

# 56 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS //

For the year ended 31 December 2008

## 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. Sales revenue represents amounts invoiced, exclusive of sales-related taxes, for the group's share of oil and gas sales.

	2008 \$ million	2007 \$ million
<b>Revenue:</b>		
North Sea	302.2	280.5
Asia	203.6	180.2
Middle East-Pakistan	127.1	91.8
West Africa	22.3	25.7
Total group sales revenue	655.2	578.2
Interest and other finance revenue	12.5	10.0
<b>Total group revenue</b>	<b>667.7</b>	588.2
<b>Group operating profit/(loss):</b>		
North Sea	135.6	105.2
Asia	102.0	101.6
Middle East-Pakistan	86.0	47.1
West Africa	(46.2)	(26.5)
Unallocated*	(15.7)	(8.0)
Group operating profit	261.7	219.4
Interest revenue, finance and other gains	14.6	10.7
Finance costs and other finance expenses	(27.0)	(18.2)
Mark to market revaluation of commodity hedges	28.3	(64.9)
Profit before tax	277.6	147.0
Tax	(179.3)	(108.0)
<b>Profit after tax</b>	<b>98.3</b>	39.0
<b>Balance sheet</b>		
<b>Segment assets:</b>		
North Sea	365.6	404.4
Asia	527.8	514.8
Middle East-Pakistan	146.3	123.4
West Africa	76.5	101.5
Unallocated*	334.4	369.9
<b>Investments in associates:</b>		
West Africa	–	0.1
<b>Total assets</b>	<b>1,450.6</b>	1,514.1
<b>Liabilities:</b>		
North Sea	(281.4)	(282.6)
Asia	(166.0)	(187.9)
Middle East-Pakistan	(60.2)	(46.3)
West Africa	(20.0)	(20.4)
Unallocated*	(324.1)	(424.0)
<b>Total liabilities</b>	<b>(851.7)</b>	(961.2)

## 1 Geographical segments (continued)

	2008 \$ million	2007 \$ million
<b>Other information</b>		
<b>Capital additions:</b>		
North Sea	56.6	203.1
Asia	105.2	107.7
Middle East-Pakistan	29.6	19.9
West Africa	32.6	37.8
<b>Total capital additions</b>	<b>224.0</b>	<b>368.5</b>
<b>Depreciation, depletion, amortisation and impairment:</b>		
North Sea	52.2	53.2
Asia	27.8	30.3
Middle East-Pakistan	17.5	12.3
West Africa	43.1	12.1
<b>Total depreciation, depletion, amortisation and impairment</b>	<b>140.6</b>	<b>107.9</b>

\* Unallocated expenditure, assets and liabilities include amounts of a corporate nature and not specifically attributable to a geographical segment. These items include cash, mark to market valuations of commodity hedges, tax, convertible bonds and other long-term debt.

## 2 Cost of sales

	Note	2008 \$ million	2007 \$ million
Operating costs		127.1	116.8
Stock overlift/underlift movement		33.1	27.3
Royalties		16.8	15.5
Amortisation and depreciation of property, plant and equipment:			
Oil and gas properties	9	107.2	106.9
Other fixed assets	9	1.5	1.0
Impairment of property, plant and equipment	9	31.9	–
		<b>317.6</b>	<b>267.5</b>

## 3 Auditors' remuneration

	2008 \$ million	2007 \$ million
<b>Audit fees:</b>		
Fees payable to the company's auditors for the company's annual report	0.5	0.5
Audit of the company's subsidiaries pursuant to legislation	0.2	0.1
	<b>0.7</b>	<b>0.6</b>
<b>Non-audit fees:</b>		
Other services pursuant to legislation – interim review	0.1	0.1
Tax services	0.7	0.8
Other services	0.3	0.2
	<b>1.1</b>	<b>1.1</b>

# 58 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) //

For the year ended 31 December 2008

## 4 Staff costs

	2008 \$ million	2007 \$ million
<b>Staff costs, including executive directors:</b>		
Wages and salaries	62.3	54.4
Social security costs	2.7	4.4
Pension costs:		
Defined contribution	2.0	1.4
Defined benefit	1.5	1.7
	<b>68.5</b>	61.9

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. The above costs include share-based payments to employees as disclosed in note 19.

	2008	2007
<b>Average number of employees during the year*:</b>		
Technical and operations	206	205
Management and administration	172	155
	<b>378</b>	360

\* Staff numbers include executive directors. The 2007 employee numbers have been restated to reflect a reclassification of employee categories during 2008.

## 5 Interest revenue and finance costs

	Note	2008 \$ million	2007 \$ million
<b>Interest revenue, finance and other gains:</b>			
Short-term deposits		10.9	7.9
Others		1.6	2.1
Exchange differences		2.1	0.7
		<b>14.6</b>	10.7
<b>Finance costs and other finance expenses:</b>			
Bank loans and overdrafts		(3.0)	(5.2)
Payable in respect of convertible bonds	14	(14.2)	(7.0)
Unwinding of discount on decommissioning provision		(5.8)	(4.6)
Long-term debt arrangement fees		(0.8)	(0.5)
Mark to market valuation of foreign exchange contracts		(2.5)	(0.4)
Others		(0.7)	(0.5)
		<b>(27.0)</b>	(18.2)

## 6 Tax

	2008 \$ million	2007 \$ million
<b>Current tax:</b>		
UK corporation tax on profits	47.5	27.2
UK petroleum revenue tax	34.0	29.2
Overseas tax	111.6	70.1
Adjustments in respect of previous periods	(0.2)	(0.2)
<b>Total current tax</b>	<b>192.9</b>	126.3
<b>Deferred tax:</b>		
UK corporation tax	0.9	(4.7)
UK petroleum revenue tax	(7.6)	(9.4)
Overseas tax	(6.9)	(4.2)
<b>Total deferred tax</b>	<b>(13.6)</b>	(18.3)
<b>Tax on profit on ordinary activities</b>	<b>179.3</b>	108.0

