PremierOil

A pioneering spirit with true technological expertise

Annual Report and Accounts

Year to 31 December 2005

Premier is a leading FTSE 250 independent exploration and production company with gas and oil interests principally in the North Sea, Asia and West Africa. Our strategy is to add significant value per share through exploration and appraisal success, astute commercial deals and asset management.

Contents

– Highlights –

Operational

- Production ahead of budget – 33,300 boepd (2004: 34,700 boepd)
- Record gas sales from projects in Indonesia and Pakistan
- Exploration and appraisal success in Mauritania and Egypt
- Reserves and contingent resources 10 per cent higher at 232 mmboe
- Strong 2P reserve base – 164 mmboe (2004: 177 mmboe)
- New acreage acquired in Norway, Congo and SADR

Financial

- Profit after tax and EPS up 75 per cent to US$38.6 million, 47.0 cents per share
- Healthy operating cash flow amounting to US$118.9 million (2004: US$109.6 million)
- Operating costs stable under US$6 per boe
- Strong balance sheet and improved credit facility
- Low-cost, long-term hedging in place

2006 Outlook

- Announcement of Lembu Peteng discovery giving Premier two exploration successes this year to date
- Up to 17 exploration and appraisal wells currently planned, with four high-impact wells
- Significant programme of development drilling
- Development projects on stream in Mauritania and Indonesia

– Chairman's statement –

Premier's results for 2005 reflect the high quality of our producing fields and our strong financial position. We have an excellent base from which to meet our strategic growth objectives.

Financial and operating performance

The financial statements for 2005 have been prepared under International Financial Reporting Standards (IFRS), including the adoption of the successful efforts method of accounting for oil and gas assets.

Strong oil and gas prices, especially in the second half of the year led to turnover of US$359.4 million in 2005 (2004: US$251.8 million). Higher gas demand in Pakistan and Indonesia led to increased production balanced by natural decline in the UK. Production is set to grow in 2006 with first oil achieved in Mauritania.

Profits after tax for the year were US$38.6 million (2004: US$22.1 million), reflecting increased oil prices and gas realisations, offset by higher taxes. Operating cash flow after taxes and interest was US$118.9 million (2004: US$109.6 million).

Net debt at 31 December 2005 was US$26.2 million (2004: Net cash US$19.6 million) before taking into account cash received in January 2006 of US$35.2 million from a crude oil cargo lifted on Wytch Farm in late December. We continue to fund our planned exploration and development activities from operational cash flow, and retain our strong balance sheet flexibility for acquisitions.

Production for the year was ahead of expectations at 33,300 barrels of oil equivalent per day (boepd) (2004: 34,700 boepd). Our producing fields are performing well and with higher oil prices and strong gas demand we have an exciting programme of incremental projects to exploit further our high quality reservoirs. The Chinguetti field in Mauritania was successfully brought on stream in February 2006 and is expected to produce 5,700 boepd net to Premier by the end of 2006.

Oil and gas proven and probable booked reserves at year-end amounted to 164 million barrels of oil equivalent (mmboe) on a working interest basis (2004: 177 mmboe). These reserves have been confirmed by independent review. Total reserves and contingent resources, which include discoveries not yet booked pending commercialisation, have increased to an estimated 232 mmboe (2004: 210 mmboe).

Our exploration and appraisal programme delivered discoveries at Labeidna in Mauritania and Al Amir in Egypt. We also successfully appraised the Tiof, Banda and Tevet discoveries in Mauritania. Work to evaluate development options during 2006 continues on all of these projects.

We are also very pleased that despite strong international competition for good quality acreage, we have been able to add to our licence portfolio in Norway and West Africa. The Norwegian awards include a 50 per cent interest in the Frøy redevelopment project. These new licences will form the basis for a continuing programme of exciting exploration and development work.

We continue to focus on improving our world class health, safety and environmental performance with the organisation beating its targets for improvement for the sixth year in a row.

Shareholder returns

During 2005 Premier shares increased in value by 54 per cent. Over the five years to 31 December 2005, Premier's share price has increased by 443 per cent. The company continues to be a top ten performer in the FTSE 250 over the period. This exceptional performance has reinforced our policy to reward shareholders principally through share price growth.

A £10 million share buy-back programme was implemented during the course of 2005 with an average purchase cost of £5.55 per share against a year-end share price of £8.14. Further share purchases will be considered in appropriate market conditions.

Board addition

I am pleased to announce the appointment of Neil Hawkings to the Board of Premier as an Executive Director effective 23 March 2006. Neil was appointed General Manager of Operations in May 2005 and since then has been a key member of Premier's management team. Prior to joining Premier, Neil had over 20 years international experience with Conoco in a variety of roles and locations around the world.

Outlook

A number of new strategic targets were set out at our interim results presentation in September. In particular we announced a medium-term production target of 50,000 boepd and the intention to drill at least four high-impact exploration wells per year.

2006 promises to be an exciting year for Premier as we pursue these targets. The drilling campaign has commenced with a gas discovery on the Macan Tutul prospect and an oil and gas discovery on the Lembu Peteng prospect in Indonesia announced on 23 March 2006. Exploration wells are planned in Vietnam and Guinea Bissau each with the potential to add significantly to reserves and shareholder value. New acreage in Norway, Congo, and the Saharawi Arab Democratic Republic (SADR) has significantly added to Premier's portfolio of exploration opportunities for future exploration drilling.

At the same time, Premier continues to build its production portfolio towards its target of 50,000 boepd. In Indonesia, the West Lobe extension project on the Anoa field is within budget and on schedule, with first gas targeted for the third quarter of 2006. In Pakistan and Indonesia gas sales negotiations are progressing well. Additionally, new oil developments are planned, including the redevelopment of the Frøy field in Norway.

Premier's 2005 results reflect strong progress on all fronts. Our strategy of growing the production base and focusing on high-impact exploration, backed by a solid financial position will add significant value for shareholders.

Sir David John KCMG
Chairman

– Financial review –

Economic environment

2005 has seen significant changes in both oil and gas pricing worldwide driven by strong economic growth in Asia, as well as a series of disruptions on the supply side. The Brent oil price, which began the year at US$39.5 per barrel (bbl), averaged US$54.5/bbl, reaching a peak of US$67.5/bbl at the end of August. Gas prices worldwide were also strong.

Strong commodity prices with increased industry activity levels have led to rising operating costs with higher fuel, material and wage pressures. On the exploration side of the business, rig rates rose with renewed appetite for drilling activity and a shortage of available rigs.

The UK Government took the opportunity of higher oil prices to double the supplementary corporate tax for the upstream sector from 10 per cent to 20 per cent. Other governments, for example in Norway, sought to encourage investment in future energy supplies by providing greater incentives for exploration activity.

Income statement

Premier previously announced its restated financial results for 2004 in accordance with International Financial Reporting Standards (IFRS). We also published a new set of group accounting policies which included the adoption of the successful efforts method of accounting for oil and gas assets which the Board believes provide a more transparent view of the performance of the group's producing assets and exploration activities.

Profit after tax for 2005 was US$38.6 million (2004: US$22.1 million) an increase of 75 per cent. Following the change to the successful efforts method this profit takes into account a write-off of US$20.6 million for unsuccessful wells drilled in India (Lakkhi-1), Pakistan (Maliri-1), Gabon (Iboga-1), Egypt (Al Fagr) and Mauritania (Espadon and Sotto). In addition, we charged US$17.0 million of pre-licence exploration expenditure to the income statement. The corresponding figures in 2004 under the same successful efforts policy were US$28.7 million and US$12.2 million respectively.

Production levels in 2005, on a working interest basis, averaged 33,300 boepd compared to 34,700 boepd in 2004. On an entitlement basis, production was 28,700 boepd (2004: 31,500 boepd). Realised oil prices averaged US$48.38/bbl compared with US$29.92/bbl the previous year.

Gas prices averaged US$3.82 per thousand standard cubic feet (mscf) (2004: US$3.24 per mscf). The average gas price has risen more slowly than oil prices due to the terms of our gas price escalation clauses for our production in Pakistan. Gas prices in Indonesia, which are linked to High Sulphur Fuel Oil (HSFO), have risen broadly in line with the oil price over a two-year period and averaged US$7.90 per mscf during the year (2004: US$4.96 per mscf).

Sales revenue was 43 per cent higher than 2004 at US$359.4 million (2004: US$251.8 million) as a result of these higher commodity prices and timing of liftings in the UK.

Cost of sales increased to US$176.5 million compared to US$134.6 million in 2004. The major change in the cost of sales is attributed to a significant change in the stock underlift/overlift position, which resulted in a charge to cost of sales of US$25.9 million, (2004: credit of US$16.8 million), to offset overlifted volumes included in revenues. After excluding the effect of overlift on cost of sales, underlying unit operating costs amounted to US$5.90 per barrel of oil equivalent (boe) (2004: US$5.80 per boe). This reflected a general rise in the cost environment faced by the industry, offset by specific actions taken to reduce costs, notably in the Kyle field in the UK. Underlying unit amortisation amounted to US$5.50 per boe compared to US$5.60 in the previous year.

Administrative costs rose by US$2.6 million to US$19.6 million reflecting certain one-off charges in respect of pensions and provisions for long-term incentive plans. Operating profits were US$125.7 million, a 112 per cent increase from the prior year.

Net interest and other finance expenses totalled US$1.1 million (2004: US$5.8 million) reflecting the continuing low level of debt and hence strong balance sheet. Pre-tax profits were 130 per cent higher at US$124.6 million (2004: US$53.5 million). The taxation charge totalled US$86.0 million (2004: US$31.4 million) as a result of higher operating profits, the first full year of profit oil and gas in Indonesia and a higher effective tax rate in Pakistan following the full utilisation of previous tax losses.

Basic earnings per share amounted to 47.0 cents, an increase of 75 per cent on the previous year.

Cash flow

Cash flow from operating activities amounted to US$118.9 million, up from US$109.6 million in 2004. These cash flows include payments received from the joint venture in Pakistan of US$47.1 million (2004: US$35.2 million).

Capital expenditure and pre-licence exploration expenditure in the period was US$149.6 million (2004: US$104.5 million) relating principally to the development programme (US$80.5 million). US$21.0 million was utilised for the share buy-back programme and the purchase of shares for the Employee Share Ownership Plan.

Net cash outflow, before movements relating to financing amounted to US$26.7 million (2004: cash inflow US$5.1 million).

Net debt position

At the start of the year, net cash amounted to US$19.6 million. At year-end this had become a net debt position of US$26.2 million comprising US$38.8 million of cash balances and short-term investments and a drawdown from bank credit facilities of US$65.0 million. On 24 December Premier lifted a crude cargo of 630,000 barrels from the Wytch Farm field the cash proceeds from which (amounting to US$35.2 million) were received in January, allowing us to repay some US$20.0 million of our bank debt.

In September the company entered into a new US$275 million credit facility, on improved terms, with a syndicate of 13 international lending banks led by Barclays Bank plc and Royal Bank of Scotland plc. Together with positive cash flow from producing assets this facility puts the company in a strong position to fund its ongoing exploration and development programme and to finance acquisitions.

Hedging and risk management

A review of the hedging policy was undertaken during the year given the significant volatility in current commodity prices. Following the expiry of previous hedges at 30 June 2005 no hedges were in place for the second half of 2005.

The Board's policy is to consider hedging where it is attractive economically to lock-in oil and gas prices at a level which protects the cash flow of the company and the business plan. All transactions are related directly to expected cash flows; no speculative transactions are undertaken.

Hedges utilising collars were entered into for the period 1 January 2006 to 31 December 2010 covering nine million barrels of oil (mmbbls) representing approximately 50 per cent of anticipated liquids production for the period. The floor price, which averaged US$37.42 /bbl, was funded by a cash payment of US$3.6 million yielding a ceiling price of US$100.0/bbl. In addition, 384,000 metric tonnes of HSFO, representing the equivalent of around 33 per cent of Indonesian gas production for the period 1 January 2006 to 31 December 2009 have been covered on a zero cost basis at an HSFO floor price of US$200 per metric tonne anda ceiling priceof US$480 per metric tonne.

Historic hedges produced a loss of US$15.7 million during the first half of 2005 expiring on 30 June. This amount has been deducted from sales revenue for the year. The adoption of IFRS, with effect from 1 January 2005, required that hedges put in place during the second half of the year should be valued and any changes in market value should be reflected in the income statement. The net gains or losses on such hedges, after taking into account the premium paid, are recorded as a US$2.0 million charge in other finance expenses.

Since the group now reports in US dollars, exchange rate exposures relate only to sterling receipts and expenditures which are hedged in dollar terms on a short-term basis. The group recorded a gain of US$0.1 million on such hedging at year-end.

Cash balances are invested in short-term 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 the exploration and production activities. In addition, business interruption cover is purchased for a proportion of the cash flow from producing fields.

Adoption of International Financial Reporting Standards (IFRS)

As announced on 25 August 2005, Premier is reporting its financial results in accordance with IFRS with effect from 1 January 2005. Comparative numbers for 2004 were restated at that time in accordance with the group's new accounting policies. Details of the new accounting policies and the restatement of the prior year accounts are available in this report and on Premier's website (www.premier-oil.com).

– Operational review –

The strategy of the company combines the delivery of new production projects and asset management with a focus on high-impact exploration. In the medium-term, these will provide material growth in our reserves base and a target production level of 50,000 boepd. Each of the four regional businesses (North Sea, Asia, Middle East-Pakistan and West Africa) will contribute to these growth objectives.

Production and reserves

Working interest production for 2005 averaged 33,300 boepd. Comparable production from 2004 was 34,700 boepd. Production comprised 31 per cent liquids and 69 per cent gas, with Pakistan and Indonesia each accounting for around 35 per cent of the total and the UK the remainder. On an entitlement basis, group production for the year was 28,700 boepd. Following the start-up of production in Mauritania in February 2006, group production for the first two weeks of March averaged 36,400 boepd (working interest basis).

	Working interest		Entitlement	
Production (boepd)	**2005**	2004	**2005**	2004
North Sea	**9,750**	11,900	**9,750**	11,900
Middle East-Pakistan	**11,500**	10,300	**11,500**	10,300
Asia	**12,050**	12,500	**7,450**	9,300
Total	**33,300**	34,700	**28,700**	31,500

Proven and probable reserves, on a working interest basis, based on Premier and operator estimates are now 164 mmboe.

	Reserves (mmboe)	Reserves and contingent resources (mmboe)
Start of 2005	176	210
Production	(12)	(12)
Net revisions		34
End of 2005	**164**	**232**

At year-end, reserves comprised 19 per cent liquids and 81 per cent gas, and the equivalent volume on an entitlement basis amounted to 146 mmboe (2004: 157 mmboe).

Reserve revisions represent increases in various fields (particularly Kadanwari in Pakistan) offset by a decrease in the Kakap field in Indonesia. Net revisions also reflect the completion of the sale of our interest in the Galahad and Mordred fields in the UK.

Discoveries made in the year in West Africa and Egypt have not been recorded in booked reserves pending completion of ongoing appraisal and commercialisation work. Unbooked reserves in the process of being commercialised (including unsold gas in Indonesia together with discoveries that have not yet received development sanction elsewhere) give increased total reserves and contingent resources of 232 mmboe (2004: 210 mmboe). This figure does not include the potentially large resources associated with the Banda (Mauritania) or Swan (Vietnam) gas fields where commercialisation is at an early stage.

Exploration and appraisal

A core part of Premier's business growth strategy is the exploration programme. Each year at least four high-impact wells are targeted from a portfolio of prospects around the world. Success on any of these prospects is capable of bringing significant and rapid growth. The portfolio of exploration properties also has the potential to add incremental value to existing production, to open up new plays and to provide large prospects for the future. The annual target spend for this programme is US$50 million. The cost of the current planned programme for 2006 is in excess of this target and a number of good quality farm-in proposals have been received. These are actively under consideration as part of Premier's portfolio management.

Over the last five years, Premier has had a 50 per cent success rate on its exploration and appraisal wells, and a 30 per cent success rate on exploration wells alone. 13 exploration and appraisal wells were drilled in 2005, similar to 2004 and 2003. The 2005 programme provided five successes, on Al Amir-1 in Egypt, and the Labeidna-1, Tevet Deep-2, Tiof-6 and Banda-2 wells in Mauritania.

For 2006, final plans are in place for all the key wells in the programme of up to 17 exploration and appraisal targets. Exploration wells currently planned in West Africa include two high-impact shallow water wells in Guinea Bissau, testing Premier's high-potential acreage; up to three further wells in Mauritania exploring the acreage around Chinguetti and Tiof fields; and one play-testing well in Gabon.
In Pakistan, the high potential Indus Delta offshore will be tested, and in Indonesia very low cost wells adding incremental value to existing production will be drilled. In the second quarter there will be two high-impact wells in Vietnam.

North Sea

In the North Sea, Premier will build on its new position in Norway by seeking out high-impact exploration while maximising the value from its existing UK producing assets.

UK

Production in the UK in 2005 amounted to 9,750 boepd (2004: 11,900 boepd) representing 29 per cent of the group total (34 per cent in 2004). This represents a decrease of some 18 per cent on last year's level due to a combination of natural decline and configuration changes which impact production rates but lead to considerable savings on operating costs.

The Wytch Farm oil field contributed 4,000 boepd net production to Premier, down 16 per cent on last year. This year, the successful infill drilling campaign has focused on the offshore area under Poole Bay drilling four wells, compared to the two wells drilled in 2004, and has continued to successfully limit production decline. A further three new infill wells are planned to be drilled in 2006 and an enhanced oil recovery project is expected to be brought to sanction.

Net production from Kyle was 3,600 boepd, down 14 per cent on last year following a change to the oil offtake configuration. This was a result of negotiations with Banff and Curlew infrastructure owners in 2004, whereby the Kyle owners agreed to tie-back remaining Kyle Chalk wells to the Banff Floating Production Storage and Offtake vessel (FPSO) and to cease utilisation of the Maersk Curlew FPSO. The work was completed in the third quarter of 2005, on time and on budget. An all-inclusive processing and transportation tariff has been agreed with the Banff Group which will substantially reduce operating costs and allow the extension of field life up to the end of 2015. Gross field rates are currently around 4,000 barrels of oil per day (bopd) and 8 million standard cubic feet of gas per day (mmscfd). Gas lift for the wells, and a water shut-off and re-perforation of the Kyle-15 well are budgeted for in 2006, with further plans for compression upgrade at Banff, and infill drilling under consideration.

In the Fife area, Premier's net production amounted to 1,600 bopd from the Fife, Fergus, Flora and Angus fields, with natural decline successfully managed by optimisation of existing water injection and gas lift facilities. The Fife FPSO contract was amended in 2005 to further incentivise oil production, which will lead to improved vessel uptime and increased production. Scott, Telford and Galahad – which was disposed of as a non-core asset – accounted for the remainder of net production.

Detailed evaluations of the UK blocks awarded in December 2004 are now under way to identify prospects for drilling during 2007/8. 3D seismic purchase and reprocessing was conducted across blocks 23/22b (P1181) and 21/7b (P1177) in the Central North Sea and 44/21c, 44/26b (P1184) in the Southern North Sea. Seismic reprocessing of 2D seismic data has also been conducted over blocks 42/10, 42/15 (P1229) in the Southern North Sea. This licence contains the Agincourt gas accumulations and studies of this acreage were also conducted during 2005 to examine the technical and commercial case for development. Elsewhere in the Southern North Sea, 2D seismic reprocessing and 3D data purchase was conducted over 43/22b, 43/23, 43/27b, 43/28 & 43/29 (P1235) and a detailed evaluation of the gas prospects is currently under way.

Licence P1048 in the Central North Sea was re-evaluated following completion of the 20/10b-5 (Criollo) well during 2004. The 21/6a-7 well, targeting the Palomino prospect was spudded on 23 December (and has subsequently been plugged and abandoned dry on 20 January 2006). Premier did not contribute to the cost of this well, which had been farmed out to Oilexco in a deal that resulted in Premier's equity being reduced to 18.75 per cent. Re-interpretation of the 4-block P1048 licence is now under way to fully evaluate remaining prospects and leads.

Premier agreed to assume a 100 per cent stake in the Fife area blocks 39/1c & 39/2c with the aim of drilling the 39/2c-Peveril prospect in late 2006. This area has good potential for oil within the Upper Jurassic Fife (Fulmar) sands and is close to the existing Fife area facilities. Follow-on potential is provided by blocks 39/1b & 39/7 (P1152) blocks where prospects have also been identified as a result of 3D seismic reprocessing completed during 2005.

Norway

Premier was awarded five licences in the APA licensing round in December 2005, the company's first move into the Norwegian sector. The licence interests obtained to date, all of which are in the central area of the Norwegian North Sea, are as follows:

Block no. (or part block no.)	Working interest	Operator
34/2, 34/5	15%	BG
34/4, 34/5	30%	PetroCanada
35/12, 36/10	40%	Revus
16/1, 16/4	30%	Lundin
25/2, 3, 5 & 6 (Frøy area)	50%	Pertra

These licences offer a spectrum of redevelopment, appraisal and exploration opportunities which have the potential to meet objectives for both early production and high-impact exploration. A number of seismic programmes are anticipated during 2006 aimed at confirming a subsequent significant drilling programme.

Our quadrant 25 licence includes the Frøy field. This field was abandoned in 2001 by the previous operator in a much lower oil price environment and due to the imminent abandonment of the Frigg field to which it was tied back. The Frøy area is now the subject of redevelopment studies with plans to seek development approval in the first quarter of 2007.

Premier has also submitted a further application in the 19th Round, the results of which are expected to be announced by the end of the first quarter of 2006.

Middle East-Pakistan

Premier continues to build the value of its strong asset portfolio in Pakistan. Business development efforts in the Middle East region are focused on producing asset opportunities in partnership with government and local companies.

Pakistan

Record production levels achieved in 2004 were surpassed in 2005. Production net to Premier amounted to 11,480 boepd, an increase of 11.3 per cent over 2004 (2004: 10,312 boepd).

The increase in production was mainly due to higher sales from the Qadirpur gas field which amounted to 3,807 boepd (2004: 3,055 boepd). The sustained higher gas sales from Qadirpur were possible due to the enhancement of plant capacity to 500 mmscfd achieved in 2004. Negotiations are now under way with the plant contractor to increase plant capacity to 600 mmscfd and with the gas buyer to increase sales volumes to 550 mmscfd. Two further development wells and, following the 3D seismic programme conducted in 2005, a Qadirpur deep well is planned for 2006.

On Premier's Kadanwari acreage, the K-14 well was tied back to the existing gas production facilities. This additional production compensated for the natural decline of the field and successfully increased the production level to 1,228 boepd (2004: 1,039 boepd). To further exploit the reserves in the Kadanwari West, K-15 is to be drilled in the first quarter of 2006. Evaluation of 3D seismic shows further reservoir prospectivity within the acreage. A drilling programme is being firmed up to test these prospects.

The Zamzama gas field produced an average of 3,658 boepd, net to Premier, during 2005 (2004: 3,472 boepd). Negotiations on the Gas Sales Agreement (GSA) for Zamzama Phase-2 development and the sale of an additional 150 mmscfd high calorific value gas, were successfully concluded. Subsequent to the approval of the Oil and Gas Regulatory Authority, the GSA was signed by the gas buyer Sui Southern Gas Company Limited (SSGCL), the President of Pakistan and the joint venture partners. First gas is expected in the third quarter of 2007.

