:			
Sterling	51.5		51.5
US$	9.0		9.0
Other		0.4	0.4
Total	**60.5**	**0.4**	**60.9**

The interest rate profile of the financial assets of the group as at 31 December 2002 was:

Currency	Floating rate £ million	Interest-free £ million	Total £ million
Cash and short-term deposits:			
Sterling	118.4		118.4
US$	21.5	5.5	27.0
Other		0.3	0.3
	139.9	**5.8**	**145.7**
Investments:			
Aus$		11.6	11.6
Total	**139.9**	**17.4**	**157.3**

The floating rate cash and short-term deposits comprise of cash held in interest bearing current accounts and deposits placed on the money markets for periods ranging from overnight to three months.

Cash of £0.4 million (2002: £5.8 million) on which no interest is received relates to balances available to meet immediate operating payments and are therefore only held for short periods interest-free.

Currency risk

The table below shows the extent to which the group has monetary assets and liabilities in currencies other than the functional currency of the operating company involved. These exposures give rise to the net exchange gains and losses recognised in the profit and loss account.

At 31 December 2003, the exposures were as follows:

	Net foreign currency monetary assets/(liabilities) – £ million			
Functional currency	Sterling	US$	Other	Total
Sterling		8.4	0.1	8.5
US$	(6.4)			(6.4)
	(6.4)	**8.4**	**0.1**	**2.1**

At 31 December 2002, exposures were as follows:

	Net foreign currency monetary assets/(liabilities) – £ million			
Functional currency	Sterling	US$	Other	Total
Sterling		19.8	0.1	19.9
US$	(15.0)		(0.1)	(15.1)
	(15.0)	**19.8**	**–**	**4.8**

Maturity of financial liabilities

The maturity profile of the group's financial liabilities, other than short-term creditors such as trade creditors and accruals, are set out in note 15.

18 Financial instruments continued

Borrowing facilities

The group has various borrowing facilities available to it. The undrawn committed facilities available at the year end are:

	2003 £ million	2002 £ million
Expiring in less than one year		31.1
Expiring in more than one year, but not more than two years		130.4
Expiring in more than two years, but not more than five years	27.2	
	27.2	161.5

Fair values of financial assets and financial liabilities

Set out below is a comparison by category of book values and fair values of all the group's financial assets and liabilities:

	2003		2002	
	Carrying amount £ million	Estimated fair value £ million	Carrying amount £ million	Estimated fair value £ million
Long-term financial assets				
Fixed asset investments			11.6	11.9
Primary financial instruments held or issued to finance the group's operations				
Cash and short-term deposits	60.8	60.8	145.7	145.7
Bank loans	(56.5)	(56.5)	(124.2)	(124.2)
8 per cent convertible capital bonds			(28.0)	(28.0)
Guaranteed senior notes			(174.0)	(189.8)
Derivative financial instruments held or issued to hedge the group's exposure on expected future sales				
Forward commodity contracts		(2.5)		(2.4)

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 but are not necessarily indicative of the amounts that the group could realise in the normal course of business. In the case of the guaranteed senior notes where no market value is readily available, fair value has been determined by discounting the expected cash flows at prevailing interest and exchange rates.

Hedges

	Gains £ million	Losses £ million	Total net gains/(losses) £ million
2003			
Losses included in 2003 which arose in 2002	–	(2.4)	(2.4)
Unrecognised losses on hedges at 31 December 2003	–	(2.5)	(2.5)
of which: losses expected to be recognised in 2004	–	(2.5)	(2.5)
2002			
Gains included in 2002 which arose in 2001	2.6	–	2.6
Unrecognised losses on hedges at 31 December 2002	–	(2.4)	(2.4)
of which: losses expected to be recognised in 2003	–	(2.4)	(2.4)

19 Share capital – Company

Ordinary Shares	31 December 2003 50p shares	31 December 2003 £	31 December 2002 £1 shares	31 December 2002 £
Authorised	311,904,002	155,952,001	50,002	50,002
Called up, issued and fully paid	81,692,706	40,846,353	2	2

Non-Voting Convertible Shares	31 December 2003 17.5p shares	31 December 2003 £	31 December 2002 17.5p shares	31 December 2002 £
Authorised	9,487,317	1,660,280	–	–
Called up, issued and fully paid	–	–	–	–

Redeemable Preference Shares	31 December 2003 £1 shares	31 December 2003 £	31 December 2002 £1 shares	31 December 2002 £
Authorised	–	–	49,998	49,998
Called up, issued and fully paid	–	–	–	–

Details of the group share capital are given in note 20.

The company issued 49,998 fully Redeemable Preference Shares on 11 March 2003.

The preference shares which were issued at par, were redeemable 100 years from the date of issue or prior thereto at the option of the company. They carried a dividend of 3 per cent per annum, payable annually in arrears, on 31 December. The dividend rights were cumulative. No such dividend was payable in respect of any period ending on or before 31 December 2003.