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

	2008 \$ million	2007 \$ million
Group profit on ordinary activities before tax	277.6	147.0
Group profit on ordinary activities before tax at 61.0% weighted average rate (2007: 77.6%)	169.3	114.1
<b>Tax effects of:</b>		
Income/expenses that are not taxable/deductible in determining taxable profit	5.5	6.4
Tax and tax credits not related to profit before tax (including UK petroleum revenue tax)	(4.3)	(11.6)
Unrecognised tax losses	8.7	–
Utilisation and recognition of tax losses not previously recognised	(1.5)	(1.6)
Adjustments in respect of previous periods	1.6	0.7
<b>Tax expense for the year</b>	<b>179.3</b>	108.0
<b>Effective tax rate for the year</b>	<b>64.6%</b>	73.5%

The weighted average rate is calculated based on the tax rates weighted according to the profit or loss before tax earned by the group in each jurisdiction. The change in the weighted average rate year on year relates to the mix of profit and loss in each jurisdiction. The effective tax rate for UK ring fence profits is 50 per cent.

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 in the absence of suitable forecast profits is US\$6.8 million in the UK (2007: US\$12.7 million). This gives rise to a potential deferred tax asset of US\$1.9 million (2007: US\$3.8 million).

# 60 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) //

For the year ended 31 December 2008

## 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.

Basic and diluted earnings per share are calculated as follows:

	Profit after tax		Weighted average number of shares		Earnings per share	
	2008 \$ million	2007 \$ million	2008 million	2007 million	2008 cents	2007 cents
Basic	98.3	39.0	81.4	82.0	120.8	47.6
Outstanding share options	–	–	0.8	1.2	*	*
<b>Diluted</b>	<b>98.3</b>	<b>39.0</b>	<b>82.2</b>	<b>83.2</b>	<b>119.6</b>	<b>46.9</b>

\* The inclusion of the outstanding share options in the 2008 and 2007 calculations produces a diluted earnings per share. The outstanding share options number includes any expected additional share issues due to future share-based payments. At 31 December 2008 8,003,434 (2007: 8,003,434) potential Ordinary Shares in the company that are underlying the company's convertible bonds and that may dilute earnings per share in the future have not been included in the calculation of diluted earnings per share because they are anti-dilutive for the year to 31 December 2008.

## 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
<b>Cost:</b>					
At 1 January 2007	10.7	84.5	6.3	13.2	114.7
Reclassified as no longer held for sale	–	–	–	16.2	16.2
Exchange movements	1.0	–	–	–	1.0
Additions during the year	31.1	90.2	6.8	28.3	156.4
Disposals	–	–	–	(2.5)	(2.5)
Transfer to tangible fixed assets	–	(67.2)	–	–	(67.2)
Exploration expenditure written off	(6.6)	(18.5)	(13.1)	(27.1)	(65.3)
<b>At 1 January 2008</b>	<b>36.2</b>	<b>89.0</b>	<b>–</b>	<b>28.1</b>	<b>153.3</b>
Exchange movements	(7.6)	–	–	–	(7.6)
Additions during the year	35.2	42.8	2.5	17.3	97.8
Transfer to tangible fixed assets	–	(40.8)	(1.9)	–	(42.7)
Exploration expenditure written off	(5.7)	(27.2)	(0.6)	(9.4)	(42.9)
<b>At 31 December 2008</b>	<b>58.1</b>	<b>63.8</b>	<b>–</b>	<b>36.0</b>	<b>157.9</b>

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

## 9 Property, plant and equipment

	Oil and gas properties					Other fixed assets \$ million	Total \$ million
	North Sea \$ million	Asia \$ million	Middle East-Pakistan \$ million	West Africa \$ million			
<b>Cost:</b>							
At 1 January 2007	275.5	340.3	133.9	–	6.8	756.5	
Reclassified as no longer held for sale	–	–	–	97.0	–	97.0	
Exchange movements	–	–	–	–	0.1	0.1	
Additions during the year	170.4	17.1	12.9	9.5	2.2	212.1	
Disposals	–	–	–	–	(0.1)	(0.1)	
Transfer from intangible fixed assets	–	67.2	–	–	–	67.2	
<b>At 1 January 2008</b>	<b>445.9</b>	<b>424.6</b>	<b>146.8</b>	<b>106.5</b>	<b>9.0</b>	<b>1,132.8</b>	
Exchange movements	–	–	–	–	(1.3)	(1.3)	
Additions during the year	18.9	62.1	27.0	15.3	2.9	126.2	
Disposals	–	–	–	–	(0.9)	(0.9)	
Transfer from intangible fixed assets	–	40.8	1.9	–	–	42.7	
<b>At 31 December 2008</b>	<b>464.8</b>	<b>527.5</b>	<b>175.7</b>	<b>121.8</b>	<b>9.7</b>	<b>1,299.5</b>	
<b>Amortisation and depreciation:</b>							
At 1 January 2007	109.5	72.0	67.1	–	5.3	253.9	
Reclassified as no longer held for sale	–	–	–	31.7	–	31.7	
Exchange movements	–	–	–	–	(0.1)	(0.1)	
Charge for the year	52.4	30.1	12.3	12.1	1.0	107.9	
Disposals	–	–	–	–	(0.1)	(0.1)	
<b>At 1 January 2008</b>	<b>161.9</b>	<b>102.1</b>	<b>79.4</b>	<b>43.8</b>	<b>6.1</b>	<b>393.3</b>	
Exchange movements	–	–	–	–	(1.1)	(1.1)	
Charge for the year	51.2	27.4	17.4	11.2	1.5	108.7	
Impairment loss	–	–	–	31.9	–	31.9	
Disposals	–	–	–	–	(0.7)	(0.7)	
<b>At 31 December 2008</b>	<b>213.1</b>	<b>129.5</b>	<b>96.8</b>	<b>86.9</b>	<b>5.8</b>	<b>532.1</b>	
<b>Net book value:</b>							
At 31 December 2007	284.0	322.5	67.4	62.7	2.9	739.5	
<b>At 31 December 2008</b>	<b>251.7</b>	<b>398.0</b>	<b>78.9</b>	<b>34.9</b>	<b>3.9</b>	<b>767.4</b>	

Other fixed assets include items such as leasehold improvements, motor vehicles and office equipment.