The production levels in the Bhit gas field were sustained during 2005 and production of 2,788 boepd was achieved during the year (2004: 2,746 boepd). A Bhit Phase II Term Sheet to increase the Bhit Annual Contract Quantity (ACQ) from 270 mmscfd to 300 mmscfd has been initialled by the gas buyer SSGCL and joint venture partners. A supplemental GSA is being negotiated with the buyer. The Bhit plant capacity will be increased to 315 mmscfd to allow accelerated production from the Bhit field and production of Badhra reserves with expected gas production in the third or fourth quarter of 2007.

During the year, Premier was awarded the Jhangara exploration block and drilled the Maliri-1 well. This prospect was adjacent to Premier's interests in the Bhit and Badhra gas fields, and though high-risk, could have provided significant incremental value to these projects. However, the well was found to be dry at the target Pab Sandstone level, and subsequently plugged and abandoned. Premier has subsequently withdrawn from this exploration block.

Plans to drill the offshore Indus E block progressed, and despite the tight rig market, a drilling-unit has been contracted to drill this deep-water well in the third quarter of 2006. Premier currently holds a 12.5 per cent interest in this block.

Egypt

Premier's first well in Egypt, the Al Amir-1 well, was an encouraging oil discovery. The well, in which Premier holds a 37.5 per cent interest, flowed up to 750 bopd production test from a new reservoir play-system. The full size of this discovery is not yet known and this is to be the target of an appraisal well which will be spudded shortly. A second wildcat exploration well, Al Fagr-1, was drilled to the west of the concession in 2005 and found to have hydrocarbon shows. It was plugged and abandoned in early 2006.

Asia

In Asia, Premier continues to grow its business using technical and commercial expertise from its operations in the Natuna Sea to deliver new exploration opportunities and production projects across the region.

Indonesia

Premier's core asset in Indonesia is its interest in the West Natuna gas project, supplying gas under a long-term sales contract to Singapore. This is held through its equity interests in the Natuna Sea block A and Kakap Production Sharing Contracts (PSCs).

In 2005, Premier-operated block A sold an overall average of 142 billion British thermal units per day (BBtud) gross from its gas export facility. This high figure reflects increased demand in Singapore frequently exceeding the gas contract maximum rate of 145 BBtud. There was a further 57 BBtud (gross) average sold from the non-operated Kakap field under the same contract.

Oil production from Anoa averaged 3,023 bopd gross (2004: 3,079 bopd), only slightly down on the prior year as a result of natural depletion of the oil reservoirs. Oil production from Kakap averaged 7,263 bopd gross (2004: 8,533 bopd).

Overall, net production from Indonesia amounted to 12,032 boepd, down 4 per cent from the prior year, with Anoa and Kakap contributing 8,593 boepd and 3,439 boepd respectively.

World class health, safety and environmental performance remains a key objective, and there were no lost time incidents in Indonesia throughout the year. We also achieved the ISO 14001 certification and Indonesia's 'PROPER Blue' rating for environmental performance.

The West Lobe Wellhead Platform progressed on schedule. Fabrication of the jacket and deck commenced mid-year and by the end of 2005 the jacket assembly was nearing completion and the deck structure and equipment installation was essentially complete. The facilities will be loaded out and installed in April 2006, and be hooked up and ready for development drilling by the end of May 2006. Production is planned to commence in late August 2006. Planning also continued for the 2006 West Lobe drilling campaign with orders being placed for all long lead equipment and another jack-up drilling rig has been secured.

Negotiations continued over the sale of further gas from block A with prospective buyers in Malaysia, Indonesia and Singapore. We currently assess Singapore to be the optimal market for additional gas sales volumes with opportunities existing in both the petrochemical and power generation sectors.

Technical studies during 2005 focused on maturing prospects for an exploration drilling campaign in 2006. On 31 January 2006 Premier announced a successful gas discovery from its Macan Tutul-1 exploration well. The second well Lembu Peteng-1, part of the same drilling campaign, has also encountered hydrocarbons in a number of different zones. These zones are currently being tested. The 2006 drilling campaign may include an appraisal well to be drilled on one of these discoveries.

Vietnam

Offshore Vietnam, Premier operates two PSCs: Blocks 12E and 12W with 75 per cent working interest in each. Subject to Government approvals, Premier also has an option to acquire operatorship and up to 67.5 per cent working interest in an adjacent block 7&8/97.

During 2005 we acquired and interpreted a 3D seismic survey over the Dua discovery. The interpretation confirms the potential for commercial oil reserves, and a well is planned for the second quarter of 2006. Following evaluation of the three 2D seismic programmes acquired over blocks 12E, 12W and block 7&8/97, Premier will drill a second exploration well targeting the Blackbird prospect on block 12E.

Premier also considers block 7&8/97 to have good prospectivity, but the international boundary with Indonesia, which defines the southern extent of the blocks, has not been ratified and therefore operations on this block are on hold. During the third quarter of 2006, Premier will acquire further 2D marine seismic data over blocks 12E and 12W. This will be designed to improve our understanding of the existing Swan gas discovery in block 12W, as well as adjacent exploration leads.

India

In India during 2005, Premier drilled the Lakkhi-1 well in its Jaipur block. The well tested the oil prone acreage beneath the thrusts south east of the Assam oil and gas trend, encountering several oil bearing horizons, including one that was tested providing a limited flow of gas. However, although the hydrocarbon system proved valid the reservoir quality was poorer than anticipated precluding the production of oil from this acreage. Premier are in the process of withdrawing from this acreage.

In the Cachar block there are a number of large structures which are relatively under-explored. Premier has acquired seismic data and better defined the most promising prospect known as Masimpur which will be drilled later in 2006.

During the year discussions on the Ratna oil field redevelopment project were re-opened. Most of the issues which have delayed the project in the past have now been resolved. Under the terms of the draft Production Sharing Contract, Premier is the operator and has a 10 per cent carried stake in this offshore project. After redevelopment it is envisaged that production from the field will be in excess of 20,000 bopd.

Philippines

Premier operates Service Contract 43 in the Ragay Gulf with a 42.5 per cent working interest. During 2005 Premier acquired 150 line kilometres of Transition Zone seismic data in the shallow waters of the eastern Bondoc Peninsula. This survey has confirmed the presence of carbonate build-ups, and Premier is considering a well to target these structures in 2007.

West Africa

Premier's objective in West Africa is to deliver a series of high-impact exploration opportunities, which offer exposure to significant reserve additions, while building the value of the producing asset base in Mauritania.

Mauritania

The development of the first phase of the 120 million barrel Chinguetti oil field in Mauritania is now complete at a cost of approximately US$720 million (US$58 million net to Premier). Production commenced on 24 February 2006. The Woodside-led joint venture sanctioned the field development in June 2004 and brought the field on stream in less than 21 months. The field is located in 800m of water, some 90km west of the Mauritanian capital Nouakchott.

The Phase 1 development includes six sub-sea production wells and five water injection wells for pressure support with flow-lines to a permanently moored FPSO, Berge Helene, with storage capacity of 1.6 million barrels. Surplus gas not required for fuel will be re-injected into the nearby Banda reservoir via a single gas injection well. The drilling of further production and injection wells (Phase 2) is planned for early 2007.

During 2005, three successful appraisal wells were drilled. The Tiof-6 well intersected a Miocene reservoir sequence which flowed 9,600 bopd on test. A decision on the development strategy is expected in the second quarter of 2006. Tiof-6 was followed by a successful test of the Banda gas discovery, Banda-2. This well was drilled to allow excess-gas injection from the Chinguetti field, a preferred alternative to flaring. This well was successful and proved the presence of a thick, high-quality gas reservoir in Banda. The Tevet structure, located up-channel of the Chinguetti field was also successfully appraised. The well successfully found oil in the Miocene sequence, and extended the proven limits of the Tevet accumulation. Tevet-2 was deepened to the Cretaceous, to test a new play, and encountered an oil column. This is very significant as it is the first Cretaceous oil to be found on this acreage and opens up the Cretaceous play system for further exploration. These reserves may also be developed back into the Chinguetti field in due course.

Three exploration wells were also drilled during the year. Sotto-1, similar in trap style to the Banda discovery, encountered no sands in the target interval. However, the knowledge gained increases confidence in the presence of sands in prospects such as Colin and Kibaro, which lie in a similar geological setting and will be targeted in 2006. The Espadon well, down dip to the west from the Tiof field, failed to find oil due to lack of sandstone reservoir at that location. The final well of the sequence was a test of the Labeidna prospect, located close to Chinguetti. An oil bearing sandstone was encountered, and is being evaluated for possible development and tie-back to Chinguetti in the future.

The Chinguetti field operator, Woodside Petroleum, has been notified by the Mauritanian government that it disputes amendments to the relevant PSCs. The operator on behalf of the joint venture is currently exploring ways to resolve these disputes under the procedures set out in the PSC.

Guinea Bissau

In Guinea Bissau, following on from the earlier drilling campaign, Premier has acquired a 400km^2 3D seismic survey and reprocessed 800km^2 of existing 3D seismic over the Eirozes and Espinafre salt-diapirs. This has greatly improved the ability to image the steeply dipping flanks of these large prospects. The 500m oil column in the models are working ahead of expectations around these features. In 2006, Premier will operate wells back-to-back on the Eirozes and Espinafre prospects. Timing of these wells is dependent upon arrival of the rig following third party drilling operations, currently expected in late 2006. Success with either of the two wells would add significant value and increase the prospectivity on a number of lookalike prospects on the block.

Gabon

In Gabon in 2005, Premier drilled the high-risk Eboga-1 wildcat well on the Iris permit. Premier entered this acreage as part of the 2003 Mauritania acreage acquisition. The well failed and Premier has subsequently withdrawn from this acreage. In 2006, Premier will drill on the adjacent Themis acreage using 3D seismic acquired in late 2005 to locate a suitable target.

Congo

Premier has agreed, subject to parliamentary ratification to take on a 58.5 per cent interest (including operatorship) in the Marine IX offshore block in the Republic of Congo. The block contains the large Frida prospect and a variety of tertiary and Cretaceous leads. 2D and 3D seismic programmes are planned for 2006.

SADR

Premier was a successful applicant in the Saharawi Arab Democratic Republic's (SADR) offer of PSCs for four offshore blocks, in which Premier's interest will be 50 per cent. These contracts were signed in March 2006. The licence terms will come into effect on admittance of the SADR to membershipof the United Nations.

– Social performance summary –

Being socially responsible is an area in which Premier is proud to be counted as one of the leading companies in our industry.

Our activities in finding and producing oil and gas – efficiently, responsibly and profitably – take us to remote locations and developing countries where opportunities may be more plentiful. We recognise that these opportunities carry different types of risks that need to be managed effectively. Premier has a long history and deep capability in this area through our approach to corporate social responsibility (CSR).

CSR has both practical and ethical dimensions for Premier. It is about doing the right thing as well as managing risk and protecting our reputation. It is about investing in the community and creating an environment where people feel good about working.

Throughout 2005 we continued to identify social risks and planned and delivered net positive social and environmental impacts where we operate. In order to do this we use Premier's social performance management system (SPMS). Premier's various social action plans, which are agreed locally, included:

- screening for social impacts (systematic social impact assessments are carried out as an integral part of the environmental assessments);
- building mutual understanding/dialogue between Premier and communities where we operate;
- forging partnerships to better understand and then manage community expectations and relations;
- implementing projects and programmes; and
- tracking and reporting on the progress of our interventions.

Premier has implemented a wide range of community projects comprising public health, education, environmental, public facility, and community relations-based programmes. In all of these areas, our involvement was not simply to provide funds, but to actively work with the communities in order to build trust and ensure that both the needs of communities and those of Premier are considered when the projects were planned.

From the outset, we actively engage each community and local governments in planning and agreeing projects, implementing strategies and timings. We also ensure that appropriate handovers are in place for each programme once our direct involvement has been completed.

Guinea Bissau

The Simon Mendes Hospital

During 2005 we agreed – with local government officials and the state oil company – to renovate and improve the entire maternity ward at the Simon Mendes Hospital in the capital Bissau. This is the only hospital in Bissau where about one thousand babies are delivered every month. Premier's support is now providing a better environment for patients and staff alike and, in the words of the Minister for Health, Premier's efforts, 'have already greatly improved the quality of care'.

Cholera epidemic

Premier supported the government of Guinea Bissau's efforts to raise awareness among the population during the cholera epidemic that plagued the country for much of 2005. Premier's support helped to get the basic health message out on the radio and in the printed media.

Voluntary Services Overseas (VSO)

Premier started collaborating with the VSO in Guinea Bissau in early 2004. This partnership, which has continued in 2005, focused on supporting VSO's traditional work in the education sector as well as bringing water and sanitation to rural schools.

Indonesia

Tsunami relief

Premier donated money to buttress Save the Children USA's (SCF) humanitarian efforts in Indonesia's Aceh Province following the destructive tsunami at the end of 2004.

Jakarta

Premier Oil Indonesia funded and participated in a Jakarta-based initiative, which was designed to:

- provide constructive activities for street children that could result in viable alternatives to living and working on the streets;
- facilitate – through improved partnerships and networks of educational institutions and NGOs and the corporate sector – peer education of the children, which imparts valuable learning and results in improved opportunities and options for their future; and
- strengthen the capacity to develop locally supported, sustainable initiatives to address the needs of street children.

Matak Island

Matak Island is located in Indonesia's Natuna Sea, and is home to Premier's operations base. It has a population of more than 4,000, and we have been involved in the local community since 1998 in a sustained development programme that comprises public health and education.

– **Social performance summary** continued –

Premier's involvement is not only to provide funds, but also to actively work within the community to ensure that the needs of both the community and of Premier are addressed.

Payalaman Medical Centre, Matak Island

The health facilities for the local community on Matak Island were basic and this meant that most local villagers used clinics on the surrounding islands with the closest being two hours away by boat.

Premier, together with the local community leader, the local health division and the local government agreed to build a new clinic in the village of Payalaman (the most populous of the villages on Matak Island). The facility was built by Premier and the local government then took responsibility for managing and staffing it. The facility was opened at the end of 2004.

India

During the drilling of Premier's Lakkhi-1 well in Assam, we supported several local schools by donating new blackboards, rebuilding playgrounds and supplying new furniture.

In addition, Premier upgraded access roads and water supplies. We also provided first aid training and basic information on snakebites, malaria and dysentery to key community representatives.

When the opportunity presented itself to help the village of Phening to build the first eco-tourism centre in Assam, Premier agreed to sponsor and supervise the construction of this village in collaboration with the Forestry Department, making this the first joint venture of its kind in the state of Assam. The eco-tourism village was completed in late December 2005, in time for the annual Dehing Patkai Tribal Festival.

– Health, safety, environment and security summary –

Technical expertise

Our health, safety, environment and security (HSES) function is headed by the group HSES manager based in the corporate headquarters in London. The manager is supported by dedicated local HSES teams in Indonesia and India and roving teams of retained advisors for other countries of operation. These teams have been selected for their individual expertise in seismic, drilling, construction and production operations both onshore and offshore and are further supported by specialists in areas such as quantitative risk assessment (QRA) and environmental impact assessments. In 2005, many of our key HSES professionals, drilling managers, and asset and country managers received specialist training in accident investigation techniques and emergency preparedness. Operational areas are also supported by global service providers in the areas of health, travel and security assessment, oil spill response and media liaison. Emergency response plans are regularly tested to ensure readiness and are formally exercised prior to any significant operation. These skills and resources form an essential part of our worldwide crisis management teams and business continuity plans.

In 2004, Premier's global drilling function achieved certification to both ISO 14001 and OHSAS 18001. In 2005 our Indonesian production operations also achieved ISO 14001 and are well on the way to achieving OHSAS 18001. ISO 14001 is an international standard to which a company's environmental management system may be certified. OHSAS 18001 is a standard to which a company's health and safety management system may be certified. Certification demonstrates that an accredited certifying body has independently verified that Premier's management systems fully comply with the standard. Successful certification and ongoing surveillance audits confirm that Premier will continue to meet the highest standards wherever we drill. Together these teams provide both proactive and reactive assurance that all our operations meet the stringent requirements of our management systems.

Financial commitment

Premier is fully committed to excellent HSES performance and recognises that this comes at a cost, particularly in new and remote areas where increased effort may be required. We therefore conduct risk assessments for each operation we undertake and use the resulting risk registers to ensure that we both recognise major risks and commit sufficient resources to manage and control them, where practicable.

Operational successes

2005 has seen another excellent year for Premier's health, safety, environmental and security performance. Our primary key performance indicator (KPI), also used by most other exploration and production companies in our industry, centres on the lost-time injury frequency (LTIF). In 2005 we incurred two lost-time incidents in some 2.9 million man-hours worked. Both incidents involved slips, one occurred on the Lakkhi drilling rig in India and the other in the London office. Fortunately, they only resulted in minor injury from which the injured parties fully recovered. The UK health and safety authorities followed up the London incident with an inspection of our premises and management system, after which they wrote: 'the standard of health and safety management implementation observed at the premises was exceptionally high, and could be used as a benchmark for best practice.' We are committed to providing a safe place of work for all our employees and contractors and are extremely pleased that our efforts are being recognised.

The LTIF was therefore 0.68 per million man-hours. This was an improvement on 2004 (1.02) and sustains our improving performance year-on-year. However, we prefer to report our safety performance in terms of both lost-time injury (LTI) and restricted workday case (RWDC) frequency to better capture our safety performance trends. When combined these are referred to as 'significant' injuries. In 2005, we anticipated we would incur seven significant injuries in an estimated 5 million man-hours worked and thus set our KPI target as 2.6. We actually incurred three significant injuries in 2.9 million man-hours, resulting in a combined LTI/RWDC frequency of 1.02 per million man-hours worked. This represents a 28 per cent improvement from 2004 (1.43) and continues the significant improvements achieved in LTI/RWDC frequency performance over the last three years.

In 2003, Premier started to collate environmental performance data for public reporting. We included this in the 2004 Premier Sustainability Report, which followed the Global Reporting Initiative (GRI) reporting framework. In 2004, we improved on this strategy and prepared fully GRI-compliant environmental performance reports for each well and production asset. This has continued in 2005 and with these data sets we are now in a position to set environmental performance improvement targets for 2006. 2005 also saw us clarify our biodiversity policy to ensure that we include risks to local biodiversity as part of our risk management process. This is now specifically included in our corporate HSES policy.

The advent of bird flu in Asia and the threat of a global pandemic, together with a rising tide of global terrorist activities, particularly in locations previously considered low-risk, ie London has seen us re-evaluate our business continuity plans. We now have in place crisis management strategies and plans to ensure that we may continue our key operations as long as practicable.

During 2005 our corporate HSES policy document has been updated. It remains our policy to ensure that the impact of our activities on the health and safety of our employees, and all personnel affected by and involved in our activities will be reduced to a level that is as low as reasonably practicable, to maintain the security of our personnel and assets and to strive to achieve excellence in environmental performance.

External stakeholders

We are currently looking at potential partnerships with external stakeholders in order to both better appreciate the focus such organisations are seeking and to facilitate proactive dissemination of our performance. At present we are in discussion with 'Earthwatch' and 'Fauna and Flora' with a view to identifying a scope and level of participation for 2006.

– Board of directors –

Sir David John (67), became non-executive Chairman on 1 March 1998. He was non-executive Chairman of the BOC Group plc from January 1996 until 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, and is the Chairman of Premier's Nomination Committee.

Azam Alizai (74), 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 in Pakistan. Mr Alizai is currently Chairman of Pakistan Petroleum Ltd, one of the major producers of natural gas in Pakistan.

Robin Allan (46), joined Premier from Burmah Oil in 1986, working initially as a geologist. After technical and new venture roles he spent six years in South East Asia, initially managing Premier's Asian existing and new venture business and later becoming Premier's Country Manager in Indonesia. He became a member of the Premier Board on 9 December 2003 as Director of Business Development.

Scott Dobbie (66), 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 and Investment Institute, 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.

Tony Durrant (47), joined Premier in June 2005 as Finance Director. After qualifying as a Chartered Accountant with Arthur Andersen, he joined Lehman Brothers in London, initially as an oil sector analyst. He joined the investment banking division of Lehman in 1987 and since 1997 was a Managing Director and Head of their European Natural Resources Group. In this role, he managed both client relationships and numerous transactions for a variety of European and North American clients. He is a non-executive director of Clipper Windpower plc.

Ronald Emerson (59), 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. He is a non-executive director of Ace Ltd, a Bermuda based, New York listed insurance company.

Ian Gray (67), 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. He is a non-executive director of Mitra Energy.

Simon Lockett (41), Chief Executive Officer, 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 Country Manager in Albania. He became a member of the Premier Board on 9 December 2003 as Director of Operations. Simon Lockett was appointed Chief Executive Officer with effect from 24 March 2005.

John Orange (63), 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.

– Corporate governance report –

Compliance and the role of our Board

The company has established procedures and policies to ensure compliance with the code provisions set out in Section 1 of the Combined Code on Corporate Governance (the 'Code'). As required by the Code, we report below on how the main and supporting principles of the Code have been applied throughout the year and explain any areas where we have not complied with any of the Code's provisions. While this is an important exercise, the Board does not believe that good governance can be defined merely in terms of compliance with a set of rules. The overall purpose of the Board is to represent the company's owners and ensure that the company's strategic objectives are properly pursued. This goes beyond regulatory compliance and puts the interests of our shareholders as the Board's primary focus.

The Board considers that the company has complied with the provisions of the Code throughout the year under review (and subsequently up to the date of this report) except in those areas mentioned below.

The Board

The Board of Directors currently comprises the Chairman, the Chief Executive, two other executive directors and five independent non-executive directors. Brief biographical details of each director and a note of their Board Committee memberships are set out on page 14.

The Chairman's role is part-time and he is a non-executive director. His key responsibility is the effective running of the Board. Between Board meetings the Chairman is responsible for ensuring the integrity and effectiveness of the Board/Executive relationship. This requires regular contact with the Chief Executive between Board meetings, as well as contact with other Board members, shareholders, joint venture partners and host governments. In 2005, the Chairman made several trips abroad to visit the company's overseas operations and to meet senior industry and government representatives. The Chairman and the non-executive directors meet periodically without the executive directors present and the non-executive directors meet once a year without the Chairman.

The division of responsibilities between the Chairman and the Chief Executive has been clearly established.

Premier is an international business which has to manage a variety of political, technical and commercial risks. It is therefore important that the Board contains the appropriate mix of skills and experience to meet these challenges. The non-executive directors come from diverse business backgrounds, with significant expertise covering international oil and gas management, stockbroking, banking and exploration. The non-executive directors are encouraged to have direct contact with the company's senior executives between Board meetings and are also encouraged to visit the company's operations abroad in order to familiarise themselves with their activities and to meet local management. During 2005, a visit to the company's operations in Singapore and Jakarta was arranged. Further visits are planned in 2006.

The Board 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. During 2005, the Board carried out a review of strategy and organisation and has focused its efforts during the year on strategic issues which will create value for shareholders, monitoring performance against agreed objectives and discussing future business opportunities.

The formal agenda for each Board meeting is set by the Chairman, in consultation with the Chief Executive and the Company Secretary. Formal Board and Board Committee minutes are circulated to all directors at the next Board meeting. Board members receive a monthly report of the company's activities which incorporates an update on the annual budget and progress against major objectives. In accordance with the authority given under the company's Articles, the company has established a standing Committee of the Board, consisting of any two directors, to carry out routine business. The minutes of all meetings of this Committee are circulated to the Board.

