

As at 31 December 2008

	Note	2008 \$ million	2007 \$ million
Fixed assets:			
Property, plant and equipment	3	66.1	79.2
Investments in subsidiaries	4	553.2	553.2
Total fixed assets		619.3	632.4
Current assets:			
Debtors – due within one year	5	9.0	8.7
Deferred tax asset – due after one year	5	8.6	16.2
Total current assets		17.6	24.9
Creditors: amounts falling due within one year	6	(25.6)	(36.3)
Net current liabilities		(8.0)	(11.4)
Total assets less current liabilities		611.3	621.0
Creditors: amounts falling due after one year	7	(349.6)	(396.0)
Net assets excluding pension liability		261.7	225.0
Provision for liabilities	8	(9.9)	(12.6)
Pension liability	9	(2.8)	(3.7)
Net assets including pension liability		249.0	208.7
Capital and reserves:			
Called-up share capital	11	73.6	73.5
Share premium account	12	9.7	9.4
Profit and loss account	12	112.2	72.3
Capital redemption reserve	12	1.7	1.7
Equity reserve	12	51.8	51.8
Total equity shareholders' funds	13	249.0	208.7

The financial statements were approved by the Board of Directors and authorised for issue on 25 March 2009.

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 2008

	Note	2008 \$ million	2007 \$ million
Profit for the financial year		87.0	74.2
Pension costs – actuarial (losses)/gains	9	(2.1)	0.1
Total recognised gains and losses relating to the year		84.9	74.3

## 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. 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 company 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 company accounts for pension costs in line with Financial Reporting Standard (FRS) 17 – 'Retirement Benefits'.

The amounts charged to operating profit regarding the defined benefit 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 values and liabilities are measured on an actuarial basis using the Projected Unit Credit Method, and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term 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 net assets on the face of the balance sheet.

### Foreign exchange

Transactions denominated in foreign currencies are recorded in the local currency at actual exchange rates as of the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the year-end are reported at the rates of exchange prevailing at the year-end. Any gain or loss arising from a change in exchange rate subsequent to the dates 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 – 'Cash Flow Statements' 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 – 'Related Party Disclosures' 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 Payment'. 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)

### Sales revenue

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

### Tax

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

### 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 that will result in an obligation to pay more, or a right to pay less or to receive more tax, with the following exceptions:

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

### Fixed assets

#### Oil and gas assets

##### (a) 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.

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 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.

##### (b) 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 amount 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 interdependent.

##### (c) 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.

### Stock and underlift

Non-production related stocks are valued at the lower of cost or net realisable value. Under and overlifts of crude oil are recorded at market value.

For the year ended 31 December 2008

**1 Significant accounting policies (continued)****Derivative financial instruments**

The company accounts for derivative financial instruments in line with FRS 25 – 'Financial Instruments: Disclosure and Presentation' and FRS 26 – 'Financial Instruments: Recognition and Measurement'.

The company uses derivative financial instruments (derivatives) to manage its exposure to oil price fluctuations. All derivatives are initially recorded at cost, including transaction costs. Derivatives are subsequently carried at fair value. All changes in fair value are recorded as financial income or expense in the year in which they arise.

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.

**2 Profit 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 profit for the financial year ended 31 December 2008 of US\$87.0 million (2007: profit of US\$74.2 million).

The auditors' remuneration for audit services to the company was US\$10,000 (2007: US\$10,000).

**3 Property, plant and equipment**

	Oil and gas properties North Sea \$ million
Cost:	
At 1 January 2007	82.2
Additions during the year	15.3
At 1 January 2008	97.5
Additions during the year	(1.5)
At 31 December 2008	96.0
Amortisation and depreciation:	
At 1 January 2007	6.6
Charge for the year	11.7
At 1 January 2008	18.3
Charge for the year	11.6
At 31 December 2008	29.9
Net book value:	
At 31 December 2007	79.2
At 31 December 2008	66.1

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.

#### 4 Fixed asset investments

	2008 \$ million	2007 \$ million
Cost and net book value:		
Subsidiary undertakings	553.2	501.4
Additions in the year	–	51.8
	553.2	553.2

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.

#### 5 Debtors: amounts falling due within one year

	2008 \$ million	2007 \$ million
Trade debtors	4.9	–
VAT	–	0.2
Other debtors	3.7	8.2
Prepayments and accrued income	0.4	0.3
	9.0	8.7

#### Deferred tax (due after one year)

The deferred tax asset of US\$8.6 million (2007: US\$16.2 million) is considered to be recoverable on the basis that it is more likely than not that there will be suitable taxable profits in the future from which the losses giving rise to the asset can be deducted.