The impairment loss relates to the Chinguetti field in Mauritania. The impairment charge was calculated by reference to an assessment of the future discounted cash flows expected to be derived from production of commercial reserves measured against the carrying value of the asset. The future cash flows are discounted using a pre-tax discount rate. Estimates involved in impairment measurement include estimates of commercial reserves, future oil and gas prices, costs and timing which are inherently uncertain.

Amortisation and depreciation 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.

For the year ended 31 December 2008

**10 Investments and associates****Associates**

Details of the group's associates as at 31 December 2007 were as follows:

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

The following aggregated amounts relating to associates were disclosed in the 2007 consolidated financial statements:

	2007 \$ million
Total assets	1.6
Total liabilities	(1.5)
<b>At 31 December</b>	<b>0.1</b>

The two associated companies have a combined 4.62 per cent share of the PSC A area offshore Mauritania. In December 2008 they became 100 per cent subsidiaries of the Premier Oil group for US\$nil consideration following a waiver of the pre-emption rights from the other partners in the venture. Their 2008 results have been fully consolidated in these financial statements.

**Subsidiaries**

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

Name of company	Business and area of operation	Country of incorporation or registration
Premier Oil Group Ltd*	Intermediate holding company, UK	Scotland
Premier Oil Finance (Jersey) Ltd*	Convertible bond issuing company, Jersey	Jersey
Premier Oil Exploration Ltd	Exploration, production and development, UK	Scotland
Premier Pict Petroleum Ltd	Exploration, production and development, UK	Scotland
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
Premier Oil Vietnam Offshore BV	Exploration, production and development, Vietnam	Netherlands
Premier Oil Sumatra (North) BV	Exploration, production and development, Indonesia	Netherlands
PKP Exploration Ltd	Exploration, production and development, Pakistan	England and Wales
PKP Kadanwari 2 Ltd	Exploration, production and development, Pakistan	Cayman Islands
PKP Kirthar 2 BV	Exploration, production and development, Pakistan	Netherlands

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

## 11 Investments in joint ventures

During the year the group announced the execution of shareholder agreements with Emirates International Investment Company LLC (EIIC) to form two new joint venture companies to pursue the acquisition of upstream oil and gas assets across the Middle East and North Africa region.

Premco Energy Projects Company LLC (PREMCO) is owned 49 per cent by the group and 51 per cent by EIIC. Premco Energy Projects BV (PREMBV) is owned 50 per cent by the group and 50 per cent by EIIC.

At the formation of the joint ventures, there were no assets or profits attributable to these new entities. Future acquisitions of new assets by each joint venture will be funded by Premier and EIIC in accordance with their relevant percentage holding of that joint venture.

Summarised financial information for the group's share of jointly controlled entities is shown below:

	2008 \$ million
<b>Current assets:</b>	
Cash and cash equivalents	0.2
<b>Current liabilities:</b>	
Trade and other payables	(2.0)
<b>Net liabilities</b>	<b>(1.8)</b>

Included in the consolidated income statement for 2008 are the results for the group's share of jointly controlled entities with pre-licence exploration costs at US\$2.0 million, loss before tax US\$2.0 million, tax charge US\$nil and loss after tax US\$2.0 million.

## 12 Trade and other receivables

	Note	2008 \$ million	2007 \$ million
Trade receivables		96.5	115.5
Other receivables		27.2	75.8
Mark to market valuation of commodity hedges	17	10.7	37.9
Prepayments		12.2	11.3
Tax recoverable*		34.6	26.2
		<b>181.2</b>	<b>266.7</b>

\* The recoverable tax balance includes advance payments of overseas corporation taxes totalling US\$18.8 million (2007: US\$13.8 million).

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

## 13 Trade and other payables

	Note	2008 \$ million	2007 \$ million
Trade payables		50.3	51.5
Accrued expenses		100.1	96.5
Other payables		34.5	36.7
Mark to market valuation of commodity hedges	17	14.0	65.2
Short-term provisions		3.9	2.7
		<b>202.8</b>	<b>252.6</b>

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

# 64 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) //

For the year ended 31 December 2008

## 14 Borrowings

	Note	2008 \$ million	2007 \$ million
<b>Amounts falling due in two to five years:</b>			
Other long-term debt – bank loans*	17	–	53.0
<b>Amounts falling due over five years:</b>			
Convertible bonds*		206.4	200.0
<b>Total borrowings</b>		<b>206.4</b>	253.0
<b>Cash:</b>			
Cash at bank and in hand		11.5	7.6
Short-term deposits		312.2	324.4
<b>Total cash</b>		<b>323.7</b>	332.0

\* The carrying values of the convertible bonds and the other long-term debt on the balance sheet are stated net of the unamortised portion of the issue costs of US\$3.7 million (2007: US\$4.4 million) and debt arrangements fees of US\$nil (2007: US\$0.9 million) respectively.

The borrowings are repayable as follows:

	2008 \$ million	2007 \$ million
<b>Borrowings analysed by maturity:</b>		
Bank loans – in the third year	–	53.0
Convertible bonds – in the sixth year (2007: seventh year)	206.4	200.0
<b>Total borrowings</b>	<b>206.4</b>	253.0

The group's principal bank facilities are US\$275 million and £53 million (2007: US\$275 million and £53 million). The original facility was taken out on 13 September 2005 and amended in April 2007 and will continue until 31 July 2010. The facilities are unsecured and bear a floating interest rate based on LIBOR.

### Convertible bonds

In June 2007, the group issued bonds at a par value of US\$250 million which are convertible into Ordinary Shares of the company at any time from 6 August 2007 until six days before their maturity date of 27 June 2014. At the initial conversion price of £15.82 per share there are 8,003,434 Ordinary Shares of the company underlying the bonds. If the bonds have not been previously purchased and cancelled, redeemed or converted, they will be redeemed at par value on 27 June 2014. Interest of 2.875 per cent per annum will be paid semi-annually in arrears up to that date.