There are formal and transparent procedures for the appointment of new directors and it is the responsibility of the Nomination Committee to consider Board composition and succession planning, including the appointment and reappointment of directors. Mr J R W Orange, who is Chairman of the Remuneration Committee, is the company's senior independent non-executive director. In this role, he is available to shareholders who have concerns that cannot be resolved through discussion with the Chairman or Chief Executive. Matters reserved for Board decision are clearly laid down in writing, 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 and the non-executive directors' letters of appointment are laid out on page 23.

The company has directors' and officers' liability insurance in place.

The company has granted indemnities to all its directors, to the fullest extent permitted by applicable law.

Executive Committee

The Board has delegated the day-to-day running of the group to the Chief Executive who has established an Executive Committee to assist him in this role. The Committee is made up of each of the executive directors, the General Manager of Operations, the General Manager of Exploration and the Company Secretary. The Executive Committee is chaired by the Chief Executive.

The responsibilities of the Executive Committee include the development of group strategy for approval by the Board, portfolio management and the monitoring of performance against the targets set by the Board. At its weekly meetings the Committee also reviews health, safety, environmental and security performance and operational business performance reports. The Committee is also responsible for reviewing the information provided to the Board.

– Corporate governance report continued –

The Executive Committee carried out a review of the organisational structure in 2005 and, following discussion and approval by the Board, it established four regional business units in order to manage effectively the increasing geographical spread of business in the group. These business units are: North Sea; West Africa; Middle East-Pakistan and Asia. Each business unit is headed by a regional business manager who delivers against specific strategies and performance targets set by the Executive Committee.

Board performance evaluation

The Board and its directors are subject to regular independent appraisal. The aim is to improve both individual contributions and group achievement. The last such appraisal was in 2004 and was facilitated by an independent external consultant. A full report was provided to the Board in January 2005 and follow-up actions were agreed. The conclusion of the evaluation was that all the directors' views on the overall functioning of the Board were very positive. The principal focus of the follow-up actions was to put in place a structured programme of presentations to Board members, at which senior managers in the group make presentations on a variety of subjects relevant to the company's business. These presentations began in 2005. The presentations not only meet the objective of developing and updating the knowledge of the directors, but also give the non-executive directors the opportunity to meet a number of senior managers across the group. These presentations take place at the end of Board meetings and are attended by all the directors present at the meeting. This programme is continuing in 2006.

The other issue highlighted in the follow-up actions was the need to review the induction process for new directors. This was completed during 2005.

The Board decided that the positive results of the 2004 evaluation meant that it would not be appropriate to carry out an evaluation exercise in 2005. While this is not in accordance with the strict requirements of the Code, which recommends an annual evaluation of Board performance, the Board decided that it would be more productive to concentrate on putting in place the agreed action plan in 2005 and then discuss the issue of further evaluation in 2006.

Independence of non-executive directors

We require that all our non-executive directors be free from any relationship with the executive management of the company that could materially interfere with the exercise of their independent judgement. In the Board's view, all our non-executive directors, including the Chairman, fulfil this requirement. It thus determined all six who served in 2005 to be independent directors.

Mr Ian Gray was appointed to the Board in 1996 and Mr John Orange was appointed in 1997. The length of their respective service on the Board exceeds the nine years referred to in the Code. The Board considers that the experience and long-term perspective of each of these directors on Premier's business continues to provide a most valuable contribution and that it benefits from their input to the Board's deliberations. The Board is strongly of the view that the important qualities when considering the issue of independence of non-executive directors are independence of spirit and objectivity of mind. The Board therefore regards both Mr Gray and Mr Orange as independent directors.

Mr Azam Alizai receives a consultancy fee from the company, for advisory services to the executive management team and the Board in relation to our business in Pakistan. The Board does not believe that this compromises Mr Alizai's independence.

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.

The non-executive directors bring independent judgement 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. 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 company secretary provides advice and support to the Board and all Board committees.

Audit and Risk Committee

An objective and professional relationship is maintained with the auditors, Deloitte & Touche LLP. The Audit and Risk Committee, comprising only non-executive directors, meets at least three times a year for a detailed review of the group's accounts and its internal controls. Its members are Messrs R V Emerson (Chairman), S J Dobbie, I Gray and J R W Orange. Minutes of the meetings of the Audit and Risk Committee are distributed to all Board members, all of whom are encouraged to attend meetings of the Committee (as observers) since the Board believes that the work of the Committee, particularly in the areas of risk management and internal control, is increasingly important for all Board members.

The Committee has three scheduled meetings each year; the March meeting reviews the full-year results for the previous calendar year and also reviews the annual Corporate Governance Report; the September meeting reviews the results for the six-month period ending on 30 June; and the December meeting plans the audit work for the forthcoming year. The Committee met four times in 2005, which included a meeting in August 2005 to consider the group's adoption of International Financial Reporting Standards (IFRS), adoption of successful efforts accounting for exploration and production activities, and issuance of the IFRS Restatement Document.

The Committee is mainly responsible for:
- reviewing the company's internal financial control system and risk management system;
- reviewing accounting policies, accounting treatments and disclosures in financial reports to ensure clarity and completeness;
- overseeing the company's relationship with its external auditors, including making recommendations as to the appointment or reappointment of the external auditors, reviewing their terms of engagement and monitoring their independence; and
- reviewing the company's whistleblowing procedures and ensuring these are adequately published within the organisation, that the Committee Chairman is promptly informed of any issues, and that there are arrangements in place for the investigation of any alleged improprieties.

The main focus for the Committee in 2005 has been to consider and then implement the adoption by the group of International Financial Reporting Standards. This has imposed a significant burden on the company's internal resources, but the Committee confirmed that the additional work has not compromised the high quality of financial and control work carried out.

The Committee also carried out its annual review into whether it is appropriate for the company to establish an internal audit function. The Committee places great emphasis on the importance of imbuing a culture of strategic risk management and control at all operating levels in the business and is confident that this culture is in place. The Committee also took account of the fact that the company obtains independent confirmation of its internal controls from a variety of sources; these include joint venture and government audits and the use of specific reviews using third party specialists. As a result, the Committee concluded that there was no need for a dedicated internal audit resource.

The Committee also regularly reviews the issue of the independence of our external auditors, in the light of the fact that they provide taxation advice to the company. In all services purchased, independence considerations permitting, the group aims to select the provider who is best placed to deliver the service in terms of quality and cost. The Committee does not believe that the provision of taxation advice to the group by the external auditor creates a threat to the independence of the audit process. This is principally because neither the nature of the non-audit service nor the level of reliance placed upon it by the group could, or could be seen to, impair the objectivity of the external auditors' opinion on the financial statements. The Committee also requires the external auditor to confirm that in providing non-audit services, it complies with Ethical Standards of the UK Auditing Practices Board.
This confirmation was received for 2005.

Remuneration Committee

The Remuneration Committee normally meets at least three times a year and determines the remuneration of the executive directors and senior employees. The group's remuneration policy is to provide a level of remuneration which is sufficient to attract and retain employees of the level of expertise we require. In relation to executive directors and senior employees, the objective is that a significant element of the remuneration package is linked to corporate performance. No director is involved in setting his own remuneration. The members of the Remuneration Committee are Messrs J R W Orange (Chairman), S J Dobbie, R V Emerson and I Gray. The Chairman and the Chief Executive attend by invitation when appropriate. Full details of the directors' remuneration are shown in the Remuneration Report on pages 22 to 30.

The role of the Committee includes:
- considering and determining the remuneration policy for executive directors;
- within this agreed policy, considering and determining the total compensation package of each executive director of the company;
- considering and advising on the general principles under which compensation is applied to employees of the company;
- determining the awards to be made under the company's long-term incentive scheme; and
- determining the policy for pension arrangements, service agreements and termination payments to directors.

As in previous years, the principal focus of the Committee in 2005 has been to ensure that the remuneration packages of the senior executives are set at levels which are sufficient to retain and attract high-quality individuals, particularly at a time when the market for these individuals is extremely competitive.

The determination of the remuneration of the non-executive directors is a matter for the Board.

Nomination Committee

The Nomination Committee comprises Sir David John (Chairman), Messrs S J Dobbie, R V Emerson, I Gray, S C Lockett and J R W Orange. The Committee met twice in 2005.

The role of the Nomination Committee is to review the structure, size and composition of the Board and make recommendations to the Board on these matters and to put in place succession plans with regard to both Board and senior appointments.

The Board considers that the memberships of the Audit and Risk Committee, Nomination Committee and Remuneration Committee are in compliance with the Code recommendation on the basis that it considers Messrs J R W Orange and I Gray to be independent, notwithstanding their length of service.

The number of meetings of the Board and its Committees during 2005, and individual attendance by directors, is shown below:

	Board	Audit	Remuneration	Nomination
Number of meetings	**7**	**4**	**7**[1]	**2**
Attendance				
M A K Alizai	7	N/A	N/A	N/A
R A Allan	7	N/A	N/A	N/A
S J Dobbie	7	3	4	2
A R C Durrant[2]	4	3*	N/A	N/A
R V Emerson	7	4	4	2
I Gray	7	3	7	2
C J A Jamieson[3]	3	1*	2*	N/A
Sir David John	7	N/A	4*	2
S C Lockett	7	3*	2*	2
J R W Orange	7	4	7	2
J A van der Welle[4]	3	1*	N/A	N/A

* By invitation

1 There were four scheduled meetings of the Remuneration Committee during the year; the remaining three meetings (only attended by Messrs J R W Orange and I Gray) were called to approve the detail of arrangements approved in principle by a prior scheduled meeting of the Committee.

2 Mr A R C Durrant was appointed to the Board on 30 June 2005 and attended all the Board meetings held from that date.

3,4 Messrs C J A Jamieson and J A van der Welle resigned from the Board with effect from 30 June 2005.

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 Code provision D.2.1 are described below. These procedures have been in place for the year under review and up to the date of approval of the Annual Report and Accounts.

Management of business risks – This is 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 directors receive assurance directly from the business units and functional management through the completion of annual declarations confirming compliance with the group's policies, procedures and risk management processes. These processes are designed to manage rather than eliminate risk of failure to achieve business objectives.

Premier has adopted a 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, inter alia, 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 2005 the key business risks identified were formally discussed by the Executive Committee on a semi-annual basis. This process will continue during 2006.

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 with key senior executives constitute the Executive Committee which normally meets weekly.

Corporate accounting – Responsibility levels are communicated throughout the group as part of corporate accounting and an authorisation 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 capital expenditure, cash flow, income statement and balance sheet. Monthly 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 foreign currency hedging, oil price 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 2005, 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 2006 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 and Accounts and the Interim Report which are sent to shareholders. The company has also produced a separate corporate brochure and summary reviews in each of the last four years highlighting Premier's capabilities and business principles. These documents are available to all shareholders. There is regular dialogue with institutional investors, and the Chairman, Chief Executive and Finance Director, who are the directors responsible for dealing with shareholders, to ensure that other members of the Board receive full reports of shareholder meetings. 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.

By order of the Board
Stephen Huddle
Company Secretary
22 March 2006

– Report of the directors –

The directors submit their report and the audited group accounts for the year ended 31 December 2005.

Results and dividends

The group's net profit for the year amounted to US$38.8 million (2004: profit of US$22.1 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 47. A review of major activities, developments during the year and prospects for the future is included in the Chairman's Statement, the Financial Review and the Operational Review.

Annual General Meeting

The company's 4th Annual General Meeting will be held on Friday, 19 May 2006 at 11.00am. The Notice of the Meeting accompanies this report.

Share capital

The company's authorised share capital is £157,612,281.475 comprising 311,904,002 Ordinary Shares of 50 pence each and 9,487,317 Non-Voting Convertible Shares of 17.5 pence each.

There were 345,290 Ordinary Shares issued under the group's share option schemes during the year. The company cancelled 1,794,000 Ordinary Shares in 2005 (representing 2.2 per cent of the Ordinary Shares in issue at the year-end), following market purchases made at prices between £5.19 and £7.12 during the year and at the end of the previous year. The aggregate consideration paid for market purchases during the year was £6,873,920. The Annual General Meeting held in 2005 had authorised the purchase by the company of up to 12,352,922 shares and the balance of this authority will remain available until the forthcoming Annual General Meeting, when the granting of a similar authority will be proposed. At the end of the year 230,130,921 shares in the authorised Ordinary Share capital of the company were unissued.

The authority given to the directors to allot shares at the 2005 Annual General Meeting was granted for a period of one year. A resolution will be put to the Annual General Meeting to renew this authority, although at the present time the directors do not have plans for any issue of shares.

At the 2005 Annual General Meeting, authority was also given to the directors for one year to allot shares for cash either in connection with a rights issue or of up to 5 per cent of the then issued share capital as if statutory pre-emption rights did not apply. A similar resolution will be put to the forthcoming Annual General Meeting to renew this authority.

Directors

Directors holding office during the financial year were:

- Mr Azam Alizai
- Mr Robin Allan
- Mr Scott Dobbie
- Mr Anthony Durrant (appointed 30 June 2005)
- Mr Ronald Emerson
- Mr Ian Gray
- Mr Charles Jamieson (resigned 30 June 2005)
- Sir David John (Chairman)
- Mr Simon Lockett
- Mr John Orange
- Mr John van der Welle (resigned 30 June 2005)

Directors' election and rotation:

- Mr A R C Durrant, having been appointed since the 2005 Annual General Meeting is required by the Articles of Association to stand for election at the forthcoming 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; and
- Mr M A K Alizai, being aged 74, 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.

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

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 2005 or date of appointment	31 December 2005	**At 22 March 2006**
M A K Alizai	–	–	**–**
R A Allan	31,400	14,162	**18,978**
S J Dobbie	10,000	10,000	**10,000**
A R C Durrant	–	30,200	**33,244**
R V Emerson	10,000	10,000	**10,000**
I Gray	4,000	8,000	**8,000**
Sir David John*	16,700	16,700	**16,700**
S C Lockett	22,916	34,802	**40,519**
J R W Orange	5,000	5,000	**5,000**

* This includes 1,700 Ordinary Shares held by Sir David John's wife.

Directors' interests in share options are shown in the Remuneration Report on pages 22 to 30 together with details of the remuneration of all directors who served during the year.

Substantial shareholders

At 22 March 2006 the company had received notification from the following institutions of interests in excess of 3 per cent of the issued Ordinary Share capital of the company:

	Notified number of shares	**Notified percentage**
Artemis Investment Management Ltd	3,435,000	4.10
Aviva plc & Morley Fund Management Ltd	4,916,007	6.01
Legal & General Group plc	3,015,128	3.67

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.

Hedging and risk management

Details of the group's policy on hedging and risk management is provided on page 5 of the Financial review. A further disclosure has been made in note 17 of the financial statements related to various financial instruments and exposure of the group to price, credit, liquidity and cash flow risk.

Donations

During the year the company made charitable contributions amounting to US$49,513 (2004: US$55,110). No political contributions were made during the year (2004: US$ nil).

Auditors

A resolution to re-appoint Deloitte & Touche LLP as auditors will be put to shareholders at the forthcoming Annual General Meeting.

By order of the Board
Stephen Huddle
Company Secretary
22 March 2006

– Remuneration report –

Compliance

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

Throughout 2005 the company complied with Schedule A of the Combined Code (the 'Code') regarding best practice on the design of performance-related remuneration.

The remuneration, including pensions and compensation payments, of all executive directors is determined by the Remuneration Committee (the 'Committee') and ratified by the Board. The Committee also reviews and advises on the general principles under which remuneration (including any bonus or long-term incentive schemes and pensions) is applied to employees of the company. The Committee is composed entirely of non-executive directors whom the Board considers to be independent, and comprises Mr J R W Orange, who chairs the Committee and is the company's senior independent director, Messrs S J Dobbie, R V Emerson and I Gray. Mr S C Lockett is not a member of the Committee but usually attends meetings by invitation, except when his own remuneration is being discussed, as the company considers it important that the Chief Executive is fully aware of discussions concerning remuneration policy and the remuneration packages of its most senior employees. The Committee acts within its agreed written terms of reference and complies with the relevant provisions of the Code in implementing its remuneration policy. The terms of reference are published on the company's website (www.premier-oil.com). None of the executive directors of the company are involved in determining their own remuneration.

The Committee takes independent advice from Inbucon Consulting, a leading firm of remuneration consultants, which is appointed as an advisor to the Remuneration Committee in respect of executive remuneration and share schemes, including total shareholder return calculations. The Inbucon Group acts as trustees and administrators of the company's 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 aim is to provide remuneration packages which are sufficiently competitive to attract, retain and motivate individuals of the quality required to achieve the group's objectives and thereby enhance shareholder value. The Committee takes account of the level of remuneration paid to executive directors and senior managers of comparable public companies.

The main components of executive directors' remuneration are basic salary, an annual performance-related cash and share bonus scheme with a deferred element, benefits, longer-term incentives and pension provision. Each element is discussed in detail below.

The 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 2006 and subsequent years although the Committee will keep the matter under review. The Committee's current intention with regard to share options is that they will continue to be awarded only in special circumstances. Shareholders approved the adoption of the Asset and Equity Plan (AEP) at the AGM in 2004 and the Committee continues to regard this plan as the most appropriate method of rewarding the company's executives for achieving growth in share price and the underlying asset value of the company.

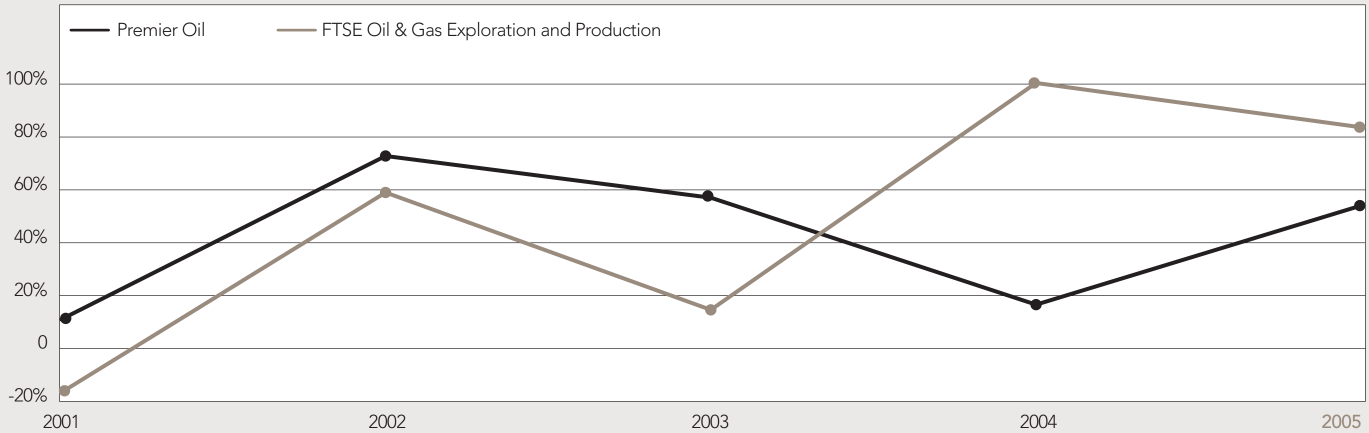
The company's Articles of Association provide that the remuneration paid to non-executive directors is to be determined by the Board within the limits set by the shareholders.

Performance chart

The chart below shows the company's total shareholder return (TSR) 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 closest equity market index. The company has recorded six consecutive years of positive TSR.

Total Shareholder Return %

Premier Oil vs FTSE Oil & Gas Exploration and Production



Contracts of service

Save for automatic termination when each executive director becomes 60 years of age, the executive directors have rolling service contracts, subject to re-election by shareholders under the company's Articles of Association and the provisions of the Code. The service contract of each executive director may be terminated on 12 months notice in writing by either side, in accordance with current market practice. In such event, the compensation commitments in respect of their contracts could amount to one year's remuneration based on base salary, annual bonus and long-term incentive scheme entitlement, benefits in kind and pension rights during the notice period. There are provisions for earlier termination by the company in certain circumstances. If such circumstances were to arise, the executive director concerned would have no claim against the company for damages or any other remedy in respect of the termination. There are no other provisions, such as liquidated damages clauses, which expressly provide for compensation in the event of early termination. The Committee would apply general principles of mitigation to any payment made to a departing executive director and would consider each case on an individual basis.

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
R A Allan	09.12.03	–	12 months	None specified
A R C Durrant	01.06.05	–	12 months	None specified
C J A Jamieson*	15.09.83	–	24 months	None specified
S C Lockett	09.12.03	–	12 months	None specified
J A van der Welle*	01.04.99	–	Statutory minimum	See below

* On 30 June 2005 Messrs C J A Jamieson and J A van der Welle left the Board and Mr A R C Durrant became a director. Under the terms of Mr J A van der Welle's contract, he was paid an amount equivalent to nine-twelfths annual remuneration. In addition, he will be paid a bonus for 2005 under the normal bonus arrangements as if he had remained in position until 31 December 2005, and disapplying any deferral conditions. Mr C J A Jamieson will be paid one half of the bonus for 2005 under the normal bonus arrangements as if he had remained in position until 31 December 2005, and disapplying any deferral conditions.

Non-executive directors have letters of appointment, which are all effective from 15 July 2003 for a period of three years (subject to reappointment by the members in a General Meeting) and which all have notice periods of three months. It is the current intention that, on expiry, these letters of appointment will be replaced by new letters, which are effective for a further three years, also with notice periods of three months.

– Remuneration report continued –

Remuneration structure

The remuneration package for the executive directors comprises base salary, benefits, bonus, pension, and 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.

Annual bonus scheme

The annual bonus, which is non-pensionable, consists of a payment of up to 50 per cent of salary which is paid 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 2005 were based as to 20 per cent of the maximum bonus potential on the achievement of cash flow targets, 70 per cent of the maximum bonus potential on the achievement of key targets in exploration, portfolio management and strategic development, and 10 per cent of the maximum bonus potential on the achievement of health, safety and environmental targets.
The cash flow target was to achieve the operating cash flow number contained in the 2005 budget approved by the Board. In respect of the exploration, portfolio management and strategic development targets, the Committee set guidelines at the beginning of the year against which they would determine the extent to which the targets had been achieved. The exploration target was to increase reserves through exploration drilling by 30 mmboe. The portfolio management and strategic development targets comprised a number of strategic business opportunities against which the Committee judges performance as well as the measurement of the performance of the company's share price. The HSE target was to achieve combined frequencies of lost-time injuries and restricted work-day cases of at or below 2.6 lost-time injuries or restricted work-day cases per million man-hours worked.

Based on these targets, the Committee decided at its meeting on 21 March 2006 to award 40 per cent of salary (20 per cent paid as cash and 20 per cent deferred in shares as indicated above) for performance against the above targets.

The annual bonus scheme for the 2006 financial year has the same structure and maximum award level. The performance measures for the 2006 bonus scheme are based as to 20 per cent of the maximum bonus potential for cash flow. The base cash flow target is to achieve the operating cash flow number contained in the 2006 budget approved by the Board, 10 per cent of salary will be awarded for this. The stretch cash flow target is to achieve the base target plus 15 per cent. 10 per cent of salary will be awarded if this target is met. The second target relates to HSE performance and is a target of combined frequencies of lost-time injury frequencies and restricted work-day cases of at or below 2.1 cases per million man-hours worked. 10 per cent of the maximum bonus potential is payable for achievement of this target. The third target relates to the achievement of key measures in exploration, portfolio management and strategic development, with a focus on the milestones needed to achieve the end-2008 targets agreed by the Board in the company's strategic plan. These are production of 50,000 boepd and an increase in reserves of 100 million barrels. The portfolio management and strategic development targets comprise a number of strategic opportunities against which the Committee judges performance. 70 per cent of the maximum bonus potential is payable for achievement of this third target.