Pursuant to the Scheme of Arrangement the share capital of the company was amended from 15 July to 12 September 2003 as follows:

- Authorised share capital was increased from £100,000; (made up of 50,002 Undesignated Shares of £1 each (Undesignated Shares) and 49,998 of Redeemable Preference Shares of £1 each (Redeemable Preference Shares) of which 2 Undesignated Shares and all of the Redeemable Preference Shares had been issued and were fully paid up); to £399,394,556 (made up of 50,002 Undesignated Shares, 49,998 Redeemable Preference Shares and 15,971,782,235 shares of 2.5 pence each).
- All of the issued Redeemable Preference Shares were redeemed and cancelled and all of the Undesignated Shares were purchased and cancelled. Each share of related authorised capital was redesignated as Ordinary Share capital and divided into 40 shares of 2.5 pence each.
- Every seven authorised but unissued shares of 2.5 pence each were consolidated into one share of 17.5 pence each.
- Of the resulting 2,282,254,605 unissued shares of 17.5 pence each, 2,250,000,000 were redesignated as Ordinary Shares and 32,254,605 were redesignated as Non-Voting Convertible Shares.
- 1,577,709,801 Ordinary Shares and 22,767,288 Convertible Shares were allotted under the Court Scheme to the former shareholders of Premier Oil Group Ltd (formerly Premier Oil plc).
- 9,871,453 Ordinary Shares were allotted on the exercise of options under the company's share options schemes (see below).
- Authorised share capital of the company was reduced from £399,394,556 (divided into 2,250,000,000 Ordinary Shares of 17.5 pence each and 32,254,605 Non-Voting Convertible Shares of 17.5 pence each) to £157,612,281 (divided into 800,574,410 Ordinary Shares of 5 pence each, 662,418,746 Ordinary Shares and 9,487,317 Non-Voting Convertible Shares of 17.5 pence each).
- The issued and fully paid up 787,006,844 Ordinary Shares and 22,767,288 Non-Voting Convertible Shares of Amerada Hess Ltd and Petronas International Corporation Ltd were cancelled (note 25).
- The share capital of the company was then consolidated such that every 10 Ordinary Shares of 5 pence each in issue was consolidated into one Ordinary Share of 50 pence each. In addition, the authorised but unissued Ordinary Shares of 17.5 pence each were consolidated into Ordinary Shares of 50 pence each.

The company has share option schemes under which options to subscribe for the company's shares have been granted to certain executives and employees. During the period 15 July 2003 to 12 September 2003, the company issued 9,871,453 Ordinary Shares of 17.5 pence each under such schemes for an aggregate consideration of £1,825,142.

During the period 13 September to 31 December 2003, the company issued 1,635,265 Ordinary Shares of 50 pence under the share option schemes for an aggregate consideration of £2,637,094.

19 Share capital – Company continued

The following options were outstanding at 31 December 2003 under the 1985 share option scheme:

Exercise date	Expiry date	Ordinary Shares	Option price £
27.04.1997	27.04.2004	37,000	2.850
18.10.1997	18.10.2004	68,000	2.550
		105,000	

The following options were outstanding at 31 December 2003 under the 1995 share option scheme:

Exercise date	Expiry date	Ordinary Shares	Option price £
26.04.2001	26.04.2006	97,440	3.175
07.04.2002	07.04.2007	102,940	4.000
06.04.2002	06.04.2009	163,305	1.350
27.04.2002	27.04.2009	138,500	1.875
29.10.2002	29.10.2009	311,907	1.725
06.04.2003	06.04.2009	106,560	1.350
16.04.2003	16.04.2008	154,940	3.725
20.04.2003	19.04.2010	304,640	1.250
18.09.2003	17.09.2010	809,571	1.400
15.03.2004	14.03.2011	449,515	1.650
06.04.2004	06.04.2009	7,407	1.350
26.10.2004	25.10.2011	28,222	1.800
24.04.2005	23.04.2012	157,260	2.350
28.10.2005	27.10.2012	52,941	2.550
		2,885,148	

The following options were outstanding at 31 December 2003 under the 2003 share option scheme:

Exercise date	Expiry date	Ordinary Shares	Option price £
13.11.2006	12.11.2013	46,387	3.945
		46,387	

The following options were outstanding at 31 December 2003 under the Save As You Earn (SAYE) option scheme 1999:

Exercise date	Expiry date	Ordinary Shares	Option price £
01.06.2004	01.12.2004	32,826	1.440
01.09.2004	01.03.2005	4,500	1.500
01.06.2005	01.12.2005	30,132	1.120
01.06.2005	01.12.2005	29,536	1.820
01.06.2006	01.12.2006	49,214	1.440
01.06.2007	01.12.2007	39,644	1.820
		185,852	

The company has taken advantage of the exemption in UITF 17 for Inland Revenue approved SAYE schemes.