The net proceeds received from the issue of the convertible bonds were split between a liability element and an equity component at the date of issue. The fair value of the liability component was estimated using the prevailing market interest rate for similar non-convertible debt. The difference between the proceeds of issue of the convertible bonds and the fair value assigned to the liability component, representing the embedded option to convert the liability into equity of the group, was included in equity reserves.

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

	2008 \$ million	2007 \$ million
Liability component at 1 January	195.6	–
Nominal value of convertible bonds issued net of issue costs	–	244.0
Equity component	–	(51.8)
Liability component at date of issue	195.6	192.2
Interest charged	14.2	7.0
Interest paid	(7.1)	(3.6)
<b>Total liability component as at 31 December</b>	<b>202.7</b>	195.6

#### 14 Borrowings (continued)

The total interest charged for the year has been calculated by applying an effective annual interest rate of 6.73 per cent (2007: 6.73 per cent) to the liability component for the period since the bonds were issued. The non-cash accrual of interest will increase the liability component (as the cash interest is only paid at 2.875 per cent) to US\$250 million at maturity.

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

#### 15 Obligations under leases

	2008 \$ million	2007 \$ million
<b>Minimum lease payments under operating leases recognised as an expense in the year</b>	<b>8.4</b>	7.6
<b>Outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:</b>		
Within one year	4.9	7.1
In two to five years	15.1	12.5
Over five years	0.9	1.0
	<b>20.9</b>	20.6

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 Long-term provisions

	2008 \$ million	2007 \$ million
<b>Asset and Equity Plan:</b>		
At 1 January	5.8	12.5
Provision in the year	3.3	1.9
Reclassification of provision to creditors falling due within one year	(5.8)	(8.6)
<b>At 31 December</b>	<b>3.3</b>	5.8
<b>Decommissioning costs:</b>		
At 1 January	141.4	37.1
On assets reclassified as no longer held for sale	–	7.2
On asset acquisitions	–	57.7
Revision arising from:		
Change in estimates of future decommissioning costs	32.1	34.3
Exchange differences	(39.4)	0.5
Unwinding of discount on decommissioning provision	5.8	4.6
<b>At 31 December</b>	<b>139.9</b>	141.4
<b>Total provisions</b>	<b>143.2</b>	147.2

The company currently operates an Asset and Equity Plan to reward employees for improvement in the asset value of the business and the market value of the company over a three-year period. Further details of this plan are disclosed in note 19.

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 up to 2032. 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.

For the year ended 31 December 2008

**17 Financial instruments****Hedging 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 undertaken with collar options. Oil is hedged using Dated Brent oil price options. Indonesian gas is hedged using HSFO Singapore 180cst which is the variable component of the gas price.

**Oil production**

- a) Production from 2009 to 2012 is now 60 per cent hedged. For the years 2009 and 2012 production is now hedged with an average floor of US\$39.3/bbl and a cap of US\$100.0/bbl.
- b) At the end of 2007 an off-take agreement was agreed in which the parameters of the above hedges were embedded. This agreement is for four and a half years effective from 1 July 2008 and replaces the financially-settled hedges for that period.
- c) A further option agreement which has the effect of closing out the floor and cap in the original financially-settled hedges previously in place.
- d) The value at 31 December 2008 of the option agreement is US\$33.6 million (2007: US\$37.9 million). This represents deferred income which will be amortised over the life of the off-take agreement. For the year ended 31 December 2008 a total of US\$4.3 million was released to the income statement (2007: US\$nil) in respect of this deferred income.

**Indonesian gas production**

Production from 2009 to mid-year 2013 is now 34 per cent hedged with a floor of US\$250.0/mt and a cap of US\$500.0/mt.

During the year gas hedges matured generating a cash cost of US\$7.8 million (2007: US\$42,300) and oil hedges matured generating a cash cost of US\$8.1 million (2007: US\$nil). While all hedges were assessed to be effective, all movements in the fair values have been recognised in the income statement, as all such movements relate to the time-value portion of hedges under IAS 39.

**Fair value of hedges**

Asset/(liability)	Oil \$ million	Gas \$ million	Total \$ million
At 1 January 2007	(0.8)	0.5	(0.3)
Charge to income statement for 2007	(40.0)	(24.9)	(64.9)
At 1 January 2008	(40.8)	(24.4)	(65.2)
Charge to income statement for 2008	29.7	21.5	51.2
<b>At 31 December 2008</b>	<b>(11.1)</b>	<b>(2.9)</b>	<b>(14.0)</b>

**Fair value of option**

Asset/(liability)	Oil \$ million	Gas \$ million	Total \$ million
At 1 January 2008	37.9	–	37.9
Charge to income statement for 2008	(27.2)	–	(27.2)
<b>At 31 December 2008</b>	<b>10.7</b>	<b>–</b>	<b>10.7</b>

## 17 Financial instruments (continued)

## Deferred revenue

Asset/(liability)	Oil \$ million	Gas \$ million	Total \$ million
At 1 January 2008	(37.9)	–	(37.9)
Charge to income statement for 2008	4.3	–	4.3
<b>At 31 December 2008</b>	<b>(33.6)</b>	<b>–</b>	<b>(33.6)</b>

The fair values, which have been determined from counterparties with whom the trades have been concluded, have been recognised in the balance sheet in trade and other receivables and trade and other payables.

The key variable which affects the fair value of the group's hedge instruments is market expectations about future commodity prices. The following illustrates the sensitivity of net income and equity to a ten per cent increase and a ten per cent decrease in this variable:

Increase/(decrease) in mark to market value	Oil \$ million	Gas \$ million	Total \$ million
Ten per cent increase	18.0	14.4	32.4
Ten per cent decrease	(6.2)	(6.0)	(12.2)

## Interest rate risk profile of financial liabilities

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

	Fixed rate \$ million	Floating rate \$ million	Total \$ million	Fixed rate weighted average interest rate %
<b>2008:</b>				
Convertible bonds	250.0	–	250.0	2.875
<b>Total</b>	<b>250.0</b>	<b>–</b>	<b>250.0</b>	<b>–</b>
<b>2007:</b>				
Bank loans	–	53.0	53.0	–
Convertible bonds	250.0	–	250.0	2.875
<b>Total</b>	<b>250.0</b>	<b>53.0</b>	<b>303.0</b>	<b>–</b>

The US\$53.0 million of bank loans that were outstanding at 31 December 2007 were repaid during 2008.

