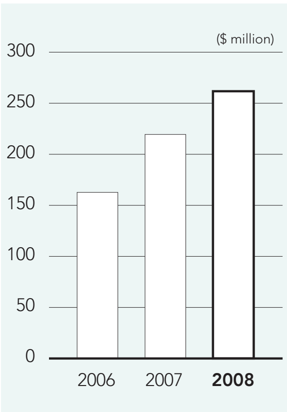
Tony Durrant
Finance Director

Net cash at 31 December 2008 amounted to US$117.3 million (2007: net cash of US$79.0 million). Together with our undrawn cash facilities of US$275.0 million, this will contribute substantially towards the financing of Premier's significant development programme over the next three years.

Operating profit



Economic environment

2008 was a turbulent year for the world economy and for oil and gas prices in particular. Brent opened the year at US$97/bbl, reached a peak of US$147/bbl in July 2008, before falling back to end the year at US$35/bbl. The early part of 2009 has seen continued volatility but prices have recovered to around US$45/bbl on average.

The deterioration in the oil price environment has led to downward pressure on operating and development costs, which had increased during the recent period of sustained rising commodity pricing and increasing activity levels. Premier is capturing the benefits of falling costs in rig rates and development costs.

Income statement

Production levels in 2008, on a working interest basis, averaged 36,500 boepd compared to 35,750 boepd in 2007. On an entitlement basis, which allows for additional government take under the terms of our PSCs, production was 31,750 boepd (2007: 31,450 boepd). Realised oil prices averaged US$94.5/bbl compared with US$72.3/bbl in the previous year.

Gas production averaged 148 mmscfd (25,300 boepd) during the year or approximately 69 per cent of total production. Average gas prices for the group were US$6.57 per thousand standard cubic feet (mscf) (2007: US$5.60/mscf). Gas prices in Singapore, which are linked to High Sulphur Fuel Oil (HSFO) pricing, which in turn is closely linked to crude oil, averaged US$15.2/mscf (2007: US$11.3/mscf) during the year.

Total sales revenue from all operations was 13 per cent higher than 2007 at US$655.2 million (2007: US$578.2 million) as a result of higher production and commodity prices. This figure includes a reduction of US$15.9 million arising from the price ceilings in our hedging contracts.

Cost of sales was US$317.6 million (2007: US$267.5 million). Excluding the effect of inventory movements, underlying unit operating costs were higher at US$9.5 per barrel of oil equivalent (boe) (2007: US$9.0/boe) due to a full year of increased production from the Scott field in the North Sea. Amortisation includes the effect of an impairment charge of US$31.9 million in respect of the Chinguetti field in Mauritania. Underlying unit amortisation (excluding impairment) fell marginally to US$8.0/boe (2007: US$8.2/boe). Exploration expense and pre-licence exploration costs amounted to US$42.9 million (2007: US$65.3 million) and US$15.8 million (2007: US$8.3 million) respectively, following deferral of the Bream appraisal well in Norway to 2009. Administrative costs were stable at US$17.2 million (2007: US$17.7 million).

Operating profits were US$261.7 million, a 19 per cent increase over the prior year. Finance costs net of interest revenue totalled US$12.4 million (2007: US$7.5 million). Pre-tax profits were US$277.6 million (2007: US$147.0 million). This included a non-cash gain relating to mark to market revaluation of the group's gas hedges totalling US$21.5 million (2007: non-cash

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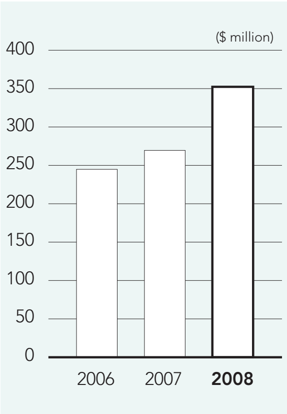
loss of US$24.9 million). The taxation charge totalled US$179.3 million (2007: US$108.0 million) due to underlying higher taxable profits. Profit after tax reached a record US$98.3 million (2007: US$39.0 million). Basic earnings per share were 120.8 cents (2007: 47.6 cents).

Cash flow from operating activities



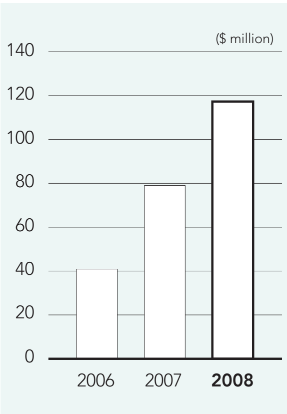
Cash flow

Cash flow from operating activities, before movements in working capital, amounted to US$478.1 million (2007: US$408.1 million). After working capital items and tax payments, cash flow from operating activities rose 31 per cent to US$352.3 million (2007: US$269.5 million). Capital expenditure was US$217.3 million (2007: US$261.2 million).

Capital expenditure	2008 $ million	2007 $ million
Fields/developments	**124.0**	65.7
Exploration	**90.5**	104.7
Acquisitions	**–**	88.6
Other	**2.8**	2.2
Total	**217.3**	261.2

The principal development projects were the Qadirpur plant capacity enhancement project, Kadanwari development wells, Zamzama Phase 2 project, Bhit/Badhra Phase 2 project, Wytch Farm infill programme, Scott infill programme and upgrade of the power generation units, Chinguetti Phase 2B development, and long lead equipment and interim work for wellhead platforms, pipelines and FPSO on the Chim Sáo field in Vietnam.