The company also has an Executive Equity and Asset Incentive Scheme, details of which are set out on page 23.

Non-Voting Convertible Shares

The rights and restrictions attached to the Non-Voting Convertible Shares are as follows:

Dividend rights:

The rights of the holders of Non-Voting Convertible Shares to receive dividends shall rank pari passu in all respects with the rights of the holders of the Ordinary Shares in relation to dividends.

19 Share capital – Company continued

Winding up or reduction of capital:

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

Voting rights:

The holders of Non-Voting Convertible Shares shall be entitled to receive notice of, but not to attend, vote or speak at, any General Meeting of the company.

Conversion:

The Non-Voting Convertible Shares shall be converted into fully paid Ordinary Shares on the basis of one Ordinary Share for every Non-Voting Convertible Share so converted, at the times and manner as follows:

- Upon transfer of Non-Voting Convertible Shares to the company with duly executed and stamp stock transfer forms in respect of such shares.
- Where any person who is a holder of the convertible shares ceases to be a permitted holder (a person to whom a Non-Voting Convertible Share is originally issued and any person of subsidiary undertaking or holding company which holds the Non-Voting Convertible Shares).
- Upon the issue of Ordinary Shares by the company pursuant to the exercise of share options under any of the Premier share option schemes.

20 Share capital and reserves

	Note	Share capital £ million	Merger reserve £ million	Capital reserve £ million	Share premium account £ million	Profit and loss account £ million
Group						
At 1 January 2003		79.4	68.2	14.5	138.5	11.7
Prior period adjustment						(56.5)
		79.4	68.2	14.5	138.5	(44.8)
Scheme of Arrangement:						
Cancellation of existing holding company share capital		(79.4)	(68.2)	(14.5)	(138.5)	300.6
Issue of shares in new holding company		280.1				(280.1)
Share options exercised		1.7				(1.7)
Cancellation of Amerada Hess' and Petronas' shares		(141.7)				141.7
Reduction of share capital		(100.1)				100.1
Restated opening balance		40.0	–	–	–	215.8
Shares issued	19	0.8			1.9	
Exchange difference*						(19.7)
Retained profit for the year						40.8
Restructuring adjustment	25					(62.4)
At 31 December 2003		**40.8**	**–**	**–**	**1.9**	**174.5**
Company						
At 1 January 2003						
Shares issued	19	40.8			1.9	
Restructuring adjustment						9.5
Exchange difference						35.8
Loss for the year						(2.0)
At 31 December 2003		**40.8**	**–**	**–**	**1.9**	**43.3**

* Exchange difference arises on translation of net assets of operations accounted for in foreign branches and countries and includes an exchange gain of £5.8 million (2002: £30.6 million) of foreign currency loans that relate to investments in operations accounted for in foreign currencies.

The group's share capital and reserves have been adjusted to take into account the statutory share capital and reserves of the new holding company. The restated share capital of the group in 2002 is made up of 80,057,441 shares (£40,028,721 in total nominal value).

Effective from 15 July 2003, the company acquired 100 per cent of the issued share capital and Non-Voting Convertible Shares of Premier Oil Group Ltd (formerly Premier Oil plc) following a Scheme of Arrangement under section 425 of the Companies Act 1985.

20 Share capital and reserves continued

The Scheme of Arrangement (Court Scheme) involved the cancellation of issued share capital of Premier Oil Group Ltd amounting to £78,885,490 and Non-Voting Convertible Shares of £1,138,364; in exchange for the issuance of £63,211,672 of share capital and £912,182 of Non-Voting Convertible Shares of Premier Oil Group Ltd. For each Ordinary Share cancelled one 17.5 pence Ordinary Share was issued to the former shareholders of Premier Oil Group Ltd and for each Non-Voting Convertible Share cancelled one 17.5 pence Non-Voting Convertible Share was issued to the former holders of similar shares in Premier Oil Group Ltd.

On 12 September 2003, the company pursuant to the same Court Scheme, reduced and consolidated its authorised, issued and paid up share capital as follows:

– Cancelling paid up capital on each Ordinary Share and each Non-Voting Convertible Share to the extent of 12.5 pence and reducing the nominal value of each of those shares from 17.5 pence to 5 pence.

– Cancelling the Ordinary Shares and Non-Voting Convertible Shares in the names of Amerada Hess Ltd and Petronas International Corporation Ltd.

– Every ten Ordinary Shares of 5 pence each in issue were consolidated into one Ordinary Share of 50 pence.