The carrying values on the balance sheet of the bank loans and the convertible bonds, which are stated net of debt arrangement fees and issue costs, are as follows:

	2008 \$ million	2007 \$ million
Bank loans	–	52.1
Convertible bonds:		
Liability component	202.7	195.6
Equity component	42.6	48.8

The floating rate financial liabilities at 31 December 2007 comprised bank borrowings bearing interest at rates set by reference to US\$ LIBOR, exposing the group to a cash flow interest rate risk.

# 68 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) //

For the year ended 31 December 2008

## 17 Financial instruments (continued)

### Interest rate risk profile of financial assets

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

	Floating rate \$ million	Interest free \$ million	Total \$ million
<b>2008</b>			
<b>Cash and short-term deposits:</b>			
Sterling	0.1	–	0.1
US\$	290.0	6.5	296.5
Other	22.1	5.0	27.1
<b>Total</b>	<b>312.2</b>	<b>11.5</b>	<b>323.7</b>
<b>2007</b>			
<b>Cash and short-term deposits:</b>			
Sterling	0.3	–	0.3
US\$	313.1	5.3	318.4
Other	11.0	2.3	13.3
<b>Total</b>	<b>324.4</b>	<b>7.6</b>	<b>332.0</b>

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

The impact of an interest rate sensitivity analysis is immaterial to the group's results.

### Borrowing facilities

The group has committed borrowing facilities of US\$275 million and £53 million, in addition to the convertible bonds. The undrawn cash balance as at 31 December was:

	2008 \$ million	2007 \$ million
Expiring in more than one year, but not more than two years	275.0	–
Expiring in more than two years, but not more than five years	–	222.0

### Fair value of financial assets and financial liabilities

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

	2008 Carrying amount \$ million	2008 Estimated fair value \$ million	2007 Carrying amount \$ million	2007 Estimated fair value \$ million
<b>Primary financial instruments held or issued to finance the group's operations:</b>				
Cash and short-term deposits	323.7	323.7	332.0	332.0
Bank loans	–	–	(53.0)	(53.0)
Liability component of convertible bonds	(206.4)	(206.4)	(200.0)	(200.0)
<b>Derivative financial instruments held or issued to hedge the group's exposure on expected future sales:</b>				
Forward foreign exchange contracts – net	(2.9)	(2.9)	(0.4)	(0.4)

## 17 Financial instruments (continued)

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

### Credit risk

The group's credit risk is attributable to its trade receivables and its bank deposits. The amounts of receivables presented in the balance sheet are net of allowances for doubtful receivables which were immaterial in 2008 and 2007. The group does not require collateral or other security to support receivables from customers or related parties. The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with at least single A credit ratings assigned by international credit rating agencies.

The group has no significant concentration of credit risk.

The maturity profile of the group's trade and other receivables and trade and other payables as at 31 December, including the related interest amounts, was:

	Less than 1 month \$ million	2 to 3 months \$ million	3 months to 1 year \$ million	1 to 5 years \$ million	Over 5 years \$ million	Total \$ million
<b>2008:</b>						
Trade and other receivables	88.7	29.8	5.2	–	–	123.7
Trade and other payables	(75.5)	(4.7)	(4.6)	–	–	(84.8)
Convertible bonds	–	–	(7.2)	(28.8)	(253.6)	(289.6)
<b>Total</b>	<b>13.2</b>	<b>25.1</b>	<b>(6.6)</b>	<b>(28.8)</b>	<b>(253.6)</b>	<b>(250.7)</b>
<b>2007:</b>						
Trade and other receivables	139.9	26.3	25.1	–	–	191.3
Trade and other payables	(64.9)	(8.7)	(14.6)	–	–	(88.2)
Convertible bonds	–	–	(7.2)	(28.8)	(260.8)	(296.8)
<b>Total</b>	<b>75.0</b>	<b>17.6</b>	<b>3.3</b>	<b>(28.8)</b>	<b>(260.8)</b>	<b>(193.7)</b>

### Currency risk

To cover sterling exposures an amount of £105.0 million was purchased with forward contracts during the year (2007: £57.1 million). Premier's activities are largely conducted in US dollars. All borrowings at year-end were denominated in US dollars to match the currency of the assets.

### Liquidity risk

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the group's short, medium and long-term funding and liquidity management requirements. The group manages liquidity risk by maintaining adequate reserves, banking facilities and borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities and future capital and operating commitments.

# 70 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) //

For the year ended 31 December 2008

## 18 Deferred tax

	2008 \$ million	2007 \$ million
Deferred tax liabilities	(188.8)	(194.5)
Deferred tax assets	5.8	–
	(183.0)	(194.5)

	UK corporation tax \$ million	UK petroleum revenue tax \$ million	Overseas tax \$ million	Total \$ million
At 1 January 2007	7.4	52.2	134.5	194.1
On assets reclassified as no longer held for sale	–	–	1.6	1.6
Charged to income statement	(4.7)	(9.4)	(4.2)	(18.3)
Other movement	–	–	17.1	17.1
At 31 December 2007	2.7	42.8	149.0	194.5
Charged to income statement	0.9	(7.6)	(6.9)	(13.6)
Other movement	–	–	2.1	2.1
<b>At 31 December 2008</b>	<b>3.6</b>	<b>35.2</b>	<b>144.2</b>	<b>183.0</b>

Deferred corporation tax included US\$8.1 million of deferred UK petroleum revenue tax (2007: US\$6.2 million) and US\$29.0 million of deferred UK corporation tax (2007: US\$33.5 million) 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. The other movement relates to the deferred effect of Norwegian tax rebates including exchange differences.

