CHAIRMAN'S STATEMENT //

Sir David John KCMG
Chairman

The quality of our producing assets, underpinned by our financial position, secures our forward cash flows and allows us to progress our exploration and development programmes that could bring very significant upside.

Financial and operating performance

Strong oil and gas prices, notably in the first half of the year, generated sales revenues of US$655.2 million in 2008 (2007: US$578.2 million) supported by high levels of demand from our gas customers in Singapore and Pakistan. Average production for the year rose 2 per cent to 36,500 barrels of oil equivalent per day (boepd) (2007: 35,750 boepd) with good production performance across our fields in the UK, Pakistan and Indonesia.

Operating cash flow after tax was US$352.3 million (2007: US$269.5 million), more than sufficient to fund our investments in exploration and development projects during the year and repay our bank borrowings. As a result our cash resources at 31 December 2008 were US$323.7 million (2007: US$332.0 million) and our cash facilities undrawn at US$275.0 million (2007: US$222.0 million). Operating profit rose for the fourth year running to US$261.7 million (2007: US$219.4 million). Profit before tax for the year was US$277.6 million, an 89 per cent increase on the previous year (2007: US$147.0 million), resulting in a 152 per cent increase in profit after tax to US$98.3 million (2007: US$39.0 million).

Oil and gas proven and probable booked reserves increased to 228 million barrels of oil equivalent (mmboe) (2007: 212 mmboe). Contingent resources, representing potential reserves not yet booked, are 154 mmboe, so that total reserves and resources have increased in the year by 3 per cent to 382 mmboe. Significant reserve additions included the booking of reserves from the Chim Sáo oil and gas field in Vietnam and an increase in our Indonesian Anoa field reserves of around 60 billion cubic feet (bcf), net to Premier, following strong production performance.

Considerable progress was made in advancing our three major development project approvals in the second half of 2008. Our project teams in Indonesia and Vietnam are now intensively engaged in the execution phase of these development plans. Together these three development projects are expected to add 25,000 boepd of production to Premier over the next two to three years.

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Our exploration programme in 2008 delivered seven successes from 14 exploration and appraisal wells. Notable successes included appraisal wells on Chim Sáo in Vietnam and on the Banda gas field in Mauritania. There have also been a series of successful wells on the NW Gemsa permit in Egypt, where first production of oil commenced during February.

In 2009, we will return to our programmes in Vietnam and Indonesia, drill our first wells in Norway and Congo and continue to exploit our existing acreage in Pakistan and Egypt.

Our efforts to maintain the highest levels of health, safety and environmental performance standards have been successful and have seen us exceed expectations in several areas. Judged across a range of industry accepted metrics, Premier's 2008 operations recorded our best safety performance to date, received an HSE Award from Petro Vietnam for operational excellence in Vietnam and had our environmental compliance performance rating upgraded to 'Green' by the Ministry of the Environment for its operations in Indonesia. We continue our drive for continuous performance improvement in these areas.

Shareholder returns

In the face of falling stock markets and the sharp decline in the price of oil, Premier's share price dropped by 25 per cent in 2008, nevertheless outperforming the price of Brent which fell 64 per cent from US$97 per barrel (bbl) at the beginning of the year to end the year at US$35/bbl. We continued with our policy of selectively utilising cash resources to buy-back shares where justified on valuation grounds and where this has a favourable impact on market valuation. During the second half of the year we acquired a total of 2.8 million shares at an average cost of £9.04 per share. Over the five year period to 31 December 2008, Premier shares increased in value by 116 per cent.

Outlook

Despite volatile markets and the sharp downturn in economic activity, the group is in a strong position to maintain its growth profile. Already in 2009 we have progressed a number of critical contracts which are now at the centre of our development projects. We are about to embark on an extensive exploration and appraisal campaign, which has the potential to have a material impact on the group.

The quality of our producing assets, underpinned by our financial position, secures our forward cash flows and allows us to progress our exploration and development programmes that could bring very significant upside.

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