21 Group consolidated cash flow statement analysis

a) Reconciliation of operating profit to net cash flow from operating activities

	2003 £ million	2002 £ million
Operating profit	72.3	66.1
Amortisation	44.8	53.2
Impairment write-downs		13.1
Exploration expenditure written off	12.2	4.6
Deferred income released during the year	(5.9)	
Exchange translation difference	0.3	(3.5)
(Increase)/decrease in stocks	(0.5)	4.6
Decrease/(increase) in debtors	4.8	(9.3)
Increase/(decrease) in creditors	10.0	(5.3)
Net cash inflow from operating activities	138.0	123.5

b) Reconciliation of net cash flow to movement in net debt

	2003 £ million	2002 £ million
(Decrease)/increase in cash in the period	(13.1)	2.5
Cash flow from movement in liquid resources	(69.1)	60.0
Repayment of short-term debt	124.2	
Repayment of long-term loans	139.6	
Change in net debt resulting from cash flows	181.6	62.5
Exchange translation difference	3.3	29.4
Decrease in net debt in the period	184.9	91.9
Opening net debt	(180.5)	(272.4)
Net cash/(debt)	4.4	(180.5)

c) Analysis of net debt

	At 1 January 2003 £ million	Cash flow £ million	Exchange movements £ million	At 31 December 2003 £ million
Cash in hand and at bank	16.4	(13.1)		3.3
Bank loans due within one year	(124.2)	124.2		–
Debt due after one year	(202.0)	139.6	5.9	(56.5)
Short-term deposits	129.3	(69.1)	(2.6)	57.6
Total net (debt)/cash	(180.5)	181.6	3.3	4.4

22 Capital commitments and guarantees

At 31 December 2003, the group had capital commitments on exploration and development licences totalling £1.2 million (2002: £9.0 million), £0.1 million as retainer fees for its alliance partners (2002: £0.1 million), performance guarantees £1.5 million (2002: £0.3 million) and customs guarantees £0.2 million (2002: £0.2 million).

As at 31 December 2003, the group's share of joint venture capital commitments totalled £1.1 million (2002: £32.7 million), and customs guarantees £1.0 million (2002: £0.7 million).

At 31 December 2003, the company had no capital commitments.

23 Group pension schemes

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 under a defined contribution scheme, was started. Both schemes are funded by the payment of contributions to separately administered trust funds. As a consequence of being closed to new entrants, the current service costs of the Scheme (under the FRS 17 – 'Retirement Benefits' valuation) will increase as the members approach retirement.

The pension costs for the Scheme are determined with the advice of an independent qualified actuary. The last formal valuation was undertaken as at 1 January 2002 using the attained age method and market related funding assumptions. The market value of the Scheme assets was £7.9 million. On the method and the assumptions adopted at the time, the assets covered 89 per cent of the members' accrued benefits based on projected pensionable salaries. During 2003, the employer contributed to the Scheme at the rate of 26.0 per cent of pensionable salaries. Based upon the method and assumption adopted for the valuation (after taking into account a lump sum contribution of £0.9 million paid in 2002), the new contribution rate was projected to eliminate the deficit over the future working lifetime of the Scheme's active membership. The ratio of the Scheme's assets to its liabilities under the Minimum Funding Requirement (MFR) was 92 per cent as at 1 January 2002.

The principal financial assumptions adopted for this actuarial valuation were:

	%
Rate of investment return	6.8 pa
Rate of salary increases	4.5 pa
Rate of pension increases	2.5 pa

The following figures have been prepared in compliance with the transitional provisions of FRS 17 – 'Retirement Benefits' by a qualified independent actuary on the basis of the membership data current as at 31 December 2003.

Major assumptions used:

	at 31 December 2003	at 31 December 2002	at 31 December 2001
Discount rate	**5.4% pa**	5.5% pa	5.8% pa
Salary growth	**4.8% pa**	4.3% pa	4.5% pa
Price inflation	**2.8% pa**	2.3% pa	2.5% pa
Increases to pensions in payment	**2.8% pa**	2.3% pa	2.5% pa

Expected rates of return and market value of the Scheme's assets:

	31 December 2003		31 December 2002		31 December 2001	
	Expected rate of return	**Assets £ million**	Expected rate of return	Assets £ million	Expected rate of return	Assets £ million
Equities	**7.1% pa**	**3.9**	7.0% pa	3.2	7.2% pa	4.2
Bonds	**5.1% pa**	**5.2**	5.0% pa	4.0	5.2% pa	3.7
Cash	**3.8% pa**		4.0% pa	0.9	4.0% pa	

Valuations of the Scheme's assets and liabilities:

	31 December 2003 £ million	31 December 2002 £ million	31 December 2001 £ million
Total value of Scheme assets	**9.1**	8.1	7.9
Present value of Scheme liabilities	**11.7**	10.8	10.4
Net pension liability	**(2.6)**	(2.7)	(2.5)

23 Group pension schemes continued

An analysis of the defined benefit cost for the year ended 31 December 2003 is as follows:

	2003 £ million	2002 £ million
Employer current service cost	**(0.3)**	(0.3)
Total operating charge	**(0.3)**	(0.3)
Expected return on pension scheme assets	**0.5**	0.5
Interest on pension scheme liabilities	**(0.6)**	(0.6)
Total other interest payable	**(0.1)**	(0.1)
Actual return less expected return on pension scheme assets	**0.5**	(1.2)
Experience gains arising on pension scheme liabilities	**0.9**	0.2
Changes in the assumptions underlying the present value of pension scheme liabilities	**(1.2)**	
Actuarial loss recognised in the statement of total recognised gains and losses	**0.2**	(1.0)

Analysis of movement in deficit during the year:

	2003 £ million	2002 £ million
At 1 January	**(2.7)**	(2.5)
Total operating charge	**(0.3)**	(0.3)
Total other interest payable	**(0.1)**	(0.1)
Actuarial gain/(loss)	**0.2**	(1.0)
Contributions	**0.3**	1.2
At 31 December	**(2.6)**	(2.7)

History of experience gains and losses:

	2003	2002
Difference between actual and expected return on scheme assets:		
Amount (£ million)	**0.5**	(1.2)
Percentage of scheme assets	**6%**	15%
Experience gains arising on scheme liabilities:		
Amount (£ million)	**0.9**	0.2
Percentage of scheme liabilities	**8%**	2%
Total actuarial gain/(loss) recognised in the statement of total recognised gains and losses:		
Amount (£ million)	**0.2**	(1.0)
Percentage of scheme liabilities	**2%**	9%

The actuarial assessment of the Scheme's funded status under FRS 17 effectively excludes any possibility of future investment gains relative to the returns currently available on corporate bonds; in particular, no allowance is made for 'equity outperformance' as at the balance sheet date. In practice, the Scheme invests in both equities and bonds and the future funding of the Scheme will continue to have regard to the statutory obligations in respect of the MFR and to conventional funding assessments. In respect of the former, the Scheme actuary has confirmed his opinion that the ratio of the Scheme's assets to its liabilities under the MFR at 31 December 2003 was 100 per cent.

No payments were made in respect of unfunded pensions other than those disclosed in the remuneration report. On the same actuarial basis as used to assess the Scheme's pension costs, the capitalised value as at 31 December 2003 of the future payment projected to be made in respect of the unfunded pensions currently in payment is £0.9 million (2002: £1.6 million).

23 Group pension schemes continued

Reconciliations of net assets and reserves under FRS 17

Net assets – Group	2003 £ million	2002 £ million
Net assets as stated in balance sheet	**217.2**	255.8
SSAP 24 prepayment	**(0.8)**	(0.8)
FRS 17 defined benefit liabilities	**(2.6)**	(2.7)
Net assets including defined benefit asset/liabilities	**213.8**	252.3

Reserves – Group	2003 £ million	2002 £ million
Profit and loss reserve as stated in balance sheet	**174.5**	215.8
SSAP 24 prepayment	**(0.8)**	(0.8)
FRS 17 defined benefit liabilities	**(2.6)**	(2.7)
Profit and loss reserve including amounts relating to defined benefit asset/liabilities	**171.1**	212.3

Net assets – Company	2003 £ million	2002 £ million
Net assets as stated in balance sheet	**86.0**	
SSAP 24 prepayment	**(0.8)**	
FRS 17 defined benefit liabilities	**(2.6)**	
Net assets including defined benefit asset/liabilities	**82.6**	–

Reserves – Company	2003 £ million	2002 £ million
Profit and loss reserve as stated in balance sheet	**43.3**	
SSAP 24 prepayment	**(0.8)**	
FRS 17 defined benefit liabilities	**(2.6)**	
Profit and loss reserve including amounts relating to defined benefit asset/liabilities	**39.9**	–

24 Other related party transactions

During the year the group entered into transactions with other related parties. These transactions arose in the ordinary course of business and mainly comprise the advancement of funds to meet the obligations of common interests in oil and gas joint ventures.

	Ownership of the company's ordinary voting shares %	Funds advanced to related parties £ million	Funds received from related parties £ million	Net payable to related party £ million
Related party				
Amerada Hess Ltd				
2003	25.0	8.6	13.0	–
2002	25.0	14.9	0.3	0.8
Petronas International Corporation Ltd				
During 2003 and 2002	25.0	–	–	–

The group has contracted for Amerada Hess Ltd to market the group's crude oil sales from the Fife area fields for which Amerada Hess Ltd charge a marketing fee. During the period, Amerada Hess Ltd charged total fees of £22,783 (2002: £30,158).

On 12 September 2003, the group completed the Restructuring (note 25) which involved sale of assets to Amerada Hess Ltd and Petronas International Corporation Ltd and cancellation of their shareholdings in the company. Both parties ceased to be related parties from that date and information provided in this note is for the period ended 12 September 2003.