## 19 Share capital

	2008 \$ million	2007 \$ million
Balance at 1 January	73.5	73.3
Shares issued	0.1	0.2
<b>Balance at 31 December</b>	<b>73.6</b>	<b>73.5</b>

	2008 50p shares	2008 £	2007 50p shares	2007 £
<b>Ordinary Shares:</b>				
Authorised	315,224,564	157,612,282	311,904,002	155,952,001
Called-up, issued and fully paid	82,170,460	41,085,230	82,104,049	41,052,025

	2008 17.5p shares	2008 £	2007 17.5p shares	2007 £
<b>Non-Voting Convertible Shares:</b>				
Authorised	–	–	9,487,317	1,660,280
Called-up, issued and fully paid	–	–	–	–

At the AGM of the company held on 6 June 2008, the company's authorised share capital was increased by £0.525 by the creation of three Non-Voting Convertible Shares of 17.5 pence each. Following the increase in share capital the 9,487,320 authorised but unissued Non-Voting Convertible Shares of 17.5 pence each were consolidated and redesignated as 3,320,562 Ordinary Shares of 50 pence each in the capital of the company, carrying the rights and being subject to the restrictions set out in the Articles of Association of the company.

## 19 Share capital (continued)

### Share-based payments

Shares issued relate to the company's share option plans. There has been no new issue of shares in relation to the Asset and Equity Plan.

### Share option plans

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

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

	2008		2007	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Outstanding at the beginning of the year	418,392	£3.85	566,161	£3.31
Granted during the year	18,292	£10.84	24,497	£9.96
Lapsed during the year	(105,202)	£5.84	(5,689)	£5.36
Exercised during the year*	(141,760)	£2.15	(166,577)	£2.88
<b>Outstanding at the end of the year</b>	<b>189,722</b>	<b>£4.69</b>	418,392	£3.85
<b>Exercisable at the end of the year</b>	<b>111,750</b>	<b>£2.20</b>	214,660	£1.67

\* There were 66,411 Ordinary Shares issued under the group's share option schemes during the year (2007: 166,577). The remaining 75,349 Ordinary Shares were issued from the Premier Oil plc Employee Benefit Trust (2007: nil).

The weighted average share price at the date of exercise for share options exercised during the year was £2.15. The options outstanding at 31 December 2008 had a weighted average exercise price of £4.69 and a weighted average remaining contractual life of 2.6 years.

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

The group recognised a cost of US\$20.1 million and US\$7.8 million related to equity-settled share-based payment transactions in 2008 and 2007 respectively.

### Asset and Equity Plan

The Asset and Equity Plan is designed to reward employees for improvement in the asset value of the business and the market value of the company over a three-year period and is operated by reference to two bonus pools – an equity bonus pool and an asset bonus pool. The asset bonus pool is created by reference to the increase in the net asset value per share of the company over a three-year period and the equity bonus pool is created by reference to the increase in the equity market value per share of the company over a three-year period.

Full details about this plan have been provided in the Remuneration Report.

The company uses a Monte Carlo simulation model to calculate the value of the equity bonus pool of the plan.

The main assumptions used for the calculations are as follows:

Volatility:	29.0% to 31.5%
Risk free rate of interest:	4.1% to 4.9%
Historic market value growth factor:	99.0% to 109.0%

## 72 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) //

For the year ended 31 December 2008

### 19 Share capital (continued)

For the asset bonus pool a discounted cash flow model based on the average oil price over the period is used to calculate the final value of the pool and to estimate the value of future asset bonus pools.

For the year ended 31 December 2008, the total cost recognised by the company for share-based payments is US\$25.6 million (2007: US\$15.7 million) with a cumulative liability on the balance sheet of US\$16.3 million (2007: US\$18.3 million). A credit of US\$20.1 million has been recorded in equity (2007: US\$7.8 million) for all equity-settled payments for the group. Like other elements of remuneration, this charge is processed through the time-writing system which allocates cost, based on time spent by individuals, to various entities within the Premier Oil group. Part of this cost is therefore capitalised as directly attributable to capital projects and part is charged to the income statement as exploration expense, operating costs, pre-licence exploration costs or general and administration costs.

#### Ordinary Shares

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

#### Dividend rights

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

#### Winding up or reduction of capital

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

#### Voting rights

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

### 20 Consolidated statement of changes in equity

	Note	Share capital \$ million	Share premium account \$ million	Retained earnings \$ million	Capital redemption reserve \$ million	Translation and hedging reserves \$ million	Equity reserve \$ million	Total \$ million
At 1 January 2007		73.3	8.6	365.6	1.7	(0.1)	–	449.1
Issue of Ordinary Shares	19	0.2	0.8	–	–	–	–	1.0
Provision for share-based payments	19	–	–	7.8	–	–	–	7.8
Equity component of convertible bonds issued	14	–	–	–	–	–	51.8	51.8
Transfer between reserves*		–	–	3.0	–	–	(3.0)	–
Total recognised income		–	–	39.1	–	4.1	–	43.2
At 31 December 2007		73.5	9.4	415.5	1.7	4.0	48.8	552.9
Issue of Ordinary Shares	19	0.1	0.3	–	–	–	–	0.4
Purchase of shares for ESOP Trust	21	–	–	(17.9)	–	–	–	(17.9)
Purchase of own shares	21	–	–	(47.2)	–	–	–	(47.2)
Provision for share-based payments	19	–	–	20.1	–	–	–	20.1
Transfer between reserves*		–	–	6.2	–	–	(6.2)	–
Total recognised income		–	–	96.2	–	(5.6)	–	90.6
<b>At 31 December 2008</b>		<b>73.6</b>	<b>9.7</b>	<b>472.9</b>	<b>1.7</b>	<b>(1.6)</b>	<b>42.6</b>	<b>598.9</b>

\* The transfer between reserves relates to the non-cash interest on the convertible bond, less the amortisation of the issue costs that were charged directly against equity.