Benefits

Mr J A van der Welle received the benefit of a car fully expensed by the company, together with petrol cost and medical insurance.

Messrs R A Allan, A R C Durrant, C J A Jamieson and S C Lockett each received the benefit of a car allowance and medical insurance.

Summary of actual remuneration (Audited)

	Salary and fees 2005 £'000	Benefits in kind* 2005 £'000	Annual cash bonus 2005 £'000	**Total 2005 £'000**	Total 2004 £'000
Executive directors					
R A Allan	210.0	16.6	42.0	**268.6**	226.4 **
A R C Durrant[1]	131.3	11.5	26.3	**169.1**	–
C J A Jamieson[2]	171.0	14.7	68.4	**254.1**	506.6 **
S C Lockett[3]	276.2	16.6	50.0	**342.8**	221.9 **
J A van der Welle[4,5]	396.3	11.8	90.0	**498.1**	341.4 **
Non-executive directors					
Sir David John[6] (Chairman)	100.0	–	–	**100.0**	101.2
J R W Orange (Senior Independent Director)	40.0	–	–	**40.0**	40.0
M A K Alizai[7]	19.4	–	–	**19.4**	17.4
S J Dobbie	30.0	–	–	**30.0**	30.0
R V Emerson	35.0	–	–	**35.0**	35.0
I Gray	30.0	–	–	**30.0**	30.0
Total for all directors	1,439.2	71.2	276.7	**1,787.1**	1,549.9

Notes:

1 Mr A R C Durrant joined the company on 1 June 2005.

2 Mr C J A Jamieson retired from the company on 30 June 2005.

3 £26,244 of Mr S C Lockett's remuneration relates to a salary supplement as part of his pension arrangements.

4 Mr J A van der Welle left the company on 30 June 2005 – the salary and fees' figure above contains a loss of office/termination payment of £168,750. It also includes a pension supplement payment of £90,044.

5 £20,240 of Mr van der Welle's remuneration relates to a salary supplement as part of his pension arrangements.

6 The 2004 total for Sir David John includes part-year fees for the role of Chair of the Nomination Committee; Sir David has waived these fees for 2005.

7 In addition to the above Mr M A K Alizai was paid US$116,600 (2004: US$116,600) for advisory services undertaken for the group outside the UK.

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

** The published 2004 figures included incorrect cash bonus amounts; the correct amounts were: R A Allan £65,625, C J A Jamieson £121,875, S C Lockett £65,625 and J A van der Welle £80,625.

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

	Awarded on 12 March 2002 at 197.5p[1] and released on 11 March 2005	**Awarded on 11 March 2003 at 255p[1] and released on 10 March 2006**	**Awarded on 16 March 2004 at 528p[1] to be released on 15 March 2007**	**Awarded on 22 March 2005 at 574.5p[1] to be released on 21 March 2008**	**Awarded on 21 March 2006 at 888p[1] to be released on 20 March 2009**
R A Allan	–	–	–	11,422	4,730
A R C Durrant	–	–	–	–	2,956
C J A Jamieson	29,367	61,000[2]	29,830[2]	21,214[2]	–
S C Lockett	–	–	–	11,422	5,631
J A van der Welle	19,240	40,000[2]	18,939[2]	14,033[2]	–

Notes:

1 Mid-market closing price on date of award.

2 These shares were released to Messrs C J A Jamieson and J A van der Welle in August 2005 as part of their leaving arrangements.

Pension schemes (Audited)

Mr S C Lockett is a member of the Premier Oil plc Retirement and Death Benefits Plan (the ‘Scheme’) subject to the Inland Revenue Earnings Cap.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 five per cent per annum.

Mr R A Allan is a member of a money-purchase pension arrangement to which the company contributed £57,735 during 2005; contributions to this arrangement are made in respect of basic annual salary as restricted to the Inland Revenue Earnings Cap.

The company has agreed to provide Messrs R A Allan, A R C Durrant and S C Lockett with a pension substantially as if they were contributing members of the Scheme and, in regard to service completed subsequent to their appointment as directors, not subject to the Inland Revenue Earnings Cap. The additional value of this target pension provision, relative to the standard terms applied to staff, is made available at the directors’ option in the form of either an enhanced scale of pension contributions or a non-pensionable salary supplement. As at the year-end, Mr R A Allan had elected the former and S C Lockett had elected the latter; subsequent to the year-end, Mr A R C Durrant elected the latter. For life insurance purposes, Messrs R A Allan and A R C Durrant are members of the Scheme.

The accrued pension entitlements of the directors who were members (or deemed members) of the Scheme during 2005 are as follows:

	(a) Accrued pension as at 31 December 2005 £’000 pa	(b) Transfer value in respect of (a) as at 31 December 2005 £’000	(c) Accrued pension as at 31 December 2004 £’000 pa	(d) Transfer value in respect of (c) as at 31 December 2004 £’000	Increase from (d) to (b) less contributions by director during 2005 £’000	(e) Increase in value on basis of listing requirements £’000
R A Allan	7.1	58.6	3.2	24.2	22.8	19.7
A R C Durrant	2.5	21.4	–	–	14.1	14.1
C J A Jamieson	221.6	4,568.3	211.2	4,034.8	533.5	77.4
S C Lockett	23.9	142.3	18.9	103.4	24.9	12.5
J A van der Welle	27.9	298.7	22.0	214.0	78.5	49.6

Notes:

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

2 The 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 A Allan, A R C Durrant, S C Lockett 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 principally established through individual money purchase arrangements and salary supplements.

5 Mr C J A Jamieson reached normal pension age on 30 September 2004 and deferred drawing his pension until his retirement on 1 July 2005, no pension was commuted at retirement; the accrued pension under (a) represents the amount of pension in payment at 31 December 2005.

6 Mr J A van der Welle left service on 30 June 2005 at which time the company’s obligations in regard to pension provision were settled by lump sum payments; the accrued pension under (a) represents the target level of final salary pension provision as at 30 June 2005.

7 In addition to the current provision noted above, Mr R A Allan is entitled to a deferred pension under the Scheme in respect of a prior service period with the company between September 1986 and November 1999.

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

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

	Amount of unfunded pension paid during 2005 £	Amount of unfunded pension paid during 2004 £
J A Heath	**29,312**	28,320
R J Lascelles	**18,327**	26,561

The company and Mr R J Lascelles concluded an agreement, effective 1 September 2005, to commute the unfunded pension noted above for a lump sum of £336,000.

Share option schemes (Audited)

The company currently operates four share option schemes. The Scheme of Arrangement relating to the group's capital in 2003 affected two of the schemes in operation at that time. The company therefore adopted two new share option schemes to replace the Executive Share Option Scheme 1995 and the Savings-Related Share Option Scheme 1999.

Executive Share Option Scheme 1995

Options granted under the 1995 scheme are now normally exercisable not less than three years after their date of grant and will lapse (unless previously exercised) on their tenth anniversary. No payment is made for the grant of an option. 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.

This scheme was affected by the Scheme of Arrangement. 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 roll over his options the performance criteria continued to apply. The performance conditions relating to all options granted to directors under the 1995 Scheme have been met.

Messrs C J A Jamieson and S C Lockett held options under this scheme during the financial year. The options are listed in the table below:

	Date of grant	Exercisable dates	Acquisition price per share (£)	Options held at 1 January 2005	Event	Mid-market price on date of exercise (£)	Options held at 31 December 2005 or leaving date
C J A Jamieson							
	26.04.96	26.04.01 – 26.04.06	3.175	57,600	Exercised – 06.01.05	5.17	–
	07.04.97	07.04.02 – 07.04.07	4.00	57,600	Exercised – 06.01.05	5.17	–
	16.04.98	16.04.03 – 16.04.08	3.725	57,600	Exercised – 06.01.05	5.17	–
	29.10.99	29.10.02 – 29.10.09	1.725	180,000	Exercised – 06.01.05	5.17	–
	20.04.00	20.04.03 – 19.04.10	1.25	24,000	Exercised – 06.01.05	5.17	–
	20.04.00	20.04.03 – 19.04.10	1.25	80,000	Exercised – 06.01.05	5.17	–
	18.09.00	18.09.03 – 17.09.10	1.40	371,429	Exercised – 06.01.05	5.17	–
				828,229			**–**
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**

Executive Share Option Scheme 2003

This scheme replaced the 1995 scheme on completion of the company's Scheme of Arrangement in 2003. Options granted under the scheme are normally exercisable not less than three years after their date of grant and will lapse (unless previously exercised) on their tenth anniversary. No payment is made for the grant of an option. Options cannot be exercised until pre-determined performance conditions have been achieved. In the case of certain employees, the performance condition is growth in earnings per share of at least 3 per cent pa compound above the Retail Price Index (RPI) over a three-year period. In other cases, including a grant made to Mr A R C Durrant under the scheme during the year, the performance condition is based on the company's total shareholder return in comparison with a group of eight companies as follows: Burren Energy, Cairn Energy, Dana Petroleum, Paladin Resources, Tullow Oil, Venture Production, Soco International and JKX Oil & Gas, measured between 1 January 2005 and 31 December 2007. Options will vest as to 30 per cent in the event that median performance is achieved, with proportionate vesting on a straight-line basis up to 100 per cent if upper quartile performance is achieved.

– Remuneration report continued –

Directors' interests under this scheme are shown below:

Director	Date of grant	Exercisable dates	Acquisition price per share (£)	Options held at 1 January 2005 or date of appointment	Event	Mid-market price on date of exercise (£)	Options held at 31 December 2005
A R C Durrant	01.06.05	01.06.08 – 31.05.15	5.87	100,000	Grant of options	–	100,000

Savings Related Share Option Scheme 1999

Under this scheme, 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 market value set at the time of invitation discounted by up to 20 per cent.

Director	Date of grant	Options held at 1 January 2005	Exercisable dates	Acquisition price per share (£)	Event	Options held at 31 December 2005
R A Allan	23.04.02	9,093	01.06.07 – 01.12.07	1.82	–	9,093

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.

Director	Date of grant	Options held at 1 January 2004	Exercisable dates	Acquisition price per share (£)	Event	Options held at 31 December 2004 or date of leaving
S C Lockett	22.04.04	2,181	01.06.07 – 30.11.07	4.32	–	2,181
J A van der Welle	22.04.04	2,181	01.06.07 – 30.11.07	4.32	Lapsed	–

The market price of the company's shares at 31 December 2005 was £8.14 (31 December 2004: £5.29) and the range during 2005 was £5.16 to £8.35.

Gains made on all directors' share options

Gains made by directors during the period are as follows:

Director	Date of exercise	Number of shares	Acquisition price per share (£)	Market value per share on exercise	Gain per share on exercise (£)
C J A Jamieson	06.01.05	57,600	3.175	5.17	114,912
		57,600	4.00	5.17	67,392
		57,600	3.725	5.17	83,232
		180,000	1.725	5.17	620,100
		104,000	1.25	5.17	407,680
		371,429	1.40	5.17	1,400,287
					2,693,603

(Gains made during 2004 – Mr C J A Jamieson: £55,125; Mr J A van der Welle: £1,341,998.)

Premier Oil plc Asset and Equity Plan (Audited)

This plan is designed to reward an improvement in the asset value of the business and the market value of the company over a three-year period. The plan therefore has two bonus pools, an equity bonus pool and an asset bonus pool, each pool being dependent upon the performance measures set out below. Under this plan awards can be made annually and they will mature on the third anniversary of the date of grant. They are not pensionable. The Asset and Equity Plan is a broadly based plan, with participation points being awarded to eligible employees, including executive directors, throughout the group.

No bonus pool is created unless there is a minimum compound growth in net assets per share or increase in market value of the company of 10 per cent per annum and the maximum pool is generated if growth is 20 per cent per annum. The maximum benefit that an individual may receive will normally be limited to twice his or her base salary per annum.

A total of 823 participation points were awarded in 2004. Of these, the directors received the following points:

	Number of participation points
R A Allan	36.85
C J A Jamieson	64.00
S C Lockett	36.85
J A van der Welle	36.85

A total of 742 participation points were awarded in 2005. Of these, the directors received the following points:

	Number of participation points
R A Allan	36.85
A R C Durrant	36.85
C J A Jamieson	64.00
S C Lockett	36.85
J A van der Welle	36.85

It has been agreed that Mr C J A Jamieson will retain his 2004 and 2005 awards and that any payments to be made under those awards will be made in full. It has been agreed that Mr J A van der Welle will retain his 2004 and 2005 awards: any payment made to him in respect of the 2004 award will be reduced by one-third; any payment made to him in respect of the 2005 award will be reduced by two-thirds.

– Remuneration report continued –

Premier Oil plc Share Incentive Plan (Audited)
Under this plan employees, including executive directors, 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 plan is to encourage 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 one for ten 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 employee may leave the shares in trust, hold the shares in his/her own name, or sell them, provided the employee is in employment at the end of the three-year period.

Should an employee leave the SIP scheme before the end of the three-year period, he/she will lose the right to the Matching Shares, unless he/she leaves due to injury, redundancy, TUPE transfer, 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 A Allan, A R C Durrant, S C Lockett and J A van der Welle contributed the maximum monthly amount of £125 to the plan. For each Partnership Share purchased, the company provides a Matching Share. 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 2005	Total Partnership Shares purchased in 2005 at prices between 531p and 825p	Total Matching Shares awarded in 2005 at prices between 531p and 825p, vesting in 2008	Shares held on 31 December 2005 or date of leaving	Partnership and Matching Shares acquired between 1 January and 1 March 2006
R A Allan*	2,276	232	232	2,740	86
A R C Durrant	–	100	100	200	88
C J A Jamieson**	52	–	–	52	–
S C Lockett	2,285	232	232	2,749	86
J A van der Welle***	2,285	149	149	2,583	–

* Mr R A Allan's shares include shares held in the International Plan. His Matching Shares in that plan are held by the trustees on his behalf in the form of a conditional award of shares.

** Mr C J A Jamieson sold his holding on 1 August 2005.

*** Mr J A van der Welle forfeited 1,214 matching shares at his date of leaving and sold the balance of his shares on 1 August 2005.

By order of the Board
Stephen Huddle
Company Secretary
22 March 2006

– Statement of directors' responsibilities –

United Kingdom 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;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the group will continue in business.

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 financial statements of Premier Oil plc for the year ended 31 December 2005 which comprise the consolidated income statement, the consolidated balance sheet, the statement of total recognised income and expenses, statement of changes in equity, the consolidated cash flow statement, the related notes 1 to 25 and the IFRS transition reconciliations. These group financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the directors' remuneration report that is described as having been audited.

We have reported separately on the individual company financial statements of Premier Oil plc for the year ended 31 December 2005.

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' responsibilities for preparing the annual report, the directors' remuneration report and the group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted for use in the European Union are set out in the statement of directors' responsibilities.

Our responsibility is to audit the group financial statements and the part of the directors' remuneration report described as having been audited in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the group financial statements give a true and fair view in accordance with the relevant financial reporting framework and whether the group financial statements and the part of the directors' remuneration report described as having been audited have been properly prepared in accordance with the Companies' Act 1985 and Article 4 of the IAS Regulation. We report to you if, in our opinion, the directors' report is not consistent with the group financial statements. We also report to you if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' transactions with the company and other members of the group is not disclosed.

We also report to you if, in our opinion, the company has not complied with any of the four directors' remuneration disclosure requirements specified for our review by the Listing Rules of the Financial Services Authority. These comprise the amount of each element in the remuneration package and information on share options, details of long-term incentive schemes, and money purchase and defined benefit schemes. We give a statement, to the extent possible, of details of any non-compliance.

We review whether the corporate governance statement reflects the company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statement on internal control covers 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 the directors' report and the other information contained in the annual report for the above year as described in the contents section, including the unaudited part of the directors' remuneration report and we consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the group financial statements.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the group financial statements and the part of the directors' remuneration report described as having been audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the group financial statements, and of whether the accounting policies are appropriate to the company'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 group financial statements and the part of the directors' remuneration report described as having been 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 group financial statements and the part of the directors' remuneration report described as having been audited.

Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted for use in the European Union, of the state of the group's affairs as at 31 December 2005 and of its profit for the year then ended; and
- the group financial statements and the part of the directors' remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London
22 March 2006

– Accounting policies –

General
Premier Oil plc is a limited company incorporated in Scotland and listed on the London Stock Exchange. The principal activities of the company and its subsidiaries (the group) are oil and gas exploration and production in South and South East Asia, the UK and Africa.

These financial statements are presented in US dollars since that is the currency in which the majority of the group's transactions are denominated.

Accounting convention
The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the Council of the European Union. As this is the first time these standards have been applied, special rules apply in converting the comparatives and opening the consolidated balance sheet of the group. A basis of preparation, as given below, details all the mandatory and optional exemptions which the group has adopted.

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

Basis of preparation of results and reconciliations
In preparing these financial statements in accordance with IFRS 1, the group has applied the mandatory exceptions and certain of the optional exemptions from full retrospective application of IFRS.

Exemptions from full retrospective application elected by the group
The group has made the following choices in respect of the optional exemptions from full retrospective application, as set out in IFRS 1.

(a) Business combinations exemption The group has applied the business combinations exemption in IFRS 1. It has not restated business combinations that took place prior to the 1 January 2004 transition date.

(b) Fair value as deemed cost exemption The group has elected to measure certain items of property, plant and equipment (PPE) at fair value as at 1 January 2004 and use the fair value as deemed cost.

(c) Employee benefits exemption The group has elected to recognise all cumulative actuarial gains and losses as at 1 January 2004.

(d) Cumulative translation differences exemption The group has elected to set the cumulative translation differences to zero at 1 January 2004. This exemption has been applied to all subsidiaries in accordance with IFRS 1.

(e) Compound financial instruments exemption The group has not issued any compound instruments; this exemption is not applicable.

(f) Assets and liabilities of subsidiaries, associates and joint ventures exemption This exemption is not applicable, as the use of the exemption is made at the level of the subsidiary, associate or joint venture that adopts IFRS later than its parent company.

(g) Exemption from restatement of comparatives for IAS 32 and IAS 39 The group elected to apply this exemption. The group therefore applies its former UK GAAP accounting policies to derivatives, financial assets and financial liabilities and to hedging relationships for the 2004 comparative information. The adjustments required for differences between UK GAAP, IAS 32 and IAS 39 are determined and recognised from 1 January 2005.

(h) Share-based payment transaction exemption The group has elected to apply the share-based payment exemption. It applied IFRS 2 from 1 January 2004 only to those options that were issued after 7 November 2002, but that have not vested by 1 January 2005.

(i) Insurance contracts exemption The group does not issue insurance contracts; this exemption is not applicable.

(j) Decommissioning liabilities included in the cost of property, plant and equipment exemption The group recognises a provision in accordance with IAS 37 in respect of decommissioning liabilities relating to its share in operated and non-operated production facilities.

The exemption provided in IFRS 1 from the full retrospective application of IFRIC 1 has been applied to determine the adjustment required to property, plant and equipment (PPE) in respect of the obligation to decommission existing production facilities.

(k) Fair value measurement of financial assets or liabilities at initial recognition The group has not applied the exemption offered by the revision of IAS 39 on the initial recognition of the financial instruments measured at fair value through profit and loss where there is no active market. This exemption is not applicable to the 2004 financial information since the group has applied the exemption in (g) above.

Exceptions from full retrospective application followed by the group
Premier has applied the following mandatory exceptions from retrospective application.

(a) Derecognition of financial assets and liabilities exception
Any non-derivative financial assets and liabilities derecognised before 1 January 2004 are not re-recognised under IFRS in the 2004 financial information.

(b) Hedge accounting exception Management has claimed hedge accounting from 1 January 2005 only if the hedge relationship meets the entire hedge accounting criteria under IAS 39. As the group will apply IAS 39 prospectively from 1 January 2005, hedges are included in the 2004 financial information according to the group's former UK GAAP accounting policies.

(c) Estimates exception Estimates under IFRS at 1 January 2004 are consistent with estimates made for the same date under previous UK GAAP, unless there is evidence that those estimates were in error.

(d) Assets held for sale and discontinued operations exception
Management applies IFRS 5 prospectively from 1 January 2005. Any assets held for sale or discontinued operations are recognised in accordance with IFRS 5 only from 1 January 2005.

The group had no assets that met the held-for-sale criteria during 2004 and 2005, and consequently this exception had no effect on the 2004 and 2005 financial information.

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

On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess (deficiency) of the cost of acquisition over (below) the fair values of the identifiable net assets acquired is recognised as goodwill (negative goodwill). The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised.

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

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

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

Interest in associates
An associate is an entity in which the group has a long-term equity interest and over which it has significant influence, but not control, through participation in the financial and operating policy decisions of the investee.

The results, assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Interests in associates are carried in the balance sheet at cost as adjusted by post-acquisition changes in the group's share of the net assets of the associate, less any impairment in the value of individual investments. Any excess (deficiency) of the cost of acquisition over (below) the group's share of the net fair values of the identifiable assets, liabilities and contingent liabilities of the associate at the date of acquisition is recognised as goodwill (negative goodwill).

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

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

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

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

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

Sales and revenue

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

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

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

Oil and gas assets

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

(a) Exploration and evaluation assets

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

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

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

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

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

Treatment of E&E assets at conclusion of appraisal activities

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

(b) Development and production assets

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

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

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

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

Pipelines are depreciated on a unit of throughput basis.

(c) Impairment of development and production assets

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

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

(d) Acquisitions, asset purchases and disposals

Acquisitions of oil and gas properties are accounted for under the purchase method where the transaction meets the definition of a business combination.

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

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

(e) Decommissioning

Provision for decommissioning is recognised in full 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.

Inventories

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

Tax

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

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

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

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off corporation tax assets against corporation tax liabilities and when they relate to income taxes levied by the same taxation authority and the group intends to settle its current tax assets and liabilities on a net basis.

Translation of foreign currencies

In the accounts of individual companies, transactions denominated in foreign currencies, being currencies other than that company's functional currency, 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. Non-monetary assets and liabilities carried at fair value, that are denominated in foreign currencies, are translated at the rates prevailing at the date when the fair value was determined. Non-monetary assets held at historic cost are translated at the date of purchase and are not retranslated. 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 income statement.

On consolidation, the assets and liabilities of group companies with non US$ functional currency overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are generally translated into the group's presentation currency (US$) at exchange rates prevailing on the balance sheet date. Any exchange differences arising are classified as equity and transferred to the group's translation reserve. Such translation differences are recognised as income or expense in the period in which the operation is disposed of.

Group retirement benefits

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

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

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

Royalties

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

Leasing

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

Financial instruments

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

Trade receivables

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

Bank borrowings

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

Trade payables

Trade payables are stated at their nominal value.

Share-based payments

The group has applied the requirements of IFRS 2 share-based payments. In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments after 7 November 2002 that were unvested as of 1 January 2005.

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

Fair value is measured by use of a binomial model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

A liability equal to the portion of the goods or services received is recognised at the current fair value determined at each balance sheet date for cash-settled share-based payments.

Derivative financial instruments (applied prospectively from 1 January 2005)

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

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

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

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

For qualifying fair value hedges, the hedging instrument is recorded at fair value and the hedged item is recorded at its previous carrying value, adjusted for any changes in fair value that are attributable to the hedged risk. Any changes in the fair values are reported in financial gains or losses.

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

For qualifying hedges of net investment in a foreign entity, the hedging instrument is recorded at fair value. The portion of any change in fair value that is an effective hedge is included in equity.

Any remaining ineffective portion is recorded in financial income or expense where the hedging instrument is a derivative and in equity in other cases. If the entity is disposed of, then the cumulative changes of fair value of the hedging instrument that have been recorded in equity are included in financial income at the time of the disposal.