25 Restructuring

On 16 September 2002, the group announced that it had reached agreement with the two principal shareholders of the company, Amerada Hess Ltd (Amerada Hess) and Petronas International Corporation Ltd (PICL) on the terms of a restructuring (the Restructuring). The implied consideration received by the group for the assets transferred as part of the Restructuring is US$670 million (£420 million). The effective date of the Restructuring was 30 September 2002. The main commercial elements of the Restructuring, which was completed on 12 September 2003, are as follows:

- the group has transferred its entire 26.67 per cent interest in the Yetagun project offshore Myanmar (the Yetagun Project) and supported the transfer of the operatorship of that project to PICL, in consideration for the cancellation of PICL's 25 per cent Ordinary Shareholding in Premier, the assumption by PICL of the Yetagun Project debt of US$124 million (£78 million) net of cash held by Global Resources Ltd joint venture and a cash payment to the group of US$135 million (£85 million). As part of the agreement, PICL has also agreed an on-sale of a part of the Yetagun Project to other joint venture partners (Myanma Oil and Gas Enterprise, PTTEP International Ltd and Nippon Oil Exploration (Myanmar) Ltd) based on the above mentioned commercial terms;
- the group has transferred a 15 per cent interest in West Natuna Sea Block A (Natuna) in Indonesia, to PICL in consideration for the cancellation of PICL's shares held in Premier and a cash payment to the group of US$100 million (£63 million);
- the group has transferred a 23 per cent interest in Natuna to Amerada Hess in consideration for the cancellation of Amerada Hess' 25 per cent Ordinary shareholding in Premier and a cash payment to the group of approximately US$17 million (£11 million); and
- the group has retained a 28.67 per cent interest in, and the operatorship of, Natuna.

Restructuring adjustment

The impact of the Restructuring on the net assets of the group is as follows:

	Explanatory Notes	£ million
Cash adjustment		
Restructuring proceeds	2	154.3
Transaction costs	3	(13.3)
Investment of funds in the disposed joint venture		(6.7)
Transfer of cash with disposed entities		(10.0)
		124.3
Assets disposed		
Investment in joint venture	4	(70.0)
Tangible fixed assets	5	(149.7)
Net current assets (excluding cash)	6	(5.9)
Deferred income	7	5.8
Deferred taxation	8	33.1
		(186.7)
		(62.4)

This amount has been adjusted in the group reconciliation of movements in shareholders' funds (page 31).

Explanatory notes:

1. US$ amounts have been converted at $1.5942/£1.00, the exchange rate at date of completion of the transaction.
2. Cash consideration includes the settlement for working capital items transferred on the effective date and any interim funding post effective date into the disposed assets.
3. Costs of the transaction do not include a 'make-whole' payment which was paid on the repayment of loan notes under the terms of issuance of those loans. 'Make-whole' payment has been shown as an exceptional item in the profit and loss account. Total costs incurred, including 'make-whole' payment on notes, amount to £36.3 million.
4. The group held part of its interest in Myanmar through Global Resources Ltd, in which it held a 50 per cent share. Premier accounted for its share in Global Resources Ltd using the gross equity method which reflected Premier's share of the gross assets and liabilities of the joint venture under FRS 9 - 'Associates and Joint Ventures'.
5. The reduction in fixed assets represents the impact of partial disposal of Premier's interest in Natuna.
6. Net current assets (£5.9 million) represent stock (£2.7 million), debtors (£14.5 million), and creditors £11.3 million are transferred with the Natuna and Yetagun interests.
7. Deferred income of £5.8 million has been released to reserves due to change in the interest in Natuna.
8. Deferred tax of £33.1 million has been released to reserves due to change in the interest in Natuna.

25 Restructuring continued

Disposal of subsidiaries and investments

Due to the Restructuring the group has disposed of the following subsidiaries and joint venture entities:

Name of company	Business and area of operation	Classification	Shares held %	Country of incorporation or registration
Premier Petroleum Myanmar Ltd	Exploration and production, Myanmar	Subsidiary	100.0	Hong Kong
Premier Oil Overseas Holding (Hong Kong) Ltd	Intermediate holding company	Subsidiary	100.0	Hong Kong
Global Resources Ltd	Production and development, Myanmar	Joint venture	50.0	Labuan
Taninthayi Pipeline Company Ltd	Pipeline operations, Myanmar	Joint arrangement	26.7	Grand Cayman
Natuna 1 BV	Exploration and production, Indonesia	Subsidiary	100.0	Netherlands
Natuna 2 BV	Exploration and production, Indonesia	Subsidiary	100.0	Netherlands