Net cash



Net cash position

Net cash at 31 December 2008 amounted to US$117.3 million (2007: net cash of US$79.0 million). Together with our undrawn cash facilities of US$275.0 million, this will contribute substantially towards the financing of Premier's significant development programme over the next three years.

Net cash	2008 $ million	2007 $ million
Cash and cash equivalents	**323.7**	332.0
Convertible bonds*	**(206.4)**	(200.0)
Other long-term debt**	**–**	(53.0)
Net cash	**117.3**	79.0

* Excluding unamortised issue costs and allocation to equity.
** Excluding unamortised issue costs.

Hedging and risk management

The Board's policy continues to be to lock in oil and gas price floors for a portion of expected future production at a level which protects the cash flow of the group and the business plan. Such floors are purchased for cash or funded by selling calls at a ceiling price when market conditions are considered favourable. All transactions are matched as closely as possible with expected cash flows to the group; no speculative transactions are undertaken.

During 2008, oil hedges for 1.8 million barrels (mmbbls) matured for which a payment under the terms of the hedges arose during the year of US$8.1 million. At the end of 2008 a total of 7.2 mmbbls was hedged (approximately 1.8 mmbbls per annum) under a physical offtake agreement representing approximately one half of UK oil production until December 2012 with an average floor price of US$39/bbl and a cap of US$100/bbl. In early 2009, further hedging was undertaken which for the same volumes of 1.8 mmbbls a year lifted the floor to US$50/bbl for 2010 and 2011 in return for a cap reduction to US$80/bbl and a cash premium of US$5.8 million.

During 2008, gas hedges for 120,000 metric tonnes (mt) expired for which payments of US$7.8 million were made during the year. At the end of 2008 a total of 522,000 mt of HSFO was hedged (approximately 120,000 mt per annum) representing one third of Indonesian gas production, until June 2013 with a floor price of US$250/mt and a cap of US$500/mt.

Premier's gas hedging is required to be marked to market at the balance sheet date. The aggregate valuation is a US$2.9 million liability (2007: US$24.4 million liability) generating a US$21.5 million non-cash gain in the 2008 income statement. From 1 July 2008, oil hedges were incorporated within the pricing terms of physical offtake agreements for the underlying oil production. Mark to market revaluations are not therefore applied to the new oil hedges at year-end. Liabilities accrued under the old hedges will be amortised to the income statement over the life of the new hedges and the resulting gain is included in total gains for the year in respect of oil hedges of US$6.8 million.

As the group 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 loss of US$2.5 million on such hedging at year-end (2007: US$0.4 million).

Cash balances are invested in short-term bank deposits, AAA rated liquidity funds and A1/P1 commercial paper subject to Board approved limits.

The group undertakes an insurance programme to reduce the potential impact of the physical risks associated with its exploration and production activities. In addition, business interruption cover is purchased for a proportion of the cash flow from producing fields.

Going concern

The group monitors its capital position and its liquidity risk regularly throughout the year to ensure that it has sufficient funds to meet forecast cash requirements. Sensitivities are run to reflect latest expectations of expenditures, forecast oil prices and other factors to manage the risk of funds shortfalls or covenant breaches in order to ensure the group's ability to continue as a going concern. Further details of the group funding facilities and liquidity position are included in the financial statements and related notes.

Although the world economic crisis has created uncertainty at the current time, the directors consider that the headroom provided by the available borrowing facilities gives them confidence that it has adequate resources, including taking into account the subsequent event in note 26 in the notes to the consolidated financial statements, to continue as a going concern. As a result they continue to adopt the going concern basis in preparing the 2008 Annual Report and Financial Statements.

Business risks

Premier is an international business which has to face a variety of strategic, operational, financial and external risks. Under these distinct classes, the company has identified certain risks pertinent to its business including: exploration and reserve risks, loss of key human resources, drilling and operating risks, security risk in area of operations, costs and availability of materials and services, economic and sovereign risks, market risk, foreign currency risk, loss of or changes to production sharing or concession agreements, joint venture or related agreements, and volatility of future oil and gas prices.

Effective risk management is critical to achieving our strategic objectives and protecting our assets, personnel and reputation. Premier manages its risks by maintaining a balanced portfolio, through compliance with the terms of its agreements and application of appropriate policies and procedures, and through the recruitment and retention of skilled individuals throughout the organisation. Further, the company has focused its activities mainly in known hydrocarbon basins in jurisdictions that have previously established long-term oil and gas ventures with foreign oil and gas companies, existing infrastructure of services and oil and gas transportation facilities, and reasonable proximity to markets.

A summary of the principal risks facing the company and the way in which these risks are mitigated is provided in this report and also on the company's website (www.premier-oil.com).

Key performance indicators

	2008	2007	Change Improvement/ (deterioration)
LTI and RWDC frequency*	**0.40**	1.86	78%
Production (kboepd)	**36.5**	35.8	2%
Cash flow from operations ($ million)	**352.3**	269.5	31%
Operating cost per boe ($)	**9.5**	9.0	(6%)
Gearing**	**0%**	0%	–
Realised oil price per barrel ($)	**94.5**	72.3	31%
Realised gas price per mscf ($)	**6.57**	5.60	17%

* Lost time injuries (LTI) and restricted work day cases (RWDC) per million man-hours worked.

** Gearing is net debt divided by net assets. For 2008 and 2007 the group had a net cash position.