Derivatives embedded in other financial instruments or non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts, and the host contracts are not carried at fair value with unrealised gains or losses reported in the income statement.

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

Prior to adopting IAS 39 from 1 January 2005, the group continued to account for hedges by deferring recognition of gains and losses on hedging instruments until the hedged transaction occurs.

Cash and cash equivalents

Cash comprises cash-in-hand and deposits repayable on demand, less overdrafts payable on demand.

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

Provisions

Provisions are recognised when the group has a present obligation as a result of a past event and it is probable that the group would be required to settle that obligation. Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

– Consolidated income statement –

For the year ended 31 December 2005

	Note	2005 $ million	2004 $ million
Sales revenues	1	**359.4**	251.8
Cost of sales	2	**(176.5)**	(134.6)
Exploration expense		**(20.6)**	(28.7)
Pre-licence exploration costs		**(17.0)**	(12.2)
General and administration costs		**(19.6)**	(17.0)
Operating profit		**125.7**	59.3
Interest revenue and finance gains	5	**5.9**	2.0
Finance costs and other finance expenses	5	**(7.0)**	(7.8)
Profit before tax		**124.6**	53.5
Tax	6	**(86.0)**	(31.4)
Profit after tax		**38.6**	22.1
Earnings per share (cent):			
Basic:	7	**47.0**	26.8
Diluted:	7	**46.6**	26.1

The results relate entirely to continuing operations.

– Statement of total recognised income and expenses –

For the year ended 31 December 2005

	2005 $ million	2004 $ million
Currency translation differences		(0.4)
Pension costs – actuarial losses	**(2.2)**	
Net losses recognised directly in equity	**(2.2)**	(0.4)
Profit for the period	**38.6**	22.1
Total recognised income	**36.4**	21.7

Reconciliation to net assets:

	2005 $ million	2004 $ million
Net assets at 1 January	**354.1**	337.5
Total recognised income	**36.4**	21.7
Adjustments relating to past restructuring	**3.1**	(1.2)
Purchase of shares for ESOP Trust	**(8.5)**	(3.2)
Provision for share-based payments	**2.9**	
Issue of ordinary shares	**1.3**	5.2
Repurchase of ordinary share capital	**(13.2)**	(5.9)
Net assets at the year-end	**376.1**	354.1

– Consolidated balance sheet –

As at 31 December 2005

	Note	2005 $ million	2004 $ million
Non-current assets:			
Intangible exploration and evaluation assets	8	**67.4**	41.4
Property, plant and equipment	9	**576.6**	565.2
Investments in associates	10	**1.1**	1.1
Deferred tax asset	18	**0.8**	
		645.9	607.7
Current assets:			
Inventories		**13.3**	12.3
Trade and other receivables	12	**144.7**	117.5
Cash and cash equivalents	17	**38.8**	59.6
		196.8	189.4
Total assets		**842.7**	797.1
Current liabilities:			
Trade and other payables	13	**(113.7)**	(108.4)
Current tax payable		**(38.8)**	(40.1)
		(152.5)	(148.5)
Non-current liabilities:			
Long-term debt	17	**(63.6)**	(38.8)
Deferred tax liabilities	18	**(198.3)**	(203.6)
Long-term provisions	16	**(41.0)**	(41.6)
Long-term employee benefit plans deficits	24	**(11.2)**	(10.5)
		(314.1)	(294.5)
Total liabilities		**(466.6)**	(443.0)
Net assets		**376.1**	354.1
Equity and reserves:			
Share capital	19	**73.2**	74.6
Share premium account	20	**8.0**	7.0
Revenue reserves	20	**293.6**	272.9
Capital redemption reserve	20	**1.7**	
Translation reserves	20	**(0.4)**	(0.4)
		376.1	354.1

The financial statements were approved by the Board of Directors on 22 March 2006.

They were signed on its behalf by:

S C Lockett
A R C Durrant
Directors

– Consolidated cash flow statement –

For the year ended 31 December 2005

	Note	2005 $ million	2004 $ million
Operating activities:			
Profit before taxation		**124.6**	53.5
Depreciation, depletion and amortisation		**68.0**	72.2
Exploration expense		**20.6**	28.7
Pre-licence exploration costs		**17.0**	12.2
(Increase)/decrease in inventories		**(1.0)**	0.4
Increase in trade and other receivables		**(29.3)**	(10.0)
Increase in trade and other payables		**5.4**	
Interest received		**1.0**	2.2
Interest revenue		**(1.0)**	(2.0)
Interest paid		**(3.5)**	(2.5)
Finance costs		**2.0**	2.3
Other finance expenses		**0.1**	5.8
Net operating charge for long-term employee benefit plans less contributions		**(1.5)**	1.5
Income taxes paid		**(86.4)**	(54.9)
Share-based payment provision		**2.9**	
Loss on sale of fixed assets			0.2
Net cash provided by operating activities		**118.9**	109.6
Investing activities:			
Capital expenditure		**(132.6)**	(92.3)
Pre-licence exploration costs		**(17.0)**	(12.2)
Disposal of intangible exploration and evaluation assets		**4.0**	
Net cash used in investing activities		**(145.6)**	(104.5)
Financing activities:			
Issue of ordinary shares		**1.1**	5.2
Repurchase of ordinary shares		**(21.0)**	(3.3)
Repayment of long-term financing			(61.2)
Loan drawdowns		**25.0**	
Arrangement fee for new loan facility		**(1.4)**	
Net cash from/(used in) financing activities		**3.7**	(59.3)
Currency translation differences relating to cash and cash equivalents		**2.2**	(0.1)
Decrease in cash and cash equivalents		**(20.8)**	(54.3)
Cash and cash equivalents at the beginning of the period		**59.6**	113.9
Cash and cash equivalents at the end of the period	22	**38.8**	59.6

– Notes to the accounts –

For the year ended 31 December 2005

1 Geographical segments

The group's operations are located in the North Sea, Asia, Middle East-Pakistan, and West Africa. These geographical segments are the basis on which the group reports its primary segmental information (the only basis on which it can report such information). Sales revenue represents amounts invoiced, exclusive of sales-related taxes, for the group's share of oil and gas sales.

	2005 $ million	2004 $ million
Revenue:		
North Sea	**169.6**	95.6
Asia	**121.5**	100.4
Middle East-Pakistan	**68.3**	55.8
Total group sales revenue	**359.4**	251.8
Interest revenue	**1.0**	2.0
Total group revenue	**360.4**	253.8
Results		
Group operating profit/(loss):		
North Sea	**32.2**	0.7
Asia	**66.2**	55.0
Middle East-Pakistan	**41.9**	31.0
West Africa	**(6.0)**	(18.0)
Other	**(8.6)**	(9.4)
Group operating profit	**125.7**	59.3
Interest revenue and finance gains	**5.9**	2.0
Finance costs and other finance expenses	**(7.0)**	(7.8)
Profit before tax	**124.6**	53.5
Tax	**(86.0)**	(31.4)
Profit after tax	**38.6**	22.1
Balance sheet		
Segment assets:		
North Sea	**268.9**	298.2
Asia	**350.6**	340.1
Middle East-Pakistan	**95.7**	93.6
West Africa	**123.1**	64.1
Unallocated	**3.3**	
Investment in associates:		
West Africa	**1.1**	1.1
Total assets	**842.7**	797.1
Liabilities:		
North Sea	**(154.5)**	(167.5)
Asia	**(160.3)**	(154.3)
Middle East-Pakistan	**(30.8)**	(26.3)
West Africa	**(16.9)**	(16.0)
Unallocated	**(104.1)**	(78.9)
Total liabilities	**(466.6)**	(443.0)
Other information		
Capital additions:		
North Sea	**14.5**	36.3
Asia	**37.9**	31.0
Middle East-Pakistan	**13.3**	6.2
West Africa	**65.8**	61.2
Total capital additions	**131.5**	134.7
Depreciation and amortisation:		
North Sea	**36.5**	40.6
Asia	**22.3**	24.8
Middle East-Pakistan	**9.2**	6.8
Total depreciation and amortisation	**68.0**	72.2

2 Cost of sales

	2005 $ million	2004 $ million
Operating costs	**100.7**	56.3
Royalties	**7.8**	6.1
Amortisation and depreciation of property, plant and equipment:		
Oil and gas properties	**66.6**	70.9
Other	**1.4**	1.3
	176.5	134.6

3 Auditors' remuneration

	2005 $ million	2004 $ million
Audit services:		
Statutory and group audits	**0.5**	0.5
Audit-related regulatory reporting	**0.2**	
	0.7	0.5
Tax services:		
Compliance and advisory services	**1.0**	1.2
	1.0	1.2
Other services:		
Remuneration, pension and share option scheme assurance services		0.3
Corporate finance, training and consultancy	**0.3**	
	0.3	0.3

The other services relate to corporate finance, training and consultancy services provided in relation to commercial activities. Amounts payable to Deloitte & Touche LLP and its associates by the group in respect of non-audit services were US$1.3 million (2004: US$1.5 million).

4 Employee costs

	2005 $ million	2004 $ million
Staff costs, including executive directors:		
Wages and salaries	**28.8**	23.2
Social security costs	**3.0**	4.2
Pension costs – defined contribution	**1.7**	0.8
– defined benefit	**0.7**	1.3
	34.2	29.5

A portion of the group's staff costs above are recharged to the joint venture partners or capitalised where they are directly attributable to capital projects.

	2005	2004
Average number of employees during the year*:		
Technical and operations	**168**	167
Management and administration	**113**	106
	281	273

* Staff numbers include executive directors.

5 Investment revenue and finance costs

	2005 $ million	2004 $ million
Interest revenue and finance gains:		
Short-term deposits	**1.0**	2.0
Exchange differences	**4.9**	
	5.9	2.0

	2005 $ million	2004 $ million
Finance costs and other finance expenses:		
Bank loans and overdrafts	**(3.0)**	(2.1)
Unwinding of discount on decommissioning provision	**(1.7)**	(2.0)
Premium on commodity hedges and mark-to-market valuation	**(2.0)**	
Long-term debt arrangement fees	**(1.2)**	(0.7)
Others	**(0.5)**	
Exchange differences		(3.0)
Gross finance costs and other finance expenses	**(8.4)**	(7.8)
Interest capitalised during the year	**1.4**	
	(7.0)	(7.8)

6 Tax

	2005 $ million	2004 $ million
Current tax:		
UK corporation tax on profits	**18.6**	2.3
Adjustments in respect of previous periods	**(1.3)**	(8.3)
UK petroleum revenue tax	**25.8**	24.3
Overseas tax	**49.0**	27.0
Total current tax	**92.1**	45.3
Deferred tax:		
UK corporation tax	**0.6**	(13.8)
UK petroleum revenue tax	**(3.7)**	(5.7)
Overseas tax	**(3.0)**	5.6
Total deferred tax	**(6.1)**	(13.9)
Tax on profit on ordinary activities	**86.0**	31.4

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

	2005 $ million	2004 $ million
Group profit on ordinary activities before tax	**124`.6**	53.5
Group profit on ordinary activities before tax at 65.7% weighted average rate (2004: 95.7%)	**81.0**	51.2
Tax effects of:		
Income/expenses that are not taxable/deductible in determining taxable profit	**(3.7)**	(13.7)
Tax not related to profit before tax (primarily UK petroleum revenue tax)	**11.8**	5.0
Different tax rates used in calculation of deferred tax	**(2.8)**	
Adjustments in respect of previous periods	**(5.3)**	(11.1)
UK tax on foreign operations	**5.0**	
Tax expense and effective tax rate for the year	**86.0**	31.4

The weighted average rate is calculated based on the tax rates weighted according to the profit or loss before tax earned by the group in each jurisdiction. The change in the weighted average rate year on year relates to the mix of profit and loss in each jurisdiction. There has been no significant change in the statutory tax rate in any jurisdiction that is material to the group in 2005. In 2006, the effective tax rate for UK ring fence profits is expected to rise from 40 per cent to 50 per cent following the rise in the supplementary corporation tax rate announced by the UK government in 2005. This change will be recognised in 2006 once it has been substantively enacted.

There are no significant unrecognised temporary differences associated with undistributed profits of subsidiaries, associates and joint ventures. The amount of unused tax losses for which no deferred tax asset is recognised in the balance sheet is US$169 million (2004: US$138 million).

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 and adjusted earnings.

Basic and diluted earnings per share are calculated as follows:

	Profit after tax		Weighted average number of shares		Earnings per share	
	2005 $ million	2004 $ million	**2005 million**	2004 million	**2005 cents**	2004 cents
Basic	**38.6**	22.1	**82.1**	82.7	**47.0**	26.8
Outstanding share options			**0.7**	1.8	*****	*
Diluted	**38.6**	22.1	**82.8**	84.5	**46.6**	26.1

* The inclusion of the outstanding share options in the 2005 and 2004 calculations produce a diluted earnings per share.

8 Intangible exploration and evaluation (E&E) assets

	Oil and gas properties				
	North Sea $ million	Asia $ million	Middle East-Pakistan $ million	West Africa $ million	Total $ million
Cost					
At 1 January 2004	0.8	4.4	7.1	2.2	14.5
Exchange movements				0.5	0.5
Additions during the year	4.9	16.5	6.2	27.5	55.1
Exploration expenditure written off	(5.5)	(3.3)	(4.3)	(15.6)	(28.7)
At 31 December 2004	0.2	17.6	9.0	14.6	41.4
Additions during the year	1.6	24.5	8.3	16.6	51.0
Disposals		(3.4)	(1.0)		(4.4)
Exploration expenditure written off		(12.5)	(3.1)	(5.0)	(20.6)
At 31 December 2005	**1.8**	**26.2**	**13.2**	**26.2**	**67.4**

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

– Notes to the accounts –

For the year ended 31 December 2005

9 Property, plant and equipment

	Oil and gas properties					
	North Sea $ million	Asia $ million	Middle East-Pakistan $ million	West Africa $ million	Other fixed assets $ million	Total $ million
Cost						
At 1 January 2004	200.8	289.2	110.3		17.2	617.5
Exchange movements					1.1	1.1
Additions during the year	28.5	12.7		33.3	2.6	77.1
Disposal of fully written down assets					(1.9)	(1.9)
At 31 December 2004	229.3	301.9	110.3	33.3	19.0	693.8
Exchange movements					(2.0)	(2.0)
Additions during the year	12.3	13.4	5.0	49.2	0.6	80.5
Disposals	(1.0)					(1.0)
Disposal of fully written down assets					(12.2)	(12.2)
At 31 December 2005	**240.6**	**315.3**	**115.3**	**82.5**	**5.4**	**759.1**
Amortisation and depreciation						
At 1 January 2004*			41.3		16.1	57.4
Exchange movements					0.9	0.9
Charge for the year	39.3	24.8	6.8		1.3	72.2
Disposal of fully written down assets					(1.9)	(1.9)
At 31 December 2004	39.3	24.8	48.1	–	16.4	128.6
Exchange movements					(1.7)	(1.7)
Charge for the year	35.1	22.3	9.2		1.4	68.0
Disposals	(0.2)					(0.2)
Disposal of fully written down assets					(12.2)	(12.2)
At 31 December 2005	**74.2**	**47.1**	**57.3**	**–**	**3.9**	**182.5**
Net book value						
At 31 December 2004	190.0	277.1	62.2	33.3	2.6	565.2
At 31 December 2005	**166.4**	**268.2**	**58.0**	**82.5**	**1.5**	**576.6**

* The group's Indonesian and UK fields were fair valued under IFRS 1 rules on 1 January 2004, therefore there are no opening balances for amortisation.

Depreciation and amortisation for oil and gas properties is calculated on a unit-of-production basis, using the ratio of oil and gas production in the period to the estimated quantities of proved and probable reserves at the end of the period plus production in the period, on a field-by-field basis. Proved and probable reserve estimates are based on a number of underlying assumptions including oil and gas prices, future costs, oil and gas in place and reservoir performance, which are inherently uncertain. Management uses established industry techniques to generate its estimates and regularly references its estimates against those of joint venture partners or external consultants. However, the amount of reserves that will ultimately be recovered from any field cannot be known with certainty until the end of the field's life.

10 Investments and associates

Details of group's associates as at 31 December 2005:

Associate	Business and area of operation	Country of incorporation or registration	Interest voting power held
Fusion Mauritania A Ltd	Exploration, Mauritania	Jersey	29.9%
FP Mauritania A BV	Exploration, Mauritania	Netherlands	29.9%

Aggregated amounts relating to associates:

	2005 $ million	2004 $ million
Total assets	**2.0**	1.7
Total liabilities	**(0.9)**	(0.6)

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 Limited	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 and 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 and Wales
FP Mauritania B BV*	Exploration, production and development, Mauritania	Netherlands
Premier Oil Mauritania B Ltd*	Exploration, production and development, Mauritania	Jersey

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

* Held through subsidiary undertakings.

11 Investments in joint ventures

The group accounts for its 50 per cent share in Premier-Kufpec Pakistan BV (PKP), the remaining 50 per cent interest in PKP is owned by Kuwait Foreign Petroleum Company KSC (Kufpec). The following amounts are included in the group financial statements as a result of the proportionate consolidation of PKP.

	2005 $ million	2004 $ million
Non-current assets	**58.0**	62.2
Current assets:		
Inventories	**1.7**	1.5
Trade and other receivables	**29.0**	16.7
Cash and cash equivalents	**2.2**	2.8
Current liabilities:		
Trade and other payables	**(24.2)**	(10.8)
Non-current liabilities:		
Deferred tax liabilities	**(17.4)**	(14.5)
Long-term provisions	**(3.1)**	(2.8)
Net assets	**46.2**	55.1

Included in the consolidated income statement are the results for PKP, with revenues at US$68.3 million (2004: US$55.8 million), profit before tax US$46.7 million (2004: US$30.9 million), tax charge US$18.4 million (2004: US$10.2 million) and profit after tax US$28.3 million (2004: US$20.7 million).

12 Trade and other receivables

	2005 $ million	2004 $ million
Trade receivables	**102.7**	82.6
Other receivables	**24.3**	6.9
Prepayments	**5.3**	6.4
Tax recoverable	**12.4**	21.6
	144.7	117.5

13 Trade and other payables

	2005 $ million	2004 $ million
Trade payables	**21.1**	21.3
Accrued expenses	**60.0**	76.6
Other payables	**28.5**	5.4
Short-term provisions	**4.1**	5.1
	113.7	108.4

14 Borrowings

	Note	2005 $ million	2004 $ million
Amounts falling due within one year:			
Bank loans	17	**65.0**	40.0
Total borrowings		**65.0**	40.0
Cash:			
Cash at bank and in hand		**10.4**	4.6
Short-term deposits		**28.4**	55.0
Total cash		**38.8**	59.6

The borrowings are repayable as follows:

	2005 $ million	2004 $ million
Bank loans analysed by maturity:		
In the third year		40.0
In the fifth year	**65.0**	
Total borrowings	**65.0**	40.0

The group's principal bank loan is US$275 million (2004: US$150 million) taken out on 13 September 2005 and will continue until 31 July 2010. It is unsecured and bears a floating interest rate based on LIBOR.

15 Obligations under leases

	2005 $ million	2004 $ million
Minimum lease payments under operating leases recognised in income for the year	**21.6**	32.4
	21.6	32.4
Outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:		
Within one year	**4.3**	22.8
In two to five years	**12.5**	11.3
Over five years	**5.8**	
	22.6	34.1

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

16 Provision for liabilities and charges

	2005 $ million	2004 $ million
Warranties:		
At 1 January	**2.5**	2.5
At 31 December	**2.5**	2.5
Decommissioning costs:		
At 1 January	**39.1**	20.1
Revision arising from change in estimate of future decommissioning costs	**1.0**	15.4
Unwinding of discount on decommissioning provision	**1.7**	2.0
Exchange differences	**(3.3)**	1.6
At 31 December	**38.5**	39.1
Total provisions	**41.0**	41.6

The warranty provision represents amounts warranted to Kufpec under the PKP joint venture agreement for pre-effective date amendments to tax balances that may or may not occur in the future. The decommissioning provision represents the present value of decommissioning costs relating to the UK, West Africa and Pakistan oil and gas interests, which are expected to be incurred between 2006 and 2031. These provisions have been created based on Premier's internal estimates and, where available, operator's estimates. Based on the current economic environment, assumptions have been made which the management believe are a reasonable basis upon which to estimate the future liability. These estimates are reviewed regularly to take into account any material changes to the assumptions. However, actual decommissioning costs will ultimately depend upon future market prices for the necessary decommissioning works required, which will reflect market conditions at the relevant time. Furthermore, the timing of decommissioning is likely to depend on when the fields cease to produce at economically viable rates. This in turn will depend upon future oil and gas prices, which are inherently uncertain.

17 Financial instruments

The group's activities expose it to financial risks of changes, primarily in oil and gas prices but also foreign currency exchange and interest rates. The group uses derivative financial instruments to hedge certain of these risk exposures. The use of financial derivatives is governed by the group's policies and approved by the Board of Directors, which provide written principles on the use of financial derivatives.

It is group policy that all transactions involving derivatives must be directly related to the underlying business of the group. The group does not use derivative financial instruments for speculative exposures. Premier undertakes oil and gas price hedging periodically within Board limits to protect operating cash flow against weak prices.

Oil and gas hedging is mostly undertaken with collar options and to a lesser extent with swaps.

During the year the group covered its oil and gas exposures as follows:

(a) Oil production: approximately 58 per cent of its forecasted production from 2006 to the end of 2010 by entering into Dated Brent oil price options with floors at an average price of US$37.4/bbl and a cap price of US$100.0/bbl, for which it paid a premium of US$3.6 million.

(b) Gas production: approximately 33 per cent of the Indonesian gas production, for which HSFO Singapore 180cst is the variable component, has been covered from 2006 to 2009 at a floor price of US$200/metric tonne and a ceiling price of US$480/metric tonne. No premium was paid. No swaps were entered into.

The fair value of the above oil hedges is an asset of US$3.3 million and for the gas hedges a liability of US$1.7 million each of which is recognised in the balance sheet in trade and other payables/receivables. While the above hedges were assessed to be effective, all the movements in the fair values have been recognised in the income statement, as all such movements represent time-value portion of hedges under IAS 39.

The fair value of the above hedge has been determined from the bank counterparties with whom the hedges have been concluded.

During the year, oil and gas hedges entered into in previous years matured, generating a settlement loss of US$15.7 million (2004: loss of US$23.0 million) all of which was offset against sales revenue.

17 Financial instruments continued

Interest rate risk profile of financial liabilities

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

	Fixed rate $ million	Floating rate $ million	Total $ million
2005			
US$		65.0	65.0
Total	**–**	**65.0**	**65.0**
2004			
US$		40.0	40.0
Total	–	40.0	40.0

The carrying value on the balance sheet is stated net of the unamortised portion of debt arrangement fees of US$1.4 million (2004: US$1.2 million).

The floating rate financial liabilities comprise bank borrowings bearing interest at rates set by reference to US$ LIBOR, exposing the group to a cash flow interest rate risk.