FIVE YEAR SUMMARY

Financials		2003	2002 (restated)	2001*	2000*	1999* (restated)
Turnover	(£ million)	**257.7**	263.1	213.8	115.7	89.5
Profit/(loss) before tax	(£ million)	**81.1**	72.6	49.6	17.0	(16.7)
Net profit/(loss) for the period after tax	(£ million)	**40.8**	22.6	20.3	6.1	(27.7)
Cash flow after interest and tax	(£ million)	**93.7**	85.4	58.4	8.1	(1.7)
Shareholders' funds	(£ million)	**217.2**	255.8	311.6	290.5	275.8
Net cash/(debt)	(£ million)	**4.4**	(180.5)	(272.4)	(322.9)	(170.7)
Per share statistics						
Earnings/(loss) per share – basic	(pence/share)	**30.0**	14.2	12.8	3.9	(25.0)
Earnings/(loss) per share – diluted	(pence/share)	**29.5**	14.2	12.8	3.9	(25.0)
Dividend per share	(pence/share)					
Reserves per share – year end	(boe/share)	**2.15**	2.90	2.90	3.10	4.20
Issued shares – average (adjusted for Restructuring)	(million)	**136.0**	158.6	158.4	158.3	110.8
Operations						
Production (working interest basis)	(mboepd)	**53.6**	53.6	40.9	27.5	29.1
Proved and probable reserves (working interest basis)	(mmboe)	**175.4**	449.5	469.1	488.4	460.4
Employees – UK	(number)	**59**	57	52	48	60
– Overseas	(number)	**373**	421	436	397	325
Key indices						
Realised average oil price	(£ per boe)	**17.69**	16.60	17.52	14.22	9.22
Average exchange rates	($/£)	**1.63**	1.50	1.44	1.52	1.62
Closing exchange rates	($/£)	**1.79**	1.61	1.46	1.49	1.61

*Figures have not been restated for change in the method of calculation of Indonesian deferred tax.

SHAREHOLDER INFORMATION

Analysis of shareholding as at 16 March 2004

Size of shareholding	Number of holders	%	Number of shares held millions	%
1 – 5,000	18,507	96.19	10,480,073	12.72
5,001 – 10,000	318	1.65	2,289,087	2.78
10,001 – 50,000	262	1.36	6,074,408	7.37
50,001 – 100,000	55	0.29	3,997,708	4.85
100,001 – 500,000	69	0.36	15,414,189	18.71
500,001 and over	30	0.16	44,145,718	53.57
Total	19,241	100.00	82,401,183	100.00

Dealing information
FT Share Price Index – Telephone: 0906 8433711
SEAQ short code – PMO

Financial calendar
Announcements
Interim – September 2004
Preliminary – March 2005

As at 31 December 2003

Group proved plus probable reserves

	Working interest basis									
	North West Europe		West Africa	Pakistan		Far East		**TOTAL**		
	Oil and NGLs mmbbls	Gas bcf	Oil and NGLs mmbbls	Oil and NGLs mmbbls	Gas bcf	Oil and NGLs mmbbls	Gas bcf	**Oil and NGLs mmbbls**	**Gas bcf**	**Oil, NGLs and Gas mmboe**
Group										
At 1 January 2003	25.9	34				13.2	851	39.1	885	212.1
Revisions[1]	(0.9)						(1)	(0.9)	(1)	(1.0)
Acquisitions and divestments[2]	(0.3)					(4.9)	(436)	(5.2)	(436)	(89.8)
Production	(4.4)	(6)				(1.3)	(28)	(5.7)	(34)	(12.5)
At 31 December 2003	**20.3**	**28**	**–**	**–**	**–**	**7.0**	**386**	**27.3**	**414**	**108.8**
Associates and joint ventures – Group share										
At 1 January 2003				0.9	414	20.9	837	21.8	1,251	237.4
Revisions[1]				0.2	2			0.2	2	0.5
Discoveries and extensions[3]					18				18	3.1
Acquisitions and divestments[2,4]			1.9			(20.4)	(818)	(18.5)	(818)	(167.4)
Production					(18)	(0.5)	(19)	(0.5)	(37)	(7.0)
At 31 December 2003	**–**	**–**	**1.9**	**1.1**	**416**	**–**	**–**	**3.0**	**416**	**66.6**
Total group and group share of associates and joint ventures reserves										
At 1 January 2003	25.9	34		0.9	414	34.1	1,688	60.9	2,136	449.5
Revisions[1]	(0.9)			0.2	2		(1)	(0.7)	1	(0.5)
Discoveries and extensions[3]					18				18	3.1
Acquisitions and divestments[2,4]	(0.3)		1.9			(25.3)	(1,254)	(23.7)	(1,254)	(257.2)
Production	(4.4)	(6)			(18)	(1.8)	(47)	(6.2)	(71)	(19.5)
At 31 December 2003	**20.3**	**28**	**1.9**	**1.1**	**416**	**7.0**	**386**	**30.3**	**830**	**175.4**
Total group and group share of associates and joint ventures										
Proved developed	11.8	8		0.9	266	1.6	85	14.3	359	73.2
Proved undeveloped	4.1	6			5	1.7	216	5.8	227	49.9
Probable developed	1.5	5		0.2	124	0.7	36	2.4	165	29.4
Probable undeveloped	2.9	9	1.9		21	3.0	49	7.8	79	22.9
At 31 December 2003	**20.3**	**28**	**1.9**	**1.1**	**416**	**7.0**	**386**	**30.3**	**830**	**175.4**