#### 6 Creditors: amounts falling due within one year

	2008 \$ million	2007 \$ million
Other taxation and social security	14.4	14.5
Other creditors	2.3	10.7
Accruals and deferred income	8.9	11.1
	25.6	36.3

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For the year ended 31 December 2008

### 7 Creditors: amounts falling due after one year

	2008 \$ million	2007 \$ million
Amounts owed to subsidiary undertakings	349.6	396.0

The amounts owed to subsidiary undertakings relate to a balance which bears interest based on LIBOR and is not secured. This is repayable on 31 December 2012.

### 8 Provision for liabilities

	2008 \$ million	2007 \$ million
Asset and Equity Plan:		
At 1 January	3.6	8.7
Provision in the year	3.3	1.9
Reclassification of provision to creditors falling due within one year	(3.6)	(7.0)
At 31 December	3.3	3.6
Decommissioning costs:		
At 1 January	9.0	7.5
Provision for abandonment	(0.3)	1.0
Unwinding of discount on decommissioning provision	0.3	0.4
Exchange differences	(2.4)	0.1
At 31 December	6.6	9.0
Total provisions	9.9	12.6

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 11.

The decommissioning provision represents the present value of decommissioning costs relating to the UK oil and gas interests, which are expected to be incurred between 2009 and 2017. 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 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.

### 9 Pension liability

	2008 \$ million	2007 \$ million
UK funded pension scheme	2.0	2.6
UK unfunded pension scheme	0.8	1.1
Total liability in balance sheet	2.8	3.7

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 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 FRS 17 – 'Retirement Benefits' valuation will increase as the members approach retirement.

## 9 Pension liability (continued)

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.

The following figures have been prepared in compliance with FRS 17 – 'Retirement Benefits' (incorporating the amendment announced in December 2006) 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.

The principal financial assumptions adopted for this actuarial valuation were:

Rate of investment return:	5.9% pa
Rate of salary increases:	5.4% pa
Rate of pension increases:	3.4% pa

### Employee benefit obligations

The amounts recognised in the balance sheet are as follows:

	At 31 December 2008 \$ million	At 31 December 2007 \$ million
Present value of funded obligations	(22.7)	(31.9)
Fair value of Scheme assets	20.7	29.3
Deficit before allowing for deferred tax	(2.0)	(2.6)

The amounts recognised in profit and loss are as follows:

	2008 \$ million	2007 \$ million
Current service cost	0.2	0.3
Interest on obligation	1.7	1.7
Expected return on Scheme assets	(1.9)	(1.7)
Total	–	0.3
Actual return on Scheme assets	(3.2)	1.3

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

Changes to the present value of the defined benefit obligations are as follows:

	At 31 December 2008 \$ million	At 31 December 2007 \$ million
Opening defined benefit obligation	31.9	31.4
Service cost 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
Closing defined benefit obligation	22.7	31.9

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For the year ended 31 December 2008

## 9 Pension liability (continued)

Changes in the fair value of Scheme assets are as follows:

	At 31 December 2008 \$ million	At 31 December 2007 \$ million
Opening fair value of Scheme assets	29.3	28.0
Expected return	1.9	1.7
Investment losses	(5.1)	(0.4)
Employer contributions	3.0	0.8
Benefits paid	(1.0)	(1.2)
Currency translation effects	(7.4)	0.4
Closing fair value of Scheme assets	20.7	29.3

Major categories of Scheme assets as a percentage of total Scheme assets are as follows:

	At 31 December 2008	At 31 December 2007
Equities	32%	43%
Bonds	39%	38%
Cash	29%	19%

Principal actuarial assumptions at the balance sheet date:

	At 31 December 2008	At 31 December 2007
Discount rate	6.0% pa	5.9% pa
Expected return on Scheme assets	5.8% pa	6.7% pa
Salary growth	5.0% pa	5.4% pa
Price inflation	3.0% pa	3.4% pa
Pension increases	3.0% pa	3.4% pa
Mortality	PCxA00 with 'long cohort' projection (min 1% improvements)	PxA92 by year of birth with 'medium cohort' projections

### Sensitivity to changes in assumptions

Changes to the assumed discount rate would have a significant effect on the value placed on the defined benefit obligations.