## 21 Own shares

	Treasury Shares \$ million	ESOP Trust \$ million	Total \$ million
At 1 January 2007	–	8.5	8.5
Release of shares for long-term incentive plan	–	(4.9)	(4.9)
At 31 December 2007	–	3.6	3.6
Release of shares for long-term incentive plan	–	(5.0)	(5.0)
Acquired in the period	47.2	17.9	65.1
Disposed of on exercise of options	–	(0.1)	(0.1)
<b>At 31 December 2008</b>	<b>47.2</b>	<b>16.4</b>	<b>63.6</b>

The own shares reserve represents the cost of shares in Premier Oil plc purchased in the market.

The Treasury Shares are held by the company. The number of Ordinary Shares held by the company at 31 December 2008 was 2,798,186 (2007: nil). On 23 March 2009, the 2,798,186 Treasury Shares were cancelled by the company.

The ESOP Trust shares are held by the Premier Oil plc Employee Benefit Trust to satisfy options under the group's share option schemes. The number of Ordinary Shares held by the Premier Oil plc Employee Benefit Trust at 31 December 2008 was 863,339 (2007: 205,152).

## 22 Notes to the cash flow statement

	2008 \$ million	2007 \$ million
Profit before tax for the year	277.6	147.0
Adjustments for:		
Depreciation, depletion, amortisation and impairment	140.6	107.9
Exploration expense	42.9	65.3
Pre-licence exploration costs	15.8	8.3
Net operating charge for long-term employee benefit plans less contributions	(3.0)	(0.6)
Provision for share-based payments	20.1	7.8
Interest revenue, finance and other gains	(14.6)	(10.7)
Finance costs and other finance expenses	27.0	18.2
Mark to market revaluation of commodity hedges	(28.3)	64.9
Operating cash flows before movements in working capital	478.1	408.1
Decrease/(increase) in inventories	7.9	(7.1)
Decrease/(increase) in receivables	34.5	(43.7)
Increase/(decrease) in payables	21.7	(4.5)
Cash generated by operations	542.2	352.8
Income taxes paid	(203.1)	(90.3)
Interest income received	13.2	7.0
<b>Net cash from operating activities</b>	<b>352.3</b>	<b>269.5</b>

# 74 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) //

For the year ended 31 December 2008

## 22 Notes to the cash flow statement (continued)

### Analysis of changes in net cash

	Note	2008 \$ million	2007 \$ million
<b>a) Reconciliation of net cash flow to movement in net cash:</b>			
Movement in cash and cash equivalents		(8.3)	291.1
Proceeds from long-term loans		–	(53.0)
Repayment of long-term loans		53.0	–
Proceeds of issue of convertible bonds – debt component		–	(196.9)
Non-cash movements on debt and cash balances		(6.4)	(3.1)
Increase in net cash in the period		38.3	38.1
Opening net cash		79.0	40.9
<b>Closing net cash</b>		<b>117.3</b>	79.0
<b>b) Analysis of net cash:</b>			
Cash and cash equivalents	17	323.7	332.0
Long-term debt*	17	(206.4)	(253.0)
<b>Total net cash</b>		<b>117.3</b>	79.0

\* The carrying values of the convertible bonds and other long-term debt on the balance sheet are stated net of the unamortised portion of the issue costs of US\$3.7 million (2007: US\$4.4 million) and debt arrangement fees of US\$nil (2007: US\$0.9 million) respectively.

## 23 Capital commitments and guarantees

At 31 December 2008, the group had capital commitments on exploration and development licences totalling US\$118.0 million (2007: US\$85.8 million), US\$0.1 million as retainer fees for its alliance partners (2007: US\$0.1 million), performance guarantees of US\$9.5 million (2007: US\$12.6 million), and customs guarantees of US\$0.3 million (2007: US\$0.9 million).

## 24 Group pension schemes

	2008 \$ million	2007 \$ million
UK funded pension scheme	2.0	2.6
UK unfunded pension scheme	0.8	1.1
Indonesia unfunded termination benefit scheme	4.0	4.5
<b>Total liability in balance sheet</b>	<b>6.8</b>	8.2

### Funded benefit schemes

The group operates a defined benefit pension scheme in the UK – The Premier Oil plc Retirement and Death Benefits Plan (the Scheme). The Scheme was closed to new members (aside from the provision of insured death in service benefits) in 1997 and a new scheme, providing benefits on a defined contribution basis, was started. Both schemes are funded by the payment of contributions to separately administered trust funds. As a consequence of being closed to new entrants, the current service costs of the Scheme under the IAS 19 – ‘Employee Benefits’ valuation will increase as the members approach retirement.

The pension costs for the Scheme are determined with the advice of an independent qualified actuary. The most recent formal valuation was undertaken as at 1 January 2008 using the Attained Age Method and a market-related funding basis, of which the principal financial assumptions were investment return: 5.9 per cent pa, salary growth: 5.4 per cent pa and pension increases: 3.4 per cent pa. The market value of the Scheme’s assets was £14.9 million and, on the specific method and assumptions adopted, the assets covered 91 per cent of the members’ accrued benefits based on projected pensionable salaries. Until October 2008, the employer contributed to the Scheme at the rate of 19 per cent of pensionable salaries together with an additional £28,000 paid per month. In October a new Schedule of Contributions was put in place. At this point the employer paid a one-off lump sum contribution of £1.3 million and started to contribute at a rate of 25 per cent of pensionable salaries with no additional monthly amounts. The employer expects to contribute £95,000 to the Scheme in 2009.