Notes:

1 Revisions include minor downgrades on Wytch Farm, Kyle, Fergus and Flora, together with minor upgrades on Fife, Telford and Galahad. Minor revisions have also been made to Block A (Anoa).

2 The acquisition was of the Chinguetti field and the divestments were Ivanhoe/RobRoy and part of Indonesia Block A.

3 Discoveries are Kadanwari West and Badhra.

4 Divestment in the Yetagun field (Myanmar) and part of Anoa field (Indonesia) as part of the Restructuring.

Proved and probable reserves are based on operator or third-party reports 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 includes reflection of the terms of the Production Sharing Contracts in Indonesia. On an entitlement basis reserves declined by 203.0 mmboe, giving total entitlement reserves of 154.6 mmboe as at 31 December 2003.

WORLDWIDE LICENCE INTERESTS AT 16 MARCH 2004

	Licence	Block	Operator	Equity %	Field
Albania	Patos Marinze		Anglo-Albanian	25.00	Patos*
Gabon	Dussafu		Sasol	25.00	
Guinea Bissau	Sinapa	Block 2	**Premier**	42.00	
	Esperança	Blocks 4a & 5a	**Premier**	42.00	
	Egomor	Block 7b	**Premier**	23.75	
	Peixe	Block 7c	**Premier**	23.75	
India	Jaipur	Block AAP-ON-94/1	**Premier**	38.00	
	Cachar	Block CR-ON-90/1	**Premier**	84.00	
Indonesia	Kakap	PSC	Star Energy	18.75	Kakap
	Natuna Sea Block A	PSC	**Premier**	28.67	Anoa
Pakistan	Production Leases	Tajjal	ENI**	15.79	Kadanwari
		Qadirpur	OGDCL**	4.75	Qadirpur
		Dadu	ENI**	9.38	Zamzama
		Kirthar	ENI**	6.00	Bhit, Badhra
	Exploration Licences	Bolan	MGCL**	4.46	
		Dumbar A 2567-1	PKP**	47.50	
		Dumbar B 2567-1	PKP**	23.75	
		Indus E 2365-1	Shell	23.75	
Philippines	Ragay Gulf		**Premier**	42.50	
United Kingdom	P257	14/25a,b	Amerada Hess	1.25	
	P354	22/2a	Amerada Hess	30.00	Non-Chestnut Field Area
	P288	31/21, 26a, 27a	Amerada Hess	15.00	Angus, Fife, Flora
	P1029	176/20, 204/16	Amerada Hess	16.00	
	P758	31/26b, 26c	Amerada Hess	35.00	
	P1003	31/26d, 27b	Amerada Hess	35.00	
	P802	39/1a, 2a	Amerada Hess	35.00	Fergus
	P1022	98/11	BP	12.38	
	PL089		BP	12.50	Wytch Farm***
	P534	98/6a, 7a	BP	12.50	Wytch Farm***
	P748	29/2c	CNR	40.00	Kyle
	P218	15/21af1	EnCana	0.82	Telford
	P218	15/21a	EnCana	1.79	Scott
	P751	28/10a	Noble Energy	12.50	
	P1048	20/10b & 5a, 21/6a &11b	**Premier**	50.00	
	P142	48/12a, 13b	Superior Oil	10.00	Galahad
	P142	48/12a, 13b	Superior Oil	3.00	Mordred
	P1152	39/2b & 39/7	Tullow Oil	30.00	

* Premier withdrawn 20 March 2004.
** Licences held through a joint venure.
***Unitised share of 12.38 per cent.

On 28 May 2003 the group acquired, from Fusion Oil & Gas plc (Fusion), a 29.9 per cent interest in both Fusion Mauritania A Ltd (Mauritania A) and Fusion Mauritania B Ltd (Mauritania B) for a consideration of US$10.0 million (£6.4 million). Mauritania B contains PSC B (9.23 per cent. Operator: Woodside) with the newly discovered fields of Chinguetti and Tiof and Mauritania A contains PSC A (Banda discovery – 4.62 per cent. Operator: Woodside). These companies will become fully owned subsidiaries on completion of the agreement with Fusion. The completion of the transaction will occur separately for each company once the Mauritanian Government approves a field development plan for a field in each company or earlier with partners' approval.

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