As at 31 December 2008, a one percentage point change in this assumption would have had the following effects on the closing defined benefit obligation:

	Discount rate: 6.0% pa (as used for report) \$ million	Discount rate: 5.0% pa \$ million	Discount rate: 7.0% pa \$ million
Defined benefit obligation	22.7	27.4	19.2

5 year historic record:

	2008 \$ million	2007 \$ million	2006 \$ million	2005 \$ million	2004 \$ million
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	–	–	(0.6)	0.1	0.7
Experience adjustments on Scheme assets	(5.1)	(0.4)	0.2	1.6	0.2

## 9 Pension liability (continued)

### Unfunded pensions

In addition, the company 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 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.

## 10 Capital commitments and guarantees

At 31 December 2008 the company had commitments for performance guarantees totalling US\$nil (2007: US\$4.6 million), US\$0.1 million as retainer fees for its alliance partners (2007: US\$0.1 million), and customs guarantees of US\$0.3 million (2007: US\$0.4 million).

The company, together with certain subsidiary undertakings, has jointly guaranteed the group's borrowing facilities of US\$275 million and £53 million, maturing on 31 July 2010.

## 11 Share capital

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

	2008 50p shares	2008 £	2007 50p shares	2007 £
Ordinary Shares:				
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 £
Non-Voting Convertible Shares:				
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.

### 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.

For the year ended 31 December 2008

**11 Share capital (continued)**

	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
Outstanding at the end of the year	189,722	£4.69	418,392	£3.85
Exercisable at the end of the year	111,750	£2.20	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 company 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%

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\$12.8 million (2007: US\$10.4 million) with a cumulative liability on the balance sheet of US\$9.5 million (2007: US\$12.3 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 company and its subsidiaries. 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 profit and loss account 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.

## 12 Share capital and reserves

	Share capital \$ million	Share premium account \$ million	Profit and loss account \$ million	Capital redemption reserve \$ million	Equity reserve \$ million	Total \$ million
Balance at 1 January 2007	73.3	8.6	(9.8)	1.7	–	73.8
Issue of Ordinary Shares	0.2	0.8	–	–	–	1.0
Profit for the year	–	–	74.2	–	–	74.2
Provision for share-based payments	–	–	7.8	–	–	7.8
Pension costs – actuarial gains	–	–	0.1	–	–	0.1
Equity component of convertible bonds issued	–	–	–	–	51.8	51.8
Balance at 31 December 2007	73.5	9.4	72.3	1.7	51.8	208.7
Issue of Ordinary Shares	0.1	0.3	–	–	–	0.4
Purchase of shares for ESOP Trust	–	–	(17.9)	–	–	(17.9)
Purchase of own shares	–	–	(47.2)	–	–	(47.2)
Profit for the year	–	–	87.0	–	–	87.0
Provision for share-based payments	–	–	20.1	–	–	20.1
Pension costs – actuarial (losses)/gains	–	–	(2.1)	–	–	(2.1)
Balance at 31 December 2008	73.6	9.7	112.2	1.7	51.8	249.0

In June 2007, Premier Oil Finance (Jersey) Ltd, a 100 per cent subsidiary of the company, issued convertible bonds at par value of US\$250 million. These bonds 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 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.

## 13 Reconciliation of movements in shareholders' funds

	2008 \$ million	2007 \$ million
Opening shareholders' funds	208.7	73.8
Issue of Ordinary Shares	0.4	1.0
Purchase of shares for ESOP Trust	(17.9)	–
Purchase of own shares	(47.2)	–
Profit for the year	87.0	74.2
Provision for share-based payments	20.1	7.8
Pension costs – actuarial (losses)/gains	(2.1)	0.1
Equity component of convertible bonds issued	–	51.8
Net addition to shareholders' funds	40.3	134.9
Closing shareholders' funds	249.0	208.7

## 14 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)
At 31 December 2008	47.2	16.4	63.6

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.

For the year ended 31 December 2008

**14 Own shares (continued)**

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).

**15 Financial instruments****Hedging instruments****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 totalling US\$33.6 million (2007: US\$37.9 million) represents deferred income which will be amortised over the life of the off-take agreement.

The company entered into an intra-group hedging arrangement with Premier Oil Holdings Ltd under which a proportion of the overall benefit and obligation of these hedging arrangements were transferred to the company as a hedge against a proportion of its future oil production. These instruments are accounted for as hedges.

The fair value of the above oil hedges is a liability of US\$2.3 million which is recognised in the balance sheet in other creditors. While the above hedges were assumed to be effective, all the movements, considered non-intrinsic, in the fair values have been recognised in the profit and loss account.

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

**Financial assets and liabilities**

The carrying value of the company's financial assets and liabilities approximates their fair value.

**16 Subsequent events****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.