Interest rate risk profile of financial assets

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

	Floating rate $ million	Interest free $ million	Total $ million
2005			
Cash and short-term deposits:			
Sterling	0.7		0.7
US$	30.2	6.8	37.0
Other		1.1	1.1
Total	**30.9**	**7.9**	**38.8**
2004			
Cash and short-term deposits:			
Sterling	3.7		3.7
US$	51.2	4.3	55.5
Other		0.4	0.4
Total	54.9	4.7	59.6

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

17 Financial instruments continued

Borrowing facilities

The group has one committed borrowing facility of which the undrawn amount available to it at the year-end was:

	2005 $ million	2004 $ million
Expiring in more than two years, but not more than five years	**210.0**	110.0

The fair values of the financial assets and financial liabilities are:

	2005 Carrying amount $ million	**2005 Estimated fair value $ million**	2004 Carrying amount $ million	2004 Estimated fair value $ million
Primary financial instruments held or issued to finance the group's operations:				
Cash and short-term deposits	**38.8**	**38.8**	59.6	59.6
Bank loans	**(65.0)**	**(65.0)**	(40.0)	(40.0)
Derivative financial instruments held or issued to hedge the group's exposure on expected future sales:				
Forward commodity contracts – net	**1.6**	**1.6**		

Fair value is the amount at which a financial instrument could be exchanged in an arm's length transaction, other than in a forced or liquidated sale. Where available, market values have been used to determine fair values. The estimated fair values have been determined using market information and appropriate valuation methodologies. Values recorded are indicative and will not necessarily be realised. Non-interest bearing financial instruments, accounts receivable from customers, and accounts payable are recorded materially at fair value reflecting their short-term maturity and are not shown in the above table.

Credit risk

The group's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables which were immaterial in 2005. The group does not require collateral or other security to support receivables from customers or related parties. The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

The group has no significant concentration of credit risk.

Currency risk

Some US$/£ sterling exposures were hedged with forward contracts during the year which were not material. Premier's activities are largely conducted in US$. All borrowings at the year-end were denominated in US$ to match the currency of the assets.

18 Deferred tax

	2005 $ million	2004 $ million
Deferred tax liabilities	**(198.3)**	(203.6)
Deferred tax assets	**0.8**	
	(197.5)	(203.6)

	UK petroleum revenue tax $ million	UK corporation tax $ million	Overseas tax $ million	Total $ million
At 1 January 2004	57.1	32.9	127.5	217.5
Charge to income	(5.7)	(13.8)	5.6	(13.9)
At 1 January 2005	51.4	19.1	133.1	203.6
Charge to income	(3.7)	0.6	(3.0)	(6.1)
At 31 December 2005	**47.7**	**19.7**	**130.1**	**197.5**

Deferred Corporation Tax included US$5.2 million of deferred UK Petroleum Revenue Tax and US$12.5 million of deferred UK Corporation Tax related to decommissioning provisions in the UK. The majority of the remaining deferred tax balances arose as a result of temporary differences between the carrying values and tax bases of fixed assets.

19 Share capital

	2005 $ million	2004 $ million
Balance at 1 January	**74.6**	73.0
Shares repurchased	**(1.7)**	
Shares issued	**0.3**	1.6
Balance at 31 December	**73.2**	74.6

	2005 50p shares	**2005 £**	2004 50p shares	2004 £
Ordinary Shares:				
Authorised	**311,904,002**	**155,952,001**	311,904,002	155,952,001
Called up, issued and fully paid	**81,773,081**	**40,886,541**	83,221,791	41,610,896

	2005 17.5p shares	**2005 £**	2004 17.5p shares	2004 £
Non-Voting Convertible Shares:				
Authorised	**9,487,317**	**1,660,280**	9,487,317	1,660,280

19 Share capital continued

Details of changes in share capital during the period

The company has share option schemes under which options to subscribe for the company's shares have been granted to certain executives and employees. Options granted are not normally exercisable not less than three years after their grant and will lapse on their tenth anniversary. Options cannot be exercised until pre-determined performance conditions have been achieved.

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

Under the Share Incentive Plan employees are invited to make contributions to buy 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.

	2005		2004	
	Options	Weighted average exercise price £	Options	Weighted average exercise price £
Outstanding at the beginning of the period	1,766,964	2.09	3,222,387	1.87
Granted during the period	148,433	5.53	75,512	4.32
Lapsed during the period	(15,816)	3.20	(1,850)	1.65
Exercised during the period	(1,173,419)	1.92	(1,529,085)	1.74
Outstanding at the end of the period	726,162	2.86	1,766,964	2.09
Exercisable at the end of the period	392,659	2.05	1,409,544	1.93

The weighted average share price at the date of exercise for share options exercised during the period was £1.92. The options outstanding at 31 December 2005 had a weighted average exercise price of £2.86 and a weighted average remaining contractual life of 1.5 years.

The fair value of the options granted during the period was determined using the Black-Scholes valuation model and is not material.

The company recognised total expenses of US$3.6 million and US$1.0 million related to equity-settled share-based payment transactions in 2005 and 2004 respectively.

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 shall rank pari passu in all respects with the rights of the Ordinary Shares in relation to dividends.

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 the Ordinary Shares 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; and
- each holder of Non-Voting Convertible Shares has the right to convert some or all of its Non-Voting Convertible Shares into Ordinary Shares.

20 Consolidated statement of changes in equity

	Share capital $ million	Share premium account $ million	Revenue reserves $ million	Capital redemption reserve $ million	Translation and hedging reserves $ million	Total $ million
At 1 January 2004	73.0	3.4	261.1			337.5
Shares repurchased			(5.9)			(5.9)
Shares issued	1.6	3.6				5.2
Adjustment relating to past restructuring			(1.2)			(1.2)
Purchase of shares for ESOP Trust			(3.2)			(3.2)
Total recognised income			22.1		(0.4)	21.7
At 1 January 2005	74.6	7.0	272.9		(0.4)	354.1
Shares repurchased	(1.7)		(13.2)	1.7		(13.2)
Shares issued	0.3	1.0				1.3
Adjustment relating to past restructuring			3.1			3.1
Provision for share-based payments			2.9			2.9
Purchase of shares for ESOP Trust			(8.5)			(8.5)
Total recognised income			36.4			36.4
At 31 December 2005	**73.2**	**8.0**	**293.6**	**1.7**	**(0.4)**	**376.1**

21 Own shares

	2005 $ million	2004 $ million
At 1 January	**(0.2)**	5.8
Acquired in the period	**8.5**	3.7
Other movement – release of shares for Long-Term Incentive Plan	**0.2**	(9.7)
At 31 December	**8.5**	(0.2)

The own shares reserve represents the cost of shares in Premier Oil plc purchased in the market and held by the Premier Oil plc Employee Benefit Trust to satisfy options under the group's share options schemes.

22 Analysis of changes in net (debt)/cash

	Note	**2005 $ million**	2004 $ million
a) Reconciliation of net cash flow to movement in net (debt)/cash:			
Movement in cash and cash equivalents		**(20.8)**	(54.3)
Proceeds from long-term loans		**(25.0)**	
Repayment of long-term loans			61.2
(Decrease)/increase in net cash in the period		**(45.8)**	6.9
Opening net cash		**19.6**	12.7
Closing net (debt)/cash		**(26.2)**	19.6
b) Analysis of net (debt)/cash:			
Cash and cash equivalents		**38.8**	59.6
Long-term debt	17	**(65.0)**	(40.0)
Total net (debt)/cash		**(26.2)**	19.6

23 Capital commitments and guarantees

At 31 December 2005, the group had capital commitments on exploration and development licences totalling US$26.5 million (2004: US$15.9 million), US$0.1 million as retainer fees for its alliance partners (2004: US$0.2 million), performance guarantees of US$6.5 million (2004: US$2.4 million), and customs guarantees of US$0.6 million (2004: US$0.6 million).

At 31 December 2005, the group's share of joint venture exploration and development licences was US$15.0 million (2004: US$nil). The group's share of joint venture customs guarantees was US$1.6 million (2004: US$1.6 million).

24 Group pension schemes

	2005 $ million	2004 $ million
UK funded pension scheme	**7.0**	6.2
UK unfunded pension scheme	**0.9**	1.7
Indonesia unfunded termination benefit scheme	**3.3**	2.6
	11.2	10.5

The group operates a defined benefit scheme in the UK – The Premier Oil Retirement and Death Benefits Plan (the Scheme). The Scheme was closed to new members (aside from the provision of insured death in service benefits) in 1997 and a new scheme, providing benefits on a defined contribution 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 will increase as the members approach retirement.

The pension cost for the Scheme is determined with the advice of an independent qualified actuary. The most recent formal valuation was undertaken as at 1 January 2005 using the Attained Age Method and a market-related funding basis, of which the principle financial assumptions were investment return: 6.5 per cent pa, salary growth: 4.8 per cent pa and pension increases: 2.8 per cent pa. The market value of the Scheme's assets was £9.9 million and, on the specific method and assumptions adopted, the assets covered 93 per cent of the members' accrued benefits based on the projected pensionable salaries. During 2005, the employer contributed to the Scheme at the rate of 26 per cent of the pensionable salaries up to 31 July 2005 and, as from 1 August 2005, at 19 per cent of the pensionable salaries together with a further monthly amount of £18,500; in addition, the employer paid a lump sum contribution of £960,000 in May 2005. Aside from any further lump sum contribution, the employer expects to contribute £328,000 to the Scheme in 2006.

In addition, the group is paying an unfunded pension to a former director of the company in regard to which annual increases and a reversionary spouse's pension apply on the same basis as to pensions paid under the Scheme.

The following figures have been prepared in compliance with IAS 19 'Employee Benefits' by an independent actuary on the basis of membership data current as at 31 December 2005. The benefit obligations and service costs have been measured using the projected unit credit method and pension expense has been assessed on the basis that the group adopts the policy of fully recognising actuarial gains and losses during the period in which they arise.

The principal actuarial assumptions used were as follows:

	2005 % pa	2004 % pa
Discount rate	**4.8**	5.3
Salary growth	**4.9**	4.8
Return on assets	**5.5**	6.0
Price inflation	**2.9**	2.8
Pension increases	**2.9**	2.8

Defined benefit obligations and assets:

	2005 $ million	2004 $ million
Value of funded benefit obligation	**28.1**	25.1
Less fair value of scheme assets	**(21.1)**	(18.9)
Liability in balance sheet	**7.0**	6.2

24 Group pension schemes continued

Pension expense:

	2005 $ million	2004 $ million
Service costs	**0.3**	0.6
Interest costs	**1.3**	1.2
Expected return on pension scheme assets	**(1.1)**	(1.0)
Investment gains	**(1.6)**	(0.2)
Actuarial losses	**4.9**	1.1
Total pension expense in the year	**3.8**	1.7

Changes in the present value of benefit obligations:

	2005 $ million	2004 $ million
At 1 January	**25.1**	20.9
Service costs excluding employee contributions	**0.3**	0.5
Employee contributions		0.1
Interest costs	**1.3**	1.2
Benefits paid	**(0.5)**	(0.3)
Actuarial losses	**4.9**	1.1
Currency translation effects	**(3.0)**	1.6
At 31 December	**28.1**	25.1

Changes in fair value of scheme assets:

	2005 $ million	2004 $ million
Assets at 1 January	**18.9**	16.2
Employer contributions	**2.2**	0.5
Employee contributions		0.1
Actual return on scheme assets	**2.7**	1.2
Benefits paid	**(0.5)**	(0.3)
Currency translation effects	**(2.2)**	1.2
At 31 December	**21.1**	18.9

Portfolio distribution and expected returns at 31 December:

	2005		2004	
	Expected rate of return % pa	$ million	Expected rate of return % pa	$ million
Equities	**6.8**	**8.7**	7.3	8.4
Bonds	**4.8**	**5.9**	5.3	5.4
Cash	**4.5**	**6.5**	4.7	5.1

Reconciliation of balance sheet liability:

	2005 $ million	2004 $ million
At 1 January	**6.2**	4.6
Pension expense for the year	**3.8**	1.7
Contributions paid	**(2.2)**	(0.6)
Currency translation effects	**(0.8)**	0.5
At 31 December	**7.0**	6.2

– Income statement reconciliation –

For the year ended 31 December 2004

Notes	UK GAAP numbers in IFRS format $ million	(a) Joint venture proportional consolidation $ million	(b) Employee benefits $ million	(c) Pre-licence costs write back $ million	(d) Deferred PRT $ million
Sales revenues	196.0	55.8			
Cost of sales	(108.4)	(20.6)			
Total exploration expense	(14.3)			3.9	
General and administration costs	(15.5)		(1.5)		
Share on net income from joint ventures	23.6	(23.6)			
Operating profit	81.4	11.6	(1.5)	3.9	–
Interest revenue and finance gains	1.9	0.1			
Finance costs and other finance expenses	(7.6)	(0.2)			
Profit before tax	75.7	11.5	(1.5)	3.9	–
Tax	(31.9)	(11.5)			4.5
Profit after tax	43.8	–	(1.5)	3.9	4.5
Earnings per share (cent):					
Basic	53.0				
Diluted	52.1				

Notes:

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

Under UK GAAP the group accounted for its 50 per cent share in Premier-Kufpec Pakistan BV (PKP) as an interest in a joint venture under FRS 9 'Associates and Joint Ventures'. FRS 9 required the group to show its proportion of operating profit or loss, exceptional items, interest, tax, gross assets and gross liabilities of the joint venture as part of the financial statements.

The change to proportional consolidation will result in a major presentational change in the way JCE balances are stated on the face of the income statement. However, this does not result in any impact on the net profits of the group.

(b) Employee benefits The group has elected to recognise all cumulative actuarial gains and losses as at 31 December 2004 on all of its long-term employee benefit schemes including funded pension plans. The impact of this election is a US$(1.5) million additional charge in the income statement.

(c) Pre-licence exploration costs IFRS requires that all pre-licence costs are written off in the year that they are incurred. On transition to IFRS all such costs existing at 1 January 2004 were written off to shareholders' funds. Some of the costs, which remained capitalised at 1 January 2004 under UK GAAP, were written off in the UK GAAP 2004 results as the related projects were considered unsuccessful. This adjustment reverses the impact of such write-offs in the 2004 income statement, as they had already been written off on transition, amounting to US$3.9 million.

(d) Deferred Petroleum Revenue Tax (PRT) IFRS requires that deferred PRT be calculated on a temporary difference basis, a departure from Premier's former unit of production (UOP) method. This has resulted in a higher provision in the opening IFRS balance sheet and a portion (US$4.5 million) of the additional provision has been released during 2004 due to the reversal of temporary differences.

– IFRS transition reconciliations –

The following reconciliations provide a quantification of the effect of Premier's transition to IFRS. The following four reconciliations provide details of the impact of the transition on:

- Income statement for the year ended 31 December 2004;
- Reconciliation of equity and net assets at 31 December 2004;
- Cash flows for the year ended 31 December 2004; and
- Reconciliation of equity and net assets at 1 January 2004.

The impact of the adoption of IFRS on the consolidated results and the financial position of Premier is addressed separately for each reconciliation. Notes have been prepared to explain the key changes from UK GAAP to IFRS.

The basis of preparation and accounting policies for these statements is the same as given on pages 33 to 38.

– Income statement reconciliation –

For the year ended 31 December 2004

Notes	UK GAAP numbers in IFRS format $ million	(a) Joint venture proportional consolidation $ million	(b) Employee benefits $ million	(c) Pre-licence costs write back $ million	(d) Deferred PRT $ million
Sales revenues	196.0	55.8			
Cost of sales	(108.4)	(20.6)			
Total exploration expense	(14.3)			3.9	–
General and administration costs	(15.5)		(1.5)		
Share on net income from joint ventures	23.6	(23.6)			
Operating profit	81.4	11.6	(1.5)	3.9	–
Interest revenue and finance gains	1.9	0.1			
Finance costs and other finance expenses	(7.6)	(0.2)			
Profit before tax	75.7	11.5	(1.5)	3.9	–
Tax	(31.9)	(11.5)			4.5
Profit after tax	43.8	–	(1.5)	3.9	4.5
Earnings per share (cent):					
Basic	53.0				
Diluted	52.1				

Notes:

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

Under UK GAAP the group accounted for its 50 per cent share in Premier-Kufpec Pakistan BV (PKP) as an interest in a joint venture under FRS 9 'Associates and Joint Ventures'. FRS 9 required the group to show its proportion of operating profit or loss, exceptional items, interest, tax, gross assets and gross liabilities of the joint venture as part of the financial statements.

The change to proportional consolidation will result in a major presentational change in the way JCE balances are stated on the face of the income statement. However, this does not result in any impact on the net profits of the group.

(b) Employee benefits The group has elected to recognise all cumulative actuarial gains and losses as at 31 December 2004 on all of its long-term employee benefit schemes including funded pension plans. The impact of this election is a US$(1.5) million additional charge in the income statement.

(c) Pre-licence exploration costs IFRS requires that all pre-licence costs are written off in the year that they are incurred. On transition to IFRS all such costs existing at 1 January 2004 were written off to shareholders' funds. Some of the costs, which remained capitalised at 1 January 2004 under UK GAAP, were written off in the UK GAAP 2004 results as the related projects were considered unsuccessful. This adjustment reverses the impact of such write-offs in the 2004 income statement, as they had already been written off on transition, amounting to US$3.9 million.

(d) Deferred Petroleum Revenue Tax (PRT) IFRS requires that deferred PRT be calculated on a temporary difference basis, a departure from Premier's former unit of production (UOP) method. This has resulted in a higher provision in the opening IFRS balance sheet and a portion (US$4.5 million) of the additional provision has been released during 2004 due to the reversal of temporary differences.

	(e) Exploration costs write-off $ million	(f) PKP successful efforts adjustment $ million	(g) Amortisation impact $ million	Year to 31 December 2004 restated $ million
				251.8
		2.4	(8.0)	(134.6)
	(23.9)	(6.6)		(40.9)
				(17.0)
	(23.9)	(4.2)	(8.0)	59.3
				2.0
				(7.8)
	(23.9)	(4.2)	(8.0)	53.5
	2.6	1.3	3.6	(31.4)
	(21.3)	(2.9)	(4.4)	22.1
				26.8
				26.1

Movement in shareholders' equity under IFRS:

	$ million
At 31 December 2003	388.8
Adoption of IFRS*	(51.3)
As restated at 1 January 2004	337.5
Profit for the period	22.1
Currency translation differences	(0.4)
Restructuring adjustment	(1.2)
Purchase of shares for ESOP Trust – note (h)	(3.2)
Issue of Ordinary Shares	5.2
Repurchase of Ordinary Share capital	(5.9)
Shareholders' equity at the year-end	354.1

* Please refer to 'Reconciliation of equity and net assets' at 1 January 2004.

(e) Exploration expense The group has adopted an IFRS accounting policy for exploration and evaluation assets that is more aligned with the UK GAAP successful efforts accounting practice, rather than its previous UK GAAP policy of accounting for such costs under the full-cost method. Under the successful efforts method of accounting all licence acquisition, exploration and appraisal costs are initially capitalised in well, field or general exploration cost centres as appropriate, pending determination. Expenditure incurred during the various exploration and appraisal phases is then written off unless commercial reserves have been established or the determination process has not been completed.

Based on this new policy the group has written off certain exploration costs incurred in 2004 in Guinea Bissau, Gabon, North Sea and Mauritania, related to unsuccessful exploration wells amounting to US$23.9 million.

(f) Exploration and evaluation assets accounting – PKP joint venture The group has adopted an IFRS accounting policy for exploration and evaluation assets that is more aligned with the UK GAAP successful efforts accounting practice, rather than its previous UK GAAP policy of accounting for such costs under the full-cost method. In the PKP joint venture, adoption of this policy resulted in a reduced amortisation charge of US$2.4 million, additional exploration expense of US$6.6 million and a reduction in the tax charge by US$1.3 million.

(g) Property, plant and equipment – amortisation IAS 16 requires that oil and gas property, plant and equipment is generally held in the balance sheet on a field-by-field basis. Given the age and history of the group it has not been possible to establish accurately the depreciated historical cost base for the individual fields in the UK and Far East cost pools, therefore, we have taken benefit of the transition rules contained within IFRS 1 that allow fair values to be adopted on transition, in place of depreciated historical cost amounts. The impact of this is an increase to fixed assets of US$122.8 million, which has increased the amortisation charge by US$8.0 million during 2004 which has been partially offset by a reduction in tax (deferred tax release) of US$3.6 million.

(h) Long-Term Incentive Plan (LTIP) and Employees' Share Option Plan Trust (ESOP) IFRS 2 requires all the shares purchased for ESOP Trusts and provisions made for any future share-based pay out to be presented within equity. This has resulted in the movement of US$3.2 million in shareholders' funds during 2004, which was due to the purchase of further shares for the plan during 2004.

– Reconciliation of equity and net assets –

As at 31 December 2004

Notes		(a)	(b)	(c)	(d)
	UK GAAP numbers in IFRS format $ million	Joint venture proportional consolidation $ million	Employee benefits $ million	Group pre-licence costs $ million	Deferred petroleum revenue tax $ million
Non-current assets:					
Intangible exploration and evaluation assets	72.0				
Property, plant and equipment	403.3	121.0		(2.3)	
Investments in associates and joint ventures	94.0	(92.9)			
	569.3	28.1	–	(2.3)	–
Current assets:					
Inventories	10.8	1.5			
Trade and other receivables	103.5	16.7	(2.5)		
Cash and cash equivalents	56.8	2.8			
	171.1	21.0	(2.5)	–	–
Total assets	740.4	49.1	(2.5)	(2.3)	–
Current liabilities:					
Trade and other payables	(101.7)	(10.8)	4.2		
Current tax payable	(40.6)				
	(142.3)	(10.8)	4.2	–	–
Non-current liabilities:					
Long-term debt	(38.8)				
Deferred tax liabilities	(90.2)	(35.5)			(22.2)
Long-term provisions	(38.8)	(2.8)			
Long-term employee benefit plan deficits			(10.5)		
	(167.8)	(38.3)	(10.5)	–	(22.2)
Total liabilities	(310.1)	(49.1)	(6.3)	–	(22.2)
Net assets	430.3	–	(8.8)	(2.3)	(22.2)
Equity:					
Share capital	74.6				
Share premium account	7.0				
Retained earnings	348.7		(8.8)	(2.3)	(22.2)
	430.3	–	(8.8)	(2.3)	(22.2)

Notes:

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

Under UK GAAP the group accounted for its 50 per cent share in Premier-Kufpec Pakistan BV (PKP) as an interest in a joint venture under FRS 9 'Associates and Joint Ventures'. FRS 9 required the group to show its proportion of operating profit or loss, exceptional items, interest, tax, gross assets and gross liabilities of the joint venture as part of the financial statements.

The change to proportional consolidation will result in a major presentational change in the way JCE balances are stated on the face of the balance sheet. However, this does not result in any impact on the net assets of the group.

(b) Employee benefits The group has elected to recognise all cumulative actuarial gains and losses as at 1 January 2004 and the impact of this requirement is a US$(8.8) million reduction to net assets at that date. Additionally, under IAS 19, staff costs should reflect services performed during the period including all benefits paid in cash or shares. This has resulted in a transfer to reserves of US$1.7 million of deferred share-based bonuses payable in one to three years from the date of the balance sheet, offset by a provision for the same amount having no net impact on shareholders' funds.

(c) Pre-licence exploration costs IFRS requires that all pre-licence costs are written off in the year that they are incurred. In accordance with the group's UK GAAP policy, which allowed capitalisation of such costs, US$2.3 million of pre-licence costs was capitalised as part of oil and gas properties at 31 December 2004. On transition to IFRS, all such costs existing at 31 December 2004 have been written off.

(d) Deferred Petroleum Revenue Tax (PRT) IFRS requires that deferred PRT be calculated on a temporary difference basis, a departure from Premier's former unit of production (UOP) method. The impact of this requirement is a US$22.2 million reduction to net assets. This has principally arisen due to PRT on the fair valuation of North West Europe assets as described further in note (g).