## 24 Group pension schemes (continued)

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 2008 but taking account of pension increases effected on 1 January 2009. The benefit obligations and service cost have been measured using the Projected Unit Credit Method and the 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:

	At 31 December 2008 % pa	At 31 December 2007 % pa
Discount rate	6.0	5.9
Salary growth	5.0	5.4
Return on assets	5.8	6.7
Price inflation	3.0	3.4
Pension increases	3.0	3.4

Defined benefit obligations and assets:

	At 31 December 2008 \$ million	At 31 December 2007 \$ million
Value of funded benefit obligations	22.7	31.9
<i>less</i> fair value of Scheme assets	(20.7)	(29.3)
<b>Liability in balance sheet</b>	<b>2.0</b>	<b>2.6</b>

Changes in the present value of benefit obligations:

	2008 \$ million	2007 \$ million
Benefit obligation at 1 January	31.9	31.4
Service costs excluding employee contributions	0.2	0.3
Interest cost	1.7	1.7
Benefits paid	(1.0)	(1.2)
Actuarial gains	(2.1)	(0.5)
Currency translation effects	(8.0)	0.2
<b>Benefit obligation at 31 December</b>	<b>22.7</b>	<b>31.9</b>

Changes in the fair value of Scheme assets:

	2008 \$ million	2007 \$ million
Assets at 1 January	29.3	28.0
Employer contributions	3.0	0.8
Actual return on Scheme assets	(3.2)	1.3
Benefits paid	(1.0)	(1.2)
Currency translation effects	(7.4)	0.4
<b>Assets at 31 December</b>	<b>20.7</b>	<b>29.3</b>

# 76 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) //

For the year ended 31 December 2008

## 24 Group pension schemes (continued)

Portfolio distribution and expected returns:

	2008		2007	
	Expected rate of return % pa	Fair value \$ million	Expected rate of return % pa	Fair value \$ million
Equities	8.4	6.7	7.9	12.6
Bonds	6.4	8.0	5.9	11.0
Cash	2.0	6.0	5.5	5.7
<b>Total at 31 December</b>	<b>5.8</b>	<b>20.7</b>	6.7	29.3

Pension expense:

	2008 \$ million	2007 \$ million
Service cost	0.2	0.3
Interest cost	1.7	1.7
Expected return on Scheme assets	(1.9)	(1.7)
Investment losses	5.1	0.4
Actuarial gains	(2.1)	(0.6)
<b>Total pension expense for the year</b>	<b>3.0</b>	0.1

A total loss of US\$2.4 million (2007: gain of US\$0.2 million) was recognised directly in equity during the year.

Reconciliation of balance sheet liability:

	2008 \$ million	2007 \$ million
At 1 January	2.6	3.4
Pension expense for the year	3.0	0.1
Contributions paid	(3.0)	(0.9)
Currency translation effects	(0.6)	–
<b>At 31 December</b>	<b>2.0</b>	2.6

Five year history of experience adjustments at 31 December:

	2008 \$ million	2007 \$ million	2006 \$ million	2005 \$ million	2004 \$ million
Value of defined benefit obligation	(22.7)	(31.9)	(31.4)	(28.1)	(25.1)
Fair value of Scheme assets	20.7	29.3	28.0	21.1	18.9
Deficit in the Scheme	(2.0)	(2.6)	(3.4)	(7.0)	(6.2)
Experience adjustments on Scheme liabilities:					
Amount – gain/(loss)	0.1	–	(0.6)	0.1	0.7
Percentage of Scheme liabilities	0%	0%	(2%)	0%	3%
Experience adjustments on Scheme assets:					
Amount – (loss)/gain	(5.1)	(0.4)	0.2	1.6	0.2
Percentage of Scheme assets	(25%)	(1%)	1%	8%	1%

### Unfunded benefit schemes

In Indonesia the group operates a Service, Severance and Compensation pay scheme under a Collective Labour Agreement with the local workforce. This is an unfunded post-employment defined benefit scheme in nature.

In addition, the group is paying an unfunded pension to a former director 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 2008 of the future payments projected to be made in respect of UK unfunded pensions is US\$0.8 million (2007: US\$1.1 million).

A total gain of US\$0.3 million (2007: loss of US\$0.1 million) was recognised directly in equity during the year.

## 24 Group pension schemes (continued)

### Defined contribution benefit scheme

The group operates a defined contribution retirement benefit scheme. The only obligation of the group with respect to the retirement benefit scheme is to make specified contributions. Payments to the defined contribution scheme are charged as an expense as they fall due. The total cost charged to income of US\$2.0 million (2007: US\$1.4 million) represents contributions payable to these schemes by the group at rates specified in the rules of the scheme.

## 25 Related party transactions

Transactions between the company and its subsidiaries, associates and joint ventures, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

### Directors and executive remuneration

The remuneration of directors and other key members of management during the year is highlighted below. Further information regarding the remuneration of individual directors is provided in the audited part of the Remuneration Report.

	2008 \$ million	2007 \$ million
Short-term employee benefits	4.7	4.8
Post-employment benefits	0.5	0.5
Other long-term benefits	0.6	2.8
	<b>5.8</b>	8.1

## 26 Events after the balance sheet date

### Acquisition

The group has reached a conditional agreement on 25 March 2009 with Oilexco Incorporated, Oilexco North Sea Ltd (ONSL) and its Administrators to acquire either:

- (i) ONSL's entire issued share capital; or
- (ii) the principal operating assets of ONSL and Oilexco North Sea Exploration Ltd for a maximum consideration of approximately US\$505 million.

The group proposes to fund the acquisition and associated costs by way of:

- a 4 for 9 rights issue of new Ordinary Shares at a price of 485 pence per share to raise gross proceeds of approximately £171 million;
- new credit facilities comprising a US\$175 million 18-month acquisition bridge facility, a US\$225 million three-year revolving credit facility and US\$63 million and £60 million three-year letter of credit facilities; and
- the group's existing cash resources.

ONSL is an oil and gas exploration and production company active in the UK, with its producing properties located in the UK Central North Sea. ONSL is a wholly-owned subsidiary of Oilexco Inc and began operating in the North Sea in 2003. ONSL was placed into administration by its lending banks on 7 January 2009. Since that date, ONSL's Administrators, Ernst & Young, have continued to operate the business, which has continued to generate positive current cash flow from ongoing operations. ONSL's total production in the year ended 31 December 2008 was approximately 15,500 boepd. As at 31 December 2008 ONSL had total 2P reserves and contingent resources of approximately 60 mmboe, of which 40 mmboe were bookable as 2P reserves by the group.

### Treasury Shares

On 23 March 2009, the company cancelled the 2,798,186 Treasury Shares that it had acquired in 2008.