(e) Exploration and evaluation assets accounting – PKP joint venture The group has adopted an IFRS accounting policy for exploration and evaluation assets that is more aligned with the UK GAAP successful efforts accounting practice rather than its previous UK GAAP policy of accounting for such costs under the full-cost method. In the PKP joint venture, adoption of this policy largely required the write-off of historic exploration expenditures, pre-licence costs and a related adjustment to deferred tax due to a reduction in the fixed assets in the joint venture. This has resulted in a net asset adjustment of US$37.8 million.

(e) PKP successful efforts adjustment $ million	(f) Far East successful efforts adjustment $ million	(g) North West Europe successful efforts adjustment $ million	(h) Successful efforts adjustment 2004 $ million	(i) IFRS amortisation impact $ million	(j) Long-Term Incentive Plan and ESOP Trust $ million	IFRS balance sheet 31 December 2004 $ million
			(30.6)			41.4
(58.8)	72.7	50.0	(12.7)	(8.0)		565.2
						1.1
(58.8)	72.7	50.0	(43.3)	(8.0)	–	607.7
						12.3
					(0.2)	117.5
						59.6
–	–	–	–	–	(0.2)	189.4
(58.8)	72.7	50.0	(43.3)	(8.0)	(0.2)	797.1
					0.4	(107.9)
						(40.6)
–	–	–	–	–	0.4	(148.5)
						(38.8)
21.0	(62.9)	(20.0)	2.6	3.6		(203.6)
						(41.6)
						(10.5)
21.0	(62.9)	(20.0)	2.6	3.6	–	(294.5)
21.0	(62.9)	(20.0)	2.6	3.6	0.4	(443.0)
(37.8)	9.8	30.0	(40.7)	(4.4)	0.2	354.1
						74.6
						7.0
(37.8)	9.8	30.0	(40.7)	(4.4)	0.2	272.5
(37.8)	9.8	30.0	(40.7)	(4.4)	0.2	354.1

(f) Property, plant and equipment – Far East IFRS requires that fixed assets are held in the balance sheet generally on a field-by-field basis. Given the age and history of the Premier group, it has not been possible to establish accurately the depreciated historical cost base for the individual fields in the Far East cost pool, therefore, we have taken benefit of the transition rules contained within IFRS 1 that allow fair values to be adopted on transition in place of depreciated historical cost amounts. The impact of this is a net US$9.8 million increase to net assets, as the Indonesian assets are revalued upwards (US$72.7 million) after adjusting for past exploration costs and deferred tax has been provided on the gross fair value, together amounting to US$62.9 million.

(g) Property, plant and equipment – North West Europe IFRS requires that fixed assets are held in the balance sheet, generally on a field-by-field basis. Given the age and history of the Premier group, it has not been possible to establish accurately the depreciated historical cost base for the individual fields in the North West Europe cost pool, therefore, we have taken benefit of the transition rules contained within IFRS 1 that allow fair values to be adopted on transition in place of depreciated historical cost amounts. The impact of this is a net US$30.0 million increase to net assets, as the North Sea assets are revalued upwards (US$50.0 million) and deferred tax has been provided on the gross fair value, together amounting to US$20.0 million.

(h) Exploration and evaluation assets accounting The group has adopted an IFRS accounting policy for exploration and evaluation assets that is more aligned with the UK GAAP successful efforts accounting practice rather than its previously adopted policy of accounting for such costs under the full-cost method. Based on this new policy the group has written off certain exploration costs incurred in Guinea Bissau, Gabon, North Sea and Mauritania, related to unsuccessful exploration wells amounting to US$43.3 million with a consequent deferred tax release.

(i) Property, plant and equipment – amortisation IAS 16 requires that fixed assets are held in the balance sheet on a field-by-field basis. Given the age and history of the group it has not been possible to establish an accurate cost base for the individual fields in the UK and Far East cost pools, therefore, we have taken benefit of the transition rules contained within IFRS 1 that will allow fair values to be adopted. The impact of this is an increase to fixed assets of US$122.8 million, which has increased the amortisation charge by US$8.0 million during 2004 which has been partially offset by a reduction in tax (deferred tax release) of US$3.6 million.

(j) Long-Term Incentive Plan (LTIP) and Employees Share Option Plan Trust (ESOP) IFRS 2 requires all the shares purchased for ESOP Trusts and provisions made for any future share-based payout to be presented within equity. This has resulted in a transfer of US$0.2 million ESOP Trust shares to shareholders' funds and a reduction of US$0.4 million in Long-Term Incentive Plan accrual.

– Cash flow reconciliation –

For the year ended 31 December 2004

Notes	UK GAAP numbers in IFRS format $ million	(a) Cash equivalent transfer $ million	(b) PKP joint venture proportional consolidation $ million
Operating activities:			
Profit before tax	75.7		11.5
Depreciation, depletion and amortisation	57.4		9.2
Total exploration expense	14.3		
(Increase)/decrease in inventories	0.1		0.3
(Increase)/decrease in trade and other receivables	(7.7)		(2.3)
Increase/(decrease) in trade and other payables	2.5		(2.5)
Interest received	2.1		0.1
Interest receivable	(1.9)		(0.1)
Interest paid	(2.3)		(0.2)
Interest payable	2.1		0.2
Other finance income	5.8		
Net operating charge for long-term employee benefit plans less contributions			
Income taxes paid	(53.7)		(1.2)
Impairment and gain or loss on sale of investments/fixed assets			0.2
Net cash provided by operating activities	94.4	–	15.2
Investing activities:			
Capital expenditure and pre-licence exploration costs	(95.6)		(8.9)
Inflow of funds from joint venture	32.2		(32.2)
Net cash used in investing activities	(63.4)	–	(41.1)
Financing activities:			
Issue of Ordinary Shares	5.2		
Repurchase of Ordinary Shares	(3.3)		
Repayment of long-term financing	(61.2)		
Management of liquid resources	50.7	(50.7)	
Net cash used in financing activities	(8.6)	(50.7)	–
Currency translation differences relating to cash and cash equivalents		(0.1)	
(Decrease)/increase in cash and cash equivalents	22.4	(50.8)	(25.9)
Cash and cash equivalents at the beginning of the period	5.8	103.3	4.8
Cash and cash equivalents at the end of the period	28.2	52.5	(21.1)

Notes:

(a) Cash equivalents UK GAAP defines cash flows to include only movements in cash (cash-in-hand and deposits repayable on demand, less overdrafts). IAS 7 'Cash Flow Statements' define cash flows as movements in both cash and cash equivalents, with cash equivalents defined as short-term, highly liquid investments that are readily convertible to known amounts of cash and subject to insignificant risk of changes in value. This presentational difference has no effect on the overall net cash position.

(b) Joint ventures proportional consolidation Joint venture arrangements which involve the establishment of a separate entity, in which each venturer has an interest, are referred to as jointly controlled entities (JCEs). Under IFRS the group will report its interests in JCEs using proportionate consolidation, ie the group's share of the cash flows of JCEs are combined with the equivalent items in the consolidated financial statements on a line-by-line basis.

Under UK GAAP the group accounted for its 50 per cent share in Premier-Kufpec Pakistan BV (PKP) as an interest in a joint venture under FRS 9 'Associates and Joint Ventures'. FRS 9 required the group to exclude cash flows from joint ventures and only show the amount received from, or funding provided to, such joint ventures. This results in a major presentational change in the way JCE cash balances are stated on the face of the cash flow statement. The group will now show net debt numbers, including its share of cash and cash equivalents, in the PKP joint ventures.

(c) Employee benefits Premier Oil has elected to recognise all cumulative actuarial gains and losses as at 31 December 2004 on all of its long-term employee benefit schemes, including funded pension plans. The impact of this election is a US$(1.5) million additional charge in the net profit. However, as it is a non-cash item it has been added back to the cash flows from operating activities.

(c) Employee benefits $ million	(d) Pre-licence exploration costs $ million	(e) Exploration costs write-off $ million	(f) Joint venture successful efforts adjustment $ million	(g) Successful efforts amortisation $ million	IFRS 31 December 2004 $ million
(1.5)	3.9	(23.9)	(4.2)	(8.0)	53.5
			(2.4)	8.0	72.2
	(3.9)	23.9	6.6		40.9
					0.4
					(10.0)
					–
					2.2
					(2.0)
					(2.5)
					2.3
					5.8
1.5					1.5
					(54.9)
					0.2
–	–	–	–	–	109.6
					(104.5)
					–
–	–	–	–	–	(104.5)
					5.2
					(3.3)
					(61.2)
					–
–	–	–	–	–	(59.3)
					(0.1)
–	–	–	–	–	(54.3)
					113.9
–	–	–	–	–	59.6

(d) Pre-licence exploration costs IFRS requires all pre-licence costs to be written off in the year that they are incurred. On transition to IFRS all such costs existing at 1 January 2004 were written off to shareholders' funds. Some of the costs which remained capitalised at 1 January 2004 under UK GAAP were written off in the 2004 results as the related projects were considered unsuccessful. This adjustment reverses the impact of such write-offs in the 2004 income statement amounting to US$3.9 million. However, as its impact is already reflected in cash flows related to capital expenditure it has been added back to the cash flows from operating activities.

(e) Exploration expense The group has written off certain exploration costs incurred in 2004 in Guinea Bissau, Gabon, North Sea and Mauritania which related to unsuccessful exploration wells amounting to US$23.9 million. However, as its impact is already reflected in cash flows related to capital expenditure, it has been added back to the cash flows from operating activities.

(f) Exploration and evaluation assets accounting – PKP joint venture The group has adopted an IFRS accounting policy for exploration and evaluation assets that is more aligned with the UK GAAP successful efforts accounting practice, rather than its previous UK GAAP policy of accounting for such costs under the full-cost method. In the PKP joint venture, adoption of this policy resulted in a reduced amortisation charge of US$2.4 million and an additional exploration expense of US$6.6 million. However, as amortisation is a non-cash item and exploration expense is already reflected in cash flows related to capital expenditure, both have been adjusted to the cash flows from operating activities.

(g) Property, plant and equipment – amortisation IAS 16 requires that oil and gas property, plant and equipment is held in the balance sheet generally on a field-by-field basis. Given the age and history of the group it has not been possible to establish accurately the depreciated historical cost base for the individual fields in the UK and Far East cost pools, therefore, we have taken benefit of the transition rules contained within IFRS 1 that allow fair values to be adopted on transition, in place of depreciated historical cost amounts. The impact of this is an increase to fixed assets of US$122.8 million, which has increased the amortisation charge by US$8.0 million during 2004. However, as it is a non-cash item it has been added back to the cash flows from operating activities.

– Reconciliation of equity and net assets –

As at 1 January 2004 (transition date)

Notes		(a)	(b)	(c)
	UK GAAP numbers in IFRS format $ million	Joint venture proportional consolidation $ million	Employee benefits $ million	Pre-licence exploration costs $ million
Net current assets:				
Exploration and evaluation assets	35.8	4.3		(6.2)
Property, plant and equipment	368.2	117.8		
Investments in associates and joint ventures	113.1	(101.6)		
	517.1	20.5	–	(6.2)
Current assets:				
Inventories	10.9	1.8		
Trade and other receivables	112.9	13.2	(2.5)	
Cash and cash equivalents	109.0	4.8		
	232.8	19.9	(2.5)	–
Total assets	749.9	40.4	(2.5)	(6.2)
Current liabilities:				
Trade and other payables	(95.1)	(10.1)	3.2	
Current tax payable	(46.6)			
	(141.7)	(10.1)	3.2	–
Non-current liabilities:				
Long-term debt	(99.5)			
Deferred tax liabilities	(102.7)	(27.3)		
Long-term provisions	(17.2)	(2.9)		
Long-term employee benefit plan deficits			(8.1)	
	(219.4)	(30.2)	(8.1)	–
Total liabilities	(361.1)	(40.4)	(4.9)	–
Net assets	388.8	–	(7.4)	(6.2)
Equity:				
Share capital	73.0			
Share premium account	3.4			
Retained earnings	312.4		(7.4)	(6.2)
	388.8	–	(7.4)	(6.2)

Notes:

(a) Joint ventures proportional consolidation Joint venture arrangements which involve the establishment of a separate entity, in which each venture has an interest, are referred to as jointly controlled entities (JCEs). Under IFRS the group will report its interests in JCEs using proportionate consolidation, ie the group's share of the assets, liabilities, income and expenses of JCEs are combined with the equivalent items in the consolidated financial statements on a line-by-line basis.

Under UK GAAP, the group accounted for its 50 per cent share in Premier-Kufpec Pakistan BV (PKP) as an interest in a joint venture under FRS 9 'Associates and Joint Ventures'. FRS 9 required the group to show its proportion of operating profit or loss, exceptional items, interest, tax, gross assets and gross liabilities of the joint venture as part of the financial statements.

The change to proportional consolidation results in a major presentational change in the way JCE balances are stated on the face of the balance sheet, however, this does not result in any impact on the net assets of the group.

(b) Employee benefits The group has elected to recognise all cumulative actuarial gains and losses as at 1 January 2004 and the impact of this requirement is a US$(7.4) million reduction to net assets at that date. Additionally, under IAS 19, staff costs should reflect services performed during the period, including all benefits paid in cash or shares. This has resulted in a transfer to reserves of US$1.7 million of deferred share-based bonuses payable in one to three years from the date of the balance sheet, offset by a provision for the same amount having no net impact on the shareholders' funds.

(c) Pre-licence costs IFRS requires that all pre-licence costs are written off in the year that they were incurred. In accordance with the group's UK GAAP policy, which allowed capitalisation of such costs, US$6.2 million of pre-licence costs were capitalised as part of exploration and evaluation assets. On transition to IFRS all such costs existing at 1 January 2004 were written off.

(d) Deferred Petroleum Revenue Tax (PRT) IFRS requires that deferred PRT be calculated on a temporary difference basis, a departure from Premier's former unit of production (UOP) method. The impact of this requirement is a US$(26.6) million reduction to net assets. This has principally arisen due to PRT on the fair valuation of North West Europe assets, as described further in note (g).

(d) Deferred petroleum revenue tax $ million	(e) PKP successful efforts adjustment $ million	(f) Far East successful efforts adjustment $ million	(g) North West Europe successful efforts adjustment $ million	(h) Exploration costs write-off 2003 $ million	(i) Long-Term Incentive Plan and ESOP Trust $ million	IFRS opening balance sheet $ million
				(19.4)		14.5
	(54.6)	72.7	50.0			554.1
						11.5
–	(54.6)	72.7	50.0	(19.4)	–	580.1
						12.7
					(4.7)	118.9
						113.8
–	–	–	–	–	(4.7)	245.4
–	(54.6)	72.7	50.0	(19.4)	(4.7)	825.5
					8.2	(93.8)
						(46.6)
–	–	–	–	–	8.2	(140.4)
						(99.5)
(26.6)	19.6	(62.9)	(20.0)			(219.9)
						(20.1)
						(8.1)
(26.6)	19.6	(62.9)	(20.0)	–	–	(347.6)
(26.6)	19.6	(62.9)	(20.0)	–	8.2	(488.0)
(26.6)	(35.0)	9.8	30.0	(19.4)	3.5	337.5
						73.0
						3.4
(26.6)	(35.0)	9.8	30.0	(19.4)	3.5	261.1
(26.6)	(35.0)	9.8	30.0	(19.4)	3.5	337.5

(e) Exploration and evaluation assets accounting – PKP joint venture The group has adopted an IFRS accounting policy for exploration and evaluation assets that is more aligned with the UK GAAP successful efforts accounting practice, rather than its previous UK GAAP policy of accounting for such costs under the full-cost method. In the PKP joint venture, adoption of this policy largely required the write-off of historic exploration expenditures, pre-licence costs and a related adjustment to deferred tax due to a reduction in the fixed assets in the joint venture. This has resulted in a net asset adjustment of US$34.9 million.

(f) Property, plant and equipment – Far East IFRS requires that fixed assets are held in the balance sheet generally on a field-by-field basis. Given the age and history of the group, it has not been possible to establish accurately the depreciated historical cost base for the individual fields in the Far East cost pools, therefore, we have taken the benefit of the transition rules contained within IFRS 1 that allow fair values to be adopted on transition in place of depreciated historical cost amounts. The impact of this is a net US$9.8 million increase to net assets, as the Indonesian assets are revalued upwards (US$72.7 million) after adjusting for past exploration costs and deferred tax has been provided on the gross fair value, together amounting to US$62.9 million.

(g) Property, plant and equipment – North West Europe IFRS requires that fixed assets are held in the balance sheet generally on a field-by-field basis. Given the age and history of the group, it has not been possible to establish accurately the depreciated historical cost base for the individual fields in the North West Europe cost pools, therefore, we have taken benefit of the transition rules contained within IFRS 1 that will allow fair values to be adopted on transition in place of depreciated historical cost amounts. The impact of this is a net US$30.0 million increase to net assets, as the North Sea assets are revalued upwards (US$50.0 million) and deferred tax has been provided on the gross fair value, together amounting to US$20.0 million.

(h) Exploration and evaluation assets accounting – West Africa The group has adopted an IFRS accounting policy for exploration and evaluation assets that is more aligned with the UK GAAP successful efforts accounting practice, rather than its previous UK GAAP policy of accounting for such costs under the full-cost method. For the West Africa geographic segment, adoption of this policy largely required the write-off of historic exploration expenditures related to Guinea Bissau. This has resulted in a net asset reduction of US$19.4 million.

(i) Long-Term Incentive Plan (LTIP) and Employees' Share Option Plan Trust (ESOP) IFRS 2 requires all the shares purchased for ESOP Trusts and provisions made for any future share-based payout to be presented within equity. This has resulted in a transfer of US$4.8 million ESOP Trust shares to shareholders' funds, and a reduction of US$8.2 million in Long-Term Incentive Plan accrual.

– Independent auditors' report to the members of Premier Oil plc –

We have audited the individual company financial statements of Premier Oil plc for the year ended 31 December 2005 which comprise the balance sheet and the related notes 1 to 12. These individual company financial statements have been prepared under the accounting policies set out therein.

The corporate governance statement and the directors' remuneration report are included in the group Annual Report of Premier Oil plc for the year ended 31 December 2005. We have reported separately on the group financial statements of Premier Oil plc for the year ended 31 December 2005 and on 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' responsibilities for preparing the Annual Report and the individual company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of directors' responsibilities.

Our responsibility is to audit the individual company financial statements in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the individual company financial statements give a true and fair view in accordance with the relevant financial reporting framework and whether the individual company financial statements have been properly prepared in accordance with the Companies Act 1985. We report to you if, in our opinion, the directors' report is not consistent with the individual company financial statements. We also report to you 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 regarding directors' remuneration and other transactions is not disclosed.

We read the directors' report and the other information contained in the Annual Report for the above year as described in the contents section and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the individual company financial statements.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the individual company financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the individual company financial statements, and of whether the accounting policies are appropriate to the company'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 individual company financial statements 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 individual company financial statements.

Opinion

In our opinion:

- the individual company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2005; and
- the individual company financial statements have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London
22 March 2006

– Parent company financial statements: balance sheet –

As at 31 December 2005

	Note	2005 $ million	2004 restated $ million
Fixed assets:			
Investment in subsidiaries	3	**501.4**	501.4
Total fixed assets		**501.4**	501.4
Current assets:			
Debtors	4	**1.0**	2.9
Total current assets		**1.0**	2.9
Creditors: amounts falling due within one year	5	**(4.9)**	(10.2)
Net current liabilities		**(3.9)**	(7.3)
Total assets less current liabilities		**497.5**	494.1
Creditors: amounts falling due after one year	6	**(391.2)**	(367.6)
Net assets excluding pension liability		**106.3**	126.5
Pension liability	7	**(7.9)**	(7.9)
Net assets including pension liability		**98.4**	118.6
Capital and reserves:			
Called-up share capital	9	**73.2**	74.6
Share premium account	10	**8.0**	7.0
Profit and loss account	10	**15.5**	37.0
Capital redemption reserve	10	**1.7**	
Total equity shareholders' funds	11	**98.4**	118.6

The company balance sheet at 31 December 2004 has been restated to reflect the adoption of FRS 17 'Retirement Benefits' (see note 12).

The financial statements were approved by the Board of Directors on 22 March 2006.

They were signed on its behalf by:

S C Lockett
A R C Durrant
Directors

– Statement of total recognised gains and losses –

For the year ended 31 December 2005

	Note	2005 $ million	2004 restated $ million
Loss for the financial year		**(3.6)**	(24.8)
Actuarial losses relating to pension scheme	7	**(2.2)**	(0.7)
Total recognised gains and losses relating to the year		**(5.8)**	(25.5)
Prior year adjustment	12	**(8.6)**	
Total gains and losses recognised since last annual report and financial statements		**(14.4)**	

– Parent company financial statements: notes to the accounts –

For the year ended 31 December 2005

1 Significant accounting policies

Basis of accounting

The separate financial statements of the company are presented as required by the Companies Act 1985. They have been prepared under the historical cost convention and in accordance with applicable United Kingdom Accounting Standards and law.

The principal accounting policies are summarised below. With the exception of the adoption of FRS 17 'Retirement Benefits', they have all been applied consistently throughout the year and the preceding year.

Investments

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

Pension costs

The group operates a defined benefit pension scheme, which requires contributions to be made to a separately administered fund. The Scheme was closed to new members (aside from the provision of insured death in service benefits) in 1997. The group has adopted FRS 17 'Retirement Benefits' during the year.

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

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

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

Prior to the adoption of FRS 17 'Retirement Benefits', the company accounted for pension costs in line with SSAP 24. Under SSAP 24, the expected cost of providing pensions (as calculated by an independent actuary) was charged to the profit and loss account so as to spread the cost over the service lives of the employees. The prior year adjustment in respect of the implementation of FRS 17 'Retirement Benefits' is disclosed in note 12.

Foreign exchange

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 transactions is included as an exchange gain or loss in the profit and loss account.

Cash flow statement

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

Related party transactions

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

Share-based payments

The company has applied the requirements of FRS 20, 'Share-Based Payments'. In accordance with the transitional provisions, FRS 20 has been applied to all grants of equity instruments after 7 November 2002 that were unvested as of 1 January 2005.

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

Fair value is measured by use of the binomial model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

A liability equal to the portion of the goods or services received is recognised as the current fair value determined at each balance sheet date for cash-settled share-based payments.

1 Significant accounting policies continued

Deferred tax

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date 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; and
- deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

2 Loss for the year

As permitted by Section 230 of the Companies Act 1985, the company has elected not to present its own profit and loss account for the year. Premier Oil plc reported a loss for the financial year ended 31 December 2005 of US$3.6 million (2004: restated US$28.4 million).

The auditors' remuneration for audit services to the company was US$10,000 (2004: US$10,000).

3 Fixed asset investments

	2005 $ million	2004 $ million
Cost and net book value:		
Subsidiary undertakings	**501.4**	501.4
	501.4	501.4

The principal subsidiary undertaking of the company, which is 100 per cent owned, is 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 and 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 and Wales
FP Mauritania B BV*	Exploration, production and development, Mauritania	Netherlands
Premier Oil Mauritania B Ltd*	Exploration, production and development, Mauritania	Jersey

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%	Netherlands

* Held through subsidiary undertaking.

4 Debtors: amounts falling due within one year

	2005 $ million	2004 restated $ million
Prepayments and accrued income	**0.1**	0.1
Other debtors	**0.9**	2.8
	1.0	2.9

5 Creditors: amounts falling due within one year

	2005 $ million	2004 restated $ million
Other taxes and social security costs	**0.1**	1.2
Accruals and deferred income	**4.8**	9.0
	4.9	10.2

– Parent company financial statements: notes to the accounts –

For the year ended 31 December 2005

6 Creditors: amounts falling due after one year

	2005 $ million	2004 restated $ million
Amounts owed to subsidiary undertakings	**391.2**	367.6
	391.2	367.6

The amounts owed to subsidiary undertakings relates to a balance which bears interest based on LIBOR and is not secured.

7 Pension liability

	2005 $ million	2004 $ million
UK funded pension scheme	**7.0**	6.2
UK unfunded pension scheme	**0.9**	1.7
	7.9	7.9

The company operates a defined benefit pension scheme in the UK – The Premier Oil plc Retirement and Death Benefits Plan (the Scheme). The Scheme was closed to new members (aside from the provision of insured death in service benefits) in 1997 and a new scheme, providing benefits on a defined contribution scheme, was started. Both schemes are funded by the payment of contributions to separately administered trust funds. Contributions to the Scheme are determined by a qualified actuary using the Attained Age Method. As a consequence of being closed to new entrants, the current service costs of the Scheme (under the FRS 17 valuation) will increase as the members approach retirement.

The company has adopted FRS 17 in the current year and the pension cost figures in these financial statements comply with FRS 17. The comparative figures for 2004 have been restated as if FRS 17 had applied for that financial year. See note 12 for the effect of the adoption on the prior year balance sheet and profit and loss reserves.

The pension costs for the Scheme are determined with the advice of an independent qualified actuary. The most recent formal valuation was undertaken as at 1 January 2005 using the Attained Age Method and a market-related funding basis, of which the principal financial assumptions were investment return: 6.5 per cent pa, salary growth: 4.8 per cent pa and pension increases: 2.8 per cent pa. The market value of the Scheme assets was £9.9 million and, on the specific method and the assumptions adopted, the assets covered 93 per cent of the members' accrued benefits based on projected pensionable salaries. During 2005, the employer contributed to the Scheme at a rate of 26 per cent of pensionable salaries up to 31 July 2005 and, as at 1 August 2005, at 19 per cent of pensionable salaries together with a further monthly amount of £18,500; in addition, the employer paid a lump sum contribution of £960,000 in May 2005. Aside from any further lump sum contribution, the employer expects to contribute £328,000 to the Scheme in 2006. In accordance with FRS 17, the actuarial calculations have been carried out using the projected unit method.

The principal financial assumptions adopted for this actuarial valuation were:

	%
Rate of investment return	6.5% pa
Rate of salary increases	4.8% pa
Rate of pension increases	2.8% pa

Major assumptions used at 31 December:

	2005	2004	2003	2002	2001
Discount rate	**4.8% pa**	5.3% pa	5.4% pa	5.5% pa	5.8% pa
Salary growth	**4.9% pa**	4.8% pa	4.8% pa	4.3% pa	4.5% pa
Price inflation	**2.9% pa**	2.8% pa	2.8% pa	2.3% pa	2.5% pa
Increases to pensions in payment	**2.9% pa**	2.8% pa	2.8% pa	2.3% pa	2.5% pa

7 **Pension liability** continued

Expected rates of return and market value of the Scheme's assets at 31 December:

	2005		2004		2003		2002		2001	
	Expected rate of return	**Assets $ million**	Expected rate of return	Assets $ million	Expected rate of return	Assets $ million	Expected rate of return	Assets $ million	Expected rate of return	Assets $ million
Equities	**6.8% pa**	**8.7**	7.3% pa	8.4	7.1% pa	6.9	7.0% pa	5.2	7.2% pa	6.8
Bonds	**4.8% pa**	**5.9**	5.3% pa	5.4	5.1% pa	9.3	5.0% pa	6.4	5.2% pa	6.0
Cash	**4.5% pa**	**6.5**	4.7% pa	5.1	3.8% pa	–	4.0% pa	1.4	4.0% pa	–

Valuations of the Scheme's assets and liabilities at 31 December:

	2005 $ million	2004 $ million	2003 $ million	2002 $ million	2001 $ million
Total fair value of Scheme assets	**21.1**	18.9	16.2	13.0	12.8
Present value of Scheme liabilities	**28.1**	25.1	20.9	17.4	16.8
Deficit in Scheme	**(7.0)**	(6.2)	(4.7)	(4.4)	(4.0)

No deferred tax asset has been recognised in relation to the pension deficit because in the opinion of the directors there will be no suitable tax gains available in the foreseeable future.

Analysis of the amount charged to operating profit:

	2005 $ million	2004 $ million
Employer current service cost	**(0.3)**	(0.5)
Total operating charge	**(0.3)**	(0.5)

Analysis of the amount which has been charged to net finance costs:

	2005 $ million	2004 $ million
Expected return on pension scheme assets	**1.1**	1.0
Interest on pension scheme liabilities	**(1.3)**	(1.2)
Net finance cost	**(0.2)**	(0.2)

Analysis of the amount recognised in the statement of total recognised gains and losses:

	2005 $ million	2004 $ million
Actual return less expected return on pension scheme assets	**1.6**	0.2
Experience losses arising on pension scheme liabilities	**(0.1)**	(0.7)
Changes in the assumptions underlying the present value of pension scheme liabilities	**(4.8)**	(0.4)
Actuarial loss to be recognised in the statement of total recognised gains and losses under FRS 17	**(3.3)**	(0.9)

Analysis of movement in deficit during the year:

	2005 $ million	2004 $ million
At 1 January	**(6.2)**	(4.6)
Total operating charge	**(0.3)**	(0.5)
Other finance income	**(0.2)**	(0.2)
Actuarial loss	**(3.3)**	(0.9)
Contributions	**2.2**	0.5
Currency translation effect	**0.8**	(0.5)
At 31 December	**(7.0)**	(6.2)

– Parent company financial statements: notes to the accounts –

For the year ended 31 December 2005

7 Pension liability continued

History of experience gains and losses:

	2005	2004	2003	2002
Difference between actual and expected return on Scheme assets:				
Amount (US$ million)	**1.6**	0.2	0.8	(1.8)
Percentage of Scheme assets	**8%**	1%	6%	15%
Experience (losses)/gains arising on Scheme liabilities:				
Amount (US$ million)	**(0.1)**	(0.7)	1.5	0.5
Percentage of Scheme liabilities		1%	8%	2%
Total actuarial gain/(loss) recognised in the statement of total recognised gains and losses:				
Amount (US$ million)	**(3.3)**	(0.9)	0.3	(1.3)
Percentage of Scheme liabilities	**12%**	4%	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 out performance' 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 Minimum Funding Requirement and to conventional funding assessments.

Unfunded pensions

In addition, the group is paying an unfunded pension to a former director of the company in regard to which annual increases and a reversionary spouse's pension apply on the same basis as to pensions paid under the Scheme.

On the same actuarial basis as used to assess the Scheme's pension costs, the present value as at 31 December 2005 of the future payments projected to be made in respect of unfunded pensions is US$0.9 million (2004: US$1.7 million).

8 Capital commitments and guarantees

At 31 December 2005 the company had no capital commitments and guarantees (2004: US$ nil).

9 Share capital – Company

	2005 $ million	2004 restated $ million
Balance at 1 January	**74.6**	73.0
Shares repurchased	**(1.7)**	
Shares issued	**0.3**	1.6
Balance at 31 December	**73.2**	74.6

Ordinary Shares:

	2005 50p shares	2005 £	2004 50p shares	2004 £
Authorised	**311,904,002**	**155,952,001**	311,904,002	155,952,001
Called-up, issued, and fully-paid	**81,773,081**	**40,886,541**	83,221,791	41,610,896

Non-Voting Convertible Shares:

	2005 17.5p shares	2005 £	2004 17.5p shares	2004 £
Authorised	**9,487,317**	**1,660,280**	9,487,317	1,660,280

9 Share capital – Company continued

Details of changes in share capital during the period

The company has share option schemes under which options to subscribe for the company's shares have been granted to certain executives and employees. Options granted are not normally exercisable less than three years after their grant and will lapse on their tenth anniversary. Options cannot be exercised until pre-determined performance conditions have been achieved.

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

Under the Share Incentive Plan employees are invited to make contributions to buy 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.

	2005		2004	
	Options	**Weighted average exercise price £**	Options	Weighted average exercise price £
Outstanding at the beginning of the period	**1,766,964**	**2.09**	3,222,387	1.87
Granted during the period	**148,433**	**5.53**	75,512	4.32
Lapsed during the period	**(15,816)**	**3.20**	(1,850)	1.65
Exercised during the period	**(1,173,419)**	**1.92**	(1,529,085)	1.74
Outstanding at the end of the period	**726,162**	**2.86**	1,766,964	2.09
Exercisable at the end of the period	**392,659**	**2.05**	1,409,544	1.93

The weighted average share price at the date of exercise for share options exercised during the period was £1.92. The options outstanding at 31 December 2005 had a weighted average exercise price of £2.86 and a weighted average remaining contractual life of 1.5 years.

The fair value of the options granted during the period was determined using Black-Scholes valuation model and is not material.

The company recognised total expenses of US$3.6 million and US$1.0 million related to equity-settled share-based payment transactions in 2005 and 2004 respectively.

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 shall rank pari passu in all respects with the rights of the Ordinary Shares in relation to dividends.

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 the Ordinary Shares 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 Non-Voting Convertible Shares 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; and
- each holder of Non-Voting Convertible Shares has the right to convert some or all of its Non-Voting Convertible Shares into Ordinary Shares.

– Parent company financial statements: notes to the accounts –

For the year ended 31 December 2005

10 Share capital and reserves

	Share capital $ million	Share premium account $ million	Capital redemption reserve $ million	Profit and loss reserves $ million	**Total $ million**
Balance at 1 January 2005	74.6	7.0		45.6	**127.2**
Prior year adjustment				(8.6)	**(8.6)**
At 1 January 2005 – as restated	74.6	7.0	–	37.0	**118.6**
Shares repurchased	(1.7)		1.7	(13.2)	**(13.2)**
Shares issued	0.3	1.0			**1.3**
Adjustment relating to past restructuring				3.1	**3.1**
Loss for the year				(3.6)	**(3.6)**
Provision for share-based payments				2.9	**2.9**
Pension costs (actuarial losses)				(2.2)	**(2.2)**
Purchase of shares for ESOP Trust				(8.5)	**(8.5)**
Balance at 31 December 2005	73.2	8.0	1.7	15.5	**98.4**

11 Reconciliation of movements in shareholders' funds

	2005 $ million	2004 restated $ million
Opening shareholders' funds (originally US$127.2 million before deducting prior year adjustment of US$8.6 million)	**118.6**	146.0
Pension costs – actuarial losses	**(2.2)**	(0.7)
Shares issued	**1.3**	5.2
Shares repurchased	**(13.2)**	(5.9)
Adjustment relating to past restructuring	**3.1**	(1.2)
Purchase of shares for ESOP Trust	**(8.5)**	
Provision for share-based payments	**2.9**	
Loss for the year	**(3.6)**	(24.8)
Net reduction in shareholders' funds	**(20.2)**	(27.4)
Closing shareholders' funds	**98.4**	118.6

12 Restatement

As a result of the adoption of FRS 17 'Retirement Benefits', the company balance sheet has been restated to reflect the impact of moving from SSAP 24 to FRS 17 'Retirement Benefits'. The effects of this change in accounting policy are disclosed in the table below:

	Note	Per 2004 accounts $ million	Adoption of FRS 17 $ million	Restated 2004 accounts $ million
Prepayments	4	1.5	(1.4)	0.1
Other creditors	5	(0.7)	0.7	–
Pension liability	7		(7.9)	(7.9)
Net assets	11	127.2	(8.6)	118.6
Profit and loss reserves	10	45.6	(8.6)	37.0

– Five year summary –

Financials		**2005**	2004	2003	2002	2001
Accounting basis		**IFRS**	IFRS*	UK GAAP	UK GAAP	UK GAAP
Sales revenues	($ million)	**359.4**	251.8	420.1	394.7	307.9
Profit before tax	($ million)	**124.6**	53.5	132.2	108.9	71.4
Net profit for the period after tax	($ million)	**38.6**	22.1	66.5	33.9	29.2
Cash flow from operating activities	($ million)	**118.9**	109.6	221.7	204.0	136.8
Shareholders' funds	($ million)	**376.1**	354.1	388.8	411.8	454.9
Net (debt)/cash including joint ventures	($ million)	**(26.2)**	19.6	12.7	(401.7)	(553.8)

Per share statistics:

Revenue per share	(cent/share)	**437.8**	304.5	308.9	248.9	194.4
Earnings per share – basic	(cent/share)	**47.0**	26.8	48.9	21.3	18.4
Earnings per share – diluted	(cent/share)	**46.6**	26.1	48.1	21.3	18.4
Cash flow from operating activities per share	(cent/share)	**144.8**	132.5	163.0	128.6	86.4
Reserves per share – year-end	(boe/share)	**1.99**	2.13	2.15	2.90	2.90
Issued share – average	(million)	**82.1**	82.7	136.0	158.6	158.4

Operations:

Production (working interest basis)	(mboepd)	**33.2**	34.7	53.6	53.6	40.9
Proved and probable reserves (working interest basis)	(mmboe)	**163.5**	176.8	175.4	449.5	469.1
Employees – UK	(number)	**62**	56	59	57	52
– Overseas	(number)	**219**	217	373	421	436

Key indices:

Realised average oil price	($ per boe)	**54.50**	29.90	28.83	24.90	25.23
Average exchange rates	($/£)	**1.82**	1.83	1.63	1.50	1.44
Closing exchange rates	($/£)	**1.72**	1.92	1.79	1.61	1.46

The numbers relating to 2001–2003 have been translated in US dollar using the respective year exchange rates and are based on UK GAAP. The profit and loss amounts have been translated using average exchange rates, and balance sheet numbers using closing exchange rates.

* 2004 numbers have been restated in accordance with International Financial Reporting Standards (IFRS).

– Shareholder information –

Analysis of shareholding as at 22 March 2006

	Number of holders	%	Number of shares held	%
1 – 5,000	14,634	95.9	7,475,636	9.1
5,001 – 10,000	213	1.4	1,535,718	1.9
10,001 – 50,000	224	1.5	5,054,100	6.2
50,001 – 100,000	52	0.3	3,865,360	4.7
100,001 – 500,000	90	0.6	20,434,172	25.0
500,001 and over	39	0.3	43,414,318	53.1
Total	15,252	100.0	81,779,304	100.0

Dealing information

FT Share Price Index – Telephone: 0906 8433711 (code 3711)
SEAQ short code – PMO

Financial calendar

Announcements
Interim – September 2006
Preliminary – March 2007

– Oil and gas reserves –

As at 31 December 2005

Group proved plus probable reserves

	Working interest basis									
	North Sea		Asia		Middle East -Pakistan		West Africa	**Total**		
	Oil and NGLs mmbbls	Gas bcf	Oil and NGLs mmbbls	Gas bcf	Oil and NGLs mmbbls	Gas bcf	Oil and NGLs mmbbls	**Oil and NGLs mmbbls**	**Gas bcf**	**Oil, NGLs and gas mmboe**
Group										
At 1 January 2005	19.1	24	4.7	379			9.7	**33.5**	**403**	**112.9**
Revisions[1]	0.3	2	1.8	(24)				**2.1**	**(22)**	**(2.7)**
Acquisitions and divestments		(1)							**(1)**	**(0.1)**
Production	(2.9)	(3)	(0.8)	(18)				**(3.7)**	**(21)**	**(7.9)**
At 31 December 2005	**16.5**	**22**	**5.7**	**337**	**–**	**–**	**9.7**	**31.9**	**359**	**102.2**
Joint ventures – group share										
At 1 January 2005					1.1	408		**1.1**	**408**	**63.6**
Revisions[1]					0.6	7		**0.6**	**7**	**1.9**
Production					(0.1)	(26)		**(0.1)**	**(26)**	**(4.2)**
At 31 December 2005	**–**	**–**	**–**	**–**	**1.6**	**389**	**–**	**1.6**	**389**	**61.3**
Total group and group share of joint ventures										
At 1 January 2005	19.1	24	4.7	379	1.1	408	9.7	**34.6**	**811**	**176.5**
Revisions[1]	0.3	2	1.8	(24)	0.6	7		**2.7**	**(15)**	**(0.8)**
Acquisitions and divestments		(1)							**(1)**	**(0.1)**
Production	(2.9)	(3)	(0.8)	(18)	(0.1)	(26)		**(3.8)**	**(47)**	**(12.1)**
At 31 December 2005	**16.5**	**22**	**5.7**	**337**	**1.6**	**389**	**9.7**	**33.5**	**748**	**163.5**
Total group and group share of joint ventures										
Proved developed	9.6	10	2.2	163	1.3	242		**13.1**	**415**	**83.8**
Proved undeveloped	1.0		1.9	110		5	6.5	**9.4**	**115**	**31.7**
Probable developed	2.3	6	0.9	32	0.3	113		**3.5**	**151**	**28.0**
Probable undeveloped	3.6	6	0.7	32		29	3.2	**7.5**	**67**	**20.0**
At 31 December 2005	**16.5**	**22**	**5.7**	**337**	**1.6**	**389**	**9.7**	**33.5**	**748**	**163.5**

Notes:

1 Revisions include upgrades on Wytch Farm, Kyle, Fife, Telford, Angus, Fergus and Flora, together with minor downgrades on Scott. Revisions have also been made to block A (Anoa) and Kakap in Indonesia and the Bhit and Kadanwari fields in the PKP joint venture.

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 incorporates the terms of the Production Sharing Contracts in Indonesia and Mauritania. On an entitlement basis, reserves decreased by 10.7 mmboe, giving total entitlement reserves of 145.9 mmboe as at 31 December 2005 (2004: 156.6 mmboe).

– Worldwide licence interests at 22 March 2006 –

	Licence	Block	Operator	Equity %	Field
Egypt	NW Gemsa		Vegas Oil & Gas	37.50	
Gabon	Dussafu		Sasol	25.00	
	Iris		Sterling ††	18.00	
	Themis		Sterling	18.00	
Guinea Bissau	Sinapa	Block 2	**Premier**	38.50	
	Esperança	Blocks 4a & 5a	**Premier**	42.00	
	Egomor	Block 7b	**Premier**	23.75	
	Peixe Boy	Block 7c	**Premier**	23.75	
India	Jaipur	Block AAP-ON-94/1	**Premier ††**	38.00	
	Cachar	Block CR-ON-90/1	**Premier**	29.00	
Indonesia	Kakap		Star Energy	18.75	Kakap
	Natuna Sea Block A		**Premier**	28.67	Anoa
Mauritania	PSC A	Block 3, 4 & 5	Woodside	4.62	
	PSC B	Block 4 & 5	Woodside	9.23	
	PSC B	Chinguetti	Woodside	8.12	
Norway	PL374	34/2, 34/5	BG	15.00	
	PL375	34/4 (part), 34/5	PetroCanada	30.00	
	PL378	35/12, 36/10	Revus	40.00	
	PL359	16/1 (part), 16/4	Lundin	30.00	
	PL 364 (Frøy area)	25/2, 25/3, 25/5, 25/6	Pertra	50.00	
Pakistan	Production Leases	Tajjal	ENI*	15.78	Kadanwari
		Qadirpur	OGDCL*	4.75	Qadirpur
		Dadu	BHP*	9.37	Zamzama
		Kirthar	ENI*	6.00	Bhit
		Kirthar	ENI*	6.00	Badhra
		Bolan	MGCL*	3.75	Zarghun South
	Exploration Licences	Indus E 2365-1	Shell	12.50	
		Jhangara 2567-5	**Premier ††**	18.75	
Philippines	SC 43		**Premier**	42.50	
United Kingdom	P257	14/25a	Amerada Hess	1.25	
	P288	31/21a, 31/26a, 31/26f, 31/26g, 31/27a	Amerada Hess	15.00	Angus, Fife, Flora
	P758	31/26c	Amerada Hess	35.00	
	P802	39/1a	Amerada Hess	15.00	Fife
	P802	39/2a	Amerada Hess	35.00	Fergus
	P802	39/1c, 39/2c	**Premier**	100.00	
	P1022	98/11	BP	12.38	
	PL089	L97/10	BP	12.50	Wytch Farm/Wareham**
	P534	98/6a, 98/7a	BP	12.50	Wytch Farm (Offshore)**
	P748	29/2c	CNR	40.00	Kyle
	P218	15/21a	Nexen	3.75	Telford***
	P218	15/21a	Nexen	3.75	Scott †
	P354	22/2a	**Premier**	30.00	Non-Chestnut field area
	P1048	20/10b, 20/15a, 21/6a & 21/11b	Oilexco	18.75	
	P1177	21/7b	**Premier**	87.50	
	P1181	23/22b	**Premier**	87.50	
	P1229	42/10 & 42/15	**Premier**	50.00	
	P1152	39/2b & 39/7	Tullow Oil	30.00	
	P1184	44/21c & 44/26b	Tullow Oil	25.00	
	P1235	43/22b, 43/23, 43/27b, 43/28, 43/29	Tullow Oil	25.00	
Vietnam		Offshore 12E	**Premier**	75.00	
		Offshore 12W	**Premier**	75.00	

* Licences held through a joint venture
** Unitised share of 12.38 per cent
*** Unitised share of 0.82 per cent
† Unitised share of 1.79 per cent
†† Premier is withdrawing from this block

The group holds a 29.9 per cent interest in Fusion Mauritania A Ltd and FP Mauritania A BV (Mauritania A) with the balance being owned by Sterling Energy plc. Mauritania A will become a wholly-owned subsidiary on completion of the acquisition which occurs once the Mauritanian Government approves a field development plan for a field in PSC A, or earlier with partners' approval.

Premier Oil Mauritania B Ltd and FP Mauritania B BV (Mauritania B) hold a 9.23 per cent interest in PSC B (Operator: Woodside). The Mauritanian Government exercised its right to participate in the Chinguetti oil development effective 9 November 2004. Therefore Mauritania B will reduce its interest to 8.12 per cent on the effective assignment of part of its interest to Group Project Chinguetti the entity representing the interests of the Mauritanian Government.

– Contacts –

Registered Office
Premier Oil plc
Registered No. 234781 Scotland
4th Floor
Saltire Court
20 Castle Terrace
Edinburgh
EH1 2EN

Head Office
Premier Oil plc
23 Lower Belgrave Street
London
SW1W 0NR
Telephone: +44 (0)20 7730 1111
Fax: +44 (0)20 7730 4696
www.premier-oil.com

Auditors
Deloitte & Touche LLP
Hill House
1 Little New Street
London
EC4A 3TR

Solicitors
Slaughter and May
One Bunhill Row
London
EC1Y 8YY

Stockbrokers
Merrill Lynch
Merrill Lynch Financial Centre
2 King Edward Street
London
EC1A 1HQ

and

Oriel Securities Limited
125 Wood Street
London
EC2V 7AN

Registrars
Computershare Investor Services plc
Lochside House
7 Lochside Avenue
Edinburgh Park
Edinburgh
EH12 9DJ
Telephone: +44 (0)870 702 0000
www.computershare.com

Designed and produced by williams and phoa, London.
Photography by Mike Abrahams.

This annual report is printed on paper manufactured by an ISO 14001 mill, using totally chlorine free pulps from fully sustainable managed forests.

Premier Oil plc
23 Lower Belgrave Street
London SW1W 0NR

Telephone: +44 (0)20 7730 1111
Fax: +44 (0)20 7730 4696

www.premier-oil.com